

FIRST FINANCIAL CORP /IN/  
Form S-4  
April 11, 2019

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As filed with the Securities and Exchange Commission on April 11, 2019

Registration No. 333- [ • ]

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

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**FORM S-4**  
REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933

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**FIRST FINANCIAL CORPORATION**

(Exact Name of Registrant as Specified in its Charter)

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**Indiana**  
(State or other jurisdiction of  
incorporation or organization)

**000-16759**  
(Primary Standard Industrial  
Classification Code Number)  
**One First Financial Plaza**  
**Terre Haute, Indiana 47807**  
**(812) 238-6000**

**35-1546989**  
(I.R.S. Employer  
Identification Number)

(Address, including Zip Code, and Telephone Number, including Area Code, of Registrant's Principal Executive Offices)

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**Rodger A. McHargue**  
**Senior Vice President and Chief Financial Officer**  
**One First Financial Plaza**  
**Terre Haute, Indiana 47807**  
**(812) 238-6000**

(Name, Address, including Zip Code, and Telephone Number, including Area Code, of Agent for Service)

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With copies to:

**John W. Tanselle, Esq.**  
**SmithAmundsen LLC**

**Edward B. Crosland Jr., Esq.**  
**Jones Walker LLP**

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201 N. Illinois Street, Suite 1400  
Indianapolis, Indiana 46204  
(317) 464-4148

Suite 200 W, 1227 25th St NW  
Washington, DC 20037  
(202) 203-1088

**Approximate date of commencement of the proposed sale of the securities to the public:**

**As soon as practicable after this Registration Statement becomes effective and upon completion of the merger described in the enclosed document.**

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act of 1933, as amended, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting  
company

Emerging growth company

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

If applicable, place an X in the box to designate the appropriate rule provision relied upon in conducting this transaction:

Exchange Act Rule 13e-4(i) (Cross-Border Issuer Tender Offer)

Exchange Act Rule 14d-1(d) (Cross-Border Third-Party Tender Offer)

**CALCULATION OF REGISTRATION FEE**

<b>Title of each class of Securities to be Registered</b>	<b>Amount to be Registered(1)</b>	<b>Proposed Maximum Offering Price Per Share</b>	<b>Proposed Maximum Aggregate Offering Price(2)</b>	<b>Amount of Registration Fee(3)</b>
Common Stock, without par value	1,476,054	N/A	\$61,635,192.99	\$7,470.19

(1) Represents the maximum number of shares of First Financial Corporation ("First Financial") common stock, without par value, estimated to be issued in connection with the proposed merger of HopFed Bancorp, Inc. ("HopFed") and First Financial, calculated by multiplying (i) 6,648,887 (the aggregate number of shares of HopFed common stock, par value \$0.01 per share, outstanding as of April 9, 2019, which includes shares of HopFed common stock granted in respect of HopFed restricted stock awards); by (ii) 50% (the percentage of HopFed common stock that will be exchanged for First Financial common stock in the merger); by (iii) an exchange ratio of 0.444 shares of First Financial common stock for each share of HopFed common stock. Pursuant to Rule 416 under the Securities Act of 1933, as amended ("Securities Act"), this registration statement also covers additional shares that may be issued as a result of stock splits, stock dividends, or similar transactions.

(2) The proposed maximum aggregate offering price was calculated in accordance with Rules 457(c) and 457(f) under the Securities Act as follows: (i) the product of (a) \$19.77 (the average of the high and low prices per share of HopFed common stock as reported on the NASDAQ Stock Market LLC as of April 9, 2019) and (b) 6,648,887 (the estimated maximum number of shares of HopFed common stock that may be exchanged or canceled in the merger), less (ii) \$69,813,303.00 (the estimated amount of cash to be paid to HopFed stockholders in connection with the merger).

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(3)

The registration fee for the securities registered hereunder has been calculated, pursuant to Section 6(b) of the Securities Act, as \$61,635,192.99 (the proposed maximum aggregate offering price) multiplied by 0.0001212.

**The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act, or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.**

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Information contained herein is subject to completion or amendment. A registration statement relating to these securities has been filed with the Securities and Exchange Commission. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. This document shall not constitute an offer to sell or the solicitation of any offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation, or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

PRELIMINARY SUBJECT TO COMPLETION April 11, 2019

Proxy Statement

Prospectus

**MERGER PROPOSED YOUR VOTE IS VERY IMPORTANT**

Dear Stockholder:

On January 7, 2019, First Financial Corporation ("First Financial") and HopFed Bancorp, Inc. ("HopFed") entered into an Agreement and Plan of Merger, as such agreement may be amended from time to time (the "Merger Agreement"), that provides for the combination of the two companies. Under the Merger Agreement, HopFed will merge with and into First Financial, with First Financial as the surviving corporation (the "Merger"). Following the completion of the Merger, Heritage Bank USA, Inc. ("Heritage"), a wholly owned bank subsidiary of HopFed, will merge with and into First Financial Bank, National Association ("First Financial Bank"), a wholly owned bank subsidiary of First Financial, with First Financial Bank as the surviving bank (the "Bank Merger"). The Merger will expand First Financial's operations into the Commonwealth of Kentucky and State of Tennessee.

If the Merger is completed, stockholders of HopFed may elect to receive either (or a combination of) 0.444 shares of First Financial common stock, without par value, or \$21.00 in cash for each share of HopFed common stock, par value \$0.01, owned, subject to allocation provisions specified in the Merger Agreement and as described in the attached proxy statement/prospectus that provide for a targeted aggregate split of 50% of HopFed shares being exchanged for First Financial common stock and 50% for cash. Each HopFed stockholder will also receive cash (without interest) in lieu of any fractional shares that such stockholder would otherwise receive. The market value of the merger consideration will fluctuate with the market price of First Financial common stock and will not be known at the time HopFed stockholders vote on the Merger. First Financial common stock is traded on the NASDAQ Stock Market LLC. On January 7, 2019, the last trading day before public announcement of the Merger, the closing price of a share of First Financial common stock was \$42.53, which, after giving effect to the 0.444 exchange ratio, has an implied value of approximately \$18.88 per share. Based on this price and the cash consideration of \$21.00 per share, upon completion of the Merger, a HopFed stockholder who receives cash for 50% and stock for 50% of his, her, or its shares would receive total consideration with an implied value of approximately \$19.94 per share. As of [ • ], 2019, the last practicable trading day before the date of this proxy statement/prospectus, the closing price of a share of First Financial common stock was \$[ • ], which, after giving effect to the 0.444 exchange ratio, has an implied value of approximately \$[ • ]. Based on this price and the cash consideration of \$21.00 per share, upon completion of the Merger, a HopFed stockholder who receives cash for 50% and stock for 50% of his, her, or its shares would receive total consideration with an implied value of approximately \$[ • ] per share. Based upon the \$[ • ] per share closing price of a share of First Financial common stock on [ • ], 2019, the aggregate consideration to be paid by First Financial in connection with the Merger is approximately \$[ • ]. Based on the exchange ratio, the allocation provisions, and the number of shares of HopFed common stock outstanding as of [ • ], 2019, the maximum number of shares of First Financial common stock issuable in the Merger is [ • ]. **We urge you to obtain current market quotations for First Financial (trading symbol "THFF") and HopFed (trading symbol "HFBC").**

**Your vote is very important.** We cannot complete the Merger unless the stockholders of HopFed approve the Merger Agreement and the Merger. HopFed will hold a special meeting of its stockholders on [ • ], 2019 at the offices of Heritage, 4155 Lafayette Road, Hopkinsville, Kentucky 42240, at [ • ] local time, to vote on the Merger Agreement and the Merger. **HopFed's board of directors has determined that the Merger is advisable and in the best interests of HopFed, and the HopFed board of directors unanimously recommends that the HopFed stockholders vote "FOR" approval and adoption of the Merger Agreement and Merger and "FOR" approval of the other proposals described in this proxy statement/prospectus.**

You should carefully read this entire proxy statement/prospectus, including the annexes hereto and the documents incorporated by reference herein, because it contains important information about the HopFed special meeting, the Merger, the Merger Agreement, and the

related matters. **In particular, you should carefully read the information under the section entitled "Risk Factors" beginning on page 28.** You can also obtain information about First Financial and HopFed from documents that each has filed with the Securities and Exchange Commission.

Norman L. Lowery  
President and Chief Executive Officer  
First Financial Corporation

John E. Peck  
President and Chief Executive Officer  
HopFed Bancorp, Inc.

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the securities to be issued in the Merger or passed upon the adequacy or accuracy of this proxy statement/prospectus. Any representation to the contrary is a criminal offense.**

**The securities to be issued in the merger are not savings or deposit accounts or other obligations of any bank or non-bank subsidiary of either First Financial or HopFed, and they are not insured by the Federal Deposit Insurance Corporation, the Deposit Insurance Fund, or any other governmental agency.**

This proxy statement/prospectus is dated [ • ], 2019, and  
it is being first mailed to HopFed stockholders on or about [ • ], 2019.

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**NOTICE OF SPECIAL MEETING OF STOCKHOLDERS**

To the Stockholders of HopFed Bancorp, Inc.:

HopFed Bancorp, Inc. ("HopFed") will hold a special meeting of holders of common stock of HopFed (the "HopFed stockholders") at [ • ] local time, on [ • ], 2019, at the offices of Heritage Bank USA, Inc., 4155 Lafayette Road, Hopkinsville, Kentucky 42240 (the "Special Meeting") to consider and vote upon the following matters:

1. *Merger Proposal.* A proposal to adopt the Agreement and Plan of Merger, dated as of January 7, 2019, by and between HopFed and First Financial Corporation ("First Financial") (the "Merger Agreement"), as such agreement may be amended from time to time, pursuant to which HopFed will merge with and into First Financial, with First Financial as the surviving corporation (the "Merger"), as more fully described in the attached proxy statement/prospectus (the "Merger Proposal"), a copy of which is attached as *Annex A*.
2. *Compensation Proposal.* A proposal to approve, on an advisory (non-binding) basis, the compensation that may be paid or become payable to HopFed's named executive officers in connection with the Merger, and the agreements or understandings pursuant to which such compensation may be paid or become payable (the "Compensation Proposal").
3. *Adjournment Proposal.* A proposal to adjourn the Special Meeting, if necessary or appropriate, to solicit additional proxies in favor of the Merger Proposal (the "Adjournment Proposal").
4. *Other Matters.* To vote upon such other matters as may properly come before the meeting or any adjournment thereof. The board of directors is not aware of any such other matters.

We have fixed the close of business on [ • ], 2019 as the record date for the Special Meeting. Only HopFed stockholders of record at that time are entitled to notice of, and to vote at, the Special Meeting, or any adjournment or postponement of the Special Meeting. Approval of the Merger Proposal requires the affirmative vote of holders of at least a majority of the outstanding shares of common stock, \$0.01 par value per share, of HopFed (the "HopFed common stock"). Approval of each of the Compensation Proposal and the Adjournment Proposal requires the affirmative vote of a majority of the votes cast on each respective proposal.

**HopFed's board of directors has unanimously approved the Merger Agreement, has determined that the Merger, on the terms and conditions set forth in the Merger Agreement, is advisable and in the best interests of HopFed and its stockholders, and unanimously recommends that HopFed stockholders vote "FOR" approval of the Merger Proposal, "FOR" approval of the Compensation Proposal, and "FOR" approval of the Adjournment Proposal.**

**Your vote is very important.** We cannot complete the Merger unless the HopFed stockholders approve the Merger Proposal and adopt the Merger Agreement. Regardless of whether you plan to attend the Special Meeting, please vote as soon as possible. If you hold stock in your name as a stockholder of record of HopFed, please vote by telephone, over the Internet, or by completing, signing, dating, and returning the accompanying proxy card in the enclosed postage-paid return envelope. If you hold your stock in "street name" through a bank or broker, please follow the instructions on the voting instruction card furnished by the record holder.

The enclosed proxy statement/prospectus provides a detailed description of the Special Meeting, the Merger, the Merger Agreement, and other related matters. **We urge you to read the proxy statement/prospectus, including any documents incorporated in the proxy statement/prospectus by reference, and its annexes carefully and in their entirety.**

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As required by Section 262 of the Delaware General Corporation Law, HopFed is notifying all stockholders entitled to vote on the Merger that you are or may be entitled to assert appraisal rights in connection with the Merger. A copy of the appraisal rights statute is included with the accompanying proxy statement/prospectus as *Annex C*. See also "Appraisal Rights" beginning on page 108 in the accompanying proxy statement/prospectus.

BY ORDER OF THE BOARD OF DIRECTORS

John E. Peck  
President and Chief Executive Officer  
HopFed Bancorp, Inc.

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**REFERENCES TO ADDITIONAL INFORMATION**

This proxy statement/prospectus incorporates and includes important business and financial information about First Financial and HopFed from documents filed with the Securities and Exchange Commission ("SEC"), including certain documents of First Financial which are incorporated by reference and not included in or delivered with this proxy statement/prospectus and certain documents of HopFed attached as an annex to this proxy statement/prospectus. You can obtain any of the documents filed with or furnished to the SEC by First Financial and/or HopFed at no cost from the SEC's website at <http://www.sec.gov>. You may also make an oral or written request for copies of these documents, including documents incorporated by reference in this proxy statement/prospectus, at no cost by contacting the appropriate company at the following address or telephone number:

**First Financial Corporation**  
One First Financial Plaza  
P.O. Box 540  
Terre Haute, Indiana 47808  
Attention: Rodger A. McHargue, Chief  
Financial Officer and Corporate Secretary  
(812) 238-6000

**HopFed Bancorp, Inc.**  
P.O. Box 537  
Hopkinsville, Kentucky 42241  
Attention: Michael L. Woolfolk, Chief  
Operations Officer and Corporate Secretary  
(270) 885-1171

You will not be charged for any of these documents that you request. **To obtain timely delivery of these documents, you must request them no later than five (5) business days before the date of the Special Meeting. This means that HopFed stockholders requesting documents must do so by [ • ], 2019, in order to receive them before the Special Meeting.**

You should rely only on the information contained in, attached within an annex to, or incorporated by reference into this document. No one has been authorized to provide you with information that is different from that contained in, attached within an annex to, or incorporated by reference into this document. This document is dated [ • ], 2019, and you should assume that the information in this document is accurate only as of such date. You should assume that the information attached within an annex to or incorporated by reference into this document is accurate as of the date of such document. Neither the mailing of this document to HopFed stockholders, nor the issuance by First Financial of shares of common stock in connection with the Merger, will create any implication to the contrary.

**This document does not constitute an offer to sell, or a solicitation of an offer to buy, any securities, or the solicitation of a proxy, in any jurisdiction to or from any person to whom it is unlawful to make any such offer or solicitation in such jurisdiction. Except where the context otherwise indicates, information contained in this document regarding HopFed has been provided by HopFed and information contained in this document regarding First Financial has been provided by First Financial.**

Please see "Where You Can Find More Information," beginning on page 153, for more details.

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**QUESTIONS AND ANSWERS**

*The following are some questions that you may have about the Merger and the Special Meeting, and brief answers to those questions. We urge you to read carefully the remainder of this proxy statement/prospectus, including the annexes, because the information in this section does not provide all of the information that might be important to you with respect to the Merger or the Special Meeting. Additional important information is also contained in the documents incorporated by reference into this proxy statement/prospectus. Please see "Where You Can Find More Information," beginning on page 153.*

**Q: What is the Merger?**

A:

First Financial Corporation ("First Financial") and HopFed Bancorp, Inc. ("HopFed") have entered into an Agreement and Plan of Merger, dated as of January 7, 2019, as such agreement may be amended from time to time (the "Merger Agreement"). Under the Merger Agreement, HopFed will be merged with and into First Financial, with First Financial continuing as the surviving corporation (the "Merger"). Following the completion of the Merger, Heritage Bank USA, Inc. ("Heritage"), a Kentucky state chartered bank and a wholly owned subsidiary of HopFed, will merge with and into First Financial Bank, National Association ("First Financial Bank"), a national association chartered under the laws of the United States and a wholly owned subsidiary of First Financial, with First Financial Bank continuing as the surviving financial institution (the "Bank Merger"). A copy of the Merger Agreement is included in this proxy statement/prospectus as *Annex A*.

The Merger cannot be completed unless, among other things, HopFed stockholders approve the proposal to adopt the Merger Agreement.

**Q: Why am I receiving this proxy statement/prospectus?**

A:

We are delivering this document to you because it is a proxy statement being used by HopFed's boards of directors to solicit proxies of its holders of HopFed common stock (the "HopFed stockholders") in connection with approval of the Merger and related matters.

In order to consider and vote upon the proposals discussed in this proxy statement/prospectus, HopFed has called a special meeting of the HopFed stockholders (the "Special Meeting"). This document serves as the proxy statement for the Special Meeting and describes the proposals to be presented at the Special Meeting.

This document is also a prospectus that is being delivered to HopFed stockholders because, in connection with the Merger, First Financial is offering shares of its common stock, without par value (the "First Financial common stock") to HopFed stockholders at an exchange of 0.444 shares of First Financial common stock for each share of common stock, \$0.01 par value per share, of HopFed (the "HopFed common stock"), subject to the adjustment and allocation provisions discussed in this proxy statement/prospectus.

This proxy statement/prospectus contains important information about the Merger, the Merger Agreement, and the other proposals being voted on at the Special Meeting and important information to consider in connection with an investment in First Financial common stock. You should read it carefully and in its entirety. The enclosed materials allow you to have your shares of common stock voted by proxy without attending the Special Meeting. Your vote is important and we encourage you to submit your proxy as soon as possible.

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**Q: What are HopFed stockholders being asked to vote on at the Special Meeting?**

A:

HopFed is soliciting proxies from its stockholders with respect to the following proposals:

a proposal to adopt the Merger Agreement, as such agreement may be amended from time to time (the "Merger Proposal");

a proposal to approve, on an advisory (non-binding) basis, the compensation that may be paid or become payable to HopFed's named executive officers in connection with the Merger, and the agreements or understandings pursuant to which such compensation may be paid or become payable (the "Compensation Proposal");

a proposal to adjourn the Special Meeting, if necessary or appropriate, to solicit additional proxies in favor of the Merger Proposal (the "Adjournment Proposal"); and

to vote upon such other matters as may properly come before the Special Meeting or any adjournment thereof. The HopFed board of directors is not aware of any such other matters.

**Q: What will HopFed stockholders receive in the Merger?**

A:

Subject to possible adjustment as provided for in the Merger Agreement, if the Merger is completed, HopFed stockholders are entitled to elect to receive for their shares of HopFed common stock either (or a combination of) 0.444 shares of First Financial common stock (the "Exchange Ratio," and such shares, the "Stock Consideration") or \$21.00 in cash (the "Cash Consideration"), subject to allocation provisions that provide for a targeted aggregate split of 50% of shares of HopFed common stock being exchanged for the Stock Consideration and 50% for the Cash Consideration.

First Financial will not issue any fractional shares of First Financial common stock in the Merger. First Financial will pay to each former HopFed stockholder who holds a fractional share an amount in cash (without interest), rounded to the nearest whole cent, determined by multiplying (i) the average of the closing sale prices of First Financial common stock for the fifteen consecutive trading days on which shares were actually traded immediately preceding the second business day prior to the closing date of the Merger by (ii) the fraction of a share of First Financial common stock which such holder would otherwise be entitled to receive. We refer to the Stock Consideration, Cash Consideration, and the cash in lieu of any fractional shares to be received in the Merger for each share of HopFed common stock as the "Merger Consideration."

On January 7, 2019, which is the last trading day on which shares of First Financial common stock traded preceding the public announcement of the Merger, the closing price of a share of First Financial common stock was \$42.53, which, after giving effect to the 0.444 Exchange Ratio, has an implied value of approximately \$18.88 per share. Based on this price, with respect to the Stock Consideration and the Cash Consideration of \$21.00 per share, upon completion of the Merger, a HopFed stockholder who receives the Cash Consideration for 50% of his, her, or its HopFed common stock and receives the Stock Consideration for 50% of his, her, or its shares of HopFed common stock would receive total Merger Consideration with an implied value of approximately \$19.94 per share. As of [ • ], 2019, the last practicable trading day before the date of this proxy statement/prospectus, the closing price of a share of First Financial common stock was \$[ • ], which, after giving effect to the 0.444 Exchange Ratio, has an implied value of approximately \$[ • ]. Based on this price, with respect to the Stock Consideration and the Cash Consideration of \$21.00 per share, upon completion of the Merger, a HopFed stockholder who receives the Cash Consideration for 50% of his, her, or its HopFed common stock and receives the Stock Consideration for 50% of his, her, or its shares of HopFed common stock would receive total Merger Consideration with an implied value of approximately \$[ • ] per share.



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**Q: What will First Financial shareholders receive in the Merger?**

A:

If the Merger is completed, First Financial shareholders will not receive any Merger Consideration and will continue to hold the shares of First Financial common stock that they currently hold. Following the Merger, shares of First Financial common stock will continue to be traded on the NASDAQ Stock Market LLC ("NASDAQ") under the symbol "THFF."

**Q: How will the Merger affect HopFed restricted stock awards?**

A:

Immediately prior to the effective time of the Merger, each outstanding restricted share of HopFed common stock that is unvested or contingently will fully vest and be cancelled and converted automatically into the right to receive the Merger Consideration, less applicable tax withholdings.

**Q: Will the value of the Merger Consideration change between the date of this proxy statement/prospectus and the time the Merger is completed?**

A:

Yes. The value of the Stock Consideration will fluctuate between the date of this proxy statement/prospectus and the completion of the Merger based upon the market value for First Financial common stock. Any fluctuation in the market price of First Financial common stock after the date of this proxy statement/prospectus will change the value of the shares of First Financial common stock that HopFed stockholders may receive. The market value of the Stock Consideration will not be known at the Special Meeting. Also, the Merger Consideration is subject to limited adjustments as provided in the Merger Agreement. Therefore, as of the date of the Special Meeting, you will not know the precise value of the Merger Consideration you may receive at the effective time of the Merger.

**Q: How does the HopFed board of directors recommend that I vote at the Special Meeting?**

A:

HopFed's board of directors unanimously recommends that you vote "FOR" approval of the Merger Proposal, "FOR" approval of the Compensation Proposal, and "FOR" approval of the Adjournment Proposal.

**Q: When and where is the Special Meeting?**

A:

The Special Meeting will be held at the offices of Heritage, 4155 Lafayette Road, Hopkinsville, Kentucky 42240 on [ • ], 2019, at [ • ] local time.

**Q: What do I need to do now?**

A:

After you have carefully read this proxy statement/prospectus and have decided how you wish to vote your shares, please vote your shares promptly so that your shares are represented and voted at the Special Meeting. If you hold your shares in your name as a stockholder of record, you must complete, sign, date, and mail your proxy card in the enclosed postage-paid return envelope as soon as possible. Alternatively, you may vote through the Internet or by telephone. Information and applicable deadlines for voting through the Internet or by telephone are set forth in the enclosed proxy card instructions. If you hold your shares in "street name" through a bank, broker, or other nominee, you must direct your bank, broker, or other nominee how to vote in accordance with the instructions you have received from your bank, broker, or other nominee. "Street name" stockholders who wish to vote in person at the Special Meeting will need to obtain a legal proxy from the institution that holds their shares.

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**Q: How do I elect the form of Merger Consideration that I prefer in the Merger?**

A:

An election form and other appropriate and customary transmittal materials are being mailed along with this proxy statement/prospectus. If you wish to elect the type of Merger Consideration you will receive in the Merger, subject to the allocation provisions discussed in this proxy statement/prospectus, you must submit a properly completed election form and other required materials to American Stock Transfer & Trust Company, LLC, the exchange agent in connection with the Merger (the "Exchange Agent"), which is received by the Exchange Agent on or before 5:00 p.m., Eastern Time, on [ • ], 2019 (the "Election Deadline"), which is the same date as the Special Meeting. HopFed stockholders are entitled to make an election regardless of whether he, she, or it holds their shares of HopFed common stock in certificate or book-entry form. If you hold stock certificates representing your shares of HopFed common stock, for your election form to be accepted as complete, you must include your HopFed stock certificates with your election form (unless you comply with the procedures for guaranteed delivery or lost certificates). If you hold your shares in street name with a bank, broker, or other nominee, you should seek instruction from your bank, broker, or other nominee for instructions on tendering your HopFed common stock. The HopFed ESOP Trustees will make the stockholder election related to the Merger Consideration for the shares of HopFed common stock held by the HopFed ESOP. Please read the instructions to the election form for information on completing the form and other important information.

**Q: Which form of Merger Consideration should I choose?**

A:

The form of Merger Consideration you should choose will depend upon your personal financial and tax circumstances. We urge you to consult your personal financial or tax advisor if you have any questions about the form of payment you should elect.

Neither First Financial nor HopFed makes any recommendation as to whether you should elect to receive the Stock Consideration, the Cash Consideration, or a combination of the Cash and Stock Consideration. Each holder of HopFed common stock must make his, her, or its own decision with respect to such election.

**Q: What if I do not make an election as to some or all of my shares of HopFed common stock?**

A:

Your non-election will either be treated as an election for the Cash Consideration, the Stock Consideration, or a combination of the Stock and Cash Consideration, depending on the elections that are made by other HopFed stockholders and the allocation provisions described in this proxy statement/prospectus.

**Q: If I am voting against the Merger Proposal, should I still make an election?**

A:

Yes. If the Merger Proposal is approved by the HopFed stockholders and the Merger becomes effective, you will receive the Merger Consideration based on the election form you submit. If you fail to submit an election form, your HopFed common stock will be treated in accordance with the procedures outlined in this proxy statement/prospectus for non-election shares.

**Q: Can I change my election?**

A:

Yes. You may revoke an election at any time prior to the Election Deadline, and you may either resubmit a new election or simply withdraw your prior election. If you wish to change an election, you must resubmit an election form in accordance with the election procedures, so long as the resubmitted election form is received on or before the Election Deadline. If you wish to withdraw an election, you must provide written notice of withdrawal to the Exchange Agent on or before the Election Deadline.

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**Q: Can First Financial or HopFed change my form of Merger Consideration after I have made my election?**

A: Yes. It is possible that you will not receive the exact form of Merger Consideration that you elect in the Merger. Whether you will be entitled to receive the Stock Consideration, the Cash Consideration, or a combination of the Stock and Cash Consideration will be initially determined based on your election, and then based on the elections made by other HopFed stockholders and the allocation provisions described in this proxy statement/prospectus. The Merger Agreement provides that 50% of the shares of HopFed common stock will be converted into the Stock Consideration and 50% of the shares of HopFed common stock will be converted into the Cash Consideration. The Merger Agreement further provides an allocation mechanism depending on whether the Stock Consideration is oversubscribed or undersubscribed. This may result in you receiving a form of Merger Consideration that is different from your election or a mix of consideration that is different than your election. The allocation of the consideration payable to each HopFed stockholder will not be finally determined until the Exchange Agent tallies the results of all elections made by HopFed stockholders, which will not occur until near or after the time the Merger is complete. See "The Merger Agreement Allocation Provisions" beginning on page 83.

**Q: What constitutes a quorum for the Special Meeting?**

A: The presence at the Special Meeting, in person or by proxy, of holders of at least one-third of the outstanding shares of HopFed common stock entitled to vote at the Special Meeting will constitute a quorum for the transaction of business. Abstentions will be included in determining the number of shares present at the meeting for the purpose of determining the presence of a quorum.

**Q: What is the vote required to approve each proposal at the Special Meeting?**

A: *Merger Proposal:*

**Standard:** Approval of the Merger Proposal requires the affirmative vote of at least a majority of the outstanding shares of HopFed common stock entitled to vote on the proposal.

**Effect of abstentions and broker non-votes:** If you fail to vote, mark "ABSTAIN" on your proxy, or fail to instruct your bank, broker, or other nominee with respect to the Merger Proposal, it will have the same effect as a vote "AGAINST" the proposal.

*Compensation Proposal:*

**Standard:** Approval of the Compensation Proposal requires the affirmative vote of a majority of the votes cast on the proposal.

**Effect of abstentions and broker non-votes:** If you fail to vote, mark "ABSTAIN" on your proxy, or fail to instruct your bank, broker, or other nominee with respect to the Compensation Proposal, you will not be deemed to have cast a vote with respect to the proposal, and it will have no effect on the proposal.

*Adjournment Proposal:*

**Standard:** Approval of the Adjournment Proposal requires the affirmative vote of a majority of the votes cast on the proposal.

**Effect of abstentions and broker non-votes:** If you fail to vote, mark "ABSTAIN" on your proxy, or fail to instruct your bank, broker, or other nominee with respect to the Adjournment Proposal,

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you will not be deemed to have cast a vote with respect to the proposal, and it will have no effect on the proposal.

**Q: Why is my vote important?**

A:

If you do not vote, it will be more difficult for HopFed to obtain the necessary quorum to hold the Special Meeting. In addition, if you fail to submit a proxy or vote in person, fail to instruct your bank, broker, or other nominee how to vote, or abstain from voting it will have the same effect as a vote "AGAINST" the Merger Proposal.

**Q:**

**If my shares of HopFed common stock are held in "street name" by my bank, broker, or other nominee, will my bank, broker, or other nominee automatically vote my shares for me?**

A:

No. Your bank, broker, or other nominee cannot vote your shares without instructions from you. If your shares are held in "street name" through a bank, broker, or other nominee, you must provide the record holder of your shares with instructions on how to vote the shares. Please follow the voting instructions provided by the bank, broker, or other nominee. You may not vote shares held in "street name" by returning a proxy card directly to HopFed, or by voting in person at the Special Meeting, unless you provide a "legal proxy," which you must obtain from your broker, bank, or other nominee. Further, brokers, banks, and other nominees who hold shares of HopFed common stock on behalf of their customers may not give a proxy to HopFed to vote those shares with respect to any of the proposals without specific instructions from their customers, as brokers, banks, and other nominees do not have discretionary voting power on these matters. Failure to instruct your bank, broker, or other nominee how to vote will have the same effect as a vote "AGAINST" the Merger Proposal.

**Q: How do I vote if I own shares through the HopFed Employee Stock Ownership Plan?**

A:

If you participate in the HopFed Bancorp, Inc. 2015 Employee Stock Ownership Plan (the "HopFed ESOP") and HopFed common stock has been allocated to your account in the HopFed ESOP, you are entitled to instruct Dr. Thomas I. Miller, John E. Peck, and Billy C. Duvall, the current trustees of the HopFed ESOP (the "HopFed ESOP Trustees"), confidentially, as to how to vote those shares pursuant to the instructions provided to plan participants. You will receive your voting instruction form regarding your shares of HopFed common stock allocated to your account in the HopFed ESOP in a mailing separate from this proxy statement/prospectus. HopFed has engaged Computershare, Inc., an independent third party ("Computershare"), to receive the voting instruction forms completed by the HopFed ESOP participants and to tabulate the results. Once the votes are tallied by Computershare, the aggregate results will be reported to the HopFed ESOP Trustees, who will then use the voting instructions to vote the shares of HopFed common stock held by the HopFed ESOP.

Your shares will be voted in accordance with your duly executed voting instruction form, provided that Computershare receives your voting instruction form by [ • ] p.m., [ • ] Time, on [ • ], 2019. If your voting instruction form is not timely received, your voting instruction form is not properly completed, or you vote to "ABSTAIN" from voting, the shares allocated to your account in the HopFed ESOP will be voted by the HopFed ESOP Trustees, subject to their fiduciary duties, in the same proportion that they vote shares in the HopFed ESOP for which Computershare did receive timely instructions voting "FOR" or "AGAINST." The HopFed ESOP Trustees, subject to their fiduciary duties, will also vote any unallocated shares in the HopFed ESOP in the same proportion that they vote shares in the HopFed ESOP for which Computershare did receive timely instructions voting "FOR" or "AGAINST." You may also revoke previously given voting instructions by [ • ] p.m., [ • ] Time, on [ • ], 2019 by filing with

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Computershare either a written notice of revocation or a properly completed and signed voting instruction form bearing a later date.

**Q: Can I attend the Special Meetings and vote my shares in person?**

A:

Yes. All holders of the HopFed common stock, including stockholders of record and stockholders who hold their shares through banks, brokers, nominees, or any other holder of record, are invited to attend the Special Meeting. Holders of record of HopFed common stock can vote in person at the Special Meeting. If you are not a stockholder of record (i.e., if your shares are held for you in "street name"), you must obtain a legal proxy, executed in your favor, from the record holder of your shares, such as a broker, bank, or other nominee, to be able to vote in person at the Special Meeting. If you hold HopFed common stock in your capacity as a participant in the HopFed ESOP, you may not instruct the HopFed ESOP Trustees in person.

If you plan to attend the Special Meeting in person, you must hold your shares in your own name, have a valid proxy from a record holder, or have a letter from the record holder of your shares confirming your ownership. In addition, you must bring a form of personal photo identification with you in order to be admitted to the Special Meeting. HopFed reserves the right to refuse admittance to anyone without proper proof of share ownership or without proper photo identification. Whether or not you intend to be present at the Special Meeting, you are urged to sign, date, and return your proxy card, or to vote via the Internet or by telephone, promptly. If you are then present and wish to vote your shares in person, your original proxy may be revoked by voting at the Special Meeting.

**Q: Can I attend the Special Meetings virtually?**

A:

HopFed will not hold a virtual or webcast Special Meeting. HopFed stockholders interested in attending the Special Meeting must attend in person.

**Q: Can I change my vote?**

A:

Yes. If you are a holder of record of HopFed common stock, you may change your vote or revoke any proxy at any time before it is voted at the Special Meeting by: (1) signing and returning a proxy card with a later date; (2) delivering a written revocation letter to HopFed's Corporate Secretary; (3) attending the Special Meeting in person, notifying the Corporate Secretary of your revocation of your proxy, and voting by ballot at the Special Meeting; or (4) voting by telephone or the Internet at a later time. Attendance at the Special Meeting will not automatically revoke your proxy. A revocation or later-dated proxy received by HopFed after the vote will not affect the vote. The mailing address for HopFed's Corporate Secretary is: HopFed Bancorp, Inc., Attn: Michael L. Woolfolk, Corporate Secretary, P.O. Box 537, Hopkinsville, Kentucky 42241. If you hold your shares in "street name" through a bank, broker, or other holder of record, you should contact your nominee to change your vote.

**Q: What are the U.S. federal income tax consequences of the Merger to HopFed stockholders?**

A:

It is a condition to the completion of the Merger that First Financial and HopFed receive written opinions from their respective counsel to the effect that the Merger will be treated as a "reorganization" within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended (the "Code"). The federal tax consequences of the Merger to HopFed stockholders will depend primarily on whether they exchange their HopFed common stock solely for the Stock Consideration, solely for the Cash Consideration, or for a combination of the Stock and Cash Consideration. Subject to the limitations and qualifications described in the section entitled "Material U.S. Federal Income Tax Consequences of the Merger," if you are a "U.S. holder" (as

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defined in the section entitled "Material U.S. Federal Income Tax Consequences of the Merger") of HopFed common stock, you likely will:

not recognize gain or loss on the exchange, except with respect to cash received in lieu of a fractional share, if you exchange your shares of HopFed common stock solely for the Stock Consideration;

recognize gain or loss on the exchange, if you exchange your shares of HopFed common stock solely for the Cash Consideration; and

recognize gain (but not loss) on the exchange equal to the lesser of (1) the amount of cash received or (2) the amount of gain "realized" (i.e. the amount by which (a) the cash plus the fair market value of First Financial common stock received at the effective time of the Merger exceeds (b) your basis in the HopFed common stock surrendered in the exchange), if you exchange your shares of HopFed common stock for a combination of the Stock and Cash Consideration.

The actual federal income tax consequences to HopFed stockholders of electing to receive the Stock Consideration, the Cash Consideration, or a combination of the Stock and Cash Consideration will not be ascertainable at the time HopFed stockholders make their election because it will not be known at that time how, or to what extent, the allocation provisions will apply. The U.S. federal income tax consequences described above may not apply to all holders of HopFed common stock. We strongly urge you to consult your independent tax advisor for a full understanding of the application of U.S. federal income tax laws to your particular situation as well as any tax consequences arising under the U.S. federal estate or gift tax rules, or under the laws of any state, local, foreign, or other taxing jurisdiction or under any applicable treaty.

**Q: Are HopFed stockholders entitled to appraisal rights?**

A:

Yes. HopFed stockholders are entitled to appraisal rights under Section 262 of the Delaware General Corporation Law ("DGCL"), provided that the exercising stockholder fully complies with and follows the procedures and satisfies the conditions set forth in Section 262 of the DGCL. For more information regarding appraisal rights, see the section entitled "Appraisal Rights," beginning on page 108. In addition, a copy of Section 262 of the DGCL is attached as *Annex C* to this proxy statement/prospectus. Failure to comply with Section 262 of the DGCL will result in your waiver of, or inability to exercise, appraisal rights.

**Q: If I am a HopFed stockholder, should I send in my HopFed common stock certificate(s) now?**

A:

You should return your HopFed common stock certificate(s) to the Exchange Agent at this time only if you are submitting an election form, which is being mailed along with this proxy statement/prospectus. Stock certificates representing your shares of HopFed common stock may only be sent to the Exchange Agent with a completed election form or letter of transmittal. **Please do not send your stock certificates with your proxy card.** After the Merger, the Exchange Agent will send instructions for exchanging HopFed common stock certificates for the Merger Consideration to all HopFed stockholders who did not surrender their stock certificates in connection with an election form. See "The Merger Agreement Election Procedures" and "The Merger Agreement Conversion and Exchange of Shares," beginning on pages 87 and 89, respectively.

**Q: What should I do if I hold my shares of HopFed common stock in book-entry form?**

A:

You are not required to take any special additional actions if your shares of HopFed common stock are held in book-entry form. After the completion of the Merger, shares of HopFed common

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stock held in book-entry form automatically will be exchanged for book-entry shares of First Financial common stock.

**Q: What should I do if I receive more than one set of voting materials?**

A:

HopFed stockholders may receive more than one set of voting materials, including multiple copies of this proxy statement/prospectus and multiple proxy cards or voting instruction cards. For example, if you hold shares of HopFed common stock in more than one brokerage account, you will receive a separate voting instruction card for each brokerage account in which you hold such shares. If you are a holder of record of HopFed common stock and your shares are registered in more than one name, you will receive more than one proxy card. Please complete, sign, date, and return each proxy card and voting instruction card that you receive or otherwise follow the voting instructions set forth in this proxy statement/prospectus to ensure that you vote every share of HopFed common stock that you own.

**Q: When do you expect to complete the Merger?**

A:

First Financial and HopFed expect to complete the Merger in the second quarter of 2019. However, neither First Financial nor HopFed can assure you of when, or if, the Merger will be completed. First Financial and HopFed must obtain the approval of HopFed stockholders to approve the Merger Proposal at the Special Meeting, and also must obtain necessary regulatory approvals in addition to satisfying certain other closing conditions.

**Q: What happens if the Merger is not completed?**

A:

If the Merger is not completed, HopFed stockholders will not receive any consideration for their shares of HopFed common stock in connection with the Merger. Instead, HopFed will remain an independent, public company and HopFed common stock will continue to be listed and traded on NASDAQ. In addition, if the Merger Agreement is terminated in certain circumstances, a termination fee may be required to be paid by HopFed. See "The Merger Agreement Termination Fee," beginning on page 106, for a complete discussion of the circumstances under which termination fees will be required to be paid.

**Q: Whom should I call with questions?**

A:

If you have any questions concerning the Merger or this proxy statement/prospectus, would like additional copies of this proxy statement/prospectus, or need help voting your shares of HopFed common stock, please contact HopFed's Corporate Secretary at HopFed Bancorp, Inc., Attention: Michael L. Woolfolk, Corporate Secretary, P.O. Box 537, Hopkinsville, Kentucky 42241, or at (270) 885-1171.

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**SUMMARY**

*This summary highlights selected information from this proxy statement/prospectus. It may not contain all of the information that is important to you. We urge you to read carefully the entire proxy statement/prospectus, including the annexes, and the other documents to which we refer in order to fully understand the Merger. Please see "Where You Can Find More Information." Each item in this summary refers to the page of this proxy statement/prospectus on which that subject is discussed in more detail.*

**Information About the Companies (page 42 and Annex D)**

*First Financial Corporation*

First Financial is a financial holding company incorporated under Indiana law in 1982 and headquartered in Terre Haute, Indiana. First Financial owns all of the outstanding shares of common stock of First Financial Bank and The Morris Plan Company of Terre Haute, Inc. (the "Morris Plan"), an Indiana-chartered financial institution. At December 31, 2018, First Financial had, on a consolidated basis, approximately \$3.01 billion in assets, \$2.44 billion in deposits, and shareholders' equity of \$0.44 billion. First Financial Bank is headquartered in Terre Haute, Indiana and is the principal bank subsidiary of First Financial. The Morris Plan is also headquartered in Terre Haute, Indiana. With approximately \$2.92 billion in assets and 790.5 full-time equivalent employees as of December 31, 2018, First Financial Bank accounts for substantially all of First Financial's consolidated assets and results of operation. As of December 31, 2018, the Morris Plan had approximately \$0.08 billion in assets and 25.5 full-time equivalent employees. Through First Financial Bank and the Morris Plan, First Financial offers a wide variety of financial services including commercial, mortgage, and consumer lending, lease financing, trust account services, and depositor services.

First Financial's principal office is located at One First Financial Plaza, Terre Haute, Indiana 47807, and its telephone number at that location is (812) 238-6000. First Financial common stock is traded on NASDAQ under the symbol "THFF." Additional information about First Financial and its subsidiaries is included in documents incorporated by reference in this proxy statement/prospectus. For more information, see "Information About First Financial" beginning on page 42 and "Where You Can Find More Information" beginning on page 153.

*HopFed Bancorp, Inc.*

HopFed is a bank holding company incorporated under Delaware law in 1997 and headquartered in Hopkinsville, Kentucky. HopFed owns all of the outstanding shares of common stock of Heritage. At December 31, 2018, HopFed had, on a consolidated basis, approximately \$0.93 billion in assets, \$0.74 billion in deposits, and stockholders' equity of \$0.09 billion. Heritage is headquartered in Hopkinsville, Kentucky and is the principal bank subsidiary of HopFed. With approximately \$0.93 billion in assets and 220 full-time equivalent employees as of December 31, 2018, Heritage accounts for substantially all of HopFed's consolidated assets and results of operation. Through Heritage, HopFed offers a broad line of banking and financial products and services with the personalized focus of a community banking organization.

HopFed's principal office is located at 4155 Lafayette Road, Hopkinsville, Kentucky 42240, and its telephone number at that location is (270) 885-1171. HopFed common stock is traded on NASDAQ under the symbol "HFBC." Additional information about HopFed and its subsidiaries, including, but not limited to, information regarding its business, properties, legal proceedings, financial statements, financial condition and results of operations, changes in and disagreements with accountants on accounting and financial disclosure, market risk, executive compensation, beneficial ownership, and related party transactions, is set forth in HopFed's Annual Report on Form 10-K for the fiscal year ended December 31, 2018, as amended, which is included as *Annex D* to this proxy statement/



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prospectus. See also "Information About HopFed" beginning on page 42 and "Where You Can Find More Information" beginning on page 153.

**The Merger (page 43)**

HopFed will merge with and into First Financial, with First Financial as the surviving entity of such merger, and Heritage will merge with and into First Financial Bank, with First Financial Bank as the surviving bank of such bank merger.

*The terms and conditions of the Merger are contained in the Merger Agreement, a copy of which is included as Annex A to this proxy statement/prospectus and is incorporated by reference herein. You should read the Merger Agreement carefully and in its entirety, as it is the legal document governing the Merger.*

**HopFed Stockholders Will Receive Stock and/or Cash (page 81)**

Subject to possible adjustment as provided for in the Merger Agreement, if the Merger is completed, HopFed stockholders are entitled to elect to receive for their shares of HopFed common stock either (or a combination of) the Stock Consideration or Cash Consideration, subject to allocation provisions that provide for a targeted aggregate split of 50% of shares of HopFed common stock being exchanged for the Stock Consideration and 50% for the Cash Consideration.

First Financial will not issue any fractional shares of First Financial common stock in the Merger. First Financial will pay to each former HopFed stockholder who holds a fractional share an amount in cash (without interest), rounded to the nearest whole cent, determined by multiplying (i) the average of the closing sale prices of First Financial common stock for the fifteen consecutive trading days on which shares were actually traded immediately preceding the second business day prior to the closing date of the Merger by (ii) the fraction of a share of First Financial common stock which such holder would otherwise be entitled to receive.

As a result of the foregoing, based on the number of shares of First Financial and HopFed common stock outstanding as of January 7, 2019, on a fully diluted basis, approximately 89.27% and 10.73% of First Financial common stock will be held by First Financial shareholders and former HopFed stockholders, respectively, immediately following the effectiveness of the Merger.

**Market Price and Share Information (page 150)**

First Financial common stock is listed on NASDAQ under the symbol "THFF," and HopFed common stock is listed on NASDAQ under the symbol "HFBC." The following table shows the closing sale prices of First Financial common stock and HopFed common stock as reported on NASDAQ on January 7, 2019, the last full trading day before the public announcement of the Merger Agreement, and on [ • ], 2019, the last practicable trading day before the date of this proxy statement/prospectus. The equivalent per share of HopFed common stock was calculated by multiplying the price of a share of First Financial common stock by the Exchange Ratio of 0.444 and does not reflect the receipt of cash by HopFed stockholders.

	First Financial Common Stock	HopFed Common Stock	Equivalent Per Share of HopFed Common Stock
January 7, 2019	\$ 42.53	\$ 14.24	\$ 18.88
[•], 2019	\$ [•]	\$ [•]	\$ [•]

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**The Merger Consideration is Subject to Adjustment (page 82)**

Under the terms of the Merger Agreement, the Merger Consideration is subject to adjustment in connection with (i) certain changes in capitalization which have a dilutive effect (such as a stock split), (ii) First Financial common stock being converted into shares or other securities or obligations of another corporation, (iii) HopFed's adjusted consolidated stockholders' equity being less than \$87,168,519.00 as of the end of the month prior to the effective time of the Merger, and (iv) a significant decrease in the market price of First Financial common stock as compared to the corresponding performance of the NASDAQ Bank Index during the same period.

**The Merger Consideration is Subject to Allocation Provisions (page 83)**

Pursuant to the Merger Agreement, the Merger Consideration is subject to allocation provisions that provide for a targeted aggregate split of 50% of HopFed common stock being exchanged for the Stock Consideration and 50% of HopFed common stock being exchanged for the Cash Consideration. If the aggregate number of shares of HopFed common stock which elect to receive the Stock Consideration is greater than 50% of the outstanding shares of HopFed common stock, a pro rata portion of those shares will be converted into the right to receive the Cash Consideration. If the aggregate number of shares of HopFed common stock which elect to receive the Cash Consideration is greater than 50% of the outstanding shares of HopFed common stock, a pro rata portion of those shares will be converted into the right to receive the Stock Consideration.

**HopFed Stockholders are Entitled to Elect their Form of Merger Consideration (page 87)**

Each record holder (or, in the case of nominee record holders, the beneficial owner through proper instruction) is entitled to elect to receive, in exchange for their shares of HopFed common stock, either (i) the Cash Consideration, (ii) the Stock Consideration, (iii) a combination of the Cash and Stock Consideration, or (iv) indicate that they have no preference as to the receipt of the Cash or Stock Consideration, subject to the adjustment and allocation provisions discussed above. If you wish to elect the type of Merger Consideration you will receive in the Merger, subject to the allocation provisions, you must submit a properly completed election form and other required materials to the Exchange Agent on or before the Election Deadline.

**HopFed's Board of Directors Unanimously Recommends that HopFed Stockholders Vote "FOR" Approval of the Merger Proposal and "FOR" Approval of the Other Proposals Presented at the Special Meeting (page 50)**

HopFed's board of directors has determined that the Merger, the Merger Agreement, and the transactions contemplated by the Merger Agreement are advisable and in the best interests of HopFed and its stockholders, and has unanimously approved the Merger Agreement. HopFed's board of directors unanimously recommends that HopFed stockholders vote "FOR" approval of the Merger Proposal and "FOR" approval of the other proposals presented at the Special Meeting. For the factors considered by HopFed's board of directors in reaching its decision to approve the Merger Agreement, see "The Merger HopFed's Reasons for the Merger; Recommendation of HopFed's Board of Directors" beginning on page 50.

HopFed has agreed that its board of directors will not (i) withdraw, qualify, modify, amend, or fail to make, or propose publicly to withdraw, qualify, modify, or amend its recommendation that HopFed stockholders approve the Merger Proposal; (ii) make any public statement or take any action inconsistent with its recommendation that HopFed stockholders approve the Merger Proposal; or (iii) approve or adopt, or recommend the approval or adoption of, or publicly propose to approve or adopt, any acquisition proposal; provided, however, in limited circumstances, HopFed's board of directors may take one of the foregoing actions, prior to HopFed stockholder approval of the Merger Proposal, if the failure to do so would cause it to violate its fiduciary duties under applicable law. See

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the section entitled "The Merger Agreement Change of Recommendation" beginning on page 100 for more information.

**Opinion of Keefe, Bruyette & Woods, Inc. (page 55 and Annex B)**

In connection with the Merger, Keefe, Bruyette & Woods, Inc. ("KBW") delivered a written opinion, dated January 7, 2019, to the HopFed board of directors as to the fairness, from a financial point of view, and as of the date of the opinion, to the HopFed stockholders of the Merger Consideration (as described in the opinion) in the Merger. The full text of the opinion, which describes the procedures followed, assumptions made, matters considered, and qualifications and limitations on the review undertaken by KBW in preparing the opinion, is attached as *Annex B* to this proxy statement/prospectus. HopFed common stockholders are urged by HopFed to read the entire opinion carefully.

**KBW's opinion speaks only as of the date of the opinion. The opinion was for the information of, and was directed to, the HopFed board (in its capacity as such) in connection with its consideration of the financial terms of the Merger. The opinion addressed only the fairness, from a financial point of view, of the Merger Consideration to the HopFed stockholders. It did not address the underlying business decision of HopFed to engage in the Merger or enter into the Merger Agreement or constitute a recommendation to the HopFed board in connection with the Merger, and it does not constitute a recommendation to any HopFed stockholder or any stockholder of any other entity as to how to vote or act in connection with the Merger or any other matter (including, with respect to HopFed stockholders, what election any such stockholder should make with respect to the Stock Consideration or the Cash Consideration), nor does it constitute a recommendation regarding whether or not any such stockholder should enter into a voting, shareholders', or affiliates' agreement with respect to the Merger or exercise any dissenters' or appraisal rights that may be available to such stockholder.**

For further information, see "The Merger Opinion of Keefe, Bruyette & Woods, Inc." beginning on page 55.

**Treatment of HopFed Restricted Stock Awards (page 87)**

Immediately prior to the effective time of the Merger, each outstanding restricted share of HopFed common stock that is unvested or contingent will fully vest and be cancelled and converted automatically into the right to receive the Merger Consideration, less applicable tax withholdings.

**HopFed Will Hold the Special Meeting on [ • ], 2019 (page 35)**

The Special Meeting of HopFed stockholders will be held at [ • ], local time, on [ • ], 2019, at the offices of Heritage, 4155 Lafayette Road, Hopkinsville, Kentucky 42240. At the Special Meeting, HopFed stockholders will be asked to:

approve the Merger Proposal;

approve the Compensation Proposal; and

approve the Adjournment Proposal.

Only holders of record of HopFed common stock at the close of business on [ • ], 2019 (the "Record Date") will be entitled to vote at the Special Meeting. Each share of HopFed common stock is entitled to one vote on each proposal to be considered at the Special Meeting. As of the Record Date, there were [ • ] shares of HopFed common stock entitled to vote at the Special Meeting. The directors and executive officers of HopFed and their affiliates beneficially owned, and were entitled to vote, approximately [ • ] shares of HopFed common stock, representing approximately [ • ]% of the shares of HopFed common stock outstanding on the Record Date.

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**Special Meeting Proposals: Required Vote; Treatment of Abstentions and Failure to Vote (page 36)**

*Merger Proposal:*

**Standard:** Approval of the Merger Proposal requires the affirmative vote of at least a majority of the outstanding shares of HopFed common stock entitled to vote on the proposal.

**Effect of abstentions and broker non-votes:** If you fail to vote, mark "ABSTAIN" on your proxy, or fail to instruct your bank, broker, or other nominee with respect to the Merger Proposal, it will have the same effect as a vote "AGAINST" the proposal.

*Compensation Proposal:*

**Standard:** Approval of the Compensation Proposal requires the affirmative vote of a majority of the votes cast on the proposal.

**Effect of abstentions and broker non-votes:** If you fail to vote, mark "ABSTAIN" on your proxy, or fail to instruct your bank, broker, or other nominee with respect to the Compensation Proposal, you will not be deemed to have cast a vote with respect to the proposal, and it will have no effect on the proposal.

*Adjournment Proposal:*

**Standard:** Approval of the Adjournment Proposal requires the affirmative vote of a majority of the votes cast on the proposal.

**Effect of abstentions and broker non-votes:** If you fail to vote, mark "ABSTAIN" on your proxy, or fail to instruct your bank, broker, or other nominee with respect to the Adjournment Proposal, you will not be deemed to have cast a vote with respect to the proposal, and it will have no effect on the proposal.

**Voting Agreements and Standstill Agreement (page 90)**

Each of HopFed's directors, solely in his or her capacity as a HopFed stockholder, has entered into a voting agreement with First Financial, pursuant to which each director has agreed to vote all shares of HopFed common stock that are registered in his or her personal name in favor of the Merger Agreement and to use reasonable efforts to cause all additional shares of HopFed common stock owned (i) jointly by him or her with any other person, or (ii) by his or her spouse and over which he or she has voting influence or control, to be voted in favor of the Merger Agreement. As of the Record Date, [ • ] shares of HopFed common stock are registered in the personal names of the HopFed directors, representing approximately [ • ]% of the total outstanding shares of HopFed common stock.

Additionally, First Financial and HopFed stockholders Stilwell Activist Fund, L.P., Stilwell Activist Investments, L.P., Stilwell Associates, L.P., Stilwell Value LLC, and Joseph Stilwell (collectively, the "Stilwell Group"), have entered into a standstill agreement pursuant to which such stockholders have agreed to vote in favor of approving the Merger Proposal and the consummation of the transactions contemplated thereby, including the Merger, and any actions required in furtherance thereof. As of the Record Date, the Stilwell Group beneficially owned a total of [ • ] shares of HopFed common stock, representing approximately [ • ]% of the total outstanding shares of HopFed common stock.

In the aggregate, as of the Record Date, stockholders which hold [ • ] shares of HopFed common stock have agreed to vote such shares in favor of the Merger Proposal pursuant to either a voting agreement or standstill agreement, representing approximately [ • ]% of the total outstanding shares of HopFed common stock.

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**Material U.S. Federal Income Tax Consequences of the Merger (page 114)**

It is a condition to the completion of the Merger that First Financial and HopFed receive written opinions from their respective counsel to the effect that the Merger will be treated as a "reorganization" within the meaning of Section 368(a) of the Code. The federal tax consequences of the Merger to HopFed stockholders will depend primarily on whether they exchange their HopFed common stock solely for the Stock Consideration, solely for the Cash Consideration, or for a combination of the Stock and Cash Consideration. Subject to the limitations and qualifications described in the section entitled "Material U.S. Federal Income Tax Consequences of the Merger," if you are a "U.S. holder" (as defined in the section entitled "Material U.S. Federal Income Tax Consequences of the Merger") of HopFed common stock, you likely will:

not recognize gain or loss on the exchange, except with respect to cash received in lieu of a fractional share, if you exchange your shares of HopFed common stock solely for the Stock Consideration;

recognize gain or loss on the exchange, if you exchange your shares of HopFed common stock solely for the Cash Consideration; and

recognize gain (but not loss) on the exchange equal to the lesser of (1) the amount of cash received or (2) the amount of gain "realized" (i.e. the amount by which (a) the cash plus the fair market value of First Financial common stock received at the effective time of the Merger exceeds (b) your basis in the HopFed common stock surrendered in the exchange), if you exchange your shares of HopFed common stock for a combination of the Stock and Cash Consideration.

The actual federal income tax consequences to HopFed stockholders of electing to receive the Stock Consideration, Cash Consideration, or a combination of the Stock and Cash Consideration will not be ascertainable at the time HopFed stockholders make their election because it will not be known at that time how, or to what extent, the allocation provisions will apply. The U.S. federal income tax consequences described above may not apply to all holders of HopFed common stock. We strongly urge you to consult your independent tax advisor for a full understanding of the application of U.S. federal income tax laws to your particular situation as well as any tax consequences arising under the U.S. federal estate or gift tax rules, or under the laws of any state, local, foreign, or other taxing jurisdiction or under any applicable treaty.

For more information, see the section entitled "Material U.S. Federal Income Tax Consequences of the Merger" beginning on page 114.

**HopFed's Directors and Executive Officers Have Financial Interests in the Merger that Differ from Your Interests (page 69)**

HopFed stockholders should be aware that HopFed's directors and executive officers have interests in the Merger that are different from, or in addition to, interests of HopFed stockholders generally. These interests include, among others, the treatment of outstanding HopFed restricted stock awards pursuant to the Merger Agreement, certain payments and benefits payable under employment related agreements entered into with certain executive officers, continued employment for certain executive officers of HopFed, potential benefits in connection with the HopFed ESOP's termination, and rights to ongoing indemnification and insurance coverage by First Financial for acts or omissions occurring prior to the Merger.

Pursuant to the terms of the Merger Agreement, as of the date of the Merger Agreement, John E. Peck (President & CEO), Michael L. Woolfolk (Executive Vice President, Chief Operations Officer, and Corporate Secretary), Billy C. Duvall (Senior Vice President, Chief Financial Officer, and Treasurer), and Baily C. Knight (Senior Vice President and Chief Credit Officer) each entered into

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(i) a Mutual Termination of Employment Agreement with HopFed and Heritage, effective upon the effective time of the Merger, and (ii) a Non-Disclosure and Non-Solicitation Agreement with First Financial, First Financial Bank, HopFed, and Heritage, effective upon execution. Additionally, as of the date of the Merger Agreement, John E. Peck entered into an Employment Agreement with First Financial and First Financial Bank, pursuant to which he will serve as a market president, and a Retention Bonus Agreement with First Financial Bank, each of which will become effective at the effective time of the Merger.

The HopFed board of directors was aware of and considered those interests, among other matters, in reaching its decisions to approve the Merger Agreement and the transactions contemplated thereby and to recommend the adoption of the Merger Agreement to HopFed stockholders. See the section entitled "The Merger Interests of HopFed's Directors and Executive Officers in the Merger" beginning on page 69 of this proxy statement/prospectus for a more detailed description of these interests.

**Agreement Not to Solicit Other Offers (page 102)**

HopFed has agreed that it will not (i) initiate, solicit, knowingly encourage, or knowingly facilitate inquiries or proposals with respect to any acquisition proposal, (ii) engage or participate in any negotiations with any person concerning any acquisition proposal, or (iii) provide any confidential or nonpublic information or data to, or have or participate in any discussions with, any person relating to, any acquisition proposal except to notify such person of the existence of these restrictions. However, if, prior to the adoption of the Merger Agreement by HopFed stockholders, HopFed receives an unsolicited bona fide written acquisition proposal, it may furnish or cause to be furnished nonpublic information or data and participate in negotiations or discussions to the extent that its board of directors concludes in good faith (after receiving the advice of its outside counsel, and with respect to financial matters, its financial advisors) that failure to take such actions would be reasonably likely to result in a violation of its fiduciary duties under applicable law. See the section entitled "The Merger Agreement Agreement Not to Solicit Other Offers" beginning on page 102 for more information.

**HopFed Stockholders Will Be Entitled to Assert Appraisal Rights (page 108)**

HopFed stockholders are entitled to appraisal rights under Section 262 of the DGCL, provided that the exercising stockholder fully complies with and follows the procedures and satisfies the conditions set forth in Section 262 of the DGCL. For more information regarding appraisal rights, see the section entitled "Appraisal Rights" beginning on page 108. In addition, a copy of Section 262 of the DGCL is attached as *Annex C* to this proxy statement/prospectus. Failure to comply with Section 262 of the DGCL will result in your waiver of, or inability to exercise, appraisal rights.

**Regulatory Approvals Required for the Merger (page 77)**

Subject to the terms of the Merger Agreement, First Financial and HopFed have agreed to use their reasonable best efforts and cooperate to promptly prepare and file all necessary documentation, to obtain as promptly as practicable all regulatory approvals necessary or advisable to complete the transactions contemplated by the Merger Agreement, and to comply with the terms and conditions of all such approvals. These approvals include approvals from, among others, the Board of Governors of the Federal Reserve System (the "Federal Reserve Board"), the Office of the Comptroller of the Currency ("OCC"), and the Kentucky Department of Financial Institutions ("KDFI"). First Financial and HopFed have filed applications and notifications to obtain the required regulatory approvals.

Although neither HopFed nor First Financial knows of any reason why it cannot obtain these regulatory approvals in a timely manner, HopFed and First Financial cannot be certain when or if they

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will be obtained. For more information, see "The Merger Regulatory Approvals Required for the Merger" beginning on page 77.

**Conditions that Must Be Satisfied or Waived for the Merger to Occur (page 103)**

Each party's obligation to complete the Merger is subject to the satisfaction or waiver (to the extent permitted under applicable law) of certain conditions, including:

the approval of the Merger Proposal by the HopFed stockholders;

authorization for listing on NASDAQ of the shares of First Financial common stock to be issued in the Merger;

the receipt of all required regulatory approvals and expiration or termination of all statutory waiting periods in respect thereof;

effectiveness of the registration statement of which this proxy statement/prospectus is a part for the First Financial common stock to be issued in the Merger;

the absence of any order, injunction, or other legal restraint preventing the completion of the Merger or making the completion of the Merger illegal;

subject to certain exceptions, the accuracy of the representations and warranties of each of First Financial and HopFed;

performance in all material respects by each of First Financial and HopFed of its obligations under the Merger Agreement; and

receipt by each of First Financial and HopFed of an opinion from its counsel to the effect that the Merger will qualify as a "reorganization" within the meaning of Section 368(a) of the Code.

Additionally, First Financial's obligations to complete the Merger are subject to the satisfaction by HopFed or waiver by First Financial of the following conditions:

appraisal rights being exercised by not more than 9.9% of the issued and outstanding shares of HopFed common stock;

having provided notice of termination with respect to Heritage's data processing agreements;

delivery to First Financial of executed non-solicitation and non-disclosure agreements and mutual termination agreements from certain individuals;

the consolidated stockholders' equity of HopFed and its subsidiaries, as adjusted in accordance with the terms of the Merger Agreement, not being less than \$87,168,519.00 as of the end of the month prior to the effective time of the Merger;

receipt of required third-party consents; and

delivery to First Financial of executed standstill agreements from certain HopFed stockholders, and the continued effectiveness of such agreements as of the effective time of the Merger.

Neither HopFed nor First Financial can be certain when, or if, the conditions to the Merger will be satisfied or waived, or that the Merger will be completed. For more information, see "The Merger Agreement Conditions to Complete the Merger" beginning on page 103.



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**Termination of the Merger Agreement (page 105)**

The Merger Agreement may be terminated at any time by First Financial or HopFed prior to the effective time of the Merger under the following circumstances:

by mutual written consent;

if any governmental entity issues a final and nonappealable order permanently enjoining or otherwise prohibiting the consummation of the Merger or the other transactions contemplated by the Merger Agreement;

if the Merger is not consummated by December 31, 2019, unless the failure of the Merger to be consummated by that date is due to the failure of the party seeking to terminate the Merger Agreement to perform or observe its covenants and agreements under the Merger Agreement;

subject to cure rights, if there shall have been a breach of any of the covenants or agreements, or any inaccuracy of any of the representations or warranties of the other party, such that the conditions to the terminating party's obligations to complete the Merger would not be satisfied; or

if the board of directors of HopFed has (i) failed to recommend that the HopFed stockholders adopt the Merger Agreement, or withdrawn, modified, or qualified such recommendation in a manner adverse to First Financial, or failed to reaffirm such recommendation after requested by First Financial, or failed to recommend against acceptance of a publicly disclosed tender offer or exchange offer for outstanding HopFed common stock; (ii) recommended or endorsed an acquisition proposal; or (iii) if the HopFed stockholders vote but fail to approve the Merger Agreement at the Special Meeting, provided that in the case of termination by HopFed, it has complied with its obligations under the Merger Agreement with respect to obtaining HopFed stockholder approval, changes of recommendation, and acquisition proposals.

In addition, the Merger Agreement may be terminated:

by First Financial, if HopFed has breached its obligations under the Merger Agreement with respect to obtaining HopFed stockholder approval, changes of recommendation, or acquisition proposals in any material respect;

by HopFed, at any time prior to HopFed stockholder approval being obtained, in the event that its board of directors concludes, in good faith after consultation with its legal and financial advisors, that it must agree to endorse a superior proposal and terminate the Merger Agreement in order to comply with its fiduciary duties, provided that HopFed has complied with all of its obligations under the Merger Agreement with respect to changes of recommendation and acquisition proposals; or

by HopFed, if, at any time during the seven calendar day period commencing on the latest of the date all requisite regulatory approvals (and waivers, if applicable) necessary for consummation of the Merger have been received or the date on which HopFed stockholder approval of the Merger has been received, if First Financial's per share volume-weighted average closing price falls below a certain amount and the percentage decrease is more than 20% below the corresponding percentage performance of the NASDAQ Bank Index during the same period. If HopFed elects to exercise this termination right, First Financial may elect to avoid termination of the Merger Agreement by increasing the Exchange Ratio to adjust for such decrease in market value below the 20% NASDAQ Bank Index threshold.

For more information, see "The Merger Agreement Termination of the Merger Agreement" beginning on page 105.

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**Termination Fee (page 106)**

If the Merger Agreement is terminated under certain circumstances, including circumstances involving alternative acquisition proposals and changes in the recommendation of HopFed's board of directors, HopFed may be required to pay to the First Financial a termination fee equal to \$5.1 million. This termination fee could discourage other companies from seeking to acquire or merge with HopFed. For more information, see "The Merger Agreement Termination Fee" beginning on page 106.

**Rights of HopFed Stockholders After the Merger (page 130)**

When the Merger is completed, HopFed stockholders who receive First Financial common stock in the Merger will become First Financial shareholders, and their rights then will be governed by Indiana law and First Financial's Articles of Incorporation and Bylaws. HopFed stockholders' rights are presently governed by Delaware law and HopFed's Certificate of Incorporation and Bylaws. There are certain differences in the rights of stockholders/shareholders of the two companies. To review the material differences in these rights under each governing law and each company's governing documents, see "Comparison of Rights of First Financial Shareholders and HopFed Stockholders" beginning on page 130.

**Risk Factors (page 28)**

You should consider all the information contained in, included with, or incorporated by reference into this proxy statement/prospectus in deciding how to vote for the proposals presented in the proxy statement/prospectus. In particular, you should consider the factors described under "Risk Factors" beginning on page 28.

Table of Contents**SELECTED CONSOLIDATED HISTORICAL FINANCIAL INFORMATION OF FIRST FINANCIAL**

The following selected consolidated financial information for the fiscal years ended December 31, 2014 through December 31, 2018 is derived from audited consolidated financial statements of First Financial. You should not assume the results of operations for any past periods indicate results for any future period. You should read this information in conjunction with First Financial's consolidated financial statements and related notes thereto included in First Financial's Annual Report on Form 10-K for the year ended December 31, 2018, which is incorporated by reference into this proxy statement/prospectus. See "Where You Can Find More Information" beginning on page 153.

	At or for the twelve months ended December 31,				
(Dollars in thousands, except per share data)	2018	2017	2016	2015	2014
<b>Selected year-end balances:</b>					
Total assets	\$ 3,008,718	\$ 3,000,668	\$ 2,988,527	\$ 2,979,585	\$ 3,002,485
Earnings assets	2,718,468	2,701,783	2,674,132	2,634,944	2,659,642
Securities available-for-sale	784,916	814,931	853,725	891,082	897,053
Loans, net of allowance	1,933,552	1,886,852	1,820,407	1,743,862	1,762,589
Non-interest bearing deposits	431,923	425,001	564,092	563,302	556,389
Certificates of deposit	42,284	43,178	43,759	46,753	53,733
Other interest-bearing deposits	1,962,520	1,990,474	1,820,675	1,832,314	1,847,075
Total deposits	2,436,727	2,458,653	2,428,526	2,442,369	2,457,197
Short-term borrowings	69,656	57,686	81,121	46,508	60,901
Shareholders' equity	442,701	413,569	414,395	410,316	394,214
<b>Summary of operations:</b>					
Interest and dividend income	126,224	\$ 114,195	\$ 109,380	\$ 108,676	\$ 113,358
Interest expense	9,645	6,338	4,407	4,169	5,526
<b>Net interest income</b>	<b>116,579</b>	<b>\$ 107,857</b>	<b>\$ 104,973</b>	<b>\$ 104,507</b>	<b>\$ 107,832</b>
Provision for loan and lease losses	5,768	5,295	3,300	4,700	5,072
Noninterest income	38,206	35,938	46,931	39,179	40,785
Noninterest expenses	91,289	88,747	90,308	98,398	95,584
Income before income taxes	57,728	49,753	58,296	40,588	47,961
Income tax expense	11,145	20,622	19,883	10,392	14,189
<b>Net Income</b>	<b>46,583</b>	<b>\$ 29,131</b>	<b>\$ 38,413</b>	<b>\$ 30,196</b>	<b>\$ 33,772</b>
<b>Per Share Data:</b>					
<b>Earnings per common share</b>					
Basic	\$ 3.80	\$ 2.38	\$ 3.12	\$ 2.35	\$ 2.55
Diluted(1)	\$ 3.80	\$ 2.38	\$ 3.12	\$ 2.35	\$ 2.55
<b>Cash dividends declared per common share</b>					
	\$ 1.02	\$ 2.51	\$ 1.00	\$ 0.98	\$ 0.98
<b>Average common shares outstanding</b>					
outstanding-basic	12,256	12,225	12,317	12,836	13,226
outstanding-diluted(1)	12,256	12,225	12,317	12,836	13,226
<b>Selected Financial Ratios:</b>					
Average loans to average deposits	78.47%	75.96%	73.89%	72.02%	72.94%
Net charge-offs to average loans and leases	0.27%	0.22%	0.25%	0.14%	0.31%
Average shareholders' equity to average assets	14.25%	14.58%	14.01%	13.60%	13.36%
Return on average assets	1.57%	0.98%	1.30%	1.01%	1.12%
Return on average equity	10.98%	6.69%	9.26%	7.46%	8.37%
Net interest margin	4.32%	4.11%	4.04%	4.04%	4.08%
Dividend payout	26.85%	105.32%	31.81%	41.51%	38.16%

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(Dollars in thousands, except per share data)	At or for the twelve months ended December 31,				
	2018	2017	2016	2015	2014
<b>Capital Ratios:</b>					
Leverage ratio	14.59%	13.31%	13.39%	12.92%	12.33%
Tier 1 risk-based capital ratio	18.48%	17.01%	17.43%	17.69%	16.99%
Total risk-based capital ratio	19.36%	17.88%	18.26%	18.62%	17.86%
Average tangible equity to average tangible assets	13.69%	12.74%	12.80%	12.51%	11.86%
<b>Asset Quality Ratios:</b>					
Allowance for loan and lease losses to Nonaccrual loans	186.22%	150.31%	139.14%	136.30%	125.31%
Nonperforming loans	123.27%	91.82%	82.82%	78.35%	61.62%
Total ending loans	1.05%	1.04%	1.02%	1.13%	1.06%
Nonperforming loans to total loans	0.85%	1.14%	1.23%	1.64%	1.94%
Nonperforming assets to Ending loans, plus OREO	1.05%	2.00%	2.04%	2.48%	2.78%
Total assets	0.68%	1.27%	1.26%	1.47%	1.65%
Nonperforming assets, excluding accruing TDRs to Ending loans, plus OREO	0.80%	1.63%	1.57%	1.92%	1.95%
Total assets	0.52%	1.04%	0.97%	1.14%	1.16%
Classified asset to total assets	2.54%	2.46%	2.52%	3.00%	2.48%

- (1) First Financial does not have any potentially dilutive securities as the restricted stock awards are included in outstanding shares.

Table of Contents**SELECTED CONSOLIDATED HISTORICAL FINANCIAL INFORMATION OF HOPFED**

The following selected consolidated financial information for the fiscal years ended December 31, 2014 through December 31, 2018 is derived from audited consolidated financial statements of HopFed. You should not assume the results of operations for any past periods indicate results for any future period. You should read this information in conjunction with HopFed's consolidated financial statements and related notes thereto included in HopFed's Annual Report on Form 10-K for the year ended December 31, 2018, as amended, which is included as *Annex D* to this proxy statement/prospectus. See "Where You Can Find More Information" beginning on page 153.

**At or for the twelve months  
ended December 31,**

<b>(Dollars in thousands, except per share data)</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Selected year-end balances:</b>					
Total assets	\$ 931,399	\$ 917,510	\$ 891,486	\$ 903,154	\$ 935,785
Earnings assets	834,014	826,321	818,194	797,954	847,320
Securities available-for-sale	175,232	189,219	213,908	241,605	308,056
Loans, net of allowance	658,782	637,102	604,286	556,349	539,264
Non-interest bearing deposits	129,476	136,197	131,145	125,070	115,051
Certificates of deposit	316,157	304,969	293,078	314,664	331,915
Other interest-bearing deposits	294,204	312,843	308,659	299,672	284,342
Total deposits	739,837	754,009	732,882	739,406	731,308
Short-term borrowings	65,011	44,353	52,655	49,770	45,770
Stockholders' equity	90,786	87,412	86,428	87,630	98,402
<b>Summary of operations:</b>					
Interest and dividend income	\$ 36,731	\$ 33,755	\$ 31,727	\$ 33,122	\$ 34,680
Interest expense	8,174	5,963	5,299	6,550	8,879
<b>Net interest income</b>	<b>\$ 28,557</b>	<b>\$ 27,792</b>	<b>\$ 26,428</b>	<b>\$ 26,572</b>	<b>\$ 25,801</b>
Provision for loan and lease losses	288	477	1,241	1,051	(2,273)
Noninterest income	7,817	8,030	7,935	7,602	7,840
Noninterest expenses	29,350	29,896	29,856	30,445	33,916
Income before income taxes	6,736	5,449	3,266	2,678	1,998
Income tax expense	1,067	2,148	362	274	(201)
<b>Net Income</b>	<b>\$ 5,669</b>	<b>\$ 3,301</b>	<b>\$ 2,904</b>	<b>\$ 2,404</b>	<b>\$ 2,199</b>
<b>Per Share Data:</b>					
<b>Earnings per common share</b>					
Basic	\$ 0.91	\$ 0.53	\$ 0.47	\$ 0.38	\$ 0.30
Diluted(1)	\$ 0.91	\$ 0.53	\$ 0.47	\$ 0.38	\$ 0.30
<b>Cash dividends declared per common share</b>					
Average common shares outstanding-basic	6,233	6,222	6,234	6,372	7,306
Average common shares outstanding-diluted(1)	6,233	6,222	6,234	6,372	7,306
<b>Selected Financial Ratios:</b>					
Average loans to average deposits	89.37%	83.43%	78.70%	75.65%	71.21%
Net charge-offs to average loans and leases	0.09%	0.28%	0.15%	0.29%	0.02%
Average stockholders' equity to average assets	9.75%	9.64%	10.11%	10.17%	10.55%
Return on average assets	0.62%	0.36%	0.33%	0.27%	0.23%
Return on average equity	6.52%	3.78%	3.26%	2.65%	2.20%
Net interest margin	3.41%	3.38%	3.35%	3.36%	3.08%
Dividend payout	29.93%	35.56%	34.19%	41.97%	52.93%

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(Dollars in thousands, except per share data)	At or for the twelve months ended December 31,				
	2018	2017	2016	2015	2014
<b>Capital Ratios:</b>					
Leverage ratio	11.0%	10.6%	10.8%	10.9%	11.1%
Tier 1 risk-based capital ratio	15.5%	15.2%	15.2%	16.3%	18.0%
Total risk-based capital ratio	16.2%	16.0%	16.2%	17.3%	19.1%
Average tangible equity to average tangible assets	9.75%	9.64%	10.11%	10.17%	10.55%
<b>Asset Quality Ratios:</b>					
Allowance for loan and lease losses to Nonaccrual loans	317.25%	375.56%	67.36%	76.80%	198.08%
Nonperforming loans(2)	91.45%	108.50%	39.34%	43.99%	97.37%
Total ending loans	0.68%	0.75%	1.00%	1.01%	1.15%
Nonperforming loans to total loans(2)	0.75%	0.69%	2.55%	2.31%	1.18%
Nonperforming assets to					
Ending loans, plus OREO(2)	1.28%	1.21%	2.93%	2.61%	1.53%
Total assets(2)	0.92%	0.85%	2.01%	1.63%	0.90%
Nonperforming assets, excluding accruing TDRs to Ending loans, plus OREO					
	0.75%	0.72%	1.87%	1.62%	0.93%
Total assets	0.54%	0.51%	1.29%	1.01%	0.55%
Classified asset to total assets	1.54%	1.17%	3.29%	3.11%	3.99%

(1) HopFed does not have any potentially dilutive securities as the restricted stock awards are included in outstanding shares.

(2) Ratios are calculated including TDR loans as non-performing loans. HopFed's financial statements do not include TDR loans in non-performing loans unless they become past due after being classified a TDR.

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The following table shows selected unaudited pro forma condensed combined financial information about the financial condition and results of operations of First Financial giving effect to the Merger. The selected unaudited pro forma condensed combined financial information assumes that the Merger is accounted for under the acquisition method of accounting, with First Financial treated as the acquirer. Under the acquisition method of accounting, the assets and liabilities of HopFed, as of the effective date of the merger, will be recorded by First Financial at their respective estimated fair values, and the excess of the Merger Consideration over the fair value of HopFed's net assets will be allocated to goodwill.

The information under "Unaudited Pro Forma Condensed Combined Balance Sheet Data" in the table below gives effect to the Merger as if it had taken place on December 31, 2018. The information under "Unaudited Pro Forma Condensed Combined Statement of Income Data" in the table below gives effect to the Merger as if it had taken place on January 1, 2018. This selected unaudited pro forma condensed combined financial information has been prepared for illustrative purposes only and is based on currently available information and assumptions and estimates considered appropriate by First Financial's management; however, it is not necessarily indicative of what the combined company's consolidated financial condition or results of operations actually would have been assuming the Merger had been completed as of the dates indicated, nor does it purport to represent the combined company's consolidated balance sheet or statement of income for future periods. Future results may vary significantly from the results reflected due to various factors, including those discussed in "Risk Factors" beginning on page 28. The information presented below should be read in conjunction with the historical consolidated financial statements of First Financial and HopFed, including the related notes filed by each of them with the SEC, in addition to the unaudited pro forma condensed combined financial information of First Financial and HopFed, including the related notes appearing elsewhere in this proxy statement/prospectus. See the sections entitled "Where You Can Find More Information" and "Unaudited Pro Forma Condensed Combined Financial Information" beginning on pages 153 and 119, respectively, of this proxy statement/prospectus.

(Dollars in thousands)	As of and for the year ended December 31, 2018
<b>Unaudited Pro Forma Condensed Combined Balance Sheet Data</b>	
Loans, net	\$ 2,589,489
Total assets	3,971,272
Deposits	3,176,564
Total liabilities	3,474,568
Total shareholders' equity	496,704
<b>Unaudited Pro Forma Condensed Combined Statement of Income Data</b>	
Net interest income	143,141
Provision for loan losses	6,056
Income before income taxes	61,357
Net income	49,797
Comprehensive income	41,953

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The following table sets forth for First Financial and HopFed common stock certain historical, pro forma, and pro forma equivalent per share financial information. The pro forma and pro forma equivalent per share information gives effect to the Merger as if the transaction had been effective on the date presented, in the case of book value data, and as if the transaction had been effective on January 1, 2018, in the case of the income and dividend data. The pro forma information in the table assumes that the Merger is accounted for under the acquisition method of accounting. This information is presented for illustrative purposes only and is unaudited. You should not rely on the pro forma combined or pro forma equivalent amounts as they are not necessarily indicative of the operating results or financial position that would have occurred if the Merger had been completed as of the dates indicated, nor are they necessarily indicative of the future operating results or financial position of the combined company. The pro forma information, although helpful in illustrating the financial characteristics of the combined company under one set of assumptions, does not reflect the benefits of expected cost savings, opportunities to earn additional revenue, the impact of restructuring and merger-related costs, or other factors that may result as a consequence of the merger and, accordingly, does not attempt to predict or suggest future results. This information should be read together with the historical consolidated financial statements and related notes of First Financial and HopFed, which have been filed with the SEC and are incorporated into this proxy statement/prospectus or included as an annex to this proxy statement/prospectus, and with the unaudited pro forma condensed combined financial information and accompanying notes included elsewhere in this proxy statement/prospectus.

	<b>First Financial Historical</b>	<b>HopFed Historical</b>	<b>Pro Forma Combined</b>	<b>Equivalent Pro Forma Combined(5)</b>
<b>Basic Earnings Per Share(1)</b>				
For the year ended December 31, 2018	\$ 3.80	\$ 0.91	\$ 3.63	\$ 1.61
<b>Diluted Earnings Per Share(1)(2)</b>				
For the year ended December 31, 2018	\$ 3.80	\$ 0.91	\$ 3.63	\$ 1.61
<b>Cash Dividends Per Share(3)</b>				
For the year ended December 31, 2018	\$ 1.02	\$ 0.26	\$ 1.02	\$ 0.45
<b>Book Value Per Share(4)</b>				
For the year ended December 31, 2018	\$ 36.06	\$ 14.49	\$ 36.11	\$ 16.03

- (1) Pro forma combined earnings per share are based on pro forma combined net income and pro forma combined weighted average shares outstanding for the period.
- (2) Neither First Financial nor HopFed have any potentially dilutive securities as their restricted stock awards are included in outstanding shares.
- (3) Pro forma combined cash dividends per share represents First Financial's historical cash dividends per share.
- (4) Pro forma combined book value per share is based on pro forma combined equity and and pro forma combined shares outstanding at the end of the period.
- (5) Equivalent pro forma combined is calculated by multiplying the pro forma combined amounts by the 0.444 Exchange Ratio and does not reflect the receipt of cash by HopFed stockholders.



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**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

Some of the statements contained or incorporated by reference in this proxy statement/prospectus are forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 giving First Financial's or HopFed's expectations or predictions of future financial or business performance or conditions. Forward-looking statements are typically identified by words such as "believe," "expect," "anticipate," "intend," "target," "estimate," "continue," "positions," "projections," "prospects," or "potential," by future conditional verbs such as "will," "would," "should," "could," or "may," or by variations of such words or by similar expressions. Such forward-looking statements include, but are not limited to, statements about the benefits of the Merger or the Bank Merger, including future financial and operating results of First Financial, HopFed, or the combined company following the Merger, the combined company's plans, objectives, expectations, and intentions, the expected timing of the completion of the Merger, financing plans and the availability of capital, the likelihood of success and impact of litigation, and other statements that are not historical facts. These statements are only predictions based on First Financial's and HopFed's current expectations and projections about future events. There are important factors that could cause First Financial's and HopFed's actual results, level of activity, performance, or achievements to differ materially from the results, level of activity, performance, or achievements expressed or implied by the forward-looking statements. In particular, you should consider the numerous risks and uncertainties described in the section entitled "Risk Factors" beginning on page 28.

These forward-looking statements are subject to numerous assumptions, risks, and uncertainties which change over time. In addition to factors previously disclosed in First Financial's and HopFed's reports filed with the SEC, the following factors, among others, could cause actual results to differ materially from forward-looking statements:

the inability to close the Merger and the Bank Merger in a timely manner;

the failure to complete the Merger due to the failure of HopFed stockholders to approve the Merger Proposal;

failure to obtain applicable regulatory approvals and meet other closing conditions to the Merger on the expected terms and schedule;

the potential impact of announcement or consummation of the proposed Merger with HopFed on relationships with third parties, including customers, employees, and competitors;

diversion of management's attention from ongoing business operations and opportunities;

business disruption following the Merger;

difficulties and delays in integrating the First Financial and HopFed businesses or fully realizing cost savings and other benefits;

First Financial's potential exposure to unknown or contingent liabilities of HopFed;

the challenges of integrating, retaining, and hiring key personnel;

failure to attract new customers and retain existing customers in the manner anticipated;

the outcome of pending or threatened litigation, or of matters before regulatory agencies, whether currently existing or commencing in the future, including litigation and regulatory action related to the Merger;

any interruption or breach of security resulting in failures or disruptions in customer account management, general ledger, deposit, loan, or other systems;

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changes in First Financial's stock price before closing, including as a result of the financial performance of HopFed prior to closing;

operational issues stemming from, and/or capital spending necessitated by, the potential need to adapt to industry changes in information technology systems, on which First Financial and HopFed are highly dependent;

changes in legislation, regulation, policies, or administrative practices, whether by judicial, governmental, or legislative action, including, but not limited to, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") and other changes pertaining to banking, securities, taxation, rent regulation and housing, financial accounting and reporting, environmental protection, and insurance, and the ability to comply with such changes in a timely manner;

changes in the monetary and fiscal policies of the U.S. Government, including policies of the U.S. Department of the Treasury and the Federal Reserve Board;

changes in interest rates, which may affect First Financial's or HopFed's net income, prepayment penalty income, mortgage banking income, and other future cash flows, or the market value of First Financial's or HopFed's assets, including its investment securities;

changes in accounting principles, policies, practices, or guidelines;

changes in First Financial's credit ratings or in First Financial's ability to access the capital markets;

natural disasters, war, or terrorist activities; and

other economic, competitive, governmental, regulatory, technological, and geopolitical factors affecting First Financial's or HopFed's operations, pricing, and services.

Additionally, the timing and occurrence or non-occurrence of events may be subject to circumstances beyond First Financial's or HopFed's control.

For any forward-looking statements made in this proxy statement/prospectus or in any documents included with or incorporated by reference into this proxy statement/prospectus, First Financial and HopFed claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. You are cautioned not to place undue reliance on these statements, which speak only as of the date of this proxy statement/prospectus or the date of the applicable document included with or incorporated by reference in this proxy statement/prospectus. Except to the extent required by applicable law, First Financial and HopFed do not undertake to update forward-looking statements to reflect facts, circumstances, assumptions, or events that occur after the date the forward-looking statements are made. All written and oral forward-looking statements concerning the Merger or other matters addressed in this proxy statement/prospectus and attributable to First Financial, HopFed, or any person acting on their behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this proxy statement/prospectus.

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**RISK FACTORS**

*In addition to general investment risks and the other information contained in, included with, or incorporated by reference into this proxy statement/prospectus, including the matters addressed under the section "Cautionary Statement Regarding Forward-Looking Statements," you should carefully consider the following risk factors in deciding how to vote for the proposals presented in this proxy statement/prospectus. You should also consider the other information in this proxy statement/prospectus, included with this proxy statement/prospectus, and the other documents incorporated by reference into this proxy statement/prospectus. Please see "Where You Can Find More Information."*

***Because the market price of First Financial common stock will fluctuate, HopFed stockholders cannot be certain of the market value of the Merger Consideration they will receive.***

Subject to possible adjustment as provided for in the Merger Agreement, if the Merger is completed, HopFed stockholders are entitled to elect to receive for their shares of HopFed common stock (excluding treasury shares, shares owned by HopFed or First Financial (other than in a fiduciary or agency capacity or as a result of debts previously contracted) and shares for which appraisal rights have been properly asserted) either (or a combination of) the Stock Consideration or Cash Consideration, subject to allocation provisions that provide for a targeted aggregate split of 50% of shares of HopFed common stock being exchanged for the Stock Consideration and 50% for the Cash Consideration. The market value of the Stock Consideration will vary from the closing price of First Financial common stock on the date First Financial and HopFed announced the Merger, on the date that this proxy statement/prospectus is mailed to HopFed stockholders, on the date of the Special Meeting, and on the date the Merger is completed. Any change in the market price of First Financial common stock prior to the completion of the Merger will affect the value of the Stock Consideration that HopFed stockholders may receive upon completion of the Merger.

The market price of First Financial common stock could be subject to significant fluctuations due to changes in sentiment in the market regarding First Financial's operations or business prospects, including market sentiment regarding First Financial's entry into the Merger Agreement. These risks may be affected by:

operating results that vary from the expectations of First Financial's management or of securities analysts and investors;

developments in First Financial's business or in the financial services sector generally;

regulatory or legislative changes affecting First Financial's industry generally or its business and operations;

operating and securities price performance of companies that investors consider to be comparable to First Financial;

changes in estimates or recommendations by securities analysts or rating agencies;

announcements of strategic developments, acquisitions, dispositions, financings, and other material events by First Financial or its competitors; and

changes in global financial markets and economies and general market conditions, such as interest or foreign exchange rates, stock, commodity, credit, or asset valuations or volatility.

Therefore, at the time of the Special Meeting, you will not know the precise value of the Merger Consideration you may receive at the effective time of the Merger. You should obtain current market quotations for shares of First Financial common stock and for shares of HopFed common stock.

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***You may not receive the form of Merger Consideration that you elect.***

The Merger Consideration to be received by HopFed stockholders in the Merger is subject to the requirement that 50% of the shares of HopFed common stock be exchanged for the Stock Consideration and the remaining 50% be exchanged for the Cash Consideration. The Merger Agreement contains proration and allocation provisions to achieve this desired result. If you elect the Stock Consideration for all or some of your shares and the Stock Consideration is oversubscribed, then you will receive the Cash Consideration for a portion of your shares. Similarly, if you elect the Cash Consideration for all or some of your shares and the Cash Consideration is oversubscribed, then you will receive the Stock Consideration for a portion of your shares. Accordingly, there is a risk that you will receive a portion of the Merger Consideration in the form that you do not elect, which could result in, among other things, tax consequences that differ from those that would have resulted had you received the form of consideration you elected, including with respect to the recognition of taxable gain to the extent cash is received.

***The market price of First Financial common stock after the Merger may be affected by factors different from those affecting the shares of HopFed or First Financial currently.***

Upon completion of the Merger, holders of HopFed common stock receiving Stock Consideration will become holders of First Financial common stock. First Financial's business differs in important respects from that of HopFed, and, accordingly, the results of operations of the combined company and the market price of First Financial common stock after the completion of the Merger may be affected by factors different from those currently affecting the independent results of operations of each of First Financial and HopFed. For a discussion of the businesses of First Financial and HopFed and of some important factors to consider in connection with those businesses, see the documents incorporated by reference in and included with this proxy statement/prospectus and referred to under "Where You Can Find More Information."

***Regulatory approvals may not be received, may take longer than expected, or may impose conditions that are not presently anticipated or that could have an adverse effect on the combined company following the Merger.***

Before the Merger and the Bank Merger may be completed, First Financial and HopFed must obtain approvals (or waivers from such approval requirements) from the Federal Reserve Board, the OCC, and the KDFI. Other approvals, waivers, or consents from regulators may also be required. In determining whether to grant these approvals, the regulators consider a variety of factors, including the regulatory standing of each party and the factors described under "The Merger Regulatory Approvals Required for the Merger." An adverse development in either party's regulatory standing or these factors could result in an inability to obtain approval or delay their receipt. These regulators may impose conditions on the completion of the Merger or the Bank Merger or require changes to the terms of the Merger or the Bank Merger. Such conditions or changes could have the effect of delaying or preventing completion of the Merger or the Bank Merger or imposing additional costs on or limiting the revenues of the combined company following the Merger and the Bank Merger, any of which might have an adverse effect on the combined company following the Merger. See "The Merger Regulatory Approvals Required for the Merger" beginning on page 77.

***The results of the Merger and integration of First Financial and HopFed will depend on a number of uncertain factors.***

The results of the Merger will depend on a number of factors, including, without limitation, First Financial's ability to:

integrate the branches acquired from Heritage in the Merger into First Financial Bank's current operations;

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limit the outflow of deposits held by its new customers in the acquired branches and to successfully retain and manage interest-earning assets (i.e., loans) acquired in the Merger;

control the incremental non-interest expense from the acquired branches in a manner that enables it to maintain a favorable overall efficiency ratio;

retain and attract the appropriate personnel to staff the acquired branches; and

earn acceptable levels of interest and non-interest income, including fee income, from the acquired branches.

Integrating the acquired branches will be an operation of substantial size and expense and may be affected by general market and economic conditions or government actions affecting the financial industry generally. Integration efforts will also likely divert First Financial's management's attention and resources. No assurance can be given that First Financial will be able to integrate the acquired branches successfully, and the integration process could result in the loss of key employees, the disruption of ongoing business, or inconsistencies in standards, controls, procedures, and policies that adversely affect First Financial's ability to maintain relationships with clients, customers, depositors, and employees or to achieve the anticipated benefits of the Merger. First Financial may also encounter unexpected difficulties or costs during the integration that could adversely affect its earnings and financial condition, perhaps materially. Additionally, no assurance can be given that the operation of the acquired branches will not adversely affect First Financial's existing profitability, that First Financial will be able to achieve results in the future similar to those achieved by its existing banking business, or that First Financial will be able to manage any growth resulting from the Merger effectively.

***Combining First Financial and HopFed may be more difficult, costly, or time consuming than expected and the anticipated benefits and cost savings of the Merger may not be realized.***

First Financial and HopFed have operated and, until the completion of the Merger, will continue to operate, independently. The success of the Merger, including anticipated benefits and cost savings, will depend, in part, on First Financial's ability to successfully combine and integrate the businesses of First Financial and HopFed in a manner that permits growth opportunities and does not materially disrupt the existing customer relations nor result in decreased revenues due to loss of customers. It is possible that the integration process could result in the loss of key employees, the disruption of either company's ongoing businesses, or inconsistencies in standards, controls, procedures, and policies that adversely affect the combined company's ability to maintain relationships with clients, customers, depositors, and employees, or to achieve the anticipated benefits and cost savings of the Merger. The loss of key employees could adversely affect First Financial's ability to successfully conduct its business, which could have an adverse effect on First Financial's financial results and the value of its common stock. If First Financial experiences difficulties with the integration process, the anticipated benefits of the Merger may not be realized fully or at all, or may take longer to realize than expected. As with any merger of financial institutions, there also may be business disruptions that cause First Financial and/or HopFed to lose customers or cause customers to remove their accounts from First Financial and/or HopFed and move their business to competing financial institutions. Integration efforts between the two companies will also divert management attention and resources. These integration matters could have an adverse effect on each of HopFed and First Financial during this transition period and for an undetermined period after completion of the Merger on the combined company. In addition, the actual cost savings of the Merger could be less than anticipated.

***The combined company may be unable to retain First Financial and/or HopFed personnel successfully after the Merger is completed.***

The success of the Merger will depend in part on the combined company's ability to retain the talents and dedication of key employees currently employed by First Financial and HopFed. It is

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possible that these employees may decide not to remain with First Financial or HopFed, as applicable, while the Merger is pending or with the combined company after the Merger is consummated. If key employees terminate their employment, or if an insufficient number of employees are retained to maintain effective operations, the combined company's business activities may be adversely affected and management's attention may be diverted from successfully integrating HopFed to hiring suitable replacements, all of which may cause the combined company's business to suffer. In addition, First Financial and HopFed may not be able to locate suitable replacements for any key employees who leave either company, or to offer employment to potential replacements on reasonable terms.

***The unaudited pro forma condensed combined financial statements included in this proxy statement/prospectus are preliminary and the actual financial condition and results of operations of First Financial after the Merger may differ materially.***

The unaudited pro forma condensed combined financial statements in this proxy statement/prospectus are presented for illustrative purposes only and are not necessarily indicative of what First Financial's actual financial condition or results of operations would have been had the Merger been completed on the dates indicated. The unaudited pro forma condensed combined financial statements reflect adjustments, which are based upon preliminary estimates, to record the HopFed identifiable assets acquired and liabilities assumed at fair value and the resulting goodwill recognized. The purchase price allocation reflected in this proxy statement/prospectus is preliminary, and final allocation of the purchase price will be based upon the actual purchase price and the fair value of the assets and liabilities of HopFed as of the date of the completion of the Merger. Accordingly, the final acquisition accounting adjustments may differ materially from the pro forma adjustments reflected in this document. For more information, please see "Unaudited Pro Forma Condensed Combined Financial Information" beginning on page 119.

***Certain of HopFed's directors and executive officers have interests in the Merger that may differ from the interests of HopFed's stockholders.***

HopFed stockholders should be aware that some of HopFed's directors and executive officers have interests in the Merger and have arrangements that are different from, or in addition to, those of HopFed stockholders generally. HopFed's board of directors was aware of these interests and considered these interests, among other matters, when making its decision to approve the Merger Agreement, and in recommending that HopFed stockholders vote in favor of the Merger Proposal. For a more complete description of these interests, please see "The Merger Interests of HopFed's Directors and Executive Officers in the Merger" beginning on page 69.

***Compensation that may become payable in connection with the completion of the Merger may be paid even if the Compensation Proposal fails to receive enough votes for approval.***

HopFed is providing its stockholders with the opportunity to cast an advisory, non-binding vote on the compensation that may become payable to its named executive officers in connection with the completion of the Merger. Approval of the Compensation Proposal is not a condition to the completion of the Merger. To the extent that there is any significant vote against the named executive officer compensation as disclosed in this proxy statement/prospectus, HopFed's board of directors will consider stockholders' concerns and will evaluate whether any actions are necessary to address those concerns. However, because the vote is advisory, it will not be binding on HopFed, nor will it overrule any prior decision or require HopFed's board of directors (or any committee thereof) to take any action. Accordingly, such compensation may be paid to HopFed's named executive officers in connection with the completion of the Merger even if the proposal fails to receive enough votes for approval.

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***Termination of the Merger Agreement could negatively impact HopFed.***

If the Merger Agreement is terminated, there may be various consequences. For example, HopFed's businesses may have been impacted adversely by the failure to pursue other beneficial opportunities due to the focus of management on the Merger, without realizing any of the anticipated benefits of completing the Merger. Additionally, if the Merger Agreement is terminated, the market price of HopFed common stock could decline to the extent that the current market prices reflect a market assumption that the Merger will be completed. If the Merger Agreement is terminated under certain circumstances, HopFed may be required to pay to First Financial a termination fee of \$5.1 million.

***HopFed and First Financial will be subject to business uncertainties and contractual restrictions while the Merger is pending.***

Uncertainty about the effect of the Merger on employees and customers may have an adverse effect on HopFed or First Financial. These uncertainties may impair HopFed's or First Financial's ability to attract, retain, and motivate key personnel until the Merger is completed, and could cause customers and others that deal with HopFed or First Financial to seek to change existing business relationships with HopFed or First Financial. Retention of certain employees by HopFed or First Financial may be challenging while the Merger is pending, as certain employees may experience uncertainty about their future roles with the combined company. If key employees depart because of issues relating to the uncertainty and difficulty of integration, or a desire not to remain with HopFed or First Financial, HopFed's business or First Financial's business could be harmed. In addition, subject to certain exceptions, HopFed is subject to certain restrictions on the conduct of its business prior to completing the Merger, which may adversely affect its ability to execute certain of its business strategies, including the ability in certain cases to enter into or amend contracts, acquire or dispose of assets, incur indebtedness, or make capital expenditures.

***The termination fee and certain restrictions may discourage other companies from trying to acquire HopFed.***

The Merger Agreement, with some exceptions, prohibits HopFed from initiating, soliciting, knowingly encouraging, or knowingly facilitating certain third-party acquisition proposals and limits the ability of the HopFed board of directors make certain changes with respect to its recommendation that HopFed stockholders approve the Merger Proposal. See "The Merger Agreement Agreement Not to Solicit Other Offers" and "The Merger Agreement Change of Recommendation" beginning on pages 102 and 100, respectively. The Merger Agreement also provides that HopFed will be required to pay a termination fee in the amount of \$5.1 million in the event that the Merger Agreement is terminated under certain circumstances. See "The Merger Agreement Termination Fee" beginning on page 106. These provisions might discourage a potential competing acquirer that might have an interest in acquiring all or a significant part of HopFed from considering or proposing such an acquisition. Certain provisions of the HopFed Certificate of Incorporation and amended Bylaws (referred to as the HopFed "Certificate of Incorporation" or "Bylaws," as applicable), or the DGCL, as applicable, could make it more difficult for a third-party to acquire control of HopFed and may also discourage a potential competing acquirer.

***If the Merger is not completed, First Financial and HopFed will have incurred substantial expenses without realizing the expected benefits of the Merger.***

Each of First Financial and HopFed has incurred and will incur substantial expenses in connection with the negotiation and completion of the transactions contemplated by the Merger Agreement, as well as the costs and expenses of filing, printing, and mailing this proxy statement/prospectus and all filing and other fees paid to the SEC in connection with the Merger. If the Merger is not completed,



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First Financial and HopFed would have to recognize these expenses without realizing the expected benefits of the Merger.

***The fairness opinion delivered to HopFed's board of directors prior to the execution of the Merger Agreement will not reflect changes in circumstances since the time the opinion was delivered.***

The fairness opinion of KBW was delivered on, and dated as of, the date that the Merger Agreement was executed, or January 7, 2019. Changes in the operations and prospects of First Financial and HopFed, general market and economic conditions, and other factors both within and outside of First Financial's and HopFed's control, may alter the relative value of the companies. KBW's opinion does not speak as of the date hereof, the time the Merger will be completed, or any date other than the date of the opinion.

***The Merger may fail to qualify as a "reorganization" for U.S. federal income tax purposes, resulting in your recognition of taxable gain or loss in respect of your HopFed shares.***

First Financial and HopFed intend the Merger to qualify as a "reorganization" within the meaning of Section 368(a) of the Code. Although the United States Internal Revenue Service ("IRS") will not provide a ruling on the matter, First Financial and HopFed will, as a condition to closing, each receive an opinion from its respective legal counsel that the Merger will constitute a "reorganization" within the meaning of Section 368(a) of the Code. Neither of these opinions will bind the IRS or prevent the IRS from adopting a contrary position (with retroactive effect). If the Merger fails to qualify as a reorganization, you generally would recognize gain or loss on each share of HopFed common stock surrendered in an amount equal to the difference between your adjusted tax basis in that share and the fair market value of the shares of First Financial common stock and/or cash received in exchange for that share of HopFed common stock upon completion of the Merger. The consequences of the Merger to any particular HopFed stockholder will depend on that stockholder's individual situation. We strongly urge you to consult your own tax advisor to determine the particular tax consequences of the Merger to you.

***The shares of First Financial common stock to be received by HopFed stockholders as a result of the Merger will have different rights from the shares of HopFed common stock.***

Upon completion of the Merger, HopFed stockholders will become First Financial shareholders and their rights as shareholders will be governed by the Indiana Business Corporation Law ("IBCL") and the First Financial Amended and Restated Articles of Incorporation and Code of By-Laws (referred to as the First Financial "Articles of Incorporation" or "Bylaws," as applicable). The rights associated with HopFed common stock are different from the rights associated with First Financial common stock. Please see "Comparison of Rights of First Financial Shareholders and HopFed Stockholders" beginning on page 130 for a discussion of the different rights associated with First Financial common stock.

***Holders of HopFed common stock will have a reduced ownership and voting interest in the combined company after the Merger and will exercise less influence over management.***

Holders of HopFed common stock currently have the right to vote in the election of the board of directors and on other matters affecting HopFed. Upon completion of the Merger, each HopFed stockholder who receives shares of First Financial common stock will become a shareholder of First Financial, with a percentage ownership of First Financial that is smaller than the stockholder's percentage ownership of HopFed. Based on the number of shares outstanding on January 7, 2019, the former HopFed stockholders as a group will receive shares in the Merger constituting approximately 10.73% of the outstanding shares of First Financial common stock immediately after the Merger.

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Because of this, HopFed stockholders may have less influence on the management and policies of First Financial than they now have on the management and policies of HopFed.

***Lawsuits challenging the Merger may be filed against First Financial and HopFed, and an adverse judgment in any such lawsuit or any future similar lawsuits may prevent the Merger from becoming effective or from becoming effective within the expected timeframe.***

HopFed stockholders may file lawsuits against First Financial, HopFed, and/or the directors and officers of either company in connection with the Merger. One of the conditions to the closing of the Merger is that no order, injunction, or decree issued by any court or agency of competent jurisdiction or other legal restraint or prohibition that prevents the consummation of the Merger or any of the other transactions contemplated by the Merger Agreement be in effect. If any plaintiff were successful in obtaining an injunction prohibiting First Financial or HopFed defendants from completing the Merger on the agreed upon terms, then such injunction may prevent the Merger from becoming effective or from becoming effective within the expected timeframe and could result in significant costs to First Financial and/or HopFed, including any cost associated with the indemnification of directors and officers. The defense or settlement of any lawsuit or claim that remains unresolved at the time the Merger is completed may adversely affect First Financial's business, financial condition, results of operations, and cash flow.

***Risks Relating to First Financial's Business***

You should read and consider risk factors specific to First Financial's business that will also affect the combined company after the Merger. These risks are described in the sections entitled "Risk Factors" in First Financial's Annual Report on Form 10-K for the fiscal year ended December 31, 2018 and in other documents incorporated by reference into this proxy statement/prospectus. Please see the section entitled "Where You Can Find More Information" beginning on page 153 of this proxy statement/prospectus for the location of information incorporated by reference into this proxy statement/prospectus.

***Risks Relating to HopFed's Business***

You should read and consider risk factors specific to HopFed's business that will also affect the combined company after the Merger. These risks are described in the sections entitled "Risk Factors" in HopFed's Annual Report on Form 10-K for the fiscal year ended December 31, 2018, as amended, which is included as *Annex D* to this proxy statement/prospectus. Please also see the section entitled "Where You Can Find More Information" beginning on page 153 of this proxy statement/prospectus.

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**THE HOPFED SPECIAL MEETING**

*This section contains information for HopFed stockholders about the Special Meeting that HopFed has called to allow its stockholders to consider and vote on the Merger Proposal and other related matters. HopFed is mailing this proxy statement/prospectus to you, as a HopFed stockholder, on or about [ • ], 2019. This proxy statement/prospectus is accompanied by a notice of the Special Meeting of HopFed stockholders and a form of proxy card that HopFed's board of directors is soliciting for use at the Special Meeting and at any adjournments or postponements of the Special Meeting.*

**Date, Time, and Place of Meeting**

The Special Meeting of HopFed stockholders will be held at [ • ], local time, on [ • ], 2019, at the offices of Heritage, 4155 Lafayette Road, Hopkinsville, Kentucky 42240. On or about [ • ], 2019, HopFed commenced mailing this document and the enclosed form of proxy card to its stockholders entitled to vote at the Special Meeting.

**Matters to Be Considered**

At the Special Meeting, you will be asked to consider and vote upon the following matters:

the Merger Proposal;

the Compensation Proposal; and

the Adjournment Proposal.

HopFed's board of directors and management are not aware of any other matters to be presented at the Special Meeting other than those mentioned above and have not received notice from any HopFed stockholder requesting that other matters be considered. However, if any other business is properly presented before the Special Meeting and may properly be voted upon, the proxies solicited hereby will be voted on such matters in accordance with the judgment of a majority of HopFed's board of directors, in their discretion.

**Recommendation of HopFed's Board of Directors**

HopFed's board of directors has determined that the Merger is advisable and in the best interests of HopFed and its stockholders and has unanimously approved the Merger Agreement. HopFed's board of directors unanimously recommends that HopFed stockholders vote "FOR" approval of the Merger Proposal, "FOR" approval of the Compensation Proposal, and "FOR" approval of the Adjournment Proposal. See "The Merger HopFed's Reasons for the Merger; Recommendation of HopFed's Board of Directors," beginning on page 50, for a more detailed discussion of the HopFed board of directors' recommendation.

**Record Date and Quorum**

HopFed's board of directors has fixed the close of business on [ • ], 2019 as the record date (the "Record Date") for determining the holders of HopFed common stock entitled to receive notice of and to vote at the Special Meeting.

As of the Record Date, there were [ • ] shares of HopFed common stock outstanding and entitled to vote at the Special Meeting held by approximately [ • ] holders of record. Each share of HopFed common stock entitles the holder to one vote at the Special Meeting on each proposal to be considered at the Special Meeting.

A quorum must exist before business can be conducted at the Special Meeting. The presence at the Special Meeting, in person or by proxy, of holders of at least one-third of the outstanding shares of

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HopFed common stock entitled to vote at the Special Meeting will constitute a quorum for the transaction of business. All shares of HopFed common stock present in person or represented by proxy, including abstentions, will be treated as present for purposes of determining the presence or absence of a quorum for all matters voted on at the Special Meeting.

**Vote Required; Treatment of Abstentions and Failure to Vote**

*Merger Proposal:*

**Standard:** Approval of the Merger Proposal requires the affirmative vote of at least a majority of the outstanding shares of HopFed common stock entitled to vote on the proposal.

**Effect of abstentions and broker non-votes:** If you fail to vote, mark "ABSTAIN" on your proxy, or fail to instruct your bank, broker, or other nominee with respect to the Merger Proposal, it will have the same effect as a vote "AGAINST" the proposal.

*Compensation Proposal:*

**Standard:** Approval of the Compensation Proposal requires the affirmative vote of a majority of the votes cast on the proposal.

**Effect of abstentions and broker non-votes:** If you fail to vote, mark "ABSTAIN" on your proxy, or fail to instruct your bank, broker, or other nominee with respect to the Compensation Proposal, you will not be deemed to have cast a vote with respect to the proposal, and it will have no effect on the proposal.

*Adjournment Proposal:*

**Standard:** Approval of the Adjournment Proposal requires the affirmative vote of a majority of the votes cast on the proposal.

**Effect of abstentions and broker non-votes:** If you fail to vote, mark "ABSTAIN" on your proxy, or fail to instruct your bank, broker, or other nominee with respect to the Adjournment Proposal, you will not be deemed to have cast a vote with respect to the proposal, and it will have no effect on the proposal.

**Shares Held by Directors, Officers, and Certain Stockholders**

As of the Record Date, the directors and executive officers of HopFed beneficially owned and were entitled to vote approximately [ • ] shares of HopFed common stock, representing approximately [ • ]% of the shares of HopFed common stock outstanding on that date. Each of HopFed's directors, solely in his or her capacity as a HopFed stockholder, has entered into a voting agreement with First Financial, pursuant to which each such director has agreed to vote all shares of HopFed common stock that are registered in his or her personal name in favor of the Merger Agreement and use reasonable efforts to cause all additional shares of HopFed common stock jointly owned or owned by his or her spouse to be voted in favor of the Merger Agreement.

Additionally, certain HopFed stockholders have agreed to vote in favor of the approval of the Merger Agreement and the consummation of the transactions contemplated thereby. As of the Record Date, such stockholders beneficially owned a total of [ • ] shares of HopFed common stock, representing approximately [ • ]% of the total outstanding shares of HopFed common stock.

As of the Record Date, excluding shares held in fiduciary or agency capacity or as a result of debts previously contracted, First Financial and its subsidiaries did not own any shares of HopFed common stock.

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Please see the section titled "The Merger Agreement Voting Agreement and Standstill Agreement," beginning on page 90, for a more detailed description.

**Voting of Proxies; Incomplete Proxies**

A HopFed stockholder may vote by proxy or in person at the Special Meeting. If you hold your shares of HopFed common stock in your name as a stockholder of record, you, as a HopFed stockholder, may use one of the following methods:

By telephone: Calling the number indicated on your proxy card and following the recorded instructions.

Through the Internet: Visit the website indicated on your proxy card and following the instructions.

By mail: Complete and return the proxy card in the enclosed envelope. The envelope requires no additional postage if mailed in the United States.

HopFed requests that HopFed stockholders vote by telephone, over the Internet, or by completing and signing the accompanying proxy card and returning it to HopFed as soon as possible in the enclosed postage-paid envelope.

**All shares represented by valid proxies that HopFed receives through this solicitation, and that are not revoked, will be voted in accordance with your instructions on the proxy card. If you make no specification on your proxy card as to how you want your shares voted before signing and returning it, your proxy will be voted "FOR" approval of the Merger Proposal, "FOR" approval of the Compensation Proposal, and "FOR" approval of the Adjournment Proposal, except with respect to those shares of HopFed common stock held in the HopFed ESOP as described below.** No matters other than the matters described in this proxy statement/prospectus are anticipated to be presented for action at the Special Meeting or at any adjournment or postponement of the Special Meeting. However, if other business properly comes before the Special Meeting, the proxies solicited hereby will be voted on such matters in accordance with the judgment of a majority of HopFed's board of directors.

**Every HopFed stockholder's vote is important.** Accordingly, each HopFed stockholder should sign, date, and return the enclosed proxy card, or vote via the Internet or by telephone, whether or not the HopFed stockholder plans to attend the Special Meeting in person. Sending in your proxy card or voting by telephone or on the Internet will not prevent you from voting your shares personally at the meeting, since you may revoke your proxy at any time before it is voted. **Please vote, using one of the available methods described above, as soon as possible.**

**Shares Held in "Street Name"; Broker Non-Votes**

If you are a HopFed stockholder and your shares are held in "street name" through a bank, broker, or other nominee, you must provide the record holder of your shares with instructions on how to vote the shares. Please follow the voting instructions provided by the bank, broker, or other nominee. You may not vote shares held in "street name" by returning a proxy card directly to HopFed or by voting in person at the Special Meeting unless you provide a "legal proxy," which you must obtain from your broker, bank, or other nominee. Further, brokers, banks, or other nominees who hold shares of HopFed common stock on behalf of their customers may not give a proxy to HopFed to vote those shares with respect to any of the proposals without specific instructions from their customers, as brokers, banks, and other nominees do not have discretionary voting power on the proposals that will be voted upon at the Special Meeting.

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**Revocability of Proxies and Changes to a HopFed Stockholder's Vote**

You have the power to change your vote at any time before your shares of HopFed common stock are voted at the Special Meeting by:

signing and returning a proxy card with a later date;

voting by telephone or the Internet at a later time;

delivering a written revocation letter to HopFed's Corporate Secretary; or

attending the Special Meeting in person, notifying HopFed's Corporate Secretary of your revocation of your proxy, and voting by ballot at the Special Meeting.

HopFed's Corporate Secretary's mailing address is: HopFed Bancorp, Inc., Attention: Michael L. Woolfolk, Corporate Secretary, P.O. Box 537, Hopkinsville, Kentucky 42241.

Attendance at the Special Meeting will not automatically revoke your proxy. A revocation or later-dated proxy received by HopFed after the vote will not affect the vote.

If you choose to send a completed proxy card bearing a later date than your original proxy card, the new proxy card must be received before the beginning of the Special Meeting. If you have instructed a bank, broker, or other nominee to vote your shares of HopFed common stock, you must follow the directions you receive from your bank, broker, or other nominee in order to change or revoke your vote.

**Participants in the HopFed Employee Stock Ownership Plan**

If you participate in the HopFed ESOP and HopFed common stock has been allocated to your account in the HopFed ESOP, you are entitled to instruct the HopFed ESOP Trustees, confidentially, as to how to vote those shares pursuant to the instructions provided to plan participants. You will receive your voting instruction form regarding your shares of HopFed common stock allocated to your account in the HopFed ESOP in a mailing separate from this proxy statement/prospectus. HopFed has engaged Computershare to receive the voting instruction forms completed by the HopFed ESOP participants and to tabulate the results. Once the votes are tallied by Computershare, the aggregate results will be reported to the HopFed ESOP Trustees, who will then use the voting instructions to vote the shares of HopFed common stock held by the HopFed ESOP.

Your shares will be voted in accordance with your duly executed voting instruction form, provided that Computershare receives your voting instruction form by [ • ] p.m., [ • ] Time, on [ • ], 2019. If your voting instruction form is not timely received, your voting instruction form is not properly completed, or you vote to "ABSTAIN" from voting, the shares allocated to your account in the HopFed ESOP will be voted by the HopFed ESOP Trustees, subject to their fiduciary duties, in the same proportion that they vote shares in the HopFed ESOP for which Computershare did receive timely instructions voting "FOR" or "AGAINST." The HopFed ESOP Trustees, subject to their fiduciary duties, will also vote any unallocated shares in the HopFed ESOP in the same proportion that they vote shares in the HopFed ESOP for which Computershare did receive timely instructions voting "FOR" or "AGAINST." You may also revoke previously given voting instructions by [ • ] p.m., [ • ] Time, on [ • ], 2019 by filing with Computershare either a written notice of revocation or a properly completed and signed voting instruction form bearing a later date.

**Solicitation of Proxies**

HopFed is soliciting your proxy in conjunction with the Merger. HopFed will bear the cost of soliciting proxies from you; provided, however, under the Merger Agreement, the costs and expenses of printing and mailing this proxy statement/prospectus will be borne by First Financial. In addition to

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solicitation of proxies by mail, HopFed will request that banks, brokers, and other nominee send proxies and proxy material to the beneficial owners of HopFed common stock and secure their voting instructions. The record holders will be reimbursed for their reasonable expenses in taking those actions. If necessary, HopFed may use its directors and several of its regular employees, who will not be specially compensated, to solicit proxies from the HopFed stockholders, either personally or by telephone, facsimile, letter, or electronic means. HopFed may also contract with a proxy solicitor to solicit proxies if it determines such services are necessary.

**Attending the Special Meeting**

All holders of HopFed common stock, including holders of record and stockholders who hold their shares through banks, brokers, nominees, or any other holder of record, are invited to attend the Special Meeting. HopFed stockholders of record can vote in person at the Special Meeting. If you are not a stockholder of record, you must obtain a legal proxy executed in your favor from the record holder of your shares, such as a broker, bank, or other nominee, to be able to vote in person at the Special Meeting. If you plan to attend the Special Meeting, you must hold your shares in your own name or have a letter from the record holder of your shares confirming your ownership. In addition, you must bring a form of personal photo identification with you in order to be admitted. HopFed reserves the right to refuse admittance to anyone without proper proof of share ownership and without proper photo identification. The use of cameras, sound recording equipment, communications devices, or any similar equipment during the Special Meeting is prohibited without HopFed's express written consent.

**Assistance**

If you have any questions concerning the Merger or this proxy statement/prospectus, would like additional copies of this proxy statement/prospectus, or need help voting your shares of HopFed common stock, please contact HopFed's Corporate Secretary at HopFed Bancorp, Inc., Attention: Michael L. Woolfolk, Corporate Secretary, P.O. Box 537, Hopkinsville, Kentucky 42241, or at (270) 885-1171.

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**HOPFED PROPOSALS**

**PROPOSAL NO. 1: MERGER PROPOSAL**

HopFed is asking its stockholders to adopt the Merger Agreement and approve the transactions contemplated thereby. HopFed stockholders should read this proxy statement/prospectus carefully and in its entirety, including the annexes and information incorporated by reference, for more detailed information concerning the Merger Agreement and the Merger. A copy of the Merger Agreement is attached to this proxy statement/prospectus as *Annex A*.

After careful consideration, the HopFed board of directors, by a unanimous vote of all directors, determined that the Merger Proposal, on the terms and conditions set forth in the Merger Agreement, is in the best interests of HopFed and its stockholders. Please see "The Merger HopFed's Reasons for the Merger; Recommendation of HopFed's Board of Directors" beginning on page 50 for a more detailed discussion of the HopFed board of directors' recommendation.

**The HopFed board of directors unanimously recommends that HopFed stockholders vote "FOR" approval of the Merger Proposal.**

**PROPOSAL NO. 2: COMPENSATION PROPOSAL**

Pursuant to the Dodd-Frank Act and Rule 14a-21(c) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), HopFed is seeking non-binding, advisory approval from its stockholders of the compensation of HopFed's named executive officers that is based on or otherwise relates to the Merger, as disclosed in "The Merger Interests of HopFed's Directors and Executive Officers in the Merger" and "The Merger Merger-Related Compensation for HopFed's Named Executive Officers" beginning on pages 69 and 74, respectively. The proposal gives HopFed stockholders the opportunity to express their views on the Merger-related compensation of HopFed's named executive officers. Accordingly, HopFed is requesting its stockholders to adopt the following resolution, on a non-binding, advisory basis:

"RESOLVED, that the compensation that may be paid or become payable to HopFed's named executive officers in connection with the Merger, and the agreements or understandings pursuant to which such compensation may be paid or become payable, in each case as disclosed pursuant to Item 402(t) of Regulation S-K in "The Merger Interests of HopFed's Directors and Executive Officers in the Merger" and "The Merger Merger-Related Compensation for HopFed's Named Executive Officers," are hereby APPROVED."

Approval of this proposal is not a condition to completion of the Merger, and the vote with respect to this proposal is advisory only and will not be binding on First Financial or HopFed. If the Merger is completed, the Merger-related compensation may be paid to HopFed's named executive officers to the extent payable in accordance with the terms of the compensation agreements and arrangements even if HopFed stockholders fail to approve the advisory vote regarding Merger-related compensation.

**The HopFed board of directors unanimously recommends that HopFed stockholders vote "FOR" approval of the Compensation Proposal.**



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**PROPOSAL NO. 3: ADJOURNMENT PROPOSAL**

The Special Meeting may be adjourned to another time or place, if necessary or appropriate, to permit, among other things, further solicitation of proxies if necessary to obtain additional votes in favor of the Merger Proposal.

If, at the Special Meeting, the number of shares of HopFed common stock present or represented and voting in favor of the Merger Proposal is insufficient to approve such proposal, HopFed intends to move to adjourn the Special Meeting in order to solicit additional proxies for the adoption of the Merger Agreement. In accordance with the HopFed Bylaws, a vote to approve the proposal to adjourn the Special Meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the Special Meeting to approve the Merger Proposal may be taken in the absence of a quorum.

In this proposal, HopFed is asking its stockholders to authorize the holder of any proxy solicited by the HopFed board of directors on a discretionary basis to vote in favor of adjourning the Special Meeting to another time and place for the purpose of soliciting additional proxies, including the solicitation of proxies from HopFed stockholders who have previously voted.

**The HopFed board of directors unanimously recommends that HopFed stockholders vote "FOR" approval of the Adjournment Proposal.**

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**INFORMATION ABOUT FIRST FINANCIAL**

First Financial is a financial holding company incorporated under Indiana law in 1982 and headquartered in Terre Haute, Indiana. First Financial owns all of the outstanding shares of common stock of First Financial Bank and the Morris Plan. At December 31, 2018, First Financial had, on a consolidated basis, approximately \$3.01 billion in assets, \$2.44 billion in deposits, and shareholders' equity of \$0.44 billion. First Financial Bank is headquartered in Terre Haute, Indiana and is the principal bank subsidiary of First Financial. The Morris Plan is also headquartered in Terre Haute, Indiana. With approximately \$2.92 billion in assets and 790.5 full-time equivalent employees as of December 31, 2018, First Financial Bank accounts for substantially all of First Financial's consolidated assets and results of operation. As of December 31, 2018, the Morris Plan had approximately \$0.08 billion in assets and 25.5 full-time equivalent employees. Through First Financial Bank and the Morris Plan, First Financial offers a wide variety of financial services including commercial, mortgage, and consumer lending, lease financing, trust account services, and depositor services.

First Financial's primary regulator is the Federal Reserve Board. First Financial Bank's primary regulator is the OCC. The Morris Plan's primary regulator is the Indiana Department of Financial Institutions and its primary federal regulator is the Federal Deposit Insurance Corporation ("FDIC").

First Financial's principal office is located at One First Financial Plaza, Terre Haute, Indiana 47807, and its telephone number at that location is (812) 238-6000. First Financial's stock is traded on NASDAQ under the symbol "THFF." Additional information about First Financial and its subsidiaries is included in documents incorporated by reference in this proxy statement/prospectus. For more information, see "Where You Can Find More Information" beginning on page 153.

**INFORMATION ABOUT HOPFED**

HopFed is a bank holding company incorporated under Delaware law in 1997 and headquartered in Hopkinsville, Kentucky. HopFed owns all of the outstanding shares of common stock of Heritage. At December 31, 2018, HopFed had, on a consolidated basis, approximately \$0.93 billion in assets, \$0.74 billion in deposits, and stockholders' equity of \$0.09 billion. Heritage is headquartered in Hopkinsville, Kentucky and is the principal bank subsidiary of HopFed. With approximately \$0.93 billion in assets and 220 full-time equivalent employees as of December 31, 2018, Heritage accounts for substantially all of HopFed's consolidated assets and results of operation. Through Heritage, HopFed offers a broad line of banking and financial products and services with the personalized focus of a community banking organization.

HopFed's primary regulator is the Federal Reserve Board. Heritage's primary regulator is KDFI and its primary federal regulator is the FDIC.

HopFed's principal office is located at 4155 Lafayette Road, Hopkinsville, Kentucky 42240, and its telephone number at that location is (270) 885-1171. HopFed's stock is traded on NASDAQ under the symbol "HFBC." Additional information about HopFed and its subsidiaries, including, but not limited to, information regarding its business, properties, legal proceedings, financial statements, financial condition and results of operations, changes in and disagreements with accountants on accounting and financial disclosure, market risk, executive compensation, beneficial ownership, and related party transactions, is set forth in HopFed's Annual Report on Form 10-K for the fiscal year ended December 31, 2018, as amended, which is included as *Annex D* to this proxy statement/prospectus. See also "Where You Can Find More Information" beginning on page 153.

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**THE MERGER**

*The following discussion contains certain information about the Merger. The discussion is subject, and qualified in its entirety by reference, to the Merger Agreement attached as Annex A to this proxy statement/prospectus and incorporated herein by reference. We urge you to read carefully this entire proxy statement/prospectus, including the Merger Agreement attached as Annex A, for a more complete understanding of the Merger.*

**The Merger Generally**

Each of First Financial's and HopFed's respective boards of directors has unanimously approved the Merger Agreement. The Merger Agreement provides for the merger of HopFed with and into First Financial, with First Financial continuing as the surviving corporation. Following the completion of the Merger, Heritage, a wholly owned bank subsidiary of HopFed, will merge with and into the First Financial Bank, a wholly owned bank subsidiary of First Financial. First Financial Bank will be the surviving bank in the Bank Merger.

Subject to possible adjustment as provided for in the Merger Agreement, if the Merger is completed, HopFed stockholders are entitled to elect to receive for their shares of HopFed common stock (excluding treasury shares, shares owned by HopFed or First Financial (other than in a fiduciary or agency capacity or as a result of debts previously contracted) and shares for which appraisal rights have been properly asserted) either (or a combination of) the Stock Consideration or Cash Consideration, subject to allocation provisions that provide for a targeted aggregate split of 50% of shares of HopFed common stock being exchanged for the Stock Consideration and 50% for the Cash Consideration. Further information regarding the allocation provisions is described in this proxy statement/prospectus in the section entitled "The Merger Agreement Allocation Provisions," beginning on page 83.

HopFed stockholders are being asked to adopt the Merger Agreement. See "The Merger Agreement" for additional and more detailed information regarding the legal documents that govern the Merger, including information about conditions to the completion of the Merger and provisions for terminating or amending the Merger Agreement.

**Background of the Merger**

Since completing Heritage's conversion from a mutual savings bank to a stock savings bank and related reorganization into a publicly traded bank holding company in 1998, the HopFed board of directors and management have periodically reviewed HopFed's strategic plans and financial prospects, including various strategies for improving HopFed's profitability as an independent institution. Among other things, the HopFed board of directors has considered the increasing difficulty in growing profitability and operating a community financial institution under current local and national economic conditions, including the costs for technology and regulatory compliance and the current competitive environment. The HopFed board of directors also carefully considered communications from and conferences with activist investors and other stockholders who encouraged HopFed to pursue a business combination.

In 2013, 2015, and 2017, the HopFed board of directors held strategic planning meetings with outside advisors. The purpose of each meeting was to assist the HopFed board of directors in considering strategic alternatives designed to enhance stockholder value. HopFed's board of directors held a strategic planning meeting in October 2017. The October 2017 meeting was attended by HopFed directors and its senior management and a representative of an investment banking firm with an established relationship with HopFed and with significant experience advising community banks in the areas of strategic acquisitions and mergers. At this meeting, the investment banker provided an overview of the future prospects of HopFed as an independent entity, including scenarios involving

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additional growth and potential capital raising transactions. The investment banker also discussed potential acquisition transactions and a general discussion of potential merger partners for HopFed if its board of directors were to decide to move forward in exploring a potential strategic acquisition or merger transaction. The HopFed board of directors did not make any determination as to a possible strategic transaction at the planning session. The HopFed board of directors requested that management continue to assess the business prospects of HopFed on a stand-alone basis, the prospects of implementing improvements and enhancements to increase earnings in both the short and long term, and to apprise the board of any potential acquisition or merger transactions that might arise from time to time.

On April 10, 2018, HopFed entered into a standstill agreement with the Stilwell Group, a group of activist investors, and Mark D. Alcott, a director nominee of the Stilwell Group. At the time, the Stilwell Group owned approximately 9.5% of the shares of outstanding HopFed common stock. Among other things, this standstill agreement provides that Mr. Alcott would be appointed to serve as a director of HopFed and Heritage and the Stilwell Group and Mr. Alcott would not solicit proxies in opposition to any recommendation or proposal of HopFed's board of directors, propose or seek a merger of HopFed, or initiate litigation against HopFed (except in connection with enforcement of the standstill agreement). HopFed's entry into and the terms of this standstill agreement were reported on a Current Report on Form 8-K filed with the SEC on April 11, 2018. The parties also entered into a non-disclosure agreement providing that the Stilwell Group would maintain the confidentiality of non-public information regarding HopFed and Heritage. The non-disclosure agreement is an exhibit to the standstill agreement.

The HopFed board of directors formed a mergers and acquisitions committee (the "M&A Committee") on May 16, 2018. Upon his election to the HopFed board of directors, Mr. Alcott was appointed to the M&A Committee. Although not obligated to do so, the HopFed board of directors determined that the appointment of Mr. Alcott to the M&A Committee was appropriate and that he would provide the M&A Committee and the HopFed board of directors with informed and independent advice regarding matters within the committee's purview.

The M&A Committee first met on May 25, 2018 and discussed the members' fiduciary duties in merger and acquisition activities, reviewed a draft charter for the M&A Committee, and discussed the acquisition process and related matters. At this meeting, Mr. John E. Peck (President and CEO), an invited guest at this meeting, provided an update to the M&A Committee regarding various conversations he had with several companies from time to time over the prior year and that none of those conversations had progressed into any specific indications of interest. The M&A Committee determined that it would retain an investment banking firm to assist the M&A Committee and the HopFed board of directors in identifying and evaluating various strategic options and operating scenarios intended to maximize HopFed stockholder value, including remaining independent and the potential sale or merger of HopFed with another institution and selling control. The M&A Committee selected for consideration and interviewed the four highest ranked bank merger and acquisition sell-side advisors for banks headquartered in Southeast and Midwest states with seller's assets of between \$500 million and \$2 billion over the previous two years, including pending and completed transactions. These four firms were: Sandler O'Neill + Partners, L.P. ("Sandler O'Neill"), KBW, Raymond James & Associates, Inc., and FIG Partners, LLC. These companies were contacted to arrange interviews with the M&A Committee.

In June 2018, the M&A Committee interviewed these four investment banking firms plus another investment banking firm, Hovde Group, LLC. Subjects discussed varied with each interview, and included: (i) current assessments of the community banking industry; (ii) overviews of the mergers and acquisitions market and opportunities, both generally and with respect to HopFed; (iii) potential benefits and risks for HopFed as an independent institution on an on-going basis; and (iv) why each firm believed it was best suited to assist HopFed in evaluating strategic alternatives. Sandler O'Neill

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met with the M&A Committee on June 26, 2018 and discussed Sandler O'Neill's overview of the current mergers and acquisitions market, its analyses of HopFed's peer comparisons, a stand-alone net present value analysis of HopFed, an estimated valuation based upon current market metrics, and a capacity to pay analysis of various potential partners.

On June 28, 2018, the M&A Committee met to review the interviews of the five investment banking firms. The M&A Committee determined to recommend to the HopFed board of directors the selection of Sandler O'Neill as HopFed's investment banking firm related to a potential merger or acquisition transaction. At a special meeting of HopFed's board of directors held on June 29, 2018, the M&A Committee reported on its findings and recommended to the board that it engage Sandler O'Neill as HopFed's investment banker and the engagement of KBW to render a fairness opinion (as more fully described below under "The Merger Opinion of Keefe, Bruyette & Woods, Inc.") if a potential transaction was identified and a definitive agreement was negotiated. The M&A Committee based its recommendation to engage Sandler O'Neill in part on its proposed strategies to enhance stockholder value and past record of success. The M&A Committee believed that Sandler O'Neill had access to a significant number of potential partners if such strategic alternative was elected. The M&A Committee recommended engaging both Sandler O'Neill and KBW to the HopFed board of directors because both firms are nationally recognized firms whose principal business speciality is financial services companies. The HopFed board of directors authorized the M&A Committee to negotiate the engagement of Sandler O'Neill as HopFed's investment banker and KBW to render a fairness opinion if a potential transaction was identified and a definitive agreement was negotiated.

The M&A Committee met on July 17, 2018 to review the proposed engagement of Sandler O'Neill and KBW. The M&A Committee recommended to the HopFed board of directors that Sandler O'Neill's fee was to be limited to 1% of the proposed transaction value, which was less than Sandler O'Neill's initially proposed fee, and further, such fee would be reduced by KBW's fee for rendering a fairness opinion.

The HopFed board of directors received the M&A Committee's recommendation related to the proposed engagement of Sandler O'Neill and KBW at its meeting on July 18, 2018. The HopFed board of directors approved the engagement of Sandler O'Neill as its investment banker and, if requested, KBW to render a fairness opinion at its meeting on July 18, 2018.

On July 20, 2018 and August 2, 2018, the M&A Committee had meetings with representatives from Sandler O'Neill to discuss the status of engaging that firm as HopFed's investment banker, the process of exploring strategic alternatives, and a proposed timeline for a proposed market solicitation process. The engagement letters with Sandler O'Neill and KBW were finalized and signed on August 3, 2018.

On August 9, 2018, the M&A Committee had a meeting with representatives from Sandler O'Neill to discuss the status of the process, establishing a virtual data room, and a proposed timeline for a market solicitation process. On August 15, 2018, the HopFed board of directors received a status report from the M&A Committee related to the proposed market solicitation of interest process. The M&A Committee met with representatives from Sandler O'Neill again on August 16 and August 27. The M&A Committee discussed with Sandler O'Neill the process for assessing the market for HopFed and identifying potential merger partners. The M&A Committee was authorized, with the assistance of management, Sandler O'Neill, and legal counsel, to formulate a merger solicitation strategy and prepare a list of potential interested parties that would be solicited as part of any merger solicitation strategy.

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The M&A Committee met with representatives of Sandler O'Neill again on September 6, 7, and 13, 2018, to further discuss the proposed process, the draft confidential information memorandum ("Confidential Memorandum"), the progress of establishing the virtual data room, a discussion of the proposed list of potential partners, and classification of such potential partners by potential suitability. At these meetings, Sandler O'Neill reviewed with the M&A Committee several possible merger partners, which included financial institutions that had previously expressed an interest in, and others that might have an interest in, a merger transaction with HopFed. Possible merger partners were identified based on, among other factors, their apparent financial capacity to pay, regulatory standing, geographic location, and market presence and market share held by the financial institutions. On September 13, 2018, the M&A Committee approved the list of parties to be contacted and the final Confidential Memorandum. Beginning on September 13, 2018, Sandler O'Neill began contacting the 49 potential merger partners approved by the M&A Committee. A virtual data room containing the Confidential Memorandum and additional information about HopFed was opened at such time to those parties who entered into a confidentiality agreement and expressed an interest in receiving additional information regarding a potential transaction with HopFed. Sandler O'Neill distributed 19 confidentiality agreements. Interested potential parties were asked to provide preliminary non-binding indications of interest by October 12, 2018.

On September 17, 2018, First Financial signed a confidentiality agreement. The same day, First Financial was advised by Sandler O'Neill of the opportunity to pursue an affiliation with HopFed. First Financial consulted Raymond James Financial Services, Inc. ("Raymond James") investment bankers about the potential transaction.

The next day, September 18, 2018, First Financial's senior management team received and began reviewing the Confidential Memorandum and presented the opportunity to its board of directors for initial consideration. After lengthy discussion, members of First Financial's board of directors agreed that HopFed's size and market presence offered potential business growth consistent with First Financial's strategic goals, but additional information was necessary for a comprehensive evaluation of the proposed transaction. First Financial's board of directors authorized senior management to proceed in the auction process in accordance with senior management's judgement following thorough evaluation of available due diligence material. From September 19, 2018 through October 11, 2018, First Financial senior management conducted due diligence regarding HopFed.

On September 27, 2018 and October 4 and 9, 2018, the M&A Committee had meetings with Sandler O'Neill to discuss the status of the process. On September 27, 2018, at the request of Party A, management of HopFed and Party A met to discuss a potential transaction. On October 15, 2018, the M&A Committee met with Sandler O'Neill and received an update on the five letters of interest received, including a letter of interest from First Financial and Party A.

The HopFed board of directors held a special meeting on October 17, 2018, at which meeting Sandler O'Neill and Jones Walker LLP, Washington, D.C. ("Jones Walker"), a law firm with extensive knowledge and experience in representing community banking organizations in the area of mergers and acquisitions, participated. Sandler O'Neill updated the HopFed board of directors on the results of the solicitation of interest in a potential merger transaction. Of the 19 institutions which had received confidentiality agreements from Sandler O'Neill, 15 organizations had returned executed confidentiality agreements, requested the Confidential Memorandum, and were granted access to the virtual data room. Five of these 15 financial institutions (First Financial and four others), including Party A, submitted written preliminary non-binding indications of interest, all of which were considered by the HopFed board of directors on October 17, 2018.

First Financial's preliminary non-binding indication of interest included a proposed purchase price of between \$20.50 and \$21.00 per share of HopFed common stock, with 50% of the purchase price being paid in First Financial common stock and 50% in cash. After reviewing all five of the indications

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of interest received, based on an evaluation of pricing offered by each party, information regarding the operations of First Financial and the other bidders, and upon the recommendation of the M&A Committee, HopFed's board of directors authorized that the top three bidders, including First Financial and Party A, be invited to conduct additional due diligence both in-person and through additional information uploaded into the virtual data room, and to submit a revised indication of interest with their best offer by November 16, 2018. These three parties conducted additional in-person due diligence between November 7, 2018 and November 9, 2018. First Financial conducted its in-person due diligence on November 9, 2018. Sandler O'Neill and the M&A Committee concluded that HopFed and its stockholders would be best served by focusing on those institutions which had expressed an interest in a business combination with HopFed by executing a confidentiality agreement and submitting a preliminary non-binding letter of interest. Sandler O'Neill and the M&A Committee determined that non-responding institutions appeared to have no further interest in a potential transaction and further contact with them was unnecessary in that any delay in the process could have an adverse effect on the outcome. Sandler O'Neill did not have further contact with the two institutions that submitted a written preliminary non-binding letter of interest by October 11, 2018 but were not one of the three top bidders invited by the M&A Committee to conduct additional due diligence.

At a meeting of First Financial's board of directors on November 14, 2018, investment bankers from Raymond James presented historical, current, and pro forma data and information regarding HopFed. Topics discussed included HopFed's finances and markets, recent financial institution mergers in those markets, pro forma loan and deposit composition, the historical performance of HopFed common stock and its market price and trading volume, pricing sensitivity, and the strategic and financial implications of the potential transaction on First Financial. On November 16, 2018, First Financial submitted a revised non-binding indication of interest to HopFed. The indication of interest proposed 50% of the purchase price being paid in First Financial common stock and 50% being paid in cash. First Financial indicated a willingness to offer HopFed stockholders consideration of approximately \$21 per share.

The M&A Committee met on November 19, 2018 to discuss the revised non-binding indications of interest received from the three parties, including First Financial and Party A. As of November 19, 2018, based upon a 10-day average closing price, the weighted average cash/stock purchase price being offered by First Financial was estimated at \$21.00 per share of HopFed common stock.

The M&A Committee requested that Sandler O'Neill contact the three bidders to further clarify certain aspects of their updated bids. On November 20, 2018, to clarify its revised non-binding indication of interest, First Financial submitted an addendum to its revised non-binding indication of interest that included reference to an exchange ratio of 0.444 shares of First Financial common stock for each share of HopFed common stock. The board of directors of HopFed held a special meeting on November 21, 2018 to consider the revised indications of interest submitted by First Financial, Party A, and the third party, including additional clarifications received.

Sandler O'Neill reviewed the three proposals with the HopFed board of directors, including the differences in the pricing, structures, and key elements of each proposal. Each of the proposals from Party A and the third bidder offered one seat on the board of directors of the surviving company. The First Financial proposal did not offer any representation on its board of directors. The First Financial proposal did not address matters related to potential retention of senior management of HopFed. Sandler O'Neill also reviewed with the HopFed board of directors the operations of First Financial, Party A, and the third bidder, and the current market for, and trading history of, the common stock of each party. Sandler O'Neill also compared the financial aspects of each proposal. First Financial's aggregate purchase price being offered was higher than either of the other two parties. At this meeting on November 21, 2018, the HopFed board of directors decided to move forward with continuing discussions and negotiations regarding a potential merger transaction with First Financial based on the superior price offered by First Financial and a determination by the HopFed board of directors and

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management that a merger with First Financial would provide greater value to HopFed stockholders and would be a better cultural and operational fit with HopFed as compared to the other two parties. First Financial was notified of HopFed's determination to continue discussions.

On November 30, 2018, First Financial's outside counsel, SmithAmundsen LLC ("SmithAmundsen"), a law firm with extensive experience in counseling financial institutions regarding mergers and acquisitions, provided counsel for HopFed with an initial draft of the definitive merger agreement. Several weeks of negotiations ensued. Simultaneously, management and financial and legal advisors for First Financial and HopFed's management, legal advisors, and Sandler O'Neill continued due diligence efforts, which included an exchange of schedules and exhibits to the definitive merger agreement.

As negotiations regarding the definitive merger agreement progressed, HopFed's management engaged in reverse due diligence regarding First Financial. On December 4, 2018, HopFed signed a confidentiality agreement, which mirrored the terms of the confidentiality agreement previously signed by First Financial, so that it would have access to relevant confidential information as part of its reverse due diligence review. A secure virtual data room was established and a meeting of senior leadership occurred in Terre Haute, Indiana, on December 12, 2018. For several hours, attendees posed and addressed specific questions about each financial institution. In addition, participants discussed, among other things, potential alignment of specific lines of business and strategic opportunities to leverage strengths of each institution. An initial discussion between First Financial and Mr. Peck concerning a potential continuing role for Mr. Peck with First Financial following the Merger first occurred on December 12, 2018, followed by additional discussions regarding a potential continuing management role for Mr. Peck during the period between December 20, 2018 and January 7, 2019.

On December 6, 2018, the M&A Committee met with Sandler O'Neill and legal counsel to discuss the draft of the definitive merger agreement and related matters. On December 13, 2018, HopFed's management, Sandler O'Neill, and legal counsel provided to the M&A Committee a summary of the reverse due diligence conducted on First Financial. At that meeting, the HopFed's board of directors and management also discussed the status of the draft of the definitive merger agreement.

At a meeting on December 19, 2018, HopFed's management, Sandler O'Neill, and legal counsel provided the HopFed board of directors with an update on the status of negotiations of the definitive merger agreement and ancillary documents. The M&A Committee held status update conference calls on December 21, 27, and 31, 2018, and January 2 and 3, 2019.

At a meeting of First Financial's board of directors held on December 18, 2018, senior management, investment bankers from Raymond James, and attorneys from SmithAmundsen discussed material business, financial, and legal aspects of the proposed transaction with HopFed with First Financial's directors. Initially, senior management updated the board regarding First Financial's due diligence efforts. Then, the investment bankers addressed topics such as the background of the transaction and HopFed's recent activist-investor history. Senior management described the plan to request that the Stilwell Group enter into a standstill agreement with First Financial, which would require, among other things, the Stilwell Group to vote in favor of the proposed transaction with HopFed. Raymond James' investment bankers went on to present various financial analyses of First Financial with respect to the potential transaction with HopFed. Along with attorneys from SmithAmundsen, the investment bankers from Raymond James described the logistics associated with paying the merger consideration in both cash and stock. Attorneys from SmithAmundsen reminded, and discussed with, board members of their fiduciary duties when considering the proposed transaction and engaged directors in extensive discussion regarding specific terms and conditions of the definitive and ancillary agreements. After extensive discussion, the board of directors agreed that the contemplated transaction is of strategic value and it is in the best interests of First Financial and its shareholders. The members of First Financial's board of directors unanimously approved the



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contemplated transaction with HopFed by resolution, which granted authority to First Financial's President and Chief Executive Officer, Mr. Norman L. Lowery, and Chief Financial Officer, Mr. Rodger A. McHargue, to finalize, sign, and deliver the definitive merger agreement and to take other action necessary to effect the contemplated transaction, so long as there was no change in the consideration as presented. Attorneys from SmithAmundsen agreed to provide the board written confirmation of no change in consideration as presented at the next board meeting.

In December 2018, attorneys from SmithAmundsen contacted representatives of the Stilwell Group regarding the proposed transaction with HopFed. Once a confidentiality agreement was signed by the Stilwell Group, SmithAmundsen revealed First Financial's identity and minimal, but necessary, facts regarding the proposed transaction. Following negotiation, the Stilwell Group signed a standstill agreement with First Financial on December 21, 2018. As part of this agreement, the Stilwell Group agreed to vote in favor of the approval of the Merger Agreement and the consummation of the transactions contemplated thereby, including the Merger, and any actions required in furtherance thereof, and to sell and refrain from acquiring additional First Financial common stock for five years. The Stilwell Group also agreed to refrain from direct or indirect shareholder activism with respect to First Financial during the term of the standstill agreement.

On January 2, 2019, HopFed executive officers John E. Peck (President & CEO), Michael L. Woolfolk (Executive Vice President, Chief Operations Officer, and Corporate Secretary), Billy C. Duvall (Senior Vice President, Chief Financial Officer, and Treasurer), and Baily C. Knight (Senior Vice President and Chief Credit Officer) engaged the law firm Dickinson Wright PLLC to serve as independent personal counsel with respect to certain employment matters proposed by First Financial, as discussed further in the section titled "The Merger Interests of HopFed's Directors and Executive Officers," beginning on page 69.

On January 7, 2019, the board of directors of HopFed held a special meeting to review the definitive merger agreement and ancillary documents with representatives of Sandler O'Neill and legal counsel who were in attendance. Representatives of KBW were also in attendance. Each HopFed director received prior notice of such special meeting on January 4, 2019, and each director received copies of the near-final draft of the definitive merger agreement and ancillary documents prior to such meeting. Sandler O'Neill reviewed its financial presentation analyzing the proposed transaction with the HopFed board of directors. The members of the HopFed board of directors, along with representative from Sandler O'Neill and legal counsel, discussed the proposed transaction in detail, including the provisions of the definitive merger agreement, the potential adjustment in the merger consideration, the potential break-up fee and other contingencies, and the disclosure schedules prepared by each party. Such discussions also included the definitive merger agreement pricing protection in the form of a "double trigger walkaway" provision, which provision had not been included in First Financial's indication of interest or in the initial draft of the definitive merger agreement, but had been requested by HopFed in the course of negotiations. This pricing provision would give HopFed the right to terminate the merger agreement if the price of First Financial's common stock were to fall by more than a specified percentage compared to both its initial value and the NASDAQ Bank Index. KBW then reviewed with the HopFed board of directors the financial aspects of the proposed transaction and, at the request of the HopFed board of directors, rendered to the board of directors of HopFed an opinion to the effect that, as of such date and subject to the procedures followed, assumptions made, matters considered, and qualifications and limitations on the review undertaken by KBW, as set forth in its written opinion dated January 7, 2019 (as attached as *Annex B* to this proxy statement/prospectus), the Merger Consideration (as described in the opinion) in the Merger was fair, from a financial point of view, to the HopFed stockholders. Legal counsel again reviewed the HopFed board of directors' fiduciary duties as directors of HopFed in connection with its consideration of the proposed transaction.

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The HopFed board of directors and legal counsel then reviewed in detail the terms of the ancillary documents, including the voting agreements to be entered into by the HopFed directors. The HopFed board of directors also reviewed and discussed the employment agreement by and among John E. Peck and First Financial and First Financial Bank under which Mr. Peck would join First Financial as a Market President effective upon consummation of the proposed transaction. Legal counsel also discussed the proposed resolutions that the HopFed board of directors would be requested to approve. Following these presentations and discussion among the members of the HopFed board of directors, including consideration of the factors described under "The Merger HopFed's Reasons for the Merger; Recommendation of HopFed's Board of Directors," the HopFed board of directors determined that the Merger Agreement and the transactions contemplated thereby were advisable and in the best interests of HopFed and its stockholders. The HopFed directors unanimously voted to adopt and approve the Merger Agreement and the transactions contemplated thereby and the HopFed board of directors' recommendation that the HopFed stockholders approve and adopt the Merger Agreement.

On January 7, 2019, following the completion of the HopFed board meeting, representatives of HopFed and First Financial executed the Merger Agreement and ancillary documents, and the HopFed directors executed the voting agreements. On January 7, 2019, after close of trading on NASDAQ, First Financial and HopFed issued a joint press release announcing the proposed transaction between First Financial and HopFed.

**HopFed's Reasons for the Merger; Recommendation of HopFed's Board of Directors**

HopFed's board of directors unanimously recommends that HopFed stockholders vote for approval of the Merger Proposal. The board's recommendation follows its determination that the Merger and the Merger Agreement are fair to and in the best interest of HopFed and its stockholders. In making its determination to authorize and approve the Merger and in approving and adopting the Merger Agreement, HopFed's board of directors evaluated the Merger and the Merger Agreement in consultation with members of HopFed's management, and with representatives of Sandler O'Neill and legal counsel, and also considered a number of factors that the HopFed board of directors viewed as relevant to its decisions, including, without limitation, the following:

the challenges facing HopFed's management to grow HopFed's franchise and enhance stockholder value given the current operating environment for community banks and market conditions, including the challenges involved with increasing profitability and operating efficiencies, and expected increased operating costs resulting from potential growth plans and from increased regulatory and compliance mandates;

management's assessment of the execution risks involved in attaining the performance levels assumed by the business projections relating to HopFed;

the increased need for scale to absorb the growing costs of operations, cyber security, and compliance with banking regulations;

conditions and activity in the mergers and acquisitions market providing an opportunity for HopFed to deliver accelerated and enhanced stockholder value, as compared to continued independent operations with organic growth;

the understanding of HopFed's board of directors of the strategic options available to HopFed, as well as the directors' assessment of those options, and the difficulties related to HopFed's execution of its business plan as an independent entity, and the board's determination that execution of the business plan likely would not create greater present value for HopFed stockholders than the Merger Consideration to be paid by First Financial;

the results of the solicitation process conducted by HopFed, with the advice and assistance of its legal counsel and Sandler O'Neill;

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information concerning the business, earnings, operations, financial condition, asset quality, and prospects of HopFed and First Financial, both individually and as a combined company;

the complementary nature of and potential synergies related to HopFed's and First Financial's businesses;

the geographic fit and expanded market presence of the expanded branch network of the combined bank;

the Merger Consideration per share to be paid by First Financial and the resulting valuation multiples;

that 50% of HopFed common stock will be exchanged for the Stock Consideration and 50% of HopFed common stock will be exchanged for the Cash Consideration (as provided at the time of entering into the Merger Agreement and assuming no downward adjustment of the Merger Consideration), which would allow HopFed stockholders receiving the Stock Consideration to participate in the future performance of the combined company;

the compatibility of the business cultures of HopFed and First Financial;

the stock component of the Merger Consideration, including the Exchange Ratio, and the potential for the price of First Financial common stock to increase after the signing of the Merger Agreement;

the financial presentation, dated January 7, 2019, of Sandler O'Neill to the HopFed board of directors;

the opinion, dated January 7, 2019, of KBW to the HopFed board of directors as to the fairness, from a financial point of view and as of the date of the opinion, to the HopFed stockholders of the Merger Consideration, as more fully described below under "The Merger Opinion of Keefe, Bruyette & Woods, Inc.";

the legal analyses as to the structure of the Merger, the Merger Agreement, the fiduciary and legal obligations applicable to directors when considering a sale or merger of a company, and the process that HopFed (including its board of directors and the M&A Committee) employed in considering potential strategic alternatives, including the Merger with First Financial;

the terms of the Merger Agreement, including the large proportion of the Stock Consideration and the expected tax treatment of the Merger as a "reorganization" for United States federal income tax purposes;

certain structural protections included in the Merger Agreement, including:

that the Merger Agreement does not preclude a third party from making an unsolicited acquisition proposal to HopFed and that, under certain circumstances more fully described under "The Merger Agreement Agreement Not to Solicit Other Offers," HopFed may furnish non-public information to, and enter into discussions with, such a third party regarding an acquisition proposal;

the ability of HopFed to terminate the Merger Agreement (subject to First Financial's right to increase the Exchange Ratio) if the price of First Financial common stock drops more than 20% relative to both its price before public announcement of the transaction and the NASDAQ Bank Index; and

the ability of HopFed to terminate the Merger Agreement to enter into a definitive agreement for a superior proposal if certain requirements are met, subject to the payment of a termination fee by HopFed of \$5.1 million, an amount that was negotiated at arm's-

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length and was determined by the HopFed board of directors to be reasonable under the circumstances and generally comparable to termination fees in other similar transactions;

the covenant of First Financial to use commercially reasonable efforts to obtain regulatory approval;

the anticipated continued employment of some of HopFed's executive officers and other key employees in the combined company, including the John E. Peck, in order to promote the continuity of the resulting banking services with our customers, our communities, and our employees;

the anticipated social and economic effects of the Merger on HopFed and Heritage, as well as their employees (including that full-time HopFed employees with at least one year of service who do not continue as employees of First Financial will be entitled to severance benefits), depositors, loan and other customers, creditors, and other elements of the communities in which they operate or are located;

the ability of First Financial to complete the Merger, from a business, financial condition, earnings prospects, and regulatory perspective, including financial obligations to be incurred in connection with the Merger and other likely financial obligations of First Financial, and the possible effect of such conditions upon HopFed, Heritage, and other elements of the communities in which HopFed and Heritage operate or are located; and

the competence, experience, and integrity of First Financial and its management.

The HopFed board of directors also considered a number of potential risks and uncertainties in connection with its consideration of the proposed Merger, including, without limitation, the following:

the challenges of integrating HopFed's business, operations, and employees with those of First Financial;

that First Financial does not have a recent record of completing an acquisition of another financial institution of our size and the challenges of an efficient integration of HopFed and Heritage with First Financial's and First Financial Bank's operations;

the potential risk of diverting attention and resources from the on-going operation of HopFed's business and towards the completion of the Merger;

the risks and costs associated with entering into the Merger Agreement, including a potential downward price adjustment of the Merger Consideration based on potential HopFed losses, write-downs, or reductions in reserves;

the restrictions on the conduct of HopFed's business before the completion of the Merger, which are customary for public company Merger Agreements involving financial institutions, but which, subject to specific exceptions, could delay or prevent HopFed from undertaking business opportunities that may arise or any other action it would otherwise take with respect to the operations of HopFed absent the Merger;

that the interests of certain of HopFed's directors and executive officers may be different from, or in addition to, the interests of HopFed stockholders generally, as described under the heading "The Merger Interests of HopFed's Directors and Executive Officers in the Merger";

the risk of potential employee attrition and/or other adverse effects on business and customer relationships as a result of the Merger;

the need to and likelihood of obtaining the approval by HopFed stockholders and bank regulators to complete the Merger;

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the possibility of a reduction in the trading price of First Financial common stock following the announcement of the Merger Agreement and prior to completion of the Merger;

that a termination fee in the amount of \$5.1 million would have to be paid to First Financial if HopFed determines to terminate the Merger Agreement to accept a superior proposal and under certain other circumstances described under "The Merger Agreement Termination Fee";

the impact that provisions of the Merger Agreement relating to payment of a termination fee by HopFed may have on HopFed receiving an alternative acquisition proposal; and

the possibility of litigation in connection with the Merger.

This discussion of the information and factors considered by HopFed's board of directors in reaching its conclusions and recommendation includes the factors identified above, but is not intended to be exhaustive and may not include all of the factors considered by the HopFed board of directors. In view of the wide variety of factors considered in connection with its evaluation of the Merger and the other transactions contemplated by the Merger Agreement, and the complexity of these matters, the HopFed board of directors did not find it useful and did not attempt to quantify, rank, or assign any relative or specific weights to the various factors that it considered in reaching its determination to approve the Merger and the other transactions contemplated by the Merger Agreement, and to make its recommendation to HopFed stockholders. Rather, the HopFed board of directors viewed its decisions as being based on the totality of the information presented to it and the factors it considered. In addition, individual members of the HopFed board of directors may have assigned different weights to different factors.

Certain of HopFed's directors and executive officers have financial interests in the Merger that are different from, or in addition to, those of HopFed stockholders generally. The HopFed board of directors was aware of and considered these potential interests, among other matters, in evaluating the Merger and in making its recommendation to HopFed stockholders. For a discussion of these interests, see "The Merger Interests of HopFed's Directors and Executive Officers in the Merger."

For the reasons set forth above, HopFed's board of directors has unanimously approved the Merger pursuant to the Merger Agreement; has determined that the Merger Agreement and the transactions contemplated thereby, including the Merger and Merger Consideration, as may be adjusted, are advisable and in the best interests of HopFed and its stockholders; and unanimously recommends that HopFed stockholders vote "FOR" approval of the Merger Proposal, "FOR" approval of the Compensation Proposal, and "FOR" approval of the Adjournment Proposal.

The HopFed board of directors evaluated the factors described above and determined that the transaction was in the best interests of HopFed. It should be noted that this explanation of the reasoning of HopFed's board of directors and all other information in this section is forward-looking in nature and, therefore, should be read in light of the factors discussed under the heading "Cautionary Statement Regarding Forward-Looking Statements" beginning on page 26.

**First Financial's Reasons for the Merger**

In evaluating the Merger, the First Financial board of directors consulted with First Financial management, as well as independent legal and financial advisors, and, in the course of reaching its decision to adopt the Merger Agreement and to approve the Merger and the other transactions contemplated by the Merger Agreement, the First Financial board of directors considered a number of factors, including the following material factors:

its understanding of the current and prospective environment in which First Financial and HopFed operate, including national and local economic conditions, the interest rate

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environment, the competitive environment for financial institutions generally, and the likely effect of these factors on First Financial both with and without the proposed transaction;

each of First Financial's, HopFed's, and the combined company's business, operations, financial condition, asset quality, earnings, and prospects. In reviewing these factors, the First Financial board of directors considered its view that HopFed's financial condition and asset quality were sound, that HopFed's business and operations complemented those of First Financial, and that the Merger would result in a combined company with a larger market presence as well as an attractive funding base, including through core deposit funding and stronger asset quality. The First Financial board of directors further considered that HopFed's earnings and prospects, and synergies potentially available in the proposed transaction, created an opportunity for the combined company to have superior future earnings and prospects compared to First Financial's earnings and prospects on a stand-alone basis;

its belief that First Financial and HopFed have similar cultures and similar community-oriented philosophies, and the complementary nature of the strengths of the management personnel of First Financial and HopFed and of First Financial's and HopFed's banking products, including high-quality, low-risk loan portfolios;

the opportunity to expand First Financial's business into attractive markets in western Kentucky and middle and western Tennessee;

its ability to retain a seasoned management team to lead its banking efforts in the western Kentucky and middle and western Tennessee markets;

the expanded possibilities, including organic growth and future acquisitions, that would be available to the combined company given its larger size, asset base, capital, and footprint;

its review and discussions with First Financial's management and advisors concerning First Financial's due diligence examination of HopFed's business;

the anticipated pro forma financial impact of the Merger on the combined company, including the estimation by First Financial's management that the Merger will result in after-tax earnings per share accretion of \$0.20 in 2019, \$0.47 in 2020, and \$0.53 in 2021;

the anticipated positive impact of the Merger on the combined company's capital position, including regulatory capital levels, and the combined company's potential ability to generate substantial internal capital to support future growth;

its belief that First Financial is able to finance the Cash Consideration on substantially the terms contemplated by it;

the financial analyses of Raymond James presented on November 14, 2018 and December 18, 2018 to the First Financial board of directors; and

its review with First Financial's independent legal advisor, SmithAmundsen, of the terms of the Merger Agreement, including deal protection and termination fee provisions.

The First Financial board of directors also considered potential risks relating to the Merger, but concluded that the anticipated benefits of the Merger were likely to substantially outweigh these risks. These potential risks included:



the possibility of encountering difficulties in achieving anticipated cost savings in the amounts estimated or in the time frame contemplated;

the possibility of encountering difficulties in successfully integrating HopFed's business, operations, and workforce with those of First Financial;

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the transaction-related restructuring charges and other Merger-related costs, including the payments and other benefits to be received by HopFed management in connection with the Merger pursuant to existing HopFed plans and compensation arrangements and the Merger Agreement;

initial dilution to tangible book value per common share is estimated to be \$2.41 or 7.3% at closing, which First Financial's management believes can be earned back within approximately 3.8 years;

diversion of management attention and resources from the operation of First Financial's business towards the completion of the Merger;

the regulatory and other approvals required in connection with the Merger and the risk that such regulatory and other approvals will not be received in a timely manner or may impose unacceptable conditions; and

the need to obtain HopFed's stockholder approval in order to complete the Merger.

The foregoing discussion of the information and factors considered by the First Financial board of directors is not intended to be exhaustive, but includes the material factors considered by the First Financial board of directors. In reaching its decision to adopt the Merger Agreement and to approve the Merger and the other transactions contemplated by the Merger Agreement, the First Financial board of directors did not quantify or assign any relative weights to the factors considered, and individual directors may have given different weights to different factors. The First Financial board of directors considered all these factors as a whole, including discussion with and question of First Financial's management and independent financial and legal advisors, and overall considered the factors to be favorable to, and to support, its determination.

For the reasons set forth above, the First Financial board of directors unanimously determined that the Merger Agreement and the transactions contemplated by the Merger Agreement are advisable and in the best interests of First Financial and its shareholders and unanimously voted to adopt the Merger Agreement and to approve the Merger and the transactions contemplated by it.

It should be noted that this explanation of the First Financial board of directors' reasoning presented in this section contains information that is forward-looking in nature, and therefore should be read in light of the factors discussed under the heading "Cautionary Statement Regarding Forward-Looking Statements" beginning on page 26.

**Opinion of Keefe, Bruyette & Woods, Inc.**

HopFed engaged KBW to render an opinion to the HopFed board of directors as to the fairness, from a financial point of view, to the HopFed stockholders of the Merger Consideration, as described in the opinion, to be received by such stockholders in the Merger. KBW did not act as financial advisor to HopFed or as an advisor or agent of any other person. HopFed selected KBW because KBW is a nationally recognized investment banking firm with substantial experience in transactions similar to the Merger. As part of its investment banking business, KBW is continually engaged in the valuation of financial services businesses and their securities in connection with mergers and acquisitions.

As part of its engagement, representatives of KBW attended the meeting of the HopFed board held on January 7, 2019 by telephone, at which the HopFed board evaluated the Merger. At this meeting, KBW reviewed the financial aspects of the Merger and rendered to the HopFed board an opinion to the effect that, as of such date and subject to the procedures followed, assumptions made, matters considered, and qualifications and limitations on the review undertaken by KBW as set forth in its opinion, the Merger Consideration, as described in the opinion, was fair, from a financial point of

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view, to the HopFed stockholders. The HopFed board approved the Merger Agreement at this meeting.

The description of the opinion set forth herein is qualified in its entirety by reference to the full text of the opinion, which is attached as *Annex B* to this document and is incorporated herein by reference, and describes the procedures followed, assumptions made, matters considered, and qualifications and limitations on the review undertaken by KBW in preparing the opinion.

**KBW's opinion speaks only as of the date of the opinion. The opinion was for the information of, and was directed to, the HopFed board (in its capacity as such) in connection with its consideration of the financial terms of the Merger. The opinion addressed only the fairness, from a financial point of view, of the Merger Consideration, as described in the opinion, to the HopFed stockholders. It did not address the underlying business decision of HopFed to engage in the Merger or enter into the Merger Agreement or constitute a recommendation to the HopFed board in connection with the Merger, and it does not constitute a recommendation to any HopFed stockholder or any stockholder of any other entity as to how to vote or act in connection with the Merger or any other matter (including, with respect to HopFed stockholders, what election any such stockholder should make with respect to the Stock Consideration or the Cash Consideration), nor does it constitute a recommendation regarding whether or not any such stockholder should enter into a voting, shareholders', or affiliates' agreement with respect to the Merger or exercise any dissenters' or appraisal rights that may be available to such stockholder.**

KBW's opinion was reviewed and approved by KBW's Fairness Opinion Committee in conformity with its policies and procedures established under the requirements of Rule 5150 of the Financial Industry Regulatory Authority.

In connection with the opinion, KBW reviewed, analyzed, and relied upon material bearing upon the financial and operating condition of HopFed and First Financial and bearing upon the Merger, including, among other things, the following:

a draft of the Merger Agreement, dated January 6, 2019 (the most recent draft then made available to KBW);

the audited financial statements and Annual Reports on Form 10-K for the three fiscal years ended December 31, 2017 of HopFed;

the unaudited quarterly financial statements and Quarterly Reports on Form 10-Q for the fiscal quarters ended March 31, 2018, June 30, 2018 and September 30, 2018 of HopFed;

the audited financial statements and Annual Reports on Form 10-K for the three fiscal years ended December 31, 2017 of First Financial;

the unaudited quarterly financial statements and Quarterly Reports on Form 10-Q for the fiscal quarters ended March 31, 2018, June 30, 2018 and September 30, 2018 of First Financial;

certain regulatory filings of HopFed and First Financial and their respective subsidiaries, including the quarterly reports on Form FR Y-9C and call reports filed with respect to each quarter during the three-year period ended December 31, 2017 as well as the quarters ended March 31, 2018, June 30, 2018 and September 30, 2018;

certain other interim reports and other communications of HopFed and First Financial to their respective stockholders or shareholders; and

other financial information concerning the businesses and operations of HopFed and First Financial that was furnished to KBW by HopFed and First Financial or which KBW was otherwise directed to use for purposes of KBW's analyses.



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KBW's consideration of financial information and other factors that it deemed appropriate under the circumstances or relevant to its analyses included, among others, the following:

the historical and current financial position and results of operations of HopFed and First Financial;

the assets and liabilities of HopFed and First Financial;

the nature and terms of certain other merger transactions and business combinations in the banking industry;

a comparison of certain financial and stock market information for HopFed and First Financial with similar information for certain other companies the securities of which were publicly traded;

publicly available research analyst "street estimates" of HopFed, as well as assumed HopFed long-term growth rates provided to KBW by HopFed management, all of which information was discussed with KBW by HopFed management and used and relied upon by KBW at the direction of such management and with the consent of the HopFed board;

financial and operating forecasts and projections of First Financial that were prepared by, and provided to KBW and discussed with KBW by, First Financial management and used and relied upon by KBW based on such discussions, at the direction of HopFed management and with the consent of the HopFed board; and

estimates regarding certain pro forma financial effects of the Merger on First Financial (including, without limitation, the cost savings and related expenses expected to result or be derived from the Merger) that were prepared by, and provided to and discussed with KBW by, the management of First Financial, and used and relied upon by KBW based on such discussions, at the direction of HopFed management and with the consent of the HopFed board.

KBW also performed such other studies and analyses as it considered appropriate and took into account its assessment of general economic, market, and financial conditions and its experience in other transactions, as well as its experience in securities valuation and knowledge of the banking industry generally. KBW also participated in discussions with the managements of HopFed and First Financial regarding the past and current business operations, regulatory relations, financial condition, and future prospects of their respective companies and such other matters as KBW deemed relevant to its inquiry. In addition, KBW considered the results of the efforts undertaken by HopFed to solicit indications of interest from third parties regarding a potential transaction with HopFed, although KBW was not requested to, and did not, assist HopFed with such efforts as part of its engagement.

In conducting its review and arriving at its opinion, KBW relied upon and assumed the accuracy and completeness of all of the financial and other information that was provided to it or that was publicly available and did not independently verify the accuracy or completeness of any such information or assume any responsibility or liability for such verification, accuracy or completeness. KBW relied upon the management of HopFed as to the reasonableness and achievability of the publicly available research analyst "street estimates" of HopFed and the assumed HopFed long-term growth rates referred to above (and the assumptions and bases therefor), and KBW assumed that all such information was reasonably prepared and represented, or in the case of the HopFed "street estimates" referred to above that such estimates were consistent with, the best currently available estimates and judgments of such management and that the forecasts, projections, and estimates reflected in such information would be realized in the amounts and in the time periods estimated. KBW further relied, with the consent of HopFed, upon First Financial management as to the reasonableness and achievability of the financial and operating forecasts and projections of First Financial and the estimates regarding certain pro forma financial effects of the Merger on First Financial (including, without limitation, the cost savings and related expenses expected to result or be derived from the

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Merger), all as referred to above (and the assumptions and bases for all such information), and KBW assumed that all such information was reasonably prepared and represented the best currently available estimates and judgments of First Financial management and that the forecasts, projections and estimates reflected in such information will be realized in the amounts and in the time periods estimated.

It is understood that the portion of the foregoing financial information of HopFed and First Financial that was provided to KBW was not prepared with the expectation of public disclosure and that all of the foregoing financial information, including the publicly available research analyst "street estimates" of HopFed, is based on numerous variables and assumptions that are inherently uncertain (including, without limitation, factors related to general economic and competitive conditions) and, accordingly, actual results could vary significantly from those set forth in such information. KBW assumed, based on discussions with the respective managements of HopFed and First Financial and with the consent of the HopFed board, that all such information provided a reasonable basis upon which KBW could form its opinion and KBW expressed no view as to any such information or the assumptions or bases therefor. KBW relied on all such information without independent verification or analysis and did not in any respect assume any responsibility or liability for the accuracy or completeness thereof.

KBW also assumed that there were no material changes in the assets, liabilities, financial condition, results of operations, business, or prospects of either HopFed or First Financial since the date of the last financial statements of each such entity that were made available to KBW. KBW is not an expert in the independent verification of the adequacy of allowances for loan and lease losses and KBW assumed, without independent verification and with HopFed's consent, that the aggregate allowances for loan and lease losses for HopFed and First Financial are adequate to cover such losses. In rendering its opinion, KBW did not make or obtain any evaluations or appraisals or physical inspection of the property, assets, or liabilities (contingent or otherwise) of HopFed or First Financial, the collateral securing any of such assets or liabilities, or the collectability of any such assets, nor did KBW examine any individual loan or credit files, nor did it evaluate the solvency, financial capability, or fair value of HopFed or First Financial under any state or federal laws, including those relating to bankruptcy, insolvency, or other matters. Estimates of values of companies and assets do not purport to be appraisals or necessarily reflect the prices at which companies or assets may actually be sold. Because such estimates are inherently subject to uncertainty, KBW assumed no responsibility or liability for their accuracy.

KBW assumed, in all respects material to its analyses:

that the Merger and any related transaction (including the Bank Merger) would be completed substantially in accordance with the terms set forth in the Merger Agreement (the final terms of which KBW assumed would not differ in any respect material to KBW's analyses from the draft reviewed and referred to above), with no adjustments to the Merger Consideration and with no other consideration or payments in respect of HopFed common stock;

that the representations and warranties of each party in the Merger Agreement and in all related documents and instruments referred to in the Merger Agreement were true and correct;

that each party to the Merger Agreement and all related documents would perform all of the covenants and agreements required to be performed by such party under such documents;

that there were no factors that would delay or subject to any adverse conditions, any necessary regulatory or governmental approval for the Merger or any related transactions (including the Bank Merger) and that all conditions to the completion of the Merger and any related transaction would be satisfied without any waivers or modifications to the Merger Agreement or any of the related documents; and

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that in the course of obtaining the necessary regulatory, contractual, or other consents or approvals for the Merger and any related transaction (including the Bank Merger), no restrictions, including any divestiture requirements, termination, or other payments or amendments or modifications, would be imposed that would have a material adverse effect on the future results of operations or financial condition of HopFed, First Financial, or the pro forma entity, or the contemplated benefits of the Merger, including without limitation the cost savings and related expenses expected to result or be derived from the Merger.

KBW assumed that the Merger would be consummated in a manner that complies with the applicable provisions of the Securities Act of 1933, as amended (the "Securities Act"), the Exchange Act, and all other applicable federal and state statutes, rules, and regulations. KBW was further advised by representatives of HopFed that HopFed relied upon advice from its advisors (other than KBW) or other appropriate sources as to all legal, financial reporting, tax, accounting, and regulatory matters with respect to HopFed, First Financial, the Merger and any related transaction (including the Bank Merger), and the Merger Agreement. KBW did not provide advice with respect to any such matters. KBW assumed, at the direction of HopFed and without independent verification, that the actual consolidated stockholders' equity of HopFed would not be less than the "HopFed Adjusted Consolidated Shareholders' Equity" (as defined in the Merger Agreement).

KBW's opinion addressed only the fairness, from a financial point of view, as of the date of the opinion, to the HopFed stockholders of the Merger Consideration, as described in the opinion, to be received by such stockholders in the Merger. KBW expressed no view or opinion as to any other terms or aspects of the Merger or any term or aspect of any related transaction (including the Bank Merger or the termination of HopFed ESOP prior to the consummation of the Merger), including without limitation, the form or structure of the Merger (including the form of the Merger Consideration or the allocation thereof between cash and stock) or any such related transaction, any consequences of the Merger or any related transaction to HopFed, its stockholders, creditors, or otherwise, or any terms, aspects, merits, or implications of any employment, consulting, voting, support, stockholder, or other agreements, arrangements, or understandings contemplated or entered into in connection with the Merger or otherwise. KBW's opinion was necessarily based upon conditions as they existed and could be evaluated on the date of such opinion and the information made available to KBW through such date. Developments subsequent to the date of KBW's opinion may have affected, and may affect, the conclusion reached in KBW's opinion and KBW did not and does not have an obligation to update, revise, or reaffirm its opinion. KBW's opinion did not address, and KBW expressed no view or opinion with respect to:

the underlying business decision of HopFed to engage in the Merger or enter into the Merger Agreement;

the relative merits of the Merger as compared to any alternative transactions or strategies that are, have been or may be available to or considered by HopFed or the HopFed board;

the fairness of the amount or nature of any compensation to any of HopFed's officers, directors, or employees, or any class of such persons, relative to the compensation to the HopFed stockholders;

the effect of the Merger or any related transaction on, or the fairness of the consideration to be received by, holders of any class of securities of HopFed (other than the HopFed stockholders, solely with respect to the Merger Consideration, as described in KBW's opinion and not relative to the consideration to be received by holders of any other class of securities) or holders of any class of securities of First Financial or any other party to any transaction contemplated by the Merger Agreement;

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any adjustment (as provided in the Merger Agreement) to the Merger Consideration assumed for purposes of KBW's opinion;

whether First Financial has sufficient cash, available lines of credit, or other sources of funds to enable it to pay the aggregate Cash Consideration to the HopFed stockholders at the closing of the Merger;

the election by HopFed stockholders to receive the Stock Consideration or the Cash Consideration, or any combination thereof, or the actual allocation between the Stock Consideration and the Cash Consideration among such holders (including, without limitation, any reallocation thereof as a result of proration pursuant to the Merger Agreement), or the relative fairness of the Stock Consideration and the Cash Consideration;

the actual value of First Financial common stock to be issued in the Merger;

the prices, trading range, or volume at which HopFed common stock or First Financial common stock would trade following the public announcement of the Merger or the prices, trading range, or volume at which First Financial common stock would trade following the consummation of the Merger;

any advice or opinions provided by any other advisor to any of the parties to the Merger or any other transaction contemplated by the Merger Agreement; or

any legal, regulatory, accounting, tax, or similar matters relating to HopFed, First Financial, their respective stockholders and shareholders, or relating to or arising out of or as a consequence of the Merger or any related transaction (including the Bank Merger), including whether or not the Merger would qualify as a tax-free reorganization for United States federal income tax purposes.

In performing its analyses, KBW made numerous assumptions with respect to industry performance, general business, economic, market, and financial conditions and other matters, which are beyond the control of KBW, HopFed, and First Financial. Any estimates contained in the analyses performed by KBW are not necessarily indicative of actual values or future results, which may be significantly more or less favorable than suggested by these analyses. Additionally, estimates of the value of businesses or securities do not purport to be appraisals or to reflect the prices at which such businesses or securities might actually be sold. Accordingly, these analyses and estimates are inherently subject to substantial uncertainty. In addition, the KBW opinion was among several factors taken into consideration by the HopFed board in making its determination to approve the Merger Agreement and the Merger. Consequently, the analyses described below should not be viewed as determinative of the decision of the HopFed board with respect to the fairness of the Merger Consideration. The type and amount of consideration payable in the Merger were determined through negotiation between HopFed and First Financial and the decision of HopFed to enter into the Merger Agreement was solely that of the HopFed board.

The following is a summary of the material financial analyses presented by KBW to the HopFed board in connection with its opinion. The summary is not a complete description of the financial analyses underlying the opinion or the presentation made by KBW to the HopFed board, but summarizes the material analyses performed and presented in connection with such opinion. The financial analyses summarized below includes information presented in tabular format. The tables alone do not constitute a complete description of the financial analyses. The preparation of a fairness opinion is a complex analytic process involving various determinations as to appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances. Therefore, a fairness opinion is not readily susceptible to partial analysis or summary description. In arriving at its opinion, KBW did not attribute any particular weight to any analysis or factor that it considered, but rather made qualitative judgments as to the significance and relevance of each analysis and factor. Accordingly, KBW believes that its analyses and the summary of its analyses must be considered as a



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whole and that selecting portions of its analyses and factors or focusing on the information presented below in tabular format, without considering all analyses and factors or the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of the process underlying its analyses and opinion.

For purposes of the financial analyses described below, KBW utilized an implied transaction value for the Merger of \$20.05 per share of HopFed common stock, or \$128.5 million in the aggregate, consisting of the sum of (i) the implied value of the Stock Consideration of 0.444 shares of First Financial common stock based on the closing price of First Financial common stock on January 4, 2019, multiplied by 50%, and (ii) the Cash Consideration of \$21.00, multiplied by 50%. In addition to the financial analyses described below, KBW reviewed with the HopFed board of directors for informational purposes, among other things, an implied transaction multiple for the Merger (based on the implied transaction value for the Merger of \$20.05 per share of HopFed common stock) of 23.0x HopFed's estimated 2018 earnings per share ("EPS") and 22.8x HopFed's estimated 2019 EPS using the publicly available 2018 and 2019 EPS research analyst "street estimates" for HopFed.

*HopFed Selected Companies Analysis*

Using publicly available information, KBW compared the financial performance, financial condition, and market performance of HopFed to 15 selected major exchange-traded banks and thrifts which were headquartered in the Midwest United States and which had total assets between \$500 million and \$1.25 billion. Merger targets were excluded from the selected companies.

The selected companies were as follows:

Central Federal Corporation	Landmark Bancorp, Inc.
Citizens Community Bancorp, Inc.	Limestone Bancorp, Inc.
Farmers & Merchants Bancorp, Inc.	Middlefield Banc Corp.
First Capital, Inc.	Ohio Valley Banc Corp.
First Savings Financial Group, Inc.	SB Financial Group, Inc.
Guaranty Federal Bancshares, Inc.	United Bancorp, Inc.
HMN Financial, Inc.	United Bancshares, Inc.

IF Bancorp, Inc.

To perform this analysis, KBW used profitability and other financial information as of, or for the latest 12 months ("LTM") or most recent completed fiscal quarter ("MRQ") ended, September 30, 2018 and market price information as of January 4, 2019. KBW also used 2018, 2019, and 2020 EPS estimates taken from publicly available research analyst "street estimates" for HopFed and publicly available consensus "street estimates" for six selected companies to the extent that consensus "street estimates" were available for some or all of the periods. Where consolidated holding company level financial data for HopFed and the selected companies was unreported, subsidiary bank level data was utilized to calculate ratios. Certain financial data prepared by KBW, and as referenced in the tables presented below, may not correspond to the data presented in HopFed's historical financial statements as a result of the different periods, assumptions, and methods used by KBW to compute the financial data presented.

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KBW's analysis showed the following concerning the financial performance of HopFed and the selected companies:

	HopFed	Selected Companies			Top Quartile
		Bottom Quartile	Median	Average	
MRQ Core Return on Average Assets(1)	0.54%	0.74%	1.08%	1.08%	1.29%
MRQ Core Return on Average Tangible Common Equity(1)	5.6%	9.9%	12.5%	12.2%	13.9%
MRQ Net Interest Margin	3.39%	3.47%	3.79%	3.81%	4.04%
MRQ Fee Income / Revenue Ratio	21.0%	15.2%	20.0%	20.8%	25.9%
MRQ Non-Interest Expense / Average Assets	3.31%	2.79%	2.94%	3.11%	3.57%
MRQ Efficiency Ratio	82.5%	75.2%	67.9%	67.9%	63.0%

- (1) Core income excluded extraordinary items, non-recurring items (including DTA revaluations), gains/losses on sale of securities and amortization of intangibles as calculated by S&P Global Market Intelligence.

KBW's analysis also showed the following concerning the financial condition of HopFed and the selected companies:

	HopFed	Selected Companies			Top Quartile
		Bottom Quartile	Median	Average	
Tangible Common Equity / Tangible Assets	9.7%	7.6%	9.0%	9.3%	10.7%
Leverage Ratio	10.9%	9.4%	10.2%	10.6%	11.5%
Tier 1 Capital Ratio	15.2%	11.4%	12.2%	13.3%	16.1%
Total Capital Ratio	15.9%	12.1%	13.1%	14.4%	17.3%
Loans / Deposits	91.9%	86.6%	90.5%	89.2%	97.8%
Loan Loss Reserve / Gross Loans	0.68%	0.80%	1.06%	1.02%	1.25%
Nonperforming Assets(1) / Loans and OREO	1.32%	1.89%	1.14%	1.31%	0.45%
Net Charge-Offs / Average Loans	0.09%	0.13%	0.02%	0.04%	(0.02)%

- (1) Nonperforming assets included nonaccrual loans, accruing troubled debt restructured loans, loans 90+ days past due and other real estate owned as defined by S&P Global Market Intelligence.

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In addition, KBW's analysis showed the following concerning the market performance of HopFed and, to the extent publicly available, the selected companies:

	Selected Companies				
	HopFed	Bottom Quartile	Median	Average	Top Quartile
One-Year Stock Price Change	(1.0)%	(10.2)%	(6.5)%	(5.3)%	1.5%
One-Year Total Return	0.8%	(7.8)%	(4.4)%	(3.6)%	1.9%
Stock Price / Tangible Book Value per Share	1.08x	1.17x	1.33x	1.42x	1.55x
Stock Price / LTM Core EPS(1)	19.5x	11.2x	12.9x	14.4x	16.5x
Stock Price / 2018 EPS Estimate	16.4x	11.0x	12.4x	14.3x	18.2x
Stock Price / 2019 EPS Estimate	16.2x	10.0x	10.3x	11.8x	13.1x
Stock Price / 2020 EPS Estimate	15.6x	9.7x	10.0x	12.0x	16.3x
Dividend Yield	2.0%	0.0%	2.2%	1.7%	2.5%
MRQ Dividend Payout	35.0%	0.0%	21.8%	23.1%	33.3%

- (1) Core income excluded extraordinary items, non-recurring items (including DTA revaluations), gains/losses on sale of securities and amortization of intangibles as calculated by S&P Global Market Intelligence.

No company used as a comparison in the above selected companies analysis is identical to HopFed. Accordingly, an analysis of these results is not mathematical. Rather, it involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies involved.

*First Financial Selected Companies Analysis*

Using publicly available information, KBW compared the financial performance, financial condition, and market performance of First Financial to 17 selected major exchange-traded banks and thrifts which were headquartered in the Midwest United States and which had total assets between \$2.0 billion and \$4.0 billion. Merger targets and internet banks were excluded from the selected companies.

The selected companies were as follows:

Civista Bancshares, Inc.	MidWestOne Financial Group, Inc.
Equity Bancshares, Inc.	MutualFirst Financial, Inc.
Farmers National Banc Corp.	Nicolet Bankshares, Inc.
First Defiance Financial Corp.	Old Second Bancorp, Inc.
First Mid-Illinois Bancshares, Inc.	Sterling Bancorp, Inc.
German American Bancorp, Inc.	Stock Yards Bancorp, Inc.
Independent Bank Corporation	United Community Financial Corp.
Mercantile Bank Corporation	West Bancorporation, Inc.
Merchants Bancorp	

To perform this analysis, KBW used profitability and other financial information as of, or for the latest 12 months or most recent completed fiscal quarter ended, September 30, 2018 and market price information as of January 4, 2019. KBW also used 2018, 2019, and 2020 EPS estimates taken from publicly available consensus "street estimates" for First Financial and the selected companies to the

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extent that consensus "street estimates" were available for some or all of the periods. Certain financial data prepared by KBW, and as referenced in the tables presented below, may not correspond to the data presented in First Financial's historical financial statements as a result of the different periods, assumptions, and methods used by KBW to compute the financial data presented.

KBW's analysis showed the following concerning the financial performance of First Financial and the selected companies:

	First Financial	Selected Companies			Top Quartile
		Bottom Quartile	Median	Average	
MRQ Core Return on Average Assets(1)	1.54%	1.24%	1.48%	1.42%	1.55%
MRQ Core Return on Average Tangible Common Equity(1)	11.6%	13.3%	15.9%	15.6%	17.5%
MRQ Net Interest Margin	4.29%	3.58%	3.89%	3.72%	3.99%
MRQ Fee Income / Revenue Ratio	23.8%	15.9%	22.1%	21.8%	26.8%
MRQ Non-Interest Expense / Average Assets	3.02%	2.34%	2.63%	2.54%	2.89%
MRQ Efficiency Ratio	57.1%	62.8%	58.4%	56.0%	52.9%

(1)

Core income excluded extraordinary items, non-recurring items (including DTA revaluations), gains/losses on sale of securities and amortization of intangibles as calculated by S&P Global Market Intelligence.

KBW's analysis showed the following concerning the financial condition of First Financial and the selected companies:

	First Financial	Selected Companies			Top Quartile
		Bottom Quartile	Median	Average	
Tangible Common Equity / Tangible Assets	13.3%	8.5%	9.4%	9.2%	9.9%
Leverage Ratio	14.5%	9.7%	10.2%	10.6%	11.3%
Tier 1 Capital Ratio	18.4%	11.7%	12.4%	12.7%	13.7%
Total Capital Ratio	19.2%	12.6%	13.1%	13.8%	14.6%
Loans / Deposits	80.6%	87.8%	91.6%	92.2%	96.8%
Loan Loss Reserve / Gross Loans	1.05%	0.70%	0.88%	0.86%	1.02%
Nonperforming Assets(1) / Loans and OREO	0.85%	1.24%	0.63%	0.89%	0.31%
Net Charge-Offs / Average Loans	0.26%	0.08%	0.04%	0.03%	(0.01)%

(1)

Nonperforming assets included nonaccrual loans, accruing troubled debt restructured loans, loans 90+ days past due and other real estate owned as defined by S&P Global Market Intelligence.

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In addition, KBW's analysis showed the following concerning the market performance of First Financial and, to the extent publicly available, the selected companies:

	Selected Companies				
	First Financial	Bottom Quartile	Median	Average	Top Quartile
One-Year Stock Price Change	(5.8)%	(19.1)%	(11.2)%	(12.2)%	(4.0)%
One-Year Total Return	(3.5)%	(16.8)%	(9.2)%	(10.3)%	(2.7)%
Stock Price / Tangible Book Value per Share	1.34x	1.48x	1.71x	1.71x	1.90x
Stock Price / LTM Core EPS(1)	12.8x	11.5x	12.1x	11.9x	12.6x
Stock Price / 2018 EPS Estimate	11.3x	11.3x	11.7x	11.9x	13.0x
Stock Price / 2019 EPS Estimate	12.1x	9.8x	10.9x	10.7x	11.5x
Stock Price / 2020 EPS Estimate	11.7x	9.9x	10.3x	10.3x	10.8x
Dividend Yield	2.4%	0.8%	2.4%	2.0%	3.0%
MRQ Dividend Payout(2)	27.7%	5.2%	29.8%	24.6%	36.5%

- (1) Core income excluded extraordinary items, non-recurring items (including DTA revaluations), gains/losses on sale of securities and amortization of intangibles as calculated by S&P Global Market Intelligence.
- (2) First Financial payout ratio adjusted to reflect semi-annual dividend payments.

No company used as a comparison in the above selected companies analysis is identical to First Financial. Accordingly, an analysis of these results is not mathematical. Rather, it involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies involved.

*Selected Transactions Analysis*

KBW reviewed publicly available information related to 10 selected Midwest whole bank and non-mutual thrift transactions announced since January 1, 2017 with announced transaction values between \$50 million and \$200 million and in which the acquired company's LTM return on average assets was between 0.00% and 0.75%. Terminated transactions and transactions with non-bank buyers were excluded from the selected transactions.

The selected transactions were as follows:

Acquiror	Acquired Company
First Midwest Bancorp, Inc.	Bridgeview Bancorp, Inc.
Simmons First National Corporation	Reliance Bancshares, Inc.
Horizon Bancorp, Inc.	Salin Bancshares, Inc.
First Midwest Bancorp, Inc.	Northern States Financial Corporation
German American Bancorp, Inc.	First Security, Inc.
Civista Bancshares, Inc.	United Community Bancorp
First Mid-Illinois Bancshares, Inc.	First BancTrust Corporation
Byline Bancorp, Inc.	First Evanston Bancorp, Inc.
MutualFirst Financial, Inc.	Universal Bancorp

Midland States Bancorp, Inc.

Centrue Financial Corporation

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For each selected transaction, KBW derived the following implied transaction statistics, in each case based on the transaction consideration value paid for the acquired company and using financial data based on the acquired company's then latest publicly available financial statements prior to the announcement of the respective transaction:

Price per common share to LTM EPS of the acquired company (in the case of selected transactions involving a private acquired company, or where per share data was unavailable, this transaction statistic was calculated as total transaction consideration divided by LTM earnings);

Price per common share to tangible book value per share of the acquired company (in the case of selected transactions involving a private acquired company, this transaction statistic was calculated as total transaction consideration divided by total tangible common equity); and

Tangible equity premium to core deposits (total deposits less time deposits greater than \$100,000) of the acquired company, referred to as core deposit premium.

KBW also reviewed the price per common share paid for the acquired company for the five selected transactions involving publicly traded acquired companies as a premium to the closing price of the acquired company one day prior to the announcement of the acquisition (expressed as a percentage and referred to as the one day market premium). The resulting transaction multiples and premiums for the selected transactions were compared with the corresponding transaction multiples and premiums for the Merger based on the implied transaction value for the Merger of \$20.05 per outstanding share of HopFed common stock and using historical financial information for HopFed as of or for the period ended September 30, 2018 and the closing price of HopFed common stock on January 4, 2019.

The results of the analysis are set forth in the following table (excluding the impact of the LTM EPS multiple for two of the selected transactions, which multiples were considered to be not meaningful because they were greater than 50.0x):

	First Financial / HopFed Merger	Selected Transactions			
		Bottom Quartile	Median	Average	Top Quartile
Price / LTM Earnings(1)	27.5x	21.3x	24.8x	26.4x	29.8x
Price / Tangible Book Value	152%	159%	162%	160%	168%
One-Day Market Premium	40.8%	19.9%	34.5%	36.9%	48.1%
Core Deposit Premium	7.6%	7.5%	8.9%	8.6%	10.2%

(1) HopFed LTM earnings reflects core income, which excludes extraordinary items, non-recurring items (including DTA revaluations), gains/losses on sale of securities and amortization of intangibles as calculated by S&P Global Market Intelligence.

KBW also compared the implied transaction statistics set forth in the table above to the following three different sets of implied transaction statistics for the proposed merger calculated using the 30-day,

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60-day and 90-day average daily closing prices ("Avg. Price") of First Financial common stock for the periods ended January 4, 2019:

	<b>First Financial / HopFed Merger Based on:</b>		
	<b>30-Day Avg. Price</b>	<b>60-Day Avg. Price</b>	<b>90-Day Avg. Price</b>
Price / LTM Earnings(1)	27.5x	28.2x	28.8x
Price / Tangible Book Value	153%	156%	159%
One-Day Market Premium	41.0%	44.4%	47.3%
Core Deposit Premium	7.6%	8.2%	8.7%

- (1) HopFed LTM earnings reflects core income, which excludes extraordinary items, non-recurring items (including DTA revaluations), gains/losses on sale of securities and amortization of intangibles as calculated by S&P Global Market Intelligence.

No company or transaction used as a comparison in the above selected transaction analysis is identical to HopFed or the Merger. Accordingly, an analysis of these results is not mathematical. Rather, it involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies involved.

*Relative Contribution Analysis*

KBW analyzed the relative standalone contribution of First Financial and HopFed to various pro forma balance sheet and income statement items and the combined market capitalization of the combined entity. This analysis did not include purchase accounting or merger-related adjustments. To perform this analysis, KBW used (i) balance sheet and income statement data for First Financial and HopFed as of or for the period ended September 30, 2018, (ii) financial forecasts and projections of First Financial and HopFed provided by First Financial management, and (iii) market price data as of January 4, 2019. The results of KBW's analysis are set forth in the following table, which also compares the results of KBW's analysis with the implied pro forma ownership percentages of First Financial shareholders and HopFed stockholders in the combined company based on the Stock Consideration of 0.444 shares of First Financial common stock at the 50% stock / 50% cash implied Merger Consideration mix provided for in the Merger Agreement and also hypothetically assuming 100% Stock Consideration in the Merger for illustrative purposes:

	<b>First Financial as a % of Total</b>	<b>HopFed as a % of Total</b>
<b>Ownership</b>		
50% stock / 50% cash	90%	10%
Assuming 100% stock consideration	80%	20%
<b>Balance Sheet</b>		
Assets	77%	23%
Gross Loans Held for Investment	74%	26%
Deposits	77%	23%
Tangible Common Equity	82%	18%
<b>Income Statement</b>		
MRQ GAAP Net Income	90%	10%
2018 Estimated GAAP Net Income	90%	10%
2019 Estimated GAAP Net Income	88%	12%
2020 Estimated GAAP Net Income	87%	13%
<b>Market Capitalization</b>	85%	15%



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*Financial Impact Analysis*

KBW performed a pro forma financial impact analysis that combined projected income statement and balance sheet information of First Financial and HopFed. Using (i) closing balance sheet estimates as of June 30, 2019 for First Financial and HopFed provided by First Financial management, (ii) financial forecasts and projections of First Financial and HopFed provided by First Financial management, (iii) pro forma assumptions (including, without limitation, the cost savings and related expenses expected to result from the Merger and certain accounting adjustments and restructuring charges assumed with respect thereto) provided by First Financial management, KBW analyzed the potential financial impact of the Merger on certain projected financial results of First Financial. This analysis indicated the Merger could be accretive to First Financial's estimated 2019 EPS and estimated 2020 EPS and could be dilutive to First Financial's estimated tangible book value per share as of June 30, 2019. Furthermore, the analysis indicated that, pro forma for the Merger, each of First Financial's tangible common equity to tangible assets ratio, Tier I Leverage Ratio, Common Equity Tier 1 Ratio, Tier I Capital Ratio, and Total Risk-based Capital Ratio as of June 30, 2019 could be lower. For all of the above analysis, the actual results achieved by First Financial following the Merger may vary from the projected results, and the variations may be material.

*HopFed Discounted Cash Flow Analysis*

KBW performed a discounted cash flow analysis of HopFed to estimate a range for the implied equity value of HopFed. In this analysis, KBW used publicly available research analyst "street estimates" of HopFed and assumed long-term growth rates for HopFed provided by HopFed management, and assumed discount rates ranging from 11.0% to 15.0%. The range of values was derived by adding (i) the present value of the estimated excess cash flows that HopFed could generate over the period from September 30, 2018 through December 31, 2022 as a stand-alone company, and (ii) the present value of HopFed's implied terminal value at the end of such period. KBW assumed that HopFed would maintain a tangible common equity to tangible asset ratio of 8.00% and would retain sufficient earnings to maintain that level. In calculating the terminal value of HopFed, KBW applied a range of 1.00x to 1.50x HopFed's estimated December 31, 2022 tangible common equity. This discounted cash flow analysis resulted in a range of implied values per share of HopFed common stock of \$10.41 per share to \$15.83 per share.

The discounted cash flow analysis is a widely used valuation methodology, but the results of such methodology are highly dependent on the assumptions that must be made, including asset and earnings growth rates, terminal values, dividend payout rates, and discount rates. The foregoing discounted cash flow analyses did not purport to be indicative of the actual values or expected values of HopFed.

*First Financial Discounted Cash Flow Analysis*

KBW performed a discounted cash flow analysis of First Financial to estimate a range for the implied equity value of First Financial. In this analysis, KBW used financial forecasts and projections relating to the net income of First Financial provided by First Financial management and publicly available consensus "street estimates" relating to the assets of First Financial, and assumed discount rates ranging from 10.0% to 14.0%. The range of values was derived by adding (i) the present value of the estimated excess cash flows that First Financial could generate over the period from September 30, 2018 through December 31, 2022 as a stand-alone company, and (ii) the present value of First Financial's implied terminal value at the end of such period. KBW assumed that First Financial would maintain a tangible common equity to tangible asset ratio of 8.00% and would retain sufficient earnings to maintain that level. In calculating the terminal value of First Financial, KBW applied a range of 10.0x to 14.0x First Financial's estimated 2023 net income. This discounted cash flow analysis resulted in a range of implied values per share of First Financial common stock of \$43.91 per share to \$58.50 per share.

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The discounted cash flow analysis is a widely used valuation methodology, but the results of such methodology are highly dependent on the assumptions that must be made, including asset and earnings growth rates, terminal values, dividend payout rates, and discount rates. The foregoing discounted cash flow analyses did not purport to be indicative of the actual values or expected values of First Financial or the pro forma combined company.

*Miscellaneous*

KBW was retained by HopFed solely to render its opinion to the HopFed board of directors, and KBW has not acted as a financial advisor or other advisor to, or as an agent of, HopFed or any other person. As part of its investment banking business, KBW is continually engaged in the valuation of bank and bank holding company securities in connection with acquisitions, negotiated underwritings, secondary distributions of listed and unlisted securities, private placements, and valuations for various other purposes. As specialists in the securities of banking companies, KBW has experience in, and knowledge of, the valuation of banking enterprises. KBW and its affiliates, in the ordinary course of its and their broker-dealer businesses (and in the case of HopFed, further to an existing sales and trading relationship with a KBW broker-dealer affiliate), may from time to time purchase securities from, and sell securities to, HopFed and First Financial. In addition, as a market maker in securities, KBW and its affiliates may from time to time have a long or short position in, and buy or sell, debt or equity securities of HopFed or First Financial for its and their own accounts and for the accounts of its and their respective customers and clients.

Pursuant to the KBW engagement agreement, HopFed agreed to pay KBW a non-refundable cash fee of \$300,000 upon the rendering of KBW's opinion. HopFed also agreed to reimburse KBW for reasonable out-of-pocket expenses and disbursements incurred in connection with its retention and to indemnify KBW against certain liabilities relating to or arising out of KBW's engagement or KBW's role in connection therewith. In addition to this present engagement, in the two years preceding the date of its opinion, KBW provided investment banking and financial advisory services to HopFed but did not receive compensation for such services. KBW was engaged to act as financial advisor to HopFed in connection with the consideration of a potential transaction, which transaction was not consummated and which engagement was terminated in June 2018. During the two years preceding the date of its opinion, KBW did not provide investment banking and financial advisory services to First Financial. KBW may in the future provide investment banking and financial advisory services to HopFed or First Financial and receive compensation for such services.

**Interests of HopFed's Directors and Executive Officers in the Merger**

In considering the recommendation of HopFed's board of directors with respect to the Merger, you should be aware that HopFed's directors and executive officers have agreements or arrangements that provide them with interests in the Merger, including financial interests, that may be different from, or in addition to, the interests of HopFed stockholders generally. HopFed's board of directors was aware of these interests during its deliberations of the merits of the Merger and in determining to recommend to HopFed's stockholders that they vote for the Merger Proposal and thereby approve the transactions contemplated by the Merger Agreement, including the Merger. See the sections entitled "The Merger Background of the Merger" and "The Merger HopFed's Reasons for the Merger; Recommendation of HopFed's Board of Directors" of this proxy statement/prospectus, respectively. These interests are described in more detail below, and certain of them are quantified in the narrative and tables below.

*Stock Ownership*

The current directors and executive officers of HopFed beneficially owned, as of the Record Date, a total of [ • ] shares of HopFed common stock, representing approximately [ • ]% of the total

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outstanding shares of HopFed common stock. Each director of HopFed has executed a voting agreement agreeing to vote certain shares of HopFed common stock in favor of the Merger Agreement. Please see "The Merger Agreement Voting Agreement and Standstill Agreement," beginning on page 90 for more information.

*Treatment of HopFed Restricted Stock Awards*

Immediately prior to the effective time of the Merger, each outstanding restricted share of HopFed common stock that is unvested or contingent will fully vest and be cancelled and converted automatically into the right to receive the Merger Consideration, less applicable tax withholdings.

For an estimate of the value that will be received by each of HopFed's named executive officers in connection with their unvested restricted stock awards, see "The Merger Merger-Related Compensation for HopFed's Named Executive Officers" below. None of the non-employee directors of HopFed hold any unvested restricted stock awards.

*Employment Matters*

Existing Employment Agreements

HopFed and Heritage each have Employment Agreements in place with John E. Peck (President & CEO), Michael L. Woolfolk (Executive Vice President, Chief Operations Officer, and Corporate Secretary), Billy C. Duvall (Senior Vice President, Chief Financial Officer, and Treasurer), and Baily C. Knight (Senior Vice President and Chief Credit Officer) (the "C-Suite Employment Agreements"). In lieu paying benefits which may be owed under the C-Suite Employment Agreements between HopFed and the foregoing executives, HopFed has agreed to be jointly and severally liable for amounts due under the C-Suite Employment Agreements between Heritage and the foregoing executive officers (with respect to Messrs. Peck and Woolfolk, subject to an exception for provisions governing excise taxes imposed under the Code for payments made to the executive which are contingent upon a change in ownership or control).

*Change in Control Provisions:* Each C-Suite Employment Agreement has a "double trigger" change in control provision which provides that in the event the executive's employment is terminated without the executive's prior written consent and for a reason other than "Just Cause" (as defined in the C-Suite Employment Agreement), death, or disability or the executive resigns for "Good Reason" (as defined in the C-Suite Employment Agreement) in connection with or within 12 months of a "change in control" (as defined in the C-Suite Employment Agreement) of HopFed or Heritage, the executive will be entitled to receive a lump sum payment equal to 2.9x the executive's base salary as of the date of termination. The Merger is a "change in control" under the C-Suite Employment Agreements.

*Excise Taxes:* Each of the C-Suite Employment Agreements (except Mr. Woolfolk's C-Suite Employment Agreement with Heritage) also include provisions with respect to excise taxes imposed under Section 4999 of the Code for payments made to the executive which are contingent upon a change in ownership or control. The C-Suite Employment Agreements with Messrs. Peck, Duvall, and Knight provide that in the event any payment or distribution to the executive that would be subject to excise taxes imposed under Section 4999 of the Code by reason of it being considered "contingent on a change in ownership or control" (as defined in the Code), then, if such payment, less any federal income taxes payable with respect to such payment (calculated at the maximum marginal income tax rate based on the rate in effect at the time of the payment) and any excise tax imposed with respect to such payment, would be greater by reducing the amount of the payment so that no portion of the payment would be subject to any excise tax, then the payment will be reduced to the minimum extent necessary (but not less than zero), unless such payment, less any federal income taxes payable with respect to such

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payment (calculated at the maximum marginal income tax rate based on the rate in effect at the time of the payment) and any excise tax imposed with respect to such payment, would be greater without the reduction. Mr. Woolfolk's C-Suite Employment Agreement with HopFed provides a gross-up payment sufficient to reimburse Mr. Woolfolk for any (i) excise taxes that may apply under Section 4999 of the Code, (ii) federal, state, and local income taxes and interest for which he may be liable on account of the payment pursuant to (i), and addition excise tax under Section 4999 of the Code and federal, state, and local income taxes for which he is liable on account of the payments pursuant to (i) and (ii).

*Other Benefits:* With respect to the C-Suite Employment Agreements between Heritage and Messrs. Peck and Woolfolk, if the executive's termination is due to his death, or for any reason other than "Just Cause" (as defined in the C-Suite Employment Agreement), or by the executive for "Good Reason" (as defined in the C-Suite Employment Agreement) in connection with a change in control, as discussed above, the executive (or the executive's estate in the event of the executive's death) shall be entitled to receive a lump sum payment for the cost to the executive of obtaining all health, life, disability, and other benefits (excluding any bonus, stock option, or other compensation benefits, but including all 401(k) contributions), in which the executive would have been eligible to participate through the date of the expiration of the term of the C-Suite Employment Agreement based upon the benefit levels substantially equal to those provided for the executive on the date of termination of employment.

*Non-Solicitation:* Each of the C-Suite Employment Agreements with Messrs. Peck, Woolfolk, and Knight include a provision prohibiting the solicitation of employees of HopFed and Heritage for an unspecified duration upon termination of the executive's employment; however, these provisions do not apply if the termination occurs in connection with or within 12 months after a change in control of HopFed or Heritage. The C-Suite Employment Agreements with Mr. Duvall include a provision prohibiting the solicitation of employees of HopFed and Heritage for 12 months upon termination of his employment, regardless of how he was terminated.

Mutual Termination of Employment Agreements

In connection with the execution of the Merger Agreement, on January 7, 2019, Messrs. Peck, Woolfolk, Duvall, and Knight each entered into a Mutual Termination of Employment Agreement with HopFed and Heritage, effective upon the effective time of the Merger, which quantify and settle the benefits owed to the executive under their C-Suite Employment Agreements (the "Termination Agreements"). If the Termination Agreements become effective, the existing C-Suite Employment Agreements will terminate and Messrs. Peck, Woolfolk, Duvall, and Knight will have waived all rights to compensation, payments, and benefits under their respective C-Suite Employment Agreements (excluding (i) vested benefits under certain retirement plans sponsored by HopFed or Heritage, (ii) accrued, but unpaid, salary, vacation time, and other paid time off, and (iii) payment owed pursuant to the Termination Agreement). The Termination Agreements further provide that each executive will execute and deliver a separate release agreement which fully releases, subject to certain carve-outs, HopFed, Heritage, First Financial, First Financial Bank, and other related parties, from all claims, actions, suits, and other liabilities of any nature arising prior to the effective time of the release agreement. Under the Termination Agreements entered into by Messrs. Peck, Duvall, and Knight, each will be paid a lump sum payment, subject to potential reduction to an amount one dollar less than the amount which would cause payments to the executive to be subject to the excise tax imposed by Section 4999 of the Code. Under the Termination Agreement entered into by Mr. Woolfolk, he will be paid a lump sum payment and be entitled payment for any excise and income taxes for which he is liable to the same extent as provided for in his C-Suite Employment Agreement with HopFed, as described above under "The Merger Employment Matters Existing Employment Agreements Excise Taxes." The anticipated aggregate amount to be paid under the Termination Agreements is

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\$2,695,363, assuming no reduction for the excise tax imposed by Section 4999 of the Code with respect to Messrs. Peck, Duvall, and Knight and no additional payments for tax liability with respect to Mr. Woolfolk.

Non-Disclosure and Non-Solicitation Agreements

In addition to the Termination Agreements, in connection with the execution of the Merger Agreement, on January 7, 2019, Messrs. Peck, Woolfolk, Duvall, and Knight each entered into a Non-Disclosure and Non-Solicitation Agreement with First Financial, First Financial Bank, HopFed, and Heritage, which agreements were effective upon execution (the "Non-Disclosure Agreements"). The Non-Disclosure Agreements include provisions which provide that the executive agrees not to, directly or indirectly (as the following terms are defined in the Non-Disclosure Agreements):

(i) use any "Confidential Information" for any purpose other than the benefit of First Financial, First Financial Bank, HopFed, and/or Heritage or (ii) disclose, communicate, deliver, exhibit, or provide any "Confidential Information" to any "Person," except other "Employees" or "Agents" of First Financial, First Financial Bank, HopFed, and/or Heritage who have a need to know such "Confidential Information" for a proper corporate or business purpose, as required in the normal course of the executive's service as an employee;

during the executive's employment with First Financial Bank or Heritage, and for a period of one year immediately following the termination of the executive's employment with First Financial Bank or Heritage, (i) "Solicit," divert, or take away (or attempt to "Solicit," divert, or take away) any "Banking and Financial Services" to or from any "Customer" or "Potential Customer"; (ii) advise, persuade, or induce (or attempt to advise, persuade, or induce) any "Customer" or "Potential Customer" to terminate, reduce, limit, or change the "Customer's" services or business relationship, or the "Potential Customer's" contemplated services or business relationship, with First Financial Bank or Heritage; or (iii) directly provide "Banking and Financial Services" to, or directly accept "Banking and Financial Services" from, any "Customer" or "Potential Customer"; and

during the executive's employment with First Financial Bank or Heritage, and for a period of two years immediately following the termination of the executive's employment with First Financial Bank or Heritage, (i) "Solicit," entice, or persuade (or attempt to "Solicit," entice, or persuade) any "Employee" to terminate his or her employment with First Financial, First Financial Bank, HopFed, and/or Heritage, or offer or provide employment (whether such employment is with the executive or any other "Person") either on a full-time or part-time, consulting, or "Independent Contractor" basis; (ii) "Solicit," entice, or persuade (or attempt to "Solicit," entice, or persuade) any "Independent Contractors" or "Agents" to terminate their contract or relationship with First Financial, First Financial Bank, HopFed, and/or Heritage or discontinue providing services to First Financial, First Financial Bank, HopFed, and/or Heritage and/or "Customers"; or (iii) "Solicit," entice, or persuade (or attempt to "Solicit," entice, or persuade) any suppliers, vendors, or others who were supplying services or goods to First Financial, First Financial Bank, HopFed, and/or Heritage during the one year period prior to the executive's termination, to terminate, reduce, limit, or change their business or relationship with First Financial, First Financial Bank, HopFed, and/or Heritage.

In the event the Merger is not completed, the foregoing covenants will remain effective with respect to First Financial and First Financial Bank, but will become ineffective with respect to HopFed and Heritage. The Non-Solicitation Agreements do not prevent the executive from accepting employment with an organization which competes with First Financial, First Financial Bank, HopFed, and/or Heritage.

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*First Financial Employment Agreement and Retention Bonus Agreement with John E. Peck*

On January 7, 2019, First Financial and First Financial Bank entered into an Employment Agreement with John E. Peck, effective upon consummation of the Merger and satisfaction of other condition set forth therein, pursuant to which Mr. Peck will serve as a Market President of First Financial Bank for the market area currently served by Heritage (consisting of western Kentucky and middle and western Tennessee) (the "Peck Employment Agreement"). The Peck Employment Agreement has an initial term of one year and entitles Mr. Peck to an initial annual base salary of \$220,000. Mr. Peck is eligible to participate in First Financial's employee benefit plans offered generally to First Financial Bank's employees and its 2011 Short Term Incentive Compensation Plan, but not its 2011 Omnibus Equity Incentive Plan. Additionally, First Financial Bank will furnish, and pay the costs associated with, an automobile to Mr. Peck for primarily business use and reimburse Mr. Peck for cellular phone service up to \$100 per month.

During the term of the Peck Employment Agreement, in the event Mr. Peck is terminated by First Financial Bank without "Cause" (as defined in the Peck Employment Agreement), he is entitled to severance pay in the form of salary continuation, payable at regular intervals in accordance with First Financial Bank's normal payroll practice, at his base salary rate then in effect from the date of termination through the expiration of the current term of the Peck Employment Agreement. Mr. Peck is not entitled to severance pay in the event he is terminated for "Cause" (as defined in the Peck Employment Agreement), death, or disability, or he voluntarily terminates his employment.

The Peck Employment Agreement further provides that during the term of the agreement and after his termination, Mr. Peck will not make disparaging statements with respect to certain entities and persons, its and their work product, and business operations, related to First Financial, First Financial Bank, and their affiliates. As discussed above under "The Merger Interests of HopFed's Directors and Executive Officers in the Merger Employment Matters Non-Disclosure and Non-Solicitation Agreements," Mr. Peck is subject to additional restrictive covenants in accordance with his Non-Disclosure Agreement.

On January 7, 2019, First Financial Bank also entered into a Retention Bonus Agreement with Mr. Peck, which is conditioned upon the effectiveness of the Peck Employment Agreement (the "Peck Retention Agreement"). The Peck Retention Agreement provides for the payment of two lump sum bonuses, in the amount of \$50,000 each, following the first and second anniversary of the consummation of the Merger, assuming Mr. Peck remains actively employed on a full-time basis. Mr. Peck is not entitled to either the first and/or second retention bonus in the event he voluntarily resigns or is terminated for "Cause," death, or disability, in such cases, as contemplated by the Peck Employment Agreement, prior to the first or second anniversary of the consummation of the Merger, as applicable.

*Continued Employment for Executive Officers Other Than John E. Peck*

Following the closing of the Merger, it is anticipated that Baily C. Knight will be employed with First Financial Bank and Michael L. Woolfolk and Billy C. Duvall will be employed with First Financial Bank, but only for a limited period of time to assist with transition matters, in each case as an at-will employee with compensation and benefits commensurate with such employment and First Financial Bank's current employment practices.

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*Indemnification; Directors' and Officers' Insurance*

For six years following the effective time of the Merger, subject to certain limits, HopFed directors and executive officers are entitled to indemnification as provided for under the HopFed Certificate of Incorporation and Bylaws, or as required by applicable law, as in effect as of the date of the Merger Agreement, and to be covered by the directors' and officers' liability insurance policy currently maintained by HopFed, or by a comparable or better policy. For a further description of these rights, please see "The Merger Agreement Covenants and Agreements Indemnification; Director' and Officer' Insurance" beginning on page 99.

*Employee Stock Ownership Plan*

HopFed executive officers are participants in the HopFed ESOP. The HopFed ESOP received a share acquisition loan from HopFed, the proceeds of which were used to acquire shares of HopFed common stock for the benefit of plan participants. The HopFed ESOP has pledged the shares acquired with the loan as collateral for the loan and holds them in a suspense account, releasing them to participants' accounts as the loan is repaid. Prior to the effective time of the Merger, the outstanding share acquisition loan of the HopFed ESOP will be repaid by the HopFed ESOP by delivering a sufficient number of unallocated shares of HopFed common stock to HopFed. Any unallocated shares remaining in the suspense account (after the repayment of the outstanding share acquisition loan) will be allocated to the active plan participants pro-rata as earnings on each participant's account balance under the plan's stock fund. As of the effective time of the Merger, the HopFed ESOP will be terminated and all allocated shares of HopFed common stock held by the HopFed ESOP will be converted into the Merger Consideration. As a result of the foregoing, HopFed's executive officers, as well as other employees who participate in the HopFed ESOP, would receive a benefit in connection with the HopFed ESOP's termination to the extent that the stock price of HopFed common stock multiplied by the number of shares held in the suspense account exceeds the outstanding loan used to acquire those shares.

**Merger-Related Compensation for HopFed's Named Executive Officers**

This section sets forth the information required by Item 402(t) of Regulation S-K regarding the compensation for each of HopFed's named executive officers that is based on, or otherwise relates to, the Merger. The Merger-related compensation payable to these individuals is subject to a non-binding advisory vote of HopFed stockholders, as described above in "HopFed Proposals Proposal No. 2: Compensation Proposal."

The table below sets forth the amount of payments and benefits that each of HopFed's named executive officers would receive in connection with the Merger, assuming (i) the effective date of the Merger is April 9, 2019 (the latest practicable date prior to the date of this proxy statement/prospectus), (ii) all required conditions to the payment of these amounts have been satisfied, and (iii) the matters described in the footnotes to the table. As a result of the foregoing, the actual amounts, if any, to be received by a HopFed named executive officer may materially differ from the amounts set forth below. The amounts below do not reflect compensation actions that may occur after the date of this proxy statement/prospectus but before the effective time of the Merger and do not

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include the value of benefits that the named executive officers are vested in without regard to the occurrence of a change in control (including the Merger).

Name	Cash(1) (\$)	Equity(2) (\$)	Pension/Perquisites/ Tax			Other(4) (\$)	Total(5) (\$)
			NQDC (\$)	Benefit (\$)	Reimbursements(3) (\$)		
John E. Peck	916,678	100,693				54,604	1,071,975
Michael L. Woolfolk	686,975	75,463				76,171	838,609
Billy C. Duvall	565,396	62,115				68,411	695,922
Bailey C. Knight	526,314	76,497				56,953	659,764

(1) In connection with the Merger Agreement, Messrs. Peck, Woolfolk, Duvall, and Knight entered into a Termination Agreement which quantifies and settles the benefits owed to the named executive officers under their C-Suite Employment Agreements. Under these Termination Agreements, the named executive officers are entitled to the lump-sum cash payment set forth in the table. The payments are contingent upon the consummation of the Merger, the named executive officer's execution of a release agreement, and the named executive officer not revoking the release agreement. The Termination Agreements with Messrs. Peck, Duvall, and Knight provide that the payments set forth in the table will be reduced to one dollar less than the amount which would cause excise tax to be imposed by Section 4999 of the Code. The Termination Agreement with Mr. Woolfolk provides a gross-up payment sufficient to reimburse Mr. Woolfolk for any (i) excise taxes that may apply under Section 4999 of the Code, (ii) federal, state, and local income taxes and interest for which he may be liable on account of the payment pursuant to (i), and addition excise tax under Section 4999 of the Code and federal, state, and local income taxes for which he is liable on account of the payments pursuant to (i) and (ii). The cash severance payable to Messrs. Peck, Woolfolk, Duvall, and Knight under their Termination Agreement is considered a "single-trigger" benefit since it is payable upon a change in control of HopFed.

(2) The amounts in this column represent the value of the HopFed unvested restricted stock awards which will fully vest and be converted into the right to receive the Merger Consideration. At the effective time of the Merger unvested HopFed restricted stock will fully vest and be converted into the right to receive the Merger Consideration. Set forth below are the values of all outstanding unvested restricted stock awards held by each named executive officer that would become vested at the effective time of the Merger. Such vesting and payment are considered "single-trigger" benefits since they are payable upon a change in control of HopFed.

Executive Officer	Unvested Restricted Stock Awards (#)	Aggregate Restricted Stock Award Value(a) (\$)
John E. Peck	5,356	100,693
Michael L. Woolfolk	4,014	75,463
Billy C. Duvall	3,304	62,115
Bailey C. Knight	4,069	76,497
<b>Total:</b>	<b>16,743</b>	<b>314,768</b>

(a) The amounts in this column represent the value of unvested restricted stock held by the named executive officers and were calculated by multiplying the number of shares of restricted stock held by the named executive officer by \$18.80, the average per share closing price of HopFed common stock for the first five business days following the first public announcement of the Merger.



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- (3) It is anticipated that Mr. Woolfolk will not receive any tax reimbursement payments pursuant to his Termination Agreement.
- (4) The amounts in this column represent the estimated additional benefits to be received by the named executive officer that is attributable to the HopFed ESOP upon its termination and allocation of remaining unallocated shares held by the HopFed ESOP after the repayment of the outstanding share acquisition loan to HopFed. The value of this estimated additional benefit assumes a per share value of HopFed common stock of \$18.80, the average per share closing price of HopFed common stock for the first five business days following the first public announcement of the Merger, and is based on the account balances as of December 31, 2018, which account balances may be different on the date the HopFed ESOP is actually terminated. The additional benefits to be receive in connection with terminating the ESOP is considered a "single-trigger" benefit since it is triggered in connection with a change in control of HopFed.
- (5) Amounts shown do not include the payments or benefits to be provided to any of the named executive officers in connection with their employment with First Financial Bank after the effective time of the Merger.

**Other Employee Benefits Matters**

*Change in Control Severance Compensation Plan*

Heritage has adopted the Heritage Bank USA, Inc. Employee Change in Control Severance Compensation Plan (the "Severance Plan") to ensure the successful continuation of the business of Heritage and the fair and equitable treatment of Heritage employees in connection with a "Change in Control" (as defined in the Severance Plan). The Merger is a "Change in Control" under the Severance Plan. Any employee terminated due to death or disability or who, at the time of termination, is a party to an individual employment agreement, change in control severance agreement, or other written agreement providing for severance benefits upon termination of employment with HopFed or Heritage, excluding tax-qualified retirement plans or arrangements, is not eligible for severance pay under the Severance Plan.

Under the Severance Plan, full-time employees with at least one year of service are entitled to receive a lump sum payment, subject to required tax withholdings, equal to 2 weeks of pay (based on (a) base salary as of the date of termination or, if greater, the date immediately preceding the "Change in Control," in the case of salaried employees; (b) base salary as of the date of termination or, if greater, the date immediately preceding the "Change in Control," plus commissions earned in the 12 full months preceding the date of termination or, if greater, the 12 full months immediately preceding the "Change in Control," in the case of employees paid commissions; or (c) the total hourly wages for the 12 full months preceding the date of termination or, if greater, the 12 full months preceding the "Change in Control," including overtime pay, in the case of hourly employees) for each year of service by the employee, subject to a minimum of 4 weeks and a maximum of 26 weeks, if, within the period beginning on the effective date of a "Change in Control" and ending on the first anniversary of thereof, (i) the employee is terminated without "Cause" (as defined in the Severance Plan), or (ii) the employee voluntarily terminates his or her employment within 60 days after being offered continued employment in a position that is not a "Comparable Position" (as defined in the Severance Plan). The Severance Plan further provides that benefits will be reduced to the maximum extent necessary so that the benefit would not constitute an "excess parachute payment" under Section 280G of the Code and, upon payment, the employee agrees not to solicit continuing employees for an undefined period of time.

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*Change in Control Retention Agreements*

Heritage has also adopted a form of Change in Control Retention Agreement ("CIC Retention Agreement") to encourage certain key employees to remain employed with Heritage. The CIC Retention Agreement entitles the employee to (a) a lump sum payment equal to 75% of the employee's annual base salary as of his or her termination date and (b) reimbursement of the premium costs for employee-only continuation of the medical and dental insurance coverages under COBRA for 12 months following his or her termination, if the employee (i) voluntarily terminates his or her employment for "Good Reason" (as defined in the CIC Retention Agreement) or (ii) is terminated other than for death or "Just Cause" (as defined in the CIC Retention Agreement) upon a "Change in Control" (as defined in the CIC Retention Agreement) or during the 24 month period following the date of the "Change in Control." The Merger is a "Change in Control" under the CIC Retention Agreement. The CIC Retention Agreement further provides that benefits will be reduced, as needed, so that payments thereunder would not constitute an "excess parachute payment" under Section 280G of the Code, the employee will be indemnified for expenses and liabilities reasonably incurred in connection with any action, suit, or proceeding due to him or her having been an officer or employee of Heritage, and for one year following termination and payment of benefits, the employee agrees not to solicit employees, depositors, or loan customers. Heritage anticipates entering in a CIC Retention Agreement with approximately six non-executive employees prior to the effective time of the Merger.

Additional employee benefits matters are described in this proxy statement/prospectus under the section titled "The Merger Agreement Covenants and Agreement Employee Benefits Matters" beginning on page 99.

**First Financial's Dividend Policy**

Subject to the approval of the board of directors of First Financial, following the completion of the Merger, First Financial intends to maintain its semi-annual dividend and expects to continue to increase it over time. However, the First Financial board may change its dividend policy at any time, and no assurances can be given that dividends will continue to be paid by First Financial or that dividends, if paid, will not be reduced or eliminated in future periods because any such dividend would be dependent upon First Financial's future earnings, capital requirements, and financial condition. In addition, the payment of dividends by financial holding companies is generally subject to legal and regulatory limitations. For further information, see "Comparative Market Prices and Dividends" beginning on page 150.

**Public Trading Markets**

First Financial common stock is listed for trading on NASDAQ under the symbol "THFF," and HopFed common stock is listed on NASDAQ under the symbol "HFBC." Upon completion of the Merger, HopFed common stock will no longer be quoted on NASDAQ. Following the Merger, shares of First Financial common stock will continue to be traded on NASDAQ.

Under the Merger Agreement, First Financial will use reasonable best efforts to cause the shares of First Financial common stock to be issued in the Merger, including with respect to HopFed restricted stock, to be approved for listing on NASDAQ, subject to notice of issuance, and the Merger Agreement provides that neither First Financial nor HopFed will be required to complete the Merger if such shares are not authorized for listing on NASDAQ, subject to notice of issuance.

**Regulatory Approvals Required for the Merger**

Completion of the Merger is subject to the receipt of all approvals and consents required to complete the transactions contemplated by the Merger Agreement from (i) the Federal Reserve Board, (ii) the OCC, (iii) the KDFI, and (iv) any other regulatory approval the failure of which to obtain

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would reasonably be expected to have a material adverse effect on First Financial or its subsidiaries (which First Financial and HopFed currently expect to be none), and the expiration of any applicable statutory waiting periods, in each case, without the imposition of a condition, restriction, or requirement that the board of directors of First Financial reasonably determines in good faith would (a) following the effective time of the Merger, have a material adverse effect on First Financial or (b) reduce the benefits of the transactions contemplated by the Merger Agreement to such a degree that First Financial would not have entered into such agreement had such conditions, restrictions, or requirements been known at such time. Subject to the terms and conditions of the Merger Agreement, First Financial and HopFed have agreed to use their reasonable best efforts and cooperate to promptly prepare and file all necessary documentation, to obtain as promptly as practicable all regulatory approvals necessary or advisable to complete the transactions contemplated by the Merger Agreement, and to comply with the terms and conditions of all such approvals. First Financial has filed applications and notifications to obtain the required regulatory approvals.

*Federal Reserve Board*

Completion of the Merger would ordinarily be subject, among other things, to approval by the Federal Reserve Board pursuant to Section 3 of the Bank Holding Company Act ("BHC Act"). Under Section 225.12(d)(2) of the Federal Reserve Board's regulations (12 C.F.R. § 225.12(d)(2)), the prior approval of the Federal Reserve Board under the BHC Act is not required in connection with the acquisition by a bank holding company of another bank holding company if the transaction is part of the merger of the bank to be acquired with a subsidiary bank of the acquiring bank holding company, and if the transaction satisfies certain other requirements, including that the bank to be acquired will not be operated by the bank holding company as a separate entity and that the transaction requires the prior approval of a federal supervisory agency under the Bank Merger Act.

First Financial filed a notification, dated February 26, 2019, to the Federal Reserve Board seeking the waiver contemplated by Section 225.12(d)(2) from an application under Section 3 of the BHC Act.

*Office of the Comptroller of the Currency*

In order to consummate the Bank Merger, First Financial Bank must receive the approval of the OCC under Section 18(c) of the Federal Deposit Insurance Act (the "Bank Merger Act"). In addition to general policy factors, in considering the approval of an application under the Bank Merger Act, the OCC reviews certain factors, including: (i) the competitive impact of the transaction, (ii) the financial and managerial resources of the depository institutions party to the merger and future prospects of the resulting institution, (iii) the convenience and needs of the communities to be served, (iv) the depository institutions' effectiveness in combating money-laundering activities, (v) the risk to the stability of the United States banking and financial system, and (vi) deposit concentration limits of the resulting institution.

In considering an application under the Bank Merger Act, the OCC also reviews the records of performance of the relevant insured depository institutions under the Community Reinvestment Act of 1977 (the "CRA"). In addition, in connection with an interstate bank merger transaction, such as the Bank Merger, the OCC considers certain additional factors under the Riegle-Neal Act Interstate Banking and Branching Efficiency Act of 1994 (the "Riegle-Neal Act"), such as: (i) state laws regarding the minimum age of the bank to be acquired, (ii) certain filing requirements with state bank supervisors, (iii) the concentration of deposits on a nationwide and statewide basis, and (iv) compliance with any applicable state community reinvestment laws. Under the Riegle-Neal Act, the OCC may approve an interstate merger transaction only if each constituent bank is adequately capitalized at the time the application for such transaction is filed with the OCC, and the OCC determines that the resulting bank will be well capitalized and well managed upon the closing of the transaction.

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Furthermore, the Bank Merger Act and OCC regulations require published notice of, and the opportunity for public comment on, the application to the OCC, and authorize the OCC to hold a public hearing or meeting if the OCC determines that a hearing or meeting would be appropriate. The OCC takes into account the views of third-party commenters, particularly on the subject of the merging parties' CRA performance and record of service to their communities. As part of the review process in merger transactions, the OCC frequently receives protests from community groups and others. Any hearing, meeting or comments provided by third parties could prolong the period during which the application is under review by the OCC.

First Financial Bank filed its application for approval of the Bank Merger with the OCC on February 26, 2019.

*Kentucky Department of Financial Institutions*

The Merger must also be approved by the KDFI. The KDFI will review the transaction to consider, among other factors, whether: (i) the terms of the transaction are in accordance with Kentucky law; (ii) the financial condition, or the competence, experience, and integrity of First Financial or its principals are such as will not jeopardize the financial stability of Heritage or HopFed; (iii) the public convenience and advantage will be served by the transaction; and (iv) any federal regulator whose approval is required has disapproved the transaction because it would result in a monopoly or substantially less competition. First Financial sent the requisite materials to the KDFI on February 26, 2019.

*United States Department of Justice*

In addition to the Federal Reserve Board and the OCC, the United States Department of Justice (the "DOJ") conducts a concurrent competitive review of the Merger and Bank Merger to analyze the transaction's competitive effects and determine whether the transaction would result in a violation of antitrust laws. Transactions approved under the Bank Merger Act generally may not be completed until 30 days after the approval of the applicable federal banking agency is received, during which time the DOJ may challenge the transaction on antitrust grounds. With the approval of the applicable federal banking agency and the concurrence of the DOJ, the waiting period may be reduced to no less than 15 days. The commencement of an antitrust action would stay the effectiveness of such an approval unless a court specifically ordered otherwise. In reviewing the merger, the DOJ could analyze the transaction's effect on competition differently than the OCC, and thus it is possible that the DOJ could reach a different conclusion than the OCC regarding the transaction's effects on competition. A determination by the DOJ not to object to the transaction may not prevent the filing of antitrust actions by private persons or state attorneys general.

First Financial and HopFed believe that the Merger and Bank Merger should not raise substantial antitrust or other significant regulatory concerns and that First Financial will be able to obtain all requisite regulatory approvals in a timely manner. However, there can be no assurance that all of the regulatory approvals described above will be obtained or, if obtained, as to the timing of any such approvals. In addition, there can be no assurance that such approvals will not impose conditions, restrictions, or requirements that the board of directors of First Financial reasonably determines in good faith would (a) following the effective time of the Merger, have a material adverse effect on First Financial or (b) reduce the benefits of the transactions contemplated by the Merger Agreement to such a degree that First Financial would not have entered into such agreement had such conditions, restrictions, or requirements been known at such time. Likewise, there can be no assurance that U.S. federal or state regulatory authorities will not attempt to challenge the Merger and Bank Merger on antitrust grounds or for other reasons, or if such a challenge is made, as to the result of such challenge.

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**Additional Regulatory Approvals and Notices**

In addition, notifications and/or applications requesting approval may be submitted to various other federal and state regulatory authorities and self-regulatory organizations, including certain state insurance departments. Neither First Financial nor HopFed is aware of any material governmental approvals or actions that are required for completion of the Merger other than those described above. It is presently contemplated that if any such additional governmental approvals or actions are required, those approvals or actions will be sought. There can be no assurance, however, that any additional approvals or actions will be obtained.

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**THE MERGER AGREEMENT**

*The following describes certain aspects of the Merger, including certain material provisions of the Merger Agreement. The following description of the Merger Agreement is subject to, and qualified in its entirety by reference to, the Merger Agreement, which is attached to this proxy statement/prospectus as Annex A and is incorporated by reference into this proxy statement/prospectus. We urge you to read the Merger Agreement carefully and in its entirety, as it is the legal document governing the Merger.*

**Structure of the Merger**

Each of First Financial's and HopFed's respective boards of directors has unanimously approved the Merger Agreement. The Merger Agreement provides for the merger of HopFed with and into First Financial, with First Financial continuing as the surviving corporation. Following the completion of the Merger, Heritage will merge with and into First Financial Bank, with First Financial Bank continuing as the surviving bank.

Before the completion of the Merger, First Financial may elect to change the structure of effecting the combination of First Financial and HopFed so that (a) HopFed is merged with and into any other direct or indirect wholly owned subsidiary of First Financial or (b) any direct or indirect wholly owned subsidiary of First Financial is merged with and into HopFed, except that no such change may (1) alter or change the amount or kind of the Merger Consideration or the treatment of the HopFed stockholders, (2) prevent First Financial or HopFed from obtaining an opinion of counsel to the effect that the Merger constitutes a "reorganization" under Section 368(a) of the Code or otherwise cause the Merger to fail to qualify as a "reorganization" under Section 368(a) of the Code, or (3) within the good faith judgment of HopFed, materially impede or delay consummation of the transactions contemplated by the Merger Agreement. In the event of such an election, First Financial and HopFed have agreed to execute an appropriate amendment to the Merger Agreement (to the extent such amendment only changes the method of effecting the business combination and does not substantively affect the Merger Agreement or the rights and obligations of First Financial and HopFed or their respective shareholders or stockholders) in order to reflect such election.

**Merger Consideration**

Subject to adjustment as described below, if the Merger is completed, HopFed stockholders are entitled to elect to receive for their shares of HopFed common stock (excluding treasury shares, shares owned by HopFed or First Financial (other than in a fiduciary or agency capacity or as a result of debts previously contracted) and shares for which appraisal rights have been properly asserted) either (or a combination of) the Stock Consideration or Cash Consideration, subject to allocation provisions that provide for a targeted aggregate split of 50% of shares of HopFed common stock being exchanged for the Stock Consideration and 50% for the Cash Consideration.

The market price of First Financial common stock will fluctuate between the date of this proxy statement/prospectus, the effective time of the Merger, and after the effective time of the Merger. Therefore, the value of the shares of First Financial common stock that HopFed stockholders may receive in the Merger may increase or decrease prior to and after the Merger, and may be worth more or less than the amount of Cash Consideration being offered in the Merger. On January 7, 2019, the last full trading day before the public announcement of the Merger Agreement, First Financial common stock closed at \$42.53 per share. On [ • ], 2019, the last practicable trading day before the date of this proxy statement/prospectus, First Financial common stock closed at \$[ • ] per share. You should obtain current market prices for the First Financial common stock before you vote and before you make an election to receive the Stock Consideration, the Cash Consideration, or a combination of the Cash and Stock Consideration.

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Neither First Financial nor HopFed makes any recommendation as to whether you should elect to receive the Stock Consideration, the Cash Consideration, or a combination of the Cash and Stock Consideration. Each HopFed stockholder must make his, her, or its own decision with respect to such election.

**Because the Federal income tax consequences of receiving the Cash Consideration, the Stock Consideration, or a combination of the Cash and Stock Consideration will be different, you are strongly urged to read carefully the information set forth under the caption "Material U.S. Federal Income Tax Consequences of the Merger" and to consult your own tax advisors for a full understanding of the Merger's tax consequences to you.**

**Fractional Shares**

First Financial will not issue any fractional shares of First Financial common stock in the Merger. Instead, a HopFed stockholder who otherwise would have received a fraction of a share of First Financial common stock will receive an amount in cash (without interest) rounded to the nearest whole cent. This cash amount will be determined by multiplying (i) the average of the closing sale prices of First Financial common stock for the fifteen consecutive trading days on which shares were actually traded immediately preceding the second business day prior to the closing date of the Merger by (ii) the fraction of a share of First Financial common stock which such holder would otherwise be entitled to receive.

**Potential Adjustments to the Merger Consideration**

Under the terms of the Merger Agreement, the Merger Consideration is subject to adjustment as follows:

Anti-Dilution Adjustment: If the number of outstanding shares of First Financial common stock or HopFed common stock is increased, decreased, changed into, or exchanged for a different number or kind of shares or securities as a result of a reorganization, recapitalization, reclassification, stock dividend, stock split, reverse stock split, or other similar change in capitalization, or there is any extraordinary dividend or distribution, an appropriate and proportionate adjustment will be made to the Exchange Ratio.

Conversion of First Financial Common Stock: If First Financial enters into an agreement pursuant to which shares of First Financial common stock would be converted into shares or other securities or obligations of another corporation, proper provision shall be made in such agreement so that each HopFed stockholder entitled to receive shares of First Financial common stock in the Merger shall be entitled to receive, pro rata, such number of shares or other securities or amount or obligations of such other corporation as such stockholder would be entitled to receive if the effective time of the Merger had occurred immediately prior to the happening of such event.

HopFed's Adjusted Consolidated Stockholders' Equity: First Financial's obligation to consummate the Merger is conditioned upon the consolidated stockholders' equity of HopFed and its subsidiaries, as adjusted in accordance with the terms of the Merger Agreement, not being less than \$87,168,519.00 as of the end of the month prior to the effective time of the Merger. In the event HopFed's adjusted consolidated stockholders' equity is less than \$87,168,519.00, the Merger Consideration will be reduced on a dollar for dollar basis, with the Stock Consideration and Cash Consideration each being proportionally reduced.

Decrease in Market Price of First Financial Common Stock: HopFed may notify First Financial of its decision to terminate the Merger Agreement if, at any time during the seven calendar day period commencing on the later of (i) the date all requisite regulatory approvals (and waivers, if

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applicable) necessary for consummation of the Merger have been received (disregarding any waiting period) or (ii) the date on which HopFed stockholder approval of the Merger has been received (the "Determination Date"), both of the following conditions are satisfied:

as of the date specified, the volume-weighted average closing price per share of First Financial common stock as reported on NASDAQ for the 20 consecutive trading days immediately preceding such specified date (the "First Financial Market Value") is less than \$33.03, as adjusted in accordance with the terms of the Merger Agreement; and

the number obtained by dividing the then First Financial Market Value by \$41.29, as adjusted in accordance with the terms of the Merger Agreement, is less than number obtained by dividing the average of the daily closing value of the NASDAQ Bank Index for the 20 consecutive trading days immediately preceding the Determination Date by \$3,338.12, minus 0.20.

If HopFed elects to exercise its termination right as described above, First Financial may elect to avoid termination of the Merger Agreement by increasing the Exchange Ratio to the lesser of the amounts determined pursuant to the following formula:

a quotient, (a) the numerator of which is equal to the product of the \$41.29, the Exchange Ratio then in effect, and the number obtained by dividing the average of the daily closing value of the NASDAQ Bank Index for the 20 consecutive trading days immediately preceding the Determination Date by \$3,338.12, minus 0.20, and (b) the denominator of which is equal to then First Financial Market Value; or

the quotient determined by dividing \$41.29 by the then First Financial Market Value and multiplying such quotient by the product of the Exchange Ratio then in effect and 0.80.

Since the formula is dependent on the future price of First Financial's common stock and that of the NASDAQ Bank Index, it is not possible to determine at this time if the Exchange Ratio will be adjusted pursuant to the foregoing provisions or what any such adjusted Exchange Ratio would be. However, in general, more shares of First Financial common stock would be issued to take into account the extent by which the average price of First Financial's common stock exceeded the decline in the average price of the common stock of the index group.

**Allocation Provisions**

The aggregate amount of the Stock Consideration and Cash Consideration that will be paid is subject to the allocation provisions described in detail below. Pursuant to such allocation provisions, if the aggregate number of shares of HopFed common stock which elect to receive the Stock Consideration (the "Stock Election Shares") is greater than 50% of the outstanding shares of HopFed common stock, a pro rata portion of those shares will be converted into the right to receive the Cash Consideration in order to provide for an aggregate 50% stock and 50% cash allocation among all outstanding shares of HopFed common stock. Similarly, if the aggregate number of shares of HopFed common stock which elect to receive the Cash Consideration (the "Cash Election Shares") is greater than 50% of the outstanding shares of HopFed common stock, a pro rata portion of those shares will be converted into the right to receive the Stock Consideration in order to provide for an aggregate 50% stock and 50% cash allocation among all outstanding shares of HopFed common stock. As of the Record Date, the number of shares of HopFed common stock that must be converted to receive the Stock Consideration was approximately [ • ] shares. It is unlikely that elections will be made for exactly 50% cash and 50% stock.



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*Oversubscription of Aggregate Stock Consideration*

If the aggregate number of Stock Election Shares is greater than 50% of the outstanding shares of HopFed common stock, then

all Cash Election Shares and all shares of HopFed common stock for which no election was made or an untimely or incomplete election was made (the "Non-Election Shares") will be converted into the right to receive the Cash Consideration; and

all Stock Election Shares will be entitled to receive the Stock Consideration in respect of that number of Stock Election Shares equal to the product obtained by multiplying (x) the number of Stock Election Shares held by such stockholder by (y) a fraction, the numerator of which is 50% of the outstanding shares of HopFed common stock and the denominator of which is the aggregate number of Stock Election Shares, with the remaining number of such stockholder's Stock Election Shares being converted into the right to receive the Cash Consideration.

*Undersubscription of Aggregate Stock Consideration*

If the aggregate number of Stock Election Shares is less than 50% of the outstanding shares of HopFed common stock (the amount by which 50% of the outstanding shares of HopFed common stock exceeds the aggregate number of Stock Election Shares being referred to as the "Shortfall Number"), then

all Stock Election Shares will be converted into the right to receive the Stock Consideration; and

the Non-Election Shares and the Cash Election Shares will be adjusted as follows:

if the Shortfall Number is less than or equal to the number of Non-Election Shares, then all Cash Election Shares shall be converted into the right to receive the Cash Consideration and each stockholder of Non-Election Shares shall receive the Stock Consideration in respect of that number of Non-Election Shares held by such stockholder equal to the product obtained by multiplying (x) the number of Non-Election Shares held by such stockholder by (y) a fraction, the numerator of which is the Shortfall Number and the denominator of which is the aggregate number of Non-Election Shares, with the remaining number of such stockholder's Non-Election Shares being converted into the right to receive the Cash Consideration; or

if the Shortfall Number exceeds the number of Non-Election Shares, then all Non-Election Shares shall be converted into the right to receive the Stock Consideration and each stockholder of Cash Election Shares shall receive the Stock Consideration in respect of that number of Cash Election Shares equal to the product obtained by multiplying (x) the number of Cash Election Shares held by such stockholder by (y) a fraction, the numerator of which is the amount by which the Shortfall Number exceeds the aggregate number of Non-Election Shares and the denominator of which is the total number of Cash Election Shares, with the remaining number of such stockholder's Cash Election Shares being converted into the right to receive the Cash Consideration.

*Adjustment for Tax Purposes*

As discussed above, the Merger Agreement provides for a targeted aggregate split of 50% of shares of HopFed common stock being exchanged for the Stock Consideration and 50% of shares of HopFed common stock being exchanged for the Cash Consideration. First Financial may elect to increase, by the minimum amount necessary, the number of shares of HopFed common stock entitled to receive the Stock Consideration so that First Financial and HopFed are able to obtain an opinion of

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counsel to the effect that the Merger constitutes a "reorganization" under Section 368(a) of the Code or to otherwise qualify the Merger as a "reorganization" under Section 368(a) of the Code.

*Illustrative Examples of Allocation Provisions*

For illustration only, the following examples describe the application of the allocation provisions of the Merger Agreement in the case of an oversubscription and undersubscription of the aggregate Stock Consideration. Calculations were used in making these assumptions with respect to rounding of non-whole numbers, which may differ from what is used when determining appropriate allocations for HopFed stockholders. Solely for the purposes of these examples, it is assumed that (i) there are 6,648,887 shares of HopFed common stock outstanding, (ii) the exchange ratio is 0.444, and (iii) the stock conversion number is 3,324,444 (representing approximately 50% of the outstanding HopFed common stock).

Example 1 (Oversubscription of Aggregate Stock Consideration)

Assume that valid stock elections are received with respect to 5,651,554 shares (approximately 85% of the outstanding shares) of HopFed common stock; valid cash elections are received with respect to 664,889 shares (approximately 10% of the outstanding shares) of HopFed common stock; and no elections are received with respect to 332,444 shares (approximately 5% of the outstanding shares). The allocation provisions would generally apply as follows:

Cash Election Shares: All 664,889 Cash Election Shares are converted into the right to receive the Cash Consideration.

Non-Election Shares: All 332,444 Non-Election Shares are converted into the right to receive the Cash Consideration.

Stock Election Shares: Of the 5,651,554 Stock Election Shares, 3,324,444 Stock Election Shares are converted into the right to receive the Stock Consideration. The remaining 2,327,110 Stock Election Shares are converted into the right to receive the Cash Consideration. Since the Stock Election Shares are oversubscribed, this means that HopFed stockholders who made a stock election will receive a combination of the Stock and Cash Consideration.

This can be further illustrated as follows:

Stockholder A holds 100 shares of HopFed common stock and makes a valid stock election with respect to all 100 shares. Assuming the total allocations noted above, 59 of such shares ( $100 \text{ shares} \times (3,324,444 / 5,651,554)$ ) will be converted into the right to receive the Stock Consideration, and the remaining 41 of such shares will be converted into the right to receive the Cash Consideration. Stockholder A would receive:

26 shares of First Financial common stock ( $59 \text{ shares} \times 0.444$ ) plus cash instead of a fractional 0.196 share of First Financial common stock; and

\$861 in cash ( $41 \text{ shares} \times \$21.00$ ).

Stockholder B holds 100 shares of HopFed common stock and makes a valid cash election with respect to all 100 shares. Assuming the total allocations noted above, Stockholder B would receive \$2,100 in cash ( $100 \text{ shares} \times \$21.00$ ).

Stockholder C holds 100 shares of HopFed common stock and makes a valid cash election with respect to 50 shares and a valid stock election with respect to 50 shares. Assuming the total allocations noted above, all 50 Cash Election Shares will be converted into the right to receive the Cash Consideration. Of the 50 Stock Election Shares, 29 shares ( $50 \text{ shares} \times (3,324,444 / 5,651,554)$ ) will be converted into the right to receive the Stock Consideration, and the



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remaining 21 Stock Election Shares will be converted to into the right to receive the Cash Consideration. Stockholder C would receive:

12 shares of First Financial common stock (29 shares  $\times$  0.444) plus cash instead of a fractional 0.876 share of First Financial common stock; and

\$1,491 in cash ((50 + 21 shares)  $\times$  \$21.00).

Example 2 (Undersubscription of Aggregate Stock Consideration)

Assume that valid cash elections are received with respect to 5,651,554 shares (approximately 85% of the outstanding shares) of HopFed common stock; valid stock elections are received with respect to 664,889 shares (approximately 10% of the outstanding shares); and no elections are received with respect to 332,444 shares (approximately 5% of the outstanding shares). This means that the Shortfall Number is 2,659,555 (3,324,444 - 664,889), and the allocation provisions would generally apply as follows:

Stock Election Shares: All 664,889 Stock Election Shares will be converted into the right to receive the Stock Consideration.

Non-Election Shares: Because the Shortfall Number (2,659,555) exceeds the number of Non-Election Shares (332,444), all Non-Election Shares will be converted into the right to receive the Stock Consideration.

Cash Election Shares: Of the 5,651,554 Cash Election Shares, 2,327,111 Cash Election Shares will be converted into the right to receive the Stock Consideration. The remaining 3,324,443 Cash Election Shares will be converted into the right to receive the Cash Consideration. Since the Stock Election Shares are undersubscribed, this means that HopFed stockholders who made a cash election will receive a combination of the Stock and Cash Consideration.

This can be further illustrated as follows:

Stockholder A holds 100 shares of HopFed common stock and makes a valid stock election with respect to all 100 shares. Stockholder A would receive 44 shares of First Financial common stock (100 shares  $\times$  0.444) plus cash instead of a fractional 0.4 share of First Financial common stock.

Stockholder B holds 100 shares of HopFed common stock and makes a valid cash election with respect to all 100 shares. Assuming the total allocations noted above, 41 of such shares (100 shares  $\times$  ((2,659,555 - 332,444) / 5,651,554)) will be converted into the right to receive the Stock Consideration, and the remaining 59 of such shares will be converted into the right to receive the Cash Consideration. Stockholder B would receive:

18 shares of First Financial common stock (41 shares  $\times$  0.444) plus cash instead of a fractional 0.204 share of First Financial common stock; and

\$1,239 in cash (59 shares  $\times$  \$21.00).

Stockholder C holds 100 shares of HopFed common stock and makes a valid cash election with respect to 50 shares and a valid stock election with respect to 50 shares. Assuming the total allocations noted above, all 50 Stock Election Shares will be converted into the right to receive the Stock Consideration. Of the 50 Cash Election Shares, 21 shares (50 shares  $\times$  ((2,659,555 - 332,444) / 5,651,554)) will be converted into the right to receive the Stock



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Consideration, and the remaining 29 of such shares will be converted into the right to receive the Cash Consideration. Stockholder C would receive:

31 shares of First Financial common stock  $((50 + 21 \text{ shares}) \times 0.444)$  plus cash instead of a fractional 0.524 share of First Financial common stock; and

\$609 in cash  $(29 \text{ shares} \times \$21.00)$ .

**Governing Documents; Directors and Officers; Headquarters**

At the effective time of the Merger, the First Financial Articles of Incorporation and Bylaws in effect immediately prior to the effective time of the Merger will be the Articles of Incorporation and Bylaws of the surviving corporation after completion of the Merger until thereafter amended in accordance with applicable law.

At the effective time of the Merger, the directors and executive officers of First Financial will remain the directors and executive officers of the surviving corporation.

At the effective time of the Merger, the location of the headquarters and principal executive offices of First Financial will be Terre Haute, Indiana.

**Treatment of HopFed Restricted Stock Awards**

Immediately prior to the effective time of the Merger, each outstanding restricted share of HopFed common stock that is unvested or contingent will fully vest and be cancelled and converted automatically into the right to receive the Merger Consideration, less applicable tax withholdings.

**Closing and Effective Time of the Merger**

The Merger will be completed only if all conditions to the Merger discussed in this proxy statement/prospectus and set forth in the Merger Agreement are either satisfied or waived. Please see "The Merger Agreement Conditions to Complete the Merger" beginning on page 103.

The Merger will become effective as set forth in the Articles of Merger to be filed with the Secretary of State of the State of Indiana and the Certificate of Merger filed with the Secretary of State of the State of Delaware. The closing of the transactions contemplated by the Merger will occur at 9:00 a.m., Eastern Time, on a date no later than seven calendar days after the satisfaction or waiver of the last to occur of the conditions set forth in the Merger Agreement, unless extended by mutual agreement of the parties. It currently is anticipated that the completion of the Merger will occur in the second quarter of 2019 subject to the receipt of HopFed stockholder and regulatory approvals and other customary closing conditions, but neither First Financial nor HopFed can guarantee when or if the Merger will be completed.

**Election Procedures**

*Exchange Agent*

The Exchange Agent in connection with the Merger is American Stock Transfer & Trust Company, LLC.

*Election Form*

An election form and other appropriate and customary transmittal materials are being mailed along with this proxy statement/prospectus. The election form allows each record HopFed stockholder (or, in the case of nominee record holders, the beneficial owner through proper instruction) to elect to receive, in exchange for your shares of HopFed common stock, either (i) the Cash Consideration,

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(ii) the Stock Consideration, (iii) a combination of the Cash and Stock Consideration, or (iv) indicate that you have no preference as to the receipt of the Cash or Stock Consideration, subject to the allocation provisions discussed above.

*Making a Valid Election*

If you wish to elect the type of Merger Consideration you will receive in the Merger, subject to the allocation provisions discussed above, you must submit a properly completed election form and other required materials to the Exchange Agent and your properly completed election form and other required materials must be *received* by the Exchange Agent on or before the Election Deadline, which is 5:00 p.m., Eastern Time, on [ • ], 2019, which is the same day as the Special Meeting. If you have not made a proper and timely election or have revoked your election (without later submitting a properly completed election form and other required materials to the Exchange Agent on or before the Election Deadline), your shares of HopFed common stock will be designated Non-Election Shares.

An election form will be deemed properly completed only if accompanied by stock certificates representing all shares of HopFed common stock covered by the election form (or, if applicable, (i) an appropriate guarantee of delivery of such stock certificates, as set forth in the election form, provided that such stock certificates are in fact delivered to the Exchange Agent by the time required in such guarantee of delivery or (ii) if such stock certificates have been lost, stolen, or destroyed, an affidavit of that fact by the person claiming such stock certificates to be lost, stolen, or destroyed and, if required by First Financial, the posting by such person of a bond or other indemnity satisfactory to First Financial). HopFed stockholders who hold their shares in book-entry form should follow the instructions set forth in the election form with respect to shares of HopFed common stock held in book-entry form.

*Revoking or Changing Your Election*

You may revoke an election at any time prior to the Election Deadline, and you may either resubmit a new election or simply withdraw your prior election. If you wish to change an election, you must resubmit an election form in accordance with the election procedures, so long as the resubmitted election form is received on or before the Election Deadline. If you wish to withdraw an election, you must provide written notice of withdrawal to the Exchange Agent on or before the Election Deadline. In the event of a withdrawal of an election, the Exchange Agent will, upon receiving a written request from you, return the stock certificates representing shares of HopFed common stock (or return a guarantee of delivery or an affidavit of lost certificate submitted by you, as applicable), and you will be deemed not to have made an election and your shares of HopFed common stock will be treated as Non-Election Shares unless you resubmit another election form and other required materials in accordance with the election procedures.

*Shares Held in "Street Name"*

If your shares of HopFed common stock are held in "street name" by a bank, broker, or other nominee, you should receive or seek instructions from the institution holding your shares concerning how to make your election. Any instructions must be given to your bank, broker, or other nominee in advance of the Election Deadline to allow your bank, broker, or other nominee sufficient time to make an election. "Street name" holders of HopFed common stock may be subject to a deadline earlier than the Election Deadline applicable to record holders. You should carefully read any materials you receive from your bank, broker, or other nominee. If you instruct your bank, broker, or other nominee to submit an election for your shares, you must follow such bank's, broker's, or other nominee's directions for revoking or changing those instructions.

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*Shares Allocated to Participant Accounts in the HopFed ESOP*

The HopFed ESOP Trustees will make the stockholder election related to the Merger Consideration for the shares of HopFed common stock held by the HopFed ESOP in a manner determined by the HopFed ESOP Trustees to be for the exclusive benefit of the HopFed ESOP participants and beneficiaries. It is anticipated that the HopFed ESOP Trustees will elect the form of consideration that is deemed to have the highest economic value per share as of the date of the election. HopFed ESOP participants and beneficiaries will receive distributions in the future from the HopFed ESOP in stock and cash in accordance with the plan terms.

*Discretion of Exchange Agent*

Subject to the terms of the Merger Agreement and the election form, the Exchange Agent shall have reasonable discretion to determine whether any election, revocation, or change has been properly or timely made and to disregard immaterial defects in any election form, and any good faith decisions of the Exchange Agent regarding such matters shall be binding and conclusive. Neither First Financial nor the Exchange Agent shall be under any obligation to notify any person of any defect in an election form.

**Conversion and Exchange of Shares**

*Conversion of Shares*

The conversion of HopFed common stock into the right to receive the Merger Consideration will occur automatically at the effective time of the Merger. After completion of the Merger, the Exchange Agent will exchange certificates representing shares of HopFed common stock for the Merger Consideration to be received pursuant to the terms of the Merger Agreement. Shares of HopFed common stock held in book-entry form automatically will be exchanged for the Merger Consideration to be received pursuant to the terms of the Merger Agreement.

*Letter of Transmittal*

As promptly as practicable after the completion of the Merger, the Exchange Agent will mail to each holder of record of HopFed common stock immediately prior to the effective time of the Merger, other than those holders of record which submitted a properly completed election form and other required materials to the Exchange Agent on or before the Election Deadline, a letter of transmittal and instructions on how to surrender shares of HopFed common stock in exchange for the Merger Consideration the holder is entitled to receive under the Merger Agreement.

*Lost, Stolen, or Destroyed Certificates*

If a certificate for HopFed common stock has been lost, stolen, or destroyed, the Exchange Agent will issue the Merger Consideration only upon receipt of (1) an affidavit of that fact by the claimant and, (2) if required by First Financial, the posting of a bond or other indemnity satisfactory to First Financial as indemnity against any claim that may be made against it with respect to such certificate.

*Close of Transfer Books*

After completion of the Merger, there will be no further transfers on the stock transfer books of HopFed of shares of HopFed common stock that were issued and outstanding immediately prior to the effective time.



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**Withholding**

First Financial and the Exchange Agent will be entitled to deduct and withhold from any Cash Consideration, cash in lieu of fractional shares, dividends, or distributions payable, or any other consideration payable under the Merger Agreement to any HopFed stockholder, the amounts they are required to deduct and withhold under the Code or any provision of state, local, or foreign tax law. If any such amounts are withheld and paid over to the appropriate governmental authority, these amounts will be treated for all purposes of the Merger Agreement as having been paid to the stockholders from whom they were deducted or withheld.

**Dividends and Distributions**

No dividends or other distributions declared with respect to First Financial common stock will be paid to the holder of any unsurrendered certificates of HopFed common stock until the holder surrenders such certificates (or provides an affidavit and, if required, a bond or other indemnity, as described above). After the surrender of a certificate in accordance with the Merger Agreement, the record holder thereof will be entitled to receive any such dividends or other distributions, without any interest, which had previously become payable with respect to the whole shares of First Financial common stock that such holder had the right to receive upon surrender of their certificates of HopFed common stock.

**Mailing of Stock Certificates**

Stock certificates representing your shares of HopFed common stock may only be sent to the Exchange Agent with a completed election form or letter of transmittal, as described above. Please do not send your stock certificates with your proxy card.

**Voting Agreement and Standstill Agreement**

In connection with the adoption of the Merger Agreement, each of the members of the board of directors of HopFed entered into a Voting Agreement with First Financial (the "Voting Agreement"). Under the Voting Agreement, each director has agreed to vote all shares of HopFed common stock that are registered in his or her personal name in favor of the Merger Agreement. Further, each director has agreed to use reasonable efforts to cause all additional shares of HopFed common stock owned (i) jointly by him or her with any other person, or (ii) by his or her spouse and over which he or she has voting influence or control, to be voted in favor of the Merger Agreement. As of the Record Date, [ • ] shares of HopFed common stock are registered in the personal names of the HopFed directors, representing approximately [ • ]% of the total outstanding shares of HopFed common stock.

On December 21, 2018, First Financial and the Stilwell Group entered into a Standstill Agreement pursuant to which such stockholders agreed to vote in favor of the approval of the Merger Agreement and the consummation of the transactions contemplated thereby, including the Merger, and any actions required in furtherance thereof (the "Standstill Agreement"). As of the Record Date, the Stilwell Group beneficially owned a total of [ • ] shares of HopFed common stock, representing approximately [ • ]% of the total outstanding shares of HopFed common stock.

In the aggregate, as of the Record Date, stockholders which hold [ • ] shares of HopFed common stock have agreed to vote such shares in favor of the Merger Agreement pursuant to either the Voting Agreement or the Standstill Agreement, representing approximately [ • ]% of the total outstanding shares of HopFed common stock.

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**Treatment of the HopFed ESOP**

HopFed has agreed to (i) continue making contributions to the HopFed ESOP consistent with the terms of the plan and past practices until the effective time of the Merger and (ii) with respect to the HopFed ESOP loan, accrue and pay a final contribution of principal and interest to the HopFed ESOP for the period from the date of the last such contribution of principal and interest made by HopFed or Heritage through the last day of the month immediately preceding the effective time of the Merger.

No later than 10 days prior to the closing date of the Merger, HopFed will, effective as of a date that is not later than the day before the effective time of the Merger, (i) terminate the HopFed ESOP and (ii) amend the HopFed ESOP to (a) freeze participation in and benefit accruals under the HopFed ESOP, (b) vest fully all accrued benefits, and (c) provide that no distributions of accrued benefits shall be made from the HopFed ESOP, or the HopFed ESOP trust, until such time as the IRS issues a favorable determination letter to the effect that the plan termination does not adversely affect the HopFed ESOP's qualification for favorable income tax treatment under the Code (provided, however, distributions may be made earlier if the distribution is required by the terms of the HopFed ESOP to be made upon retirement, death, disability, or termination of employment, or any other event, other than the plan termination, that requires a distribution from the HopFed ESOP). HopFed has agreed to file, or cause to be filed, with the IRS an application for a favorable determination letter upon termination of the HopFed ESOP as soon as reasonably practicable following the date of the Merger Agreement.

Immediately before the effective time of the Merger, HopFed will direct the HopFed ESOP Trustees to cause the unpaid principal balance and accrued interest on the HopFed ESOP loan to be repaid by remitting a sufficient number of shares of HopFed common stock held in the HopFed ESOP's suspense account to HopFed or any other lender, including First Financial as successor to HopFed, with each remitted share to be valued as the greater of the Cash Consideration or Stock Consideration times the per share fair market value of First Financial common stock as of the effective time of the Merger. All remaining shares of HopFed common stock held by the HopFed ESOP (including any shares remaining in the suspense account) will be converted into the Merger Consideration.

**Treatment of HopFed 401(k) Plan**

HopFed has agreed to continue making contributions to the Heritage Bank 401(k) Plan (the "HopFed 401(k) Plan") consistent with the terms of the plan and past practices until the effective time of the Merger.

No later than 10 days prior to the closing date of the Merger, HopFed will, effective as of a date that is not later than the day before the effective time of the Merger, (i) terminate the HopFed 401(k) Plan and (ii) amend the HopFed 401(k) Plan to (a) freeze participation in and benefit accruals under the HopFed 401(k) Plan, (b) vest fully all accrued benefits, and (c) provide that no distributions of accrued benefits shall be made from the HopFed 401(k) Plan, or related employee benefits trust, until such time as the IRS issues a favorable determination letter to the effect that the plan termination does not adversely affect the HopFed 401(k) Plan's qualification for favorable income tax treatment under the Code (provided, however, distributions may be made earlier if the distribution is required by the terms of the HopFed 401(k) Plan to be made upon retirement, death, disability, or termination of employment, or any other event, other than the plan termination, that requires a distribution from the HopFed 401(k) Plan).

If any contributions due to the HopFed 401(k) Plan are not paid by the effective date of the termination of the HopFed 401(k) Plan, HopFed has agreed to make such contributions as soon as administratively feasible following such date. HopFed has also agreed to continue in full force and

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effect, until the effective time of the Merger, any fidelity bond and/or fiduciary liability insurance policy currently in effect for the benefit of the covered fiduciaries of the HopFed 401(k) Plan.

As soon as reasonably practicable after entering the Merger Agreement, First Financial has agreed to take necessary action to permit HopFed employees continuing their employment with First Financial to enter the First Financial Corporation 401(k) Plan (the "First Financial 401(k) Plan") as of the effective time of the Merger. Such employees will be credited with prior years of service with HopFed for purposes of eligibility and vesting (but not benefit accruals). First Financial will permit HopFed 401(k) Plan participants who will be continuing employees of First Financial to roll over their account balances into the First Financial 401(k) Plan, subject to the terms of the First Financial 401(k) Plan, including any applicable rollover restrictions.

**Representations and Warranties**

The representations, warranties, and covenants described below and included in the Merger Agreement were made only for purposes of the Merger Agreement and as of specific dates, may be subject to limitations, qualifications, or exceptions agreed upon by the parties, including those included in confidential disclosures made for the purposes of, among other things, allocating contractual risk between First Financial and HopFed rather than establishing matters as facts, and may be subject to standards of materiality that differ from those standards relevant to investors. You should not rely on the representations, warranties, covenants, or any description thereof as characterizations of the actual state of facts or condition of First Financial, HopFed, or any of their respective subsidiaries or affiliates. Moreover, information concerning the subject matter of the representations, warranties, and covenants may change after the date of the Merger Agreement, which subsequent information may or may not be fully reflected in public disclosures by First Financial or HopFed. The representations and warranties and other provisions of the Merger Agreement should not be read alone, but, instead, should be read only in conjunction with the information provided elsewhere in this proxy statement/prospectus and in the documents incorporated by reference into and included with this proxy statement/prospectus. Please see "Where You Can Find More Information" beginning on page 153.

The Merger Agreement contains customary representations and warranties of each of First Financial and HopFed relating to their respective businesses. The representations and warranties in the Merger Agreement do not survive the effective time of the Merger.

The Merger Agreement contains representations and warranties made by each of HopFed and First Financial relating to a number of matters, including the following:

corporate matters, including due organization and qualification and subsidiaries;

capitalization;

authority relative to execution and delivery of the Merger Agreement and the absence of conflicts with, or violations of, organizational documents or other obligations as a result of the Merger;

required governmental and other regulatory filings and consents and approvals in connection with the Merger;

reports to regulatory authorities;

financial statements, internal controls, books and records, and absence of undisclosed liabilities;

broker's fees payable in connection with the Merger;

the absence of certain changes or events;

legal proceedings;



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tax matters;

employee and employee benefit plan matters;

shareholder/stockholder communications and SEC filings;

compliance with applicable laws;

absence of agreements with regulatory authorities;

risk management instruments;

environmental matters;

investment securities and commodities;

real property;

intellectual property;

information technology;

inapplicability of takeover statutes;

insurance matters;

information security;

inaction relating to the tax treatment of the Merger;

the accuracy of information supplied for inclusion in this proxy statement/prospectus and other similar documents;

no anticipated denial or delays in receiving regulatory approvals;

loan matters;

certain material contracts; and

absence of other representations or warranties.

In addition, the Merger Agreement contains representations and warranties of HopFed to First Financial as to:

related party transactions;

the opinion of KBW;

trust preferred securities; and

fiduciary accounts.

Finally, the Merger Agreement contains representations and warranties of First Financial to HopFed as to:

no shareholder approval requirement for First Financial; and

availability of funds to pay the Cash Consideration and cash in lieu of fractional shares.

Certain representations and warranties of First Financial and HopFed are qualified as to knowledge, "materiality," or "material adverse effect." For purposes of the Merger Agreement, a "material adverse effect," when used in reference to either HopFed, First Financial, or the surviving company, means a material adverse effect on (i) the business, properties, assets, liabilities, results of operations, or financial condition of such party and its subsidiaries taken as a whole (provided, that, with respect to this clause (i), material adverse effect shall not be deemed to include the impact of

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(A) changes, after the date of the Merger Agreement, in U.S. generally accepted accounting principles or applicable regulatory accounting requirements, (B) changes, after the date of the Merger Agreement, in laws, rules, or regulations of general applicability to companies in the industries in which such party and its subsidiaries operate, or interpretations thereof by courts or governmental entities, (C) changes, after the date of the Merger Agreement, in global, national, or regional political conditions (including the outbreak of war or acts of terrorism) or in economic or market conditions affecting the financial services industry generally and not specifically relating to such party or its subsidiaries, including changes in prevailing interest rates, (D) public disclosure of the transactions contemplated by the Merger Agreement or actions expressly required by the Merger Agreement or actions or omissions that are taken with the prior written consent of the other party in contemplation of the transactions contemplated by the Merger Agreement, (E) the expenses incurred by HopFed or First Financial in negotiating, documenting, effecting, and consummating the transactions contemplated by the Merger Agreement, or (F) changes proximately caused by the impact of the execution or announcement of the Merger Agreement and the consummation of the transactions contemplated thereby on relationships with customers or employees (including the loss of personnel subsequent to the date of the Merger Agreement); except, with respect to subclauses (A), (B), or (C), to the extent that the effects of such change are materially disproportionately adverse to the business, properties, assets, liabilities, results of operations, or financial condition of such party and its subsidiaries, taken as a whole, as compared to other companies in the industry in which such party and its subsidiaries operate), or (ii) the ability of such party to timely consummate the transactions contemplated by the Merger Agreement.

**Covenants and Agreements**

*Conduct of Businesses Prior to the Completion of the Merger*

First Financial has agreed that it will not knowingly take any action that is intended or is reasonably likely to result in (a) any of its representations and warranties set forth in the Merger Agreement being or becoming untrue in any respect at any time at or prior to the effective time of the Merger, (b) certain conditions to the Merger not being satisfied, or (c) a material violation of any provision of the Merger Agreement.

HopFed has agreed that it will not knowingly take any action that is intended or is reasonably likely to result in (a) any of its representations and warranties set forth in the Merger Agreement being or becoming untrue in any respect at any time at or prior to the effective time of the Merger, (b) certain conditions to the Merger not being satisfied, or (c) a material violation of any provision of the Merger Agreement, except, in each case, as may be required by law. HopFed has further agreed that, prior to the effective time of the Merger (or early termination of the Merger Agreement), subject to certain exceptions, HopFed and its subsidiaries will

carry on its business diligently, substantially in the manner as is presently being conducted, and in the ordinary course of business;

use commercially reasonable efforts to preserve its business organization intact, keep available the services of the present officers and employees, and preserve its present relationships with customers and persons having business dealings with it;

use commercially reasonable efforts to maintain all of the properties and assets that it owns or utilizes in the operation of its business as currently conducted in good operating condition and repair, reasonable wear and tear excepted (including, without limitation, installing any upgrades or patches and performing other recommended or required maintenance with respect to information technology related assets);

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maintain its books, records, and accounts in the usual, regular, and ordinary manner, on a basis consistent with prior years and in compliance in all material respects with all statutes, laws, rules, and regulations applicable to them and to the conduct of its business; and

not knowingly do or fail to do anything which will cause a breach of, or default in, any contract, agreement, commitment, obligation, understanding, arrangement, lease, or license to which it is a party or by which it is or may be subject or bound.

Additionally, HopFed has undertaken further covenants. Prior to the effective time of the Merger (or early termination of the Merger Agreement), subject to certain exceptions, HopFed and its subsidiaries will not, without the prior written consent of First Financial, undertake the following:

make any changes in its capital stock (including, without limitation, any stock issuance, stock split, stock dividend, recapitalization, or reclassification), authorize a class of stock, or issue any stock, issue or grant any warrant, option, right, or other agreement of any character relating to its authorized or issued capital stock or any securities convertible into shares of such stock, or redeem any of its outstanding shares of common stock or other securities;

distribute or pay any dividends on its shares of common stock, or authorize a stock split, or make any other distribution to its stockholders, except for HopFed's regular quarterly cash dividend in an amount not to exceed \$0.07 per share; provided, however, HopFed and First Financial shall coordinate HopFed's dividend schedule for the quarter in which the closing of the Merger occurs so that holders of HopFed common stock do not receive dividends or distributions on both First Financial and HopFed common stock attributable to the same calendar quarter, it being understood that First Financial may withhold consent in its sole discretion to, among other things, better coordinate any pre- and post-closing dividends; provided, further, Heritage may pay cash dividends to HopFed in the ordinary course of business for payment of reasonable and necessary business and operating expenses of HopFed, including expenses of the Merger;

purchase or otherwise acquire any investment security for their own account that exceeds \$3,000,000 individually or purchase or otherwise acquire any security other than U.S. Treasury or other governmental obligations or asset-backed securities issued or guaranteed by United States governmental or other governmental agencies, in either case having an average remaining life of three years or less, or sell any investment security owned by them other than sales made in the ordinary course of business as previously conducted during the past three years and in accordance with applicable laws and regulations, or engage in any activity that would be inconsistent with the classification of investment securities as either "held to maturity" or "available for sale";

make, renew, or otherwise modify any written or oral loan, loan agreement, note, or borrowing arrangement (including leases, credit enhancements, commitments, guarantees, and interest-bearing assets or any other extension of credit) (a "Loan") to any person if the Loan is an existing credit on the books of HopFed or any of its subsidiary and classified as "Other Loans Especially Mentioned," "Substandard," "Doubtful," or "Loss" and the aggregate credit exposure to such person is in excess of \$250,000. Heritage also shall not make, purchase, renew, modify, amend, or extend the maturity of (1) any new commercial Loan that would increase the aggregate credit exposure of any one borrower to amounts in excess of \$4,500,000; provided, that Heritage may, without the consent of First Financial, renew, modify, amend, or extend the maturity of existing performing commercial Loans (which are not classified or non-accrual) with customers with existing aggregate credit exposure of \$4,500,000 or less; and, provided, further, that any previously approved and committed commercial Loans by Heritage are not subject to the forgoing, (2) any 1 to 4 family, residential mortgage Loan in excess of \$500,000 and with a loan to value in excess of 90% (unless private mortgage insurance is obtained); provided, that, in



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the event the Loan is to be investor sold, such Loans are not be subject to the foregoing if the Loan meets the criteria of the investor, (3) any consumer Loan in excess of \$150,000, (4) any home equity Loan or line of credit in excess of \$300,000, or (5) any Loan participation; provided, that, HopFed or Heritage may take any such action in respect of any such Loan if the Chief Credit Officer of First Financial shall be provided with notice of the proposed action in writing and First Financial shall not provide written objection to the taking of such proposed action within three business days of being provided with such notice (the lack of such objection being deemed prior written consent of First Financial for these purposes);

acquire any assets of any other person by any means (other than personal property acquired in foreclosure or otherwise in the ordinary course of collection of indebtedness owed to Heritage) or foreclose upon or otherwise take title to or possession or control of, any real property without first obtaining a Phase I environmental report thereon, prepared by a reliable and qualified person acceptable to First Financial, which indicates that the real property is free of any recognized environmental conditions, including, without limitation, pollutants, contaminants, petroleum products, or hazardous materials; provided, however, that neither HopFed nor Heritage shall be required to obtain such a report with respect to single family, non-agricultural residential property of one acre or less to be foreclosed upon unless HopFed has reason to believe that such property might contain a recognized environmental conditions or other such hazardous materials or otherwise might be contaminated;

pay or agree to pay, conditionally or otherwise, any additional compensation (including bonuses) or severance benefit, take any action that would give rise to an acceleration of the right to payment, or otherwise make any changes with respect to the fees or compensation payable (or to become payable) to consultants, directors, officers, or employees or, except as required by law, adopt or make any change in any employee benefit plan maintained by HopFed or any of its subsidiaries or other arrangement (including any agreement for indemnification) or payment made to, for, or with any of such consultants, directors, officers, or employees;

fail to accrue, pay, discharge and satisfy all debts, liabilities, obligations, and expenses, including, without limitation, trade payables incurred in the regular and ordinary course of business, as such debts, liabilities, obligations, and expenses become due, unless the same are being contested in good faith;

except for Federal Home Loan Bank advances of one-year or less, federal funds purchased by Heritage, lines of credit loans from correspondent banks, trade payables and similar liabilities, and obligations incurred in the ordinary course of business and the payment, discharge, or satisfaction in the ordinary course of business of liabilities reflected in the HopFed's financial statements, borrow any money or incur any indebtedness in an aggregate amount exceeding \$100,000;

change in its accounting methods, except as may be necessary and appropriate to conform to (1) changes in tax law requirements, (2) changes in generally accepted accounting principles or regulatory accounting principles, as required by HopFed's independent auditors or regulatory agencies having jurisdiction over it, or (3) changes requested by First Financial pursuant to the Merger Agreement;

make, change, or revoke any material tax election, file any material amended tax return, enter into any closing agreement with respect to a material amount of taxes, settle any material tax claim or assessment, or surrender any right to claim a refund of a material amount of taxes;

make application for the opening or closing of any, or open or close any, branch or automated banking facility;

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waive, release, grant, or transfer any material rights of value or enter into, amend, or terminate any contract, agreement, lease, commitment, understanding, arrangement, or transaction or incur any liability or obligation (other than as described above with respect to Loans and legal, accounting, and investment banking or financial advisory fees related to the Merger) requiring payments by HopFed or any of its subsidiaries which exceed \$50,000, whether individually or in the aggregate (other than trade payables or otherwise incurred in the ordinary course of business) or which contain any financial commitment extending more than twelve months following the date of the Merger Agreement;

except as already committed in writing as of the date of the Merger Agreement, make any capital expenditures in excess of \$100,000 individually or \$500,000 in the aggregate;

except as required by applicable law or regulation: (1) implement or adopt any material change in its interest rate risk management or hedging policies, procedures, or practices; (2) fail to follow its existing policies or practices with respect to managing its exposure to interest rate risk; or (3) fail to use commercially reasonable means to avoid any material increase in its aggregate exposure to interest rate risk;

take any action that would change Heritage's loan loss reserves that is not in compliance with Heritage's policy and past practices consistently applied and in compliance with generally accepted accounting principles;

except as already committed in writing as of the date of the Merger Agreement, cancel, release, or compromise any indebtedness in excess of \$250,000 owing to HopFed or any of its subsidiaries or any claims which HopFed or any of its subsidiary may possess, or voluntarily waive any material rights with respect thereto;

pay, discharge, settle, or compromise any litigation, claim, action, arbitration, or other proceeding against HopFed or any of its subsidiaries unless such payment, discharge, settlement, or compromise does not require HopFed or any of its subsidiaries to pay any monies, incur any obligation, or admit any wrongdoing or liability;

take any action that is intended or is reasonably likely to result in (A) any of its representations or warranties set forth in the Merger Agreement being or becoming untrue at any time at or prior to the effective time of the Merger, (B) any of the conditions to the Merger set forth in the Merger Agreement not being satisfied, or (C) a breach of any provision of the Merger Agreement, except, in each case, as may be required by applicable law;

maintain the rate of interest paid by Heritage on any deposit product, including, without limitation, on certificates of deposit, in a manner and pursuant to policies inconsistent with past practices;

amend the HopFed Certificate of Incorporation or Bylaws, or similar governing documents of any of its subsidiaries;

maintain an allowance for loan and lease losses which is not adequate in all material respects under the requirements of generally accepted accounting principles to provide for possible losses, net of recoveries, relating to Loans previously charged off, on Loans and leases outstanding;

take any action or fail to take any action that would, or would be likely to, prevent, impede, or delay the Merger from qualifying as a "reorganization" as defined by Section 368(a) of the Code;

make any new loan or other extension of credit to any business that grows, produces, buys, or sells or otherwise distributes marijuana, a business that leases real property or otherwise



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provides space to such business, or a business that leases or otherwise provides equipment which is directly used to grow or produce marijuana, or a business the conduct of which would reasonably be anticipated to result in Heritage's collateral being subject to proceedings under the Civil Asset Forfeiture Act; or

agree or commit to do, or enter into any contract regarding, any of the foregoing.

*Bank Regulatory Matters*

First Financial and HopFed agreed that First Financial is primarily responsible for the preparation, filing, and costs of all bank regulatory applications required for consummation of the Merger. First Financial and HopFed have also agreed to (i) provide to the other's counsel copies of all applications filed and copies of all material written communications with regulatory agencies relating to such applications and (ii) cooperate fully and use commercially reasonable efforts to procure, upon terms and conditions reasonably acceptable to each of them, all consents, authorizations, approvals, registrations, and certificates, to complete all filings and applications, and to satisfy all other requirements prescribed by law which are necessary for consummation of the Merger on the terms and conditions provided in this Agreement. Further information is described in the section titled "The Merger Regulatory Approvals Required for the Merger" beginning on page 77.

*Securities Matters*

HopFed agreed to prepare, as soon as practicable after the execution of the Merger Agreement, with appropriate assistance from First Financial, a proxy statement to be used in connection with the Special Meeting. First Financial agreed to prepare and file with the SEC, as soon as practicable after the execution of the Merger Agreement, a registration statement covering the shares of First Financial common stock to be issued in the Merger, and containing a proxy statement/prospectus to be used in connection with the Special Meeting. First Financial has further agreed to use its reasonable best efforts to cause the registration statement to become effective and, until the effective time of the Merger (or early termination of the Merger Agreement, to keep it effective and, if necessary, amend and supplement it, and to make all filings required to obtain all "blue sky" exemptions, authorizations, consents, or approvals required for the issuance of First Financial common stock to be issued in the Merger. First Financial and HopFed agreed to use reasonable best efforts to respond as promptly as practicable to any comments from the SEC with respect to the registration statement and to take certain action as may be required in connection with a necessary amendment or supplement to the proxy statement/prospectus or registration statement.

*NASDAQ Listing*

First Financial has agreed to use its reasonable best efforts to cause the shares of First Financial common stock to be issued in connection with the Merger to be approved for listing on NASDAQ, subject to official notice of issuance, prior to the effective time of the Merger.

*Cooperation by HopFed*

HopFed has agreed to proceed expeditiously, cooperate fully, and use commercially reasonable efforts to assist First Financial in (i) procuring, upon terms and conditions consistent with the condition set forth in the Merger Agreement, all consents, authorizations, approvals, registrations, and certificates, (ii) completing all filings and applications, and (iii) satisfying all other requirements prescribed by law which are necessary for consummation of the Merger (including requirements for any potential branch closings) on the terms and conditions provided in the Merger Agreement at the earliest possible reasonable date. Further, HopFed has agreed that any written materials or information provided by HopFed to First Financial for use by First Financial in any filing with any regulatory

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agency will not contain any untrue or misleading statement of material fact or shall omit to state a material fact necessary to make the statements contained therein, in light of the circumstances in which they are made, not false or misleading.

*Employee Benefits Matters*

All health and welfare plans sponsored by HopFed and Heritage and group insurance policies of HopFed or any of its subsidiaries will be terminated as of the effective time of the Merger, unless First Financial elects to continue any such plans or policies after the effective time of the Merger. To the extent HopFed's health and welfare plans are terminated and HopFed employees which continue with First Financial become participants in First Financial's health and welfare plans, First Financial has agreed to use commercially reasonable efforts to: (i) waive all pre-existing condition exclusions and waiting periods with respect to participation and coverage requirements applicable to such employees and their eligible dependents under any First Financial plans, except to the extent such pre-existing condition exclusions or waiting periods would apply under the analogous HopFed plan, (ii) provide each such employee and their eligible dependents with credit for any co-payments and deductibles paid prior to the effective time of the Merger under a HopFed plan (to the same extent that such credit was given under the analogous HopFed plan prior to the effective time of the Merger) in satisfying any applicable deductible or out-of-pocket requirements under any new plans, and (iii) recognize all service of such employees with HopFed and its subsidiaries for purposes of determining eligibility to participate and vesting (and with respect to paid time off and vacation plans, benefits level determination) in any First Financial plan to the same extent that such service was taken into account under the analogous HopFed plan prior to the effective time of the Merger; provided, that, the foregoing service recognition shall not apply (a) to the extent it would result in duplication of benefits for the same period of services, (b) for purposes of any defined benefit pension plan, including the First Financial Corporation Employees' Pension Plan, or benefit plan that provides retiree welfare benefits, or (c) to any First Financial benefit plan that is a frozen plan or provides grandfathered benefits.

Under the Merger Agreement, prior to the closing of the Merger, HopFed is responsible for timely giving any notices to, and terminating as of the effective time of the Merger, any employees whose employment will not be continued by First Financial after the effective time of the Merger, and HopFed will pay such employees any and all amounts which are then due and payable in connection with the termination of their employment, including, accrued vacation and sick pay.

Additionally, certain directors, executive officers, and other employees of HopFed and/or Heritage will or may receive certain payments and benefits in connection with the Merger, including severance pay, as discussed in the sections titled "The Merger Interests of HopFed's Directors and Executive Officers in the Merger," "The Merger Merger-Related Compensation for HopFed's Named Executive Officers," and "The Merger Other Employee Benefits Matters," beginning on pages 69, 74, and 76, respectively.

*Indemnification; Directors' and Officers' Insurance*

First Financial has agreed that all rights to indemnification (including advancement of expenses) provided for under the HopFed Certificate of Incorporation and Bylaws, or as required by applicable law, as in effect as of the date of the Merger Agreement, will survive the Merger for a period of six years and will not be amended, repealed, or otherwise modified in a manner that would adversely affect the rights of the present and former directors and officers of HopFed and Heritage for acts or omissions occurring or alleged to have occurred at or prior to the effective time of the Merger; provided, however, First Financial is not required to indemnify, defend, or hold harmless any present or former director or officer of HopFed or Heritage to a greater extent than HopFed or Heritage could as of the date of the Merger Agreement and, provided, further, First Financial is only required to provide indemnification to extent permitted by applicable law.

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In addition, First Financial has agreed to use its reasonable best efforts to cause HopFed's and Heritage's officers and directors who are serving immediately prior to the effective time of the Merger to be covered by the directors' and officers' liability insurance policy currently maintained by HopFed, or by a comparable or better policy, for a period of six years following the effective time of the Merger, which policy, subject to policy terms and conditions, will provide coverage with respect to covered acts and omissions occurring prior to the effective time of the Merger; provided, however, First Financial is not obligated to pay annual premiums which are more than 200% of HopFed's current annual premiums for such coverage. In the event First Financial is unable to maintain or obtain such insurance, it has agreed to obtain as much comparable insurance as available under the circumstances.

*Trust Preferred Securities*

First Financial will assume, as of the effective time of the Merger, HopFed's performance and obligations under the Indenture, dated September 25, 2003, between HopFed and Wilmington Trust Company, as Trustee, relating to the Floating Rate Junior Subordinated Debt Securities Due 2033, and will pay the principal of and premium, if any, and interest on the debt securities, as required by the indenture.

*Certain Additional Covenants*

The Merger Agreement also contains additional covenants, including, among others, those related to obtaining required third party consents, maintaining insurance, accruals for loan loss reserves and expenses, public announcements with respect to the transactions contemplated by the Merger Agreement, access to information, treatment of confidential information, furnishing future financial statements, environmental inspections, furnishing governmental reports and shareholder information, conversion of data processing systems, installation of First Financial equipment, termination of certain contracts, exempting certain transactions from Rule 16b-3 under the Exchange Act, litigation brought with respect to the Merger, and taking actions with respect to takeover laws.

**Stockholder Meeting and Recommendation of HopFed's Board of Directors**

HopFed has agreed to hold a meeting of its stockholders for the purpose of voting upon adoption of the Merger Agreement as soon as reasonably practicable and upon other related matters. The board of directors of HopFed has agreed to recommend that its stockholders approve the Merger and approve and adopt the Merger Agreement and to solicit proxies in favor of the Merger Agreement from HopFed stockholders.

**Change of Recommendation**

HopFed has agreed that its board of directors, including any committee thereof, will not (with the following actions being referred to as a "change of recommendation"):

withdraw, qualify, modify, amend, or fail to make, or propose publicly to withdraw, qualify, modify, or amend its recommendation that HopFed stockholders approve the Merger Agreement (or fail to include such recommendation in this proxy statement/prospectus);

make any public statement or take any action inconsistent with its recommendation that HopFed stockholders approve the Merger Agreement; or

approve or adopt, or recommend the approval or adoption of, or publicly propose to approve or adopt, any "acquisition proposal" (as described below).

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Regardless of any other provision contained in the Merger Agreement and prior to HopFed stockholder approval of the Merger Agreement, HopFed may take the following actions:

HopFed's board of directors may make a change of recommendation if an "intervening event" (as described below) becomes known to it and it concludes in good faith (after consultation with its outside financial and legal advisors) that an intervening event has occurred and a failure to make a change of recommendation would cause it to violate its fiduciary duties under applicable law, provided, that, the change of recommendation is not made at any time within three business days (or such shorter period in the event that the Special Meeting is scheduled to occur in less than three business days) after First Financial receives written notice from HopFed that its board of directors has determined that an intervening event requires its board of directors to make a change of recommendation and, provided, further, during such period of time, HopFed engages in good faith negotiations with First Financial (to the extent that First Financial desires to negotiate) to amend the Merger Agreement in such a manner that eliminates the need for the HopFed board of directors to make the change of recommendation; and

if, in response to the receipt of an acquisition proposal that did not arise or result from any material breach of the Merger Agreement, the HopFed board of directors determines in good faith (after consultation with its outside financial and legal advisors) that such acquisition proposal constitutes a "superior proposal" (as described below) and that a failure to make a change of recommendation with respect to such superior proposal would cause it to violate its fiduciary duties under applicable law, then it may, with respect to such superior proposal, make a change of recommendation (or terminate the Merger Agreement to enter into a definitive agreement providing for such superior proposal), provided, that, HopFed has provided prompt written notice to First Financial advising First Financial that its board of directors has received a superior proposal (in any event, within two business days) and stating its intent to make a change of recommendation (or terminate the Merger Agreement), and, within three business days of receipt of such notice, First Financial does not make a written offer or proposal to revise the terms of the Merger Agreement in a manner that its board of directors determines in good faith (after consultation with its outside financial and legal advisors), to be at least as favorable to HopFed stockholders as such superior proposal; provided, however, during the three business day period following First Financial's receipt of such notice, HopFed must negotiate in good faith with First Financial (to the extent First Financial desires to negotiate) regarding any revised proposal from First Financial.

As used in the Merger Agreement, "intervening event," "acquisition proposal," and "superior proposal" mean:

"intervening event" means, other than in connection with or as a result of the making of an acquisition proposal, a material development or change in circumstances that was not known or, with respect to material developments or changes in circumstances relating to HopFed and its subsidiaries, reasonably foreseeable to HopFed's board of directors on or before the date of the Merger Agreement, which occurs or arises after the date of the Merger Agreement.

"acquisition proposal" means, other than the transactions contemplated by the Merger Agreement, any offer, proposal, or inquiry relating to, or any third party indication of interest in, (i) any acquisition or purchase, direct or indirect, of 20% or more of the consolidated assets of HopFed and its subsidiaries or 20% or more of any class of equity or voting securities of HopFed or its subsidiaries whose assets, individually or in the aggregate, constitute more than 20% of the consolidated assets of HopFed, (ii) any tender offer (including a self-tender offer) or exchange offer that, if consummated, would result in such third party beneficially owning 20% or more of any class of equity or voting securities of HopFed or its subsidiaries whose assets, individually or in the aggregate, constitute more than 20% of the consolidated assets of HopFed, or (iii) a merger, consolidation, share exchange, business combination, reorganization,

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recapitalization, liquidation, dissolution, or other similar transaction involving HopFed or its subsidiaries whose assets, individually or in the aggregate, constitute more than 20% of the consolidated assets of HopFed.

"superior proposal" means an unsolicited, bona fide written offer made by a third party to consummate an acquisition proposal that (i) HopFed's board of directors determines in good faith, after consulting with its outside legal counsel and its financial advisor, would, if consummated, result in a transaction that is more favorable to the HopFed stockholders than the transaction contemplated by the Merger Agreement (taking into account all factors relating to such proposed transaction deemed relevant by HopFed's board of directors, including the amount and form of consideration, the timing of payment, the risk of consummation of the transaction, the financing thereof, and all other conditions thereto, (including any adjustments to the terms and conditions of such transactions proposed by First Financial in response to such acquisition proposal)).

**Agreement Not to Solicit Other Offers**

HopFed has agreed that it will, and will cause its and its subsidiaries' officers, directors, agents, advisors, and representatives to, immediately cease and cause to be terminated any activities, discussions, or negotiations conducted before the date of the Merger Agreement with any person other than First Financial with respect to any acquisition proposal (as defined above). HopFed has further agreed that it will not, and will cause its subsidiaries and its and their officers, directors, agents, advisors, and representatives not to, directly or indirectly, (i) initiate, solicit, knowingly encourage, or knowingly facilitate inquiries or proposals with respect to any acquisition proposal, (ii) engage or participate in any negotiations with any person concerning any acquisition proposal, or (iii) provide any confidential or nonpublic information or data to, or have or participate in any discussions with, any person relating to, any acquisition proposal except to notify such person of the existence of HopFed's obligations with respect to such acquisition proposals under the Merger Agreement.

However, in the event that, prior to the adoption of the Merger Agreement by HopFed stockholders, HopFed receives an unsolicited bona fide written acquisition proposal, it may, and may permit its subsidiaries and its subsidiaries' officers, directors, agents, advisors, and representatives to, furnish or cause to be furnished nonpublic information or data and participate in negotiations or discussions to the extent that its board of directors concludes in good faith (after receiving the advice of its outside counsel, and with respect to financial matters, its financial advisors) that failure to take such actions would be reasonably likely to result in a violation of its fiduciary duties under applicable law, provided, that, prior to providing any such nonpublic information, HopFed enters into a confidentiality agreement with such third party on terms no less favorable to it than the confidentiality agreement between First Financial and HopFed, and which confidentiality agreement does not provide such person with any exclusive right to negotiate with HopFed. HopFed will promptly (within three business days) advise First Financial following receipt of any acquisition proposal or any inquiry which could reasonably be expected to lead to an acquisition proposal, and the substance thereof (including the terms and conditions of and the identity of the person making such inquiry or acquisition proposal), and will keep First Financial apprised of any updated developments within two business days thereafter, including any amendments to or revisions of the terms of such inquiry or acquisition proposal.

In addition, subject to its fiduciary duties, HopFed has agreed to use its reasonable best efforts to enforce any existing confidentiality or standstill agreements to which it or any of its subsidiaries is a party.

**Change in Control Payments**

Any employee of HopFed or its subsidiaries who has or is a party to, or entitled to benefits pursuant to, any agreement, plan, or arrangement providing for the payment of additional



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compensation related to termination of the employee's employment as a result of the transactions contemplated by the Merger Agreement, but excluding compensation previously accrued, earned or awarded without regard to such transactions, that provides for any payment that may be triggered by or in connection with the Merger or the Bank Merger, is not entitled to receive any severance benefits that may be payable under HopFed or First Financial severance policies, but will instead receive the applicable payment to the extent the payment is required to be paid under such agreement, plan, or arrangement. HopFed has agreed to pay out or accrue, in accordance with generally accepted accounting principles, all such payments as if they are triggered by the Merger and to take all steps necessary to ensure that in the event that any payments to be made by HopFed or First Financial, either individually or in conjunction with a payment or benefit under any other plan, agreement, or arrangement that is aggregated for purposes of Section 280G of the Code, would constitute an "excess parachute payment" within the meaning of Section 280G of the Code, then the amounts of the payments to the employee shall be reduced such that the value of the total payments that the employee is entitled to receive is \$1.00 less than the maximum amount which the employee may receive without becoming subject to the excise tax under Section 4999 of the Code or resulting in a disallowance of a deduction of the payment of such amount under Section 280G of the Code.

**Termination Agreements; Settlement Agreements; Non-Disclosure Agreements**

The Merger Agreement obligated HopFed to deliver to First Financial executed copies of Termination Agreements and Non-Disclosure Agreements with HopFed's executive officers in connection with the execution of the Merger Agreement. See section titled "The Merger Interests of HopFed's Directors and Executive Officers in the Merger" beginning on page 69 for additional information.

HopFed has agreed, if requested by First Financial, which First Financial has requested, and prior to the effective time of the Merger, to use commercially reasonable efforts to obtain from certain employees a mutually agreeable settlement agreement and release, which quantifies and settles any payments triggered by or in connection with the Merger or Bank Merger. It is anticipated that payment under any such settlement agreement will be contingent upon the consummation of the Merger, the employee's execution of a release agreement, and the employee not revoking the release agreement, and subject to potential reduction to an amount one dollar less than the amount which would cause payments to the employee to be subject to the excise tax imposed by Section 4999 of the Code.

Further, HopFed has agreed, prior to the effective time of the Merger, to use commercially reasonable efforts to obtain from certain employees a non-disclosure and non-solicitation agreement. It is anticipated that the material terms of any such agreement will be substantially similar to the Non-Disclosure Agreements discussed under "The Merger Interests of HopFed's Directors and Executive Officers in the Merger Employment Matters Non-Disclosure and Non-Solicitation Agreements" beginning on page 72.

**Conditions to Complete the Merger**

First Financial's and HopFed's respective obligations to complete the Merger are subject to the satisfaction or waiver of the following conditions:

the adoption of the Merger Agreement by the HopFed stockholders;

the authorization for listing on NASDAQ, subject to official notice of issuance, of the First Financial common stock to be issued upon the consummation of the Merger;

the receipt of necessary regulatory approvals contemplated by the Merger Agreement and the expiration of all statutory waiting periods in respect thereof, without the imposition of any condition, restriction, or requirement which the board of directors of First Financial reasonably determines in good faith would have a material adverse effect on First Financial following the

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effective time of the Merger or reduce the benefits of the transactions contemplated by the Merger Agreement to such a degree that First Financial would not have entered into the Merger Agreement had such conditions, restrictions, or requirements been known at such time;

the effectiveness of the registration statement of which this proxy statement/prospectus is a part with respect to the First Financial common stock to be issued upon the consummation of the Merger, and the absence of any stop order (or proceedings for that purpose initiated or threatened and not withdrawn);

the absence of any order, injunction, or decree by any court or agency of competent jurisdiction or other legal restraint or prohibition preventing the completion of the Merger or the other transactions contemplated by the Merger Agreement, and the absence of any statute, rule, regulation, order, injunction, or decree enacted, entered, promulgated, or enforced by any governmental entity which prohibits or makes illegal consummation of the Merger;

the accuracy of the representations and warranties of the other party contained in the Merger Agreement as of the date on which the Merger Agreement was entered into and (except to the extent such representations and warranties speak to an earlier date) as of the date on which the Merger is completed, subject to particular standards provided in the Merger Agreement (and the receipt by each party of an officer's certificate from the other party to such effect);

the performance by the other party in all material respects of all obligations required to be performed by it under the Merger Agreement at or prior to the date on which the Merger is completed (and the receipt by each party of an officer's certificate from the other party to such effect); and

receipt by such party of an opinion of legal counsel to the effect that on the basis of facts, representations, and assumptions set forth or referred to in such opinion, the Merger will qualify as a "reorganization" within the meaning of Section 368(a) of the Code.

Additionally, First Financial's obligations to complete the Merger are subject to the satisfaction by HopFed or waiver by First Financial of the following conditions:

not more than 9.9% of the issued and outstanding shares of HopFed common stock have perfected, or continue to have a right to exercise, appraisal rights under the DGCL with respect to the Merger;

having provided notice of termination with respect to Heritage's data processing agreements;

delivery to First Financial of executed nonsolicitation and non-disclosure agreements and mutual termination agreements from certain individuals;

the consolidated stockholders' equity of HopFed and its subsidiaries, as adjusted in accordance with the terms of the Merger Agreement, not being less than \$87,168,519.00 as of the end of the month prior to the effective time of the Merger;

receipt of required (i) written consents under certain contracts, arrangements, commitments, and understandings to which HopFed or its subsidiaries is a party to or bound by and (ii) permits, authorizations, other written consents, permissions, and approvals under any agreement, contract, appointment, indenture, plan, trust, or other arrangement with a third party which is required for the lawful consummation of the Merger and to effect the transactions contemplated by the Merger Agreement; and

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delivery to First Financial of executed standstill agreements from certain HopFed stockholders, and the continued effectiveness of such agreements as of the effective time of the Merger.

Neither HopFed nor First Financial can provide assurance as to when or if all of the conditions to the Merger can or will be satisfied or waived by the appropriate party. As of the date of this proxy

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statement/prospectus, neither HopFed nor First Financial has reason to believe that any of these conditions will not be satisfied.

**Termination of the Merger Agreement**

The Merger Agreement can be terminated at any time prior to the effective time of the Merger in the following circumstances:

by mutual written consent of First Financial and HopFed, if the boards of directors of each so determines by a vote of a majority of the members of its entire board;

by either First Financial or HopFed, if any governmental entity that must grant a requisite regulatory approval has denied approval of the Merger or the other transactions contemplated by the Merger Agreement and such denial has become final and nonappealable or any governmental entity of competent jurisdiction shall have issued a final nonappealable order permanently enjoining or otherwise prohibiting or making illegal the consummation of the transactions contemplated by the Merger Agreement, unless the failure to obtain a requisite regulatory approval is due to the failure of the party seeking to terminate the Merger Agreement to perform or observe its covenants and agreements under the Merger Agreement;

by either First Financial or HopFed, if the Merger shall not have been consummated on or before December 31, 2019, unless the failure of the Merger to be consummated by such date is due to the failure of the party seeking to terminate the Merger Agreement to perform or observe its covenants and agreements under the Merger Agreement;

by either First Financial or HopFed, provided that the terminating party is not then in material breach of any representation, warranty, covenant, or other agreement contained in the Merger Agreement, if there has been a breach of any of the covenants or agreements or any of the representations or warranties (or any such representation or warranty ceases to be true) set forth in the Merger Agreement on the part of the other party, which breach or failure to be true, either individually or in the aggregate, would constitute, if occurring or continuing on the date the Merger is completed, the failure of a condition precedent to the terminating party's obligation to complete the Merger and which is not cured within 45 calendar days following written notice to the party committing such breach or by its nature or timing cannot be cured during such period (or such fewer days as remain prior to December 31, 2019);

by either First Financial or HopFed, if the board of directors of HopFed has (i) failed to recommend in this proxy statement/prospectus that the HopFed stockholders adopt the Merger Agreement, or withdrawn, modified, or qualified such recommendation in a manner adverse to First Financial, or resolved to do so, or failed to reaffirm such recommendation within 3 calendar days after First Financial requests in writing that such action be taken, or failed to recommend against acceptance of a tender offer or exchange offer for outstanding HopFed common stock that has been publicly disclosed (other than by First Financial or its affiliates) within 10 business days after the commencement of such tender or exchange offer, in any such case whether or not permitted by the terms of the Merger Agreement, (ii) recommended or endorsed an acquisition proposal, or (iii) if the HopFed stockholders vote but fail to approve the Merger Agreement at the Special Meeting, provided that in the case of termination by HopFed, it has complied with its obligations under the Merger Agreement with respect to obtaining HopFed stockholder approval, changes of recommendation, and acquisition proposals;

by First Financial, if HopFed has breached its obligations under the Merger Agreement with respect to obtaining HopFed stockholder approval, changes of recommendation, or acquisition proposals in any material respect;

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by HopFed, at any time prior to HopFed stockholder approval being obtained, in the event that its board of directors concludes, in good faith after consultation with its legal and financial advisors, that it must agree to endorse a superior proposal and terminate the Merger Agreement in order to comply with its fiduciary duties, provided that HopFed has complied with all of its obligations under the Merger Agreement with respect to changes of recommendation and acquisition proposals; or

by HopFed, if, at any time during the seven calendar day period commencing on the Determination Date, both of the following conditions are satisfied: (a) the First Financial Market Value is less than \$33.03, as adjusted in accordance with the terms of the Merger Agreement; and (b) the number obtained by dividing the then First Financial Market Value by \$41.29, as adjusted in accordance with the terms of the Merger Agreement, is less than number obtained by dividing the average of the daily closing value of the NASDAQ Bank Index for the 20 consecutive trading days immediately preceding the Determination Date by \$3,338.12, minus 0.20. If HopFed elects to exercise this termination right, First Financial may elect to avoid termination of the Merger Agreement by increasing the Exchange Ratio, as described in the section titled "The Merger Agreement Potential Adjustments to the Merger Consideration Decrease in Market Price of First Financial Common Stock" beginning on page 82.

**Effect of Termination**

If the Merger Agreement is terminated, it will become void and have no effect, except that (1) both First Financial and HopFed will remain liable for any liabilities or damages arising out of its willful and material breach of any provision of the Merger Agreement and (2) designated provisions of the Merger Agreement will survive the termination, including those relating to payment of the termination fee and the confidential treatment of information.

**Termination Fee**

HopFed will pay First Financial a termination fee if the Merger Agreement is terminated in the following circumstances:

In the event that after the date of the Merger Agreement and prior to the termination of the Merger Agreement, a bona fide acquisition proposal has been made known to senior management of HopFed or has been made directly to its stockholders generally, or any person shall have publicly announced (and not withdrawn) an acquisition proposal with respect to HopFed and (A)(1) thereafter the Merger Agreement is terminated by either First Financial or HopFed because the Merger has not been completed prior to December 31, 2019 and HopFed has failed to obtain the required vote of its stockholders at the Special Meeting or any adjournment or postponement thereof at which a vote on the adoption of the Merger Agreement is taken or (2) thereafter the Merger Agreement is terminated by First Financial as a result of a breach of the Merger Agreement by HopFed that would constitute the failure of a closing condition and that has not been cured during the permitted time period, or by its nature cannot be cured during such period, and (B) prior to the date that is 12 months after the date of such termination, HopFed enters into a definitive agreement or consummates a transaction with respect to an acquisition proposal (whether or not the same acquisition proposal as that referred to above), then HopFed will, on the earlier of the date it enters into such definitive agreement and the date of consummation of such transaction, pay First Financial, by wire transfer of same day funds, a fee equal to \$5.1 million (the "termination fee") (provided that for purposes of the foregoing, all references in the definition of acquisition proposal to "20%" will instead refer to "50%").

In the event the Merger Agreement is terminated (i) by either First Financial or HopFed because the board of directors of HopFed has failed to recommend in this proxy statement/

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prospectus that the HopFed stockholders adopt the Merger Agreement, or withdrawn, modified, or qualified such recommendation in a manner adverse to First Financial, or resolved to do so, or failed to reaffirm such recommendation within 3 calendar days after First Financial requests in writing that such action be taken, or failed to recommend against acceptance of a tender offer or exchange offer for outstanding HopFed common stock that has been publicly disclosed (other than by First Financial or its affiliates) within 10 business days after the commencement of such tender or exchange offer, in any such case whether or not permitted by the terms of the Merger Agreement; (ii) by either First Financial or HopFed because the board of directors of HopFed has recommended or endorsed an acquisition proposal; (iii) by First Financial because HopFed has breached its obligations under the Merger Agreement with respect to obtaining HopFed stockholder approval, changes of recommendation, or acquisition proposals in any material respect; or (iv) by HopFed because its board of directors concludes, in good faith after consultation with its legal and financial advisors, that it must agree to endorse a superior proposal and terminate the Merger Agreement in order to comply with its fiduciary duties, HopFed will pay First Financial, by wire transfer of same day funds, the termination fee on the date of termination.

**Expenses and Fees**

All costs and expenses incurred in connection with the Merger Agreement and the transactions contemplated thereby will be paid by the party incurring such expense, except that the costs and expenses of printing and mailing this proxy statement/prospectus and all filing and other fees paid to the SEC in connection with the Merger will be borne by First Financial.

**Amendment, Waiver, and Extension of the Merger Agreement**

Subject to compliance with applicable law, the Merger Agreement may be amended by First Financial and HopFed, by action taken or authorized by the respective boards of directors of First Financial and HopFed, at any time before or after approval of the matters presented in connection with the Merger by the HopFed stockholders, except that after adoption of the Merger Agreement by the HopFed stockholders, there may not be, without further approval of such stockholders, any amendment of the Merger Agreement that requires further approval under applicable law.

At any time prior to the effective time of the Merger, First Financial and HopFed, by action taken or authorized by the respective boards of directors of First Financial and HopFed, may, to the extent legally allowed, extend the time for the performance of any of the obligations or other acts of the other party, waive any inaccuracies in the representations and warranties contained in the Merger Agreement or in any document delivered pursuant to the Merger Agreement, and waive compliance with any of the agreements or satisfaction of any conditions contained in the Merger Agreement, except that after adoption of the Merger Agreement by the HopFed stockholders, there may not be, without further approval of such stockholders, any extension or waiver of the Merger Agreement or any portion thereof that requires further approval under applicable law.

**ACCOUNTING TREATMENT**

First Financial will account for the Merger under the "acquisition" method of accounting in accordance with United States generally accepted accounting principles. Using the acquisition method of accounting, the assets (including identified intangible assets) and liabilities of HopFed will be recorded by First Financial at their respective fair values at the time of the completion of the Merger. The excess of First Financial's purchase price over the net fair value of the tangible and identified intangible assets acquired over liabilities assumed will be recorded as goodwill.

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**APPRAISAL RIGHTS**

If the Merger is consummated, HopFed stockholders who have complied with the applicable requirements and procedures of Section 262 of the DGCL will be entitled to demand appraisal of their shares of HopFed common stock and receive in lieu of the Merger Consideration a cash payment equal to the "fair value" of their shares, exclusive of any element of value arising from the accomplishment or expectation of the Merger, plus interest, if any, as determined by the Delaware Court of Chancery to be the "fair value" of such shares, subject to the provisions of Section 262 of the DGCL, as further described herein. Such "fair value" may be greater than, the same as, or less than, the value of the Merger Consideration. Any HopFed stockholder contemplating the exercise of such appraisal rights should review carefully the provisions of Section 262 of the DGCL, particularly the procedural steps required to properly demand and perfect such rights, and is encouraged to consult personal legal counsel.

**THE FOLLOWING SUMMARY IS NOT A COMPLETE STATEMENT OF THE LAW PERTAINING TO APPRAISAL RIGHTS UNDER SECTION 262 OF THE DGCL AND IS QUALIFIED IN ITS ENTIRETY BY THE FULL TEXT OF SECTION 262 OF THE DGCL, A COPY OF WHICH IS ATTACHED TO THIS PROXY STATEMENT/PROSPECTUS AS ANNEX C AND IS INCORPORATED BY REFERENCE HEREIN. THE FOLLOWING SUMMARY DOES NOT CONSTITUTE ANY LEGAL OR OTHER ADVICE NOR DOES IT CONSTITUTE A RECOMMENDATION THAT HOPFED STOCKHOLDERS EXERCISE APPRAISAL RIGHTS UNDER SECTION 262 OF THE DGCL.**

**Generally**

Under Section 262 of the DGCL, HopFed is required, not less than 20 days before the date of the Special Meeting, to notify each of its stockholders who is entitled to exercise appraisal rights that appraisal rights are available for any or all of their shares, and is required to include in such notice a copy of Section 262 of the DGCL. This proxy statement/prospectus constitutes a formal notice of appraisal rights under Section 262 of the DGCL and the full text of Section 262 of the DGCL is attached to this proxy statement/prospectus as *Annex C*. Any HopFed stockholder who wishes to exercise such appraisal rights, or who wishes to preserve such holder's right to do so, should review the following discussion and *Annex C* carefully because failure to comply exactly with all of the procedures specified may result in a termination or loss of appraisal rights.

Under the DGCL, the procedures to properly demand and perfect appraisal rights must be carried out by and in the name of those registered as the stockholders of record, with certain limited exceptions. Stockholders who are the beneficial owners but not the holders of record (such as shares held in the name of a bank, broker, or other nominee) and who wish to demand appraisal of their shares of HopFed common stock held beneficially but not of record, are advised to consult promptly with the holders of record as to the timely exercise of such rights and to cause such holders of record to make the appropriate demand and to otherwise comply with the requirements of Section 262 of the DGCL.

**FAILURE TO COMPLY EXACTLY WITH ALL OF THE PROCEDURES SET FORTH IN SECTION 262 OF THE DGCL MAY RESULT IN A TERMINATION OR LOSS OF APPRAISAL RIGHTS UNDER SECTION 262 OF THE DGCL.**

**Exercising Appraisal Rights**

If a HopFed stockholder elects to exercise their appraisal rights under Section 262 of the DGCL, the record stockholder must do *ALL* of the following:

NOT vote your shares of HopFed common stock "FOR" approval of the Merger Proposal;

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deliver to HopFed, before the vote is taken on the Merger Proposal at the Special Meeting, a separate written demand for appraisal of your shares of HopFed common stock, which demand reasonably informs HopFed of your identity and your intent to demand appraisal of your shares of HopFed common stock; and

continuously hold of record your shares of HopFed common stock through the effective time of the Merger.

Any HopFed stockholder who votes "FOR" approval of the Merger Proposal will not be entitled to exercise appraisal rights with respect thereto, but, rather, will receive the Merger Consideration in respect of their shares of HopFed common stock, subject to the terms and conditions of the Merger Agreement. Because a proxy that is signed and submitted, but does not otherwise contain voting instructions will, unless revoked, be voted in favor of the Merger Proposal, if you vote by proxy and wish to exercise your appraisal rights you must vote against the Merger Proposal or abstain from voting.

Voting, in person or by proxy, against, abstaining from voting on, or failing to vote on the Merger Proposal *will not* constitute a written demand for appraisal as required by Section 262 of the DGCL. The written demand for appraisal must be in addition to and separate from any proxy or vote.

**Written Demand by the Record Holder**

Only a holder of record of shares of HopFed common stock is entitled to demand appraisal rights for the shares registered in that holder's name. Beneficial owners who do not also hold their shares of HopFed common stock of record may not directly make appraisal demands to HopFed. The beneficial holder must, in such cases, have the owner of record, such as a bank, broker, or other nominee, submit the required demand in respect of those shares of HopFed common stock of record. A record owner, such as a bank, broker, or other nominee, who holds shares of HopFed common stock as a nominee for others, may exercise his, her, or its right of appraisal with respect to the shares of HopFed common stock held for one or more beneficial owners, while not exercising this right for other beneficial owners. In that case, the written demand should state the number of shares of HopFed common stock as to which appraisal is sought. Where no number of shares of HopFed common stock is expressly mentioned, the demand will be presumed to cover all shares of HopFed common stock held in the name of the record owner.

**IF YOU HOLD YOUR SHARES IN BANK OR BROKERAGE ACCOUNTS OR OTHER NOMINEE FORMS, AND YOU WISH TO EXERCISE APPRAISAL RIGHTS, YOU SHOULD CONSULT WITH YOUR BANK, BROKER, OR OTHER NOMINEE, AS APPLICABLE, TO DETERMINE THE APPROPRIATE PROCEDURES FOR THE BANK, BROKER, OR OTHER NOMINEE TO MAKE A DEMAND FOR APPRAISAL OF THOSE SHARES. IF YOU HAVE A BENEFICIAL INTEREST IN SHARES HELD OF RECORD IN THE NAME OF ANOTHER PERSON, SUCH AS A BANK, BROKER, OR OTHER NOMINEE, YOU MUST ACT PROMPTLY TO CAUSE THE RECORD HOLDER TO FOLLOW PROPERLY AND IN A TIMELY MANNER THE STEPS NECESSARY TO PERFECT YOUR APPRAISAL RIGHTS.**

If you own shares of HopFed common stock jointly with one or more other persons, as in a joint tenancy or tenancy in common, demand for appraisal must be executed by or for you and all other joint owners.

An authorized agent, including an agent for two or more joint owners, may execute the demand for appraisal for a stockholder of record; however, the agent must identify the record owner and expressly disclose the fact that, in exercising the demand, such person is acting as agent for the record owner. If you hold shares of HopFed common stock through a broker who in turn holds the shares through a central securities depository nominee, such as Cede & Co., a demand for appraisal of such



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shares must be made by or on behalf of the depository nominee and must identify the depository nominee as record holder.

If you elect to exercise appraisal rights under Section 262 of the DGCL, you should mail or deliver a written demand to:

HopFed Bancorp, Inc.  
P.O. Box 537  
Hopkinsville, Kentucky 42241  
Attention: Michael L. Woolfolk, Corporate Secretary

**Action after Completion of the Merger**

*Notice by the Surviving Company*

If the Merger is completed, within 10 days after the effective date of the Merger, First Financial will give written notice of the effective date to you if you did not vote in favor of the Merger Proposal and you made a written demand for appraisal in accordance with Section 262 of the DGCL.

*Withdraw of Demand*

At any time within 60 days after the effective date of the Merger, you have the right to withdraw your appraisal demand and to accept the Merger Consideration, in accordance with the Merger Agreement, for your shares of HopFed common stock, provided that you have not commenced an appraisal proceeding or joined an appraisal proceeding as a named party.

*Filing a Petition for Appraisal*

Within 120 days after the effective date of the Merger, but not later, either you, provided you have complied with the requirements of Section 262 of the DGCL, or First Financial may commence an appraisal proceeding by filing a petition in the Delaware Court of Chancery, demanding a determination of the value of the HopFed common stock held by all HopFed stockholders entitled to appraisal rights. First Financial is under no obligation to file an appraisal petition and has no intention of doing so. If you desire to have your shares appraised, you should initiate any petitions necessary for the perfection of your appraisal rights within the time periods and in the manner prescribed in Section 262 of the DGCL.

*Statement of Shares Not Voted For the Merger Proposal*

Within 120 days after the effective date of the Merger, provided you have complied with the provisions of Section 262 of the DGCL, you will be entitled to receive from First Financial, upon written request, a statement setting forth the aggregate number of shares not voted in favor of the Merger Proposal and with respect to which First Financial has received demands for appraisal and the aggregate number of holders of those shares. First Financial must mail this statement to you within the later of 10 days of receipt of the written request or 10 days after expiration of the period for delivery of demands for appraisal.

*Certain Action by Beneficial Owners*

If you are the beneficial owner of shares of HopFed common stock held in a voting trust or by a nominee on your behalf you may, in your own name, file an appraisal petition or request from First Financial the statement described above.

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*Filing of Stockholders List; Determination of Stockholders*

If a petition for appraisal is duly filed by you or another record HopFed stockholder who has properly exercised their appraisal rights in accordance with the provisions of Section 262 of the DGCL, and a copy of the petition is served on First Financial, First Financial will then be obligated, within 20 days after being served with a copy of the appraisal petition, to file in the office of the Register in Chancery in which the appraisal petition was filed, a duly verified list containing the names and addresses of all stockholders who have demanded payment for their shares of HopFed common stock and with whom agreement as to the value of their shares have not been reached.

The Delaware Court of Chancery will then determine which stockholders are entitled to appraisal rights and may require the stockholders demanding appraisal who hold certificated shares to submit their stock certificates to the Register in Chancery for notation thereon of the pendency of the appraisal proceedings. The Delaware Court of Chancery may dismiss any stockholder who fails to comply with this direction from the appraisal proceedings.

*Dismissal of Appraisal Proceedings*

Because HopFed common stock is listed on a national securities exchange (and assuming HopFed common stock remains listed through the time immediately before the effective time of the Merger), the Delaware Court of Chancery is required to dismiss the appraisal proceedings as to all holders of such shares who are otherwise entitled to appraisal rights unless (i) the total number of shares entitled to appraisal exceeds 1% of the outstanding shares of HopFed common stock eligible for appraisal or (ii) the value of the Merger Consideration for such total number of shares exceeds \$1 million.

**Determination of "Fair Value"**

After determining the stockholders entitled to appraisal, and assuming the appraisal petition has not been dismissed or withdrawn, the Delaware Court of Chancery will determine the "fair value" of the shares of HopFed common stock, exclusive of any element of value arising from the accomplishment or expectation of the Merger, together with interest, if any, to be paid upon the amount determined to be the "fair value." HopFed stockholders considering the exercise of appraisal rights should be aware that the "fair value" of their shares of HopFed common stock, as determined under Section 262 of the DGCL, could be greater than, the same as, or less than the value of the Merger Consideration.

In determining "fair value" all relevant factors are taken into account. In *Weinberger v. UOP, Inc.*, the Delaware Supreme Court discussed the factors that could be considered in determining "fair value" in an appraisal proceeding, stating that "proof of value by any techniques or methods which are generally considered acceptable in the financial community and otherwise admissible in court" should be considered, and that "fair price obviously requires consideration of all relevant factors involving the value of a company." The Delaware Supreme Court indicated that, in making this determination of "fair value," the court must consider market value, asset value, dividends, earnings prospects, the nature of the enterprise, and any other facts that could be ascertained as of the date of the Merger that throw any light on future prospects of the merged corporation. Section 262 of the DGCL provides that "fair value" is to be "exclusive of any element of value arising from the accomplishment or expectation of the merger." In *Cede & Co. v. Technicolor, Inc.*, the Delaware Supreme Court stated that such exclusion is a "narrow exclusion [that] does not encompass known elements of value," but which rather applies only to the speculative elements of value arising from such accomplishment or expectation. In *Weinberger*, the Delaware Supreme Court also stated that "elements of future value, including the nature of the enterprise, which are known or susceptible of proof as of the date of the merger and not the product of speculation, may be considered."

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**Interest**

Unless the Delaware Court of Chancery in its discretion determines otherwise for good cause shown, and except with respect to advance payments described below, interest on the amount determined to be the "fair value" must accrue from the effective date of the Merger through the date of payment of the judgment, must be compounded quarterly, and must accrue at 5% over the Federal Reserve Board discount rate (including any surcharges) as established from time to time during the period between the effective date of the Merger and the date of payment of the judgment.

**Advance Payment**

At any time before the entry of judgment in the appraisal proceedings, First Financial may pay to each stockholder entitled to appraisal an amount in cash, in which case interest will only accrue thereafter upon the sum of (1) the difference, if any, between the amount so paid and the "fair value" of the shares as determined by the Delaware Court of Chancery and (2) interest theretofore accrued, unless paid at that time. First Financial is under no obligation to make such voluntary cash payment prior to such entry of judgment.

**Costs of Appraisal Proceeding**

The costs of the appraisal proceeding may be determined by the Delaware Court of Chancery and taxed upon the parties as the court deems equitable under the circumstances. Upon application of a HopFed stockholder, the court may also order that all or a portion of the expenses incurred by a HopFed stockholder in connection with the appraisal proceeding, including, without limitation, reasonable attorneys' fees and the fees and expenses of experts utilized in the appraisal proceeding, to be charged pro rata against the value of all the shares of HopFed common stock entitled to be appraised. Absent such an order, each party is responsible for her, his or its own expenses.

**After the Effective Date of the Merger**

From and after the effective date of the Merger, no former HopFed stockholder who has demanded appraisal rights in compliance with Section 262 of the DGCL is entitled to vote such shares for any purpose or to receive payment of dividends or other distributions on any the shares (except dividends or other distributions, if any, payable to stockholders of record as of a record date prior to the effective date of the Merger). If a timely appraisal petition is not filed or if a HopFed stockholder delivers to First Financial a written withdrawal of the demand for an appraisal and acceptance of the Merger Consideration, either within 60 days after the effective date of the Merger or thereafter with the written approval of First Financial, then the right of such stockholder to an appraisal shall cease. Notwithstanding the foregoing, no appraisal proceeding in the Delaware Court of Chancery will be dismissed as to any HopFed stockholders without the approval of the court, which may be conditioned on such terms as the court deems just; provided, however, that such requirement will not affect the right of any HopFed stockholder who has not commenced an appraisal proceeding or joined that proceeding as a named party to withdraw such stockholder's demand for appraisal and to accept the Merger Consideration within 60 days after the effective date of the Merger.

**Failure to Perfect; Loss of Appraisal Rights**

If any HopFed stockholder who demands appraisal of their shares of HopFed common stock under Section 262 of the DGCL fails to perfect, or effectively withdraws or loses, such stockholder's right to appraisal, as provided in the DGCL, the shares of HopFed common stock of such stockholder will be deemed converted, at the effective time of the Merger, into the right to receive the Merger Consideration, without interest, subject to any taxes required to be withheld under applicable law, and

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the stockholder must follow the applicable exchange procedures in order to receive payment of the Merger Consideration.

**THE PROCESS OF DEMANDING AND EXERCISING APPRAISAL RIGHTS REQUIRES STRICT COMPLIANCE WITH TECHNICAL PREREQUISITES. IF YOU WISH TO EXERCISE YOUR APPRAISAL RIGHTS, YOU SHOULD CONSULT WITH YOUR OWN LEGAL COUNSEL IN CONNECTION WITH COMPLIANCE UNDER SECTION 262 OF THE DGCL. TO THE EXTENT THERE ARE ANY INCONSISTENCIES BETWEEN THE FOREGOING SUMMARY AND SECTION 262 OF THE DGCL, THE DGCL WILL GOVERN.**

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**MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE MERGER**

The following is a general discussion of the anticipated material U.S. federal income tax consequences of the Merger applicable to U.S. holders (as defined below) of shares of HopFed common stock who surrenders all of the stockholder's common stock for the Stock Consideration, the Cash Consideration, or for a combination of the Stock and Cash Consideration. This discussion is based upon the Code, Treasury Regulations, judicial authorities, published positions of the IRS, and other applicable authorities, all as in effect on the date of this document and all of which are subject to change or differing interpretations (possibly with retroactive effect), and any such change could affect the accuracy of the statements and conclusions set forth in this discussion.

This discussion is limited to U.S. holders. For purposes of this discussion, the term "U.S. holder" means a beneficial owner of HopFed common stock that is for U.S. federal income tax purposes:

an individual citizen or resident of the U.S.;

a corporation, or an entity treated as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the U.S. or any state or political subdivision thereof;

a trust that (1) is subject to (A) the primary supervision of a court within the U.S. and (B) the authority of one or more U.S. persons to control all substantial decisions of the trust or (2) has a valid election in effect under applicable Treasury Department regulations to be treated as a U.S. person; or

an estate that is subject to U.S. federal income tax on its income regardless of its source.

If a partnership (including for this purpose any entity or arrangement treated as a partnership for U.S. federal income tax purposes) holds HopFed common stock, the tax treatment of a partner generally will depend on the status of the partner and the activities of the partnership. If you are a partnership, or a partner in such partnership, holding HopFed common stock, you should consult your tax advisor.

Holders of HopFed common stock that are not U.S. holders may have different tax consequences than those described in this discussion and are urged to consult their own tax advisors regarding the tax treatment to them under U.S. and non-U.S. laws. This discussion only addresses those HopFed stockholders who hold their HopFed common stock as a capital asset within the meaning of Section 1221 of the Code. Importantly, this discussion does not address all of the U.S. federal income tax consequences that may be relevant to you in light of your individual circumstances or to you if you are subject to special rules, such as:

mutual funds, banks, thrifts, or other financial institutions;

S corporations or other pass-through entities (or investors in S corporations or other pass-through entities);

retirement plans or pension funds;

insurance companies;

tax-exempt organizations;

dealers or brokers in stocks and securities, or currencies;

traders in securities that elect to use the mark-to-market method of accounting;

regulated investment companies;

real estate investment trusts;

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persons who hold HopFed common stock as part of a straddle, hedge, constructive sale, conversion transaction, or other risk management transaction;

persons who purchase or sell their HopFed common stock as part of a wash sale;

expatriates or persons who have a functional currency other than the U.S. dollar;

persons who are not U.S. holders (as defined above); and

persons who acquired their HopFed common stock through the exercise of an employee stock option or otherwise as compensation or through a tax qualified retirement plan.

In addition, this discussion does not address any alternative minimum tax, U.S. federal estate or gift tax, or any state, local, or foreign tax consequences of the Merger, nor does it address any tax consequences arising under the unearned income Medicare contribution tax pursuant to the Health Care and Education Reconciliation Act of 2010.

**Determining the actual tax consequences of the Merger to a holder of HopFed common stock may be complex. HopFed stockholders are urged to consult their own tax advisors as to the U.S. federal income tax consequences of the Merger, as well as the effects of state, local, non-U.S. tax laws, and U.S. tax laws other than income tax laws.**

**Tax Consequences of the Merger Generally**

Subject to the limitations, assumptions, and qualifications described herein, SmithAmundsen, counsel to First Financial, and Jones Walker, counsel to HopFed, are of the opinion that the Merger will be treated as a "reorganization" within the meaning of Section 368(a) of the Code for U.S. federal income tax purposes. It is a condition to the obligation of First Financial to complete the Merger that First Financial receive an opinion from SmithAmundsen, dated the closing date of the Merger, to the effect that the Merger will qualify as a "reorganization" within the meaning of Section 368(a) of the Code. It is a condition to the obligation of HopFed to complete the Merger that HopFed receive an opinion from Jones Walker, dated the closing date of the Merger, to the effect that the Merger will qualify as a "reorganization" within the meaning of Section 368(a) of the Code. The conditions relating to receipt of such closing opinions may be waived by both First Financial and HopFed. Neither First Financial nor HopFed currently intends to waive the conditions related to the receipt of the closing opinions. First Financial and HopFed undertake to recirculate appropriate soliciting materials and resolicit the votes of HopFed stockholders if either of these conditions is waived and the change in U.S. federal income tax consequences is material.

These opinions are, and will be, subject to customary qualifications and assumptions, including assumptions regarding the completion of the Merger in accordance with the Merger Agreement, the absence of any amendment to or waiver of the provisions of the Merger Agreement, effectiveness of the Merger under state law, and those which are necessary and proper to assume in rendering these opinions. In rendering their opinions, SmithAmundsen and Jones Walker relied, and will rely, upon statements and representations of First Financial and HopFed, including those contained in the Merger Agreement, the registration statement of which this proxy statement/prospectus forms a part of, and certificates of officers of First Financial and HopFed, reasonably satisfactory in form and substance to each such counsel, and assumed, and will assume, that these statements and representations are true, correct, and complete without regard to any knowledge limitation. If any of these assumptions or representations are inaccurate in any way, these opinions could be adversely affected. The opinions represent each counsel's best legal judgment, but have no binding effect or official status of any kind, and no assurance can be given that contrary positions will not be taken by the IRS or a court considering the issues. In addition, neither First Financial nor HopFed has requested nor does either of them intend to request a ruling from the IRS as to the U.S. federal income tax consequences of the Merger. Accordingly, there can be no assurances that the IRS will not assert, or that a court will not

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sustain, a position contrary to any of the tax consequences set forth below or any of the tax consequences described in the tax opinions.

**Tax Consequences of the Merger to a U.S. Holder**

The following is a discussion of the anticipated material U.S. federal income tax consequences of the Merger to U.S. holders of HopFed common stock. The anticipated material U.S. federal income tax consequences of the Merger to a U.S. holder of HopFed common stock will depend primarily on whether the stockholder exchanges his, her, or its shares of HopFed common stock solely for the Stock Consideration, solely for the Cash Consideration, or for a combination of the Stock and Cash Consideration, as more fully described below.

*Exchange Solely for the Stock Consideration*

No gain or loss will be recognized by a U.S. holder of HopFed common stock who receives solely shares of First Financial common stock (except for cash received in lieu of fractional shares, as discussed below) in exchange for all of his, her, or its shares of HopFed common stock. The tax basis of the shares of First Financial common stock received by a U.S. holder of HopFed common stock in such exchange will be equal (except for the basis attributable to any fractional shares of First Financial common stock, as discussed below) to the basis of the HopFed common stock surrendered in exchange for the First Financial common stock. The holding period of the First Financial common stock received will include the holding period of shares of HopFed common stock surrendered in exchange for the First Financial common stock, provided that such shares were held as capital assets of the U.S. holder of HopFed common stock at the effective time of the Merger.

*Exchange Solely for the Cash Consideration*

A U.S. holder of HopFed common stock who receives solely cash in exchange for all of his, her, or its shares of HopFed common stock (and is not treated as constructively owning First Financial common stock after the Merger under the circumstances referred to below under "Material U.S. Federal Income Tax Consequences of the Merger Tax Consequences of the Merger to a U.S. Holder Possible Dividend Treatment") will recognize a gain or loss, for federal income tax purposes, equal to the difference between the cash received and such stockholder's tax basis in the HopFed common stock surrendered in exchange for the cash. Such gain or loss will be a capital gain or loss, provided that such shares were held as capital assets by the U.S. holder of HopFed common stock at the effective time of the Merger. Such gain or loss will be a long-term capital gain or loss if the U.S. holder of HopFed common stock's holding period is more than one year at the effective time of the Merger. The Code contains limitations on the extent to which a taxpayer may deduct capital losses from ordinary income.

*Exchange for a Combination of the Stock and Cash Consideration*

A U.S. holder of HopFed common stock who receives a combination of First Financial common stock and cash in exchange for his, her, or its HopFed common stock will not be permitted to recognize any loss for federal income tax purposes. Such a stockholder will recognize gain, if any, equal to the lesser of (1) the amount of cash received or (2) the amount of gain "realized" in the transaction. The amount of gain a U.S. holder of HopFed common stock "realizes" will equal the amount by which (a) the cash plus the fair market value of First Financial common stock received at the effective time of the Merger exceeds (b) the stockholder's basis in the HopFed common stock to be surrendered in the exchange for the cash and First Financial common stock. Any recognized gain could be taxed as a capital gain or a dividend, as described below. The tax basis of the shares of First Financial common stock received by such U.S. holder of HopFed common stock will be the same as the basis of the shares of HopFed common stock surrendered in exchange for the shares of First Financial common



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stock, adjusted as provided in Section 358(a) of the Code for the gain recognized and/or cash received in exchange for HopFed common stock. If a U.S. holder of HopFed common stock purchased or acquired HopFed common stock on different dates or at different prices, then, solely for purposes of determining the basis of the First Financial common stock received in the Merger, such stockholder may designate which share of First Financial common stock is received in exchange for each particular share of HopFed common stock. The holding period for shares of First Financial common stock received by such U.S. holder of HopFed common stock will include such stockholder's holding period for the HopFed common stock surrendered in exchange for the First Financial common stock, provided that such shares were held as capital assets of the stockholder at the effective time of the Merger.

*Purchases at Different Times and Different Prices*

A U.S. holder of HopFed common stock's federal income tax consequences will also depend on whether his, her, or its shares of HopFed common stock were purchased at different times at different prices. If they were, the U.S. holder of HopFed common stock could realize gain with respect to some of the shares of HopFed common stock and loss with respect to other shares. Such U.S. holder of HopFed common stock would have to recognize such gain to the extent such stockholder receives cash with respect to those shares in which the stockholder's adjusted tax basis is less than the amount of cash plus the fair market value at the effective time of the Merger of the First Financial common stock received, but could not recognize loss with respect to those shares in which the U.S. holder of HopFed common stock's adjusted tax basis is greater than the amount of cash plus the fair market value at the effective time of the Merger of the First Financial common stock received. Any disallowed loss would be included in the adjusted basis of the First Financial common stock. Such a U.S. holder of HopFed common stock is urged to consult his, her, or its own tax advisor respecting the tax consequences of the Merger to that stockholder.

*Possible Dividend Treatment*

In certain circumstances, a U.S. holder of HopFed common stock who receives solely cash or a combination of cash and First Financial common stock in the Merger may receive dividend income, rather than capital gain, treatment on all or a portion of the gain recognized by that stockholder if the receipt of cash "has the effect of the distribution of a dividend." The determination of whether a cash payment has such effect is based on comparison of the U.S. holder of HopFed common stock's proportionate interest in First Financial after the Merger with the proportionate interest the stockholder would have had if the stockholder had received solely First Financial common stock in the Merger. For example, this could happen because of the stockholder's purchase (or the purchase by a family member) of additional First Financial common stock or a repurchase of shares by First Financial. For purposes of this comparison, the U.S. holder of HopFed common stock may be deemed to constructively own shares of First Financial common stock held by certain members of the stockholder's family or certain entities in which the stockholder has an ownership or beneficial interest. The amount of the cash payment that may be treated as a dividend is limited to the stockholder's ratable share of the accumulated earnings and profits of HopFed at the effective time of the Merger. Any gain that is not treated as a dividend will be taxed as a capital gain, provided that the stockholder's shares were held as capital assets at the effective time of the Merger. Because the determination of whether a cash payment will be treated as having the effect of a dividend depends primarily upon the facts and circumstances of each U.S. holder of HopFed common stock, stockholders are urged to consult their own tax advisors regarding the tax treatment of any cash received in the Merger.

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*Cash in Lieu of Fractional Shares*

A U.S. holder of HopFed common stock who holds HopFed common stock as a capital asset and who receives in the Merger, in exchange for such stock, solely First Financial common stock and cash in lieu of a fractional share interest in First Financial common stock will be treated as having received such cash in full payment for such fractional share of stock.

**Backup Withholding**

Unless an exemption applies under the backup withholding rules of Section 3406 of the Code, the Exchange Agent shall be required to withhold, and will withhold, 24% of any cash payments to which a U.S. holder of HopFed common stock is entitled pursuant to the Merger, unless the U.S. holder of HopFed common stock signs the substitute IRS Form W-9 enclosed with the materials sent by the Exchange Agent. Unless an applicable exemption exists and is proved in a manner satisfactory to the Exchange Agent, this completed form provides the information, including the U.S. holder of HopFed common stock's taxpayer identification number, and certification necessary to avoid backup withholding.

**The preceding discussion of material U.S. federal income tax consequences of the Merger is intended only as a general discussion of the anticipated material U.S. federal income tax consequences of the Merger. It is not a complete analysis or discussion of all potential tax effects that may be important to you and is limited to U.S. holders (as defined above). Each HopFed stockholder should consult their own tax advisors as to the specific tax consequences to them resulting from the Merger, including tax return reporting requirements, the applicability and effect of federal, state, local, and other applicable tax laws and the effect of any proposed changes in the tax laws.**

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**UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION**

The following unaudited pro forma condensed combined financial information and accompanying notes show the historical financial positions and results of operations of First Financial and HopFed, and have been prepared to illustrate the effects of the Merger under the acquisition method of accounting with First Financial treated as the acquirer. Under the acquisition method of accounting, the assets and liabilities of HopFed, as of the effective date of the Merger, will be recorded by First Financial at their respective fair values, and the excess of the Merger Consideration over the fair value of HopFed's net assets will be allocated to goodwill.

The unaudited pro forma condensed combined balance sheet as of December 31, 2018 is presented as if the Merger had occurred on December 31, 2018. The unaudited pro forma condensed combined statements of income for the year ended December 31, 2018 is presented as if the Merger had occurred on January 1, 2018, the first day of the First Financial 2018 fiscal year.

The historical consolidated financial information has been adjusted to reflect factually supportable items that are directly attributable to the Merger and, with respect to the income statement only, expected to have a continuing impact on consolidated results of operations. The unaudited pro forma condensed combined financial information contained herein does not reflect the costs of any integration activities or benefits that may result from the realization of future cost savings from operating efficiencies, or any other synergies that may result from the Merger. Certain historical financial information has been reclassified to conform to the current presentation.

The unaudited pro forma condensed combined financial information is provided for informational purposes only. The unaudited pro forma condensed combined financial information is not necessarily, and should not be assumed to be, an indication of the results that would have been achieved had the transaction been completed as of the dates indicated. In addition, the unaudited pro forma condensed combined financial statements do not purport to project the future financial position or operating results of the combined company after completion of the proposed transaction.

The preparation of the unaudited pro forma condensed combined financial information and related adjustments required management to make certain assumptions and estimates. The adjustments included in the unaudited pro forma condensed combined financial information are preliminary and may be revised. Upon completion of the Merger, a final determination of the fair value of HopFed's assets acquired and liabilities assumed will be performed. Any changes in the fair values of the net assets or total acquisition consideration as compared with the information shown in the unaudited pro forma condensed combined financial information may change the amount of the total acquisition consideration allocated to goodwill and other assets and liabilities and may impact the combined company's statement of income. The final acquisition consideration allocation may be materially different than the preliminary acquisition consideration allocation presented in the unaudited pro forma condensed combined financial information.

The unaudited pro forma condensed combined financial information are based on and should be read together with:

The accompanying notes to the unaudited pro forma condensed combined financial statements;

First Financial's audited historical consolidated financial statements and accompanying notes as of and for the year ended December 31, 2018, included in First Financial's Annual Report on Form 10-K for the year ended December 31, 2018, which is incorporated by reference in this proxy statement/prospectus;

HopFed's audited historical consolidated financial statements and accompanying notes as of and for the year ended December 31, 2018 included in HopFed's Annual Report on Form 10-K for

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the year ended December 31, 2018, as amended, which is included as *Annex D* to this proxy statement/prospectus; and

Other information pertaining to First Financial and HopFed contained in, included with, or incorporated by reference into this proxy statement/prospectus. See "Selected Consolidated Historical Financial Information of First Financial" and "Selected Consolidated Historical Financial Information of HopFed" included elsewhere in this proxy statement/prospectus.

**UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET AS OF  
DECEMBER 31, 2018**

(Dollars in thousands)	Historical First Financial	Historical HopFed	Pro Forma Adjustment	Notes	Pro Forma Condensed Combined
<b>Assets</b>					
Cash	\$ 74,388	\$ 52,050	\$ (7,029)	A	\$ 119,409
Securities	795,306	175,232			970,538
Gross loans	1,953,988	664,566	(8,629)	B	2,609,925
Loan loss reserve	(20,436)	(4,536)	4,536	C	(20,436)
Fixed assets	46,554	21,759	4,009	D	72,322
OREO	603	3,598	(353)	E	3,848
Goodwill	34,355		31,189	F	65,544
Intangibles	1,197		9,383	G	10,580
Other assets	122,763	18,730	(1,951)	H	139,542
<b>Total assets</b>	<b>3,008,718</b>	<b>931,399</b>	<b>31,155</b>		<b>3,971,272</b>
<b>Liabilities and Shareholders' Equity</b>					
Deposits	2,436,727	739,837			3,176,564
FHLB borrowings		33,000	69,627	I	102,627
Other borrowings	69,656	53,011			122,667
Senior notes					
Subordinated debt					
Trust preferred securities		10,310	(1,689)	J	8,621
Other liabilities	59,634	4,455			64,089
<b>Total liabilities</b>	<b>2,566,017</b>	<b>840,613</b>	<b>67,938</b>		<b>3,474,568</b>
Preferred stock					
Common stock	442,701	90,786	(36,783)	K	496,704
<b>Total shareholders' equity</b>	<b>442,701</b>	<b>90,786</b>	<b>(36,783)</b>		<b>496,704</b>
<b>Total liabilities and shareholders' equity</b>	<b>3,008,718</b>	<b>931,399</b>	<b>31,155</b>		<b>3,971,272</b>

Table of Contents**UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF INCOME FOR THE YEAR ENDED DECEMBER 31, 2018**

(Dollars in thousands, except per share data)	Historical First Financial	Historical HopFed	Pro Forma Adjustment	Notes	Pro Forma Condensed Combined
<b>Interest and Dividend Income</b>					
Loans	\$ 100,541	\$ 31,709		L	\$ 132,250
<b>Securities</b>					
Taxable	16,942	4,080			21,022
Tax-exempt	7,455	797			8,252
Other	1,286	145			1,431
<b>Total interest and dividend income</b>	<b>126,224</b>	<b>36,731</b>			<b>162,955</b>
<b>Interest Expense</b>					
Deposits	9,032	6,276			15,308
Short-term borrowings	501	1,359	1,889	M	3,749
Other borrowings	112	539	106	N	757
<b>Total interest expense</b>	<b>9,645</b>	<b>8,174</b>	<b>1,995</b>		<b>19,814</b>
<b>Net interest income</b>	<b>116,579</b>	<b>28,557</b>	<b>(1,995)</b>		<b>143,141</b>
Provision for loan losses	5,768	288			6,056
<b>Net interest income after provision for loan losses</b>	<b>110,811</b>	<b>28,269</b>	<b>(1,995)</b>		<b>137,085</b>
<b>Non-Interest Income</b>					
Trust and financial services	5,286	677			5,963
Service charges and fees on deposit accounts	11,733	2,938			14,671
Other service charges and fees	13,012	1,279			14,291
Securities gain (loss), net	2	553			555
Insurance commissions	144				144
Gain on sale of mortgage loans	1,829	1,434			3,263
Other	6,200	936			7,136
<b>Total non-interest income</b>	<b>38,206</b>	<b>7,817</b>			<b>46,023</b>
<b>Non-Interest Expense</b>					
Salaries and employee benefits	50,658	16,064			66,722
Occupancy expense	7,030	3,012	158	O	10,200
Equipment expense	6,827	10			6,837
Federal deposit insurance	929				929
Other	25,845	10,264	954	P	37,063
<b>Total non-interest expense</b>	<b>91,289</b>	<b>29,350</b>	<b>1,112</b>		<b>121,751</b>
<b>Income before income taxes</b>	<b>57,728</b>	<b>6,736</b>	<b>(3,107)</b>		<b>61,357</b>
Provision for income taxes	11,145	1,067	(652)	Q	11,560
<b>Net income</b>	<b>46,583</b>	<b>5,669</b>	<b>(2,455)</b>		<b>49,797</b>

Table of Contents**UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF INCOME FOR THE YEAR ENDED DECEMBER 31, 2018 (Continued)**

(Dollars in thousands, except per share data)	Historical First Financial	Historical HopFed	Pro Forma Adjustment	Notes	Pro Forma Condensed Combined
<b>Other Comprehensive Income</b>					
Change in unrealized gains/(losses) on securities, net of reclassifications and taxes	(8,861)	(1,460)			(10,321)
Change in funded status of post-retirement benefits, net of taxes	2,477				2,477
Comprehensive income	40,199	4,209	(2,455)		41,953

**Per Share Data**

Basic earnings per share	\$ 3.80	\$ 0.91			\$ 3.63
Diluted earnings per share(1)	\$ 3.80	\$ 0.91			\$ 3.63
Weighted average number of shares outstanding basic	12,256	6,233		R	13,732
Weighted average number of shares outstanding diluted(1)	12,256	6,233		R	13,732

- (1) Neither First Financial nor HopFed have any potentially dilutive securities as their restricted stock awards are included in outstanding shares.

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**NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION**

**Note 1 Basis of Pro Forma Presentation**

The unaudited pro forma condensed combined balance sheet as of December 31, 2018 and the unaudited pro forma condensed combined statements of income for the year ended December 31, 2018 are based on the historical financial statements of First Financial and HopFed after giving effect to the completion of the Merger and the assumptions and adjustments described in the accompanying notes. Such financial statements do not reflect cost savings or operating synergies expected to result from the Merger, or the costs to achieve these cost savings or operating synergies, or any anticipated disposition of assets that may result from the integration of the operations of these companies.

The unaudited pro forma condensed combined financial information has been prepared using the acquisition method of accounting giving effect to the Merger with First Financial as the acquirer. Certain reclassifications have been made to HopFed historical information so as to conform to First Financial's presentation, including instances where certain amounts reflected individually by HopFed have been combined for presentation purposes as well as other instances where accounts previously disclosed in footnotes by HopFed have been reflected individually for presentation purposes. The unaudited pro forma condensed combined financial information is presented for illustrative purposes only and does not necessarily indicate the financial results of the combined companies had the companies actually been combined at the beginning of the period presented.

Under the acquisition method of accounting, all of the assets acquired and liabilities assumed in a business combination are recognized at their acquisition-date fair value, while transaction costs and restructuring costs associated with the business combination are expensed as incurred. The excess of the acquisition consideration over the fair value of assets acquired and liabilities assumed, if any, is allocated to goodwill. Changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition date generally affect income tax expense. Prior to the completion of the Merger, First Financial and HopFed will finalize an integration plan, which may affect how the assets acquired, including intangible assets, will be utilized by the combined company. For those assets in the combined company that will be phased out or will no longer be used, additional amortization, depreciation, and possibly impairment charges will be recorded after management completes the integration plan.

The accounting policies of both First Financial and HopFed are in the process of being reviewed in detail. Upon completion of such review, conforming adjustments or financial statement reclassification may be determined.

**Note 2 Preliminary Estimated Acquisition Consideration**

Under the Merger Agreement, HopFed stockholders may elect to receive either (or a combination of) 0.444 shares of First Financial common stock or \$21.00 in cash for each share of HopFed common stock owned, subject to allocation provisions specified in the Merger Agreement that provide for a targeted aggregate split of 50% of HopFed shares being exchanged for First Financial common stock

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and 50% for cash. Based on the number of shares of HopFed common stock outstanding at December 31, 2018, the preliminary estimated acquisition consideration is as follows.

**(Dollars in thousands, except per share data)**

Number of shares of HopFed common stock outstanding at December 31, 2018	6,648,887
Number of shares of HopFed common stock outstanding at December 31, 2018 to be exchanged for First Financial common stock	3,324,444
Per share exchange ratio	0.444
Number of shares of First Financial common stock as exchanged	1,476,054
First Financial common stock per share price on December 31, 2018	\$ 40.15
Estimated fair value of First Financial common stock issued	\$ 59,264
Number of shares of HopFed common stock outstanding at December 31, 2018 to be exchanged for cash	3,324,443
Cash consideration per share	\$ 21.00
Total cash consideration	\$ 69,813
Total stock consideration	\$ 59,264
Total cash consideration	\$ 69,813
<b>Total preliminary estimated acquisition consideration for HopFed</b>	<b>\$ 129,077</b>

**Note 3 Preliminary Estimated Acquisition Consideration Allocation**

Under the acquisition method of accounting, the total acquisition consideration is allocated to the acquired tangible and intangible assets and assumed liabilities of HopFed based on their estimated fair values as of the closing of the Merger. The excess of the acquisition consideration over the fair value of assets acquired and liabilities assumed for the acquisition, if any, is allocated to goodwill.

The allocation of the estimated acquisition consideration with regard to HopFed is preliminary because the proposed Merger has not yet been completed. The preliminary allocation is based on estimates, assumptions, valuations, and other studies that have not progressed to a stage where there is sufficient information to make a definitive allocation. Accordingly, the acquisition consideration allocation adjustments will remain preliminary until First Financial management determines the final acquisition consideration and the fair values of the assets acquired and liabilities assumed. The final determination of the acquisition consideration allocation is anticipated to be completed as soon as practicable after the completion of the Merger and will be based on the value of the First Financial common stock at the closing of the Merger. The final amounts allocated to assets acquired and liabilities assumed could differ significantly from the amounts presented in the unaudited pro forma condensed combined financial information.



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The total preliminary estimated acquisition consideration as shown in the table above is allocated to HopFed's tangible and intangible assets and liabilities as of December 31, 2018 based on their preliminary estimated fair values as follows:

**(Dollars in thousands)**

Cash	\$ 50,282
Securities	175,232
Gross loans	655,937
Fixed assets	25,768
OREO	3,245
Goodwill	31,189
Intangibles	9,383
Other assets	16,779
Deposits	(739,837)
FHLB borrowings	(32,814)
Other borrowings	(53,011)
Trust preferred securities	(8,621)
Other liabilities	(4,455)
<b>Total preliminary estimated acquisition consideration</b>	<b>\$ 129,077</b>

**Note 4 Pro Forma Merger Adjustments**

The unaudited pro forma condensed combined financial information is not necessarily indicative of what the financial position of First Financial would have been had the Merger been completed at the date indicated. Such information includes adjustments that are preliminary and may be revised. Such revisions may result in material changes. The financial position shown herein is not necessarily indicative of what the past financial position of the combined companies would have been, nor necessarily indicative of the financial position of the post-merger periods. The unaudited pro forma condensed combined financial information does not give consideration to the impact of possible cost savings, expense efficiencies, synergies, strategy modifications, asset dispositions, or other actions that may result from the Merger.

The following unaudited pro forma adjustments result from accounting for the Merger, including the determination of fair value of the assets, liabilities, and commitments that First Financial, as the

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acquirer, will acquire from HopFed. The descriptions related to these preliminary adjustments are as follows:

	December 31, 2018 (Dollars in thousands)
<b>BALANCE SHEET</b>	
<b>A. Adjustment to cash</b>	
To reflect transaction costs	(7,029)
<b>B. Adjustments to gross loans</b>	
To reflect expected credit loss in HopFed's portfolio loans	(8,629)
<b>C. Adjustment to allowance for loan and lease losses</b>	
To remove HopFed's allowance at merger date as credit risk is contemplated in the fair value adjustment in B above	4,536
<b>D. Adjustment to fixed assets</b>	
To reflect an anticipated write-up of fixed assets to market value	4,009
<b>E. Adjustment to OREO</b>	
Adjustment to fair market value of other real estate owned	(353)
<b>F. Adjustment to goodwill</b>	
To reflect goodwill created as a result of the merger	31,189
<b>G. Adjustment to intangibles</b>	
To record estimated fair value of acquired identified intangible assets, calculated as 2.25% of HopFed's total core deposits	9,383
<b>H. Adjustment to other assets</b>	
Adjustment to net deferred tax assets (at a 21.0% tax rate)	(1,951)
<b>I. Adjustment to borrowings</b>	
To record estimated fair value of assumed borrowings based on market rates of similar products and to reflect the assumption that short-term borrowings will be used to fund the cash consideration	69,627
<b>J. Adjustment to trust preferred securities</b>	
To reflect the estimated fair value adjusted to HopFed's trust preferred securities	(1,689)
<b>K. Adjustment to common stock</b>	
To eliminate HopFed's common stock and reflect issuance of First Financial's stock to HopFed shareholders, and to reflect the anticipated impact of transaction costs	(36,783)
<b>STATEMENT OF INCOME</b>	
<b>L. Adjustment to loan interest income</b>	
No accretion is reflected in loan income. Fair value interest rate marks will be determined at closing	
<b>M. Adjustment to short term borrowing interest expense</b>	
To reflect accretion of borrowings discount from fair value adjustment over one year remaining life (\$148) and to reflect interest expense associated with short-term borrowings that will be used to fund the cash consideration (\$1,741)	1,889
<b>N. Adjustment to other borrowings</b>	
To reflect the accretion of trust preferred securities discount from fair value adjustment over 13 year remaining life	106
<b>O. Adjustment to occupancy expense</b>	
To reflect the amortization to the anticipated write-up of fixed assets to market value	158
<b>P. Adjustment to other noninterest expense</b>	
To reflect the amortization of the acquired core deposit intangible	954
<b>Q. Adjustment to provision for income taxes</b>	
To reflect the income tax effect of pro forma adjustments L P at an estimated 21.0% tax rate	(652)
<b>R. Weighted average shares outstanding</b>	
Calculated as First Financial's weighted average outstanding shares (12,255,958) plus the number of shares expected to be issued in the merger (1,476,054)	

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**DESCRIPTION OF CAPITAL STOCK OF FIRST FINANCIAL**

As a result of the Merger, HopFed stockholders who receive shares of First Financial common stock in the Merger will become shareholders of First Financial. Your rights as a shareholder of First Financial will be governed by the IBCL, the First Financial Articles of Incorporation, and the First Financial Bylaws. The following briefly summarizes the material terms of First Financial common stock that will be issued in connection with the Merger and should be read in conjunction with the section entitled "Comparison of Rights of First Financial Shareholders and HopFed Stockholders" beginning on page 130. We urge you to read the applicable provisions of the IBCL, the First Financial Articles of Incorporation, and the First Financial Bylaws. Copies of First Financial's and HopFed's governing documents have been filed with the SEC. To find out where copies of these documents can be obtained, see "Where You Can Find More Information" beginning on page 153.

**Authorized Capital Stock**

First Financial's authorized capital stock consists of 40,000,000 shares of First Financial common stock and 10,000,000 shares of preferred stock, without par value ("First Financial preferred stock"). As of [ • ], 2019, [ • ] shares of First Financial common stock were outstanding, [ • ] shares of First Financial common stock were held by First Financial in treasury, and no shares of First Financial preferred stock were issued or outstanding.

**Common Stock**

Holders of First Financial common stock are entitled to:

one vote for each share standing in his, her, or its name on the books of First Financial, except as otherwise provided by applicable law;

receive dividends and other distributions (i) at such times, in such amount and forms, from such sources, and upon such terms and conditions as First Financial's board of directors may, from time to time, determine, subject only to the restrictions, limitations, conditions, and requirements imposed by applicable law and the First Financial Articles of Incorporation, and (ii) in shares of the same class or series or in shares of any other class or series without obtaining the affirmative vote or the written consent of the holders of the shares of the class or series in which the payment or distribution is to be made; and

to share ratably in the remaining net assets of First Financial after payment or provision for payment of the debts and other liabilities of First Financial and of all shares of stock having priority over the First Financial common stock, in the event of any voluntary or involuntary liquidation, dissolution, or winding up of First Financial.

Holders of First Financial common stock have no preemptive rights, no redemption rights (although, the board of directors may acquire issued and outstanding shares in its discretion), and are not entitled to cumulative voting rights. The rights, preferences, and privileges of the holders of First Financial common stock are subject to, and may be adversely affected by, the rights, preferences, and privileges of holders of any shares of First Financial preferred stock that First Financial may designate and issue in the future.

Subject to compliance with applicable federal and state securities laws, First Financial common stock may be transferred without any restrictions or limitations. The transfer agent and registrar for First Financial common stock is American Stock Transfer & Trust Company, LLC.

First Financial common stock is listed with NASDAQ on The NASDAQ Global Select Market under the symbol "THFF." Outstanding First Financial common stock is, and any First Financial

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common stock issued under this prospectus and any applicable prospectus supplement will be, when issued, fully paid and nonassessable.

**Preferred Stock**

First Financial may issue, without any further vote or action by First Financial's shareholders, subject to filing an amendment to the First Financial Articles of Incorporation setting forth the preferences, limitation, and rights and the rules and regulations of any stock exchange on which First Financial's securities may be listed, up to an aggregate of 10,000,000 shares of First Financial preferred stock in one or more series. The First Financial board of directors is vested with authority to determine and state the designations and the relative preferences, limitations, voting rights, and other rights of the First Financial preferred stock and of each series of First Financial preferred stock. All shares of First Financial preferred stock of the same series must be identical with each other in all respects.

First Financial's board of directors may authorize the issuance of First Financial preferred stock with preferences, limitations, voting rights, and other rights that could adversely affect the voting power or other rights of the holders of First Financial common stock. The issuance of First Financial preferred stock could have the effect of decreasing the market price of First Financial common stock, restricting First Financial's ability to repurchase outstanding First Financial common stock, decreasing the amount of earnings and assets available for distribution to holders of First Financial common stock and creating restrictions upon the payment and amount of dividends and other distributions to holders of First Financial common stock. The issuance of First Financial preferred stock also could have the effect of delaying, deterring, or preventing a change in control of First Financial without further action by First Financial's shareholders.

**Anti-Takeover Effects of Certain Provisions of First Financial's Articles of Incorporation and Bylaws and Indiana Law**

First Financial's Articles of Incorporation and Bylaws and the IBCL contain certain provisions that make it more difficult to acquire control of First Financial by means of a tender offer, open market purchase, a proxy fight, or otherwise. These provisions are designed to encourage persons seeking to acquire control of First Financial to negotiate with the board of directors. First Financial believes that, as a general rule, the interests of its shareholders would be best served if any change in control results from negotiations with the board of directors. Certain provisions of First Financial's Articles of Incorporation and Bylaws may have the effect of impeding the acquisition of control of First Financial by means of a tender offer, a proxy fight, open-market purchases, or otherwise in a transaction not approved by First Financial's board of directors.

The provisions of First Financial's Articles of Incorporation and Bylaws which may discourage efforts to acquire control include the following:

cumulative voting for the election of directors is not permitted;

the board of directors of First Financial is divided into three classes, with directors elected for staggered three-year terms;

the availability of authorized but unissued common and preferred stock for issuance from time to time at the discretion of the First Financial board of directors;

a special shareholders' meeting may only be called by the Chairman of the Board or the First Financial board of directors;

nomination of candidates for election to First Financial's board of directors and shareholder proposals require advance notice containing certain information;

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subject to exception, certain business combinations with interested shareholders must be approved by the affirmative vote of the holders of at least 80% of the voting power of all of the then-outstanding shares of voting stock, voting together as a single class; and

a requirement that any change to the First Financial Articles of Incorporation governing certain provisions relating to the board of directors and the provisions relating to business combinations with interested shareholders may only be altered, amended, or repealed, in addition to any other required vote, the affirmative vote of the holders of at least 66<sup>2</sup>/<sub>3</sub>% of the voting power of all of the then-outstanding shares of voting stock, voting together as a single class.

The provisions described above are intended to reduce First Financial's vulnerability to takeover attempts and certain other transactions that have not been negotiated with and approved by members of First Financial's board of directors

Provisions of the IBCL could also affect the acquisition of First Financial common stock, or otherwise affect the control of First Financial. Chapter 42 of the IBCL includes provisions that may limit the voting rights of shares acquired in certain acquisitions of a corporation's stock. Chapter 43 of the IBCL prohibits certain business combinations with an interested shareholder. Although permissible under the IBCL, First Financial has *not* opted out of either of these chapters of the IBCL. The overall effect of these statutes may be to render more difficult or discourage the removal of incumbent management or the assumption of effective control by other persons.

Please see "Comparison of Rights of First Financial Shareholders and HopFed Stockholders Anti-Takeover Provisions" beginning on page 143 for further information.

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**COMPARISON OF RIGHTS OF FIRST FINANCIAL SHAREHOLDERS  
AND HOPFED STOCKHOLDERS**

HopFed stockholders who receive First Financial common stock as consideration in the Merger will become shareholders of First Financial at the effective time of the Merger. First Financial is an Indiana corporation while HopFed is a Delaware corporation. Although the rights of the holders of First Financial common stock and those of holders of HopFed common stock are similar in many respects, there are some differences. These differences relate to differences between the laws governing Indiana corporations, the IBCL, and the laws governing Delaware corporations, the DGCL, as well as differences between provisions of First Financial's Articles of Incorporation and Bylaws and HopFed's Certificate of Incorporation and Bylaws.

Set forth below is a summary of the material differences between the rights of First Financial shareholders and the rights of HopFed stockholders. This description is not intended to be a complete statement of the differences affecting the rights of HopFed stockholders, but rather describes the more significant differences affecting the rights of HopFed stockholders and certain important similarities. Copies of First Financial's and HopFed's governing documents have been filed with the SEC. To find out where copies of these documents can be obtained, please see "Where You Can Find More Information" beginning on page 153.

**FIRST FINANCIAL**

**AUTHORIZED CAPITAL STOCK**

**HOPFED**

First Financial is authorized to issue 40,000,000 shares of common stock, without par value, and 10,000,000 shares of preferred stock, without par value.

HopFed is authorized to issue 15,000,000 shares of common stock, \$0.01 par value per share, and 500,000 shares of serial preferred stock, \$0.01 par value per share.

As of [●], 2019, First Financial had [●] shares of common stock outstanding and no shares of preferred stock outstanding. First Financial's common stock is listed on NASDAQ under the symbol "THFF."

As of [●], 2019, HopFed had [●] shares of common stock outstanding and no shares of preferred stock outstanding. HopFed's common stock is listed on NASDAQ under the symbol "HFBC."

First Financial's board of directors is authorized, by filing an amendment to the First Financial Articles of Incorporation, to determine and to state the designations and the relative preferences, limitations, voting rights, and other rights of preferred stock and of each series of preferred stock.

HopFed's board of directors is authorized, by resolution, to provide for the issuance of serial preferred stock in series and to state the powers, designations, and rights of each such series.

**PREEMPTIVE RIGHTS**

Although permitted by the IBCL, the First Financial Articles of Incorporation expressly provide that neither holders of common stock nor holders of preferred stock have preemptive rights to subscribe to or purchase any shares of common stock, preferred stock, or other securities of First Financial.

The HopFed Certificate of Incorporation provides that no holder of shares of any class or series or of any other securities of HopFed has preemptive rights to purchase or to subscribe for any unissued stock of any class or any other securities of HopFed.

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**FIRST FINANCIAL**

**VOTING RIGHTS; QUORUM**

**HOPFED**

At each shareholders' meeting, every shareholder entitled to vote will have one vote for each share standing in his, her, or its name on the books of First Financial as of the record date fixed by the board of directors for such meeting, except as otherwise provided by applicable law or the First Financial Articles of Incorporation, and except that no share shall be voted at any meeting upon which any installment is due and unpaid.

Directors are elected by a plurality of the votes cast by the shares entitled to vote in the election at a meeting at which a quorum is present.

On all other matters, the action will be approved if the number of votes cast thereon in favor of the action exceeds the number of votes cast opposing the action, except as otherwise provided by applicable law or the First Financial Articles of Incorporation.

The holders of a majority of the voting power of all shares issued and outstanding and entitled to vote, represented in person or by proxy, shall constitute a quorum, unless otherwise provided by applicable law or the First Financial's Articles of Incorporation or Bylaws.

At each meeting of HopFed's stockholders, every stockholder entitled to vote has one vote for each share held by such stockholder as of the record date fixed by the board of directors for such meeting, except as otherwise provided by applicable law or by the HopFed Certificate of Incorporation.

Directors are elected by a plurality of the votes cast by the shares present in person or by proxy at the stockholders meeting and entitled to vote on the election of directors.

On all other matters, unless otherwise provided by applicable law or HopFed's Certificate of Incorporation or Bylaws, a majority of the votes cast by stockholders at a lawful meeting is sufficient to approve a matter.

Unless otherwise provided by applicable law, one-third of the outstanding shares of HopFed entitled to vote, represented in person or by proxy, constitutes a quorum at a meeting of stockholders.

**CUMULATIVE VOTING**

First Financial's Articles of Incorporation provide that shareholders do not have the right to vote cumulatively in the election of directors.

HopFed's Certificate of Incorporation provides that there shall not be cumulative voting by stockholders in the election of directors.

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**FIRST FINANCIAL**

**DIVIDENDS**

**HOPFED**

Holders of First Financial common stock are entitled to receive dividends and other distributions (i) at such times, in such amount and forms, from such sources, and upon such terms and conditions as First Financial's board of directors may, from time to time, determine, subject only to the restrictions, limitations, conditions and requirements imposed by applicable law and the First Financial Articles of Incorporation, and (ii) in shares of the same class or series or in shares of any other class or series without obtaining the affirmative vote or the written consent of the holders of the shares of the class or series in which the payment or distribution is to be made.

Under the IBCL, no distribution may be declared or paid if, after giving it effect, (1) the corporation would not be able to pay its debts as they become due in the usual course of business or (2) the corporation's total assets would be less than the sum of its total liabilities plus, unless the articles of incorporation permit otherwise, the amount that would be needed, if the corporation were to be dissolved at the time of the distribution, to satisfy the preferential rights upon dissolution of stockholders whose preferential rights are superior to those receiving the distribution. The board of directors may base a determination regarding the legality of the declaration or payment of a distribution on financial statements prepared on the basis of accounting practices and principles that are reasonable in the circumstances or on a fair valuation or other method that is reasonable in the circumstances.

Holders of HopFed common stock are entitled to receive dividends and other distributions at such times, in such amount and forms, from such sources, and upon such terms and conditions as the HopFed board of directors may determine, subject to applicable law and the HopFed Certificate of Incorporation.

The DGCL permits dividends to be declared out of two legally available sources: (i) out of surplus (the excess of net assets over the corporation's capital as computed in accordance with the DGCL), or (ii) if there is no surplus, out of net profits for the fiscal year in which the dividend is declared and/or the preceding fiscal year. However, dividends may not be declared out of net profits if the capital of the corporation shall have been diminished by depreciation in the value of its property, or by losses, or otherwise, to an amount less than the aggregate amount of the capital represented by the issued and outstanding stock of all classes having a preference upon the distribution of assets.



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<b>FIRST FINANCIAL</b>	<b>HOPFED</b>
<b>NUMBER OF DIRECTORS; CLASSIFICATION</b>	

First Financial's board of directors currently consists of 9 members. First Financial's Articles of Incorporation provide that the number of directors shall be not less than 5 and not more than 20, as fixed by resolution adopted by a majority of the total number of members of the board of directors.

HopFed's board of directors currently consists of 9 members. HopFed's Certificate of Incorporation provides that the number of directors shall be not less than 5 and not more than 15, as set from time to time by the board of directors.

First Financial's board of directors consists of 3 classes of directors, divided as nearly equal in number as possible. Directors are elected for a term of 3 years, provided, however, each director holds his or her office until his or her successor is chosen and qualified.

HopFed's board of directors consists of 3 classes of directors, divided as nearly equal in number as possible. Directors are elected for a term of 3 years and until their successors are elected and qualified.

**DIRECTOR VACANCIES**

Subject to the rights of any preferred shareholder then outstanding, the First Financial directors are elected at a meeting of shareholders, except that newly-created directorships resulting from any increase in the authorized number of directors or any vacancy may be filled by a majority vote of the "Continuing Directors" although less than a quorum of the board of directors.

Subject to applicable law, vacancies in the HopFed board of directors, including vacancies resulting from an increase in the stated number of directors, shall be filled by a vote of two-thirds of the directors then in office, whether or not a quorum.

For these purposes, the term "Continuing Director" means any director then serving as such who was a member of the board of directors on April 16, 1997 or was recommended for appointment or election (before such person's initial assumption of office as a director) by a majority of the Continuing Directors then on the board.

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**FIRST FINANCIAL**

**REMOVAL OF DIRECTORS**

**HOPFED**

Subject to the rights of any preferred shareholder then outstanding, any director, or the entire board of directors, may be removed from office at any time, but only for cause and only by the affirmative vote of the holders of at least  $66\frac{2}{3}\%$  of the voting power of all of the shares entitled to vote generally in the election of directors, voting together as a single class. For these purposes, removal for cause is limited to removal because of the director's personal dishonesty, incompetence, willful misconduct, breach of fiduciary duty involving personal profit, intentional failure to perform stated duties, willful violation of any law, rule, or regulation (other than traffic violations or similar offenses) or final cease-and-desist order, or material breach of any provision of the contract.

Subject to the rights of any preferred stockholder then outstanding, any director, or the entire board of directors, may be removed from office at any time, but only for cause and only by the affirmative vote of the holders of at least 80% of the outstanding shares of capital stock entitled to vote generally in the election of directors, considered for this purpose as one class.

**CALL OF SPECIAL MEETING OF DIRECTORS**

First Financial's Bylaws provide that a special meeting of the board of directors must be called on the written request of at least 2 directors, the Chairman of the Board, or the President upon giving 2 days' notice of the date, time, and place of the meeting.

HopFed's Bylaws provide that special meetings of the board of directors may be called by or at the request of the chairman, the chief executive officer, or one-third of the directors.

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**FIRST FINANCIAL**

**INDEMNIFICATION**

**HOPFED**

*First Financial's Articles of Incorporation*

*HopFed's Certificate of Incorporation*

First Financial's Articles of Incorporation provide that First Financial must, to the fullest extent permitted by applicable law, indemnify any person who was or is a party, or is threatened to be made a party, to any threatened, pending, or completed action, suit, or proceeding, whether civil, criminal, administrative, or investigative and whether formal or informal, by reason of the fact that he or she is or was a director, officer, employee, or agent of First Financial, or who, while serving as such director, officer, employee, or agent of First Financial, is or was serving at the request of First Financial as a director, officer, partner, trustee, employee, or agent of another corporation, partnership, joint venture, trust, employee benefit plan, or other enterprise, whether for profit or not, against expenses (including counsel fees), judgments, settlements, penalties, and fines (including excise taxes assessed with respect to employee benefit plans) actually or reasonably incurred by him or her in accordance with such action, suit, or proceeding, if he or she acted in good faith and in a manner he or she reasonably believed, in the case of conduct in his or her official capacity, was in the best interests of First Financial, and in all other cases, was not opposed to the best interests of First Financial, and, with respect to any criminal action or proceeding, he or she either had reasonable cause to believe his or her conduct was lawful or no reasonable cause to believe his or her conduct was unlawful.

The HopFed Certificate of Incorporation provides that HopFed must, to the fullest extent permitted by the DGCL, indemnify any person who is or was a director, officer, employee, or agent of HopFed or any person who served or served at HopFed's request as a director, officer, employee, agent, partner, or trustee of another enterprise.

While the HopFed Certificate of Incorporation provides for mandatory indemnification, as opposed to the optional indemnification permitted under the DGCL, the scope of, and the requirements for, indemnification provided for by the HopFed Certificate of Incorporation are generally the same as the DGCL's indemnification provisions, as set forth below. However, the Certificate of Incorporation provides in addition that (i) its indemnification requirements shall be deemed to be a contract between HopFed and the persons entitled to indemnification thereunder and (ii) that its indemnification and advance payment of expenses requirements continue even after the individual ceases to hold a position with HopFed and inure to the benefit of his or her heirs, executors, and administrators.

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**FIRST FINANCIAL**

First Financial's Articles of Incorporation further provide that, to the extent that a director, officer, employee, or agent of First Financial has been successful, on the merits or otherwise, in the defense of any action, suit, or proceeding referred to above, or in the defense of any claim, issue, or matter therein, First Financial must indemnify such person against expenses (including counsel fees) actually and reasonably incurred by such person in connection therewith. Any other indemnification referred to above (unless ordered by a court) will be made by First Financial only as authorized in the specific case, upon a determination that indemnification of the director, officer, employee or agent is permissible in the circumstances because he or she has met the applicable standard of conduct.

First Financial may advance expenses upon making a determination that indemnification is not precluded and upon receipt of a written affirmation from the director, officer, employee, or agent as to his or her good faith belief they are eligible for indemnification and a written undertaking by such person to repay such expenses if it should ultimately be determined that he or she is not entitled to indemnification.

First Financial may purchase and maintain insurance on behalf of any such person against any liability asserted against or incurred by the individual in that capacity or arising from the individual's status as a director, officer, employee or agent, whether or not First Financial would have power to indemnify the individual against the same liability under First Financial's Articles of Incorporation.

**HOPFED**

*DGCL*

The DGCL permits a Delaware corporation to indemnify any person who was or is a party or is threatened to be made a party to any proceeding of any type (other than an action by or in the right of the corporation), by reason of the fact that he or she is or was a director, officer, employee, or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee, or agent of another corporation, partnership, joint venture, trust, or other enterprise, against expenses (including attorneys' fees), judgments, fines, and amounts paid in settlement actually and reasonably incurred by him or her in connection with such action, suit, or proceeding if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. The termination of any action, suit, or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, does not, of itself, create a presumption that these standards have not been met.

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**FIRST FINANCIAL**

*IBCL*

An Indiana corporation may indemnify an individual made a party to a proceeding because the individual is or was a director against liability incurred in the proceeding if (i) the individual's conduct was in good faith, (ii) the individual reasonably believed, in the case of conduct in the individual's official capacity with the corporation, that the individual's conduct was in the best interests of the corporation and, in all other cases, that the individual's conduct was at least not opposed to the corporation's best interests, and (iii) in the case of any criminal proceeding, the individual either had reasonable cause to believe that the individual's conduct was lawful or the individual had no reasonable cause to believe that the individual's conduct was unlawful. A corporation may not indemnify a director under the foregoing provision unless authorized in the specific case after a determination has been made that indemnification of the director is permissible in the circumstances because the director has met the standard of conduct.

Unless limited by its articles of incorporation, a corporation must indemnify a director who was wholly successful, on the merits or otherwise, in the defense of any proceeding to which the director was a party because the director is or was a director of the corporation against reasonable expenses incurred by the director in defense of the proceeding. Unless limited by its articles of incorporation, officers of the corporation, whether or not a director, are similarly entitled this mandatory indemnification to the same extent as a director.

**HOPFED**

A Delaware corporation may also indemnify any person who was or is a party or is threatened to be made a party to any proceeding by or in the right of the corporation by reason of the fact that he or she is or was a director, officer, employee, or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee, or agent of another corporation, partnership, joint venture, trust, or other enterprise against expenses (including attorneys' fees) actually and reasonably incurred by him or her in connection with the defense or settlement of such action or suit if he or she acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the corporation. No indemnification may, however, be made in respect of any claim, issue, or matter as to which such person shall have been adjudged to be liable to the corporation unless and only to the extent that the Delaware Court of Chancery or the court in which such action or suit was brought determines upon application that such person is fairly and reasonably entitled to be indemnified.

To the extent that a director, officer, employee, or agent of a corporation has been successful on the merits or otherwise in defense of any proceeding described above, indemnification against expenses (including attorneys' fees) actually and reasonably incurred by him or her is mandatory.

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**FIRST FINANCIAL**

A corporation may pay for or reimburse the reasonable expenses incurred by a director who is a party to a proceeding in advance of final disposition of the proceeding if: (1) the director furnishes the corporation a written affirmation of the director's good faith belief that the director has met the standard of conduct; (2) the director furnishes the corporation a written undertaking, executed personally or on the director's behalf, to repay the advance if it is ultimately determined that the director did not meet the standard of conduct; and (3) a determination is made that the facts then known to those making the determination would not preclude indemnification under the IBCL.

Unless limited by its articles of incorporation, a corporation may also indemnify and advance expenses to an officer, employee, or agent of the corporation, whether or not a director, to the same extent as to a director under the IBCL.

**HOPFED**

Any determination that indemnification of the director, officer, employee, or agent is proper in the circumstances because he or she has met the applicable standard of conduct noted above must be made by a majority of the board of directors by a majority vote of a quorum consisting of directors who were not parties to such action, suit, or proceeding, or if such a quorum is not obtainable, or, even if obtainable and a quorum of disinterested directors so directs, by independent legal counsel in a written opinion, or by the stockholders.

Expenses (including attorneys' fees) incurred by an officer or director in defending any civil, criminal, administrative, or investigative action, suit, or proceeding may be paid by the corporation in advance of the final disposition of or proceeding upon receipt of an undertaking by or on behalf of such director or officer to repay such amount if it shall ultimately be determined that he or she is not entitled to be indemnified by the corporation.

The indemnification and advancement of expenses provided by, or granted pursuant to, the DGCL's indemnification provisions is not exclusive. A corporation has the power to purchase and maintain insurance against any liability of individuals whom the corporation is required to indemnify.

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**FIRST FINANCIAL**

**LIMITATION OF LIABILITY**

**HOPFED**

*IBCL*

The IBCL provides that a director is not liable for any action taken as a director, or any failure to take any action, regardless of the nature of the alleged breach of duty, including alleged breaches of the duty of care, the duty of loyalty, and the duty of good faith, unless: (1) the director has breached or failed to perform the duties of the director's office in compliance with the IBCL; and (2) the breach or failure to perform constitutes willful misconduct or recklessness.

As permitted under the DGCL, HopFed's Certificate of Incorporation provides that a director shall not be personally liable to HopFed or its stockholders for monetary damages for breach of fiduciary duty as a director, except: (i) for any breach of the director's duty of loyalty to HopFed or its stockholders, (ii) for acts or omissions that are not in good faith or that involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the DGCL (which relates to unlawful payment of dividends and unlawful stock purchases and redemptions), or (iv) for any transaction from which the director derived any improper personal benefit.

*First Financial's Articles of Incorporation*

First Financial's Articles of Incorporation provide that no director, member of any committee of the board of directors, or of another committee appointed by the board, officer, employee, or agent of First Financial shall be liable for any loss or damage if, in taking or omitting to take any action causing such loss or damage, either (1) such person acted in good faith, with the care an ordinarily prudent person in a like position would have exercised under similar circumstances, and in a manner such person reasonably believed was in the best interests of First Financial, or (2) such person's breach of or failure to act in accordance with the foregoing standard of conduct in clause (1) did not constitute willful misconduct or recklessness.

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**FIRST FINANCIAL**

**HOPFED**

**CONSIDERATIONS BY DIRECTORS**

In considering the best interest of a corporation, the IBCL expressly permits a director to consider the effects of any action on shareholders, employees, suppliers, and customers of the corporation, and communities in which offices or other facilities of the corporation are located, and any other factors the director considers pertinent.

HopFed's Certificate of Incorporation permits the board of directors, in evaluating a business combination or a tender or exchange offer, to consider, in addition to the adequacy of the amount to be paid in connection with any such transaction, certain specified factors and any other factors the board deems relevant, including (i) the social and economic effects of the transaction on HopFed and its subsidiaries, employees, depositors, loan and other customers, creditors, and other elements of the communities in which HopFed and its subsidiaries operate or are located; (ii) the business and financial condition and earnings prospects of the acquiring party or parties; and (iii) the competence, experience, and integrity of the acquiring party or parties and its or their management.

Likewise, the First Financial Articles of Incorporation provide that in addition to any other considerations which the board of directors may lawfully take into account, in determining whether to take or to refrain from taking corporate action on any matter, including making or declining to make any recommendation to the shareholders, the board of directors may in its discretion consider the long-term as well as short-term best interests of First Financial (including the possibility that these interests may be best served by the continued independence of First Financial), taking into account, and weighing as the directors deem appropriate, the social and economic effects of such action on present and future employees, suppliers, customers of First Financial and its subsidiaries (including account holders and borrowers of any of First Financial's subsidiaries), the effect upon communities in which offices or other facilities of First Financial are located, and the effect on First Financial's ability to fulfill its corporate obligations as a bank holding company and on the ability of any of its subsidiary financial institutions to fulfill the objectives of a financial institution under applicable statutes and regulations, and any other factors the directors consider pertinent.

**CALL OF SPECIAL MEETINGS OF SHAREHOLDERS/STOCKHOLDERS**

First Financial's Articles of Incorporation and Bylaws provide that special meetings of the shareholders may only be called by the Chairman of the Board or by the board of directors pursuant to a resolution adopted by a majority of the total number of directors.

HopFed's Certificate of Incorporation provides that special meetings of stockholders may only be called by the board of directors or an appropriate committee appointed by the board of directors.



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**FIRST FINANCIAL** **HOPFED**  
**ADVANCE NOTICE REGARDING SHAREHOLDER/STOCKHOLDER**  
**NOMINATION OF CANDIDATES FOR ELECTION TO THE BOARD OF DIRECTORS**

First Financial's Bylaws provide that nomination for election of directors may be made by any shareholder entitled to vote for the election of directors by delivering timely written notice to the Corporate Secretary of First Financial. To be timely, a shareholder's notice shall be delivered to or mailed and received at the principal executive offices of First Financial not less than 120 days prior to the meeting; provided, however, that in the event that less than 130 days' notice or prior public disclosure of the date of the meeting is given or made to shareholders (which notice or public disclosure shall include the date of the annual meeting specified in First Financial's Bylaws if the annual meeting is held on such date), notice by the shareholders to be timely must be so received not later than the close of business on the 10<sup>th</sup> day following the day on which such notice of the date of the meeting was mailed or such public disclosure was made. The notice is required to set forth information about the nominee and the shareholder as specified in First Financial's Bylaws.

HopFed's Certificate of Incorporation provides that any stockholder desiring to make a nomination for the election of directors at a meeting of stockholders must submit written notice to the corporate secretary not less than 30 or more than 60 days in advance of the meeting.

**ADVANCE NOTICE REGARDING SHAREHOLDER/STOCKHOLDER PROPOSALS**

First Financial's Bylaws provide that business may be properly brought before an annual meeting of shareholders by a shareholder if the proposing shareholder has the legal right and authority to make the proposal and the shareholder has given timely notice in writing to the Corporate Secretary of First Financial. To be timely, a shareholder's notice shall be delivered to or mailed and received at the principal executive offices of First Financial not less than 120 days prior to the annual meeting; provided, however, that in the event that less than 130 days' notice or prior public disclosure of the date of the annual meeting is given or made to shareholders (which notice or public disclosure shall include the date of the annual meeting specified in First Financial's Bylaws if the annual meeting is held on such date), notice by the shareholders to be timely must be so received not later than the close of business on the 10<sup>th</sup> day following the day on which such notice of the date of the annual

HopFed's Certificate of Incorporation provides that any stockholder desiring to make a proposal for new business at a meeting of stockholders must submit written notice to the corporate secretary not less than 30 or more than 60 days in advance of the meeting.

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**FIRST FINANCIAL**

meeting was mailed or such public disclosure was made. The notice is required to set forth information about the proposal and the shareholder as specified in First Financial's Bylaws.

**HOPFED**

**SHAREHOLDERS/STOCKHOLDERS ACTION BY WRITTEN CONSENT**

First Financial's Articles of Incorporation provide that any action required or permitted to be taken at any meeting of the shareholders may be taken without a meeting if a consent in writing setting forth the action so taken is signed by all the shareholders entitled to vote with respect thereto, and such written consent is filed with the minutes of the proceedings of the shareholders.

HopFed's Certificate of Incorporation provides that stockholder action may be taken only at an annual or special meeting of stockholders and not by written consent.

**APPOINTMENT AND REMOVAL OF OFFICERS**

First Financial's Bylaws provide that officers are to be elected by the board of directors at its annual meeting and will hold office for one year or until their respective successors have been duly elected and qualified; provided, however, the board of directors may at any time elect one or more persons to a new or different offices and/or change the title, designation, and duties and responsibilities of any of the officers consistent with applicable law, the First Financial Articles of Incorporation, and the First Financial Bylaws. Any officer may be removed at any by the affirmative vote of a majority of the full board of directors.

HopFed's Bylaws provide that its officers shall be elected annually at the first meeting of the board of directors held after the annual meeting of stockholders, to hold office until their respective successors shall have been duly elected and qualified. Any officer may be removed at any by the vote of two-thirds of the board of directors.

**REQUIRED VOTE FOR CERTAIN TRANSACTIONS**

First Financial's Articles of Incorporation and Bylaws do not contemplate a required vote for certain transactions, such as those involving merger, consolidation, or sale, lease, or exchange of all or substantially all of the property or assets of the corporation, except with respect to business combinations with interested shareholders, as is discussed below.

HopFed's Certificate of Incorporation and Bylaws do not contemplate a required vote for certain transactions, such as those involving merger, consolidation, or sale, lease, or exchange of all or substantially all of the property or assets of the corporation, except with respect to business combinations with related persons, as discussed below.

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**FIRST FINANCIAL**

**ANTI-TAKEOVER PROVISIONS**

**HOPFED**

*IBCL Control Share Acquisition Statute*

*DGCL Restrictions on Business Combinations with Interested Stockholders*

Provided that certain thresholds are met for the application of the Indiana Control Share Acquisition Statute and unless an Indiana corporation's articles of incorporation or bylaws provide that the Indiana Control Share Acquisition Statute does not apply, "control shares" acquired in a "control share acquisition" will acquire voting rights only to the extent granted by a resolution approved by the corporation's shareholders.

The DGCL contains a statute designed to provide Delaware corporations with protection against hostile takeovers. This provision prohibits HopFed from engaging in certain business combinations (including a merger) with a person who is the beneficial owner of 15% or more of HopFed's outstanding voting stock (an "Interested Stockholder") during the three-year period following the date such person became an Interested Stockholder. This restriction does not apply if: (1) before such person became an Interested Stockholder, the board of directors approved the transaction in which the Interested Stockholder becomes an Interested Stockholder or approved the business combination; (2) upon consummation of the transaction which resulted in the stockholder becoming an Interested Stockholder, the Interested Stockholder owned at least 85% of the voting stock of HopFed outstanding at the time the transaction commenced, excluding for purposes of determining the number of shares outstanding, those shares owned by (i) persons who are directors and also officers and (ii) employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or (3) on or subsequent to such date, the business combination is approved by the board of directors and authorized at an annual or special meeting of stockholders by the affirmative vote of at least two-thirds of the outstanding voting stock that is not owned by the Interested Stockholder.

A "control share acquisition" is defined as any acquisition, directly or indirectly, by any person of ownership of, or the power to direct the exercise of voting power with respect to, issued and outstanding "control shares." Among others, the acquisition of shares in a merger effected under Chapter 40 of the IBCL does not constitute a control share acquisition if the issuer is a party to the merger agreement.

"Control shares" are defined as shares that, when added to all other shares owned or which the holder may exercise or direct the voting power, would entitle the holder, directly or indirectly, to exercise or direct the voting power of the issuer in the election of directors within any of the following ranges:

one-fifth or more, but less than one-third, of the voting power;

one-third or more, but less than a majority, of the voting power; or

a majority or more of the voting power.

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**FIRST FINANCIAL**

Assuming compliance with applicable notice and informational filing requirements, a shareholder resolution granting voting rights to control shares must generally be approved by each voting group entitled to vote separately by a majority of all the votes entitled to be cast, excluding all "interested shares" (an additional vote is required if the control share acquisition would result in certain amendments to the corporation's articles of incorporation).

First Financial has *not* opted out of the control share acquisition statute.

*IBCL Business Combinations Statute*

Under the Indiana Business Combinations Statute, a "resident domestic corporation" may generally not engage in any business combination with any "interested shareholder" of the resident domestic corporation for a period of five years following the interested shareholder's share acquisition date unless the business combination or the purchase of shares made by the interested shareholder is approved by the board of directors of the resident domestic corporation before the interested shareholder's share acquisition date. If the business combination was not previously approved, the interested shareholder may effect a combination after the five-year period only if such shareholder meets all requirements in the articles of incorporation of the resident domestic corporation and receives approval from a majority of the disinterested shares or the offer meets certain fair price criteria.

For purposes of the above provisions, "resident domestic corporation" means an Indiana corporation that has 100 or more shareholders. "Interested shareholder" means any person, other than the resident domestic corporation or its subsidiaries, who is (1) the beneficial owner, directly or indirectly, of 10% or more of the voting power of the outstanding voting shares of the resident domestic corporation or (2) an affiliate or associate of the resident domestic corporation and at any time within the five-year period immediately before the date in question was the beneficial owner of 10% or more of the voting power of the then outstanding shares of the resident domestic corporation.

**HOPFED**

The above provision of the DGCL applies to all Delaware corporations that do not elect to opt out of its requirements in their certificates of incorporation. The HopFed Certificate of Incorporation does not include such an opt-out provision.

*HopFed's Certificate of Incorporation Business Combination Provision*

HopFed's Certificate of Incorporation requires the approval of the holders of (i) at least 80% of the outstanding shares of voting stock, and (ii) at least a majority of the outstanding shares of voting stock, not including shares held by a "Related Person," to approve certain "Business Combinations," as defined therein, and related transactions. Under the DGCL, absent this provision, Business Combinations, including mergers, consolidations, and sales of substantially all of the assets of HopFed must, subject to certain exceptions, be approved by the vote of the holders of a majority of the outstanding shares of HopFed's common stock.

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The Indiana Business Combinations Statute does not apply to corporations that so elect in an amendment to their articles of incorporation approved by a majority of the disinterested shares. Such an amendment, however, would not become effective until 18 months after its passage and would apply only to stock acquisitions occurring after its effective date. First Financial's Articles of Incorporation *do not* exclude First Financial from the restrictions imposed under the Indiana Business Combinations Statute.

*First Financial's Articles of Incorporation*

First Financial's Articles of Incorporation provide that, in addition to any other required vote, certain business combinations with an "interested shareholder" must be approved by the affirmative vote of the holders of at least 80% of the voting power of all of the then-outstanding shares of voting stock, voting together as a single class, except if the business combination is (i) approved by a majority of the "continuing directors" (provided that there are at least three continuing directors) or (ii) certain fair price and procedure requirements are met.

"Interested shareholder" is defined as any person (other than First Financial or its subsidiaries) who or which: (1) is the beneficial owner, directly or indirectly, of ten percent or more of the voting power of the outstanding voting stock; (2) is an affiliate or an associate of First Financial and at any time within the two-year period immediately prior to the date in question was the beneficial owner, directly or indirectly, of ten percent or more of the voting power of the then outstanding voting stock; or (3) is an assignee of or has otherwise succeeded to any shares of voting stock which were at any time within the two-year period immediately prior to the date in question beneficially owned by any interested shareholder, if such assignment or succession shall have occurred in the course of a transaction or series of transactions not involving a public offering within the meaning of the Securities Act.

**HOPFED**

The increased voting requirements in HopFed's Certificate of Incorporation apply in connection with business combinations involving a "Related Person," except in cases where the proposed transaction has been approved in advance by two-thirds of those members of HopFed's board of directors who are unaffiliated with the Related Person and who were directors prior to the time when the Related Person became a Related Person (the "Continuing Directors"). The term "Related Person" is defined to include any individual, corporation, partnership, or other entity which owns beneficially or controls, directly or indirectly, 10% or more of the outstanding shares of voting stock of HopFed. A "Business Combination" is defined to include (i) any merger or consolidation of HopFed with or into any Related Person; (ii) any sale, lease exchange, mortgage, transfer, or other disposition of all or a substantial part of the assets of HopFed or of a subsidiary of HopFed to any Related Person (the term "substantial part" is defined to include more than 25% of HopFed's total assets); (iii) any merger or consolidation of a Related Person with or into HopFed or a subsidiary of HopFed; (iv) any sale, lease, exchange, transfer, or other disposition of all or any substantial part of the assets of a Related Person to HopFed or a subsidiary of HopFed; (v) the issuance of any securities of HopFed or a subsidiary of HopFed to a Related Person; (vi) the acquisition by HopFed of any securities of the Related Person; (vii) any reclassification of the common stock, or any recapitalization involving common stock; and (viii) any agreement, contract, or other arrangement providing for any of the above transactions.

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**FIRST FINANCIAL**

"Continuing director" is defined as any member of the board of directors of First Financial who is unaffiliated with the interested shareholder and was a member of the board prior to the time that the interested shareholder became an interested shareholder, and any director who is thereafter chosen to fill any vacancy on the board of directors or who is elected and who, in either event, is unaffiliated with the interested shareholder and in connection with his or her initial assumption of office is recommended for appointment or election by a majority of continuing directors then on the board.

**HOPFED**

*HopFed's Certificate of Incorporation Restrictions on Acquisition of More than 10% of Shares*

HopFed's Certificate of Incorporation provides for restrictions on the voting rights of shares owned in excess of 10% of any class of equity security of HopFed. Specifically, HopFed's Certificate of Incorporation provides that if any person acquires the beneficial ownership of more than 10% of any class of equity security of HopFed, then, with respect to each vote in excess of 10%, such person shall be entitled to cast only one-hundredth of one vote. An exception from the restriction is provided if the acquisition of more than 10% of the securities received the prior approval by a two-thirds vote of HopFed's Continuing Directors. Under HopFed's Certificate of Incorporation, the restriction on voting shares beneficially owned in violation of the foregoing limitations is imposed automatically. In order to prevent the imposition of such restrictions, the board of directors must take affirmative action approving in advance a particular offer to acquire or acquisition. Unless the board of directors was to take such affirmative action, the provision would operate to restrict the voting by beneficial owners of more than 10% of HopFed common stock in a proxy contest.

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<b>FIRST FINANCIAL</b>	<b>HOPFED</b>
<b>APPRAISAL RIGHTS OF DISSENTING SHAREHOLDERS/STOCKHOLDERS</b>	<b>APPRAISAL RIGHTS OF DISSENTING SHAREHOLDERS/STOCKHOLDERS</b>

Under the IBCL, a shareholder is generally entitled to dissent from, and obtain payment of the fair value of their shares, in connection with certain mergers which require shareholder approval and the shareholder is entitled to vote on; certain share exchanges which the shareholder is entitled to vote on; certain sales or exchanges of all, or substantially all, of the corporation's property which the shareholder is entitled to vote on; approval of a control share acquisition; election to become a benefit corporation; and other corporate actions taken pursuant to a shareholder vote to the extent the articles of incorporation, bylaws, or a resolution of the board of directors provides that shareholders are entitled to dissent. However, under the IBCL, dissenters' rights are not available to holders of shares listed on a national securities exchange, such as the New York Stock Exchange, NASDAQ, or a similar exchange. Accordingly, since the shares of First Financial common stock are traded on NASDAQ, no dissenters' rights are available to First Financial shareholders (except for special dissenters' rights granted in connection with certain control share acquisitions).

Under the DGCL, a stockholder is generally entitled to judicial appraisal of the fair value of their shares in connection with certain mergers and consolidations. However, under the DGCL, a stockholder does not have appraisal rights (i) if the shares are either listed on a national securities exchange or held of record by more than 2,000 holders, if the terms of the merger or consolidation allow the stockholders to receive only shares of the surviving corporation or shares of any other corporation that are either listed on a national securities exchange or held of record by more than 2,000 holders, plus cash in lieu of fractional shares, or any combination thereof; or (ii) if no vote of the stockholders of the surviving corporation is required to approve the merger and if certain other conditions are met. Since the shares of HopFed common stock are traded on NASDAQ, a national securities exchange, no appraisal rights are available to HopFed stockholders unless they are required to accept cash (other than cash in lieu of fractional shares) or non-qualifying stock, as described above, for all or part of their shares.

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**FIRST FINANCIAL  
AMENDMENT TO ARTICLES/CERTIFICATE OF INCORPORATION AND BYLAWS**

First Financial's Articles of Incorporation may be amended, altered, changed, added to, or repealed in accordance with applicable law, except, in addition to any other required vote, the affirmative vote of the holders of at least 66<sup>2</sup>/<sub>3</sub>% of the voting power of all of the then-outstanding shares of voting stock, voting together as a single class, is required to alter, amend, or repeal certain provisions relating to the board of directors and the provisions relating to business combinations with interested shareholders. The IBCL generally requires the approval of at least a majority of a quorum of shareholders present at a shareholders' meeting (and, in certain cases, a majority of all shares held by any voting group entitled to vote) for amendments to an Indiana corporation's articles of incorporation.

First Financial's Bylaws may be made, altered, amended, or repealed by the affirmative vote of a number of directors equal to a majority of the number who constitute a full board of directors at the time of such action. Shareholders do not have any power to make, alter, amend, or repeal First Financial's Bylaws.

**HOPFED**

HopFed's Certificate of Incorporation provides that specified provisions thereof may not be repealed or amended except upon the affirmative vote of not less than 80% of the outstanding shares of HopFed's stock entitled to vote generally in the election of directors, after giving effect to any limits on voting rights. The specific provisions are those (i) governing the calling of special meetings, the absence of cumulative voting rights, and the requirement that stockholder action be taken only at annual or special meetings; (ii) requiring written notice to HopFed of nominations for the election of directors and new business proposals; (iii) governing the number of members on HopFed's board of directors, the filling of vacancies on the board of directors, and classification of the board of directors; (iv) providing the mechanism for removing directors; (v) limiting the acquisition of more than 10% of the capital stock of the HopFed; (vi) governing the requirement for the approval of certain business combinations involving a "Related Person"; (vii) regarding the consideration of certain nonmonetary factors in the event of an offer by another party; (viii) providing for the indemnification of directors, officers, employees, and agents of HopFed; (ix) pertaining to the elimination of the liability of the directors to HopFed and its stockholders for monetary damages, with certain exceptions, for breach of fiduciary duty; and (x) governing the required stockholder vote for amending HopFed's Certificate of Incorporation or Bylaws. Other provisions of HopFed's Certificate of Incorporation may be repealed or amended by the vote required by the DGCL for the repeal or amendment of a certificate provision, which is generally the vote of the holders of a majority of a corporation's outstanding stock.



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**FIRST FINANCIAL**

**HOPFED**

HopFed's Bylaws may be altered, amended, or repealed by the board of directors by a vote of two-thirds of the board of directors at a meeting held in accordance with HopFed's Bylaws. HopFed's Bylaws may be altered, amended, or repealed by stockholders only by vote of not less than 80% of HopFed's outstanding shares of capital stock entitled to vote generally in the election of directors cast at a meeting of stockholders held for such purpose.

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First Financial's common stock is listed on NASDAQ under the symbol "THFF," and HopFed common stock is listed on NASDAQ under the symbol "HFBC." The following table sets forth for the periods indicated the high and low reported intraday sales prices per share of First Financial common stock and HopFed common stock on NASDAQ, and the cash dividends declared per share.

Quarter Ended:	First Financial Common Stock			HopFed Common Stock		
	High	Low	Dividend	High	Low	Dividend
June 30, 2019 (through April [•], 2019)	\$ [•]	\$ [•]	\$ [•]	\$ [•]	\$ [•]	\$ [•]
March 31, 2019	44.89	37.41		20.36	13.64	
December 31, 2018	52.52	38.03	0.51	18.10	13.03	0.07
September 30, 2018	53.05	45.10		18.10	15.47	0.07
June 30, 2018	46.60	40.75	0.51	16.69	14.35	0.07
March 31, 2018	48.35	41.55		16.29	14.00	0.05
December 31, 2017	50.20	45.25	2.01	14.74	13.63	0.05
September 30, 2017	48.90	39.55		14.90	13.51	0.05
June 30, 2017	52.35	44.75	0.50	15.23	14.20	0.05
March 31, 2017	53.30	42.55		15.45	13.18	0.04

On January 7, 2019, the last full trading day before the public announcement of the Merger Agreement, the closing sale price of shares of First Financial common stock as reported on NASDAQ was \$42.53. On [ • ], 2019, the last practicable trading day before the date of this proxy statement/prospectus, the closing sale price of shares of First Financial common stock as reported on NASDAQ was \$[ • ].

On January 7, 2019, the last full trading day before the public announcement of the Merger Agreement, the closing sale price of shares of HopFed common stock as reported on NASDAQ was \$14.24. On [ • ], 2019, the last practicable trading day before the date of this proxy statement/prospectus, the closing sale price of shares of HopFed common stock as reported on NASDAQ was \$[ • ].

As of [ • ], 2019, the last day prior to the date of this proxy statement/prospectus for which it was practicable to obtain this information for First Financial and HopFed, respectively, there were approximately [ • ] registered holders of First Financial common stock and approximately [ • ] registered holders of HopFed common stock.

The following table shows the closing sale prices of First Financial common stock and HopFed common stock as reported on NASDAQ on January 7, 2019, the last full trading day before the public announcement of the Merger Agreement, and on [ • ], 2019, the last practicable trading day before the date of this proxy statement/prospectus. The equivalent per share of HopFed common stock was calculated by multiplying the price of a share of First Financial common stock by the Exchange Ratio of 0.444 and does not reflect the receipt of cash by HopFed stockholders.

	First Financial Common Stock	HopFed Common Stock	Equivalent Per Share of HopFed Common Stock
January 7, 2019	\$ 42.53	\$ 14.24	\$ 18.88
[•], 2019	\$ [•]	\$ [•]	\$ [•]

HopFed stockholders are advised to obtain current market quotations for First Financial common stock and HopFed common stock. The market price of First Financial common stock and HopFed common stock will fluctuate between the date of this proxy statement/prospectus and the date of completion of the Merger. No assurance can be given concerning the market price of HopFed common

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stock before the effective time of the Merger or First Financial common stock before or after the effective time of the Merger. Changes in the market price of First Financial common stock prior to the completion of the Merger will affect the market value of the Stock Consideration that HopFed stockholders may receive upon completion of the Merger.

**LEGAL MATTERS**

The validity of the First Financial common stock to be issued in connection with the Merger will be passed upon for First Financial by SmithAmundsen LLC. Certain U.S. federal income tax consequences relating to the Merger will also be passed upon for First Financial by SmithAmundsen LLC and for HopFed by Jones Walker LLP, Washington, D.C.

**EXPERTS**

**First Financial**

The consolidated financial statements of First Financial as of December 31, 2018 and 2017 and for each of the years in the three-year period ended December 31, 2018 and the effectiveness of First Financial's internal control over financial reporting as of December 31, 2018 have been audited by Crowe LLP, an independent registered public accounting firm, as set forth in their report appearing in its Annual Report on Form 10-K for the year ended December 31, 2018 and incorporated in this proxy statement/prospectus by reference. Such consolidated financial statements have been so incorporated in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

**HopFed**

The consolidated financial statements of HopFed as of December 31, 2018 and the effectiveness of HopFed's internal control over financial reporting as of December 31, 2018 have been audited by HORNE LLP, an independent registered public accounting firm, as set forth in their report appearing in its Annual Report on Form 10-K for the year ended December 31, 2018, as amended, and attached as *Annex D* to this proxy statement/prospectus. Such consolidated financial statements have been so included in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

The consolidated financial statements of HopFed as of December 31, 2017 and for each of the two years in the period ended December 31, 2017 have been audited by Carr, Riggs & Ingram, LLC, an independent registered public accounting firm, as set forth in their report appearing in its Annual Report on Form 10-K for the year ended December 31, 2018, as amended, and attached as *Annex D* to this proxy statement/prospectus. Such consolidated financial statements have been so included in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

**SHAREHOLDER/STOCKHOLDER PROPOSALS FOR NEXT YEAR**

**First Financial**

First Financial shareholders desiring to make a director nomination or a proposal for any business or matter to be presented at any annual meeting of shareholders of First Financial must comply with the advance notice procedures provided in First Financial's Bylaws. Those procedures are summarized below. Failure to comply with First Financial's bylaw procedures and deadlines may preclude presentation of such proposals at an annual meeting. A complete copy of First Financial's Bylaws is included as an exhibit to the Corporation's Form 8-K filed on August 24, 2012 and is available on the SEC's website at [www.sec.gov](http://www.sec.gov).

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*Notice Deadline*

Nominations for the election as directors and proposals for any business or matter to be presented at any annual meeting of shareholders may be made by any First Financial shareholder of record entitled to vote in the election of directors or on the business or matter to be presented, as the case may be. In order for a shareholder to make such a nomination or proposal, First Financial's Corporate Secretary must receive notice thereof in writing not less than 120 days prior to the date of the annual meeting; provided, however, that in the event that less than 130 days' notice or prior public disclosure of the date of the annual meeting is given or made to shareholders (which notice or public disclosure shall include the date of the annual meeting specified in First Financial's Bylaws, if the annual meeting is held on such date), notice by the shareholder to be timely must be received by First Financial no later than the close of the 10<sup>th</sup> day following the day on which such notice of the date of the annual meeting was mailed or such public disclosure was made.

*Inclusion in Our Proxy Materials*

A shareholder who desired to include a proposal in First Financial's proxy soliciting materials relating to First Financial's 2019 annual meeting of shareholders must have sent the proposal in writing to Mr. Rodger A. McHargue, First Financial's Corporate Secretary, such that First Financial received it at First Financial's principal executive office at One First Financial Plaza, Terre Haute, Indiana 47808 no later than November 14, 2018. Any such proposal must have been made in accordance with Rule 14a-8 under the Exchange Act.

A shareholder who desires to include a proposal in First Financial's proxy soliciting materials relating to First Financial's 2020 annual meeting of shareholders must send the proposal in writing to Mr. Rodger A. McHargue, First Financial's Corporate Secretary, such that First Financial receives it at First Financial's principal executive office at One First Financial Plaza, Terre Haute, Indiana 47808 no later than November 14, 2019. Any such proposal must have been made in accordance with Rule 14a-8 under the Exchange Act.

*Shareholder Nominations of Director Candidates*

Each notice given by a shareholder with respect to a nomination for election as a director must set forth for each nominee: (i) the name, age, business address, and residence address of such person, (ii) the principal occupation or employment of such person, (iii) the class and number of shares of First Financial which are beneficially owned by such person, and (iv) any other information relating to such person that is required to be disclosed in solicitations of proxies for the election of directors, or is otherwise required, in each case pursuant to Regulation 14A under the Exchange Act (including without limitation such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected). The shareholder making the nomination must provide his or her name and record address and the class and number of shares of First Financial stock beneficially owned by the shareholder, and will be asked to provide any other information relating to his or her nominee as may be reasonably requested by us.

**HopFed**

HopFed's Certificate of Incorporation provides that due notice of business to be brought before an annual meeting by a HopFed stockholder must be delivered to the Corporate Secretary of HopFed not less than 30 nor more than 60 days prior to the meeting, unless notice of this date of the meeting occurs fewer than 40 days prior to the date of the meeting, in which event the HopFed Certificate of Incorporation provides due notice of business to be brought before the meeting by a HopFed stockholder must be so received not later than the close of business on the 10th day following the day on which notice of the day of the meeting was mailed. A HopFed stockholder's notice of new business

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must also set forth certain information specified in HopFed's Certificate of Incorporation concerning the business the stockholder proposes to bring before the annual meeting. New business may be proposed by any HopFed stockholder eligible to vote at an annual meeting, provided the notice is timely and complies with the informational requirements of HopFed's Certificate of Incorporation.

Any HopFed stockholder who intended to present a proposal for inclusion in HopFed's proxy materials relating to action at the 2019 annual meeting of stockholders, to be held on or about May 15, 2019, if actually held, must have forwarded a copy of the proposal or proposals to HopFed's Corporate Secretary at P.O. Box 537, Hopkinsville, Kentucky 42241-0537. Any such proposal or proposals intended to be presented at the 2019 annual meeting of stockholders must have been received by HopFed for inclusion in its proxy statement and form of proxy relating to that meeting by December 21, 2018.

To be timely under HopFed's Certificate of Incorporation, a stockholder's proposal for new business in connection with the 2019 annual meeting of stockholders, if held, must be delivered to HopFed's Corporate Secretary on or before April 15, 2019. With respect to the 2019 annual meeting of the stockholders and pursuant to SEC rules, if HopFed is not provided notice of a stockholder proposal, which the stockholder has not previously sought to include in HopFed's proxy statement and form of proxy, by April 15, 2019, management proxies will be allowed to use their discretionary authority to vote on such proposal without any discussion of the matter in the proxy statement.

It is anticipated that HopFed will not hold an annual meeting of stockholders in 2020.

HopFed will not include in its proxy statement and proxy relating to an annual meeting, or to consider and vote upon at any such meeting, any stockholder proposal which does not meet all of the requirements established by the SEC or HopFed's Certificate of Incorporation or Bylaws in effect at the time such proposal is received. In no event will the public announcement of an adjournment of an annual meeting commence a new time period for the giving of a stockholder's notice as described above.

#### **OTHER MATTERS**

No matters other than the matters described in this proxy statement/prospectus are anticipated to be presented for action at the Special Meeting, or at any adjournment or postponement of such meetings. If any procedural matters relating to the conduct of the meeting are presented, the proxies solicited hereby will be voted on such matters in accordance with the judgment of a majority of HopFed's board of directors, in their discretion.

#### **WHERE YOU CAN FIND MORE INFORMATION**

First Financial has filed with the SEC a registration statement under the Securities Act that registers the issuance of the shares of First Financial common stock to be issued in connection with the Merger. This proxy statement/prospectus is a part of that registration statement and constitutes the prospectus of First Financial, in addition to being a proxy statement for HopFed stockholders. The registration statement, including this proxy statement/prospectus and the attached exhibits and schedules, contains additional relevant information about First Financial.

First Financial and HopFed also file reports, proxy statements, and other information with the SEC under the Exchange Act. You may read and copy this information at the Public Reference Room of the SEC at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. You may obtain information on the operation of the SEC's Public Reference Room by calling the SEC at 1-800-SEC-0330. You may also obtain copies of this information by mail from the Public Reference Section of the SEC, 100 F Street, N.E., Washington, D.C. 20549, at prescribed rates, or from commercial document retrieval services.

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The SEC also maintains an Internet website that contains reports, proxy statements, and other information about issuers, such as First Financial and HopFed, who file electronically with the SEC. The address of the site is <http://www.sec.gov>.

First Financial's website address is [www.first-online.com](http://www.first-online.com). First Financial makes available, free of charge, on or through its website, its annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K that are filed with or furnished to the SEC, and amendments to those reports, as soon as reasonably practicable after it electronically files such reports with, or furnish them to, the SEC. The contents of First Financial's website are not part of this proxy statement/prospectus, and the reference to First Financial's website does not constitute incorporation by reference in this proxy statement/prospectus of the information contained at that website.

HopFed's website address is [www.bankwithheritage.com](http://www.bankwithheritage.com). HopFed makes available, free of charge, on or through its website, its annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K that are filed with or furnished to the SEC, and amendments to those reports, as soon as reasonably practicable after it electronically files such reports with, or furnish them to, the SEC. The contents of HopFed's website are not part of this proxy statement/prospectus, and the reference to HopFed's website does not constitute incorporation by reference in this proxy statement/prospectus of the information contained at that website.

The SEC allows First Financial to incorporate by reference information in this proxy statement/prospectus. This means that First Financial can disclose important information to you by referring you to another document filed separately with the SEC. The information incorporated by reference is considered to be a part of this proxy statement/prospectus, except for any information that is superseded by information that is included directly in this proxy statement/prospectus.

This proxy statement/prospectus incorporates by reference the documents listed below that First Financial previously filed with the SEC (other than, in each case, documents or information deemed to have been furnished and not filed according to SEC rules). They contain important information about the companies and their financial condition.

<b>First Financial SEC Filings</b>	<b>Period or Date Filed</b>
Annual Report on Form 10-K	Year ended December 31, 2018
Current Reports on Form 8-K	Filed on January 8, 2019, January 9, 2019 (Form 8-K/A), February 1, 2019 (Date of Report: January 28, 2019), February 8, 2019, and April 3, 2019 (excluding the portions of those documents not deemed to be filed)
Definitive Proxy Statement on Schedule 14A	Filed March 14, 2019

First Financial also incorporates by reference the description of its common stock, without par value, contained in its registration statement on Form 8-A filed with the SEC on April 25, 1988, or contained in any subsequent amendment or report filed for the purpose of updating such description.

In addition, First Financial also incorporate by reference additional documents filed with the SEC under Sections 13(a), 13(c), 14, and 15(d) of the Exchange Act between the date of this proxy statement/prospectus and the date of the Special Meeting, provided that First Financial is not incorporating by reference any information furnished to, but not filed with, the SEC.

Further, attached as *Annex D* to this proxy statement/prospectus is HopFed's Annual Report on Form 10-K for the year ended December 31, 2018, as amended, which is included as a part of this proxy statement/prospectus. This document has been previously filed with the SEC by HopFed and contains important information about HopFed and its financial condition.

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Except where the context otherwise indicates, First Financial has supplied all information contained or incorporated by reference in this proxy statement/prospectus relating to First Financial, and HopFed has supplied all information contained in or included with this proxy statement/prospectus relating to HopFed.

Documents incorporated by reference by First Financial or otherwise previously filed by HopFed with the SEC are available from First Financial and HopFed without charge, excluding any exhibits to those documents unless the exhibit is specifically incorporated by reference as an exhibit in this proxy statement/prospectus. You can obtain such documents by requesting them in writing or by telephone from the appropriate company at the following address and phone number:

**First Financial Corporation**  
One First Financial Plaza  
P.O. Box 540  
Terre Haute, Indiana 47808  
Attention: Rodger A. McHargue, Chief Financial Officer  
and Corporate Secretary  
(812) 238-6000

**HopFed Bancorp, Inc.**  
P.O. Box 537  
Hopkinsville, Kentucky 42241  
Attention: Michael L. Woolfolk, Chief Operating  
Officer and Corporate Secretary  
(270) 885-1171

You will not be charged for any of these documents that you request. **To obtain timely delivery of these documents, you must request them no later than five business days before the date of the Special Meeting. This means that HopFed stockholders requesting documents must do so by [ • ], 2019, in order to receive them before the Special Meeting.**

**Neither First Financial nor HopFed has authorized anyone to give any information or make any representation about the Merger or the companies that is different from, or in addition to, that contained in this proxy statement/prospectus or in any of the materials that have been included with or incorporated by reference into this proxy statement/prospectus. Therefore, if anyone does give you information of this sort, you should not rely on it. If you are in a jurisdiction where offers to exchange or sell, or solicitations of offers to exchange or purchase, the securities offered by this proxy statement/prospectus or the solicitation of proxies is unlawful, or if you are a person to whom it is unlawful to direct these types of activities, then the offer presented in this proxy statement/prospectus does not extend to you. The information contained in this proxy statement/prospectus speaks only as of the date of this proxy statement/prospectus unless the information specifically indicates that another date applies.**

**AGREEMENT AND PLAN OF MERGER**

by and between

First Financial Corporation

and

HopFed Bancorp, Inc.

Dated as of January 7, 2019

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**AGREEMENT AND PLAN OF MERGER**

AGREEMENT AND PLAN OF MERGER, dated as of January 7, 2019 (this "Agreement"), by and between HopFed Bancorp, Inc., a Delaware corporation ("HopFed"), and First Financial Corporation, an Indiana corporation ("First Financial").

**WITNESSETH:**

WHEREAS, the Boards of Directors of First Financial and HopFed have determined that it is in the best interests of their respective companies and their shareholders to consummate the business combination transaction provided for herein, pursuant to which HopFed will, subject to the terms and conditions set forth herein, merge with and into First Financial (the "Merger"), so that First Financial is the surviving corporation (hereinafter sometimes referred to in such capacity as the "Surviving Corporation") in the Merger; and

WHEREAS, for Federal income tax purposes, it is intended that the Merger shall qualify as a "reorganization" within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended (the "Code"), and this Agreement is intended to be and is adopted as a plan of reorganization for purposes of Sections 354 and 361 of the Code; and

WHEREAS, as an inducement for First Financial to enter into this Agreement, the directors of HopFed, in their capacity as shareholders, and certain shareholders of HopFed have simultaneously herewith entered into a voting agreement (collectively, the "Voting Agreements") in connection with the Merger; and

WHEREAS, the parties desire to make certain representations, warranties and agreements in connection with the Merger and also to prescribe certain conditions to the Merger.

NOW, THEREFORE, in consideration of the mutual covenants, representations, warranties and agreements contained herein, and intending to be legally bound hereby, the parties agree as follows:

**ARTICLE I  
THE MERGER**

1.1 The Merger. Subject to the terms and conditions of this Agreement, in accordance with the Indiana Business Corporation Law (the "IBCL") and the Delaware General Corporation Law (the "DGCL"), at the Effective Time, HopFed shall merge with and into First Financial. First Financial shall be the Surviving Corporation in the Merger, and shall continue its corporate existence under the laws of the State of Indiana. At the Effective Time, the separate corporate existence of HopFed shall terminate.

1.2 Effective Time. The Merger shall become effective as set forth in the articles of merger to be filed with the Secretary of State of the State of Indiana (the "Indiana Secretary") and the certificate of merger to be filed with the Secretary of State of the State of Delaware (the "Delaware Secretary"), respectively, on the Closing Date (collectively, the "Certificates of Merger"). The term "Effective Time" shall be the date and time when the Merger becomes effective, as set forth in the Certificates of Merger.

1.3 Effects of the Merger. At and after the Effective Time, the Merger shall have the effects set forth in the applicable provisions of the IBCL and the DGCL.

1.4 Conversion of HopFed Common Stock

(a) Subject to the terms and conditions of this Agreement, each share of the common stock, \$0.01 par value per share, of HopFed issued and outstanding immediately prior to the Effective Time ("HopFed Common Stock"), shall become and be converted into the right to receive in

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accordance with this Agreement, at the election of the holder thereof and as provided in and subject to the provisions of Section 1.5 and Section 2.2, either (or a combination of):

(i) 0.444 shares, as may be adjusted in accordance with the terms of this Agreement (the "Exchange Ratio" and such shares, the "Stock Consideration") of the common shares, no par value per share, of First Financial (the "First Financial Common Stock"); it being understood that upon the Effective Time, the First Financial Common Stock, including the shares issued to former holders of HopFed Common Stock, shall be the common shares of the Surviving Corporation; or,

(ii) \$21.00 in cash (the cash consideration to be paid in the Merger is referred to herein as the "Cash Consideration") (with the aggregate of the Stock Consideration and the Cash Consideration being paid for all outstanding shares of HopFed Common Stock collectively referred to herein as the "Merger Consideration");

provided, however, that in the aggregate, fifty percent (50%) of HopFed's common stock issued and outstanding immediately prior to the Effective Time will be converted and exchanged for First Financial common stock and fifty percent (50%) of HopFed's common stock issued and outstanding immediately prior to the Effective Time will be exchanged for cash, in accordance with the election allocation provisions of Section 1.5. In the event of a reduction in the Merger Consideration pursuant to Section 7.2(h), the Stock Consideration and the Cash Consideration will each be reduced proportionally.

(b) All of the shares of HopFed Common Stock converted into the right to receive the Merger Consideration pursuant to this Article I shall no longer be outstanding and shall automatically be cancelled and shall cease to exist as of the Effective Time, and each certificate (each, an "Old Certificate", it being understood that any reference herein to "Old Certificate" shall be deemed to include reference to book-entry account statements relating to the ownership of shares of HopFed Common Stock) previously representing any such shares of HopFed Common Stock shall thereafter represent only the right to receive pursuant to the terms and conditions of this Agreement: (i) the Merger Consideration into which such shares of HopFed Common Stock have been converted into the right to receive, (ii) cash in lieu of fractional shares which the shares of HopFed Common Stock represented by such Old Certificate have been converted into the right to receive, and (iii) any dividends or distributions which the holder thereof has the right to receive pursuant to Section 2.2. Old Certificates previously representing shares of HopFed Common Stock shall be exchanged for the Merger Consideration (together with any dividends or distributions with respect thereto and cash in lieu of fractional shares issued in consideration therefor) upon the surrender of such Old Certificates in accordance with the terms of this Agreement and without any interest thereon.

(c) If, prior to the Effective Time, the outstanding shares of First Financial Common Stock or HopFed Common Stock shall have been increased, decreased, changed into or exchanged for a different number or kind of shares or securities as a result of a reorganization, recapitalization, reclassification, stock dividend, stock split, reverse stock split, or other similar change in capitalization, or there shall be any extraordinary dividend or distribution, an appropriate and proportionate adjustment shall be made to the Exchange Ratio. (By way of illustration, if First Financial shall declare a stock dividend of 3% payable with respect to a record date on or prior to the Effective Date, the Exchange Ratio shall be adjusted upward by 3%). In addition, in the event that, prior to the Effective Date, First Financial enters into an agreement pursuant to which shares of First Financial Common Stock would be converted into shares or other securities or obligations of another corporation, proper provision shall be made in such agreement so that each HopFed shareholder entitled to receive shares of First Financial Common Stock in the Merger shall be entitled to receive, pro rata, such number of shares or other securities or amount or obligations of

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such other corporation as such shareholder would be entitled to receive if the Effective Date had occurred immediately prior to the happening of such event.

(d) The holders of HopFed Common Stock are entitled to appraisal rights under Section 262(b) of the DGCL. Notwithstanding any provision of this Agreement to the contrary, if required by the DGCL (but only to the extent required thereby), HopFed Common Stock that is issued and outstanding immediately prior to the Effective Time (other than HopFed Common Stock to be canceled pursuant to Section 1.4(e)) and that is held by holders of such HopFed Common Stock who have not voted in favor of the adoption of this Agreement or consented thereto in writing and who have properly exercised appraisal rights with respect thereto in accordance with, and who have complied with, Section 262 of the DGCL (the "Dissenting Shares"), will not be convertible into the right to receive the Merger Consideration, and holders of such Dissenting Shares will be entitled to receive payment of the fair value of such Dissenting Shares in accordance with the provisions of such Section 262 unless and until any such holder fails to perfect or effectively withdraws or loses its rights to appraisal and payment under the DGCL. If, after the Effective Time, any such holder fails to perfect or effectively withdraws or loses such right, such Dissenting Shares will thereupon be treated as if they had been converted into and have become exchangeable for, at the Effective Time, the right to receive the Merger Consideration, without any interest thereon, and First Financial shall remain liable for payment of the Merger Consideration for such shares of HopFed Common Stock. At the Effective Time, any holder of Dissenting Shares shall cease to have any rights with respect thereto, except the rights provided in Section 262 of the DGCL and as provided in the previous sentence. HopFed will give First Financial (i) notice of any demands received by HopFed for appraisals of shares of HopFed Common Stock and (ii) the opportunity to participate in and direct all negotiations and proceedings with respect to such notices and demands. HopFed shall not, except with the prior written consent of First Financial, make any payment with respect to any demands for appraisal or settle any such demands.

(e) Notwithstanding anything in this Agreement to the contrary, at the Effective Time, all shares of HopFed Common Stock that are owned by HopFed or First Financial (in each case other than in a fiduciary or agency capacity or as a result of debts previously contracted) and all Dissenting Shares (collectively, the "Exempt HopFed Stock") shall be cancelled and shall cease to exist and no Merger Consideration shall be delivered in exchange therefor.

(f) Notwithstanding any other provision in this Agreement, no fractional shares of First Financial Common Stock and no certificates or scrip therefor, or other evidence of ownership thereof, will be issued in the Merger; instead, First Financial shall pay to each holder of HopFed Common Stock who otherwise would be entitled to a fractional share of First Financial Common Stock an amount in cash (without interest) determined by multiplying such fraction by the average of the daily closing sales prices of a share of First Financial's Common Stock, rounded to the nearest cent, during the fifteen (15) consecutive trading days immediately preceding the second business day prior to the Closing Date; provided, however, that closing sales prices shall only be used for days during which such shares are actually traded on the NASDAQ Global Select Market.

1.5 Election Procedures.

(a) *Cash and Stock Elections.* An election form and other appropriate and customary transmittal materials (which shall specify that delivery shall be effected, and risk of loss and title to certificates shall pass, only upon proper delivery of such certificates to American Stock Transfer & Trust Co. or such other designated third-party exchange agent mutually agreed upon by First Financial and HopFed (referred to when acting in such capacity as the "Exchange Agent") in such form as designated by First Financial and the Exchange Agent (the "Election Form"), shall be mailed along with the Prospectus/Proxy Statement (as defined in Section 3.4) to each holder of

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record of HopFed Common Stock as of the record date for the HopFed Shareholder Meeting. Each Election Form shall permit the holder of record of HopFed Common Stock (or in the case of nominee record holders, the beneficial owner through proper instructions and documentation) to (i) elect to receive the Cash Consideration for all or a portion of such holder's shares of HopFed Common Stock (a "Cash Election"), (ii) elect to receive the Stock Consideration for all or a portion of such holder's shares of HopFed Common Stock (a "Stock Election"), or (iii) make no election with respect to the receipt of the Cash Consideration or the Stock Consideration (a "Non-Election"); provided, however, that, notwithstanding any other provision of this Agreement to the contrary, but subject to Section 1.5(f), no more than fifty percent (50%) of the shares of HopFed Common Stock (the "Stock Conversion Number") shall be converted into the Stock Consideration and the remaining shares of HopFed Common Stock issued and outstanding immediately prior to the Effective Time shall be converted into the Cash Consideration (the "Cash Consideration Number"). Shares of HopFed Common Stock as to which a Cash Election has been made are referred to herein as "Cash Election Shares." Shares of HopFed Common Stock as to which a Stock Election has been made are referred to herein as "Stock Election Shares." Shares of HopFed Common Stock as to which no election has been made (or as to which an Election Form is not properly completed and returned in a timely fashion) are referred to herein as "Non-Election Shares." The aggregate number of shares of HopFed Common Stock with respect to which a Stock Election has been made is referred to herein as the "Stock Election Number."

(b) *Delivery of Election.* To be effective, a properly completed Election Form shall be received by the Exchange Agent on or before 5:00 p.m., Eastern Time, on the date of the HopFed Shareholder's Meeting to vote on the Agreement (the "Election Deadline"), accompanied by the Old Certificates representing HopFed Common Stock as to which such Election Form is being made or by an appropriate guarantee of delivery of such Old Certificates, as set forth in the Election Form, from a member of any registered national securities exchange or a commercial bank or trust company in the United States; provided, however, that any such guarantee shall be subject to the condition that such Old Certificates are in fact delivered to the Exchange Agent by the time required in such guarantee of delivery and failure to deliver the Old Certificates covered by such guarantee of delivery within the time set forth in such guarantee shall be deemed to invalidate any otherwise properly made election, unless otherwise determined by First Financial, in its sole discretion. For shares of HopFed Common Stock (if any) held in book entry form, First Financial shall establish procedures for delivery of such shares, which procedures shall be reasonably acceptable to HopFed. If a holder of HopFed Common Stock either (i) does not submit a properly completed Election Form in a timely fashion or (ii) revokes the holder's Election Form prior to the Election Deadline (without later submitting a properly completed Election Form prior to the Election Deadline), the shares of HopFed Common Stock held by such holder shall be designated Non-Election Shares. All Election Forms shall automatically be revoked, and all Old Certificates returned, if the Exchange Agent is notified in writing by First Financial and HopFed that this Agreement has been terminated. Subject to the terms of this Agreement and of the Election Form, the Exchange Agent shall have reasonable discretion to determine whether any election, revocation or change has been properly or timely made and to disregard immaterial defects in any Election Form, and any good faith decisions of the Exchange Agent regarding such matters shall be binding and conclusive. Neither First Financial nor the Exchange Agent shall be under any obligation to notify any person of any defect in an Election Form.

(c) *Allocation.* The allocation among the holders of shares of HopFed Common Stock of rights to receive the Cash Consideration and the Stock Consideration will be made as set forth in this Section 1.5 (with the Exchange Agent to determine, consistent with Section 1.5(a), whether fractions of Cash Election Shares, Stock Election Shares or Non-Election Shares, as applicable, shall be rounded up or down).

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(d) *Aggregate Stock Consideration Oversubscribed.* If the Stock Election Number exceeds the Stock Conversion Number, then all Cash Election Shares and all Non-Election Shares shall be converted into the right to receive the Cash Consideration, and, subject to Section 1.4(f) hereof, each holder of Stock Election Shares will be entitled to receive the Stock Consideration in respect of that number of Stock Election Shares held by such holder equal to the product obtained by multiplying (x) the number of Stock Election Shares held by such holder by (y) a fraction, the numerator of which is the Stock Conversion Number and the denominator of which is the Stock Election Number, with the remaining number of such holder's Stock Election Shares being converted into the right to receive the Cash Consideration.

(e) *Aggregate Stock Consideration Undersubscribed.* If the Stock Election Number is less than the Stock Conversion Number (the amount by which the Stock Conversion Number exceeds the Stock Election Number being referred to herein as the "Shortfall Number"), then all Stock Election Shares shall be converted into the right to receive the Stock Consideration and the Non-Election Shares and the Cash Election Shares shall be treated in the following manner:

(i) *Adjustment to Non-Election Share Allocation Only.* If the Shortfall Number is less than or equal to the number of Non-Election Shares, then all Cash Election Shares shall be converted into the right to receive the Cash Consideration and, subject to Section 1.4(f) hereof, each holder of Non-Election Shares shall receive the Stock Consideration in respect of that number of Non-Election Shares held by such holder equal to the product obtained by multiplying (x) the number of Non-Election Shares held by such holder by (y) a fraction, the numerator of which is the Shortfall Number and the denominator of which is the total number of Non-Election Shares, with the remaining number of such holder's Non-Election Shares being converted into the right to receive the Cash Consideration; or

(ii) *Adjustment to Both Non-Election Share Allocation and Cash Election Share Allocation.* If the Shortfall Number exceeds the number of Non-Election Shares, then all Non-Election Shares shall be converted into the right to receive the Stock Consideration, and, subject to Section 1.4(f) hereof, each holder of Cash Election Shares shall receive the Stock Consideration in respect of that number of Cash Election Shares equal to the product obtained by multiplying (x) the number of Cash Election Shares held by such holder by (y) a fraction, the numerator of which is the amount by which the Shortfall Number exceeds the total number of Non-Election Shares and the denominator of which is the total number of Cash Election Shares, with the remaining number of such holder's Cash Election Shares being converted into the right to receive the Cash Consideration.

(f) *Discretion to Adjust Stock Consideration.* In the event the parties hereto are unable to obtain the opinions of counsel referred to in Sections 7.2(c) and 7.3 (c) or the Merger otherwise fails to qualify for the tax treatment described in Section 1.10, then First Financial may, in its sole discretion, increase the number of shares of HopFed Common Stock entitled to receive Stock Consideration by the minimum amount necessary to enable such tax opinions to be rendered and for the Merger to otherwise qualify for the tax treatment described in Section 1.10.

1.6 First Financial Common Stock. At and after the Effective Time, each share of First Financial Common Stock issued and outstanding immediately prior to the Effective Time shall remain an issued and outstanding common share of the Surviving Corporation and shall not be affected by the Merger.

1.7 Treatment of HopFed Restricted Stock Awards.

(a) Immediately prior to the Effective Time (but contingent upon the Closing), each award in respect of a share of HopFed Common Stock subject to vesting, repurchase or other lapse restriction granted under a HopFed Stock Plan that is unvested or contingent and outstanding



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immediately prior to the Effective Time (a "HopFed Restricted Stock Award") shall fully vest and shall be cancelled and converted automatically into the right to receive the Merger Consideration in respect of each share of HopFed Common Stock underlying such HopFed Restricted Stock Award, less applicable tax withholdings.

(b) At or prior to the Effective Time, HopFed, the Board of Directors of HopFed and its compensation committee, as applicable, and First Financial, the Board of Directors of First Financial, and its Compensation Committee, as applicable, shall adopt any resolutions and take any actions that are necessary to effectuate the provisions of this Section 1.7, and to ensure that following the Effective Time, there are no obligations with respect to the HopFed Stock Plans other than as set forth in this Section 1.7.

(c) For purposes of this Agreement, "HopFed Stock Plans" means the HopFed Bancorp, Inc. Management Recognition Plan; HopFed Bancorp, Inc. 1999 Stock Option Plan; HopFed Bancorp, Inc. 2000 Stock Option Plan; HopFed Bancorp, Inc. 2004 Long-Term Incentive Plan; and HopFed Bancorp, Inc. 2013 Long-Term Incentive Plan, and all other employee and director equity incentive plans or agreements of HopFed as of the date of this Agreement.

1.8 Articles of Incorporation of Surviving Corporation. At the Effective Time, the Articles of Incorporation of First Financial (the "First Financial Articles"), as in effect at the Effective Time, shall be the Articles of Incorporation of the Surviving Corporation until thereafter amended in accordance with applicable law.

1.9 Bylaws of Surviving Corporation. At the Effective Time, the Code of Bylaws of First Financial (the "First Financial Bylaws"), as in effect immediately prior to the Effective Time, shall be the Bylaws of the Surviving Corporation until thereafter amended in accordance with applicable law.

1.10 Tax Consequences. It is intended that the Merger shall qualify as a "reorganization" within the meaning of Section 368(a) of the Code, and that this Agreement is intended to be and is adopted as a "plan of reorganization" for the purposes of Sections 354 and 361 of the Code.

1.11 Bank Merger. Immediately subsequent to the Effective Time, Heritage Bank USA, Inc. ("Heritage Bank"), a Kentucky state chartered bank and a wholly-owned Subsidiary of HopFed, will merge (the "Bank Merger") with and into First Financial Bank, N.A. ("First Financial Bank"), a national banking association and a wholly-owned Subsidiary of First Financial. First Financial Bank shall be the surviving entity in the Bank Merger and, following the Bank Merger, the separate corporate existence of Heritage Bank shall cease. First Financial and HopFed shall cause First Financial Bank and Heritage Bank to enter into the agreement and plan of merger attached hereto as Exhibit A (the "Bank Merger Agreement") within five (5) days of the date of this Agreement. HopFed shall cause Heritage Bank, and First Financial shall cause First Financial Bank, to execute such articles of merger, certificates of merger and articles of combination and such other documents and certificates as are necessary to make the Bank Merger effective ("Bank Merger Certificates") following the Effective Time at a time determined pursuant to this Section 1.11.

1.12 Principal Executive Offices of Surviving Corporation. The principal executive offices of First Financial as of the date of this Agreement shall be the principal executive offices of the Surviving Corporation.

1.13 Reservation of Right to Revise Structure. At First Financial's election, the Merger may alternatively be structured so that (a) HopFed is merged with and into any other direct or indirect wholly-owned subsidiary of First Financial or (b) any direct or indirect wholly-owned subsidiary of First Financial is merged with and into HopFed; *provided, however*, that no such change shall: (1) alter or change the amount or kind of the Merger Consideration or the treatment of the holders of HopFed Common Stock, (2) prevent the parties from obtaining the opinions of counsel referred to in Section 7.2(c) or Section 7.3(c) or otherwise cause the transaction to fail to qualify for the tax

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treatment described in Section 1.10, or (3) within the good faith judgment of HopFed, materially impede or delay consummation of the transactions contemplated by this Agreement. In the event of such an election, the parties agree to execute an appropriate amendment to this Agreement (to the extent such amendment only changes the method of effecting the business combination and does not substantively affect this Agreement or the rights and obligations of the parties or their respective shareholders) in order to reflect such election.

**ARTICLE II  
EXCHANGE OF SHARES**

2.1 First Financial to Make Merger Consideration Available. At or prior to the Effective Time, First Financial shall deposit, or shall cause to be deposited, with the Exchange Agent, for the benefit of the holders of Old Certificates, for exchange in accordance with the terms of this Agreement, physical stock certificates or certificates in book entry form, as determined in First Financial's sole discretion (collectively, referred to herein as "New Certificates"), representing the shares of First Financial Common Stock representing the Stock Consideration, cash in the amount of the Cash Consideration, and cash in lieu of any fractional shares (such cash and certificates for shares of First Financial Common Stock, together with any dividends or distributions with respect thereto, being hereinafter referred to as the "Exchange Fund"), to be issued pursuant to Section 1.4 and paid pursuant to Section 2.2(a) in exchange for outstanding shares of HopFed Common Stock.

2.2 Exchange Procedures.

(a) At and after the Effective Time, each Old Certificate evidencing outstanding shares of HopFed Common Stock (other than shares of Exempt HopFed Stock") shall represent only the right to receive the Merger Consideration in accordance with the terms of this Agreement.

(b) As promptly as practicable after the Effective Time (and provided HopFed has delivered to the Exchange Agent all information which is necessary for the Exchange Agent to perform its obligations hereunder), the Exchange Agent shall mail to each record holder of HopFed Common Stock immediately prior to the Effective Time and that has not submitted their Old Certificates with an Election Form, a letter of transmittal (which shall specify that delivery shall be effected, and risk of loss and title to the Old Certificates shall pass, only upon proper delivery of the Old Certificates to the Exchange Agent) providing instructions as to the transmittal to the Exchange Agent of the Old Certificates in exchange for the issuance of the Stock Consideration, and the Cash Consideration in exchange for the Old Certificates pursuant to the terms of this Agreement.

(c) First Financial shall cause a New Certificates representing that number of whole shares of First Financial Common Stock that each holder of HopFed Common Stock has the right to receive and a check in the amount of such holder's proportionate share of the Cash Consideration, as applicable, and any cash in lieu of fractional shares or dividends or distributions which such holder shall be entitled to receive, if any, to be delivered to such shareholder as soon as reasonably practicable after delivery to First Financial of the Old Certificates (or bond or other indemnity satisfactory to First Financial if any of such certificates are lost, stolen or destroyed) owned by such shareholder accompanied by a properly completed and executed letter of transmittal, in the form and substance satisfactory to First Financial, and any other documents required by this Agreement or reasonably requested by First Financial or the Exchange Agent. No interest will be paid on any Merger Consideration that any such holder shall be entitled to receive pursuant to this Article II upon such delivery.

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(d) No dividends or other distributions on First Financial common stock with a record date occurring after the Effective Time shall be paid to the holder of any unsurrendered Old Certificate representing shares of HopFed Common Stock converted in the Merger into the right to receive shares of First Financial Common Stock until the holder thereof surrenders such Old Certificates in accordance with this Article II. After becoming so entitled in accordance with this Section 2.2, the record holder thereof also shall be entitled to receive any such dividends or other distributions, without any interest thereon, which theretofore had become payable with respect to shares of First Financial common stock such holder had the right to receive upon surrender of the Old Certificate.

(e) The stock transfer books of HopFed shall be closed immediately prior to the Effective Time and from and after the Effective Time there shall be no transfers on the stock transfer records of HopFed of any shares of HopFed Common Stock. If, after the Effective Time, Old Certificates are presented to First Financial, they shall be canceled and exchanged for the Merger Consideration deliverable in respect thereof pursuant to this Agreement.

(f) First Financial shall be entitled to rely upon HopFed's stock transfer books to establish the identity of those persons entitled to receive the Merger Consideration, which books shall be conclusive with respect thereto. In the event of a dispute with respect to ownership of stock represented by any Old Certificate, First Financial shall be entitled to deposit any Merger Consideration represented thereby in escrow with an independent third party selected by First Financial and thereafter be relieved from any and all liability with respect to any claims thereto.

(g) If any Old Certificate shall have been lost, stolen, or destroyed, upon the making of an affidavit of that fact by the person claiming such Old Certificate to be lost, stolen, or destroyed and, if required by First Financial, the posting by such person of a bond or other indemnity satisfactory to First Financial as indemnity against any claim that may be made against it with respect to such Old Certificate, First Financial will issue in exchange for such affidavit of lost, stolen, or destroyed Old Certificate, the Merger Consideration deliverable in respect thereof pursuant to, and in accordance with, the other terms and conditions of this Agreement.

(h) Notwithstanding anything in this Agreement to the contrary, at the Effective Time, all shares of HopFed Common Stock that are held as treasury stock of HopFed or owned by HopFed or First Financial (other than shares held in a fiduciary capacity, including shares pledged as collateral on the HopFed ESOP loan, or in satisfaction of a debt previously contracted) shall be cancelled and shall cease to exist, and no stock of First Financial or other consideration shall be exchanged therefor.

(i) If outstanding Old Certificates are not surrendered or the payment for them is not claimed prior to the date on which the Merger Consideration payable therefor would otherwise escheat to, or become the property of any governmental unit or agency, the unclaimed Merger Consideration shall, to the extent permitted by abandoned property and any other applicable law, become the property of First Financial (and to the extent not in its possession shall be delivered to it), free and clear of all claims or interest of any person previously entitled thereto.

(j) Any portion of the Exchange Fund that remains unclaimed by the shareholders of HopFed for twelve (12) months after the Effective Time shall be paid to the Surviving Corporation. Any former shareholders of HopFed who have not theretofore complied with this Article II shall thereafter look only to the Surviving Corporation for payment of the Merger Consideration, cash in lieu of any fractional shares and any unpaid dividends and distributions on the First Financial Common Stock deliverable in respect of each former share of HopFed Common Stock such shareholder holds as determined pursuant to this Agreement, in each case, without any interest thereon. Notwithstanding the foregoing, none of First Financial, HopFed, the Surviving Corporation, the Exchange Agent or any other person shall be liable to any former

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holder of shares of HopFed Common Stock for any amount delivered in good faith to a public official pursuant to applicable abandoned property, escheat or similar laws.

(k) If any certificate representing shares of First Financial Common Stock is to be issued in a name other than that in which the Old Certificate or Old Certificates surrendered in exchange therefor is or are registered, it shall be a condition of the issuance thereof that the Old Certificate or Old Certificates so surrendered shall be properly endorsed (or accompanied by an appropriate instrument of transfer) and otherwise in proper form for transfer, and that the person requesting such exchange shall pay to the Exchange Agent in advance any transfer or other similar Taxes required by reason of the issuance of the Merger Consideration in any name other than that of the registered holder of the Old Certificate or Old Certificates surrendered, or required for any other reason, or shall establish to the satisfaction of the Exchange Agent that such Tax has been paid or is not payable.

(l) First Financial shall be entitled to deduct and withhold, or cause the Exchange Agent to deduct and withhold, from any Cash Consideration or cash in lieu of fractional shares of First Financial Common Stock, cash dividends or distributions payable pursuant to this Section 2.2 or any other cash amounts otherwise payable pursuant to this Agreement to any holder of HopFed Common Stock such amounts as it is required to deduct and withhold with respect to the making of such payment under the Code or any provision of state, local or foreign Tax law. To the extent that amounts are so withheld by First Financial or the Exchange Agent, as the case may be, and paid over to the appropriate governmental authority, the withheld amounts shall be treated for all purposes of this Agreement as having been paid to the holder of HopFed Common Stock in respect of which the deduction and withholding was made by First Financial or the Exchange Agent, as the case may be.

**ARTICLE III  
REPRESENTATIONS AND WARRANTIES OF HOPFED**

Except (i) as disclosed in the disclosure schedule delivered by HopFed to First Financial concurrently herewith (the "HopFed Disclosure Schedule"); provided, that (a) no such item is required to be set forth as an exception to a representation or warranty if its absence would not result in the related representation or warranty being deemed untrue or incorrect, (b) the mere inclusion of an item in the HopFed Disclosure Schedule as an exception to a representation or warranty shall not be deemed an admission by HopFed that such item represents a material exception or fact, event or circumstance or that such item is reasonably likely to result in a Material Adverse Effect and (c) any disclosures made with respect to a section of Article III shall be deemed to qualify with respect to (1) any other section of Article III specifically referenced or cross-referenced and (2) other sections of Article III to the extent it is reasonably apparent on its face (notwithstanding the absence of a specific cross reference) from a reading of the disclosure that such disclosure applies to such other sections or (ii) as disclosed in any HopFed Reports filed by HopFed since December 31, 2017, and prior to the date hereof, including without limitation any information incorporated by reference into such reports (but disregarding risk factor disclosures contained under the heading "Risk Factors," or disclosures of risks set forth in any "forward-looking statements" disclaimer or any other statements that are similarly non-specific or cautionary, predictive or forward-looking in nature), HopFed hereby represents and warrants to First Financial as follows:

3.1 Corporate Organization.

(a) HopFed is a corporation duly organized and validly existing under the laws of the State of Delaware and is a bank holding company duly registered under the Bank Holding Company Act of 1956, as amended ("BHC Act"). HopFed has all requisite corporate power and authority to own or lease all of its properties and assets and to carry on its business as it is now being conducted.

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HopFed is duly licensed or qualified to do business and, where such concept is recognized under applicable law, is in good standing in each jurisdiction in which the nature of the business conducted by it or the character or location of the properties and assets owned or leased by it makes such licensing or qualification necessary, except where the failure to be so licensed or qualified or in good standing would not, either individually or in the aggregate, reasonably be expected to have a Material Adverse Effect on HopFed. As used in this Agreement, the term "Material Adverse Effect" means, with respect to First Financial, HopFed or the Surviving Corporation, as the case may be, a material adverse effect on (i) the business, properties, assets, liabilities, results of operations or financial condition of such party and its Subsidiaries taken as a whole (provided, however, that (i), Material Adverse Effect shall not be deemed to include the impact of (A) changes, after the date hereof, in U.S. generally accepted accounting principles ("GAAP") or applicable regulatory accounting requirements, (B) changes, after the date hereof, in laws, rules or regulations of general applicability to companies in the industries in which such party and its Subsidiaries operate, or interpretations thereof by courts or Governmental Entities, (C) changes, after the date hereof, in global, national or regional political conditions (including the outbreak of war or acts of terrorism) or in economic or market conditions affecting the financial services industry generally and not specifically relating to such party or its Subsidiaries, including changes in prevailing interest rates, (D) public disclosure of the transactions contemplated hereby or actions expressly required by this Agreement or actions or omissions that are taken with the prior written consent of the other party in contemplation of the transactions contemplated hereby, (E) the expenses incurred by HopFed or First Financial in negotiating, documenting, effecting and consummating the transactions contemplated by this Agreement, or (F) changes proximately caused by the impact of the execution or announcement of the Agreement and the consummation of the transactions contemplated hereby on relationships with customers or employees (including the loss of personnel subsequent to the date of this Agreement); except, with respect to subclauses (A), (B), or (C), to the extent that the effects of such change are materially disproportionately adverse to the business, properties, assets, liabilities, results of operations or financial condition of such party and its Subsidiaries, taken as a whole, as compared to other companies in the industry in which such party and its Subsidiaries operate) or (ii) the ability of such party to timely consummate the transactions contemplated hereby. As used in this Agreement, the word "Subsidiary" when used with respect to any person, means any corporation, partnership, limited liability company, bank or other organization, whether incorporated or unincorporated, or person of which (i) such first person directly or indirectly owns or controls at least a majority of the securities or other interests having by their terms ordinary voting power to elect a majority of the board of directors or others performing similar functions or (ii) such first person is or directly or indirectly has the power to appoint a general partner, manager or managing member or others performing similar functions. True and complete copies of the Certificate of Incorporation of HopFed (the "HopFed Articles") and the Amended and Restated Bylaws of HopFed (the "HopFed Bylaws"), as in effect as of the date of this Agreement, have previously been made available by HopFed to First Financial.

(b) Each Subsidiary of HopFed (a "HopFed Subsidiary") (i) is duly organized and validly existing under the laws of its jurisdiction of organization, (ii) is duly licensed or qualified to do business and, where such concept is recognized under applicable law, in good standing in each jurisdiction in which the nature of the business conducted by it or the character or location of the properties and assets owned or leased by it makes such licensing or qualification necessary, except where the failure to be so licensed or qualified or in good standing would not, either individually or in the aggregate, reasonably be expected to have a Material Adverse Effect on HopFed and (iii) has all requisite corporate power and authority to own or lease its properties and assets and to carry on its business as now conducted. There are no restrictions on the ability of any Subsidiary of HopFed to pay dividends or distributions except, in the case of a Subsidiary that is a regulated

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entity, for restrictions on dividends or distributions generally applicable to all such regulated entities. The deposit accounts of each Subsidiary of HopFed that is an insured depository institution are insured by the Federal Deposit Insurance Corporation (the "FDIC") through the Deposit Insurance Fund to the fullest extent permitted by law, all premiums and assessments required to be paid in connection therewith have been paid when due, and no proceedings for the termination of such insurance are pending or threatened. Section 3.1(b) of the HopFed Disclosure Schedule sets forth a true and complete list of all Subsidiaries of HopFed as of the date hereof.

3.2 Capitalization.

(a) The authorized capital stock of HopFed consists of 15,000,000 shares of HopFed Common Stock, \$0.01 par value, and 500,000 shares of preferred stock, \$0.01 par value, of which no shares of preferred stock are issued or outstanding. There are (i) 6,649,190 shares of HopFed Common Stock issued and outstanding, which number includes 70,839 shares of HopFed Common Stock granted in respect of outstanding HopFed Restricted Stock Awards, (ii) 1,341,980 shares of HopFed Common Stock held in treasury, and (iii) no other shares of capital stock or other voting securities of HopFed issued, reserved for issuance or outstanding. All of the issued and outstanding shares of HopFed Common Stock have been duly authorized and validly issued and are fully paid, nonassessable and free of preemptive rights, with no personal liability attaching to the ownership thereof. There are no bonds, debentures, notes or other indebtedness that have the right to vote on any matters on which shareholders of HopFed may vote. Other than the Indenture and the Debt Securities, there are no trust preferred or subordinated debt securities of HopFed that are issued or outstanding. There are no outstanding subscriptions, options, warrants, puts, calls, rights, exchangeable or convertible securities or other commitments or agreements obligating HopFed to issue, transfer, sell, purchase, redeem or otherwise acquire, any such securities. There are no voting trusts, shareholder agreements, proxies or other agreements in effect with respect to the voting or transfer of the HopFed Common Stock or other equity interests of HopFed, other than the Voting Agreements and a Standstill Agreement as set forth at HopFed Disclosure Schedule 3.2(a). Section 3.2(a) of the HopFed Disclosure Schedule sets forth a true, correct and complete list of all HopFed Restricted Stock Awards outstanding as of the date hereof specifying, on a holder-by-holder basis, (A) the name of each holder, (B) the number of shares subject to each such HopFed Restricted Stock Award, (C) the vesting and grant date of each such HopFed Restricted Stock Award, (D) the HopFed Stock Plan under which such HopFed Restricted Stock Award was granted, and (E) any outstanding commitments obligating HopFed to issue any such securities. Other than the HopFed Restricted Stock Awards, no equity-based awards (including any cash awards where the amount of payment is determined in whole or in part based on the price of any capital stock of HopFed or any of its Subsidiaries) are outstanding.

(b) HopFed owns, directly or indirectly, all of the issued and outstanding shares of capital stock or other equity ownership interests of each of the HopFed Subsidiaries, free and clear of any liens, pledges, charges, encumbrances and security interests whatsoever ("Liens"), and all of such shares or equity ownership interests are duly authorized and validly issued and are fully paid, nonassessable (except, with respect to bank Subsidiaries, as provided under 12 U.S.C. §55 or any comparable provision of applicable state law) and free of preemptive rights, with no personal liability attaching to the ownership thereof. No HopFed Subsidiary has or is bound by any outstanding subscriptions, options, warrants, calls, rights, commitments or agreements of any character calling for the purchase or issuance of any shares of capital stock or any other equity security of such Subsidiary or any securities representing the right to purchase or otherwise receive any shares of capital stock or any other equity security of such Subsidiary.

Table of Contents3.3 Authority; No Violation.

(a) HopFed has full corporate power and authority to execute and deliver this Agreement and, subject to the shareholder and other actions described below, to consummate the transactions contemplated hereby. The execution and delivery of this Agreement and the consummation of the Merger have been duly and validly approved by the Board of Directors of HopFed. The Board of Directors of HopFed has determined that the Merger, on the terms and conditions set forth in this Agreement, is in the best interests of HopFed and its shareholders and has directed that this Agreement and the transactions contemplated hereby be submitted to HopFed's shareholders for adoption at a meeting of such shareholders and has adopted a resolution to the foregoing effect. Except for the adoption of this Agreement by the affirmative vote of the holders of a majority of the outstanding shares of HopFed Common Stock (the "Requisite HopFed Vote"), and the adoption and approval of the Bank Merger Agreement by Heritage Bank and HopFed as its sole shareholder, no other corporate proceedings on the part of HopFed are necessary to approve this Agreement or to consummate the transactions contemplated hereby. This Agreement has been duly and validly executed and delivered by HopFed and (assuming due authorization, execution and delivery by First Financial) constitutes a valid and binding obligation of HopFed, enforceable against HopFed in accordance with its terms (except in all cases as such enforceability may be limited by bankruptcy, insolvency, moratorium, reorganization or similar laws affecting the rights of creditors generally and the availability of equitable remedies (the "Enforceability Exceptions")).

(b) Except as set forth on Section 3.3(b) of the HopFed Disclosure Schedule, neither the execution and delivery of this Agreement by HopFed nor the consummation by HopFed of the transactions contemplated hereby, including the Bank Merger, nor compliance by HopFed with any of the terms or provisions hereof, will (i) violate any provision of the HopFed Articles or the HopFed Bylaws or (ii) assuming that the consents and approvals referred to in Section 3.4 are duly obtained, (x) violate any statute, code, ordinance, rule, regulation, judgment, order, writ, decree or injunction applicable to HopFed or any of its Subsidiaries or any of their respective properties or assets or (y) violate, conflict with, result in a breach of any provision of or the loss of any benefit under, constitute a default (or an event which, with notice or lapse of time, or both, would constitute a default) under, require any notice or consent under, result in the termination of or a right of termination or cancellation under, accelerate the performance required by, or result in the creation of any Lien upon any of the respective properties or assets of HopFed or any of its Subsidiaries, under any of the terms, conditions or provisions of any note, bond, mortgage, indenture, deed of trust, license, lease, agreement or other instrument or obligation to which HopFed or any of its Subsidiaries is a party, or by which they or any of their respective properties or assets may be bound, except (in the case of clause (y) above) for such violations, conflicts, breaches or defaults which, either individually or in the aggregate, would not reasonably be expected to have a Material Adverse Effect on HopFed.

(c) Heritage Bank will have, within five days of the date of this Agreement, to adopt the Bank Merger Agreement, HopFed, as the sole shareholder of Heritage Bank, shall, promptly hereafter approve the Bank Merger Agreement, and the Bank Merger Agreement will be duly executed by Heritage Bank.

3.4 Consents and Approvals. Except for (i) the filing of applications, filings and notices, as applicable, with NASDAQ, (ii) the filing of applications, filings and notices, as applicable, with the Board of Governors of the Federal Reserve System (the "Federal Reserve Board") under the BHC Act and with the Kentucky Department of Financial Institutions ("KDFI") in connection with the Merger and approval of such applications, filings and notices, (iii) the filing of applications, filings and notices, as applicable, with the Office of the Comptroller of the Currency (the "OCC") and the KDFI in connection with the Bank Merger, including under the Bank Merger Act, and approval of such applications, filings and notices, (iv) the filing of any required applications, filings or notices with any

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state banking authorities listed on Section 3.4 of the HopFed Disclosure Schedule or Section 4.4 of the First Financial Disclosure Schedule and approval of such applications, filings and notices, (v) the filing with the Securities and Exchange Commission (the "SEC") of a proxy statement in definitive form relating to the meetings of HopFed's shareholders to be held in connection with this Agreement and the transactions contemplated hereby (the "Proxy Statement"), and of the registration statement on Form S-4 (including any amendments and supplements thereto) in which the Proxy Statement will be included as a prospectus ("Prospectus/Proxy Statement"), to be filed with the SEC by First Financial in connection with the transactions contemplated by this Agreement (the "S-4") and declaration of effectiveness of the S-4, (vi) the filing of the Certificates of Merger and the filing of the Bank Merger Certificates, and (vii) such filings and approvals as are required to be made or obtained under the securities or "Blue Sky" laws of various states in connection with the issuance of the shares of First Financial Common Stock pursuant to this Agreement and the approval of the listing of such First Financial Common Stock on NASDAQ, no consents or approvals of or filings or registrations with any court, administrative agency or commission or other governmental authority or instrumentality or SRO (each a "Governmental Entity") are necessary in connection with (A) the execution and delivery by HopFed of this Agreement or (B) the consummation by HopFed of the Merger and the other transactions contemplated hereby (including the Bank Merger). As of the date hereof, HopFed is not aware of any reason why the necessary regulatory approvals and consents will not be received in order to permit consummation of the Merger and Bank Merger on a timely basis.

3.5 Reports. HopFed and each of its Subsidiaries have timely filed all reports, registrations and statements, together with any amendments required to be made with respect thereto, that they were required to file since January 1, 2015 with any Regulatory Agencies, including, without limitation, any report, registration or statement required to be filed pursuant to the laws, rules or regulations of the United States, any state, any foreign entity, or any Regulatory Agency, and have paid all fees and assessments due and payable in connection therewith, except where the failure to file such report, registration or statement or to pay such fees and assessments, either individually or in the aggregate, would not reasonably be expected to have a Material Adverse Effect on HopFed. Except as set forth on Section 3.5 of the HopFed Disclosure Schedule and for normal examinations conducted by a Regulatory Agency in the ordinary course of business of HopFed and its Subsidiaries, (i) no Regulatory Agency has initiated or has pending any proceeding or, to the knowledge of HopFed, investigation into the business or operations of HopFed or any of its Subsidiaries since January 1, 2015, (ii) there is no unresolved violation, criticism, or exception by any Regulatory Agency with respect to any report or statement relating to any examinations or inspections of HopFed or any of its Subsidiaries and (iii) there has been no formal or informal inquiries by, or disagreements or disputes with, any Regulatory Agency with respect to the business, operations, policies or procedures of HopFed or any of its Subsidiaries since January 1, 2015, in each case, which would reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect on HopFed. As used in this Agreement, the term "Regulatory Agency" means, to the extent such agency has jurisdiction over the business or affairs of the applicable person, the following: (i) any state regulatory authority (including the KDFI), (ii) the SEC, (iii) the Federal Reserve Board, (iv) the FDIC, (v) the OCC, (v) the Delaware Secretary and the Indiana Secretary, (vi) any foreign regulatory authority, and (vii) any self-regulatory organization (an "SRO"),

3.6 Financial Statements.

(a) The financial statements of HopFed and its Subsidiaries included (or incorporated by reference) in the HopFed Reports (including the related notes, where applicable) (i) have been prepared from, and are in accordance with, the books and records of HopFed and its Subsidiaries, (ii) fairly present in all material respects the consolidated results of operations, cash flows, changes in shareholders' equity and consolidated financial position of HopFed and its Subsidiaries for the respective fiscal periods or as of the respective dates therein set forth (subject in the case of



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unaudited statements to year-end audit adjustments normal in nature and amount), (iii) complied, as of their respective dates of filing with the SEC, in all material respects with applicable accounting requirements and with the published rules and regulations of the SEC with respect thereto, and (iv) have been prepared in accordance with GAAP consistently applied during the periods involved, except, in each case, as indicated in such statements or in the notes thereto. The books and records of HopFed and its Subsidiaries have been, and are being, maintained in all material respects in accordance with GAAP and any other applicable legal and accounting requirements and reflect only actual transactions. Horne LLP has not resigned (or informed HopFed that it intends to resign) and neither Horne LLP nor HopFed's previous independent accountants, Carr, Riggs & Ingram, LLC and Rayburn--Fitzgerald PC, have been dismissed as independent public accountants of HopFed as a result of or in connection with any disagreements with HopFed on a matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure.

(b) Except as would not reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect on HopFed, neither HopFed nor any of its Subsidiaries has any liability of any nature whatsoever (whether absolute, accrued, contingent or otherwise and whether due or to become due), except for those liabilities that are reflected or reserved against on the consolidated balance sheet of HopFed included in its Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2018 (including any notes thereto) and for liabilities incurred in the ordinary course of business consistent with past practice since September 30, 2018, or in connection with this Agreement and the transactions contemplated hereby.

(c) The records, systems, controls, data and information of HopFed and its Subsidiaries are recorded, stored, maintained and operated under means (including any electronic, mechanical or photographic process, whether computerized or not) that are under the exclusive ownership and direct control of HopFed or its Subsidiaries or accountants (including all means of access thereto and therefrom), except for any non-exclusive ownership and non-direct control that would not reasonably be expected to have a Material Adverse Effect on HopFed. HopFed (x) has implemented and maintains disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) to ensure that material information relating to HopFed, including its Subsidiaries, is made known to the chief executive officer and the chief financial officer of HopFed by others within those entities as appropriate to allow timely decisions regarding required disclosures and to make the certifications required by the Exchange Act and Sections 302 and 906 of the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act"), and (y) has disclosed, based on its most recent evaluation prior to the date hereof, to HopFed's outside auditors and the audit committee of HopFed's Board of Directors (i) any significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) which are reasonably likely to adversely affect HopFed's ability to record, process, summarize and report financial information, and (ii) any fraud, whether or not material, that involves management or other employees who have a significant role in HopFed's internal controls over financial reporting. These disclosures were made in writing by management to HopFed's auditors and audit committee and a copy has previously been made available to First Financial. There is no reason to believe that HopFed's outside auditors and its chief executive officer and chief financial officer will not be able to give the certifications and attestations required pursuant to the rules and regulations adopted pursuant to Section 404 of the Sarbanes-Oxley Act, without qualification, when next due.

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(d) Since January 1, 2015, (i) neither HopFed nor any of its Subsidiaries, nor, to the knowledge of HopFed, any director, officer, auditor, accountant or representative of HopFed or any of its Subsidiaries, has received or otherwise had or obtained knowledge of any material complaint, allegation, assertion or claim, whether written or oral, regarding the accounting or auditing practices, procedures, methodologies or methods (including with respect to loan loss reserves, write-downs, charge-offs and accruals) of HopFed or any of its Subsidiaries or their respective internal accounting controls, including any material complaint, allegation, assertion or claim that HopFed or any of its Subsidiaries has engaged in questionable accounting or auditing practices, and (ii) no attorney representing HopFed or any of its Subsidiaries, whether or not employed by HopFed or any of its Subsidiaries, has reported evidence of a material violation of securities laws, breach of fiduciary duty or similar violation by HopFed or any of its officers, directors, employees or agents to the Board of Directors of HopFed or any committee thereof or to the knowledge of HopFed, to any director or officer of HopFed.

3.7 Broker's Fees. With the exception of the engagement of Sandler O'Neill + Partners, L.P., ("Sandler O'Neill") and the engagement letter of Keefe, Bruyette & Woods, Inc. ("KBW"), neither HopFed nor any HopFed Subsidiary nor any of their respective officers or directors has employed any broker, finder or financial advisor or incurred any liability for any broker's fees, commissions or finder's fees in connection with the Merger or related transactions contemplated by this Agreement. HopFed has disclosed to First Financial as of the date hereof the aggregate fees provided for in connection with the engagement by HopFed of Sandler O'Neill, related to the Merger and the other transactions contemplated hereunder.

3.8 Absence of Certain Changes or Events.

(a) Since December 31, 2017, no event or events have occurred that have had or would reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect on HopFed.

(b) Except as set forth on Section 3.8 of the HopFed Disclosure Schedule, and in connection with matters related to this Agreement, since December 31, 2017, HopFed and its Subsidiaries have carried on their respective businesses in all material respects in the ordinary course of business consistent with past practice.

3.9 Legal Proceedings.

(a) Except as set forth on Section 3.9 of the HopFed Disclosure Schedule, neither HopFed nor any of its Subsidiaries is a party to any, and there are no pending or, to HopFed's knowledge, threatened, legal, administrative, arbitral or other proceedings, claims, actions or governmental or regulatory investigations of any nature against HopFed or any of its Subsidiaries or any of their current or former directors or executive officers or challenging the validity or propriety of the transactions contemplated by this Agreement.

(b) There is no injunction, order, judgment, decree, or regulatory restriction imposed upon HopFed, any of its Subsidiaries or the assets of HopFed or any of its Subsidiaries (or that, upon consummation of the Merger, would apply to the Surviving Corporation or any of its affiliates), that would reasonably be expected to be material to HopFed and its Subsidiaries, taken as a whole.

3.10 Taxes and Tax Returns.

(a) Each of HopFed and its Subsidiaries has duly and timely filed (including all applicable extensions) all material Tax Returns in all jurisdictions in which Tax Returns are required to be filed by it, and all such Tax Returns are true, correct, and complete in all material respects. Neither HopFed nor any of its Subsidiaries is the beneficiary of any extension of time within which

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to file any material Tax Return (other than extensions to file Tax Returns obtained in the ordinary course of business). All material Taxes of HopFed and its Subsidiaries (whether or not shown on any Tax Returns) that are due have been fully and timely paid. Each of HopFed and its Subsidiaries has withheld and paid all material Taxes required to have been withheld and paid in connection with amounts paid or owing to any employee, creditor, shareholder, independent contractor or other third party. Neither HopFed nor any of its Subsidiaries has granted any extension or waiver of the limitation period applicable to any material Tax that remains in effect. Except as set forth on Section 3.10(a) of the HopFed Disclosure Schedule, the federal income Tax Returns of HopFed and its Subsidiaries for all years to and including 2014 have been examined by the Internal Revenue Service (the "IRS") or are Tax Returns with respect to which the applicable period for assessment under applicable law, after giving effect to extensions or waivers, has expired. Neither HopFed nor any of its Subsidiaries has received written notice of assessment or proposed assessment in connection with any material amount of Taxes, and there are no threatened in writing or pending disputes, claims, audits, examinations or other proceedings regarding any material Tax of HopFed and its Subsidiaries or the assets of HopFed and its Subsidiaries. HopFed has made available to First Financial true and complete copies of any private letter ruling requests, closing agreements or gain recognition agreements with respect to Taxes requested or executed in the last six (6) years. Neither HopFed nor any of its Subsidiaries is a party to or is bound by any Tax sharing, allocation or indemnification agreement or arrangement (other than such an agreement or arrangement exclusively between or among HopFed and its Subsidiaries). Neither HopFed nor any of its Subsidiaries (A) has been a member of an affiliated group filing a consolidated federal income Tax Return (other than a group the common parent of which was HopFed) or (B) has any liability for the Taxes of any person (other than HopFed or any of its Subsidiaries) under Treasury Regulation Section 1.1502-6 (or any similar provision of state, local or foreign law), as a transferee or successor, by contract or otherwise. Neither HopFed nor any of its Subsidiaries has been, within the past two (2) years or otherwise as part of a "plan (or series of related transactions)" within the meaning of Section 355(e) of the Code of which the Merger is also a part, a "distributing corporation" or a "controlled corporation" (within the meaning of Section 355(a)(1)(A) of the Code) in a distribution of stock intending to qualify for tax-free treatment under Section 355 of the Code. Neither HopFed nor any of its Subsidiaries has participated in a "reportable transaction" within the meaning of Treasury Regulation section 1.6011-4(b)(1). At no time during the past five (5) years has HopFed been a United States real property holding corporation within the meaning of Section 897(c)(2) of the Code.

(b) As used in this Agreement, the term "Tax" or "Taxes" means all federal, state, local, and foreign income, excise, gross receipts, ad valorem, profits, gains, property, capital, sales, transfer, use, license, payroll, employment, social security, severance, unemployment, withholding, duties, excise, windfall profits, intangibles, franchise, backup withholding, value added, alternative or add-on minimum, estimated and other taxes, charges, levies or like assessments together with all penalties and additions to tax and interest thereon.

(c) As used in this Agreement, the term "Tax Return" means any return, declaration, report, claim for refund, or information return or statement relating to Taxes, including any schedule or attachment thereto, and including any amendment thereof, supplied or required to be supplied to a Governmental Entity.

### 3.11 Employee Benefits: Employees.

(a) Section 3.11(a) of the HopFed Disclosure Schedule lists all material HopFed Benefit Plans. For purposes of this Agreement, "HopFed Benefit Plans" means all employee benefit plans (as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA")), whether or not subject to ERISA, and all bonus, stock option, stock purchase, restricted stock, incentive, commission, deferred compensation, retiree medical or life insurance,

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supplemental retirement, employee assistance program, disability or sick leave benefits, workers' compensation, supplemental unemployment benefits, vacation and other time off benefits, severance or other benefit plans, programs, policies, practices or arrangements, and all retention, bonus, employment, termination, severance plans, programs or arrangements or other contracts or agreements to or with respect to which HopFed or any HopFed Subsidiary, or any trade or business of HopFed or any of its Subsidiaries, whether or not incorporated, all of which together with HopFed would be deemed a "single employer" within the meaning of Section 4001 of ERISA (a "HopFed ERISA Affiliate"), is a party or has any current or future obligation or that are maintained, contributed to or sponsored by HopFed or any of its Subsidiaries or any HopFed ERISA Affiliate for the benefit of any current or former employee, officer, director or independent contractor of HopFed or any of its Subsidiaries or any HopFed ERISA Affiliate.

(b) HopFed has heretofore made available to First Financial true and complete copies of each of the HopFed Benefit Plans and certain related documents, including, but not limited to, (i) all documents constituting each HopFed Benefit Plan to the extent currently effective, including all amendments thereto and all related trust documents (or, in the case of any unwritten HopFed Benefit Plans, descriptions thereof), (ii) all summary plan descriptions, together with the summary(ies) of material modifications thereto, if any, required under ERISA with respect to amendments, modifications or material supplements to any HopFed Benefit Plan, (iii) the annual report (Form 5500 and all schedules and financial statements attached thereto), if any, filed with the IRS for the last three (3) plan years, (iv) the most recently received IRS determination letter, if any, relating to a HopFed Benefit Plan, (v) the most recently prepared actuarial report for each HopFed Benefit Plan (if applicable) for each of the last three (3) years, (vi) all material written contracts relating to any HopFed Benefit Plan to the extent currently effective, including administrative service agreements and group insurance contracts, (vii) ESOP contribution and allocation schedules, valuations and valuation opinions, and (viii) all material correspondence to or from any Governmental Entity received in the last three (3) years with respect to such HopFed Benefit Plan.

(c) Each HopFed Benefit Plan has been established, operated and administered in all material respects in accordance with its terms and the requirements of all applicable laws, including ERISA and the Code. Except as set forth on Section 3.11(c) of the HopFed Disclosure Schedule, within the past three (3) years, neither HopFed nor any of its Subsidiaries has taken any corrective action or made a filing under any voluntary correction program of the IRS, Department of Labor or any other Governmental Entity with respect to any HopFed Benefit Plan, and neither HopFed nor any of its Subsidiaries has any knowledge of any plan defect that would qualify for correction under any such program and no HopFed Benefit Plan has, within the six (6) years prior to the date hereof, been the subject of an examination or audit by a Governmental Entity.

(d) Section 3.11(d) of the HopFed Disclosure Schedule identifies each HopFed Benefit Plan that is intended to be qualified under Section 401(a) of the Code (the "HopFed Qualified Plans"). The IRS has issued a favorable determination letter with respect to each HopFed Qualified Plan and the related trust, which letter has not been revoked (nor has revocation been threatened), and, to the knowledge of HopFed, there are no existing circumstances and no events have occurred that could adversely affect the qualified status of any HopFed Qualified Plan or the related trust or increase the costs relating thereto. No HopFed Qualified Plan, other than the HopFed Bancorp, Inc. 2015 Employee Stock Ownership Plan (the "ESOP") owns or holds HopFed Common Stock.

(e) Each HopFed Benefit Plan that is a "nonqualified deferred compensation plan" (as defined in Section 409A(d)(1) of the Code) and any award thereunder, in each case that is subject to Section 409A of the Code, has, (i) since January 1, 2005, been maintained and operated, in all material respects, in good faith compliance with Section 409A of the Code and IRS Notice 2005-1

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and (ii) since January 1, 2009, been, in all material respects, in documentary and operational compliance with Section 409A of the Code.

(f) With respect to each HopFed Benefit Plan that is subject to Title IV or Section 302 of ERISA or Section 412, 430 or 4971 of the Code: (i) no such plan is in "at-risk" status for purposes of Section 430 of the Code, (ii) the present value of accrued benefits under such HopFed Benefit Plan, based upon the actuarial assumptions used for funding purposes in the most recent actuarial report prepared by such HopFed Benefit Plan's actuary with respect to such HopFed Benefit Plan, did not, as of its latest valuation date, exceed the then current fair market value of the assets of such HopFed Benefit Plan allocable to such accrued benefits, (iii) no reportable event within the meaning of Section 4043(c) of ERISA for which the 30-day notice requirement has not been waived has occurred, (iv) all premiums to the Pension Benefit Guaranty Corporation (the "PBGC") have been timely paid in full, (v) no liability (other than for premiums to the PBGC) under Title IV of ERISA has been or is expected to be incurred by HopFed or any of its Subsidiaries, and (vi) the PBGC has not instituted proceedings to terminate any such HopFed Benefit Plan.

(g) None of HopFed and its Subsidiaries nor any HopFed ERISA Affiliate has, at any time during the last six (6) years, contributed to or been obligated to contribute to any plan that is a "multiemployer plan" within the meaning of Section 4001(a)(3) of ERISA (a "Multiemployer Plan") or a plan that has two or more contributing sponsors at least two of whom are not under common control, within the meaning of Section 4063 of ERISA (a "Multiple Employer Plan"), and none of HopFed and its Subsidiaries nor any HopFed ERISA Affiliate has incurred any liability to a Multiemployer Plan or Multiple Employer Plan as a result of a complete or partial withdrawal (as those terms are defined in Part I of Subtitle E of Title IV of ERISA) from a Multiemployer Plan or Multiple Employer Plan.

(h) Except as set forth in Section 3.11(h) of the HopFed Disclosure Schedule, neither HopFed nor any of its Subsidiaries sponsors, has sponsored or has any obligation with respect to any employee benefit plan that provides for any post-employment or post-retirement health or medical or life insurance benefits for retired, former or current employees or beneficiaries or dependents thereof, except as required by Section 4980B of the Code. No trust funding any HopFed Benefit Plan is intended to meet the requirements of Section 501(c)(9) of the Code.

(i) All contributions required to be made to any HopFed Benefit Plan by applicable law or by any plan document or other contractual undertaking, and all premiums due or payable with respect to insurance policies funding any HopFed Benefit Plan, for any period through the date hereof, have been timely made or paid in full or, to the extent not required to be made or paid on or before the date hereof, have been fully reflected on the books and records of HopFed.

(j) There are no pending or, to the knowledge of HopFed, threatened claims (other than claims for benefits in the ordinary course), lawsuits or arbitrations that have been asserted or instituted, and, to HopFed's knowledge, no set of circumstances exists that may reasonably be expected to give rise to a claim or lawsuit, against the HopFed Benefit Plans, any fiduciaries thereof with respect to their duties to the HopFed Benefit Plans or the assets of any of the trusts under any of the HopFed Benefit Plans that could reasonably be expected to result in any material liability of HopFed or any of its Subsidiaries to the PBGC, the IRS, the Department of Labor, any Multiemployer Plan, a Multiple Employer Plan, any participant in a HopFed Benefit Plan, or any other party.

(k) None of HopFed and its Subsidiaries nor, to the knowledge of HopFed, any HopFed ERISA Affiliate or other person, including any fiduciary, has engaged in any "prohibited transaction" (as defined in Section 4975 of the Code or Section 406 of ERISA), which could subject any of the HopFed Benefit Plans or their related trusts, HopFed, any of its Subsidiaries,

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any HopFed ERISA Affiliate or any person that HopFed or any of its Subsidiaries has an obligation to indemnify, to any material tax or penalty imposed under Section 4975 of the Code or Section 502 of ERISA.

(l) Except as set forth on Section 3.11(l) of the HopFed Disclosure Schedule, neither the execution and delivery of this Agreement nor the consummation of the transactions contemplated hereby will (either alone or in conjunction with any other event) result in, cause the vesting, exercisability or delivery of, or increase in the amount or value of, any payment, right or other benefit to any employee, officer, director or other service provider of HopFed or any of its Subsidiaries, or result in any limitation on the right of HopFed or any of its Subsidiaries to amend, merge, terminate or receive a reversion of assets from any HopFed Benefit Plan or related trust. Except as set forth on Section 3.11(l) of the HopFed Disclosure Schedule, without limiting the generality of the foregoing, no amount paid or payable (whether in cash, in property, or in the form of benefits) by HopFed or any of its Subsidiaries in connection with the transactions contemplated hereby (either solely as a result thereof or as a result of such transactions in conjunction with any other event) will be an "excess parachute payment" within the meaning of Section 280G of the Code. Except as set forth on Section 3.11(l) of the HopFed Disclosure Schedule, neither HopFed nor any of its Subsidiaries maintains or contributes to a rabbi trust or similar funding vehicle, and the transactions contemplated by this Agreement will not cause or require HopFed or any of its affiliates to establish or make any contribution to a rabbi trust or similar funding vehicle.

(m) Except as set forth on Section 3.11(m) of the HopFed Disclosure Schedule, no HopFed Benefit Plan provides for the gross-up or reimbursement of Taxes under Section 409A or 4999 of the Code. HopFed has made available to First Financial true, correct and complete copies of Section 280G calculations (whether or not final) with respect to any disqualified individual in connection with the transactions contemplated hereby.

(n) There are no pending or, to HopFed's knowledge, threatened material labor grievances or material unfair labor practice claims or charges against HopFed or any of its Subsidiaries, or any strikes or other material labor disputes against HopFed or any of its Subsidiaries. Neither HopFed nor any of its Subsidiaries are party to or bound by any collective bargaining or similar agreement with any labor organization, or work rules or practices agreed to with any labor organization or employee association applicable to employees of HopFed or any of its Subsidiaries and, to the knowledge of HopFed, there are no organizing efforts by any union or other group seeking to represent any employees of HopFed or any of its Subsidiaries.

(o) There has been no amendment to any HopFed Benefit Plan or announcement by HopFed or any of its Subsidiaries relating to or change in eligibility for participation or coverage under any HopFed Benefit Plan that would increase the annual expense of maintaining such plan above the level of the expense incurred for the most recently completed fiscal year plus annual premium increases or anticipated future increases in premiums based upon normal market cost increases with respect to any director, officer, employee, independent contractor or consultant plan, as applicable.

(p) HopFed and its Subsidiaries have complied with the applicable provisions of the Affordable Care Act of 2010 and the Health Care and Education Reconciliation Act of 2010 (collectively, the "ACA") including all provisions of the ACA applicable to employees, including the employer shared responsibility provisions relating to the offer of "minimum essential coverage" to "full-time" employees that is "affordable" and provides "minimum value" (as defined in Code Section 4980H and related regulations) and the applicable employer information reporting provisions under Code Sections 6055 and 6056 (and all related regulations).

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(q) With respect to the ESOP:

(i) HopFed has the authority to take all actions and provide such direction as contemplated by this Agreement.

(ii) No event of default has occurred or presently exists under the ESOP Loan Agreement dated March 2, 2015, by and between the ESOP trustees and HopFed (the "ESOP Loan Agreement"), the Promissory Note dated March 2, 2015 issued by the ESOP (the "Promissory Note"), the Stock Purchase Agreement dated March 2, 2015, by and between the ESOP and HopFed (the "Stock Purchase Agreement") or the ESOP Pledge Agreement dated March 2, 2015, by and between the ESOP and HopFed (the "Pledge Agreement") (the ESOP Loan Agreement, Promissory Note, Stock Purchase Agreement and Pledge Agreement referred to collectively as the "ESOP Loan Documents"). The ESOP has the right under the ESOP Loan Agreement to prepay at any time the principal amount of the Promissory Note without penalty and subject only to payment of accrued interest through the date of prepayment, as contemplated by Section 5.17(d). Except for the Indebtedness under the ESOP Loan Documents, there is no existing Indebtedness of the ESOP or HopFed relating to the ESOP.

(iii) No purchase of shares of HopFed Common Stock by any HopFed Benefit Plan holding shares of HopFed Common Stock, including, but not limited to, the ESOP, has adversely affected the tax qualification of such HopFed Benefit Plan or failed to satisfy all of the requirements for the prohibited transaction exemption provided by Section 408(e) of ERISA. Each loan to the ESOP which has been made by or guaranteed by HopFed or any other disqualified person in connection with any purchase of such shares by the Plan (an "ESOP Loan"), satisfied each of the requirements of the prohibited transaction exemption provided in Section 408(b)(3) of ERISA, Section 4975(d)(3) and Treasury Regulation Section 54-4975-7(b), and, in particular, all shares of HopFed Common Stock purchased by the ESOP or any other HopFed Benefit Plan were purchased for no more than "adequate consideration" within the meaning Section 3(18) of ERISA, as determined on the basis of a stock valuation prepared by an "independent appraiser" (as this term is defined in Section 401(a)(28)(C) of the Code) satisfying all requirements of Sections 3(18) and 408(e) of ERISA and applicable DOL regulations.

(iv) The ESOP is now and has been at all times since its inception a qualified employee stock ownership plan within the meaning of Code Section 4975(e)(7). The trust maintained to fund the ESOP (the "ESOP Trust") is a trust duly formed in accordance with applicable state law and is, and at all times has been, a trust described in Code Section 501(a). All shares of HopFed Common Stock owned by the ESOP are and have at all times constituted "employer securities" as that term is defined in Section 409(l) of the Code and "qualifying employer securities" as defined in Section 407(d)(5) of ERISA. The ESOP Trustee has been duly and properly appointed and granted full authority to act as trustee of the ESOP and exercise trust powers thereunder..

3.12 SEC Reports. No communication mailed by HopFed to its shareholders since December 31, 2015 and prior to the date hereof nor any final registration statement, prospectus, report, schedule or definitive proxy statement filed with or furnished to the SEC since December 31, 2015 by HopFed pursuant to the Securities Act of 1933, as amended (the "Securities Act"), or the Exchange Act (the "HopFed Reports"), as of the date thereof (and, in the case of registration statements and proxy statements, on the dates of effectiveness and the dates of the relevant meetings, respectively), contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances in which they were made, not misleading, except that information filed or furnished as of a later date (but

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before the date of this Agreement) shall be deemed to modify information as of an earlier date. Since December 31, 2015, as of their respective dates, all HopFed Reports filed under the Securities Act and the Exchange Act complied in all material respects with the published rules and regulations of the SEC with respect thereto. No executive officer of HopFed has failed in any respect to make the certifications required of him or her under Section 302 or 906 of the Sarbanes-Oxley Act. There are no outstanding comments from or unresolved issues raised by the SEC with respect to any of the HopFed Reports.

### 3.13 Compliance with Applicable Law.

(a) Except as set forth on Section 3.13(a) of the HopFed Disclosure Schedule, HopFed and each of its Subsidiaries hold, and have at all times since December 31, 2015, held, all licenses, franchises, permits and authorizations necessary for the lawful conduct of their respective businesses and ownership of their respective properties, rights and assets under and pursuant to each (and have paid all fees and assessments due and payable in connection therewith), except where neither the cost of failure to hold nor the cost of obtaining and holding such license, franchise, permit or authorization (nor the failure to pay any fees or assessments) would, either individually or in the aggregate, reasonably be expected to have a Material Adverse Effect on HopFed, and to the knowledge of HopFed no suspension or cancellation of any such necessary license, franchise, permit or authorization is threatened. HopFed and each of its Subsidiaries have complied in all material respects with and are not in material default or violation under any applicable law, statute, order, rule, regulation, policy and/or guideline of any Governmental Entity relating to HopFed or any of its Subsidiaries, including without limitation all laws related to data protection or privacy, the USA PATRIOT Act, the Bank Secrecy Act, the Equal Credit Opportunity Act and Regulation B, the Fair Housing Act, the Community Reinvestment Act, the Fair Credit Reporting Act, the Truth in Lending Act and Regulation Z, the Home Mortgage Disclosure Act, the Fair Debt Collection Practices Act, the Electronic Fund Transfer Act, the Dodd-Frank Wall Street Reform and Consumer Protection Act, any regulations promulgated by the Consumer Financial Protection Bureau, the Interagency Policy Statement on Retail Sales of Nondeposit Investment Products, the SAFE Mortgage Licensing Act of 2008, the Real Estate Settlement Procedures Act and Regulation X, and any other law relating to bank secrecy, discriminatory lending, financing or leasing practices, money laundering prevention, Sections 23A and 23B of the Federal Reserve Act, the Sarbanes-Oxley Act, and all agency requirements relating to the origination, sale and servicing of mortgage and consumer loans. Heritage Bank has a Community Reinvestment Act rating of "satisfactory" or better. Without limitation, none of HopFed, or its Subsidiaries, or to the knowledge of HopFed, any director, officer, employee, agent or other person acting on behalf of HopFed or any of its Subsidiaries has, directly or indirectly, (i) used any funds of HopFed or any of its Subsidiaries for unlawful contributions, unlawful gifts, unlawful entertainment or other expenses relating to political activity, (ii) made any unlawful payment to foreign or domestic governmental officials or employees or to foreign or domestic political parties or campaigns from funds of HopFed or any of its Subsidiaries, (iii) violated any provision that would result in the violation of the Foreign Corrupt Practices Act of 1977, as amended, or any similar law, (iv) established or maintained any unlawful fund of monies or other assets of HopFed or any of its Subsidiaries, (v) made any fraudulent entry on the books or records of HopFed or any of its Subsidiaries, or (vi) made any unlawful bribe, unlawful rebate, unlawful payoff, unlawful influence payment, unlawful kickback or other unlawful payment to any person, private or public, regardless of form, whether in money, property or services, to obtain favorable treatment in securing business to obtain special concessions for HopFed or any of its Subsidiaries, to pay for favorable treatment for business secured or to pay for special concessions already obtained for HopFed or any of its Subsidiaries, or is currently subject to any United States sanctions administered by the Office of Foreign Assets Control of the United States Treasury Department.



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(b) Except as set forth on Section 3.13(b) of the HopFed Disclosure Schedule, Heritage Bank does not have any loans outstanding to, or any commitment to lend to, any Marijuana Related Business, or any loans secured by real or personal property owned by, leased to, or occupied or utilized by a Marijuana Related Business. A "Marijuana Related Business" means any business that grows, produces, buys or sells or otherwise distributes marijuana (a "Marijuana Business"), a business that leases real property or otherwise provides space to a Marijuana Business, or a business that leases or otherwise provides equipment which is directly used to grow or produce marijuana, or a business the conduct of which would reasonably be anticipated to result in Heritage Bank's collateral being subject to proceedings under the Civil Asset Forfeiture Act.

3.14 Certain Contracts.

(a) Except as set forth in Section 3.14(a) of the HopFed Disclosure Schedule, as of the date hereof, neither HopFed nor any of its Subsidiaries is a party to or bound by any contract, arrangement, commitment or understanding (whether written or oral) (i) with respect to the employment of any directors, officers or employees, other than in the ordinary course of business consistent with past practice, (ii) which, upon the execution or delivery of this Agreement, shareholder adoption of this Agreement or the consummation of the transactions contemplated by this Agreement will (either alone or upon the occurrence of any additional acts or events) result in any payment (whether of severance pay or otherwise) becoming due from First Financial, HopFed, the Surviving Corporation, or any of their respective Subsidiaries to any officer or employee thereof, (iii) which is a "material contract" (as such term is defined in Item 601(b)(10) of Regulation S-K of the SEC), (iv) which restricts HopFed's ability to compete or contains a client or customer non-solicit requirement or any other provision, in each case, that materially restricts the conduct of any line of business by HopFed or any of its affiliates or upon consummation of the Merger will materially restrict the ability of the Surviving Corporation or any of its affiliates to engage in any line of business, (v) with or to a labor union or guild (including any collective bargaining agreement), (vi) any of the benefits of which contract, arrangement, commitment or understanding (not including any stock option plan, stock appreciation rights plan, restricted stock plan, performance share unit plan, stock purchase plan, and related agreements, all of which are listed on Section 3.2(a) of the HopFed Disclosure Schedule) will be increased, or the vesting of the benefits of which will be accelerated, by the occurrence of the execution and delivery of this Agreement, shareholder adoption of this Agreement or the consummation of any of the transactions contemplated by this Agreement, or the value of any of the benefits of which will be calculated on the basis of any of the transactions contemplated by this Agreement, (vii) that relates to the incurrence of indebtedness by HopFed or any of its Subsidiaries (other than deposit liabilities, trade payables, federal funds purchased, advances and loans from the Federal Home Loan Bank and securities sold under agreements to repurchase, in each case incurred in the ordinary course of business consistent with past practice) in the principal amount of \$400,000 or more including any sale and leaseback transactions, capitalized leases and other similar financing transactions, (viii) that grants any right of first refusal, right of first offer or similar right with respect to any material assets, rights or properties of HopFed or its Subsidiaries or (ix) that is a consulting agreement or data processing, software programming or licensing contract involving the payment of more than \$150,000 per annum (other than any such contracts which are terminable by HopFed or any of its Subsidiaries on sixty (60) calendar days or less notice without any required payment or other conditions, other than the condition of notice). Each contract, arrangement, commitment or understanding of the type described in this Section 3.14(a), whether or not set forth in the HopFed Disclosure Schedule, is referred to herein as a "HopFed Contract" and neither HopFed nor any of its Subsidiaries knows of, or has received notice of, any violation of the above by any of the other parties thereto which would reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect on HopFed.

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(b) Each HopFed Contract is valid and binding on HopFed or one of its Subsidiaries, as applicable, and in full force and effect, except as, either individually or in the aggregate, would not reasonably be expected to have a Material Adverse Effect on HopFed. HopFed and each of its Subsidiaries has in all material respects performed all obligations required to be performed by it to date under each HopFed Contract, except where such noncompliance, either individually or in the aggregate, would not reasonably be expected to have a Material Adverse Effect on HopFed. To HopFed's knowledge each third-party counterparty to each HopFed Contract has in all material respects performed all obligations required to be performed by it to date under such HopFed Contract, except where such noncompliance, either individually or in the aggregate, would not reasonably be expected to have a Material Adverse Effect on HopFed, and no event or condition exists which constitutes or, after notice or lapse of time or both, will constitute, a material default on the part of HopFed or any of its Subsidiaries under any such HopFed Contract, except where such default, either individually or in the aggregate, would not reasonably be expected to have a Material Adverse Effect on HopFed.

3.15 Agreements with Regulatory Agencies. Except as set forth on Section 3.15 of the HopFed Disclosure Schedule, neither HopFed nor any of its Subsidiaries is subject to any cease-and-desist or other order or enforcement action issued by, or is a party to any written agreement, consent agreement or memorandum of understanding with, or is a party to any commitment letter or similar undertaking to, or is subject to any order or directive by, or has been ordered to pay any civil money penalty by, or has been since January 1, 2015, a recipient of any supervisory letter from, or since January 1, 2015, has adopted any policies, procedures or board resolutions at the request or suggestion of any Regulatory Agency or other Governmental Entity that currently restricts in any material respect the conduct of its business or that in any material manner relates to its capital adequacy, its ability to pay dividends, its credit or risk management policies, its management or its business (each, whether or not set forth in the HopFed Disclosure Schedule, a "HopFed Regulatory Agreement"), nor has HopFed or any of its Subsidiaries been advised since January 1, 2015, by any Regulatory Agency or other Governmental Entity of any potential action that could restrict the business of HopFed or any of its Subsidiaries in any material respect; provided however, such HopFed Disclosure Schedules shall not include confidential supervisory information (in accordance with 12 CFR 309), if applicable, unless prior regulatory approval is received related to the dissemination of such information.

3.16 Risk Management Instruments. All interest rate swaps, caps, floors, option agreements, futures and forward contracts and other similar derivative transactions and risk management arrangements, whether entered into for the account of HopFed, any of its Subsidiaries or for the account of a customer of HopFed or one of its Subsidiaries, were entered into in the ordinary course of business consistent with past practice and in accordance with applicable rules, regulations and policies of any Regulatory Agency and with counterparties believed to be financially responsible at the time and are legal, valid and binding obligations of HopFed or one of its Subsidiaries enforceable in accordance with their terms (except as may be limited by the Enforceability Exceptions), and are in full force and effect. HopFed and each of its Subsidiaries have duly performed in all material respects all of their material obligations thereunder to the extent that such obligations to perform have accrued, and, to HopFed's knowledge, there are no material breaches, violations or defaults or allegations or assertions of such by any party thereunder.

3.17 Environmental Matters. Except as would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on HopFed, HopFed and its Subsidiaries are in compliance, and have complied, with any federal, state or local law, regulation, order, decree, permit, authorization, common law or agency requirement relating to: (i) the protection or restoration of the environment, health and safety as it relates to hazardous substance exposure or natural resource damages, (ii) the handling, use, presence, disposal, release or threatened release of, or exposure to, any hazardous substance, or (iii) noise, odor, wetlands, indoor air, pollution, contamination or any injury to

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persons or property from exposure to any hazardous substance (collectively, "Environmental Laws"). Except as set forth on Section 3.17 of the HopFed Disclosure Schedule, there are no legal, administrative, arbitral or other proceedings, claims or actions, or to the knowledge of HopFed any private environmental investigations or remediation activities or governmental investigations of any nature seeking to impose, or that could reasonably be expected to result in the imposition, on HopFed or any of its Subsidiaries of any liability or obligation arising under any Environmental Law, pending or threatened against HopFed, which liability or obligation would reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect on HopFed. To the knowledge of HopFed, there is no reasonable basis for any such proceeding, claim, action or governmental investigation that would impose any liability or obligation that would reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect on HopFed. HopFed is not subject to any agreement, order, judgment, decree, letter agreement or memorandum of agreement by or with any court, governmental authority, regulatory agency or third party imposing any liability or obligation with respect to the foregoing that would reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect on HopFed.

3.18 Investment Securities and Commodities.

(a) Each of HopFed and its Subsidiaries has good title to all securities and commodities owned by it (except those sold under repurchase agreements), free and clear of any Lien, except to the extent such securities or commodities are pledged in the ordinary course of business to secure obligations of HopFed or its Subsidiaries. Such securities and commodities are valued on the books of HopFed in accordance with GAAP in all material respects.

(b) HopFed and its Subsidiaries and their respective businesses employ investment, securities, commodities, risk management and other policies, practices and procedures that HopFed believes are prudent and reasonable in the context of such businesses. Prior to the date of this Agreement, HopFed has made available to First Financial the material terms of such policies, practices and procedures.

3.19 Real Property. Except as set forth on Section 3.19 of the HopFed Disclosure Schedule, HopFed or a HopFed Subsidiary has good and marketable title in fee simple to all the real property (including, without limitation, all real property used as bank premises and all other real estate owned ("OREO")) reflected in Section 3.19 of the HopFed Disclosure Schedule or acquired after the date hereof (except properties sold or otherwise disposed of since the date thereof in the ordinary course of business consistent with past practice) (the "HopFed Owned Properties"), free and clear of all material Liens, except statutory Liens securing payments not yet due, Liens for real property Taxes not yet due and payable, easements, rights of way, and other similar encumbrances that do not materially affect the value or use of the properties or assets subject thereto or affected thereby or otherwise materially impair business operations at such properties and such imperfections or irregularities of title or Liens as do not materially affect the value or use of the properties or assets subject thereto or affected thereby or otherwise materially impair business operations at such properties (collectively, "Permitted Encumbrances"), and is the lessee of all leasehold estates reflected in Section 3.19 of the HopFed Disclosure Schedule or acquired after the date hereof (except for leases that have expired by their terms since the date thereof) (the "HopFed Leased Properties" and, collectively with the HopFed Owned Properties, the "HopFed Real Property"), free and clear of all Liens of any nature whatsoever, except for Permitted Encumbrances, and is in possession of the properties purported to be leased thereunder, and each such lease is valid without default thereunder by the lessee or, to HopFed's knowledge, the lessor. There are no pending or, to the knowledge of HopFed, threatened condemnation proceedings against the HopFed Real Property.

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3.20 Intellectual Property.

(a) HopFed and its Subsidiaries own, or are licensed or otherwise possess sufficient legally enforceable rights to use, all material Intellectual Property (as defined in Section 3.20(g)) that is used by HopFed or its Subsidiaries in their respective businesses as currently conducted. Neither HopFed nor any of its Subsidiaries has (i) licensed any Intellectual Property owned by it or its Subsidiaries to any third party, or (ii) entered into any exclusive agreements relating to Intellectual Property owned by it.

(b) HopFed and its Subsidiaries have not infringed or otherwise violated any material Intellectual Property rights of any third party during the preceding five (5) years. There is no claim asserted or threatened against HopFed and/or its Subsidiaries or any indemnitee thereof concerning the ownership, validity, registerability, enforceability, infringement, use, or licensed right to use any Intellectual Property.

(c) To HopFed's knowledge, no third party has infringed, misappropriated, or otherwise violated HopFed's or any of its Subsidiaries' Intellectual Property rights during the preceding five (5) years. There are no claims asserted or threatened by HopFed or any of its Subsidiaries, nor has HopFed or any of its Subsidiaries decided to assert or threaten a claim, that (i) a third party infringed or otherwise violated any of their Intellectual Property rights; or (ii) a third party's owned or claimed Intellectual Property interferes with, infringes, dilutes, or otherwise harms any of their Intellectual Property rights.

(d) To the extent HopFed has designated any of its information, materials, or processes a trade secret, HopFed and its Subsidiaries have taken reasonable measures to protect the confidentiality of all trade secrets that are owned, used, or held by them.

(e) None of the Software (as defined in subsection (g) below): (i) to HopFed's knowledge, contains any bug, defect, or error that materially and adversely affects the use, functionality, or performance of such Software or any system containing or used in conjunction with such Software (collectively, "Defective Code") or (ii) to HopFed's knowledge, fails to comply with any applicable warranty or other contractual commitment relating to the use, functionality, or performance of such Software or system or (iii) is lapsed or has failed to be upgraded and maintained in accordance with any maintenance schedule or customary practice.

(f) to HopFed's knowledge, no Software contains any "back door," "drop dead device," "time bomb," "Trojan Horse," "virus," "worm," "spyware," or "adware" (as such terms are commonly understood in the software industry) or any other code designed or intended to have, or capable of performing or facilitating, any of the following functions: (i) disrupting, disabling, harming or otherwise impeding in any manner the operation of, or providing unauthorized access to, a computer system or network or other device on which such code is stored or installed, or (ii) compromising the privacy or data security of any user or damaging or destroying any data file without the user's consent; (collectively, "Malicious Code").

(g) For purposes of this Agreement, "Intellectual Property" shall mean all patents, trademarks, trade names, service marks, domain names, social media handles and related accounts, database rights, copyrights and any applications therefor, mask works, technology, know-how, trade secrets, ideas, algorithms, processes, computer software programs or applications (in both source code and object code form) (collectively, "Software"), and tangible or intangible proprietary information or material and all other intellectual property or proprietary rights of any kind, whether or not registered.

3.21 Information Technology. The computers, Software, computer programs, in source code and object code forms, servers, workstations, routers, hubs, switches, circuits, networks, data communications lines, repair and refurbishment equipment and all other information technology

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equipment owned, used, or held for use by HopFed or its Subsidiaries (collectively, the "HopFed IT Assets") (i) operate and perform in all material respects in accordance with their documentation and functional specifications and otherwise as required for the conduct of HopFed's and its Subsidiaries' businesses and have not materially malfunctioned or failed within the past three (3) years; and (ii) to HopFed's knowledge, do not contain any Defective Code, Malicious Code, or open source code. HopFed and its Subsidiaries take commercially reasonable actions, consistent with current banking industry standards, to protect the confidentiality, integrity and security of the HopFed IT Assets (and all third party and customer information and transactions stored or contained therein or transmitted thereby) against any unauthorized use, access, interruption, modification or corruption, including, but not limited to, (A) the use of robust encryption technology, and (B) the implementation of a comprehensive security plan which (x) promptly identify any and all internal and external risks to the security of HopFed's and/or its Subsidiaries' confidential information or that of third parties or customers, and (y) implements, monitors, and improves adequate and effective safeguards to control those risks. HopFed and its Subsidiaries have achieved a "baseline" maturity level in all domains of its information systems according to the Federal Financial Institutions Examination Council Cybersecurity Assessment Tool. HopFed and its Subsidiaries have implemented commercially reasonable data backup, data storage, system redundancy, and disaster avoidance and recovery procedures, as well as a commercially reasonable business continuity plan, in each case consistent with banking industry practices. No claims are pending or threatened in writing against HopFed or any of its Subsidiaries Bank alleging a violation of any person's privacy rights or rights regarding the protection of personally identifiable information or other non-public information.

3.22 Related Party Transactions. Except as set forth in Section 3.22 of the HopFed Disclosure Schedule, there are no transactions or series of related transactions, agreements, arrangements or understandings, nor are there any currently proposed transactions or series of related transactions, between HopFed or any of its Subsidiaries, on the one hand, and any current director or "executive officer" (as defined in Rule 3b-7 under the Exchange Act) of HopFed or any of its Subsidiaries or any person who beneficially owns (as defined in Rules 13d-3 and 13d-5 of the Exchange Act) 5% or more of the outstanding HopFed Common Stock (or any of such person's immediate family members or affiliates) (other than Subsidiaries of HopFed) on the other hand, except those of a type available to employees of HopFed or its Subsidiaries generally.

3.23 State Takeover Laws. No "moratorium," "fair price," "business combination," "control share acquisition," "interested shareholder", "affiliate transactions", or similar provision of any state anti-takeover law (any such laws, "Takeover Statutes") is applicable to this Agreement, the Merger, the Bank Merger or any of the other transactions contemplated by this Agreement under the DGCL or federal law.

3.24 Reorganization. HopFed has not taken any action and is not aware of any fact or circumstance that could reasonably be expected to prevent the Merger from qualifying as a "reorganization" within the meaning of Section 368(a) of the Code.

3.25 Opinion. Prior to the execution of this Agreement, the board of directors of HopFed has received an opinion (which, if initially rendered verbally, has been or will be confirmed by a written opinion, dated the same date) of KBW to the effect that, as of the date of such opinion, and based upon and subject to the factors, assumptions, and limitations set forth therein, the Stock Consideration and the Cash Consideration, taken together, is fair from a financial point of view to the holders of HopFed Common Stock. Such opinion has not been amended or rescinded as of the date of this Agreement.

3.26 HopFed Information. The information relating to HopFed and its Subsidiaries which is provided by HopFed or its representatives for inclusion in the Proxy Statement and the S-4, or in any other document filed with any other Regulatory Agency in connection herewith, will not contain any

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untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances in which they are made, not misleading. The Proxy Statement (except for such portions thereof that relate only to First Financial or any of its Subsidiaries) will comply in all material respects with the provisions of the Exchange Act and the rules and regulations thereunder.

3.27 Loan Portfolio.

(a) As of the date hereof, except as set forth in Section 3.27(a) of the HopFed Disclosure Schedule, neither HopFed nor any of its Subsidiaries is a party to any written or oral loan, loan agreement, note or borrowing arrangement (including leases, credit enhancements, commitments, guarantees and interest-bearing assets or any other extension of credit) (collectively, "Loans") in which HopFed or any Subsidiary of HopFed is a creditor which as of September 30, 2018, had an outstanding balance of \$250,000 or more and under the terms of which the obligor was, as of September 30, 2018, over ninety (90) days or more delinquent in payment of principal or interest. Set forth in Section 3.27(a) of the HopFed Disclosure Schedule is a true, correct and complete list of (A) all of the Loans of HopFed and its Subsidiaries that, as of September 30, 2018, were classified by HopFed as "Other Loans Specially Mentioned," "Special Mention," "Substandard," "Doubtful," "Loss," "Classified," "Criticized," "Credit Risk Assets," "Concerned Loans," "Watch List" or words of similar import, together with the principal amount of and accrued and unpaid interest on each such Loan and the identity of the borrower thereunder, together with the aggregate principal amount of and accrued and unpaid interest on such Loans, by category of Loan (e.g., commercial, consumer, etc.), together with the aggregate principal amount of such Loans by category and (B) each asset of HopFed or any of its Subsidiaries that, as of September 30, 2018, is classified as "Other Real Estate Owned" ("OREO") and the book value thereof.

(b) Except as would not reasonably be expected to have a Material Adverse Effect on HopFed, each Loan of HopFed and its Subsidiaries (i) is evidenced by notes, agreements or other evidences of indebtedness that are true, genuine and what they purport to be, (ii) to the extent carried on the books and records of HopFed and its Subsidiaries as secured Loans, has been secured by valid charges, mortgages, pledges, security interests, restrictions, claims, liens or encumbrances, as applicable, which have been perfected and (iii) is the legal, valid and binding obligation of the obligor named therein, enforceable in accordance with its terms, subject to the Enforceability Exceptions.

(c) Except as would not reasonably be expected to have a Material Adverse Effect on HopFed, each outstanding Loan of HopFed and its Subsidiaries (including Loans held for resale to investors) was solicited and originated, and is and has been administered and, where applicable, serviced, and the relevant Loan files are being maintained, in all material respects in accordance with the relevant notes or other credit or security documents, the written underwriting standards of HopFed and its Subsidiaries (and, in the case of Loans held for resale to investors, the underwriting standards, if any, of the applicable investors) and with all applicable federal, state and local laws, regulations and rules.

(d) Except as set forth in Section 3.27(d) of the HopFed Disclosure Schedule, none of the agreements pursuant to which HopFed or any of its Subsidiaries has sold Loans or pools of Loans or participations in Loans or pools of Loans contains any obligation to repurchase such Loans or interests therein solely on account of a payment default by the obligor on any such Loan.

(e) There are no outstanding Loans made by HopFed or any of its Subsidiaries to any "executive officer" or other "insider" (as each such term is defined in Regulation O promulgated by the Federal Reserve Board) of HopFed or its Subsidiaries, other than Loans that are subject to and that were made and continue to be in compliance with Regulation O or that are exempt therefrom.

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(f) Neither HopFed nor any of its Subsidiaries is now nor has it ever been since December 31, 2013, subject to any fine, suspension, settlement or other contract or other administrative agreement or sanction by, or any reduction in any loan purchase commitment from, any Governmental Entity or Regulatory Agency relating to the origination, sale or servicing of mortgage or consumer Loans.

3.28 Insurance. Except as would not reasonably be expected, individually or in the aggregate, to have a Material Adverse Effect on HopFed, HopFed and its Subsidiaries are insured with reputable insurers against such risks and in such amounts as the management of HopFed reasonably has determined to be prudent and consistent with industry practice, and HopFed and its Subsidiaries are in compliance in all material respects with their insurance policies and are not in default under any of the terms thereof, each such policy is outstanding and in full force and effect and, except for policies insuring against potential liabilities of officers, directors and employees of HopFed and its Subsidiaries, HopFed or the relevant Subsidiary thereof is the sole beneficiary of such policies, and all premiums and other payments due under any such policy have been paid, and all claims thereunder have been filed in due and timely fashion.

3.29 Trust Preferred Securities. HopFed has performed, or has caused the HopFed Capital Trust I to perform, all of the obligations required to be performed by it and is not in default under the terms of the Indenture or Debt Securities or any agreements related thereto.

3.30 Information Security. Except as would not reasonably be likely, either individually or in the aggregate, to have a Material Adverse Effect on HopFed, to the knowledge of HopFed, since January 1, 2015, no unauthorized person or third party has gained unauthorized access to any information technology networks controlled by and material to the operation of the business of HopFed and its Subsidiaries.

3.31 Approval Delays. To the knowledge of HopFed, there is no reason why the granting of any of the Requisite Regulatory Approvals would be denied or unduly delayed.

3.32 Fiduciary Accounts. HopFed and each of its Subsidiaries has properly administered all accounts for which it acts as a fiduciary, including, without limitation, accounts for which it serves as a trustee, agent, custodian, personal representative, guardian, conservator, or investment advisor, in accordance with the terms of the governing documents and applicable laws and regulations. Neither HopFed nor any of its Subsidiaries, nor any of their respective directors, officers, or employees, has committed any breach of trust with respect to any fiduciary account, and the records for each such fiduciary account are true and correct and accurately reflect the assets of such fiduciary account.

3.33 No Other Representations or Warranties.

(a) Except for the representations and warranties made by HopFed in this Article III, neither HopFed nor any other person makes any express or implied representation or warranty with respect to HopFed, its Subsidiaries, or their respective businesses, operations, assets, liabilities, conditions (financial or otherwise) or prospects, and HopFed hereby disclaims any such other representations or warranties. In particular, without limiting the foregoing disclaimer, neither HopFed nor any other person makes or has made any representation or warranty to First Financial or any of its affiliates or representatives with respect to (i) any financial projection, forecast, estimate, budget or prospective information relating to HopFed, any of its Subsidiaries or their respective businesses, or (ii) except for the representations and warranties made by HopFed in this Article III, any oral or written information presented to First Financial or any of its affiliates or representatives in the course of their due diligence investigation of HopFed, the negotiation of this Agreement or in the course of the transactions contemplated hereby.

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(b) HopFed acknowledges and agrees that neither First Financial nor any other person has made or is making any express or implied representation or warranty other than those contained in Article IV.

**ARTICLE IV  
REPRESENTATIONS AND WARRANTIES OF FIRST FINANCIAL**

Except (i) as disclosed in the disclosure schedule delivered by First Financial to HopFed concurrently herewith (the "First Financial Disclosure Schedule"); provided, that (a) no such item is required to be set forth as an exception to a representation or warranty if its absence would not result in the related representation or warranty being deemed untrue or incorrect, (b) the mere inclusion of an item in the First Financial Disclosure Schedule as an exception to a representation or warranty shall not be deemed an admission by First Financial that such item represents a material exception or fact, event or circumstance or that such item is reasonably likely to result in a Material Adverse Effect, and (c) any disclosures made with respect to a section of Article IV shall be deemed to qualify (1) any other section of Article IV specifically referenced or cross-referenced and (2) other sections of Article IV to the extent it is reasonably apparent on its face (notwithstanding the absence of a specific cross reference) from a reading of the disclosure that such disclosure applies to such other sections or (ii) as disclosed in any First Financial Reports filed by First Financial since December 31, 2017, and prior to the date hereof, including without limitation any information incorporated by reference into such reports (but disregarding risk factor disclosures contained under the heading "Risk Factors," or disclosures of risks set forth in any "forward-looking statements" disclaimer or any other statements that are similarly non-specific or cautionary, predictive or forward-looking in nature), First Financial hereby represents and warrants to HopFed as follows:

4.1 Corporate Organization.

(a) First Financial is a corporation duly organized and validly existing under the laws of the State of Indiana and is a bank holding company duly registered under the BHC Act. First Financial has all requisite corporate power and authority to own or lease all of its properties and assets and to carry on its business as it is now being conducted. First Financial is duly licensed or qualified to do business, and, where such concept is recognized under applicable law, is in good standing in each jurisdiction in which the nature of the business conducted by it or the character or location of the properties and assets owned or leased by it makes such licensing or qualification necessary, except where the failure to be so licensed or qualified or in good standing would not, either individually or in the aggregate, reasonably be expected to have a Material Adverse Effect on First Financial. True and complete copies of the First Financial Articles and First Financial Bylaws, as in effect as of the date of this Agreement, have previously been made available by First Financial to HopFed.

(b) Each Subsidiary of First Financial (a "First Financial Subsidiary") (i) is duly organized and validly existing under the laws of its jurisdiction of organization, (ii) is duly licensed or qualified to do business and, where such concept is recognized under applicable law, in good standing in each jurisdiction in which the nature of the business conducted by it or the character or location of the properties and assets owned or leased by it makes such licensing or qualification necessary, except where the failure to be so licensed or qualified or in good standing would not, either individually or in the aggregate, reasonably be expected to have a Material Adverse Effect on First Financial and (iii) has all requisite corporate power and authority to own or lease its properties and assets and to carry on its business as now conducted. There are no restrictions on the ability of any Subsidiary of First Financial to pay dividends or distributions except, in the case of a Subsidiary that is a regulated entity, for restrictions on dividends or distributions generally applicable to all such regulated entities. The deposit accounts of each Subsidiary of First Financial that is an insured depository institution are insured by the FDIC through the Deposit Insurance



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Fund to the fullest extent permitted by law, all premiums and assessments required to be paid in connection therewith have been paid when due, and no proceedings for the termination of such insurance are pending or threatened.

4.2 Capitalization.

(a) The authorized capital stock of First Financial consists of 40,000,000 shares of First Financial Common Stock, no par value, and 10,000,000 shares of preferred stock, of which no shares of preferred stock are issued or outstanding. As of the date of this Agreement, there are (i) 14,612,540 shares of First Financial Common Stock issued and 12,278,295 shares of First Financial Common Stock outstanding, including 35,239 of First Financial Common Stock granted in respect of outstanding awards of restricted First Financial Common Stock (a "First Financial Restricted Stock Award"), and (ii) no other shares of capital stock or other voting securities of First Financial issued, reserved for issuance or outstanding. All of the issued and outstanding shares of First Financial Common Stock have been duly authorized and validly issued and are fully paid, nonassessable and free of preemptive rights, with no personal liability attaching to the ownership thereof. There are no bonds, debentures, notes or other indebtedness that have the right to vote on any matters on which shareholders of First Financial may vote. No trust preferred or subordinated debt securities of First Financial are issued or outstanding. There are no outstanding subscriptions, options, warrants, puts, calls, rights, exchangeable or convertible securities or other commitments or agreements obligating First Financial to issue, transfer, sell, purchase, redeem or otherwise acquire, any such securities. There are no voting trusts, shareholder agreements, proxies or other agreements in effect with respect to the voting or transfer of the First Financial Common Stock. Other than the First Financial Restricted Stock Awards, no equity-based awards (including any cash awards where the amount of payment is determined in whole or in part based on the price of any capital stock of First Financial or any of its Subsidiaries) are outstanding.

(b) First Financial owns, directly or indirectly, all of the issued and outstanding shares of capital stock or other equity ownership interests of each of the First Financial Subsidiaries, free and clear of any Liens, and all of such shares or equity ownership interests are duly authorized and validly issued and are fully paid, nonassessable (except, with respect to bank Subsidiaries, as provided under 12 U.S.C. § 55 or any comparable provision of applicable state law) and free of preemptive rights, with no personal liability attaching to the ownership thereof. No First Financial Subsidiary has or is bound by any outstanding subscriptions, options, warrants, calls, rights, commitments or agreements of any character calling for the purchase or issuance of any shares of capital stock or any other equity security of such Subsidiary or any securities representing the right to purchase or otherwise receive any shares of capital stock or any other equity security of such Subsidiary.

4.3 Authority; No Violation.

(a) First Financial has full corporate power and authority to execute and deliver this Agreement and, subject to the shareholder and other actions described below, to consummate the transactions contemplated hereby. The execution and delivery of this Agreement and the consummation of the Merger have been duly and validly approved by the Board of Directors of First Financial. The Board of Directors of First Financial has determined that the Merger, on the terms and conditions set forth in this Agreement, is in the best interests of First Financial and its shareholders and has adopted a resolution to the foregoing effect. Except for the adoption and approval of the Bank Merger Agreement by First Financial Bank and First Financial as its sole shareholder, no other corporate proceedings on the part of First Financial are necessary to approve this Agreement or to consummate the transactions contemplated hereby. This Agreement has been duly and validly executed and delivered by First Financial and (assuming due

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authorization, execution and delivery by HopFed) constitutes a valid and binding obligation of First Financial, enforceable against First Financial in accordance with its terms (except in all cases as such enforceability may be limited by the Enforceability Exceptions). The shares of First Financial Common Stock to be issued in the Merger have been validly authorized and, when issued, will be validly issued, fully paid and nonassessable, and no current or past shareholder of First Financial will have any preemptive right or similar rights in respect thereof.

(b) Neither the execution and delivery of this Agreement by First Financial, nor the consummation by First Financial of the transactions contemplated hereby, including the Bank Merger, nor compliance by First Financial with any of the terms or provisions hereof, will (i) violate any provision of the First Financial Articles or the First Financial Bylaws, or (ii) assuming that the consents and approvals referred to in Section 4.4 are duly obtained, (x) violate any statute, code, ordinance, rule, regulation, judgment, order, writ, decree or injunction applicable to First Financial, any of its Subsidiaries or any of their respective properties or assets or (y) violate, conflict with, result in a breach of any provision of or the loss of any benefit under, constitute a default (or an event which, with notice or lapse of time, or both, would constitute a default) under, result in the termination of or a right of termination or cancellation under, accelerate the performance required by, or result in the creation of any Lien upon any of the respective properties or assets of First Financial or any of its Subsidiaries under, any of the terms, conditions or provisions of any note, bond, mortgage, indenture, deed of trust, license, lease, agreement or other instrument or obligation to which First Financial or any of its Subsidiaries is a party, or by which they or any of their respective properties or assets may be bound, except (in the case of clause (y) above) for such violations, conflicts, breaches or defaults which either individually or in the aggregate would not reasonably be expected to have a Material Adverse Effect on First Financial.

(c) First Financial Bank has adopted the Bank Merger Agreement, First Financial, as the sole shareholder of First Financial Bank, shall promptly hereafter approve the Bank Merger Agreement, and the Bank Merger Agreement has been duly executed by First Financial Bank.

4.4 Consents and Approvals. Except for (i) the filing of applications, filings and notices, as applicable, with NASDAQ, (ii) the filing of applications, filings and notices, as applicable, with the Federal Reserve Board under the BHC Act and with the KDFI in connection with the Merger and approval of such applications, filings and notices, (iii) the filing of applications, filings and notices, as applicable, with the OCC and the KDFI in connection with the Bank Merger, including under the Bank Merger Act, and approval of such applications, filings and notices, (iv) the filing of any required applications, filings or notices with any state banking authorities listed on Section 3.4 of the HopFed Disclosure Schedule or Section 4.4 of the First Financial Disclosure Schedule and approval of such applications, filings and notices, (v) the filing with the SEC of the Prospectus/Proxy Statement, and declaration of effectiveness of the S-4, (vi) the filing of the Certificates of Merger, and the filing of the Bank Merger Certificates, and (vii) such filings and approvals as are required to be made or obtained under the securities or "Blue Sky" laws of various states in connection with the issuance of the shares of First Financial Common Stock pursuant to this Agreement and the approval of the listing of such First Financial Common Stock on NASDAQ, no consents or approvals of or filings or registrations with any Governmental Entity are necessary in connection with (A) the execution and delivery by First Financial of this Agreement or (B) the consummation by First Financial of the Merger and the other transactions contemplated hereby (including the Bank Merger). As of the date hereof, First Financial is not aware of any reason why the necessary regulatory approvals and consents will not be received in order to permit consummation of the Merger and Bank Merger on a timely basis.

4.5 Reports. First Financial and each of its Subsidiaries have timely filed all reports, registrations and statements, together with any amendments required to be made with respect thereto, that they were required to file since January 1, 2015 with the Regulatory Agencies, including, without

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limitation, any report, registration or statement required to be filed pursuant to the laws, rules or regulations of the United States, any state, any foreign entity, or any Regulatory Agency, and have paid all fees and assessments due and payable in connection therewith, except where the failure to file such report, registration or statement or to pay such fees and assessments, either individually or in the aggregate, would not reasonably be expected to have a Material Adverse Effect on First Financial. Except as set forth on Section 4.5 of the First Financial Disclosure Schedule and for normal examinations conducted by a Regulatory Agency in the ordinary course of business of First Financial and its Subsidiaries, (i) no Regulatory Agency has initiated or has pending any proceeding or, to the knowledge of First Financial, investigation into the business or operations of First Financial or any of its Subsidiaries since January 1, 2015, (ii) there is no unresolved violation, criticism, or exception by any Regulatory Agency with respect to any report or statement relating to any examinations or inspections of First Financial or any of its Subsidiaries, and (iii) there has been no formal or informal inquiries by, or disagreements or disputes with, any Regulatory Agency with respect to the business, operations, policies or procedures of First Financial or any of its Subsidiaries since January 1, 2015, in each case, which would reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect on First Financial.

4.6 Financial Statements.

(a) The financial statements of First Financial and its Subsidiaries included (or incorporated by reference) in the First Financial Reports (including the related notes, where applicable) (i) have been prepared from, and are in accordance with, the books and records of First Financial and its Subsidiaries, (ii) fairly present in all material respects the consolidated results of operations, cash flows, changes in shareholders' equity and consolidated financial position of First Financial and its Subsidiaries for the respective fiscal periods or as of the respective dates therein set forth (subject in the case of unaudited statements to year-end audit adjustments normal in nature and amount), (iii) complied, as of their respective dates of filing with the SEC, in all material respects with applicable accounting requirements and with the published rules and regulations of the SEC with respect thereto, and (iv) have been prepared in accordance with GAAP consistently applied during the periods involved, except, in each case, as indicated in such statements or in the notes thereto. The books and records of First Financial and its Subsidiaries have been, and are being, maintained in all material respects in accordance with GAAP and any other applicable legal and accounting requirements and reflect only actual transactions. Crowe Horwath LLP has not resigned (or informed First Financial that it intends to resign) or been dismissed as independent public accountants of First Financial as a result of or in connection with any disagreements with First Financial on a matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure.

(b) Except as would not reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect on First Financial, neither First Financial nor any of its Subsidiaries has any liability of any nature whatsoever (whether absolute, accrued, contingent or otherwise and whether due or to become due), except for those liabilities that are reflected or reserved against on the consolidated balance sheet of First Financial included in its Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2018 (including any notes thereto) and for liabilities incurred in the ordinary course of business consistent with past practice since September 30, 2018, or in connection with this Agreement and the transactions contemplated hereby.

(c) The records, systems, controls, data and information of First Financial and its Subsidiaries are recorded, stored, maintained and operated under means (including any electronic, mechanical or photographic process, whether computerized or not) that are under the exclusive ownership and direct control of First Financial or its Subsidiaries or accountants (including all means of access thereto and therefrom), except for any non-exclusive ownership and non-direct control that would

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not reasonably be expected to have a Material Adverse Effect on First Financial. First Financial (x) has implemented and maintains disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act) to ensure that material information relating to First Financial, including its Subsidiaries, is made known to the chief executive officer and the chief financial officer of First Financial by others within those entities as appropriate to allow timely decisions regarding required disclosures and to make the certifications required by the Exchange Act and Sections 302 and 906 of the Sarbanes-Oxley Act, and (y) has disclosed, based on its most recent evaluation prior to the date hereof, to First Financial's outside auditors and the audit committee of First Financial's Board of Directors (i) any significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) which are reasonably likely to adversely affect First Financial's ability to record, process, summarize and report financial information, and (ii) any fraud, whether or not material, that involves management or other employees who have a significant role in First Financial's internal controls over financial reporting. These disclosures were made in writing by management to First Financial's auditors and audit committee and a copy has previously been made available to HopFed. There is no reason to believe that First Financial's outside auditors and its chief executive officer and chief financial officer will not be able to give the certifications and attestations required pursuant to the rules and regulations adopted pursuant to Section 404 of the Sarbanes-Oxley Act, without qualification, when next due.

(d) Since January 1, 2015, (i) neither First Financial nor any of its Subsidiaries, nor, to the knowledge of First Financial, any director, officer, auditor, accountant or representative of First Financial or any of its Subsidiaries, has received or otherwise had or obtained knowledge of any material complaint, allegation, assertion or claim, whether written or oral, regarding the accounting or auditing practices, procedures, methodologies or methods (including with respect to loan loss reserves, write-downs, charge-offs and accruals) of First Financial or any of its Subsidiaries or their respective internal accounting controls, including any material complaint, allegation, assertion or claim that First Financial or any of its Subsidiaries has engaged in questionable accounting or auditing practices, and (ii) no attorney representing First Financial or any of its Subsidiaries, whether or not employed by First Financial or any of its Subsidiaries, has reported evidence of a material violation of securities laws, breach of fiduciary duty or similar violation by First Financial or any of its officers, directors, employees or agents to the Board of Directors of First Financial or any committee thereof or to the knowledge of First Financial, to any director or officer of First Financial.

4.7 Broker's Fees. Neither First Financial nor any First Financial Subsidiary nor any of their respective officers or directors has employed any broker, finder or financial advisor or incurred any liability for any broker's fees, commissions or finder's fees in connection with the Merger or related transactions contemplated by this Agreement.

4.8 Absence of Certain Changes or Events.

(a) Since December 31, 2017, no event or events have occurred that have had or would reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect on First Financial.

(b) Except as set forth on Section 4.8 of the First Financial Disclosure Schedule, and in connection with matters related to this Agreement, since December 31, 2017, First Financial and its Subsidiaries have carried on their respective businesses in all material respects in the ordinary course of business consistent with past practice.

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(a) Except as would not reasonably be expected to result in a Material Adverse Effect on First Financial, neither First Financial nor any of its Subsidiaries is a party to any, and there are no pending or, to First Financial's knowledge, threatened, legal, administrative, arbitral or other proceedings, claims, actions or governmental or regulatory investigations of any nature against First Financial or any of its Subsidiaries or any of their current or former directors or executive officers or challenging the validity or propriety of the transactions contemplated by this Agreement.

(b) There is no injunction, order, judgment, decree, or regulatory restriction imposed upon First Financial, any of its Subsidiaries or the assets of First Financial or any of its Subsidiaries (or that, upon consummation of the Merger, would apply to the Surviving Corporation or any of its affiliates) that would reasonably be expected to be material to First Financial and its Subsidiaries, taken as a whole.

4.10 Taxes and Tax Returns. Each of First Financial and its Subsidiaries has duly and timely filed (including all applicable extensions) all material Tax Returns in all jurisdictions in which Tax Returns are required to be filed by it, and all such Tax Returns are true, correct, and complete in all material respects. Neither First Financial nor any of its Subsidiaries is the beneficiary of any extension of time within which to file any material Tax Return (other than extensions to file Tax Returns obtained in the ordinary course of business). All material Taxes of First Financial and its Subsidiaries (whether or not shown on any Tax Returns) that are due have been fully and timely paid. Each of First Financial and its Subsidiaries has withheld and paid all material Taxes required to have been withheld and paid in connection with amounts paid or owing to any employee, creditor, shareholder, independent contractor or other third party. Neither First Financial nor any of its Subsidiaries has granted any extension or waiver of the limitation period applicable to any material Tax that remains in effect. Except as set forth on Section 4.10(a) of the First Financial Disclosure Schedule, the federal income Tax Returns of First Financial and its Subsidiaries for all years to and including 2014 have been examined by the IRS or are Tax Returns with respect to which the applicable period for assessment under applicable law, after giving effect to extensions or waivers, has expired. Neither First Financial nor any of its Subsidiaries has received written notice of assessment or proposed assessment in connection with any material amount of Taxes, and there are no threatened in writing or pending disputes, claims, audits, examinations or other proceedings regarding any material Tax of First Financial and its Subsidiaries or the assets of First Financial and its Subsidiaries. First Financial has made available to HopFed true and complete copies of any private letter ruling requests, closing agreements or gain recognition agreements with respect to Taxes requested or executed in the last six (6) years. Neither First Financial nor any of its Subsidiaries is a party to or is bound by any Tax sharing, allocation or indemnification agreement or arrangement (other than such an agreement or arrangement exclusively between or among First Financial and its Subsidiaries). Neither First Financial nor any of its Subsidiaries (A) has been a member of an affiliated group filing a consolidated federal income Tax Return (other than a group the common parent of which was First Financial) or (B) has any liability for the Taxes of any person (other than First Financial or any of its Subsidiaries) under Treasury Regulation Section 1.1502-6 (or any similar provision of state, local or foreign law), as a transferee or successor, by contract or otherwise. Neither First Financial nor any of its Subsidiaries has been, within the past two (2) years or otherwise as part of a "plan (or series of related transactions)" within the meaning of Section 355(e) of the Code of which the Merger is also a part, a "distributing corporation" or a "controlled corporation" (within the meaning of Section 355(a)(1)(A) of the Code) in a distribution of stock intending to qualify for tax-free treatment under Section 355 of the Code. Neither First Financial nor any of its Subsidiaries has participated in a "reportable transaction" within the meaning of Treasury Regulation section 1.6011-4(b)(1). At no time during the past five (5) years has First Financial been a United States real property holding corporation within the meaning of Section 897(c)(2) of the Code.

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(a) Each First Financial Benefit Plan has been established, operated and administered in all material respects in accordance with its terms and the requirements of all applicable laws, including ERISA and the Code. Except as set forth on Section 4.11(a) of the First Financial Disclosure Schedule, within the past three (3) years, neither First Financial nor any of its Subsidiaries has taken any corrective action or made a filing under any voluntary correction program of the IRS, Department of Labor or any other Governmental Entity with respect to any First Financial Benefit Plan, and neither First Financial nor any of its Subsidiaries has any knowledge of any plan defect that would qualify for correction under any such program and no First Financial Benefit Plan has, within the six (6) years prior to the date hereof, been the subject of an examination or audit by a Governmental Entity. For purposes of this Agreement, "First Financial Benefit Plans" means all employee benefit plans (as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA")), whether or not subject to ERISA, and all bonus, stock option, stock purchase, restricted stock, incentive, commission, deferred compensation, retiree medical or life insurance, supplemental retirement, employee assistance program, disability or sick leave benefits, workers' compensation, supplemental unemployment benefits, vacation and other time off benefits, severance or other benefit plans, programs, policies, practices or arrangements, and all retention, bonus, employment, termination, severance plans, programs or arrangements or other contracts or agreements to or with respect to which First Financial or any First Financial Subsidiary, or any trade or business of First Financial or any of its Subsidiaries, whether or not incorporated, all of which together with First Financial would be deemed a "single employer" within the meaning of Section 4001 of ERISA (a "First Financial ERISA Affiliate"), is a party or has any current or future obligation or that are maintained, contributed to or sponsored by First Financial or any of its Subsidiaries or any First Financial ERISA Affiliate for the benefit of any current or former employee, officer, director or independent contractor of First Financial or any of its Subsidiaries or any First Financial ERISA Affiliate.

(b) There are no pending or, to First Financial's knowledge, threatened material labor grievances or material unfair labor practice claims or charges against First Financial or any of its Subsidiaries, or any strikes or other material labor disputes against First Financial or any of its Subsidiaries. Neither First Financial nor any of its Subsidiaries are party to or bound by any collective bargaining or similar agreement with any labor organization, or work rules or practices agreed to with any labor organization or employee association applicable to employees of First Financial or any of its Subsidiaries and, to the knowledge of First Financial, there are no organizing efforts by any union or other group seeking to represent any employees of First Financial or any of its Subsidiaries.

(c) First Financial and its Subsidiaries have complied with the applicable provisions of the Affordable Care Act of 2010 and the Health Care and Education Reconciliation Act of 2010 (collectively, the "ACA") including all provisions of the ACA applicable to employees, including the employer shared responsibility provisions relating to the offer of "minimum essential coverage" to "full-time" employees that is "affordable" and provides "minimum value" (as defined in Code Section 4980H and related regulations) and the applicable employer information reporting provisions under Code Sections 6055 and 6056 (and all related regulations).

4.12 SEC Reports. No communication mailed by First Financial to its shareholders since December 31, 2015 and prior to the date hereof nor any final registration statement, prospectus, report, schedule or definitive proxy statement filed with or furnished to the SEC since December 31, 2015 by First Financial pursuant to the Securities Act of 1933, as amended (the "Securities Act"), or the Exchange Act (the "First Financial Reports"), as of the date thereof (and, in the case of registration statements and proxy statements, on the dates of effectiveness and the dates of the relevant meetings,

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respectively), contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances in which they were made, not misleading, except that information filed or furnished as of a later date (but before the date of this Agreement) shall be deemed to modify information as of an earlier date. Since December 31, 2015, as of their respective dates, all First Financial Reports filed under the Securities Act and the Exchange Act complied in all material respects with the published rules and regulations of the SEC with respect thereto. No executive officer of First Financial has failed in any respect to make the certifications required of him or her under Section 302 or 906 of the Sarbanes-Oxley Act. There are no outstanding comments from or unresolved issues raised by the SEC with respect to any of the First Financial Reports.

4.13 Compliance with Applicable Law. First Financial and each of its Subsidiaries hold, and have at all times since December 31, 2015, held, all licenses, franchises, permits and authorizations necessary for the lawful conduct of their respective businesses and ownership of their respective properties, rights and assets under and pursuant to each (and have paid all fees and assessments due and payable in connection therewith), except where neither the cost of failure to hold nor the cost of obtaining and holding such license, franchise, permit or authorization (nor the failure to pay any fees or assessments) would, either individually or in the aggregate, reasonably be expected to have a Material Adverse Effect on First Financial, and to the knowledge of First Financial no suspension or cancellation of any such necessary license, franchise, permit or authorization is threatened. First Financial and each of its Subsidiaries have complied in all material respects with and are not in material default or violation under any, applicable law, statute, order, rule, regulation, policy and/or guideline of any Governmental Entity relating to First Financial or any of its Subsidiaries, including without limitation all laws related to data protection or privacy, the USA PATRIOT Act, the Bank Secrecy Act, the Equal Credit Opportunity Act and Regulation B, the Fair Housing Act, the Community Reinvestment Act, the Fair Credit Reporting Act, the Truth in Lending Act and Regulation Z, the Home Mortgage Disclosure Act, the Fair Debt Collection Practices Act, the Electronic Fund Transfer Act, the Dodd-Frank Wall Street Reform and Consumer Protection Act, any regulations promulgated by the Consumer Financial Protection Bureau, the Interagency Policy Statement on Retail Sales of Nondeposit Investment Products, the SAFE Mortgage Licensing Act of 2008, the Real Estate Settlement Procedures Act and Regulation X, and any other law relating to bank secrecy, discriminatory lending, financing or leasing practices, money laundering prevention, Sections 23A and 23B of the Federal Reserve Act, the Sarbanes-Oxley Act, and all agency requirements relating to the origination, sale and servicing of mortgage and consumer loans. First Financial Bank has a Community Reinvestment Act rating of "satisfactory" or better. Without limitation, none of First Financial, or its Subsidiaries, or to the knowledge of First Financial, any director, officer, employee, agent or other person acting on behalf of First Financial or any of its Subsidiaries has, directly or indirectly, (i) used any funds of First Financial or any of its Subsidiaries for unlawful contributions, unlawful gifts, unlawful entertainment or other expenses relating to political activity, (ii) made any unlawful payment to foreign domestic governmental officials or employees or to foreign or domestic political parties or campaigns from funds of First Financial or any of its Subsidiaries, (iii) violated any provision that would result in the violation of the Foreign Corrupt Practices Act of 1977, as amended, or any similar law, (iv) established or maintained any unlawful fund of monies or other assets of First Financial or any of its Subsidiaries, (v) made any fraudulent entry on the books or records of First Financial or any of its Subsidiaries, or (vi) made any unlawful bribe, unlawful rebate, unlawful payoff, unlawful influence payment, unlawful kickback or other unlawful payment to any person, private or public, regardless of form, whether in money, property or services, to obtain favorable treatment in securing business to obtain special concessions for First Financial or any of its Subsidiaries, to pay for favorable treatment for business secured or to pay for special concessions already obtained for First Financial or any of its Subsidiaries, or is currently subject to any United States sanctions administered by the Office of Foreign Assets Control of the United States Treasury Department.

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4.14 Agreements with Regulatory Agencies. Neither First Financial nor any of its Subsidiaries is subject to any cease-and-desist or other order or enforcement action issued by, or is a party to any written agreement, consent agreement or memorandum of understanding with, or is a party to any commitment letter or similar undertaking to, or is subject to any order or directive by, or has been ordered to pay any civil money penalty by, or has been since January 1, 2015, a recipient of any supervisory letter from, or since January 1, 2015, has adopted any policies, procedures or board resolutions at the request or suggestion of any Regulatory Agency or other Governmental Entity that currently restricts in any material respect the conduct of its business or that in any material manner relates to its capital adequacy, its ability to pay dividends, its credit or risk management policies, its management or its business (each, whether or not set forth in the First Financial Disclosure Schedule, a "First Financial Regulatory Agreement"), nor has First Financial or any of its Subsidiaries been advised since January 1, 2015, by any Regulatory Agency or other Governmental Entity of any potential action that could restrict the business of First Financial or any of its Subsidiaries in any material respect.

4.15 Risk Management Instruments. All interest rate swaps, caps, floors, option agreements, futures and forward contracts and other similar derivative transactions and risk management arrangements, whether entered into for the account of First Financial, any of its Subsidiaries or for the account of a customer of First Financial or one of its Subsidiaries, were entered into in the ordinary course of business consistent with past practice and in accordance with applicable rules, regulations and policies of any Regulatory Agency and with counterparties believed to be financially responsible at the time and are legal, valid and binding obligations of First Financial or one of its Subsidiaries enforceable in accordance with their terms (except as may be limited by the Enforceability Exceptions), and are in full force and effect. First Financial and each of its Subsidiaries have duly performed in all material respects all of their material obligations thereunder to the extent that such obligations to perform have accrued, and, to First Financial's knowledge, there are no material breaches, violations or defaults or allegations or assertions of such by any party thereunder.

4.16 Environmental Matters. Except as would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on First Financial, First Financial and its Subsidiaries are in compliance, and have complied, with any federal, state or local law, regulation, order, decree, permit, authorization, common law or agency requirement relating to: (i) the protection or restoration of the environment, health and safety as it relates to hazardous substance exposure or natural resource damages, (ii) the handling, use, presence, disposal, release or threatened release of, or exposure to, any hazardous substance, or (iii) noise, odor, wetlands, indoor air, pollution, contamination or any injury to persons or property from exposure to any hazardous substance (collectively, "Environmental Laws"). There are no legal, administrative, arbitral or other proceedings, claims or actions, or to the knowledge of First Financial any private environmental investigations or remediation activities or governmental investigations of any nature seeking to impose, or that could reasonably be expected to result in the imposition, on First Financial or any of its Subsidiaries of any liability or obligation arising under any Environmental Law, pending or threatened against First Financial, which liability or obligation would reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect on First Financial. To the knowledge of First Financial, there is no reasonable basis for any such proceeding, claim, action or governmental investigation that would impose any liability or obligation that would reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect on First Financial. First Financial is not subject to any agreement, order, judgment, decree, letter agreement or memorandum of agreement by or with any court, governmental authority, regulatory agency or third party imposing any liability or obligation with respect to the foregoing that would reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect on First Financial.



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4.17 Investment Securities and Commodities.

(a) Each of First Financial and its Subsidiaries has good title to all securities and commodities owned by it (except those sold under repurchase agreements), free and clear of any Lien, except to the extent such securities or commodities are pledged in the ordinary course of business to secure obligations of First Financial or its Subsidiaries. Such securities and commodities are valued on the books of First Financial in accordance with GAAP in all material respects.

(b) First Financial and its Subsidiaries and their respective businesses employ investment, securities, commodities, risk management and other policies, practices and procedures that First Financial believes are prudent and reasonable in the context of such businesses.

4.18 Real Property. First Financial or a First Financial Subsidiary has good and marketable title in fee simple to all the real property (including, without limitation, all real property used as bank premises and all other real estate owned ("OREO")) reflected in Section 4.18 of the First Financial Disclosure Schedule or acquired after the date hereof (except properties sold or otherwise disposed of since the date thereof in the ordinary course of business consistent with past practice) (the "First Financial Owned Properties"), free and clear of all material Liens, except statutory Liens securing payments not yet due, Liens for real property Taxes not yet due and payable, easements, rights of way, and other similar encumbrances that do not materially affect the value or use of the properties or assets subject thereto or affected thereby or otherwise materially impair business operations at such properties and such imperfections or irregularities of title or Liens as do not materially affect the value or use of the properties or assets subject thereto or affected thereby or otherwise materially impair business operations at such properties (collectively, "Permitted Encumbrances"), and is the lessee of all leasehold estates reflected in Section 4.18 of the First Financial Disclosure Schedule or acquired after the date hereof (except for leases that have expired by their terms since the date thereof) (the "First Financial Leased Properties" and, collectively with the First Financial Owned Properties, the "First Financial Real Property"), free and clear of all Liens of any nature whatsoever, except for Permitted Encumbrances, and is in possession of the properties purported to be leased thereunder, and each such lease is valid without default thereunder by the lessee or, to First Financial's knowledge, the lessor. There are no pending or, to the knowledge of First Financial, threatened condemnation proceedings against the First Financial Real Property.

4.19 Intellectual Property.

(a) First Financial and its Subsidiaries own, or are licensed or otherwise possess sufficient legally enforceable rights to use, all material Intellectual Property (as defined in Section 3.20(g)) that is used by First Financial or its Subsidiaries in their respective businesses as currently conducted. Neither First Financial nor any of its Subsidiaries has (i) licensed any Intellectual Property owned by it or its Subsidiaries to any third party, or (ii) entered into any exclusive agreements relating to Intellectual Property owned by it.

(b) First Financial and its Subsidiaries have not infringed or otherwise violated any material Intellectual Property rights of any third party during the preceding five (5) years. Except as set forth in Section 4.19(b) of the First Financial Disclosure Schedule, there is no claim asserted or threatened against First Financial and/or its Subsidiaries or any indemnitee thereof concerning the ownership, validity, registerability, enforceability, infringement, use, or licensed right to use any Intellectual Property.

(c) To First Financial's knowledge, no third party has infringed, misappropriated, or otherwise violated First Financial's or any of its Subsidiaries' Intellectual Property rights during the preceding five (5) years. There are no claims asserted or threatened by First Financial or any of its Subsidiaries, nor has First Financial or any of its Subsidiaries decided to assert or threaten a claim,

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that (i) a third party infringed or otherwise violated any of their Intellectual Property rights; or (ii) a third party's owned or claimed Intellectual Property interferes with, infringes, dilutes, or otherwise harms any of their Intellectual Property rights.

(d) To the extent First Financial has designated any of its information, materials, or processes a trade secret, First Financial and its Subsidiaries have taken reasonable measures to protect the confidentiality of all trade secrets that are owned, used, or held by them.

(e) None of the Software : (i) to First Financial's knowledge, contains a Defective Code or (ii) to First Financial's knowledge, fails to comply with any applicable warranty or other contractual commitment relating to the use, functionality, or performance of such Software or system or (iii) is lapsed or has failed to be upgraded and maintained in accordance with any maintenance schedule or customary practice.

(f) To First Financial's knowledge, no Software contains any Malicious Code.

4.20 Information Technology. The computers, Software, computer programs, in source code and object code forms, servers, workstations, routers, hubs, switches, circuits, networks, data communications lines, repair and refurbishment equipment and all other information technology equipment owned, used, or held for use by First Financial or its Subsidiaries (collectively, the "First Financial IT Assets") (i) operate and perform in all material respects in accordance with their documentation and functional specifications and otherwise as required for the conduct of First Financial's and its Subsidiaries' businesses and have not materially malfunctioned or failed within the past three (3) years; and (ii) to First Financial's knowledge, do not contain any Defective Code, Malicious Code, or open source code. First Financial and its Subsidiaries take commercially reasonable actions, consistent with current banking industry standards, to protect the confidentiality, integrity and security of the First Financial IT Assets (and all third party and customer information and transactions stored or contained therein or transmitted thereby) against any unauthorized use, access, interruption, modification or corruption, including, but not limited to, (A) the use of robust encryption technology, and (B) the implementation of a comprehensive security plan which (x) promptly identify any and all internal and external risks to the security of First Financial's and/or its Subsidiaries' confidential information or that of third parties or customers, and (y) implements, monitors, and improves adequate and effective safeguards to control those risks. First Financial and its Subsidiaries have achieved a "baseline" maturity level in all domains of its information systems according to the Federal Financial Institutions Examination Council Cybersecurity Assessment Tool. First Financial and its Subsidiaries have implemented commercially reasonable data backup, data storage, system redundancy, and disaster avoidance and recovery procedures, as well as a commercially reasonable business continuity plan, in each case consistent with banking industry practices. No claims are pending or threatened in writing against First Financial or any of its Subsidiaries Bank alleging a violation of any person's privacy rights or rights regarding the protection of personally identifiable information or other non-public information.

4.21 State Takeover Laws. No Takeover Statute is applicable to this Agreement, the Merger, the Bank Merger or any of the other transactions contemplated by this Agreement under the IBCL or federal law.

4.22 Insurance. Except as would not reasonably be expected, individually or in the aggregate, to have a Material Adverse Effect on First Financial, First Financial and its Subsidiaries are insured with reputable insurers against such risks and in such amounts as the management of First Financial reasonably has determined to be prudent and consistent with industry practice, and First Financial and its Subsidiaries are in compliance in all material respects with their insurance policies and are not in default under any of the terms thereof, each such policy is outstanding and in full force and effect and, except for policies insuring against potential liabilities of officers, directors and employees of First Financial and its Subsidiaries, First Financial or the relevant Subsidiary thereof is the sole beneficiary

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of such policies, and all premiums and other payments due under any such policy have been paid, and all claims thereunder have been filed in due and timely fashion.

4.23 Information Security. Except as would not reasonably be likely, either individually or in the aggregate, to have a Material Adverse Effect on First Financial, to the knowledge of First Financial, since January 1, 2015, no unauthorized person or third party has gained unauthorized access to any information technology networks controlled by and material to the operation of the business of First Financial and its Subsidiaries.

4.24 No Shareholder Approval. No vote or consent of any of the holders of First Financial's capital stock is required by law or NASDAQ listing requirements for First Financial to enter into this Agreement and to consummate the Merger.

4.25 Reorganization. First Financial has not taken any action and is not aware of any fact or circumstance that could reasonably be expected to prevent the Merger from qualifying as a "reorganization" within the meaning of Section 368(a) of the Code.

4.26 First Financial Information. The information relating to First Financial and its Subsidiaries to be contained in the Prospectus/Proxy Statement and the S-4, and the information relating to First Financial and its Subsidiaries that is provided by First Financial or its representatives for inclusion in any other document filed with any other Regulatory Agency in connection herewith, will not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances in which they are made, not misleading. The Prospectus/Proxy Statement (except for such portions thereof that relate only to HopFed or any of its Subsidiaries) will comply in all material respects with the provisions of the Exchange Act and the rules and regulations thereunder. The S-4 (except for such portions thereof that relate only to HopFed or any of its Subsidiaries) will comply in all material respects with the provisions of the Securities Act and the rules and regulations thereunder.

4.27 Approval Delays. To the knowledge of First Financial, there is no reason why the granting of any of the Requisite Regulatory Approvals would be denied or unduly delayed.

4.28 Available Funds; Capitalization. Immediately before the Effective Time, First Financial will have or have access to cash sufficient to pay any amounts required to be paid by First Financial pursuant to Article I of this Agreement. First Financial is, and immediately after giving effect to the Merger will be, well-capitalized, as such term is defined under guidelines published by the OCC and the Federal Reserve Board.

4.29 Loan Portfolio.

(a) Except as would not reasonably be expected to have a Material Adverse Effect on First Financial, each Loan of First Financial and its Subsidiaries (i) is evidenced by notes, agreements or other evidences of indebtedness that are true, genuine and what they purport to be, (ii) to the extent carried on the books and records of First Financial and its Subsidiaries as secured Loans, has been secured by valid charges, mortgages, pledges, security interests, restrictions, claims, liens or encumbrances, as applicable, which have been perfected and (iii) is the legal, valid and binding obligation of the obligor named therein, enforceable in accordance with its terms, subject to the Enforceability Exceptions.

(b) Except as would not reasonably be expected to have a Material Adverse Effect on First Financial, each outstanding Loan of First Financial and its Subsidiaries (including Loans held for resale to investors) was solicited and originated, and is and has been administered and, where applicable, serviced, and the relevant Loan files are being maintained, in all material respects in accordance with the relevant notes or other credit or security documents, the written underwriting standards of First Financial and its Subsidiaries (and, in the case of Loans held for resale to

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investors, the underwriting standards, if any, of the applicable investors) and with all applicable federal, state and local laws, regulations and rules.

(c) There are no outstanding Loans made by First Financial or any of its Subsidiaries to any "executive officer" or other "insider" (as each such term is defined in Regulation O promulgated by the Federal Reserve Board) of First Financial or its Subsidiaries, other than Loans that are subject to and that were made and continue to be in compliance with Regulation O or that are exempt therefrom.

4.30 Certain Contracts.

(a) Each contract, arrangement, commitment or understanding (whether written or oral) which is a "material contract" (as such term is defined in Item 601(b)(10) of Regulation S-K of the SEC) to which First Financial or any of its Subsidiaries is a party or by which First Financial or any of its Subsidiaries is bound as of the date hereof has been filed as an exhibit to the most recent Annual Report on Form 10-K filed by First Financial, or a Quarterly Report on Form 10-Q or Current Report on Form 8-K subsequent thereto. Each contract, arrangement, commitment or understanding of the type described in this Section 4.30, whether or not set forth in the First Financial Disclosure Schedule or filed by First Financial with the SEC, is referred to herein as a "First Financial Contract," and neither First Financial nor any of its Subsidiaries knows of, or has received notice of, any violation of the above by any of the other parties thereto which would reasonably be expected to have, either individually or in the aggregate, a Material Adverse Effect on First Financial.

(b) Each First Financial Contract is valid and binding on First Financial or one of its Subsidiaries, as applicable, and in full force and effect, except as, either individually or in the aggregate, would not reasonably be expected to have a Material Adverse Effect on First Financial. First Financial and each of its Subsidiaries has in all material respects performed all obligations required to be performed by it to date under each First Financial Contract, except where such noncompliance, either individually or in the aggregate, would not reasonably be expected to have a Material Adverse Effect on First Financial. To First Financial's knowledge each third-party counterparty to each First Financial Contract has in all material respects performed all obligations required to be performed by it to date under such First Financial Contract, except where such noncompliance, either individually or in the aggregate, would not reasonably be expected to have a Material Adverse Effect on First Financial, and no event or condition exists which constitutes or, after notice or lapse of time or both, will constitute, a material default on the part of First Financial or any of its Subsidiaries under any such First Financial Contract, except where such default, either individually or in the aggregate, would not reasonably be expected to have a Material Adverse Effect on First Financial.

4.31 No Other Representations or Warranties.

(a) Except for the representations and warranties made by First Financial in this Article IV, neither First Financial nor any other person makes any express or implied representation or warranty with respect to First Financial, its Subsidiaries, or their respective businesses, operations, assets, liabilities, conditions (financial or otherwise) or prospects, and First Financial hereby disclaims any such other representations or warranties. In particular, without limiting the foregoing disclaimer, neither First Financial nor any other person makes or has made any representation or warranty to HopFed or any of its affiliates or representatives with respect to (i) any financial projection, forecast, estimate, budget or prospective information relating to First Financial, any of its Subsidiaries or their respective businesses, or (ii) except for the representations and warranties made by First Financial in this Article IV, any oral or written information presented to HopFed or any of its affiliates or representatives in the course of their due diligence investigation of First

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Financial, the negotiation of this Agreement or in the course of the transactions contemplated hereby.

(b) First Financial acknowledges and agrees that neither HopFed nor any other person has made or is making any express or implied representation or warranty other than those contained in Article III.

**ARTICLE V  
COVENANTS RELATING TO CONDUCT OF BUSINESS**

HopFed covenants and agrees with First Financial and covenants and agrees to cause its Subsidiaries to act as follows (and First Financial covenants and agrees with HopFed as follows):

5.1 Shareholder Approval.

(a) HopFed shall submit this Agreement to its shareholders for approval and adoption at a meeting to be called and/or held in accordance with applicable law and the HopFed Articles and Bylaws (the "HopFed Shareholders' Meeting") as soon as reasonably practicable after the date of this Agreement and the effectiveness of the S-4. The Board of Directors of HopFed shall recommend to HopFed's shareholders that such shareholders approve and adopt this Agreement and the Merger contemplated hereby and will, in the event of an actual shareholders' meeting, solicit proxies voting in favor of this Agreement from HopFed's shareholders. Additionally, each director of HopFed and Heritage Bank and certain shareholders of HopFed as set forth on Section 7.2(i) of the HopFed Disclosure Schedule, shall agree to vote or direct the vote of any shares of HopFed Common Stock he or she owns, beneficially or of record or has the power to vote (subject to any fiduciary duties of such individual), in favor of the Merger pursuant to the agreement attached hereto as Exhibit B.

(b) Except as set forth in this Section 5.1(b), neither the HopFed Board of Directors nor any committee thereof shall (i) withdraw, qualify, modify, amend, or fail to make, or propose publicly to withdraw, qualify, modify, or amend its recommendation that the shareholders of HopFed approve this Agreement (or fail to include such recommendation in the Prospectus/Proxy Statement), (ii) make any public statement or take any action inconsistent with its recommendation that the shareholders of HopFed approve this Agreement, or (iii) approve or adopt, or recommend the approval or adoption of, or publicly propose to approve or adopt, any Acquisition Proposal (any of the actions described in (i), (ii) or (iii), a "Change of Recommendation"). Notwithstanding the foregoing, at any time prior to the approval of this Agreement by the Requisite HopFed Vote:

- (i) HopFed's Board of Directors may make a Change of Recommendation if (A) other than in connection with or as a result of the making of an Acquisition Proposal, a material development or change in circumstances that was not known or, with respect to material developments or changes in circumstances relating to HopFed and its Subsidiaries, reasonably foreseeable to HopFed's Board of Directors on or before the date of this Agreement occurs or arises after the date of this Agreement, which material development or change in circumstances becomes known to HopFed's Board of Directors prior to the approval of this Agreement by the Requisite HopFed Vote (such material development or change in circumstances being referred to as an "Intervening Event") (it being understood that in no event shall the receipt, existence, or terms of an Acquisition Proposal constitute an Intervening Event), (B) HopFed's Board of Directors concludes in good faith (after consultation with its outside financial and legal advisors) that an Intervening Event has occurred and a failure to make a Change of Recommendations would cause it to violate its fiduciary duties under applicable law, (C) HopFed's Board of Directors does not effect, or cause HopFed to effect, a Change of Recommendation at any time within three (3) business days, or such shorter period in the event that the

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HopFed Shareholders' Meeting is scheduled to occur in less than three (3) business days, after First Financial receives written notice from HopFed that the HopFed Board of Directors has determined that an Intervening Event requires the HopFed Board of Directors to effect, or cause HopFed to effect, a Change of Recommendation and describing in reasonable detail the circumstances underlying such determination (provided, a new notice shall be required with respect to any material change in circumstances and a new notice period of three (3) business days, or shorter period in the circumstances above, shall begin), and (D) during such applicable period, HopFed engages in good faith negotiations with First Financial (to the extent that First Financial desires to negotiate) to amend this Agreement in such a manner that obviates the need for the HopFed Board of Directors to effect, or cause HopFed to effect, a Change of Recommendation; or

(ii)

if, in response to the receipt of an Acquisition Proposal that did not arise or result from any material breach of Section 5.6, the HopFed Board of Directors shall have determined in good faith (after consultation with its outside financial and legal advisors) that such Acquisition Proposal constitutes a Superior Proposal and that a failure to make a Change of Recommendation with respect to such Superior Proposal would cause it to violate its fiduciary duties under applicable law, then the HopFed Board of Directors may, with respect to such Superior Proposal, (x) make a Change of Recommendation or (y) cause HopFed to terminate this Agreement pursuant to Section 8.1(g) in order to enter into a definitive agreement providing for such Superior Proposal if, in each case:

A. HopFed has provided written notice to First Financial (a "Notice of Superior Proposal") advising First Financial that the HopFed Board of Directors has received a Superior Proposal promptly after the HopFed Board of Directors determines it has received a Superior Proposal (and in any event within two (2) business days), stating that the HopFed Board of Directors intends to make a Change of Recommendation or terminate this Agreement pursuant to Section 8.1(g) and describing in reasonable detail the terms and conditions of such Superior Proposal, and

B. First Financial does not, within three (3) business days of receipt of the Notice of Superior Proposal (the "Notice Period"), make a written offer or proposal to revise the terms of this Agreement (any such offer, a "Revised Transaction Proposal") in a manner that the HopFed Board of Directors determines in good faith (after consultation with its outside financial and legal advisors), to be at least as favorable to HopFed's shareholders as such Superior Proposal; provided, however, that, during the Notice Period, HopFed shall negotiate in good faith with First Financial (to the extent First Financial desires to negotiate) regarding any Revised Transaction Proposal; provided, further, that any amendment to the terms of such Superior Proposal during the Notice Period shall require a new written notice of the material terms of such amended Superior Proposal from HopFed and an additional three (3) business day Notice Period, including with respect to HopFed's obligations to negotiate in good faith with First Financial.

(iii)

"Superior Proposal" means an unsolicited, bona fide written offer made by a third party to consummate an Acquisition Proposal that (i) HopFed's Board of Directors determines in good faith, after consulting with its outside legal counsel and its financial advisor, would, if consummated, result in a transaction that is more favorable to the shareholders of HopFed than the transaction contemplated by this Agreement (taking into account all factors relating to such proposed transaction deemed relevant by HopFed's Board of Directors, including without limitation the amount and form of consideration, the timing of payment, the risk of consummation of the transaction, the financing thereof and all other conditions thereto, (including any adjustments to the terms and conditions of such transactions proposed by First Financial in response to such Acquisition Proposal)).

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5.2 Other Approvals.

(a) HopFed shall proceed expeditiously, cooperate fully, and use commercially reasonable efforts to assist First Financial in procuring, upon terms and conditions consistent with the condition set forth in Section 7.1(c) hereof, all consents, authorizations, approvals, registrations, and certificates, in completing all filings and applications, and in satisfying all other requirements prescribed by law which are necessary for consummation of the Merger (including, without limitation, requirements for any potential branch closings) on the terms and conditions provided in this Agreement at the earliest possible reasonable date.

(b) HopFed will use commercially reasonable efforts to obtain any required third party consents to agreements, contracts, commitments, leases, instruments, and documents described in Section 3.3(b) of the HopFed Disclosure Schedule.

(c) Any written materials or information provided by HopFed to First Financial for use by First Financial in any filing with any Regulatory Agency shall not contain any untrue or misleading statement of material fact or shall omit to state a material fact necessary to make the statements contained therein, in light of the circumstances in which they are made, not false or misleading.

5.3 Conduct of Business.

(a) After the date of this Agreement and until the Effective Time or until this Agreement is terminated as herein provided, each of HopFed and its Subsidiaries shall: (1) carry on its business diligently, substantially in the manner as is presently being conducted, and in the ordinary course of business; (2) use commercially reasonable efforts to preserve its business organization intact, keep available the services of the present officers and employees, and preserve its present relationships with customers and persons having business dealings with it; (3) use commercially reasonable efforts to maintain all of the properties and assets that it owns or utilizes in the operation of its business as currently conducted in good operating condition and repair, reasonable wear and tear excepted (including, without limitation, installing any upgrades or patches and performing other recommended or required maintenance with respect to the HopFed IT Assets); (4) maintain its books, records, and accounts in the usual, regular, and ordinary manner, on a basis consistent with prior years and in compliance in all material respects with all statutes, laws, rules, and regulations applicable to them and to the conduct of its business; and (5) not knowingly do or fail to do anything which will cause a breach of, or default in, any contract, agreement, commitment, obligation, understanding, arrangement, lease, or license to which it is a party or by which it is or may be subject or bound. Specifically, by way of example but not limitation, after the date of this Agreement and until the Effective Time or until this Agreement is terminated as herein provided, HopFed will not, and will cause its Subsidiaries to not, without the prior written consent of First Financial, which consent shall not be unreasonably withheld:

- (i) make any changes in its capital stock (including, without limitation, any stock issuance, stock split, stock dividend, recapitalization, or reclassification), authorize a class of stock, or issue any stock, issue or grant any warrant, option, right, or other agreement of any character relating to its authorized or issued capital stock or any securities convertible into shares of such stock, or redeem any of its outstanding shares of common stock or other securities;
- (ii) distribute or pay any dividends on its shares of common stock, or authorize a stock split, or make any other distribution to its shareholders, except for HopFed's regular quarterly cash dividend in an amount not to exceed \$0.07 per share ; *provided, however*, HopFed and First Financial shall coordinate HopFed's dividend schedule for the quarter in which Closing occurs so that holders of HopFed Common Stock do not receive dividends or distributions on both First Financial and HopFed Common Stock attributable to the same

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calendar quarter, it being understood that First Financial may withhold consent in its sole discretion to, among other things, better coordinate any pre- and post-Closing dividends; *provided, further*, Heritage Bank may pay cash dividends to HopFed in the ordinary course of business for payment of reasonable and necessary business and operating expenses of HopFed, including expenses of the Merger;

- (iii) purchase or otherwise acquire any investment security for their own account that exceeds \$3,000,000 individually or purchase or otherwise acquire any security other than U.S. Treasury or other governmental obligations or asset-backed securities issued or guaranteed by United States governmental or other governmental agencies, in either case having an average remaining life of three (3) years or less, or sell any investment security owned by them other than sales made in the ordinary course of business as previously conducted during the past three (3) years and in accordance with applicable laws and regulations, or engage in any activity that would be inconsistent with the classification of investment securities as either "held to maturity" or "available for sale";
- (iv) make, renew or otherwise modify any Loan to any person if the Loan is an existing credit on the books of HopFed or any Subsidiary and classified as "Other Loans Especially Mentioned," "Substandard," "Doubtful," or "Loss" and the aggregate credit exposure to such person is in excess of \$250,000. Heritage Bank also shall not make, purchase, renew, modify, amend, or extend the maturity of (1) any new commercial Loan that would increase the aggregate credit exposure of any one borrower to amounts in excess of \$4,500,000; provided, that Heritage Bank may, without the consent of First Financial, renew, modify, amend, or extend the maturity of existing performing commercial Loans (which are not classified or non-accrual) with customers with existing aggregate credit exposure of \$4,500,000 or less; and, provided further, that any previously approved and committed commercial Loans by Heritage Bank are not subject to this Section 5.3, (2) any 1 to 4 family, residential mortgage Loan in excess of \$500,000 and with a loan to value in excess of 90% (unless private mortgage insurance is obtained); provided, that in the event the Loan is to be investor sold, such Loans will not be subject to this subsection if the Loan meets the criteria of the investor, (3) any consumer Loan in excess of \$150,000, (4) any home equity Loan or line of credit in excess of \$300,000, or (5) any Loan participation; provided, that HopFed or Heritage Bank may take any such action in respect of any such Loan or Loans if the Chief Credit Officer of First Financial shall be provided with notice of the proposed action in writing and First Financial shall not provide written objection to the taking of such proposed action within three (3) business days of being provided with such notice (the lack of such objection being deemed prior written consent of First Financial for purposes of this sub paragraph Section 5.3(a)(iv));
- (v) acquire any assets of any other person by any means (other than personal property acquired in foreclosure or otherwise in the ordinary course of collection of indebtedness owed to Heritage Bank) or foreclose upon or otherwise take title to or possession or control of, any real property without first obtaining a Phase I environmental report thereon, prepared by a reliable and qualified person acceptable to First Financial, which indicates that the real property is free of any Recognized Environmental Conditions (a "REC"), including, without limitation, pollutants, contaminants, petroleum products, or hazardous materials; provided, however, that neither HopFed nor Heritage Bank shall be required to obtain such a report with respect to single family, non-agricultural residential property of one acre or less to be foreclosed upon unless HopFed has reason to believe that such property might contain a REC or other such hazardous materials or otherwise might be contaminated;



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- (vi) Except as set forth on Section 5.3(a)(vi) of the HopFed Disclosure Schedule or except as contemplated by this Agreement (including severance, retention, and change in control payments anticipated to be paid as described in Section 5.16), pay or agree to pay, conditionally or otherwise, any additional compensation (including bonuses) or severance benefit, take any action that would give rise to an acceleration of the right to payment, or otherwise make any changes with respect to the fees or compensation payable (or to become payable) to consultants, directors, officers, or employees or, except as required by law and except as contemplated by this Agreement, adopt or make any change in any HopFed Benefit Plan or other arrangement (including any agreement for indemnification) or payment made to, for, or with any of such consultants, directors, officers, or employees;
- (vii) fail to accrue, pay, discharge and satisfy all debts, liabilities, obligations, and expenses, including, without limitation, trade payables, incurred in the regular and ordinary course of business as such debts, liabilities, obligations, and expenses become due, unless the same are being contested in good faith;
- (viii) except as set forth on Schedule 5.3(a)(viii) of the HopFed Disclosure Schedule and except for Federal Home Loan Bank advances of one-year or less, federal funds purchased by Heritage Bank, lines of credit loans from correspondent banks, trade payables and similar liabilities, and obligations incurred in the ordinary course of business and the payment, discharge, or satisfaction in the ordinary course of business of liabilities reflected in the HopFed Financial Statements or the Subsequent HopFed Financial Statements, borrow any money or incur any indebtedness in an aggregate amount exceeding \$100,000;
- (ix) change in its accounting methods, except as may be necessary and appropriate to conform to (1) changes in tax law requirements, (2) changes in GAAP or regulatory accounting principles, as required by HopFed's independent auditors or its Regulatory Agencies, or (3) changes requested by First Financial pursuant to this Agreement;
- (x) make, change, or revoke any material tax election, file any material amended tax return, enter into any closing agreement with respect to a material amount of taxes, settle any material tax claim or assessment, or surrender any right to claim a refund of a material amount of taxes;
- (xi) make application for the opening or closing of any, or open or close any, branch or automated banking facility;
- (xii) except as set forth on Section 5.3(a)(xii) of the HopFed Disclosure Schedule, waive, release, grant, or transfer any material rights of value or enter into, amend, or terminate any contract, agreement, lease, commitment, understanding, arrangement, or transaction or incur any liability or obligation (other than as contemplated by Section (iv) hereof, and legal, accounting, and investment banking or financial advisory fees related to the Merger) requiring payments by HopFed or any of its Subsidiaries which exceed \$50,000, whether individually or in the aggregate (other than trade payables or otherwise incurred in the ordinary course of business) or which contain any financial commitment extending more than twelve (12) months following the date of this Agreement;
- (xiii) except as already committed in writing as of the date of this Agreement, make any capital expenditures in excess of \$100,000 individually or \$500,000 in the aggregate;
- (xiv) except as required by applicable law or regulation: (1) implement or adopt any material change in its interest rate risk management or hedging policies, procedures, or practices; (2) fail to follow its existing policies or practices with respect to managing its exposure to

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interest rate risk; or (3) fail to use commercially reasonable means to avoid any material increase in its aggregate exposure to interest rate risk;

- (xv) take any action that would change Heritage Bank's loan loss reserves that is not in compliance with Heritage Bank's policy and past practices consistently applied and in compliance with GAAP;
- (xvi) except as already committed in writing as of the date of this Agreement, cancel, release, or compromise any indebtedness in excess of \$250,000 owing to HopFed or any Subsidiary or any claims which HopFed or any Subsidiary may possess, or voluntarily waive any material rights with respect thereto;
- (xvii) except as set forth on Section 5.3(a)(xvii) of the HopFed Disclosure Schedule, pay, discharge, settle, or compromise any litigation, claim, action, arbitration, or other proceeding against HopFed or any Subsidiary unless such payment, discharge, settlement, or compromise does not require HopFed or any Subsidiary to pay any monies, incur any obligation, or admit any wrongdoing or liability;
- (xviii) take any action that is intended or is reasonably likely to result in (A) any of its representations or warranties set forth in this Agreement being or becoming untrue at any time at or prior to the Effective Time, (B) any of the conditions to the Merger set forth in this Agreement not being satisfied, or (C) a breach of any provision of this Agreement; except, in each case, as may be required by applicable Law;
- (xix) maintain the rate of interest paid by Heritage Bank on any deposit product, including, without limitation, on certificates of deposit, in a manner and pursuant to policies inconsistent with past practices;
- (xx) amend the HopFed Articles or Bylaws, or similar governing documents of any of its Subsidiaries;
- (xxi) maintain an allowance for loan and lease losses which is not adequate in all material respects under the requirements of GAAP to provide for possible losses, net of recoveries, relating to Loans previously charged off, on Loans and leases outstanding;
- (xxii) take any action or fail to take any action that would, or would be likely to, prevent, impede or delay the Merger from qualifying as a reorganization as defined by Section 368(a) of the Code;
- (xxiii) make any new loan or other extension of credit to any Marijuana Related Business; or
- (xxiv) agree or commit to do, or enter into any contract regarding, anything that would be precluded by this Section 5.3.

(b) RESERVED

5.4 Insurance. HopFed and its Subsidiaries shall maintain, or cause to be maintained, in full force and effect, all currently in-force insurance on its assets, properties, and operations, including, but not limited to, its financial institutions bond, directors' and officers' liability insurance, cybersecurity insurance, employment practices liability insurance, and property and casualty insurance in such amounts and with regard to such liabilities and hazards as are currently insured by HopFed or its Subsidiaries as of the date of this Agreement.

5.5 Accruals for Loan Loss Reserve and Expenses.

(a) Prior to the Effective Time, HopFed shall and shall cause its Subsidiaries to make, consistent with GAAP and applicable banking laws and regulations, such appropriate accounting entries in its books and records and use commercially reasonable efforts to take such other actions



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as HopFed and its Subsidiaries shall deem to be necessary or desirable in anticipation of the Merger including, without limitation, accruals or the creation of reserves for employee benefits and Merger-related expenses.

(b) HopFed recognizes that First Financial may have adopted different loan and accounting policies and practices (including loan classifications and levels of loan loss allowances). Subject to applicable law (including, without limitation, applicable banking laws and regulations and GAAP), from and after the date hereof HopFed shall consult and cooperate in good faith with First Financial with respect to conforming the loan and accounting policies and practices of HopFed to those policies and practices of First Financial for financial accounting and/or income tax reporting purposes, as reasonably specified in each case in writing from First Financial to HopFed, based upon such consultation and subject to the conditions in Section 5.5(d).

(c) Subject to applicable Law (including without limitation applicable banking laws and regulations and GAAP), HopFed shall consult and cooperate in good faith with First Financial with respect to determining, as reasonably specified in a written notice from First Financial to HopFed, based upon such consultation and subject to the conditions in Section 5.5(d), the amount and the timing for recognizing for financial accounting and/or income tax reporting purposes of HopFed's expenses of the Merger.

(d) Subject to applicable Law (including without limitation applicable banking laws and regulations and GAAP), HopFed and Heritage Bank shall make such conforming changes and entries as contemplated in Section 5.5(b) and Section 5.5(c) above, but in no event prior to the 5th day next preceding the Closing Date and only after First Financial acknowledges that all conditions to its obligation to consummate the Merger have been satisfied and certifies to HopFed that First Financial will at the Effective Time deliver to HopFed the certificate contemplated in Section 7.3(a) and (b).

(e) HopFed's representations, warranties, and covenants contained in this Agreement shall not be deemed to be untrue or breached in any respect for any purpose as a consequence of any modifications or changes undertaken at First Financial's request in compliance with Section 5.5(d).

5.6 Acquisition Proposals.

(a) HopFed will, and will cause its and its Subsidiaries', officers, directors, agents, advisors and representatives (collectively, "Representatives") to, immediately cease and cause to be terminated any activities, discussions or negotiations conducted before the date of this Agreement with any person other than First Financial with respect to any Acquisition Proposal.

(b) HopFed agrees that it will not, and will cause its Subsidiaries and its and their Representatives not to, directly or indirectly, (i) initiate, solicit, knowingly encourage or knowingly facilitate inquiries or proposals with respect to, (ii) engage or participate in any negotiations with any person concerning, or (iii) provide any confidential or nonpublic information or data to, or have or participate in any discussions with, any person relating to, any Acquisition Proposal, except to notify such person of the existence of the provisions of this Section 5.6; provided, that, prior to the adoption of this Agreement by the shareholders of HopFed by the Requisite HopFed Vote, in the event HopFed receives an unsolicited bona fide written Acquisition Proposal, it may, and may permit its Subsidiaries and its and its Subsidiaries' Representatives to, furnish or cause to be furnished nonpublic information or data and participate in such negotiations or discussions to the extent that its Board of Directors concludes in good faith (after receiving the advice of its outside counsel, and with respect to financial matters, its financial advisors) that failure to take such actions would be reasonably likely to result in a violation of its fiduciary duties under applicable law; provided, further, that, prior to providing any nonpublic information permitted to be provided pursuant to the foregoing proviso, HopFed shall have entered into a confidentiality agreement with

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such third party on terms no less favorable to it than the Confidentiality Agreement and which confidentiality agreement shall not provide such person with any exclusive right to negotiate with HopFed.

(c) HopFed will promptly (within three business days) advise First Financial following receipt of any Acquisition Proposal or any inquiry which could reasonably be expected to lead to an Acquisition Proposal, and the substance thereof (including a summary of the terms and conditions of such inquiry or Acquisition Proposal), and will keep First Financial apprised of any updated developments within two business days thereafter, including any amendments to or revisions of the terms of such inquiry or Acquisition Proposal. HopFed, subject to its fiduciary duties, shall use its reasonable best efforts to enforce any existing confidentiality or standstill agreements to which it or any of its Subsidiaries is a party in accordance with the terms thereof. As used in this Agreement, "Acquisition Proposal" shall mean, other than the transactions contemplated by this Agreement, any offer, proposal or inquiry relating to, or any third party indication of interest in, (i) any acquisition or purchase, direct or indirect, of 20% or more of the consolidated assets of HopFed and its Subsidiaries or 20% or more of any class of equity or voting securities of HopFed or its Subsidiaries whose assets, individually or in the aggregate, constitute more than 20% of the consolidated assets of HopFed, (ii) any tender offer (including a self-tender offer) or exchange offer that, if consummated, would result in such third party beneficially owning 20% or more of any class of equity or voting securities of HopFed or its Subsidiaries whose assets, individually or in the aggregate, constitute more than 20% of the consolidated assets of HopFed, or (iii) a merger, consolidation, share exchange, business combination, reorganization, recapitalization, liquidation, dissolution or other similar transaction involving HopFed or its Subsidiaries whose assets, individually or in the aggregate, constitute more than 20% of the consolidated assets of HopFed.

(d) Nothing contained in this Agreement shall prevent HopFed or its board of directors from complying with Rule 14d-9 and Rule 14e-2 under the Exchange Act with respect to an Acquisition Proposal or from making any legally required disclosure to its shareholders; provided, that such Rules will in no way eliminate or modify the effect that any action pursuant to such Rules would otherwise have under this Agreement.

5.7 Press Releases. First Financial and HopFed shall use reasonable efforts (i) to develop a joint communications plan with respect to this Agreement and the transactions contemplated hereby, (ii) to ensure that all press releases and other public statements with respect to this Agreement and the transactions contemplated hereby shall be consistent with such joint communications plan, and (iii) except where (and to the extent that) such prior consultation is not reasonably possible due to time considerations in respect of any announcement required by applicable law or by obligations pursuant to any listing agreement with or rules of the NASDAQ Global Select Market (in which instance, each party agrees to immediately provide the other with a copy of such press release or other public statement upon its release) to consult with each other before issuing any press release or otherwise making any public statement with respect to this Agreement or the transactions contemplated hereby.

5.8 Changes and Supplements to Disclosure Schedules. HopFed shall promptly supplement, amend, and update, upon the occurrence of any change prior to the Effective Time, and as of the Effective Time, the HopFed Disclosure Schedule with respect to any matters or events hereafter arising which, if in existence or having occurred as of the date of this Agreement, would have been required to be set forth or described in the HopFed Disclosure Schedule or this Agreement and including, without limitation, any fact which, if existing or known as of the date hereof, would have made any of the representations or warranties of HopFed contained herein incorrect, untrue or misleading. No such supplement, amendment, or update shall have any effect for the purposes of determining satisfaction of the conditions set forth in Article VII or become part of the HopFed Disclosure Schedule unless First Financial shall have first consented in writing with respect thereof.

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5.9 Failure to Fulfill Conditions. In the event HopFed determines that a condition to its obligation to complete the Merger cannot be fulfilled, it will promptly notify First Financial of such occurrence in writing.

5.10 Access: Information.

(a) First Financial, and its representatives and agents, shall, upon reasonable notice to HopFed, during normal business hours prior to the Effective Time, have reasonable access to the properties, facilities, operations, books, and records of HopFed. First Financial and its representatives and agents may, prior to the Effective Time, make or cause to be made such reasonable investigation of the operations, books, records, and properties of HopFed and its Subsidiaries and of their financial and legal condition as deemed necessary or advisable to familiarize itself with such operations, books, records, properties, and other matters; *provided, however*, that such access or investigation shall not interfere unnecessarily with the normal business operations of HopFed or its Subsidiaries. In addition, after receipt of all Requisite Regulatory Approvals, HopFed shall cooperate with First Financial to facilitate introductions to Heritage Bank's customers and key business partners and referral sources.

(b) No investigation by First Financial or HopFed shall affect the representations and warranties made by HopFed or First Financial herein.

(c) Any confidential information or trade secrets received by First Financial, HopFed, or their representatives or agents in the course of such examination will be treated confidentially, and any correspondence, memoranda, records, copies, documents, and electronic or other media of any kind containing such confidential information or trade secrets or both shall be destroyed by First Financial or HopFed, as applicable, or at First Financial's or HopFed's request, returned to First Financial or HopFed, as applicable, in the event this Agreement is terminated as provided in Article VIII hereof; provided, however, that the parties may retain such received confidential information to comply with applicable law or regulation or professional standard or bona fide internal compliance policy requirements. Additionally, any confidential information or trade secrets received by First Financial or HopFed, or either of their agents or representatives in the course of their examinations (whether conducted prior to or after the date of this Agreement) shall be treated confidentially and in accordance with the Confidentiality Agreement (as defined in Section 9.7). This Section 5.10 will not require the disclosure of any information to First Financial or HopFed which would be prohibited by law or regulation or which in the opinion of respective counsel would be contrary to maintaining the attorney-client privilege with respect to such information or which disclosure is restricted in accordance with applicable confidentiality or non-disclosure agreements or provisions.

(d) Except to the extent prohibited by applicable law or any Regulatory Agency, in order to provide for a smooth transition after the Closing, HopFed shall provide First Financial with copies of minutes and consents from all such Board and committee meetings no later than fourteen (14) days thereafter; provided that such materials shall not include matters related to discussions concerning the Agreement and the transactions contemplated hereby or any other matters that the Board of Directors or its counsel has reasonably determined to be confidential with respect to participation by First Financial.

5.11 Financial Statements. As soon as internally available after the date of this Agreement, HopFed will deliver to First Financial any additional audited consolidated financial statements which are prepared on its behalf or at its direction, the monthly consolidated unaudited balance sheets and profit and loss statements of HopFed prepared for its internal use, Heritage Bank's Call Reports for each quarterly period completed prior to the Effective Time, all other financial reports or statements submitted to Regulatory Agencies after the date hereof, and all other financial statements and financial information of either HopFed alone or on a consolidated basis reasonably requested by First Financial

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(collectively, "Subsequent HopFed Financial Statements"). The Subsequent HopFed Financial Statements will be prepared on a basis consistent with past accounting practices and GAAP (to the extent applicable) and shall present fairly the financial condition and results of operations as of the dates and for the periods presented (except in the case of unaudited financial statements or Call Report information for the absence of notes and/or year-end adjustments).

5.12 Environmental. HopFed will cooperate with an environmental consulting firm mutually agreed upon by First Financial and HopFed (the "Designated Environmental Consultant") in connection with the conduct, at any time after the date hereof (the "Investigation Period"), by the Designated Environmental Consultant of Phase I environmental site assessments and any other investigation reasonably ordered by First Financial on all real property owned or leased by HopFed or any of its Subsidiaries as of the date of this Agreement or acquired thereafter, including OREO. First Financial will proceed with such assessments, testing, and investigations as soon as reasonably practicable after the date of this Agreement and will diligently work to pursue such assessments, testing, and investigations through completion. First Financial shall furnish true and complete copies of any reports of the Designated Environmental Consultant that it receives with respect to any HopFed property, promptly upon First Financial's receipt of such reports. First Financial and HopFed shall each bear 50% of the costs and expenses of the initial Phase I environmental site assessments (or other similar assessments) and also of any Phase II environmental site assessments or other environmental investigation or testing as determined to be necessary or required due to the presence of any RECs on the Phase I (or other similar assessments) or to the extent otherwise advisable or recommended by the Designated Environmental Consultant. First Financial shall manage the relationship with the Designated Environmental Consultant, and will submit invoices to HopFed for the prompt payment of its share of the costs and expenses. In the event that the contemplated transaction does not close for any reason and the Agreement is terminated, First Financial shall return to HopFed all materials produced by the Designated Environmental Consultant, by First Financial or by HopFed in accordance with this Section 5.12 or such materials shall be destroyed by First Financial, and First Financial shall be restricted from making any disclosure of such information or materials to any party whatsoever in accordance with the Confidentiality Agreement for all time thereafter without regard to the termination of the Agreement or the Confidentiality Agreement.

5.13 Governmental Reports and Shareholder Information. Promptly upon its becoming available, HopFed shall furnish to First Financial one (1) copy of each financial statement, report, notice, or proxy statement sent by HopFed to any Governmental Entity or to HopFed's shareholders, and of any order issued by any Governmental Entity.

5.14 Adverse Actions. HopFed shall not knowingly take any action that is intended or is reasonably likely to result in (a) any of its representations and warranties set forth in this Agreement being or becoming untrue in any respect at any time at or prior to the Effective Time, (b) any of the conditions to the Merger set forth in Article VII not being satisfied, (c) a material violation of any provision of this Agreement, or (d) a material delay in the consummation of the Merger except, in each case, as may be required by applicable law or regulation.

5.15 Employee Benefits and Employees

(a) Nothing in this Agreement nor the actions contemplated hereby shall: (a) create any employment contract, agreement, or understanding with or employment rights for, or constitute a commitment or obligation of employment to, any of the officers or employees of HopFed or any of its Subsidiaries; or (b) prohibit or restrict First Financial or its Subsidiaries, whether before or after the Effective Time, from changing, amending, or terminating any employee benefits provided to its employees from time to time.

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(b) Before the date that is sixty (60) days after the public announcement of the Merger, First Financial will use its reasonable best efforts to notify HopFed of the employees First Financial intends to retain after the Effective Time. Prior to the Closing Date, HopFed shall be responsible for timely giving any notices to, and terminating as of the Effective Time, any employees whose employment will not be continued by First Financial after the Effective Time, and HopFed shall pay any and all amounts which are then due and payable to such employees in connection with the termination of their employment as of the Effective Time, including, without limitation, all accrued vacation and sick pay.

(c) Before Closing, with HopFed's prior consent (which consent shall not be unreasonably withheld), First Financial may conduct such training and other programs as it may, in its reasonable discretion and at its sole expense, elect to provide for those employees who will be continuing employment with First Financial; provided, however, that such training and other programs shall not materially interfere with or prevent the performance of the normal business operations of HopFed.

5.16 Change in Control Payments and Termination; Nonsolicitation Agreements.

(a) Any HopFed or HopFed Subsidiary employee who has or is party to, or entitled to benefits pursuant to, any employment agreement (including, any agreements which require payment upon termination, with or without cause, of the employee's employment), change in control retention agreement, deferred compensation arrangement, severance agreement, change in control agreement, the Heritage Bank USA, Inc. Employee Change in Control Severance Compensation Plan, or any other agreement, plan, or arrangement providing for the payment of additional compensation related to termination of employment as a result of the transactions contemplated by this Agreement, but excluding compensation previously accrued, earned or awarded without regard to such transactions (by way of example, such plans or arrangements not deemed to be CIC Agreements include, but are not limited to, retirement benefits, ESOP benefits, 401K plan benefits, accelerated vesting of restricted stock awards, supplemental retirement or salary continuation benefits, payout of accrued but unused vacation, sick leave or other paid time-off, or continuation of participation under other HopFed Benefit Plans (collectively, the "CIC Agreements"), that provides for any payment that may be triggered by or in connection with the Merger or the Bank Merger (collectively, a "CIC Payment"), shall not receive any severance benefits that may be payable under HopFed or First Financial severance policies, but will receive the CIC Payment to the extent it is required to be paid under such agreement, plan, or arrangement. Section 5.16(a) of the HopFed Disclosure Schedule sets forth a list of all individuals potentially entitled to a CIC Payment, including the amount of such payment.

(b) Subject to Section 5.16(c), HopFed will pay out or accrue in accordance with GAAP all CIC Payments, as identified on Section 5.16(a) of the HopFed Disclosure Schedule, as if the payments had been triggered by the Merger.

(c) On or before the Closing, HopFed will take all steps necessary to ensure that in the event that any payments to be made by HopFed or First Financial, either individually or in conjunction with a payment or benefit under any other plan, agreement or arrangement that is aggregated for purposes of Code Section 280G (in the aggregate, "Total Payments"), would constitute an "excess parachute payment" within the meaning of Section 280G of the Code that is subject to the Tax imposed by Section 4999 of such Code, then the amounts of the payments to the employee shall be reduced such that the value of the Total Payments that the employee is entitled to receive shall be \$1.00 less than the maximum amount which the employee may receive without becoming subject to the excise tax under Section 4999 of the Code or resulting in a disallowance of a deduction of the payment of such amount under Section 280G of the Code.



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(d) Concurrently with the execution of this Agreement, HopFed shall cause to be delivered to First Financial a nonsolicitation and non-disclosure agreement in a form acceptable to First Financial (the "Nonsolicitation Agreements") duly executed by each of individuals set forth on Section 5.16(d)(i) of the First Financial Disclosure Schedule. With respect to those individuals set forth on Section 5.16(d)(ii) of the First Financial Disclosure Schedule, HopFed shall, prior to the Effective Time, use commercially reasonable efforts to obtain from each individual a duly executed Nonsolicitation Agreement.

(e) Concurrently with the execution of this Agreement, HopFed shall cause to be delivered to First Financial a mutual termination of employment agreement and release in a form acceptable to First Financial (the "Mutual Termination Agreements") duly executed by each of individuals set forth on Section 5.16(e)(i) of the First Financial Disclosure Schedule. With respect to those other employees who are entitled to a CIC Payment (each of whom is named on either Section 5.16(a) of the HopFed Disclosures Schedules or Section 5.16(d)(ii) of the First Financial Disclosure Schedules), HopFed shall, if requested by First Financial and prior to the Effective Time, use commercially reasonable efforts to obtain from each individual a settlement agreement and release upon terms mutually agreeable to HopFed, First Financial and such employee, setting forth the method in which his or her rights under the CIC Payment will be settled (the "Settlement Agreements"). Immediately prior to the Effective Time, HopFed shall make the payments required pursuant to such CIC Payments in a lump sum.

5.17 Termination of HopFed ESOP and HopFed 401(k) Plan.

(a) HopFed shall make timely contributions to the ESOP between the date hereof and the Effective Time consistent with the terms of the ESOP and past practices, including, without limitation, any contributions required pursuant to the terms and conditions of the ESOP Loan Documents. Notwithstanding anything herein to the contrary, HopFed shall accrue and pay a final contribution of principal and interest calculated in accordance with the loan amortization schedule under the terms of the ESOP Loan Documents to the ESOP for the period from the date of the last such contribution of principal and interest made by HopFed or Heritage Bank through the last day of the month immediately preceding the Effective Time.

(b) On or before the Effective Time, HopFed shall direct the trustee of the ESOP to (i) provide to the ESOP participants similar notices and materials provided to other HopFed shareholders with respect to those matters requiring a vote of the shareholders under this Agreement; (ii) obtain direction from the HopFed ESOP participants as to how to vote those shares of HopFed Common Stock allocated to the accounts of the ESOP participants with respect to those matters for which shareholder vote is required under this Agreement; (iii) vote those shares of HopFed Common Stock in accordance with the direction of the ESOP participants and in accordance with the ESOP; and (iv) vote the shares of HopFed Common Stock for which no participant investment direction has been timely received by the trustee in accordance with the ESOP.

(c) No later than ten (10) days prior to the Closing Date, HopFed, pursuant to the provisions of the ESOP, shall, subject to review by First Financial: (i) adopt resolutions to terminate, subject to the consummation of the Merger, the ESOP, consistent with the provisions of Code Section 401(k)(10), effective as of a date that is not later than the day before the Effective Time (the "ESOP Termination Date") and (ii) amend the ESOP effective as of a date not later than the ESOP Termination Date to freeze participation in and benefit accruals under the ESOP, to vest fully all accrued benefits and to provide that no distributions of accrued benefits shall be made from the ESOP, or the ESOP trust, subsequent to the ESOP Termination Date until such time as the Internal Revenue Service issues a favorable determination letter to the effect that the plan termination does not adversely affect the ESOP's qualification for favorable income tax treatment

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under the Code, other than distributions required by the terms of the ESOP Plan to be made upon retirement, death, disability, or termination of employment, or any other event, other than the plan termination, that requires a distribution from the ESOP.

(d) As soon as practicable following the execution of this Agreement, HopFed will file, or cause to be filed, with the Internal Revenue Service an application for a favorable determination letter upon termination of the ESOP requesting the issuance to HopFed of the favorable determination letter described in Section 5.17(c). A copy of the completed and filed application shall be provided to First Financial at least five (5) business days prior to the Effective Time. On the Closing Date, immediately prior to the Effective Time, HopFed shall direct the ESOP Trustee to cause the unpaid principal balance and accrued interest through the Closing Date of the Promissory Note (such unpaid principal and accrued interest shall be referred to as the "ESOP Loan Balance") to be repaid by remitting a sufficient number of Suspense Shares to HopFed or any other lender (including First Financial, as successor in interest to HopFed, as applicable) to repay the ESOP Loan Balance with such Suspense Shares being tendered for such ESOP loan payment valued as the greater of the Cash Merger Consideration of \$21.00 per share or the Stock Merger Consideration of (0.444) times the fair market value of the First Financial common stock per share as of the Effective Time. All remaining shares of HopFed Common Stock held by the ESOP (including the remaining Suspense Shares) shall be converted into the right to receive the Merger Consideration.

(e) HopFed shall make timely contributions to the HopFed 401(k) Plan between the date hereof and the Effective Time consistent with the terms of the HopFed 401(k) Plan and past practices, including, without limitation, elective deferral contributions of those HopFed 401(k) Plan participants who are employed by HopFed or its Subsidiaries.

(f) No later than ten (10) days prior to the Closing Date, HopFed, pursuant to the provisions of the HopFed 401(k) Plan, shall, subject to review and approval by First Financial: (i) adopt resolutions to terminate, subject to the consummation of the Merger, the HopFed 401(k) Plan, consistent with the provisions of Code Section 401(k)(10), effective as of a date that is not later than the day before the Effective Time (the "Plan Termination Date") and (ii) amend the HopFed 401(k) Plan effective as of a date not later than the Plan Termination Date to freeze participation in and benefit accruals under the HopFed 401(k) Plan, to vest fully all accrued benefits and to provide that no distributions of accrued benefits shall be made from the HopFed 401(k) Plan, or its related employee benefit trust, subsequent to the Plan Termination Date until such time as the Internal Revenue Service issues a favorable determination letter to the effect that the plan termination does not adversely affect the HopFed 401(k) Plan's qualification for favorable income tax treatment under the Code, other than distributions required by the terms of the HopFed 401(k) Plan to be made upon retirement, death, disability, or termination of employment, or any other event, other than the plan termination, that requires a distribution from the HopFed 401(k) Plan.

(g) Any contributions due to the HopFed 401(k) Plan for the period prior to the Plan Termination Date, and not yet paid on the Plan Termination Date, will be contributed by HopFed as soon as administratively feasible following the Plan Termination Date.

(h) HopFed shall continue in full force and effect, until the Effective Time: (i) the fidelity bond, if any, issued to HopFed as described in ERISA Section 412; and (ii) the ERISA fiduciary liability insurance policy currently in effect, if any, for the benefit of the covered fiduciaries of the HopFed 401(k) Plan.

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5.18 Disposition of Welfare Benefit and Sec. 125 Plans.

(a) All welfare benefit (health, dental/vision, life/AD&D, LTD), and Internal Revenue Code Section 125, or "cafeteria," plans currently sponsored by HopFed or Heritage Bank shall be terminated as of the Effective Time, unless First Financial determines that any such plan shall be continued past the Effective Time. HopFed shall take, or cause to be taken, all actions necessary to terminate all of HopFed's and any Subsidiary's group insurance policies as of the Effective Time, unless otherwise instructed by First Financial.

(b) As of the Effective Time, and to the extent not prohibited by applicable law, HopFed shall take, or cause to be taken, all actions necessary to assign any and all applicable group insurance policies for any HopFed plans to First Financial and to provide First Financial all necessary financial, enrollment, eligibility, contractual, and other information related to its welfare benefit and cafeteria plans to assist First Financial in the administration of such plans, unless First Financial has determined that any or all of the group insurance policies should be terminated as of the Effective Time.

(c) From the date of this Agreement through the Effective Time, HopFed shall continue to: (i) pay the applicable insurance premiums necessary to continue the benefits under HopFed's insured welfare benefit plans; (ii) contribute to the cafeteria plan the pre-tax amounts which the cafeteria plan participants elect to defer from their compensation; and (iii) pay all eligible claims incurred, in accordance with the terms and conditions of such plan, under the cafeteria plan's health and dependent care flexible spending accounts prior to the Effective Time.

5.19 Bank Merger. Prior to the Effective Time, HopFed shall, and cause Heritage Bank to, cooperate with First Financial and take such action as reasonably requested by First Financial and necessary to merge Heritage Bank with and into First Financial Bank immediately subsequent to the Effective Time.

5.20 Cooperation on Conversion of Systems. HopFed agrees to commence immediately after the date of this Agreement (and continue until Closing or completed) using its reasonable best efforts to ensure an orderly transfer of information, processes, systems, and data to First Financial and to otherwise assist First Financial in facilitating the conversion of all of HopFed's systems into, or to conform with, First Financial's systems (including cooperating with First Financial in the training of HopFed's and its Subsidiaries' employees on First Financial's systems), so that, as of the Closing, the systems of HopFed are readily convertible to First Financial's systems to the fullest extent possible without actually converting them prior to the Closing. HopFed and First Financial shall meet on a regular basis to discuss and plan for the conversion of HopFed's data processing and related electronic informational systems to those used by First Financial, which planning shall include, without limitation: (i) discussion of possible termination by HopFed of third-party service provider arrangements effective at or following the Effective Time; (ii) non-renewal of personal property leases and software licenses used by HopFed in connection with its systems operations; and (iii) retention of outside consultants and additional employees to assist with the conversion and outsourcing, as appropriate, of proprietary or self-provided system services.

5.21 Installation/Conversion of Equipment. Prior to Closing, at times mutually agreeable to First Financial and HopFed, First Financial may, at First Financial's sole expense, install teller equipment, platform equipment, security equipment, and computers, at the HopFed and Heritage Bank offices, branches, and ATM locations, and HopFed shall cooperate with First Financial in connection with such installation; provided, however, that such installations shall not interfere with the normal business activities and operations of HopFed or Heritage Bank or require material alterations to HopFed's or Heritage Bank's facilities.

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5.22 Termination of Contracts. HopFed shall cooperate with First Financial to determine which contracts, agreements or arrangements will not be retained by First Financial and will be terminated, in addition to terminating the Data Processing Agreement as defined and described in Section 7.2(e) (collectively, the "Terminated Contracts"). HopFed shall promptly give notice and take all other appropriate actions to terminate the Terminated Contracts and to determine any and all termination costs, including without limitation, early termination fees, penalties and recaptures of discounts.

5.23 Section 16 Matters. Prior to the Effective Time, HopFed and First Financial shall take all such steps as may be required or appropriate to cause the contemplated transactions, and any other dispositions of equity securities of HopFed or acquisitions of equity securities of First Financial in connection with the consummation of the contemplated transactions, by each director or officer of HopFed who becomes subject to the reporting requirements of Section 16(a) of the Securities Exchange Act of 1934, as amended ("Exchange Act") with respect to First Financial to be exempt under Rule 16b-3 promulgated under the Exchange Act. HopFed shall promptly furnish First Financial with all requisite information necessary for First Financial to take the actions contemplated by this Section, which information shall be accurate in all material respects.

**ARTICLE VI**  
**ADDITIONAL AGREEMENTS**

First Financial covenants and agrees with HopFed and covenants and agrees to cause its Subsidiaries to act as follows (and HopFed covenants and agrees with First Financial as follows):

6.1 Approvals. First Financial shall have primary responsibility for the preparation, filing, and costs of all bank regulatory applications required for consummation of the Merger, and all parties shall file such applications as promptly as practicable after the execution of this Agreement not to exceed 60 days. First Financial and HopFed shall provide to the other's counsel copies of all applications filed and copies of all material written communications with all Regulatory Agencies relating to such applications. First Financial and HopFed shall cooperate fully and use commercially reasonable efforts to procure, upon terms and conditions reasonably acceptable to each of them, all consents, authorizations, approvals, registrations, and certificates, to complete all filings and applications, and to satisfy all other requirements prescribed by law which are necessary for consummation of the Merger on the terms and conditions provided in this Agreement. As used in this Agreement, the "Requisite Regulatory Approvals" shall mean all regulatory authorizations, consents, orders or approvals from (x) the Board of Governors of the Federal Reserve, the OCC, and the KDFI and (y) any other approvals set forth in Sections 3.4 and 4.4 which are necessary to consummate the transactions contemplated by this Agreement, including the Merger and the Bank Merger, or those the failure of which to be obtained would reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on the Surviving Corporation or any of its Subsidiaries.

6.2 SEC Registration.

(a) As soon as practicable following the date of this Agreement, HopFed (with the assistance of First Financial as appropriate) shall prepare the Proxy Statement, in accordance with the rules and regulations of the SEC, to be used in connection with the HopFed Shareholders' Meeting or approval for the Merger, and First Financial shall prepare and file with the SEC the S-4 covering the shares of First Financial Common Stock to be issued pursuant to this Agreement and containing the Prospectus/Proxy Statement to be used for the HopFed Shareholders' Meeting, as applicable. First Financial shall use its reasonable best efforts to cause the same to become effective and thereafter, until the Effective Time or termination of this Agreement, to keep the same effective and, if necessary, amend and supplement the same. First Financial shall, as soon as practicable after filing the S-4 (but not to exceed 75 days), make all filings required to obtain all

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blue sky exemptions, authorizations, consents, or approvals required for the issuance of First Financial Common Stock.

(b) The parties shall use reasonable best efforts to respond (with the assistance of the other party) as promptly as practicable to any comments of the SEC with respect to the S-4. If prior to the Effective Time any event occurs with respect to HopFed, First Financial, or any Subsidiary of HopFed or First Financial, respectively, or any change occurs with respect to information supplied by or on behalf of HopFed or First Financial, respectively, for inclusion in the Prospectus/Proxy Statement or the S-4 that, in each case, is required to be described in an amendment of, or a supplement to, the Prospectus/Proxy Statement or the S-4, HopFed or First Financial, as applicable, shall promptly notify the other of such event, and HopFed or First Financial, as applicable, shall cooperate in the prompt filing with the SEC of any necessary amendment or supplement to the Prospectus/Proxy Statement and the S-4 and, as required by applicable law, in disseminating the information contained in such amendment or supplement to HopFed's shareholders.

(c) First Financial will use reasonable best efforts to list for trading on the NASDAQ Global Select Market (subject to official notice of issuance) prior to the Effective Time, the shares of First Financial Common Stock to be issued in the Merger.

6.3 Employee Benefit Plans.

(a) As soon as practicable following the execution of this Agreement, First Financial will take action necessary to permit Continuing Employees to enter the First Financial Corporation 401(k) Plan (the "First Financial 401(k) Plan") as of the Effective Time. Continuing Employees will be credited with prior years of service with HopFed for purposes of eligibility and vesting (but not benefit accruals). First Financial agrees to permit HopFed Bank 401(k) Plan participants who become employees of First Financial to roll over their account balances in the HopFed 401(k) Plan to the First Financial 401(k) Plan, subject to the terms of the First Financial 401(k) Plan, including any rollover restrictions.

(b) To the extent HopFed's health and welfare plans are terminated pursuant to Section 5.19 and Continuing Employees become participants in First Financial's health and welfare plans, First Financial shall use commercially reasonable efforts to: (i) waive all pre-existing condition exclusions and waiting periods with respect to participation and coverage requirements applicable to such employees and their eligible dependents under any First Financial plans, except to the extent such pre-existing condition exclusions or waiting periods would apply under the analogous HopFed Benefit Plan, (ii) provide each such employee and their eligible dependents with credit for any co-payments and deductibles paid prior to the Effective Time under a HopFed Benefit Plan (to the same extent that such credit was given under the analogous HopFed Benefit Plan prior to the Effective Time) in satisfying any applicable deductible or out-of-pocket requirements under any New Plans, and (iii) recognize all service of such employees with HopFed and its Subsidiaries for purposes of determining eligibility to participate and vesting (and with respect to paid time off and vacation plans, benefits level determination) in any First Financial plan to the same extent that such service was taken into account under the analogous HopFed Benefit Plan prior to the Effective Time; provided that the foregoing service recognition shall not apply (A) to the extent it would result in duplication of benefits for the same period of services, (B) for purposes of any defined benefit pension plan, including the First Financial Corporation Employees' Pension Plan, or benefit plan that provides retiree welfare benefits, or (C) to any First Financial benefit plan that is a frozen plan or provides grandfathered benefits.

(c) Nothing in this Agreement shall confer upon any employee, officer, director or consultant of HopFed or any of its Subsidiaries or affiliates any right to continue in the employ or service of the Surviving Corporation, HopFed, First Financial, or any Subsidiary or affiliate thereof, or

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interfere with or restrict in any way the rights of the Surviving Corporation, HopFed, First Financial, or any Subsidiary or affiliate thereof to discharge or terminate the services of any employee, officer, director or consultant of HopFed or any of its Subsidiaries or affiliates at any time for any reason whatsoever, with or without cause. Nothing in this Agreement shall be deemed to (i) establish, amend, or modify any HopFed Benefit Plan, New Plan or any other benefit or employment plan, program, agreement or arrangement, or (ii) alter or limit the ability of the Surviving Corporation or any of its Subsidiaries or affiliates to amend, modify or terminate any particular HopFed Benefit Plan, New Plan or any other benefit or employment plan, program, agreement or arrangement after the Effective Time. Except as otherwise provided in this Agreement, nothing in this Agreement, express or implied, is intended to or shall confer upon any person, including without limitation any current or former employee, officer, director or consultant of HopFed or any of its Subsidiaries or affiliates, any right, benefit or remedy of any nature whatsoever under or by reason of this Agreement.

6.4 Adverse Actions. First Financial shall not knowingly take any action that is intended or is reasonably likely to result in (a) any of its representations and warranties set forth in this Agreement being or becoming untrue in any respect at any time at or prior to the Effective Time, (b) any of the conditions to the Merger set forth in Article VII not being satisfied, or (c) a material violation of any provision of this Agreement.

6.5 D&O Insurance and Indemnification.

(a) For a period of six (6) years following the Effective Time, First Financial agrees that all rights to indemnification (including rights to advancement of expenses) provided for in the respective HopFed Articles or Bylaws, or required under any applicable Law, in each case as in effect on the date hereof, will survive the Merger and will not be amended, repealed or otherwise modified in any manner that would adversely affect the rights thereunder of the present and former directors and officers of HopFed and Heritage Bank (each, an "Indemnified Party") for acts or omissions occurring or alleged to have occurred at or prior to the Effective Time, whether asserted or claimed prior to, at or after the Effective Time. Notwithstanding anything to the contrary contained in this Section 6.05, First Financial shall not be required to indemnify, defend or hold harmless any Indemnified Party to a greater extent than either HopFed or Heritage Bank could, as of the date of this Agreement, indemnify, defend and hold harmless such Indemnified Party, and indemnification shall only be provided to the extent it is permitted by any applicable federal or state laws.

(b) *Provided* HopFed has historically carried directors' and officers' liability insurance, First Financial shall use its reasonable best efforts to cause the persons serving as officers and directors of HopFed and Heritage Bank immediately prior to the Effective Time to be covered for a period of six (6) years after the Effective Time by the directors' and officers' liability insurance policy currently maintained by HopFed (the "Existing Policy") or by a comparable or better policy (the "Replacement Policy"). Prior to the Effective Time, as instructed by First Financial, HopFed shall cause the applicable broker of record for its Existing Policy and its Financial Institution Bond (or similar policy) to be assigned to First Financial's designee. Such assignments in favor of First Financial's designee shall be executed by HopFed with sufficient time to allow First Financial and its designee to place the insurance required by this Section. The Existing Policy or Replacement Policy, subject to policy terms and conditions, shall provide coverage with respect to covered acts or omissions occurring prior to the Effective Time; provided, however, that First Financial shall not be required to pay annual premiums for the Existing Policy (or for any Replacement Policy) in excess of two hundred percent (200%) of the annual premium for the current annual term of the Existing Policy (the "Maximum Amount"); and, provided, further, however, that, if notwithstanding the use of reasonable efforts to do so, First Financial is unable to maintain or obtain the insurance called for by this Section 6.5(b), First Financial shall obtain as much comparable insurance as is

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available for the Maximum Amount. First Financial's obligations within this Section 6.5(b) apply solely and exclusively to the Existing Policy and the existing Financial Institution Bond at each policy's current limits of insurance, as well as its other terms, conditions, exclusions and annual premiums as of the date of this Agreement, and which must be continuously maintained in force by HopFed without interruption, cancellation, or amendment until the Effective Time or First Financial's obligations within this Section shall cease.

(c) The provisions of this Section 6.5 shall survive the Effective Time and are intended to be for the benefit of, and shall be enforceable by, each Indemnified Party and his or her heirs and personal representatives.

(d) In the event that either First Financial or any of its successors or assigns (i) consolidates with or merges into any other Person and shall not be the continuing or surviving entity of such consolidation or merger, or (ii) transfers all or substantially all of its properties and assets to any Person, then, and in each such case, proper provision shall be made so that the successors and assigns of First Financial shall assume the obligations set forth in this Section 6.5.

(e) The following provisions shall apply to any challenge or litigation brought against HopFed, its Subsidiaries, or their respective employees, officers and directors with respect to the execution and/or consummation of this Agreement, the transactions contemplated hereby, or the Prospectus/Proxy Statement issued in connection with the proposed transactions ("Transaction Litigation"):

(i) At all times before the Closing, HopFed shall keep First Financial fully informed about the conduct of any Transaction Litigation and shall not settle any such Transaction Litigation without First Financial's advance written consent.

(ii) Should Transaction Litigation continue or be initiated after the Closing, First Financial shall have the sole right to control the defense of the Transaction Litigation, including the right to settle any such litigation without consent from any HopFed or Heritage Bank employees, officers or directors who are defendants, so long as such settlement does not, with respect to any such defendants, (1) involve an admission of fault or personal liability, (2) impose any legal restrictions on such defendant's future conduct, or (3) require payment of any amount in settlement.

6.6 Changes and Supplements to First Financial Disclosure Schedules. First Financial shall promptly supplement, amend, and update, upon the occurrence of any change prior to the Effective Time, and as of the Effective Time, the First Financial Disclosure Schedule with respect to any matters or events hereafter arising which, if in existence or having occurred as of the date of this Agreement, would have been required to be set forth or described in the First Financial Disclosure Schedule or this Agreement and including, without limitation, any fact which, if existing or known as of the date hereof, would have made any of the representations or warranties of First Financial contained herein materially incorrect, untrue or misleading. No such supplement, amendment, or update shall have any effect for the purposes of determining satisfaction of the conditions set forth in Article VII or become part of the First Financial Disclosure Schedule unless HopFed shall have first consented in writing with respect thereof.

6.7 Trust Preferred Securities. At the Effective Time, First Financial shall assume the due and punctual performance and observance of the covenants and conditions to be performed by HopFed under the Indenture, dated September 25, 2003 (the "Indenture"), between HopFed and Wilmington Trust Company, as Trustee, relating to the Floating Rate Junior Subordinated Debt Securities Due 2033 (the "Debt Securities"), and agrees to pay the principal of and premium, if any, and interest on the Debt Securities, as required by the Indenture. In connection therewith, First Financial shall execute and deliver any supplemental indentures, and the parties hereto shall provide any opinions of counsel to the applicable trustees thereof, required to make such assumptions effective.

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6.8 Issuance of First Financial Common Stock. The First Financial Common Stock to be issued by First Financial to the shareholders of HopFed pursuant to this Agreement will, on the issuance and delivery to such shareholders pursuant to this Agreement, be duly authorized, validly issued, fully paid, and nonassessable. The First Financial Common Stock to be issued to the shareholders of HopFed pursuant to this Agreement are and will be free of any preemptive rights of the shareholders of First Financial or any other person. The First Financial Common Stock to be issued to the shareholders of HopFed pursuant to this Agreement will not be subject to any restrictions on transfer arising under the Securities Act, except for First Financial Common Stock issued to any shareholder of HopFed who may be deemed to be an "affiliate" (under the Securities Act) of First Financial after completion of the Merger pursuant to Rule 145 of the Securities Act..

6.9 Takeover Statutes. None of HopFed, First Financial or their respective Boards of Directors shall take any action that would cause any Takeover Statute to become applicable to this Agreement, the Merger, or any of the other transactions contemplated hereby, and each shall take all necessary steps to exempt (or ensure the continued exemption of) the Merger and the other transactions contemplated hereby from any applicable Takeover Statute now or hereafter in effect. If any Takeover Statute may become, or may purport to be, applicable to the transactions contemplated hereby, each party and the members of their respective Boards of Directors will grant such approvals and take such actions as are necessary so that the transactions contemplated by this Agreement may be consummated as promptly as practicable on the terms contemplated hereby and thereby and otherwise act to eliminate or minimize the effects of any Takeover Statute on any of the transactions contemplated by this Agreement, including, if necessary, challenging the validity or applicability of any such Takeover Statute.

**ARTICLE VII  
CONDITIONS PRECEDENT**

7.1 Conditions to Each Party's Obligation To Effect the Merger. The respective obligations of the parties to effect the Merger shall be subject to the satisfaction at or prior to the Effective Time of the following conditions:

- (a) Shareholder Approval. This Agreement shall have been adopted by the shareholders of HopFed by the Requisite HopFed Vote.
- (b) NASDAQ Listing. The shares of First Financial Common Stock that shall be issuable pursuant to this Agreement shall have been authorized for listing on NASDAQ, subject to official notice of issuance.
- (c) Regulatory Approvals. All Requisite Regulatory Approvals shall have been obtained and shall remain in full force and effect and all statutory waiting periods in respect thereof shall have expired, and no such Requisite Regulatory Approval shall contain any conditions, restrictions, or requirements which the Board of Directors of First Financial reasonably determines in good faith would (i) following the Effective Time, have a Material Adverse Effect on First Financial or (ii) reduce the benefits of the transactions contemplated hereby to such a degree that First Financial would not have entered into this Agreement had such conditions, restrictions, or requirements been known at the date hereof.
- (d) S-4. The S-4 shall have become effective under the Securities Act and no stop order suspending the effectiveness of the S-4 shall have been issued and no proceedings for that purpose shall have been initiated or threatened by the SEC and not withdrawn.
- (e) No Injunctions or Restraints; Illegality. No order, injunction or decree issued by any court or agency of competent jurisdiction or other legal restraint or prohibition preventing the consummation of the Merger or any of the other transactions contemplated by this Agreement shall be in effect. No statute, rule, regulation, order, injunction or decree shall have been enacted, entered, promulgated or enforced by any Governmental Entity which prohibits or makes illegal consummation of the Merger.



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7.2 Conditions to Obligations of First Financial. The obligation of First Financial to effect the Merger is also subject to the satisfaction, or waiver by First Financial, at or prior to the Effective Time, of the following conditions:

(a) Representations and Warranties. The representations and warranties of HopFed set forth in Section 3.2 and Section 3.8(a) (in each case after giving effect to the lead in to Article III) shall be true and correct (other than, in the case of Section 3.2(a), such failures to be true and correct as are de minimis) in each case as of the date of this Agreement and (except to the extent such representations and warranties speak as of an earlier date) as of the Closing Date as though made on and as of the Closing Date, and the representations and warranties of HopFed set forth in Sections 3.1(a), 3.1(b), and 3.3(a) (in each case, after giving effect to the lead in to Article III) shall be true and correct in all material respects as of the date of this Agreement and (except to the extent such representations and warranties speak as of an earlier date) as of the Closing Date as though made on and as of the Closing Date. All other representations and warranties of HopFed set forth in this Agreement (read without giving effect to any qualification as to materiality or Material Adverse Effect set forth in such representations or warranties but, in each case, after giving effect to the lead in to Article III) shall be true and correct in all respects as of the date of this Agreement and (except to the extent such representations and warranties speak as of an earlier date) as of the Closing Date as though made on and as of the Closing Date; provided, however, that for purposes of this sentence, such representations and warranties shall be deemed to be true and correct unless the failure or failures of such representations and warranties to be so true and correct, either individually or in the aggregate, and without giving effect to any qualification as to materiality or Material Adverse Effect set forth in such representations or warranties, has had or would reasonably be expected to have a Material Adverse Effect on HopFed or the Surviving Corporation. First Financial shall have received a certificate signed on behalf of HopFed by the Chief Executive Officer and the Chief Financial Officer of HopFed to the foregoing effect.

(b) Performance of Obligations of HopFed. HopFed shall have performed in all material respects the obligations required to be performed by it under this Agreement at or prior to the Closing Date, and First Financial shall have received a certificate signed on behalf of HopFed by the Chief Executive Officer and the Chief Financial Officer of HopFed to such effect.

(c) Federal Tax Opinion. First Financial shall have received the opinion of SmithAmundsen LLC, in form and substance reasonably satisfactory to First Financial, dated as of the Closing Date, to the effect that, on the basis of facts, representations and assumptions set forth or referred to in such opinion, the Merger shall qualify as a "reorganization" within the meaning of Section 368(a) of the Code. In rendering such opinion, counsel may require and rely upon representations contained in certificates of officers of First Financial and HopFed, reasonably satisfactory in form and substance to such counsel.

(d) Appraisal Rights. Holders of record of no more than nine and nine-tenths percent (9.9%) of the total issued and outstanding shares of HopFed Common Stock shall have perfected, or continue to have a right to exercise, appraisal, dissenters or other similar rights under the DGCL with respect to their HopFed Common Stock by virtue of the Merger.

(e) Notice of Termination of Data Processing Agreements. Heritage Bank shall have provided notice of termination to Finastra USA Corporation (f/k/a D+H USA Corporation) under that certain Master Agreement, dated December 20, 2010, and Master Agreement, dated May 25, 2012, as such terms may be extended from time to time (including all related exhibits, schedules, addendums, attachments, order requests, and other documents attached thereto or referenced therein) (the "Data Processing Agreement").

(f) Nonsolicitation Agreements and Mutual Termination Agreements. HopFed shall have delivered to First Financial executed Nonsolicitation Agreements and Mutual Termination Agreements from the individuals set forth on Section 5.16(d)(i) and 5.16(e)(i), respectively, of the First Financial Disclosure Schedule.

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## (g) RESERVED

(h) HopFed Adjusted Consolidated Shareholder's Equity. As of the end of the month prior to the Effective Time, the HopFed Adjusted Consolidated Shareholders' Equity (as defined in this Section 7.2(h)), shall not be less than Eighty-Seven Million, One Hundred Sixty-Eight Thousand, Five Hundred Nineteen and no/100 Dollars (\$87,168,519.00), representing the amount outstanding as of June 30, 2018. "HopFed Adjusted Consolidated Shareholders' Equity" shall be the consolidated shareholders' equity of HopFed and all of its Subsidiaries determined in accordance with GAAP consistently applied for prior periods; provided, however, that (A) any accruals established by HopFed pursuant to Section 5.5, or special dividends, accruals, reserves or charges taken by HopFed at the request of First Financial that occur prior to the Effective Time; (B) any changes to the valuation of the HopFed investment portfolio attributed to ASC 320, whether upward or downward, from June 30, 2018 until the measurement date; (C) the aggregate expenses of attorneys, accountants, consultants, financial advisors, and other professional advisors incurred by HopFed in connection with this Agreement or the transactions contemplated hereby; (D) the CIC Payments pursuant to the CIC Agreements under Section 5.16, and any other amounts paid or payable with the written consent of First Financial; (E) costs associated with the termination of the ESOP and the 401(k) Plan; (F) costs associated with the termination of the Data Processing Agreement; and (G) the amount of the regular quarterly cash dividend of \$0.07 per share on the HopFed Common Stock declared in December 2018 and to be paid in January 2019; in each case incurred or to be incurred by HopFed through the Effective Time in connection with this Agreement and the transactions contemplated hereby, will not reduce or impact the calculation of the HopFed Adjusted Consolidated Shareholders' Equity for purposes of this Section. All such excluded amounts shall also be determined in accordance with GAAP. To the extent the actual consolidated shareholders' equity of HopFed is less than the HopFed Adjusted Consolidated Shareholders' Equity, the Merger Consideration shall be reduced dollar for dollar pursuant to Section 1.4(a).

(i) Consents. HopFed shall obtain or caused to be obtained (a) all written consents, if any, required under any HopFed Contracts, and (b) all permits, authorizations, other written consents, permissions, and approvals as required for the lawful consummation of this Merger and as required under all agreements, contracts, appointments, indentures, plans, trusts, or other arrangements with third parties required to effect the transactions contemplated by this Agreement.

(j) Standstill Agreement. First Financial shall have received executed Standstill Agreements with the shareholders of HopFed set forth on Section 7.2(i) of the HopFed Disclosure Schedule, and such agreements shall be in full force and effect as of the Effective Time.

7.3 Conditions to Obligations of HopFed. The obligation of HopFed to effect the Merger is also subject to the satisfaction or waiver by HopFed at or prior to the Effective Time of the following conditions:

(a) Representations and Warranties. The representations and warranties of First Financial set forth in Section 4.2 and Section 4.8(a) (in each case, after giving effect to the lead in to Article IV) shall be true and correct (other than, in the case of Section 4.2(a), such failures to be true and correct as are de minimis) in each case as of the date of this Agreement and (except to the extent such representations and warranties speak as of an earlier date) as of the Closing Date as though made on and as of the Closing Date, and the representations and warranties of First Financial set forth in Sections 4.1(a), 4.1(b), and 4.3(a) (in each case, after giving effect to the lead in to Article IV) shall be true and correct in all respects as of the date of this Agreement and (except to the extent such representations and warranties speak as of an earlier date) as of the Closing Date as though made on and as of the Closing Date. All other representations and warranties of First Financial set forth in this Agreement (read without giving effect to any qualification as to materiality or Material Adverse Effect set forth in such representations or

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warranties but, in each case, after giving effect to the lead in to Article IV) shall be true and correct in all respects as of the date of this Agreement and (except to the extent such representations and warranties speak as of an earlier date) as of the Closing Date as though made on and as of the Closing Date, provided, however, that for purposes of this sentence, such representations and warranties shall be deemed to be true and correct unless the failure or failures of such representations and warranties to be so true and correct, either individually or in the aggregate, and without giving effect to any qualification as to materiality or Material Adverse Effect set forth in such representations or warranties, has had or would reasonably be expected to have a Material Adverse Effect on First Financial. HopFed shall have received a certificate signed on behalf of First Financial by the Chief Executive Officer and the Chief Financial Officer of First Financial to the foregoing effect.

(b) Performance of Obligations of First Financial. First Financial shall have performed in all material respects the obligations required to be performed by it under this Agreement at or prior to the Closing Date, and HopFed shall have received a certificate signed on behalf of First Financial by the Chief Executive Officer and the Chief Financial Officer of First Financial to such effect.

(c) Federal Tax Opinion. HopFed shall have received the opinion of Jones Walker in form and substance reasonably satisfactory to HopFed, dated as of the Closing Date, to the effect that, on the basis of facts, representations and assumptions set forth or referred to in such opinion, the Merger shall qualify as a "reorganization" within the meaning of Section 368(a) of the Code. In rendering such opinion, counsel may require and rely upon representations contained in certificates of officers of First Financial and HopFed, reasonably satisfactory in form and substance to such counsel.

**ARTICLE VIII  
TERMINATION AND AMENDMENT**

8.1 Termination. This Agreement may be terminated at any time prior to the Effective Time, whether before or after adoption of this Agreement by the shareholders of HopFed:

(a) by mutual consent of First Financial and HopFed in a written instrument signed by each of HopFed and First Financial, if the Board of Directors of each so determines by a vote of a majority of the members of its entire Board;

(b) by either the Board of Directors of First Financial or the Board of Directors of HopFed by written notice to the other party if any Governmental Entity that must grant a Requisite Regulatory Approval has denied approval of the Merger or the other transactions contemplated hereby and such denial has become final and nonappealable or any Governmental Entity of competent jurisdiction shall have issued a final nonappealable order permanently enjoining or otherwise prohibiting or making illegal the consummation of the transactions contemplated by this Agreement, unless the failure to obtain a Requisite Regulatory Approval shall be due to the failure of the party seeking to terminate this Agreement to perform or observe the covenants and agreements of such party set forth herein;

(c) by either the Board of Directors of First Financial or the Board of Directors of HopFed by written notice to the other party if the Merger shall not have been consummated on or before December 31, 2019 (the "Termination Date"), unless the failure of the Closing to occur by such date shall be due to the failure of the party seeking to terminate this Agreement to perform or observe the covenants and agreements of such party set forth herein;

(d) by either the Board of Directors of First Financial or the Board of Directors of HopFed by written notice to the other party (provided, that the terminating party is not then in material breach of any representation, warranty, covenant or other agreement contained herein) if there

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shall have been a breach of any of the covenants or agreements or any of the representations or warranties (or any such representation or warranty shall cease to be true) set forth in this Agreement on the part of HopFed, in the case of a termination by First Financial, or First Financial, in the case of a termination by HopFed, which breach or failure to be true, either individually or in the aggregate with all other breaches by such party (or failures of such representations or warranties to be true), would constitute, if occurring or continuing on the Closing Date, the failure of a condition set forth in Section 7.2, in the case of a termination by First Financial, or 7.3, in the case of a termination by HopFed, and which is not cured within forty-five (45) calendar days following written notice to HopFed, in the case of a termination by First Financial, or First Financial, in the case of a termination by HopFed, or by its nature or timing cannot be cured during such period (or such fewer days as remain prior to the Termination Date);

(e) by either First Financial or HopFed by written notice to the other party if the Board of Directors of HopFed shall have (i) failed to recommend in the Prospectus/Proxy Statement that the shareholders of HopFed adopt this Agreement, or withdrawn, modified or qualified such recommendation in a manner adverse to First Financial, or resolved to do so, or failed to reaffirm such recommendation within three (3) calendar days after First Financial requests in writing that such action be taken, or failed to recommend against acceptance of a tender offer or exchange offer for outstanding HopFed Common Stock that has been publicly disclosed (other than by First Financial or an affiliate of First Financial) within ten (10) business days after the commencement of such tender or exchange offer, in any such case whether or not permitted by the terms hereof, (ii) recommended or endorsed an Acquisition Proposal, or (iii) if the HopFed shareholders vote but fail to approve this Agreement at the HopFed Shareholders Meeting, provided that in the case of termination by HopFed, it has complied with its obligations under Section 5.1 and Section 5.6;

(f) by First Financial by written notice to HopFed if HopFed has breached its obligations under Section 5.1 or Section 5.6 in any material respect;

(g) by the Board of Directors of HopFed by written notice to First Financial, at any time prior to the HopFed shareholder approval being obtained, in the event that the Board of Directors of HopFed shall concludes, in good faith after consultation with its legal and financial advisors, that it must agree to endorse a Superior Proposal and terminate this Agreement in order to comply with its fiduciary duties, provided that HopFed has complied with all of its obligations under Section 5.1(b) and Section 5.6; or

(h) by the Board of Directors of HopFed by written notice to First Financial if both of the following conditions requisite to termination under this Section 8.1(h) are satisfied at any time during the seven (7) calendar day period commencing on the Determination Date, such termination to be effective on the tenth (10<sup>th</sup>) calendar day following the Determination Date:

(i) the then First Financial Market Value is less than 80% of the Initial First Financial Market Value; and

(ii) the number obtained by dividing the then First Financial Market Value by the Initial First Financial Market Value shall be less than the Index Ratio, *minus* 0.20.

If First Financial or any company belonging to the Index declares or effects a stock dividend, reclassification, recapitalization, split-up, combination, exchange of shares or similar transaction between the date of this Agreement and the Determination Date, the prices for the common stock of such company shall be appropriately adjusted for the purposes of applying this Section 8.1(h).

The termination right under this Section 8.1(h) is subject, however, to the following: If HopFed elects to exercise its termination right pursuant to this Section 8.1(h), it shall give prompt written notice thereof to First Financial. During the seven (7) calendar day period commencing upon its receipt of

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such notice, First Financial shall have the option to increase the Exchange Ratio to equal the lesser of (x) a quotient, the numerator of which is equal to the product of the Initial First Financial Market Value, the Exchange Ratio (as then in effect), and the Index Ratio minus 0.20 and the denominator of which is equal to the then First Financial Market Value; or (y) the quotient determined by dividing the Initial First Financial Market Value by the then First Financial Market Value, and multiplying the quotient by the product of the Exchange Ratio (as then in effect) and 0.80. If within such seven (7) calendar day period, First Financial delivers written notice to HopFed that it intends to proceed with the Merger by paying such additional consideration as contemplated by the preceding sentence, and notifies HopFed of the revised Exchange Ratio, then no termination shall have occurred pursuant to this Section 8.1(h) as if no written notice of termination had been given, and this Agreement shall remain in full force and effect in accordance with its terms (except that the Exchange Ratio shall have been so modified).

For purposes of this Section 8.1(h), the following terms shall have the meanings indicated below:

(iii) "Determination Date" shall mean the latest of (i) the date on which all Requisite Regulatory Approvals (and waivers, if applicable) necessary for consummation of the Merger have been received (disregarding any waiting period); or (ii) the date on which the shareholder approval of HopFed has been received.

(iv) "Final Index Price" means the average of the daily closing value of the Index for the twenty (20) consecutive trading days immediately preceding the Determination Date.

(v) "Index" means the NASDAQ Bank Index or, if such Index is not available, such substitute or similar Index as substantially replicates the NASDAQ Bank Index.

(vi) "Index Ratio" means the Final Index Price divided by the Initial Index Price.

(vii) "Initial First Financial Market Value" means \$41.29, adjusted as indicated above.

(viii) "Initial Index Price" means 3,338.12.

(ix) "First Financial Market Value" means, as of any specified date, the volume-weighted average closing price per share of First Financial Common Stock as reported on NASDAQ for the twenty (20) consecutive trading days immediately preceding such specified date.

8.2 Effect of Termination.

(a) In the event of termination of this Agreement by either First Financial or HopFed as provided in Section 8.1, this Agreement shall forthwith become void and have no effect, and none of First Financial, HopFed, any of their respective Subsidiaries or any of the officers or directors of any of them shall have any liability of any nature whatsoever hereunder, or in connection with the transactions contemplated hereby, except that (i) Sections 5.10(c) and this Section 8.2 and Article IX (other than Section 9.1) shall survive any termination of this Agreement, and (ii) notwithstanding anything to the contrary contained in this Agreement, neither First Financial nor HopFed shall be relieved or released from any liabilities or damages arising out of its willful and material breach of any provision of this Agreement.

(b)

(i) In the event that after the date of this Agreement and prior to the termination of this Agreement, a bona fide Acquisition Proposal shall have been made known to senior management of HopFed or has been made directly to its shareholders generally or any person shall have publicly announced (and not withdrawn) an Acquisition Proposal with respect to HopFed and (A) (1) thereafter this Agreement is terminated by either First Financial or HopFed pursuant to Section 8.1(c) and HopFed shall have failed to obtain the Requisite HopFed Vote or (2) thereafter this Agreement is terminated by First Financial pursuant to

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Section 8.1(d), and (B) prior to the date that is twelve (12) months after the date of such termination, HopFed enters into a definitive agreement or consummates a transaction with respect to an Acquisition Proposal (whether or not the same Acquisition Proposal as that referred to above), then HopFed shall, on the earlier of the date it enters into such definitive agreement and the date of consummation of such transaction, pay First Financial, by wire transfer of same day funds, a fee equal to \$5.1 million (the "Termination Fee"); provided, that for purposes of this Section 8.2(b), all references in the definition of Acquisition Proposal to "20%" shall instead refer to "50%".

(ii) In the event that this Agreement is terminated pursuant to Section 8.1(e)(i), Section 8.1(e)(ii), Section 8.1(f), or Section 8.1(g), then HopFed shall pay First Financial, by wire transfer of same day funds, the Termination Fee on the date of termination.

(c) Notwithstanding anything to the contrary herein, but without limiting the right of any party to recover liabilities or damages arising out of the other party's willful and material breach of any provision of this Agreement, in the event that this Agreement is terminated as provided in Section 8.1, the maximum aggregate amount of monetary fees, liabilities or damages payable by HopFed under this Agreement shall be equal to the Termination Fee.

(d) Each of First Financial and HopFed acknowledges that the agreements contained in this Section 8.2 are an integral part of the transactions contemplated by this Agreement, and that, without these agreements, the other party would not enter into this Agreement; accordingly, if HopFed fails promptly to pay the amount due pursuant to this Section 8.2, and, in order to obtain such payment, First Financial commences a suit which results in a judgment against HopFed for the Termination Fee, HopFed shall pay the costs and expenses of First Financial (including attorneys' fees and expenses) in connection with such suit. In addition, if HopFed fails to pay the amounts payable pursuant to this Section 8.2, then HopFed shall pay interest on such overdue amounts at a rate per annum equal to the "prime rate" (as announced by JPMorgan Chase & Co. or any successor thereto) in effect on the date on which such payment was required to be made for the period commencing as of the date that such overdue amount was originally required to be paid.

8.3 Amendment. Subject to compliance with applicable law, this Agreement may be amended by the parties hereto, by action taken or authorized by their respective Boards of Directors, at any time before or after approval of the matters presented in connection with Merger by the shareholders of HopFed; provided, however, that after adoption of this Agreement by the shareholders of HopFed, there may not be, without further approval of such shareholders, any amendment of this Agreement that requires further approval under applicable law. This Agreement may not be amended except by an instrument in writing signed on behalf of each of the parties hereto.

8.4 Extension; Waiver. At any time prior to the Effective Time, the parties hereto, by action taken or authorized by their respective Boards of Directors, may by written agreement or otherwise in writing, to the extent legally allowed, extend the time for the performance of any of the obligations or other acts of the other parties hereto, waive any inaccuracies in the representations and warranties contained herein or in any document delivered pursuant hereto, and waive compliance with any of the agreements or satisfaction of any conditions contained herein; provided, however, that after adoption of this Agreement by the respective shareholders of HopFed, there may not be, without further approval of such shareholders, any extension or waiver of this Agreement or any portion thereof that requires further approval under applicable law. Any agreement on the part of a party hereto to any such extension or waiver shall be valid only if set forth in a written instrument signed on behalf of such party, but such extension or waiver or failure to insist on strict compliance with an obligation, covenant, agreement or condition shall not operate as a waiver of, or estoppel with respect to, any subsequent or other failure.

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**ARTICLE IX  
GENERAL PROVISIONS**

9.1 Closing.

(a) Subject to the terms and conditions of this Agreement, the closing of the Merger (the "Closing") will take place at 9:00 a.m. Eastern Standard Time at the offices of SmithAmundsen LLC, on a date which shall be no later than seven (7) calendar days after the satisfaction or waiver (subject to applicable law) of the latest to occur of the conditions set forth in Article VII hereof (other than those conditions that by their nature can only be satisfied at the Closing, but subject to the satisfaction or waiver thereof), unless extended by mutual written agreement of the parties (the "Closing Date").

(b) At the Closing, First Financial will deliver to HopFed the following:

- (i) the officers' certificate contemplated by Section 7.3(a) and (b) hereof;
- (ii) copies of all Requisite Regulatory Approvals necessary to consummate the Merger;
- (iii) copies of the resolutions adopted by the Board of Directors of First Financial, certified by the Secretary of First Financial relative to the approval of this Agreement and the Merger;
- (iv) to the extent applicable, evidence of the purchase of director and officer liability insurance for the benefit of the Indemnified Parties in accordance with Section 6.5; and
- (v) such other documents and information as HopFed or its legal counsel may reasonably request.

(c) At the Closing, HopFed will deliver to First Financial the following:

- (i) the officers' certificates contemplated by Section 7.2(a) and (b) hereof;
- (ii) copies of the resolutions adopted by the Board of Directors and shareholders of HopFed certified by the Secretary of HopFed relative to the approval of this Agreement and the Merger; and
- (iii) such other documents and information as First Financial or its legal counsel may reasonably request.

9.2 Nonsurvival of Representations, Warranties and Agreements. None of the representations, warranties, covenants and agreements in this Agreement or in any instrument delivered pursuant to this Agreement (other than the Confidentiality Agreement, which shall survive in accordance with its terms) shall survive the Effective Time, except for Articles One, Article Two, Sections 5.12 and 6.5, Article 9, and for those other covenants and agreements contained herein and therein which by their terms apply in whole or in part after the Effective Time.

9.3 Expenses. All costs and expenses incurred in connection with this Agreement and the transactions contemplated hereby shall be paid by the party incurring such expense; provided, however, that the costs and expenses of printing and mailing the Prospectus/Proxy Statement and all filing and other fees paid to the SEC in connection with the Merger shall be borne by First Financial.

9.4 Notices. All notices and other communications hereunder shall be in writing and shall be deemed given if delivered personally, mailed by registered or certified mail (return receipt requested) or delivered by an express courier (with confirmation) to the parties at the following addresses (or at such other address for a party as shall be specified by like notice):





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(a) if to HopFed, to:

HopFed Bancorp, Inc.  
4155 Lafayette Road  
Hopkinsville, Kentucky 42240  
Attention: John E. Peck, Chief Executive Officer

*With a required copy (which shall not constitute notice) to:*

Jones Walker LLP  
Suite 200  
1227 25<sup>th</sup> Street NW  
Washington, D.C. 20037  
Attention: Edward B. Crosland, Jr.

and

(b) if to First Financial, to:

First Financial Corporation.  
One First Financial Plaza  
Terre Haute, Indiana 47807  
Attention: Norman L. Lowery, President and CEO

*With a required copy (which shall not constitute notice) to:*

SmithAmundsen LLC  
201 North Illinois Street, Suite 1400  
Capital Center, South Tower  
Indianapolis, Indiana 46204-4212  
Attention: John W. Tanselle

9.5 Interpretation. The parties have participated jointly in negotiating and drafting this Agreement. In the event that an ambiguity or a question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the parties, and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any provision of this Agreement. When a reference is made in this Agreement to Articles, Sections, Exhibits or Schedules, such reference shall be to an Article or Section of or Exhibit or Schedule to this Agreement unless otherwise indicated. The table of contents and headings or section captions contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. Whenever the words "include," "includes" or "including" are used in this Agreement, they shall be deemed to be followed by the words "without limitation." References to "the date hereof" shall mean the date of this Agreement. As used in this Agreement, the "knowledge" of HopFed means the actual knowledge after due inquiry of any of the officers of HopFed listed on Section 9.5 of the HopFed Disclosure Schedule, and the "knowledge" of First Financial means the actual knowledge after due inquiry of any of the officers of First Financial listed on Section 9.5 of the First Financial Disclosure Schedule. As used herein, (i) "business day" means any day other than a Saturday, a Sunday or a day on which banks in Terre Haute, Indiana or Hopkinsville, Kentucky are authorized by law or executive order to be closed, (ii) the term "person" means any individual, corporation (including not-for-profit), general or limited partnership, limited liability company, joint venture, estate, trust, association, organization, Governmental Entity or other entity of any kind or nature, group acting in concert, or any Person acting in a representative capacity, (iii) an "affiliate" of a specified person is any person that directly or indirectly controls, is controlled by, or is under common control with, such specified person, and (iv) the term "made available" means any document or other information that was (a) provided by one party or its representatives to the other party and its

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representatives prior to the date hereof, (b) included in the virtual data room of a party prior to the date hereof or (c) filed by a party with the SEC and publicly available on EDGAR prior to the date hereof. The HopFed Disclosure Schedule and the First Financial Disclosure Schedule, as well as all other schedules and all exhibits hereto, shall be deemed part of this Agreement and included in any reference to this Agreement.

9.6 Counterparts. This Agreement may be executed in counterparts, all of which shall be considered one and the same agreement and shall become effective when counterparts have been signed by each of the parties and delivered to the other parties, it being understood that all parties need not sign the same counterpart.

9.7 Entire Agreement. This Agreement (including the Disclosure Schedules and the documents and the instruments referred to herein) together with the Confidentiality Agreements dated September 17, 2018 and December 4, 2018 (collectively, the "Confidentiality Agreement") constitutes the entire agreement among the parties and supersedes all prior agreements and understandings, both written and oral, among the parties with respect to the subject matter hereof.

9.8 Governing Law: Jurisdiction.

(a) This Agreement shall be governed and construed in accordance with the laws of the State of Indiana, without regard to any applicable conflicts of law (except that matters relating to the internal corporate affairs of HopFed, including the fiduciary duties of the Board of Directors of HopFed, shall be subject to the laws of the State of Delaware).

(b) Each party agrees that it will bring any action or proceeding in respect of any claim arising under or related to this Agreement or the transactions contemplated hereby exclusively in any federal or state court in Vigo County, Indiana (the "Chosen Courts"), and, solely in connection with claims arising under or related to this Agreement or the transactions contemplated hereby, (i) irrevocably submits to the exclusive jurisdiction of the Chosen Courts, (ii) waives any objection to laying venue in any such action or proceeding in the Chosen Courts, (iii) waives any objection that the Chosen Courts are an inconvenient forum or do not have jurisdiction over any party and (iv) agrees that service of process upon such party in any such action or proceeding will be effective if notice is given in accordance with Section 9.4.

9.9 Waiver of Jury Trial. EACH PARTY ACKNOWLEDGES AND AGREES THAT ANY CONTROVERSY WHICH MAY DIRECTLY OR INDIRECTLY ARISE UNDER OR RELATE TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY IS LIKELY TO INVOLVE COMPLICATED AND DIFFICULT ISSUES, AND THEREFORE EACH SUCH PARTY HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES, TO THE EXTENT PERMITTED BY LAW AT THE TIME OF INSTITUTION OF THE APPLICABLE LITIGATION, ANY RIGHT SUCH PARTY MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT. EACH PARTY CERTIFIES AND ACKNOWLEDGES THAT: (I) NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER, (II) EACH PARTY UNDERSTANDS AND HAS CONSIDERED THE IMPLICATIONS OF THIS WAIVER, (III) EACH PARTY MAKES THIS WAIVER VOLUNTARILY, AND (IV) EACH PARTY HAS BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION 9.9.

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9.10 Assignment; Third Party Beneficiaries. Neither this Agreement nor any of the rights, interests or obligations shall be assigned by any of the parties hereto (whether by operation of law or otherwise) without the prior written consent of the other party. Any purported assignment in contravention hereof shall be null and void. Subject to the preceding sentence, this Agreement will be binding upon, inure to the benefit of and be enforceable by the parties and their respective successors and permitted assigns. Except as otherwise specifically provided in Section 6.5, this Agreement (including the documents and instruments referred to herein) is not intended to confer upon any person other than the parties hereto any rights or remedies hereunder, including the right to rely upon the representations and warranties set forth herein. The representations and warranties in this Agreement are the product of negotiations among the parties hereto and are for the sole benefit of the parties. Any inaccuracies in such representations and warranties are subject to waiver by the parties hereto in accordance herewith without notice or liability to any other person. In some instances, the representations and warranties in this Agreement may represent an allocation among the parties hereto of risks associated with particular matters regardless of the knowledge of any of the parties hereto. Consequently, persons other than the parties may not rely upon the representations and warranties in this Agreement as characterizations of actual facts or circumstances as of the date of this Agreement or as of any other date.

9.11 Specific Performance. The parties hereto agree that irreparable damage would occur if any provision of this Agreement were not performed in accordance with its specific terms or otherwise were breached. Accordingly, the parties shall be entitled to specific performance of the terms hereof, including an injunction or injunctions to prevent breaches of this Agreement or to enforce specifically the performance of the terms and provisions hereof (including the parties' obligation to consummate the Merger), in addition to any other remedy to which they are entitled at law or in equity. Each of the parties hereby further waives (a) any defense in any action for specific performance that a remedy at law would be adequate and (b) any requirement under any law to post security or a bond as a prerequisite to obtaining equitable relief.

9.12 Severability. Whenever possible, each provision or portion of any provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision or portion of any provision of this Agreement is held to be invalid, illegal or unenforceable in any respect under any applicable law or rule in any jurisdiction, such invalidity, illegality or unenforceability shall not affect any other provision or portion of any provision in such jurisdiction, and this Agreement shall be reformed, construed and enforced in such jurisdiction such that the invalid, illegal or unenforceable provision or portion thereof shall be interpreted to be only so broad as is enforceable.

9.13 Delivery by Facsimile or Electronic Transmission. This Agreement and any signed agreement or instrument entered into in connection with this Agreement, and any amendments or waivers hereto or thereto, to the extent signed and delivered by means of a facsimile machine or by e-mail delivery of a ".pdf" format data file, shall be treated in all manner and respects as an original agreement or instrument and shall be considered to have the same binding legal effect as if it were the original signed version thereof delivered in person. No party hereto or to any such agreement or instrument shall raise the use of a facsimile machine or e-mail delivery of a ".pdf" format data file to deliver a signature to this Agreement or any amendment hereto or the fact that any signature or agreement or instrument was transmitted or communicated through the use of a facsimile machine or e-mail delivery of a ".pdf" format data file as a defense to the formation of a contract and each party hereto forever waives any such defense.

*[Signature Page Follows]*

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IN WITNESS WHEREOF, First Financial Corporation and HopFed Bancorp, Inc. have caused this Agreement to be executed by their respective officers thereunto duly authorized as of the date first above written.

**HopFed Bancorp, Inc.**

By: /s/ JOHN E. PECK

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Name: John E. Peck  
Title: Chief Executive Officer

**First Financial Corporation**

By: /s/ NORMAN L. LOWERY

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Name: Norman L. Lowery  
Title: President and Chief Executive Officer

*[Signature Page to Agreement and Plan of Merger]*

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**Annex B**

January 7, 2019

The Board of Directors  
HopFed Bancorp, Inc.  
4155 Lafayette Road  
Hopkinsville, KY 42240

Members of the Board:

You have requested the opinion of Keefe, Bruyette & Woods, Inc. ("KBW" or "we") as investment bankers as to the fairness, from a financial point of view, to the common shareholders of HopFed Bancorp, Inc. ("HopFed") of the Merger Consideration (as defined below) to be received by such shareholders in the proposed merger (the "Merger") of HopFed with and into First Financial Corporation ("First Financial"), pursuant to the Agreement and Plan of Merger (the "Agreement") to be entered into by and between HopFed and First Financial. Pursuant to the Agreement and subject to the terms, conditions and limitations set forth therein, each share of common stock, par value \$0.01 per share, of HopFed ("HopFed Common Stock") issued and outstanding immediately prior to the Effective Time (as defined in the Agreement) shall become and be converted into the right to receive, at the election of the holder thereof (subject to proration and reallocation as set forth in the Agreement, as to which we express no opinion), either (or a combination of): (i) 0.444 of a share of the common shares, no par value per share, of First Financial ("First Financial Common Stock," and such fraction of a share of First Financial Common Stock, the "Stock Consideration") or (ii) \$21.00 in cash (the "Cash Consideration"), which Stock Consideration and Cash Consideration each being subject to downward adjustment as further described in the Agreement (as to which adjustment we express no opinion); provided that, in the aggregate, 50% of HopFed Common Stock issued and outstanding immediately prior to the Effective Time will be converted into and exchanged for the Stock Consideration and 50% of HopFed Common Stock issued and outstanding immediately prior to the Effective Time will be converted into and exchanged for the Cash Consideration. The Stock Consideration and the Cash Consideration, taken together, are referred to herein as the "Merger Consideration." The terms and conditions of the Merger are more fully set forth in the Agreement.

The Agreement further provides that, immediately subsequent to the Effective Time, Heritage Bank USA, Inc., a wholly-owned subsidiary of HopFed, will merge with and into First Financial Bank, N.A., a wholly-owned subsidiary of First Financial ("First Financial Bank"), with First Financial Bank as the surviving entity, pursuant to a separate agreement and plan of merger (such transaction, the "Bank Merger").

KBW has been retained by HopFed solely to render this opinion to the board of directors of HopFed (the "Board"), and KBW has not acted as a financial advisor or other advisor to, or as an agent of, HopFed or any other person. As part of our investment banking business, we are continually engaged in the valuation of bank and bank holding company securities in connection with acquisitions, negotiated underwritings, secondary distributions of listed and unlisted securities, private placements and valuations for various other purposes. As specialists in the securities of banking companies, we have experience in, and knowledge of, the valuation of banking enterprises. We and our affiliates, in the ordinary course of our and their broker-dealer businesses (and in the case of HopFed, further to an

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existing sales and trading relationship with a KBW broker-dealer affiliate), may from time to time purchase securities from, and sell securities to, HopFed and First Financial. In addition, as a market maker in securities, we and our affiliates may from time to time have a long or short position in, and buy or sell, debt or equity securities of HopFed or First Financial for our and their own accounts and for the accounts of our and their respective customers and clients. We have acted exclusively for the Board in rendering this opinion and will receive a fee from HopFed upon the rendering of this opinion. In addition, HopFed has agreed to indemnify us for certain liabilities arising out of our engagement.

In addition to this present engagement, in the past two years, KBW has provided investment banking and financial advisory services to HopFed but did not receive compensation for such services. KBW was engaged to act as financial advisor to HopFed in connection with the consideration of a potential transaction, which transaction was not consummated and which engagement was terminated in June 2018. In the past two years, KBW has not provided investment banking and financial advisory services to First Financial. We may in the future provide investment banking and financial advisory services to HopFed or First Financial and receive compensation for such services.

In connection with this opinion, we have reviewed, analyzed and relied upon material bearing upon the financial and operating condition of HopFed and First Financial and bearing upon the Merger, including among other things, the following: (i) a draft of the Agreement dated January 6, 2019 (the most recent draft made available to us); (ii) the audited financial statements and Annual Reports on Form 10-K for the three fiscal years ended December 31, 2017 of HopFed; (iii) the unaudited quarterly financial statements and Quarterly Reports on Form 10-Q for the fiscal quarters ended March 31, 2018, June 30, 2018 and September 30, 2018 of HopFed; (iv) the audited financial statements and Annual Reports on Form 10-K for the three fiscal years ended December 31, 2017 of First Financial; (v) the unaudited quarterly financial statements and Quarterly Reports on Form 10-Q for the fiscal quarters ended March 31, 2018, June 30, 2018 and September 30, 2018 of First Financial; (vi) certain regulatory filings of HopFed and First Financial and their respective subsidiaries, including the quarterly reports on Form FR Y-9C and call reports filed with respect to each quarter during the three-year period ended December 31, 2017 as well as the quarters ended March 31, 2018, June 30, 2018 and September 30, 2018; (vii) certain other interim reports and other communications of HopFed and First Financial to their respective stockholders or shareholders; and (viii) other financial information concerning the businesses and operations of HopFed and First Financial that was furnished to us by HopFed and First Financial or which we were otherwise directed to use for purposes of our analyses. Our consideration of financial information and other factors that we deemed appropriate under the circumstances or relevant to our analyses included, among others, the following: (i) the historical and current financial position and results of operations of HopFed and First Financial; (ii) the assets and liabilities of HopFed and First Financial; (iii) the nature and terms of certain other merger transactions and business combinations in the banking industry; (iv) a comparison of certain financial and stock market information for HopFed and First Financial with similar information for certain other companies the securities of which are publicly traded; (v) publicly available research analyst "street estimates" of HopFed, as well as assumed HopFed longterm growth rates provided to us by HopFed management, all of which information was discussed with us by HopFed management and used and relied upon by us at the direction of such management and with the consent of the Board; (vi) financial and operating forecasts and projections of First Financial that were prepared by, and provided to us and discussed with us by, First Financial management and used and relied upon by us based on such discussions, at the direction of HopFed management and with the consent of the Board; and (vii) estimates regarding certain pro forma financial effects of the Merger on First Financial (including, without limitation, the cost savings and related expenses expected to result or be derived from the Merger) that were prepared by, and provided to and discussed with us by, the management of First Financial, and used and relied upon by us based on such discussions, at the direction of HopFed management and with the consent of the Board. We have also performed such other studies and analyses as we considered appropriate and have taken into account our assessment of general

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economic, market and financial conditions and our experience in other transactions, as well as our experience in securities valuation and knowledge of the banking industry generally. We have also participated in discussions with the managements of HopFed and First Financial regarding the past and current business operations, regulatory relations, financial condition and future prospects of their respective companies and such other matters as we have deemed relevant to our inquiry. In addition, we have considered the results of the efforts undertaken by HopFed to solicit indications of interest from third parties regarding a potential transaction with HopFed, although we have not been requested to, and have not, assisted HopFed with such efforts as part of this present engagement.

In conducting our review and arriving at our opinion, we have relied upon and assumed the accuracy and completeness of all of the financial and other information that was provided to us or that was publicly available and we have not independently verified the accuracy or completeness of any such information or assumed any responsibility or liability for such verification, accuracy or completeness. We have relied upon the management of HopFed as to the reasonableness and achievability of the publicly available research analyst "street estimates" of HopFed and the assumed HopFed long-term growth rates referred to above (and the assumptions and bases therefor), and we have assumed that all such information was reasonably prepared and represents, or in the case of the HopFed "street estimates" referred to above that such estimates are consistent with, the best currently available estimates and judgments of such management and that the forecasts, projections and estimates reflected in such information will be realized in the amounts and in the time periods currently estimated. We have further relied, with the consent of HopFed, upon First Financial management as to the reasonableness and achievability of the financial and operating forecasts and projections of First Financial and the estimates regarding certain pro forma financial effects of the Merger on First Financial (including, without limitation, the cost savings and related expenses expected to result or be derived from the Merger), all as referred to above (and the assumptions and bases for all such information), and we have assumed that all such information was reasonably prepared and represents, or in the case of the First Financial "street estimates" referred to above that such estimates are consistent with, the best currently available estimates and judgments of First Financial management and that the forecasts, projections and estimates reflected in such information will be realized in the amounts and in the time periods currently estimated.

It is understood that the portion of the foregoing financial information of HopFed and First Financial that was provided to us was not prepared with the expectation of public disclosure and that all of the foregoing financial information, including the publicly available research analyst "street estimates" of HopFed, is based on numerous variables and assumptions that are inherently uncertain (including, without limitation, factors related to general economic and competitive conditions) and, accordingly, actual results could vary significantly from those set forth in such information. We have assumed, based on discussions with the respective managements of HopFed and First Financial and with the consent of the Board, that all such information provides a reasonable basis upon which we could form our opinion and we express no view as to any such information or the assumptions or bases therefor. We have relied on all such information without independent verification or analysis and do not in any respect assume any responsibility or liability for the accuracy or completeness thereof.

We also assumed that there were no material changes in the assets, liabilities, financial condition, results of operations, business or prospects of either HopFed or First Financial since the date of the last financial statements of each such entity that were made available to us. We are not experts in the independent verification of the adequacy of allowances for loan and lease losses and we have assumed, without independent verification and with your consent, that the aggregate allowances for loan and lease losses for HopFed and First Financial are adequate to cover such losses. In rendering our opinion, we have not made or obtained any evaluations or appraisals or physical inspection of the property, assets or liabilities (contingent or otherwise) of HopFed or First Financial, the collateral securing any of such assets or liabilities, or the collectability of any such assets, nor have we examined

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any individual loan or credit files, nor did we evaluate the solvency, financial capability or fair value of HopFed or First Financial under any state or federal laws, including those relating to bankruptcy, insolvency or other matters. Estimates of values of companies and assets do not purport to be appraisals or necessarily reflect the prices at which companies or assets may actually be sold. Because such estimates are inherently subject to uncertainty, we assume no responsibility or liability for their accuracy.

We have assumed, in all respects material to our analyses, the following: (i) that the Merger and any related transaction (including the Bank Merger) will be completed substantially in accordance with the terms set forth in the Agreement (the final terms of which we have assumed will not differ in any respect material to our analyses from the draft reviewed and referred to above), with no adjustments to the Merger Consideration and with no other consideration or payments in respect of the HopFed Common Stock; (ii) that the representations and warranties of each party in the Agreement and in all related documents and instruments referred to in the Agreement are true and correct; (iii) that each party to the Agreement and all related documents will perform all of the covenants and agreements required to be performed by such party under such documents; (iv) that there are no factors that would delay or subject to any adverse conditions, any necessary regulatory or governmental approval for the Merger or any related transactions (including the Bank Merger) and that all conditions to the completion of the Merger and any related transaction will be satisfied without any waivers or modifications to the Agreement or any of the related documents; and (v) that in the course of obtaining the necessary regulatory, contractual, or other consents or approvals for the Merger and any related transaction (including the Bank Merger), no restrictions, including any divestiture requirements, termination or other payments or amendments or modifications, will be imposed that will have a material adverse effect on the future results of operations or financial condition of HopFed, First Financial or the pro forma entity, or the contemplated benefits of the Merger, including without limitation the cost savings and related expenses expected to result or be derived from the Merger. We have assumed that the Merger will be consummated in a manner that complies with the applicable provisions of the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended, and all other applicable federal and state statutes, rules and regulations. We have further been advised by representatives of HopFed that HopFed has relied upon advice from its advisors (other than KBW) or other appropriate sources as to all legal, financial reporting, tax, accounting and regulatory matters with respect to HopFed, First Financial, the Merger and any related transaction (including the Bank Merger), and the Agreement. KBW has not provided advice with respect to any such matters. We have assumed, at the direction of HopFed and without independent verification, that the actual consolidated shareholders' equity of HopFed will not be less than the Adjusted Consolidated Shareholder's Equity (as defined in the Agreement).

This opinion addresses only the fairness, from a financial point of view, as of the date hereof, to the holders of HopFed Common Stock of the Merger Consideration to be received by such holders in the Merger. We express no view or opinion as to any other terms or aspects of the Merger or any term or aspect of any related transaction (including the Bank Merger or the termination of the HopFed Bancorp, Inc. 2015 Employee Stock Ownership Plan prior to the consummation of the Merger), including without limitation, the form or structure of the Merger (including the form of the Merger Consideration or the allocation thereof between cash and stock) or any such related transaction, any consequences of the Merger or any related transaction to HopFed, its stockholders, creditors or otherwise, or any terms, aspects, merits or implications of any employment, consulting, voting, support, shareholder or other agreements, arrangements or understandings contemplated or entered into in connection with the Merger or otherwise. Our opinion is necessarily based upon conditions as they exist and can be evaluated on the date hereof and the information made available to us through the date hereof. It is understood that subsequent developments may affect the conclusion reached in this opinion and that KBW does not have an obligation to update, revise or reaffirm this opinion. Our opinion does not address, and we express no view or opinion with respect to, (i) the underlying



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business decision of HopFed to engage in the Merger or enter into the Agreement; (ii) the relative merits of the Merger as compared to any alternative transactions or strategies that are, have been or may be available to or considered by HopFed or the Board; (iii) the fairness of the amount or nature of any compensation to any of HopFed's officers, directors or employees, or any class of such persons, relative to the compensation to the holders of HopFed Common Stock; (iv) the effect of the Merger or any related transaction on, or the fairness of the consideration to be received by, holders of any class of securities of HopFed (other than the holders of HopFed Common Stock solely with respect to the Merger Consideration, as described herein and not relative to the consideration to be received by holders of any other class of securities) or holders of any class of securities of First Financial or any other party to any transaction contemplated by the Agreement; (v) any adjustment (as provided in the Agreement) to the Merger Consideration assumed for purposes of our opinion; (vi) whether First Financial has sufficient cash, available lines of credit or other sources of funds to enable it to pay the aggregate Cash Consideration to the holders of HopFed Common Stock at the closing of the Merger; (vii) the election by holders of HopFed Common Stock to receive the Stock Consideration or the Cash Consideration, or any combination thereof, or the actual allocation between the Stock Consideration and the Cash Consideration among such holders (including, without limitation, any reallocation thereof as a result of proration pursuant to the Agreement), or the relative fairness of the Stock Consideration and the Cash Consideration; (viii) the actual value of First Financial Common Stock to be issued in the Merger; (ix) the prices, trading range or volume at which HopFed Common Stock or First Financial Common Stock will trade following the public announcement of the Merger or the prices, trading range or volume at which First Financial Common Stock will trade following the consummation of the Merger; (x) any advice or opinions provided by any other advisor to any of the parties to the Merger or any other transaction contemplated by the Agreement; or (xi) any legal, regulatory, accounting, tax or similar matters relating to HopFed, First Financial, their respective shareholders, or relating to or arising out of or as a consequence of the Merger or any related transaction (including the Bank Merger), including whether or not the Merger would qualify as a tax-free reorganization for United States federal income tax purposes.

This opinion is for the information of, and is directed to, the Board (in its capacity as such) in connection with its consideration of the financial terms of the Merger. This opinion does not constitute a recommendation to the Board as to how it should vote on the Merger, or to any holder of HopFed Common Stock or any shareholder of any other entity as to how to vote or act in connection with the Merger or any other matter (including, with respect to holders of HopFed Common Stock, what election any such shareholder should make with respect to the Stock Consideration or the Cash Consideration), nor does it constitute a recommendation regarding whether or not any such stockholder should enter into a voting, shareholders', or affiliates' agreement with respect to the Merger or exercise any dissenters' or appraisal rights that may be available to such stockholder.

This opinion has been reviewed and approved by our Fairness Opinion Committee in conformity with our policies and procedures established under the requirements of Rule 5150 of the Financial Industry Regulatory Authority.

Based upon and subject to the foregoing, it is our opinion that, as of the date hereof, the Merger Consideration to be received by the holders of HopFed Common Stock in the Merger is fair, from a financial point of view, to such holders.

Very truly yours,

Keefe, Bruyette & Woods, Inc.  
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**SECTION 262 OF THE DELAWARE GENERAL CORPORATION LAW**

**§ 262. Appraisal Rights**

(a) Any stockholder of a corporation of this State who holds shares of stock on the date of the making of a demand pursuant to subsection (d) of this section with respect to such shares, who continuously holds such shares through the effective date of the merger or consolidation, who has otherwise complied with subsection (d) of this section and who has neither voted in favor of the merger or consolidation nor consented thereto in writing pursuant to § 228 of this title shall be entitled to an appraisal by the Court of Chancery of the fair value of the stockholder's shares of stock under the circumstances described in subsections (b) and (c) of this section. As used in this section, the word "stockholder" means a holder of record of stock in a corporation; the words "stock" and "share" mean and include what is ordinarily meant by those words; and the words "depository receipt" mean a receipt or other instrument issued by a depository representing an interest in 1 or more shares, or fractions thereof, solely of stock of a corporation, which stock is deposited with the depository.

(b) Appraisal rights shall be available for the shares of any class or series of stock of a constituent corporation in a merger or consolidation to be effected pursuant to § 251 (other than a merger effected pursuant to § 251(g) of this title), § 252, § 254, § 255, § 256, § 257, § 258, § 263 or § 264 of this title:

(1) Provided, however, that, except as expressly provided in § 363(b) of this title, no appraisal rights under this section shall be available for the shares of any class or series of stock, which stock, or depository receipts in respect thereof, at the record date fixed to determine the stockholders entitled to receive notice of the meeting of stockholders to act upon the agreement of merger or consolidation (or, in the case of a merger pursuant to § 251(h), as of immediately prior to the execution of the agreement of merger), were either: (i) listed on a national securities exchange or (ii) held of record by more than 2,000 holders; and further provided that no appraisal rights shall be available for any shares of stock of the constituent corporation surviving a merger if the merger did not require for its approval the vote of the stockholders of the surviving corporation as provided in § 251(f) of this title.

(2) Notwithstanding paragraph (b)(1) of this section, appraisal rights under this section shall be available for the shares of any class or series of stock of a constituent corporation if the holders thereof are required by the terms of an agreement of merger or consolidation pursuant to §§ 251, 252, 254, 255, 256, 257, 258, 263 and 264 of this title to accept for such stock anything except:

- a. Shares of stock of the corporation surviving or resulting from such merger or consolidation, or depository receipts in respect thereof;
- b. Shares of stock of any other corporation, or depository receipts in respect thereof, which shares of stock (or depository receipts in respect thereof) or depository receipts at the effective date of the merger or consolidation will be either listed on a national securities exchange or held of record by more than 2,000 holders;
- c. Cash in lieu of fractional shares or fractional depository receipts described in the foregoing paragraphs (b)(2)a. and b. of this section; or
- d. Any combination of the shares of stock, depository receipts and cash in lieu of fractional shares or fractional depository receipts described in the foregoing paragraphs (b)(2)a., b. and c. of this section.

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(3) In the event all of the stock of a subsidiary Delaware corporation party to a merger effected under § 253 or § 267 of this title is not owned by the parent immediately prior to the merger, appraisal rights shall be available for the shares of the subsidiary Delaware corporation.

(4) In the event of an amendment to a corporation's certificate of incorporation contemplated by § 363(a) of this title, appraisal rights shall be available as contemplated by § 363(b) of this title, and the procedures of this section, including those set forth in subsections (d) and (e) of this section, shall apply as nearly as practicable, with the word "amendment" substituted for the words "merger or consolidation," and the word "corporation" substituted for the words "constituent corporation" and/or "surviving or resulting corporation."

(c) Any corporation may provide in its certificate of incorporation that appraisal rights under this section shall be available for the shares of any class or series of its stock as a result of an amendment to its certificate of incorporation, any merger or consolidation in which the corporation is a constituent corporation or the sale of all or substantially all of the assets of the corporation. If the certificate of incorporation contains such a provision, the provisions of this section, including those set forth in subsections (d), (e), and (g) of this section, shall apply as nearly as is practicable.

(d) Appraisal rights shall be perfected as follows:

(1) If a proposed merger or consolidation for which appraisal rights are provided under this section is to be submitted for approval at a meeting of stockholders, the corporation, not less than 20 days prior to the meeting, shall notify each of its stockholders who was such on the record date for notice of such meeting (or such members who received notice in accordance with § 255(c) of this title) with respect to shares for which appraisal rights are available pursuant to subsection (b) or (c) of this section that appraisal rights are available for any or all of the shares of the constituent corporations, and shall include in such notice a copy of this section and, if 1 of the constituent corporations is a nonstock corporation, a copy of § 114 of this title. Each stockholder electing to demand the appraisal of such stockholder's shares shall deliver to the corporation, before the taking of the vote on the merger or consolidation, a written demand for appraisal of such stockholder's shares. Such demand will be sufficient if it reasonably informs the corporation of the identity of the stockholder and that the stockholder intends thereby to demand the appraisal of such stockholder's shares. A proxy or vote against the merger or consolidation shall not constitute such a demand. A stockholder electing to take such action must do so by a separate written demand as herein provided. Within 10 days after the effective date of such merger or consolidation, the surviving or resulting corporation shall notify each stockholder of each constituent corporation who has complied with this subsection and has not voted in favor of or consented to the merger or consolidation of the date that the merger or consolidation has become effective; or

(2) If the merger or consolidation was approved pursuant to § 228, § 251(h), § 253, or § 267 of this title, then either a constituent corporation before the effective date of the merger or consolidation or the surviving or resulting corporation within 10 days thereafter shall notify each of the holders of any class or series of stock of such constituent corporation who are entitled to appraisal rights of the approval of the merger or consolidation and that appraisal rights are available for any or all shares of such class or series of stock of such constituent corporation, and shall include in such notice a copy of this section and, if 1 of the constituent corporations is a nonstock corporation, a copy of § 114 of this title. Such notice may, and, if given on or after the effective date of the merger or consolidation, shall, also notify such stockholders of the effective date of the merger or consolidation. Any stockholder entitled to appraisal rights may, within 20 days after the date of mailing of such notice or, in the case of a merger approved pursuant to § 251(h) of this title, within the later of the consummation of the offer contemplated by § 251(h) of this title and 20 days after the date of mailing of such notice, demand in writing from the

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surviving or resulting corporation the appraisal of such holder's shares. Such demand will be sufficient if it reasonably informs the corporation of the identity of the stockholder and that the stockholder intends thereby to demand the appraisal of such holder's shares. If such notice did not notify stockholders of the effective date of the merger or consolidation, either (i) each such constituent corporation shall send a second notice before the effective date of the merger or consolidation notifying each of the holders of any class or series of stock of such constituent corporation that are entitled to appraisal rights of the effective date of the merger or consolidation or (ii) the surviving or resulting corporation shall send such a second notice to all such holders on or within 10 days after such effective date; provided, however, that if such second notice is sent more than 20 days following the sending of the first notice or, in the case of a merger approved pursuant to § 251(h) of this title, later than the later of the consummation of the offer contemplated by § 251(h) of this title and 20 days following the sending of the first notice, such second notice need only be sent to each stockholder who is entitled to appraisal rights and who has demanded appraisal of such holder's shares in accordance with this subsection. An affidavit of the secretary or assistant secretary or of the transfer agent of the corporation that is required to give either notice that such notice has been given shall, in the absence of fraud, be prima facie evidence of the facts stated therein. For purposes of determining the stockholders entitled to receive either notice, each constituent corporation may fix, in advance, a record date that shall be not more than 10 days prior to the date the notice is given, provided, that if the notice is given on or after the effective date of the merger or consolidation, the record date shall be such effective date. If no record date is fixed and the notice is given prior to the effective date, the record date shall be the close of business on the day next preceding the day on which the notice is given.

(e) Within 120 days after the effective date of the merger or consolidation, the surviving or resulting corporation or any stockholder who has complied with subsections (a) and (d) of this section hereof and who is otherwise entitled to appraisal rights, may commence an appraisal proceeding by filing a petition in the Court of Chancery demanding a determination of the value of the stock of all such stockholders. Notwithstanding the foregoing, at any time within 60 days after the effective date of the merger or consolidation, any stockholder who has not commenced an appraisal proceeding or joined that proceeding as a named party shall have the right to withdraw such stockholder's demand for appraisal and to accept the terms offered upon the merger or consolidation. Within 120 days after the effective date of the merger or consolidation, any stockholder who has complied with the requirements of subsections (a) and (d) of this section hereof, upon written request, shall be entitled to receive from the corporation surviving the merger or resulting from the consolidation a statement setting forth the aggregate number of shares not voted in favor of the merger or consolidation (or, in the case of a merger approved pursuant to § 251(h) of this title, the aggregate number of shares (other than any excluded stock (as defined in § 251(h)(6)d. of this title)) that were the subject of, and were not tendered into, and accepted for purchase or exchange in, the offer referred to in § 251(h)(2)), and, in either case, with respect to which demands for appraisal have been received and the aggregate number of holders of such shares. Such written statement shall be mailed to the stockholder within 10 days after such stockholder's written request for such a statement is received by the surviving or resulting corporation or within 10 days after expiration of the period for delivery of demands for appraisal under subsection (d) of this section hereof, whichever is later. Notwithstanding subsection (a) of this section, a person who is the beneficial owner of shares of such stock held either in a voting trust or by a nominee on behalf of such person may, in such person's own name, file a petition or request from the corporation the statement described in this subsection.

(f) Upon the filing of any such petition by a stockholder, service of a copy thereof shall be made upon the surviving or resulting corporation, which shall within 20 days after such service file in the office of the Register in Chancery in which the petition was filed a duly verified list containing the names and addresses of all stockholders who have demanded payment for their shares and with whom agreements as to the value of their shares have not been reached by the surviving or resulting

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corporation. If the petition shall be filed by the surviving or resulting corporation, the petition shall be accompanied by such a duly verified list. The Register in Chancery, if so ordered by the Court, shall give notice of the time and place fixed for the hearing of such petition by registered or certified mail to the surviving or resulting corporation and to the stockholders shown on the list at the addresses therein stated. Such notice shall also be given by 1 or more publications at least 1 week before the day of the hearing, in a newspaper of general circulation published in the City of Wilmington, Delaware or such publication as the Court deems advisable. The forms of the notices by mail and by publication shall be approved by the Court, and the costs thereof shall be borne by the surviving or resulting corporation.

(g) At the hearing on such petition, the Court shall determine the stockholders who have complied with this section and who have become entitled to appraisal rights. The Court may require the stockholders who have demanded an appraisal for their shares and who hold stock represented by certificates to submit their certificates of stock to the Register in Chancery for notation thereon of the pendency of the appraisal proceedings; and if any stockholder fails to comply with such direction, the Court may dismiss the proceedings as to such stockholder. If immediately before the merger or consolidation the shares of the class or series of stock of the constituent corporation as to which appraisal rights are available were listed on a national securities exchange, the Court shall dismiss the proceedings as to all holders of such shares who are otherwise entitled to appraisal rights unless (1) the total number of shares entitled to appraisal exceeds 1% of the outstanding shares of the class or series eligible for appraisal, (2) the value of the consideration provided in the merger or consolidation for such total number of shares exceeds \$1 million, or (3) the merger was approved pursuant to § 253 or § 267 of this title.

(h) After the Court determines the stockholders entitled to an appraisal, the appraisal proceeding shall be conducted in accordance with the rules of the Court of Chancery, including any rules specifically governing appraisal proceedings. Through such proceeding the Court shall determine the fair value of the shares exclusive of any element of value arising from the accomplishment or expectation of the merger or consolidation, together with interest, if any, to be paid upon the amount determined to be the fair value. In determining such fair value, the Court shall take into account all relevant factors. Unless the Court in its discretion determines otherwise for good cause shown, and except as provided in this subsection, interest from the effective date of the merger through the date of payment of the judgment shall be compounded quarterly and shall accrue at 5% over the Federal Reserve discount rate (including any surcharge) as established from time to time during the period between the effective date of the merger and the date of payment of the judgment. At any time before the entry of judgment in the proceedings, the surviving corporation may pay to each stockholder entitled to appraisal an amount in cash, in which case interest shall accrue thereafter as provided herein only upon the sum of (1) the difference, if any, between the amount so paid and the fair value of the shares as determined by the Court, and (2) interest theretofore accrued, unless paid at that time. Upon application by the surviving or resulting corporation or by any stockholder entitled to participate in the appraisal proceeding, the Court may, in its discretion, proceed to trial upon the appraisal prior to the final determination of the stockholders entitled to an appraisal. Any stockholder whose name appears on the list filed by the surviving or resulting corporation pursuant to subsection (f) of this section and who has submitted such stockholder's certificates of stock to the Register in Chancery, if such is required, may participate fully in all proceedings until it is finally determined that such stockholder is not entitled to appraisal rights under this section.

(i) The Court shall direct the payment of the fair value of the shares, together with interest, if any, by the surviving or resulting corporation to the stockholders entitled thereto. Payment shall be so made to each such stockholder, in the case of holders of uncertificated stock forthwith, and the case of holders of shares represented by certificates upon the surrender to the corporation of the certificates representing such stock. The Court's decree may be enforced as other decrees in the Court of

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Chancery may be enforced, whether such surviving or resulting corporation be a corporation of this State or of any state.

(j) The costs of the proceeding may be determined by the Court and taxed upon the parties as the Court deems equitable in the circumstances. Upon application of a stockholder, the Court may order all or a portion of the expenses incurred by any stockholder in connection with the appraisal proceeding, including, without limitation, reasonable attorney's fees and the fees and expenses of experts, to be charged pro rata against the value of all the shares entitled to an appraisal.

(k) From and after the effective date of the merger or consolidation, no stockholder who has demanded appraisal rights as provided in subsection (d) of this section shall be entitled to vote such stock for any purpose or to receive payment of dividends or other distributions on the stock (except dividends or other distributions payable to stockholders of record at a date which is prior to the effective date of the merger or consolidation); provided, however, that if no petition for an appraisal shall be filed within the time provided in subsection (e) of this section, or if such stockholder shall deliver to the surviving or resulting corporation a written withdrawal of such stockholder's demand for an appraisal and an acceptance of the merger or consolidation, either within 60 days after the effective date of the merger or consolidation as provided in subsection (e) of this section or thereafter with the written approval of the corporation, then the right of such stockholder to an appraisal shall cease. Notwithstanding the foregoing, no appraisal proceeding in the Court of Chancery shall be dismissed as to any stockholder without the approval of the Court, and such approval may be conditioned upon such terms as the Court deems just; provided, however that this provision shall not affect the right of any stockholder who has not commenced an appraisal proceeding or joined that proceeding as a named party to withdraw such stockholder's demand for appraisal and to accept the terms offered upon the merger or consolidation within 60 days after the effective date of the merger or consolidation, as set forth in subsection (e) of this section.

(l) The shares of the surviving or resulting corporation to which the shares of such objecting stockholders would have been converted had they assented to the merger or consolidation shall have the status of authorized and unissued shares of the surviving or resulting corporation.

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**ANNEX D AMENDMENT NO. 2 TO THE ANNUAL REPORT ON FORM 10-K OF  
HOPFED BANCORP, INC. FOR THE YEAR ENDED DECEMBER 31, 2018**

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-K/A**

(Amendment No. 2)

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(Mark One)

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

**For the fiscal year ended December 31, 2018**

**Commission file number 000-23667**

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**HOPFED BANCORP, INC.**

(Exact name of registrant as specified in its charter)

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**Delaware**

(State of jurisdiction of  
incorporation or organization)

**61-1322555**

(I.R.S. Employer  
Identification No.)

**4155 Lafayette Road, Hopkinsville, KY**

(Address of principal executive offices)

**42240**

(Zip Code)

Registrant's telephone number, including area code: **(270) 885-1171.**

Securities registered pursuant to Section 12(b) of the Act: **None.**

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

**Common Stock, par value \$.01 per share**

(Title of Class)

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Indicate by check mark whether 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



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subject to such filing requirements for the past 90 days. YES  NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (subsection 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Small 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 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

The registrant's voting stock is traded on the NASDAQ Stock Market. The aggregate market value of the voting stock held by non-affiliates of the registrant, computed by reference to the price (\$16.58 per share) at which the stock was sold on June 29, 2018, was approximately \$105,862,156. For purposes of this calculation, the term "affiliate" refers to all executive officers and directors of the registrant and all stockholders beneficially owning more than 10% of the registrant's Common Stock.

As of the close of business on March 6, 2019, 6,648,887 shares of the registrant's Common Stock were outstanding.

### Documents Incorporated By Reference

Part II:

Annual Report to Stockholders for the year ended December 31, 2018.

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**EXPLANATORY NOTE**

On March 18, 2019, HopFed Bancorp, Inc. (the "Registrant") filed with the Commission its Annual Report on Form 10-K for the year ended December 31, 2018 (the "Original 10-K"). On March 21, 2019, the Registrant filed with the Commission Amendment No. 1 on Form 10-K/A to the Original 10-K ("Amendment No. 1") for the limited purpose of amending (i) the date of the Report of Independent Registrant Public Accounting Firm of Carr, Riggs & Ingram, LLC ("Carr Riggs") the Registrant's former independent registered public accounting firm, in Item 8 of the Original 10-K and (ii) the date of Carr Riggs' consent filed as Exhibit 23.1 to the Original 10-K. Incorrect versions of Carr Riggs' report and consent were inadvertently enclosed in the Original 10-K.

Amendment No. 1 included An amended consent from Carr Riggs, and re-executed and re-filed Sarbanes-Oxley Act certifications of the Chief Executive Officer and the Chief Financial Officer. However, Amendment No. 1 inadvertently failed to include the Registrant's audited consolidated financial statements and Carr Riggs' report with the correct date.

This Amendment No. 2 on Form 10-K/A to the Original 10-K ("Amendment No. 2") is a complete Form 10-K Report. Due to the passage of time since the filing date of the Original 10-K, Amendment No. 2 includes currently dated consents of both Carr Riggs and HORNE LLP, the Registrant's current independent registered public accounting firm, and the correct date of Carr Riggs' report. Amendment No. 2 also includes re-executed and re-filed Sarbanes-Oxley Act certifications.

Except for the corrections and updates referenced above, incorporation by reference of certain exhibits filed with the Original Form 10-K, and a currently dated signature page, no changes have been made to any of the financial statements or other information contained in the Original 10-K.

Amendment No. 2 does not reflect any subsequent information or events. Information contained in Amendment No. 2 is only correct as of the Original 10-K filing date. To obtain more current information regarding the Registrant, please review subsequent filings with the Commission by the Registrant.

**PART I**

**ITEM 1. BUSINESS**

**HopFed Bancorp, Inc.**

HopFed Bancorp, Inc. (the "Corporation") is a bank holding company incorporated in the state of Delaware and headquartered in Hopkinsville, Kentucky. The Corporation's principal business activities are conducted through its wholly-owned subsidiary, Heritage Bank USA, Inc. (the "Bank"), a Kentucky state chartered commercial bank engaged in the business of accepting deposits and providing mortgage, consumer, construction and commercial loans to the general public through its retail banking offices. The Bank's business activities are primarily limited to western Kentucky and middle and western Tennessee. The Bank is subject to competition from other financial institutions. Deposits at the Bank are insured up to the applicable limits by the Federal Deposit Insurance Corporation (FDIC).

The Bank is a Kentucky commercial chartered bank and is supervised by the Kentucky Department of Financial Institutions ("KDFI") and the FDIC. Supervision of the Corporation is conducted by the Federal Reserve Bank of Saint Louis ("FRB").

The Bank owns JBMM, LLC, a wholly owned limited liability company which owns and manages the Bank's foreclosed assets. The Bank owns Heritage USA Title, LLC, which sells title insurance to the Bank's real estate loan customers. The Bank owns Fort Webb LP, LLC, which owns a limited partnership interest in Fort Webb Elderly Housing LP, LLC, a low income senior citizen housing facility in Bowling Green, Kentucky. The facility offers apartments for rent for those senior citizens who qualify and is managed by the Bowling Green, Kentucky Housing Authority.

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A substantial majority of the Bank's loans are secured by real estate in the western Kentucky and middle and west Tennessee markets. In addition, all properties reported as foreclosed real estate, with the exception of a \$37,000 single-family property that is located in Mississippi, are located in the Company's general market area. Accordingly, the ultimate ability to collect on a substantial portion of the Bank's loan portfolio and the recovery of a substantial portion of the carrying amount of foreclosed real estate is susceptible to changes in local market conditions.

**Announced Agreement to Merge**

On January 7, 2019, First Financial Corporation (NASDAQ: THFF) ("First Financial") and the Company jointly announced the execution of a definitive merger agreement under which the Company will merge into First Financial in a cash and stock transaction. Upon completion of the merger, the Bank will merge into First Financial Bank, N.A. ("First Financial Bank"), a wholly owned subsidiary of First Financial.

Under the terms of the merger agreement, which was unanimously approved by the boards of both Companies, stockholders of the Company may elect to receive either (or a combination of) 0.444 shares of First Financial common stock or \$21.00 in cash for each share of the Company's common stock owned. The transaction aggregate payout is subject to proration provisions specified in the merger agreement that provide for a targeted aggregate split of 50% of the Company's common stock being exchanged for First Financial common stock and 50% for cash. Based upon the \$43.01 closing price of First Financial common stock on January 4, 2019 and assuming that a shareholder received 50% stock and 50% cash, the purchase price would be worth \$20.05 per share, with an aggregate transaction value of approximately \$128.3 million. For more information, please review the Company's 8-K/A filing with the Securities and Exchange Commission dated January 9, 2019. The proposed merger is subject to approval of both regulators of both Companies and by a vote of HopFed shareholders.

**Stock Repurchase Activity**

At December 31, 2018, the Company may purchase 296,380 shares of treasury stock under the currently active repurchase program. For the year ended December 31, 2018, the Company purchased 3,620 shares of common stock at a weighted average price of \$14.06 per share. At December 31, 2018, the Company owns 1,341,980 shares of the Company's common stock as treasury stock at a weighted average price of \$12.45 per share. The Company's stock repurchase program remains open but activity has been limited due to merger discussions that were held in 2018.

**2015 HopFed Bancorp, Inc. Employee Stock Ownership Plan**

On March 2, 2015, the Company implemented the HopFed Bancorp, Inc. 2015 Employee Stock Ownership Plan (the "ESOP") which covers substantially all employees who are at least 21 years old with at least one year of employment with the Bank. Bank contributions used to make the ESOP loan payment replaced matching and profit sharing contributions to the Bank's 401(k) Plan. The Company's Board of Directors selected three individuals to serve as trustees, Messrs. Peck, Duvall and Dr. Thomas I. Miller.

On March 2, 2015, the ESOP purchased an initial block of 600,000 shares from the Company at a cost of \$7,884,000 using the proceeds of the ESOP Loan. In accordance with the ESOP loan documents, the common stock purchased by the ESOP serves as collateral for the ESOP loan. The repayment of the ESOP loan is from discretionary contributions by the Bank to the ESOP and by dividends paid on unearned shares held in the trust over a period ending no later than December 9, 2026. The interest rate on the ESOP Loan is 3.0%. The administrative trustee has custody of the common shares owned by the ESOP.

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ESOP shares are allocated among participants as the ESOP loan is repaid. The ESOP shares receive dividend payments and dividends on unearned shares may be used to make the ESOP loan payment and for distributions to individuals who are no longer employed by the Bank. For the years ended December 31, 2018 and December 31, 2017, the Company incurred compensation expense of \$633,000 and \$706,000, respectively, to fund the ESOP loan payment. For the years ended December 31, 2018 and December 31, 2017, the Company's ESOP released 51,856 and 64,032 shares of stock, respectively, to individual employees participating in the plan at December 31, 2018 and December 31, 2017, respectively.

**Federal Taxation**

The Corporation and the Bank file a consolidated federal income tax return on a calendar year basis. The Company is subject to the federal tax laws and regulations that apply to corporations generally.

**Kentucky Taxation**

Kentucky corporations, such as the Corporation, are subject to the Kentucky corporation income tax and the Kentucky corporation license ("franchise") tax. The income tax is imposed based on the following rates: 4% of the first \$50,000 of net taxable income allocated or apportioned to Kentucky; 5% of the next \$50,000; and 6% of taxable net income over \$100,000. All dividend income received by a corporation is excluded for purposes of arriving at taxable net income.

**Tennessee Taxation**

The Company and all subsidiaries are subject to Tennessee Franchise and Excise tax on apportioned capital and apportioned income.

**Heritage Bank USA, Inc.**

State banks are not subject to the Kentucky corporation tax.

The Commonwealth of Kentucky imposes both a "Kentucky Bank Franchise Tax" and "Local Deposits Franchise Tax". The Kentucky Bank Franchise Tax is an annual tax equal to 1.1% of net capital after apportionment, if applicable. The value of the net capital is calculated annually by deducting from total capital an amount equal to the same percentage of total as the book value of United States obligations bears to the book value of the total assets of the financial institution. The Bank, as a financial institution, is exempt from both corporate income and license taxes.

**Competition**

The Bank faces significant competition both in originating mortgage and other loans and in attracting deposits. The Bank competes for loans based on the types of loans originated, the rates charged and the terms offered on our loan products, the deposit products and rates offered and the convenience and quality of services it provides to customers. The Bank also competes by offering products tailored to the local communities that we serve. Its competition in originating real estate loans comes primarily from other savings institutions, commercial banks and mortgage bankers making loans secured by real estate located in the Bank's market area. Commercial banks, credit unions and finance companies provide vigorous competition in consumer lending.

At June 30, 2018, the Bank had an 11.0% share of the deposit market in its combined markets. The Bank's most significant competition for deposits across its entire market area was Community Financial Services Bank with a deposit rate share of 12.1% and Planters Bank of Kentucky with a deposit market share of 10.2%. At June 30, 2018, U.S. Bank N/A held a deposit market share of 8.0%.

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F&M Bank of Clarksville, Tennessee held a market share of 7.4% and Regions Bank of Birmingham, Alabama held a market share rate of 7.1%. In addition, each market contains other community banks that provide competitive products and services within individual markets.

**Employees**

As of December 31, 2018, the Company and the Bank had 220 full-time equivalent employees, none of whom is represented by a collective bargaining agreement. Management considers the Bank's relationships with its employees to be good.

**Executive Officers of the Registrant**

**John E. Peck.** Mr. Peck has served as President and Chief Executive Officer of both the Company and the Bank since July 2000. Prior to that, Mr. Peck was President and Chief Executive Officer of United Commonwealth Bank and President of Firststar Bank-Calloway County. Mr. Peck was a past Board Member and Chairman of the Christian County Chamber of Commerce, Jennie Stuart Hospital and Murray-Calloway County Hospital. Mr. Peck holds a Bachelor of Science of Business Administration with a concentration in Finance from the University of Louisville. Mr. Peck is a graduate of the Louisiana State University School of Banking. Mr. Peck is a member and serves on the finance committee of the First Baptist Church of Hopkinsville.

**Michael L. Woolfolk.** Mr. Woolfolk has served as Executive Vice President and Chief Operations Officer of the Bank since August 2000. Mr. Woolfolk was appointed to the Board of Directors of the Company on August 15, 2012. Prior to that, he was President of First-Star Bank-Marshall County, President and Chief Executive Officer of Bank of Marshall County and President of Mercantile Bank. Mr. Woolfolk is a member of First Baptist Church of Hopkinsville.

**Billy C. Duvall.** Mr. Duvall has served as Senior Vice President, Chief Financial Officer and Treasurer of the Company and the Bank since June 1, 2001. Prior to that, he was an Auditor with Rayburn, Betts & Bates, P.C., independent public accountants and nine years as a Principal Examiner with the National Credit Union Administration. Mr. Duvall holds a Bachelor of Business Administration from Austin Peay State University in Accounting and Finance. Mr. Duvall is a Certified Public Accountant of Virginia. Mr. Duvall is the past Board Chairman for the Pennyroyal Mental Health Center, a member of the Hopkinsville Kiwanis Club, and a member of Southside Church of Christ in Hopkinsville.

**Bailey "Chip" Knight.** Mr. Knight was promoted to Chief Credit Officer on January 15, 2016. Mr. Knight has served as a Market President and Senior Lender of the Company since April 2, 2012. In his position as Market President, Mr. Knight was responsible for all retail and lending functions in the Cheatham County, Tennessee market. As Senior Lender, Mr. Knight's responsibilities included relationships with the Company's largest commercial lending clients as well as assisting other commercial loan officers in the calling and structuring of loan agreements. Prior to April 2012, Mr. Knight was the Regional Executive and Team Lead with Capital Bank and GreenBank, where he was responsible for all retail and lending functions in eight offices located in Northern Middle Tennessee. Mr. Knight has over 25 years of commercial banking experience, all in Middle Tennessee and is a lifelong resident of Montgomery County, Tennessee.

**Limitations on Capital Distributions.** The FRB has issued a policy statement on the payment of cash dividends by bank holding companies, which provides that a bank holding company should pay cash dividends only to the extent that the holding company's net income for the past year is sufficient to cover both the cash dividends and a rate of earnings retention that is consistent with the holding company's capital needs, asset quality and overall financial condition. The FRB also indicated that it would be inappropriate for a company experiencing serious financial problems to borrow funds to pay

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dividends. In a recent Supervisory Letter, the FRB staff has stated that, as a general matter, bank holding companies should eliminate cash dividends if net income available to shareholders for the past four quarters, net of dividends previously paid, is not sufficient to fully fund the dividend. Furthermore, under the federal prompt corrective action regulations, the FRB may prohibit a bank holding company from paying any dividends if the holding company's bank subsidiary is classified as "undercapitalized."

**Seasonality of Revenues and Expenses**

The Company's business is not materially affected by seasonality fluctuations in our business cycle. The Company's financial health is substantially affected by the overall business cycle and market interest rates.

**Supervision and Regulation**

Set forth below is a brief description of certain laws that relate to the regulation of the Company and the Bank. The description does not purport to be complete and is qualified in its entirety by reference to applicable laws and regulations.

**Regulation of the Company**

*General.* The Company is a bank holding company registered with the FRB. We are subject to examination and supervision by the FRB pursuant to the Bank Holding Company Act of 1956, as amended (the "BHCA"), and are required to file reports and other information regarding our business operations and the business operations of our subsidiaries with the FRB.

Under the BHCA, the Company must obtain the prior approval of the FRB before it may acquire control of another bank or bank holding company, merge or consolidate with another bank holding company, acquire all or substantially all of the assets of another bank or bank holding company, or acquire direct or indirect ownership or control of any voting shares of any bank or bank holding company if, after such acquisition, the Company would directly or indirectly own or control more than 5% of such shares.

*Non-Banking Activities.* In general, the BHCA and the FRB's regulations limit the nonbanking activities permissible for bank holding companies to those activities that the FRB has determined to be so closely related to banking or managing or controlling banks to be a proper incident thereto. A bank holding company that elects to be treated as a financial holding company, however, may engage in, and acquire companies engaged in, activities that are considered "financial in nature," as defined by the Gramm-Leach-Bliley Act and FRB regulations. These activities include, among other things, securities underwriting, dealing and market-making, sponsoring mutual funds and investment companies, insurance underwriting and agency activities, and merchant banking.

*General.* A bank holding company is required to serve as a source of financial and managerial strength to its subsidiary banks and may not conduct its operations in an unsafe or unsound manner. In addition, it is the policy of the FRB that a bank holding company should stand ready to use available resources to provide adequate capital to its subsidiary banks during periods of financial stress or adversity and should maintain the financial flexibility and capital-raising capacity to obtain additional resources for assisting its subsidiary banks. A bank holding company's failure to meet its obligations to serve as a source of strength to its subsidiary banks will generally be considered by the FRB to be an unsafe and unsound banking practice or a violation of the FRB regulations, or both.

*Regulatory Capital Requirements.* The FRB has adopted regulatory capital regulations pursuant to which it assesses the adequacy of capital in examining and supervising a bank holding company and in analyzing applications to it under the BHCA. The Federal Reserve's regulatory capital requirements are similar to those imposed on the Bank by the FDIC. See "Regulation of the Bank Regulatory Capital

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Requirements." The FRB, however, has adopted a policy statement that exempts bank holding companies with less than \$1.0 billion in consolidated assets that are not engaged in significant non-banking or off-balance sheet activities and that do not have a material amount of debt or equity securities registered with the SEC from its regulatory capital requirements. As long as their bank subsidiaries are well capitalized, such bank holding companies need only maintain a pro forma debt to equity ratio of less than 1.0 in order to pay dividends and repurchase stock and to be eligible for expedited treatment on applications.

**Regulation of the Bank**

*General.* As a Kentucky-chartered commercial bank, the Bank is subject to regulation, supervision and examination by the KDFI and by the FDIC, which insures its deposits to the maximum extent permitted by law. The federal and state laws and regulations applicable to banks regulate, among other things, the scope of their business, their investments, the reserves required to be kept against deposits, the timing of the availability of deposited funds and the nature and amount of and collateral for certain loans. The laws and regulations governing the Bank generally have been promulgated to protect depositors and the FDIC, not for the purpose of protecting stockholders. This regulatory structure also gives the federal and state banking agencies extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes. Any change in such regulation, whether by the KDFI, the FDIC or the United States Congress, could have a material impact on the Company, the Bank and their operations.

*Regulatory Capital Requirements.* The FDIC has promulgated capital adequacy requirements for state-chartered banks that, like the Bank, are not members of the Federal Reserve System. Effective January 1, 2015, the regulatory capital rules were substantially revised to conform to the international regulatory standards agreed to by the Basel Committee on Banking Supervision in the accord often referred to as "Basel III". The final Basel III capital rule applies to all depository institutions as well as to all top-tier bank and savings and loan holding companies that are not subject to the FRB's Small Bank Holding Company Policy Statement.

Under the FDIC's revised regulatory capital regulations, the Bank is required to meet four minimum capital standards: (1) a "Tier 1" or "core" capital leverage ratio equal to at least 4% of total adjusted assets, (2) a common equity Tier 1 ("CET1") capital ratio equal to 4.5% of risk-weighted assets, (3) a Tier 1 risk-based ratio equal to 6% of risk-weighted assets, and (4) a total capital ratio equal to 8% of total risk-weighted assets. CET1 capital is defined as common stock instruments, retained earnings, any common equity Tier 1 minority interest and, unless an institution has made an "opt-out" election, accumulated other comprehensive income, net of goodwill and certain other intangible assets. Tier 1 or core capital is defined as CET1 capital plus certain qualifying subordinated interests and grandfathered capital instruments. The Bank and Corporation made the opt-out election.

Total capital consists of Tier 1 capital plus Tier 2 or supplementary capital items, which include allowances for loan losses in an amount of up to 1.25% of risk-weighted assets, qualifying subordinated instruments and certain grandfathered capital instruments. An institution's risk-based capital requirements are measured against risk-weighted assets, which equal the sum of each on-balance-sheet asset and the credit-equivalent amount of each off-balance-sheet item after being multiplied by an assigned risk weight.

In addition to higher capital requirements, the Basel III capital rule requires banking organizations to maintain a capital conservation buffer of at least 2.5% of risk-weighted assets over and above the minimum risk-based capital requirements. Institutions that do not maintain the required capital buffer will become subject to progressively more stringent limitations on the percentage of earnings that can be paid out in dividends or used for stock repurchases and on the payment of discretionary bonuses to

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senior executive management. The capital buffer requirement will be phased in over four years beginning January 1, 2016. The fully phased-in capital buffer requirement will effectively raise the minimum required risk-based capital ratios to 7% CET1 capital, 8.5% Tier 1 capital and 10.5% total capital on a fully phased-in basis. The capital conservation buffer at December 31, 2017 is 1.25%. In assessing an institution's capital adequacy, the FDIC takes into consideration not only the above numeric factors but also qualitative factors, and has the authority to establish higher capital requirements for individual institutions where necessary.

*Prompt Correction Action.* Under applicable Federal statute, the federal bank regulatory agencies are required to take "prompt corrective action" with respect to institutions that do not meet specified minimum capital requirements. Under the FDIC's prompt corrective action regulations, as amended to incorporate the new regulatory capital standards implemented by the final Basel III capital rule, an institution is deemed to be "well-capitalized" if it has a total risk-based capital ratio of 10% or greater, a Tier 1 risk-based capital ratio of 8% or greater, a Tier 1 leverage ratio of 5% or greater, and a CET1 risk-based ratio of 6.5% or greater and is not subject to a regulatory order, agreement, or directive to meet and maintain a specific capital level for any capital measure.

An institution is "adequately capitalized" if it has a total risk-based capital ratio of 8% or greater, a Tier 1 risk-based capital ratio of 6% or greater, a Tier 1 leverage ratio of 4% or greater, and a CET1 risk-based ratio of 4.5% or greater and the institution does not meet the definition of a "well-capitalized" institution. An institution is "under-capitalized" if it does not meet one or more of the "adequately-capitalized" tests. An institution is deemed to be "significantly under-capitalized" if it has a total risk-based capital ratio that is less than 6%, a Tier 1 risk-based capital ratio that is less than 4%, a Tier 1 leverage ratio that is less than 3%, or a CET1 risk-based ratio of less than 3%. An institution is deemed to be "critically under-capitalized" if it has a ratio of tangible equity, as defined in the regulations, to total assets that is equal to or less than 2%.

The prompt corrective action regulations provide for the imposition of a variety of requirements and limitations on institutions that fail to meet the above capital requirements. In particular, the FDIC may require any savings institution that is not "adequately capitalized" to take certain action to increase its capital ratios. If the savings institution's capital is significantly below the minimum required levels of capital or if it is unsuccessful in increasing its capital ratios, the institution's activities may be restricted.

*Deposit Insurance.* The Bank's deposits are insured to applicable limits by the FDIC. Under the Dodd-Frank Act, the maximum deposit insurance amount is \$250,000. The Dodd-Frank Act increased the minimum target Deposit Insurance Fund ratio from 1.15% of estimated insured deposits to 1.35% of estimated insured deposits. The FDIC must seek to achieve the 1.35% ratio by June 30, 2020. It is intended that insured institutions with assets of \$10 billion or more will fund the increase.

The FDIC has adopted a risk-based premium system that provides for quarterly assessments based on an insured institution's risk rating. The assessment base is the institution's average consolidated assets less average tangible equity. Prior to July 1, 2016, insured institutions were assigned to one of four risk categories based on their examination ratings and capital ratios, and annual assessment rates ranged from 2.5 to 45 basis points of an insured institution's assessment base.

Effective July 1, 2016, the FDIC amended its assessment regulations for banks with less than \$10 billion in assets to replace the previous risk categories with updated financial ratios that are designed to better predict the risk of failure of insured institutions. The amended rules became effective during the first quarter after the reserve ratio of the Deposit Insurance Fund reached 1.15% and will remain in effect until the reserve ratio reaches 2.0%.

The base deposit insurance rates for institutions with assets of less than \$10 billion now range from 1.5 to 30 basis points of an institution's assessment base. Under the amended rules, the FDIC uses an



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institution's weighted average CAMELS component ratings and the following financial measures to determine deposit insurance assessments: Tier 1 leverage ratio; ratio of net income before taxes to total assets; ratio of non-performing loans to gross assets; and ratio of other real estate owned to gross assets. In addition, assessments take into consideration an institution's brokered deposit ratio, one-year asset growth and a loan mix index, which measures the extent to which an institution's total assets include higher risk loans. Assessments are based on an insured institution's classification among four risk categories determined from their examination ratings and capital and other financial ratios. The institution is assigned to a category and the category determines its assessment rate, subject to certain specified risk adjustments.

Insured institutions deemed to pose less risk to the deposit insurance fund pay lower assessments, while greater risk institutions pay higher assessments. In February 2011, the FDIC published a final rule under the Dodd-Frank Act to reform the deposit insurance assessment system. Under such final rule, assessments are based on an institution's average consolidated total assets minus average tangible equity instead of deposits, which was the FDIC's prior practice. The rule revised the assessment rate schedule to establish assessments ranging from 2.5 to 45 basis points, based on an institution's risk classification and possible risk adjustments. The FDIC has authority to increase insurance assessments. Any significant increases would have an adverse effect on the operating expenses and results of operations of the Bank. Management cannot predict what assessment rates will be in the future.

*Dividends.* The KDFI limits the amount of dividends that can be paid by a state chartered commercial bank to its holding company. The limit is established by adding the current year's net income plus the prior two years net income. The Bank must reduce the amount of accumulated net income over the last two years plus the current year by the amount of dividends paid to the Corporation during the same period of time. At December 31, 2018, the Bank could pay an additional cash dividend of approximately \$8.0 million to the Corporation without the prior approval of the KDFI. Future earnings of the Bank appropriated to bad debt reserves and deducted for federal income tax purposes are not available for payment of dividends or other distributions to the Company without payment of taxes at the then current tax rate by the Bank on the amount of earnings removed from the reserves for such distributions.

*Transactions with Affiliates and Insiders.* Generally, transactions between commercial banks or its subsidiaries and its affiliates are required to be on terms as favorable to the commercial bank as transactions with non-affiliates. In addition, certain of these transactions, such as loans to an affiliate, are restricted to a percentage of the savings bank's capital. Affiliates of the Bank include the Company and any company that is under common control with the Bank. In addition, a commercial bank may not acquire the securities of most affiliates. The KDFI and FDIC have the discretion to treat subsidiaries of commercial banks as affiliates on a case-by-case basis.

Certain transactions with directors, officers or controlling persons are also subject to conflict of interest regulations enforced by the KDFI and FDIC. These conflict of interest regulations and other statutes also impose restrictions on loans to such persons and their related interests. Among other things, such loans must generally be made on terms that are substantially the same as for loans to unaffiliated individuals.

*Reserve Requirements.* Pursuant to regulations of the FRB, all FDIC-insured depository institutions must maintain average daily reserves at specified levels against their transaction accounts. The Bank met these reserve requirements at December 31, 2018.

*Federal Home Loan Bank System.* The Federal Home Loan Bank System consists of 12 district Federal Home Loan Banks subject to supervision and regulation by the Federal Housing Finance Board ("FHFB"). The Federal Home Loan Banks provide a central credit facility primarily for member institutions. As a member of the FHLB, the Bank is required to acquire and hold shares of capital

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stock in the FHLB in an amount at least equal to 1% of the aggregate unpaid principal of its home mortgage loans, home purchase contracts, and similar obligations at the beginning of each year, or 5% of its advances (borrowings) from the FHLB, whichever is greater. The Bank was in compliance with this requirement, with a \$4.4 million investment in FHLB stock at December 31, 2018.

*Bank Secrecy Act.* The Bank Secrecy Act ("BSA"), as amended by the USA Patriot Act of 2001 and its related regulations, requires insured depository institutions to have policies, procedures, and controls to detect, prevent, and report money laundering and terrorist financing. The statute and regulations also provide for information sharing, subject to conditions, between federal law enforcement agencies and financial institutions, as well as among financial institutions, for counter-terrorism purposes. Federal banking regulators are required, when reviewing bank holding company acquisition and bank merger applications, to take into account the effectiveness of the anti-money laundering activities of the applicants. The bank regulatory agencies have increased the regulatory scrutiny of BSA and anti-money laundering programs maintained by financial institutions. Significant penalties and fines, as well as other supervisory enforcement action, may be imposed on a financial institution for non-compliance with these requirements.

*Consumer Protection Laws.* In connection with our deposit-taking lending and other activities, the Bank is subject to a number of federal and state laws designed to protect consumers and promote lending and other financial services to various sectors of the economy and population. The Consumer Financial Protection Bureau issues regulations and standards under these federal consumer protection laws, which include, among others, the Home Mortgage Disclosure Act, the Real Estate Settlement Procedures Act, the Equal Credit Opportunity Act, the Truth in Lending Act, the Electronic Fund Transfer Act, the Truth in Savings Act, and the Fair Credit Reporting Act. The Bank is examined by the FDIC for compliance with these consumer protection rules.

In addition, customer privacy statutes and regulations limit the ability of the Bank to disclose nonpublic consumer information to non-affiliated third-parties. These laws require the Bank to provide notice to our customers regarding privacy policies and practices and to give our customers an option to prevent the Company from sharing their non-public personal information with non-affiliated third parties or with our affiliates.

*Community Reinvestment Act.* All insured depository institutions have a responsibility under the Community Reinvestment Act (the "CRA") and related federal regulations to help meet the credit needs of their communities, including low- and moderate-income neighborhoods. In connection with its examination of the Bank, the FDIC is required to assess our record of compliance with the CRA. Such assessment is reviewed by the FRB and/or the FDIC when the Company or the Bank makes application for approval of an expansionary proposal, such as a merger or other acquisition of another bank or the opening of a new branch office. The Bank received a "satisfactory" CRA rating in its most recent assessment by the FDIC.

**Available Information** The Company's filings with the Securities and Exchange Commission ("SEC"), including annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments thereto, are available on the Company's website as soon as reasonably practicable after the reports are filed with or furnished to the SEC. Copies can be obtained free of charge in the "Investor Relations" section of the Company's website at [www.bankwithheritage.com](http://www.bankwithheritage.com).

**Forward-Looking Statements**

This Annual Report on Form 10-K, including all documents incorporated herein by reference, contains forward-looking statements. Additional written or oral forward-looking statements may be made by the Company from time to time in filings with the Securities and Exchange Commission or otherwise. The words "believe," "expect," "seek," and "intend" and similar expressions identify

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forward-looking statements, which speak only as of the date the statement is made. Such forward-looking statements are within the meaning of that term in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements may include, but are not limited to, projections of income or loss, expenditures, acquisitions, plans for future operations, financing needs or plans relating to services of the Company, as well as assumptions relating to the foregoing. Forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified. Future events and actual results could differ materially from those set forth in, contemplated by or underlying the forward-looking statements. The Company does not undertake, and specifically disclaims, any obligation to publicly release the results of revisions, which may be made to forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

**Item 1A. RISK FACTORS**

*The Company could experience an increase in loan losses, which would reduce the Company's earnings. Our loan portfolio includes loans with a higher risk of loss which could lead to higher loan losses and non-accrual assets.*

We originate commercial real estate loans, construction and development loans, consumer loans, loans secured by farmland, multi-family properties and residential mortgage loans primarily within our market area. Commercial real estate, commercial, farmland, and construction and development loans tend to involve larger loan balances to a single borrower or groups of related borrowers and are most susceptible to a risk of loss during a downturn in the business cycle. These loans also have historically had greater credit risk than other loans for the following reasons:

**Non-residential Real Estate Loans.** Repayment is dependent on income generated in amounts sufficient to cover operating expenses and debt service. These loans also involve greater risk because they may not be fully amortizing over a loan period, but may have a balloon payment due at maturity. A borrower's ability to make a balloon payment typically will depend on being able to either refinance the loan or timely sell the underlying property.

**Commercial Loans.** Repayment is generally dependent upon the successful operation of the borrower's business. In addition, the collateral securing the loans may depreciate over time, be difficult to appraise, be illiquid, or fluctuate in value based on the success of the business.

**Construction and Land Loans.** The risk of loss is largely dependent on our initial estimate of whether the property's value at completion equals or exceeds the cost of property construction and the availability of take-out financing. During the construction phase, a number of factors can result in delays or cost overruns. If our estimate is inaccurate or if actual construction cost exceed estimates, the value of the property securing our loan may be insufficient to ensure full repayment when completed through a permanent loan, sale of property, or by seizure of collateral.

**Farmland.** Repayment is generally dependent upon the successful operation of the borrower's farming operation. The typical risk to a farming operation include adverse weather conditions, changes to the operation's farm insurance subsidies, changes in commodity prices, sudden increases in the cost of farm production, sudden changes in the level of worldwide agricultural production and sudden changes in the value of the U.S. Dollar. In addition, the value of collateral securing the loans often fluctuates with the long-term trends of commodity prices, and may rise and fall significantly and may be illiquid in times of declining values. In the last two years, commodity prices have remained exceptionally low, making it difficult for farmers to make a profit despite achieving near record yields.

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**Multi-family Real Estate Loans.** Repayment is dependent on rental income generated in amounts sufficient to cover operating expenses and debt service. These loans also involve greater risk because they may not be fully amortizing over a loan period, but may have a balloon payment due at maturity. A borrower's ability to make a balloon payment typically will depend on being able to either refinance the loan or timely sell the underlying property. The success of these relationship is dependent on the operator's ability to maintain high levels of occupancy, adequately maintain the property and to collect rents when due.

*Rapidly changing interest rate environments could reduce our net interest margin, net interest income, fee income and net income.*

Interest and fees on loans and securities, net of interest paid on deposits and borrowings, are a large part of our net income. Interest rates are the key drivers of the Company's net interest margin and subject to many factors beyond the control of management. As interest rates change, net interest income is affected. Rapid increases in interest rates in the future could result in interest expense increasing faster than interest income because of mismatches in the maturities of the Company's assets and liabilities. Furthermore, substantially higher rates generally reduce loan demand and may result in slower loan growth. Decreases or increases in interest rates could have a negative effect on the spreads between interest rates earned on assets and the rates of interest paid on liabilities, and therefore decrease net interest income. See "Quantitative and Qualitative Disclosures about Market Risk".

*Liquidity needs could adversely affect the Company's results of operations and financial condition.*

The Company relies on dividends from the Bank as a primary source of funds. The Bank's primary source of funds is customer deposits and cash flows from investment instruments and loan repayments. While scheduled loan repayments are a relatively stable source, they are subject to the ability of the borrowers to repay their loans. The ability of the borrowers to repay their loans can be adversely affected by a number of factors including:

Changes in the economic conditions.

Adverse trends or events affecting the business environment.

Natural disasters

Various other factors.

Cash flows from the investment portfolio may be affected by changes in interest rates, resulting in excessive levels of cash flow during periods of declining interest rates and lower levels of cash flow during periods of rising interest rates. Deposit levels may be affected by a number of factors, including both the national market and local competitive interest rate environment, local and national economic conditions, natural disasters and other various events. Accordingly, the Company may be required from time to time to rely on secondary sources of liquidity to meet withdrawal demands or otherwise fund operations. Such sources include the FHLB advances, brokered deposits and federal funds lines of credit from correspondent banks. The Company may also pledge investments as collateral to borrow money from third parties. In certain cases, the Company may sell investment instruments for sizable losses to meet liquidity needs, hurting net income. While the Company believes that these sources are currently adequate, there can be no assurance they will be sufficient to meet future liquidity needs.

*We could face risk from our inability to diversify into high growth markets.*

The Company's management considers growth in the nearby Nashville, Tennessee, market critical for our future success. With the potential for our largest current market to experience an economic downturn, market diversification is vital to the future prosperity of our Company.

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***The financial industry is very competitive.***

We face competition in attracting and retaining deposits, making loans, and providing other financial services throughout our market area. Our competitors include other community banks, regional and super-regional banking institutions, national banking institutions, and a wide range of other financial institutions such as credit unions, government-sponsored enterprises, mutual fund companies, insurance companies, brokerage companies, and other non-bank businesses. Many of these competitors have substantially greater resources as compared to the Company.

***Inability to hire or retain certain key professionals, management and staff could adversely affect our revenues and net income.***

We rely on key personnel to manage and operate our business, including major revenue generating functions such as our loan and deposit portfolios. The loss of key staff may adversely affect our ability to maintain and manage these portfolios effectively, which could negatively affect our revenues. In addition, loss of key personnel could result in increased recruiting, hiring, and training expenses, resulting in lower net income.

***Management's analysis of the necessary funding for the allowance for loan loss account may be incorrect or may suddenly change, resulting in lower earnings.***

The funding of the allowance for loan loss account is the most significant estimate made by management in its financial reporting to shareholders and regulators. If negative changes to the performance of the Company's loan portfolio were to occur, management may find it necessary or be required to fund the allowance for loan loss account through additional charges to the Company's provision for loan loss expense. These changes may occur suddenly and be dramatic in nature. These changes are likely to affect the Company's financial performance, capital levels and stock price.

***The Company is subject to extensive regulation that could limit or restrict its activities.***

The Company operates in a highly regulated industry and is subject to examination, supervision, and comprehensive regulation by various federal agencies, including the KDFI and the FDIC. The Company's regulatory compliance is costly and certain types of activities, including the payment of dividends, mergers and acquisitions, investments, loans and interest rates charged and interest rates paid on deposits and locations of offices are subject to regulatory approval and may be limited by regulation. The Company is also subject to regulatory capital rules established by its regulators, which require it and the Bank to maintain adequate capital to support its and the Bank's growth.

The laws and regulations applicable to the banking industry could change at any time, and the Company cannot predict the effects of these changes on its business and profitability. The Sarbanes-Oxley Act of 2002, and the related rules and regulations promulgated by the Securities and Exchange Commission and NASDAQ National Market that are now and will be applicable to the Company, have increased the scope, complexity, and cost of corporate governance, reporting and disclosure practices. As a result, the Company has experienced, and may continue to experience, greater compliance cost.

On July 21, 2010, the Dodd-Frank Act was signed into law. The Dodd-Frank Act is having a broad impact on the financial services industry, including significant regulatory and compliance changes. Many of the requirements called for in the Dodd-Frank Act are being implemented over time and most are subject to implementing regulations over the course of several years. Given the uncertainty associated with the manner in which the provisions of the Dodd-Frank Act are implemented by the various regulatory agencies and through regulations, the full extent of the impact such requirements will have on our operations is unclear. The regulatory changes resulting from the Dodd-Frank Act may impact the profitability of our business activities, require changes to certain of our business practices, impose

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upon us more stringent capital, liquidity and leverage requirements, increase our regulatory compliance burden or otherwise adversely affect our business.

Further, we may be required to invest significant management attention and resources to evaluate and make any changes necessary to comply with new statutory and regulatory requirements under the Dodd-Frank Act. Failure to comply with the new requirements may negatively affect our results of operations and financial condition. While we cannot predict what effect any presently contemplated or future changes in the laws or regulations or their interpretations would have on us, these changes could be materially adverse to our investors.

***Even though the Company's common stock is currently traded on The NASDAQ National Market, the trading volume in the Company's common stock has been low and the sale of substantial amounts of its common stock in the public market could depress the price of the Company's common stock.***

The trading volume of the Company's common stock on The NASDAQ National Market is relatively low when compared with larger companies listed on The NASDAQ National Market or other stock exchanges. Thinly traded stocks, such as the Company's, can be more volatile than stocks trading in an active public market. Because of this, the Company stockholders may not be able to sell their shares at the volumes, prices, or times they desire.

The Company cannot predict the effect, if any, that future sales of its common stock in the market, or availability of shares of its common stock for sale in the market, will have on the market prices of the Company's common stock. The Company, therefore, can give no assurance that sales of substantial amounts of its common stock in the market, or the potential for large amounts of sale in the market, would not cause the price of its common stock to decline or impair the Company's ability to raise capital through sales of its common stock.

The market price of the Company's common stock may fluctuate in the future, and these fluctuations may be unrelated to its performance. General market prices declines or overall market volatility in the future could adversely affect the price of the Company's common stock, and the current market price may not be indicative of future market prices.

***The Company conducts virtually all of its business activities in a geographically concentrated area of Middle and West Tennessee and Western Kentucky.***

The Company operates eighteen offices located in Middle Tennessee and Western Kentucky. The Company maintains significant business relationships in the markets in which it operates as well as the communities adjoining our offices. Therefore, the Company's success is directly tied to the economic viability of our markets which may not be representative of the country as a whole. While the Company believes that its credit quality has been strong given the current environment, continued economic stress in the market may result in an increase in non-performing loans and charge offs. Given the limited geographic footprint of our Company, the economic conditions in our marketplace may not be reflective of the entire nation.

***If the interest rates rapidly increase the yield curve continues to flatten, our net interest margin will decline and net income may be negatively impacted.***

Because of significant competitive pressures in our market and the negative impact of these pressures on our deposit and loan pricing, coupled with the fact that a significant portion of our loan portfolio has variable rate pricing that moves in concert with changes to the One Year Constant Maturity Treasury, Prime Rate or the London Interbank Offered Rate (LIBOR) the interest margin may be negatively impacted. Management anticipates that the current trend of a flatter yield curve, where short-term rates increase more rapidly than long term rates, will continue. A flatter yield curve will put pressure on the Company's net interest margin, possible resulting in lower levels of net income.

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***Holders of HopFed Capital Trust I have rights that are senior to those of the Company's common shareholders.***

The Company has issued trust preferred securities from a special purpose trust and accompanying junior subordinated debentures. At December 31, 2018, the Company had outstanding trust preferred securities of \$10.3 million. Payments of the principal and interest on the trust preferred securities are conditionally guaranteed by the Company. Further, the accompanying junior subordinated debentures the Company issued to the trusts are senior to our common stock. As a result, we must make payments on the junior subordinated debentures before any dividends can be paid on common stock and, in the event of the Company's dissolution or liquidation, the holders of the junior subordinated debentures must be satisfied before any distributions can be made to the Company's common shareholders. The Company has the right to defer distributions on its junior subordinated debentures (and the related trust preferred securities) for up to five years, during which time no dividends may be paid on its common stock. If our consolidated financial condition deteriorates or if we do not receive required regulatory approvals, we may be required to defer distributions on our junior subordinated debentures.

***New capital requirements for bank holding companies and depository institutions may negatively impact our results of operations.***

In July 2013, the Board of Governors of the Federal Reserve Bank approved the final rule for BASEL III capital requirements for all commercial banks chartered in the U.S. Under the final rule, minimum requirements have increased for both the quantity and quality of capital held by banking organizations. Consistent with the international Basel framework, the rule includes a new minimum ratio of CET1 capital to risk-weighted assets of 4.5% and a CET1 capital conservation buffer of 2.5% of risk-weighted assets that will apply to all supervised financial institutions. The rule also raises the minimum ratio of tier 1 capital to risk-weighted assets from 4.0% percent to 6.0% percent and includes a minimum leverage ratio of 4.0% for all banking organizations. The transition period for implementation of Basel III was January 1, 2015, through December 31, 2018. At December 31, 2016, the Company met all capital requirements set forth by Basel III as required at the final implementation date of December 31, 2018.

The application of more stringent capital requirements for the Corporation and the Bank may, among other things, result in lower returns on invested capital, require the raising of additional capital, and result in regulatory actions if we were to be unable to comply with such requirements. Furthermore, the imposition of liquidity requirements in connection with the implementation of Basel III could result in our having to lengthen the term and increase the cost of our funding, restructure our business models and/or increase our holdings of liquid assets. Implementation of changes to asset risk weightings for risk based capital calculations, items included or deducted in calculating regulatory capital and/or additional capital conservation buffers could result in management modifying its business strategy and could limit our ability to make distributions, including paying dividends or buying back shares.

***A failure in our operational systems or infrastructure, or those of third-parties, could impair our liquidity, disrupt our businesses, result in the unauthorized disclosure of confidential information, damage our reputation and cause financial losses.***

Our businesses are dependent on their ability to process and monitor, on a daily basis, a large number of transactions, many of which are highly complex, across numerous and diverse markets. These transactions, as well as the information technology services we provide to clients, often must adhere to client-specific guidelines, as well as legal and regulatory standards. Due to the breadth of our client base and our geographical reach, developing and maintaining our operational systems and infrastructure is challenging, particularly as a result of rapidly evolving legal and regulatory requirements and technological shifts.

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Our financial, accounting, data processing or other operating systems and facilities may fail to operate properly or become disabled as a result of events that are wholly or partially beyond our control, such as a spike in transaction volume, cyber-attack or other unforeseen catastrophic events, which may adversely affect our ability to process these transactions or provide services.

In addition, our operations rely on the secure processing, storage and transmission of confidential and other information on our computer systems and networks. Although we take protective measures to maintain the confidentiality, integrity and availability of our and our clients' information across all geographic and product lines, and endeavor to modify these protective measures as circumstances warrant, the nature of the threats continues to evolve. As a result, our computer systems, software and networks may be vulnerable to unauthorized access, loss or destruction of data (including confidential client information), account takeovers, unavailability of service, computer viruses or other malicious code, cyber-attacks and other events that could have an adverse security impact. Despite the defensive measures we take to manage our internal technological and operational infrastructure, these threats may originate externally from third-parties such as foreign governments, organized crime and other hackers, and outsource or infrastructure-support providers and application developers, or may originate internally from within our organization. Given the increasingly high volume of our transactions, certain errors may be repeated or compounded before they can be discovered and rectified.

We also face the risk of operational disruption, failure, termination or capacity constraints of any of the third-parties that facilitate our business activities, including exchanges, clearing agents, clearing houses or other financial intermediaries. Such parties could also be the source of an attack on, or breach of, our operational systems, data or infrastructure. In addition, as interconnectivity with our clients grows, we increasingly face the risk of operational failure with respect to our clients' systems.

Although we have not experienced a cyber-incident, if one or more of these events occurs, it could potentially jeopardize the confidential, proprietary and other information processed and stored in, and transmitted through, our computer systems and networks, or otherwise cause interruptions or malfunctions in our, as well as our clients' or other third-party operations, which could result in damage to our reputation, substantial costs, regulatory penalties and/or client dissatisfaction or loss. Potential costs of a cyber-incident may include, but would not be limited to, remediation costs, increased protection costs, lost revenue from the unauthorized use of proprietary information or the loss of current and/or future customers, and litigation.

We maintain an insurance policy which we believe provides sufficient coverage at a manageable expense for an institution of our size and scope with similar technological systems. However, we cannot assure that this policy would be sufficient to cover all financial losses, damages, penalties, including lost revenues, should we experience any one or more of our or a third-party's systems failing or experiencing attack.

***Since we engage in lending secured by real estate and may be forced to foreclose on the collateral property and own the underlying real estate, we may be subject to the increased costs associated with the ownership of real property, which could result in reduced net income.***

Since we originate loans secured by real estate, we may have to foreclose on the collateral property to protect our investment and may, thereafter, own and operate such property, in which case we are exposed to the risks inherent in the ownership of real estate.

The amount that we, as mortgagee, may realize after a default is dependent upon factors outside of our control, including, but not limited to general and local economic conditions, changing values of property, interest rates, unpaid real estate taxes, environmental issues, operating expenses involved with managing other real estate owned, and the supply and demand for units held for sale as well as other unforeseen cost and delays.



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Certain expenditures associated with the ownership of real estate, principally real estate taxes and maintenance costs, may adversely affect the income from the real estate. Therefore, the cost of operating real property may exceed the rental income earned from such property, and we may have to advance funds in order to protect our investment or we may be required to dispose of the real property at a loss.

***We face risks arising from acquisitions of either other financial institutions or branch locations.***

From time to time, we may acquire another financial institution. We face a number of risks arising from acquisition transactions, including difficulties in integrating the acquired business into our operations, difficulties in assimilating and retaining employees and intermediaries, difficulties in retaining the existing customers of the acquired entity, unforeseen liabilities that arise in connection with the acquired business and unfavorable market conditions that could negatively impact our growth expectations for the acquired business. These risks may prevent us from realizing the expected benefits from acquisitions and could result in the impairment of goodwill and/or intangible assets recognized at the time of acquisition.

***We face risk from further reductions in the size and makeup of the U.S. Army staffing at Fort Campbell, Kentucky.***

The U.S. Army has provided a revised assessment of future staffing cuts that indicates that Fort Campbell may lose a small portion of its active duty military personnel by 2020. The Fort Campbell military installation is the largest employer in the region and a significant reduction in the staffing of the base would have a major negative affect on the economies of Montgomery County, Tennessee and Christian County, Kentucky. The Company has a significant portion of its loan portfolio invested in the area near Fort Campbell.

***Stockholder activists could cause a disruption to our business.***

Certain institutional investors have indicated that they disagree with the strategic direction of our Company. Our business, operating results or financial condition could be adversely affected by these activists. Any such disruption may result in, among other things:

Increased operating costs, including increased legal expenses, insurance, administrative expenses and associated costs;

Affect the market price and volatility of our securities;

Uncertainties as to our future direction could result in the loss of potential business opportunities, make it more difficult to attract, retain, or motivate qualified personnel, and strain relationships with investors and customers; and

Activist investors may reduce or delay our ability to effectively execute our current business strategies and the implementation of new strategies.

***Our cash availability at the holding company level may limit the Company's ability to continue to pay a cash dividend to common shareholders and/or repurchase treasury stock.***

At December 31, 2018, the Corporation has cash on hand available to pay common dividends and repurchase treasury stock. The Bank may not receive regulatory approval to pay the Corporation a dividend, which would limit the Company's ability to repurchase treasury stock and to continue to pay a cash dividend to common shareholders.

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***Extreme weather could disrupt our operations and may negatively affect our profitability.***

Some of our operations are located in areas that are susceptible to earthquakes, tornados and other forms of extreme weather. Such weather events could disrupt our operations and have a material adverse effect on our overall operating results of operations. Further, an extreme weather event in any of our market areas could make it more difficult for borrowers to make timely loan payments may reduce the value of collateral used to secured loans.

***Changes in the policies of monetary authorities and other government action could adversely affect our profitability.***

Our consolidated results of operations are affected by credit policies of monetary authorities, particularly the Federal Reserve. The instruments of monetary policy employed by the Federal Reserve include open market operations in U.S. government securities, changes in the discount rate or federal funds rate on bank borrowing and changes in reserve requirements against bank deposits. In view of changing conditions in the national economy and in the money markets, we are unable to predict future changes in interest rates, deposit levels, loan demand or our business and earnings. Market interest rates and the economy market be negatively influenced by terrorist attacks and political actions.

***Technological changes in the banking and financial services industries may negatively impact our results of operations and our ability to compete.***

The banking and financial services industries are undergoing rapid changes with frequent introductions of new technology-driven products and services. The use of technology enhances the level of service to customers and may improve the efficiencies and reduce expenses. To remain competitive, financial institutions must continuously evaluate changing consumer preferences with engage those technologies in a cost effective manner. Our future success will depend, in part, on our ability to use the correct technology that will allow the Company to meet the current and future needs of our customer base. Failure to do so may leave the Company in a competitive disadvantage and result in a loss of customer business. The Company's competition may have greater resources to invest in technology, which may place the Company at a competitive disadvantage.

***The Company's announced merger with First Financial Corporation may not occur.***

The Company has announced the execution of a definitive merger agreement with First Financial Corporation. After the announcement of the merger agreement, the Company's stock price increased significantly. The Company's merger into First Financial requires approval from by various regulatory agencies and by the shareholders of the Company. There is no guarantee that the merger will occur. The Company's future business prospects may be damaged and the Company's market capitalization may decline if the announced merger is not consummated.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

There are no unresolved staff comments from the Securities and Exchange Commission.

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The following table sets forth information regarding the Bank's offices at December 31, 2018:

	<b>Year Opened</b>	<b>Owned or Leased</b>	<b>Book Value(1)</b>	<b>Approximate Square Footage of Office</b>
(In thousands)				
<b>Main Office:</b>				
4155 Lafayette Road Hopkinsville, Kentucky	2006	Owned	\$ 3,802	24,072
<b>Branch Offices:</b>				
2700 Fort Campbell Boulevard Hopkinsville, Kentucky	1995	Owned	\$ 1,008	17,625
Downtown Branch Office 605 South Virginia Street Hopkinsville, Kentucky	1997	Owned	\$ 136	756
Murray South Office 210 N. 12 <sup>th</sup> Street Murray, Kentucky	2003	Owned	\$ 1,392	5,600
Murray North Office 1601 North 12 <sup>th</sup> Street Murray, Kentucky	2007	Owned	\$ 987	3,400
Cadiz Branch Office 352 Main Street Cadiz, Kentucky	1998	Owned	\$ 296	2,200
Elkton Branch Office 536 W. Main Street Elkton, Kentucky	1976	Owned	\$ 68	3,400
Benton Branch Office 105 W. 5 <sup>th</sup> Street Benton, Kentucky	2003	Owned	\$ 261	4,800
Benton Branch Office 660 Main Street Benton, Kentucky	2015	Owned	\$ 3,232	7,413
Calvert City Office 35 Oak Plaza Drive Calvert City, Kentucky	2003	Owned	\$ 914	3,400
Carr Plaza Office 607 N. Highland Drive Fulton, Kentucky	2002	Owned	\$ 164	800
Lake Street Office 306 Lake Street Fulton, Kentucky	2002	Leased	\$ 810	400
Nashville Loan Production Office 3200 West End Avenue, Suite 500 Nashville, Tennessee	2014	Leased	\$ 2	3,200
Clarksville Main Street 322 Main Street Clarksville, Tennessee	2007	Owned	\$ 1,242	10,000
Brentwood Loan Production Office 214 Overlook Circle, Suite 105 Brentwood, Tennessee	2016	Leased	\$ 51	1,800
Murfreesboro Loan Production Office 2670 Memorial Drive, Suite D Murfreesboro, Tennessee	2018	Leased	\$ 24	800
Trenton Road Branch 3845 Trenton Road Clarksville, Tennessee	2006	Owned	\$ 2,069	3,362



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	<b>Year Opened</b>	<b>Owned or Leased</b>	<b>Book Value(1)</b>	<b>Approximate Square Footage of Office</b>
	<b>(In thousands)</b>			
Madison Street Office 2185 Madison Street Clarksville, Tennessee	2007	Owned	\$ 1,223	3,950
Houston County Office 1102 West Main Street Erin, Tennessee	2006	Owned	\$ 450	2,390
Ashland City Office 108 Cumberland Street Ashland City, Tennessee	2006	Owned	\$ 1,333	7,058
Pleasant View Office 2556 Highway 49 East Pleasant View, Tennessee	2006	Owned	\$ 746	2,433
Kingston Springs Office 104 West Kingston Springs Road Kingston Springs, Tennessee	2006	Owned	\$ 1,549	9,780
<b>Total</b>			<b>\$ 21,759</b>	

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(1) Represents the book value of land, building, furniture, fixtures and equipment owned by the Bank.

**ITEM 3. LEGAL PROCEEDINGS**

None

**ITEM 4. MINE SAFETY DISCLOSURE**

None

Table of Contents**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUERS PURCHASES OF EQUITY SECURITIES.**

A cash dividend of \$0.04 per share was declared in the first quarter of 2017. A cash dividend of \$0.05 per share was declared in the second, third, fourth quarter of 2017 and the first quarter of 2018. A cash dividend of \$0.07 per share was declared in the second, third, and fourth quarter of 2018. The high and low price range of the Company's common stock for 2018 and 2017 is set forth below:

	Year Ended		Year Ended	
	December 31, 2018		December 31, 2017	
	High	Low	High	Low
First Quarter	\$ 15.72	\$ 14.01	\$ 15.45	\$ 13.18
Second Quarter	\$ 16.69	\$ 14.41	\$ 15.23	\$ 14.20
Third Quarter	\$ 18.10	\$ 15.64	\$ 14.74	\$ 13.51
Fourth Quarter	\$ 18.10	\$ 13.03	\$ 14.74	\$ 13.63

At February 28, 2019, the Company estimates that it has approximately 900 shareholders, with approximately 700 reported in the name of the shareholder and the remainder recorded in street name.

At December 31, 2018, the Company has 1,341,980 shares of common treasury stock and has an active repurchase plan in which we may purchase up to 296,380 shares of our common stock on the open market or in negotiated transactions. The Company did not purchase any shares during the three month period ended December 31, 2018.

The Federal Reserve Bank has issued a policy statement regarding the payment of dividends and the repurchase of common stock by commercial bank holding companies. In general, dividends should be paid out of current earnings and only if the prospective rate of earnings retention by the holding company appears consistent with the organization's capital requirements, asset quality and overall financial condition. These regulatory policies may affect the ability of the Company to pay dividends, repurchase shares of common stock or otherwise engage in capital distributions.

**Stock Performance Comparison**

The following graph, which was prepared by SNL Financial LC ("SNL"), shows the cumulative total return of the Common Stock of the Company since December 31, 2013 compared with the (1) NASDAQ Composite Index, comprised of all U.S. Companies quoted on NASDAQ, (2) the SNL Midwest Thrift Index, comprised of publically traded thrifts and thrift holding companies operating in the Midwestern United States, and (3) the SNL Midwest Bank Index, comprised of publically traded commercial banks and bank holding companies operating in the Midwestern United States. Cumulative total return on the Common Stock or the index equals the total increase in the value since December 31, 2012 assuming reinvestment of all dividends paid into the Common Stock or the index,

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respectively. The graph was prepared assuming that \$100 was invested on December 31, 2013 in the Common Stock, the securities included in the indices.

*HopFed Bancorp, Inc.*

Index	Period Ending					
	12/31/13	12/31/14	12/31/15	12/31/16	12/31/17	12/31/18
HopFed Bancorp, Inc.	100.00	113.19	108.19	123.00	130.09	124.47
NASDAQ Composite Index	100.00	114.75	122.74	133.62	173.22	168.30
SNL Midwest Bank Index	100.00	108.71	110.36	147.46	158.46	135.31

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Table of Contents**ITEM 6. SELECTED FINANCIAL DATA****SELECTED FINANCIAL INFORMATION AND OTHER DATA**

The following summary of selected financial information and other data does not purport to be complete and is qualified in its entirety by reference to the detailed information and Consolidated Financial Statements and accompanying Notes appearing elsewhere in this Report.

**Financial Condition and Other Data**

	At December 31,				
	2018	2017	2016	2015	2014
	(Dollars in Thousands)				
Total amount of:					
Assets	\$ 931,399	\$ 917,510	\$ 891,486	\$ 903,154	\$ 935,785
Loans receivable, net	658,782	637,102	604,286	556,349	539,264
Cash and due from banks	52,050	45,076	25,749	46,926	34,389
Federal Home Loan Bank stock	4,428	4,428	4,428	4,428	4,428
Securities available for sale	170,804	184,791	209,480	237,177	303,628
Deposits	739,837	754,009	732,882	739,406	731,308
Repurchase agreements	53,011	38,353	47,655	45,770	57,358
FHLB advances	33,000	23,000	11,000	15,000	34,000
Subordinated debentures	10,310	10,310	10,310	10,310	10,310
Total stockholders' equity	90,786	87,412	86,428	87,630	98,402
Number of active:					
Real estate loans Outstanding	3,698	3,941	4,359	4,089	4,527
Deposit accounts	33,595	34,663	38,584	44,174	44,183
Offices open	18	18	18	18	18

**Operating Data**

	Year Ended December 31,				
	2018	2017	2016	2015	2014
	(Dollars in Thousands)				
Interest and dividend income	\$ 36,731	\$ 33,755	\$ 31,727	\$ 33,122	\$ 34,680
Interest expense	8,174	5,963	5,299	6,550	8,879
Net interest income before provision for loan losses	28,557	27,792	26,428	26,572	25,801
Provision for loan losses	288	477	1,241	1,051	(2,273)
Net interest income	28,269	27,315	25,187	25,521	28,074
Non-interest income	7,817	8,030	7,935	7,602	7,840
Non-interest expense	29,350	29,896	29,856	30,445	33,916
Income before income taxes	6,736	5,449	3,266	2,678	1,998
Provision for income taxes	1,067	2,148	362	274	(201)
Net income	\$ 5,669	\$ 3,301	\$ 2,904	\$ 2,404	\$ 2,199



Table of Contents**Selected Quarterly Information (Unaudited)**

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
(Dollars in Thousands)				
<b>Year Ended December 31, 2018:</b>				
Interest and dividend income	\$ 8,798	\$ 9,115	\$ 9,344	\$ 9,474
Net interest income after provision for losses on loans	7,118	7,218	7,039	6,894
Non-interest income	1,744	2,364	1,893	1,816
Non-interest expense	7,540	7,574	7,512	6,724
Net income	1,126	1,685	1,240	1,618
<b>Year Ended December 31, 2017:</b>				
Interest and dividend income	\$ 8,160	\$ 8,419	\$ 8,635	\$ 8,541
Net interest income after provision for losses on loans	6,463	6,906	7,027	6,919
Non-interest income	2,296	1,836	2,030	1,868
Non-interest expense	7,689	7,233	7,168	7,806
Net income (loss)	935	1,141	1,403	(178)

**Key Operating Ratios**

	At or for the Year Ended December 31,		
	2018	2017	2016
<b>Performance Ratios</b>			
Return on average assets (net income available to common shareholders divided by average total assets)	0.62%	0.36%	0.33%
Return on average equity (net income available to common shareholders divided by average total equity)	6.52%	3.78%	3.26%
Interest rate spread (combined weighted average interest rate earned less combined weighted average interest rate cost)	3.19%	3.23%	3.21%
Net interest margin	3.41%	3.38%	3.35%
Ratio of average interest-earning assets to average interest-bearing liabilities on a tax equivalent basis	123.10%	121.86%	121.98%
Ratio of non-interest expense to average total assets on a tax equivalent basis	3.23%	3.30%	3.45%
Ratio of net interest income after provision for loan losses to non-interest expense on a tax equivalent basis	97.28%	93.23%	85.11%
Tax equivalent efficiency ratio (non-interest expense divided by sum of net interest income plus non-interest income)	80.07%	82.18%	86.72%
<b>Asset Quality Ratios</b>			
Non-performing assets to total assets at end of period	0.54%	0.52%	1.29%
Non-accrual loans to total loans at end of period	0.22%	0.20%	1.49%
Allowance for loan losses to total loans at end of period	0.68%	0.75%	1.00%
Allowance for loan losses to non-performing loans at end of period	317.25%	351.49%	67.36%
Provision for loan losses to total loans receivable, net	0.04%	0.07%	0.20%
Net charge-offs to average loans outstanding	0.09%	0.28%	0.15%
<b>Capital Ratios</b>			
Total equity to total assets at end of period	9.56%	9.53%	9.69%
Average total equity to average assets	9.75%	9.64%	10.11%

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	<b>December 31, 2018</b>	
	<b>(Dollars in Thousands)</b>	
	<b>Corporation</b>	<b>Bank</b>
Tier 1 Leverage capital to adjusted total assets	\$ 100,520	\$ 99,478
Less: Tier 1 Leverage capital requirement	36,417	36,361
<b>Excess</b>	<b>64,103</b>	<b>63,117</b>
Tier 1 Risk Based capital to risk weighted assets	\$ 100,520	\$ 99,478
Less: Tier 1 Risk Based capital requirement	39,037	38,953
<b>Excess</b>	<b>61,483</b>	<b>60,525</b>
Total risk-based capital to risk weighted assets	\$ 105,055	\$ 104,015
Less: Risk-based capital requirement	52,049	51,937
<b>Excess</b>	<b>53,006</b>	<b>52,078</b>
Common equity tier 1 capital to risk weighted assets	\$ 100,520	\$ 99,478
Less: Common equity tier 1 capital requirement	29,277	29,215
<b>Excess</b>	<b>71,243</b>	<b>70,263</b>

**Aggregate Contractual Obligations**

<b>December 31, 2018 (In Thousands)</b>	<b>Maturity by Period</b>				<b>Total</b>
	<b>Less than 1 year</b>	<b>Greater than 1 year to 3 years</b>	<b>Greater than 3 years to 5 years</b>	<b>Greater than 5 years</b>	
Deposits	\$ 589,308	118,310	32,219		739,837
FHLB borrowings	12,000	15,000	6,000		33,000
Repurchase agreements	53,011				53,011
Subordinated debentures				10,310	10,310
Lease commitments	308	484	195		987
Purchase obligations	2,183	403	24		2,610
<b>Total</b>	<b>\$ 656,810</b>	<b>134,197</b>	<b>38,438</b>	<b>10,310</b>	<b>839,755</b>

Deposits represent non-interest bearing, money market, savings, interest bearing checking accounts and certificates of deposits held by the Company. Amounts that have an indeterminate maturity period are included in the less than one-year category. FHLB borrowings represent the amounts that are due to Federal Home Loan Bank of Cincinnati. All amounts have fixed maturity dates. Repurchase agreements represent overnight retail repurchase accounts. Retail repurchase agreements mature daily and pay interest based on their account balances.

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Subordinated debentures represent the amount borrowed in a private pool trust preferred issuance group on September 25, 2003. The Company's rate of interest on the debentures is equal to the three-month LIBOR plus 3.10%. On January 8, 2019, the three-month LIBOR rate was 2.79% and the debenture repriced at 5.89%. The debentures re-price and pay interest quarterly and have a thirty-year final maturity. The Company may call the debentures on a quarterly basis. The interest rate of the debentures reset on the 8<sup>th</sup> day (or the next business day) of January, April, August and November of each year.

Lease commitments represent the total minimum lease payments under non-cancelable operating leases. The most significant operating contract is for the Company's data processing services, which

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re-prices monthly based on the number of accounts and other operational factors. The Company's operating contract with the current data processing provider is currently set to expire September 30, 2019.

**Off Balance Sheet Arrangements**

December 31, 2018 (In Thousands)	Maturity by Period				Total
	Less than 1 year	Greater than 1 year to 3 years	Greater than 3 year to 5 years	Greater than 5 years	
Commercial lines of credit	\$ 34,995	10,606	67	244	45,912
Commitments to extend credit	15,995	22,441	16,206	7,625	62,267
Standby letters of credit	1,012	25	9		1,046
Home equity lines of credit	1,564	4,515	9,233	16,421	31,733
<b>Total</b>	<b>\$ 57,807</b>	<b>37,586</b>	<b>25,514</b>	<b>24,291</b>	<b>145,198</b>

Standby letters of credit represent commitments by the Company to repay a third-party beneficiary when a customer fails to repay a loan or debt instrument. The terms and risk of loss involved in issuing standby letters of credit are similar to those involved in issuing loan commitments and extending credit. In addition to credit risk, the Company also has liquidity risk associated with stand-by letters of credit because funding for these obligations could be required immediately. Unused lines of credit represent commercial and residential equity lines of credit with maturities ranging from one to fifteen years.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**General**

This discussion relates to the consolidated financial condition and results of operations of the Company, which consist of the consolidation of Heritage Bank USA, Inc. (the "Bank") and HopFed Bancorp, Inc. (the "Corporation"), JBMM LLC, Heritage USA Title LLC, and Fort Webb LLC (collectively referred to as the "Company"). The Corporation became the holding company for the Bank in February 1998. The principal business of the Bank consists of accepting deposits from the public and investing these funds primarily in loans, investment securities and mortgage-backed securities. The Bank's loan portfolio consists primarily of loans secured by real estate and commercial business assets located in its market area.

**Announced Agreement to Merge**

On January 7, 2019, First Financial Corporation (NASDAQ: THFF) ("First Financial") and the Company jointly announced the execution of a definitive merger agreement under which the Company will merge into First Financial in a cash and stock transaction. Upon completion of the merger, the Bank will merge into First Financial Bank, N.A. ("First Financial Bank"), a wholly owned subsidiary of First Financial.

Under the terms of the merger agreement, which was unanimously approved by the Boards of Directors of both the Company and First Financial, stockholders of the Company may elect to receive either (or a combination of) 0.444 shares of First Financial common stock or \$21.00 in cash for each share of the Company's common stock owned, subject to proration provisions specified in the merger agreement that provide for a targeted aggregate split of 50% of HFBC shares being exchanged for First Financial common stock and 50% for cash. Based upon the \$43.01 closing price of First Financial common stock on January 4, 2019 and assuming that a shareholder received 50% stock and 50% cash, the purchase price would be worth \$20.05 per share, with an aggregate transaction value of approximately \$128.3 million. For more information, please review the Company's 8-K/A filing with the Securities and Exchange Commission dated January 9, 2019.

The proposed merger is subject to regulatory approval and an affirmative vote from the Company's shareholders. If approved, the merger is expected to close in the second quarter of 2019.

**Comparison of Financial Condition at December 31, 2018 and December 31, 2017**

At December 31, 2018, the Company's total assets were \$931.4 million, representing an increase of \$13.9 million compared to December 31, 2017. At December 31, 2018, cash balances were \$52.1 million compared to \$45.1 million at December 31, 2017. At December 31, 2018, the Company's balances of securities available for sale were \$170.8 million compared to \$184.8 million at December 31, 2017.

At December 31, 2018, the balance in the allowance for loan loss account was \$4.5 million compared to \$4.8 million at December 31, 2017. At December 31, 2018, the Company's non-accrual loans totaled \$1.4 million, or 0.22% of total loans. At December 31, 2018, the allowance for loan loss equaled 317.25% of non-accrual loans and 0.68% of total loans. At December 31, 2018, loans classified as substandard total \$14.3 million, or 13.6% of risk based capital. For the year ended December 31, 2018, the Company incurred \$288,000 of provision for loan loss expense and recognized net charge offs of \$578,000, or 0.09% of average loans. At December 31, 2018, the Company's continued low levels of net charge offs, non-accrual loans and loans classified as substandard are all contributing factors in the Company's low provision for loan loss expense.

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In each of the last three years, loan growth has driven improved profitability levels. At December 31, 2018, total net loans were \$658.8 million compared to \$637.1 million at December 31, 2017. Total net loans were \$672.3 million at June 30, 2018 before declining in both the third and fourth quarter of 2018. The decline in net loans in the second half of 2018 was the result of significant customer payoffs, declining loan originations and the loss of loan participations repurchased from other financial institutions. The Company's net loan growth in each of the last three years is as follows:

	<b>Percent Growth 12/31/2018</b>	<b>Percent Growth 12/31/2017</b>	<b>Percent Growth 12/31/2016</b>
Loan growth, net of the allowance for loan loss	3.40%	5.43%	8.62%

At December 31, 2018, December 31, 2017 and December 31, 2016, the Company's loan production offices ("Tennessee LPO's") experienced loan growth of \$23.3 million, \$26.1 million and \$27.1 million, respectively. The highly desirable demographics and growth characteristics of the Nashville market continue to provide the most significant opportunities for loan growth.

At December 31, 2018, the Company's non-interest checking account balances were \$129.5 million compared to \$136.2 million at December 31, 2017. The decline in checking account balances occurred largely due to rising interest rates, providing customers with the incentive to transfer funds into interest earning deposit accounts. At December 31, 2018, the Company's interest bearing checking were \$197.0 million, representing a decline of \$11.5 million compared to December 31, 2017. The decline is the result of a few municipal customers changing institutions for higher rates. The Company's time deposit balances increased from \$305.0 million at December 31, 2017 to \$316.2 million at December 31, 2018. The increase in time deposit balances for the year ended December 31, 2018 included a \$5.7 million increase in brokered deposits. The Company's Federal Home Loan Bank ("FHLB") borrowings increased from \$23.0 million at December 31, 2017 to \$33.0 million at December 31, 2018.

**Comparison of Financial Condition at December 31, 2017 and December 31, 2016**

At December 31, 2017, the Company's total assets were \$917.5 million, representing an increase of \$26.0 million compared to December 31, 2016. At December 31, 2017, cash balances were \$45.1 million compared to \$25.7 million at December 31, 2016. At December 31, 2017, the Company's balances of securities available for sale were \$184.8 million compared to \$209.5 million at December 31, 2016. In 2017, the Company foreclosed on a significant substandard loan relationship and recognized a \$2.6 million charge off. At December 31, 2017, the balance in the allowance for loan loss account declined to \$4.8 million compared to \$6.1 million at December 31, 2016.

At December 31, 2017, net loans outstanding were \$637.1 million compared to \$604.3 million at December 31, 2016. In each of the last two years, a significant portion of the Company's loan growth has occurred in two key markets. At December 31, 2017, the Company's non-interest checking account balances were \$136.2 million compared to \$131.1 million at December 31, 2016. The growth in checking account balances occurred despite changes to retail deposit offerings that reduced the amount of checking accounts not being assessed a monthly fee. The Company's time deposit balances increased from \$293.1 million at December 31, 2016 to \$305.0 million at December 31, 2017 and our Federal Home Loan Bank ("FHLB") borrowings increased from \$11.0 million at December 31, 2016 to \$23.0 million at December 31, 2017.

**Comparison of Operating Results for the Years Ended December 31, 2018 and 2017**

The Company's net income for the years ended December 31, 2018 and December 31, 2017 was \$5.7 million and \$3.3 million, respectively. For the year ended December 31, 2018, the Company's return on average assets and return on average equity were 0.62% and 6.52%, respectively, compared to 0.36% and 3.78%, respectively, for the year ended December 31, 2017. The improvement in net

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income was largely the result of modest loan growth coupled with an increase in yields, slightly lower levels of non-interest expenses and a lower federal income tax rate.

For the year ended December 31, 2018, total interest and dividend income increased \$3.0 million compared to December 31, 2017 due to the higher market interest rates and a \$35.8 million increase in the average balance of net loans. In 2018, the Company continued to use our investment portfolio's cash flow to fund loan growth in an effort to enhance our net interest margin and profitability.

For the year ended December 31, 2018, interest expense was \$8.2 million compared to \$6.0 million for the year ended December 31, 2017. The increase in interest expense was largely the result of higher short term interest rates as the Federal Reserve Open Market Committee ("FED") continued to increase its overnight borrowing rate to 2.50% by the end of 2018. The average cost of all deposits was 0.85% for the year ended December 31, 2018 compared to 0.64% for the year ended December 31, 2017. Over the same period, the average balance of total deposits declined by \$11.2 million. For the year ended December 31, 2018, the Company's cost of all interest bearing liabilities was 1.19% compared to 0.87% for the year ended December 31, 2017.

For the year ended December 31, 2018, total non-interest income was \$7.8 million compared to \$8.0 million for the year ended December 31, 2017. For the year ended December 31, 2018, the decline in non-interest income was largely the result of a \$286,000 decline in service charge income and a \$443,000 decline in other income. The decline in service charge income was the result of a decline in the usage of the Company's overdraft checking account product. The decline of other income was partially the result of a \$225,000 one-time payment received from a vendor in 2017. For the year ended December 31, 2018, gains on the sales of securities were \$553,000, an increase of \$384,000 compared to the year ended December 31, 2017 largely due to the call of a trust preferred security that previously incurred a \$400,000 impairment charge.

Total non-interest expenses for the years ended December 31, 2018 and December 31, 2017 was \$29.4 and \$29.9 million, respectively. For the year ended December 31, 2018, the Company's professional services expenses declined by \$605,000 compared to the year ended December 31, 2017 due to the resolution of a shareholder lawsuit. For the year ended December 31, 2018, data processing expenses increased by \$284,000 compared to the year ended December 31, 2017 due to a \$225,000 refund from a vendor in 2017.

For the twelve month period ended December 31, 2018, total federal income tax expense was \$1.1 million compared to \$2.1 million for the twelve month period ended December 31, 2017. The passage of the Tax Cut and Jobs Act of 2017 resulted in a \$980,000 increase in federal income tax expense in 2017 while reducing the Company's stated federal tax rate from 34% to 21% beginning January 1, 2018. The effective tax rates for the years ended December 31, 2018 and December 31, 2017 were 15.8% and 39.4%, respectively.

**Comparison of Operating Results for the Years Ended December 31, 2017 and 2016**

The Company's net income for the year ended December 31, 2017 and December 31, 2016 was \$3.3 million and \$2.9 million, respectively. The modest improvement in net income was largely the result of loan growth and lower levels of provision for loan loss expenses. The passage of the Tax Cut and Jobs Act of 2017 reduced the Company's future corporate tax rate but required a \$980,000 after-tax expense to reduce the value of the Company's deferred tax assets. Improvements in net income were further limited by more than \$1.1 million in legal expenses that resulted from a shareholder lawsuit and shareholder demand letter.

For the year ended December 31, 2017, total interest income on loans increased \$2.4 million compared to December 31, 2016 due to the Company's \$56.1 million increase in the average balance of

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net loans. For the year ended December 31, 2017, the Company's interest income on investments declined by \$411,000 due to lower average balances of securities.

For the year ended December 31, 2017, interest expense was \$6.0 million compared to \$5.3 million for the year ended December 31, 2016. The increase in interest expense was largely the result of higher short term interest rates as the FED increased its overnight borrowing rate to 1.50% by the end of 2017. The average cost of deposits was 0.64% for the year ended December 31, 2017 compared to 0.59% of average deposits for the year ended December 31, 2016. Over the same period, the average balance of deposits increased from \$721.8 million for the year ended December 31, 2016 to \$747.8 million for the year ended December 31, 2017.

The Company determined that an additional \$477,000 and \$1.2 million in provision for loan loss expense was required for the years ended December 31, 2017 and December 31, 2016, respectively. We reduced our provision expense in 2017 due to lower levels of non-accrual and substandard loans. The Company's ratio of allowance for loan losses to non-performing loans at December 31, 2017 and December 31, 2016 was 351.49% and 67.36%, respectively.

For the year ended December 31, 2017, total non-interest income was \$8.0 million, an increase of \$95,000 compared to December 31, 2016. For the year ended December 31, 2017, the slight increase in non-interest income was accomplished despite a \$443,000 decline in gains on the sale of securities and a \$264,000 decline in mortgage origination income. The decline of income in both gains on the sale of securities and mortgage origination income is partially attributable to rising interest rates as well as increased competition for mortgage originators in the Company's higher growth markets.

For the year ended December 31, 2017, the Company's service charge income was \$3.2 million, representing an increase of \$436,000 compared to the year ended December 31, 2016. The increase in service charge income is the result of changes made by management to the Company's retail deposit account offerings that increased the number of checking accounts paying a monthly fee. For the year ended December 31, 2017, other non-interest income increased by \$306,000 as compared to the year ended December 31, 2016. The increase in other income was largely the result of a \$225,000 one-time payment collected from a vendor.

Total non-interest expense for each of the years ended December 31, 2017 and December 31, 2016 was \$29.9 million. For the year ended December 31, 2017, the Company's salaries and benefits expense increased by \$649,000 compared to the year ended December 31, 2016. The increase in salary and benefit expenses in 2017 compared to 2016 was the result of a \$300,000 increase in health insurance benefits and a \$349,000 increase in compensation. For the year ended December 31, 2017, professional services expenses were \$2.3 million compared to \$1.4 million for the year ended December 31, 2016 largely due to legal expenses of approximately \$1.1 million incurred as a result of a shareholder lawsuit and shareholder demand letter.

For the year ended December 31, 2017, foreclosure expenses net of gains and losses on the sale of foreclosed assets were \$9,000 compared to \$448,000 for the year ended December 31, 2016. The decline in net foreclosure expenses for the year ended December 31, 2017 was the result of a reduction in both the number and complexity of foreclosures and higher realized values on properties sold. For the year ended December 31, 2017, other operating expenses were \$3.6 million compared to \$4.2 million for the year ended December 31, 2016.

Income Taxes. The effective tax rates for the years ended December 31, 2017 and December 31, 2016, was 39.4% and 11.1%, respectively. For the year ended December 31, 2017, the Company's effective tax rate was largely influenced by the \$980,000 reduction in the Company's deferred tax asset. For the year ended December 31, 2017, higher tax rates were the result of higher levels of taxable income and reduced balances of municipal bonds.



Table of Contents**Lending Activities**

The total gross loans, net of deferred loan fees of \$419,000 and allowance for loan loss of \$4.5 million, totaled \$658.8 million at December 31, 2018, representing 70.7% of total assets at that date. Set forth below is selected data relating to the composition of the loan portfolio by type of loan at the dates indicated. At December 31, 2018, there were no concentrations of loans exceeding 10% of total loans other than as disclosed below:

	2018		2017		2016		2015		2014	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
(Dollars in Thousands)										
<b>Type of Loan:</b>										
Real estate loans:										
One-to-four family residential										
	\$ 209,456	31.6%	\$ 200,446	31.2%	\$ 185,098	30.3%	181,414	32.3%	186,891	34.2%
Multi-family residential	26,067	3.9%	37,445	5.8%	34,284	5.6%	24,725	4.4%	25,991	4.8%
Construction	38,700	5.8%	30,246	4.7%	39,255	6.4%	34,878	6.2%	24,241	4.4%
Non-residential(1)	288,606	43.5%	276,676	43.1%	254,576	41.7%	214,410	38.1%	220,124	40.3%
<b>Total real estate loans</b>	<b>562,829</b>	<b>84.8%</b>	<b>544,813</b>	<b>84.8%</b>	<b>513,213</b>	<b>84.0%</b>	<b>455,427</b>	<b>81.0%</b>	<b>457,247</b>	<b>83.7%</b>
Other loans:										
Consumer loans	8,442	1.3%	8,620	1.3%	8,717	1.4%	20,324	3.6%	14,438	2.7%
Commercial loans	92,466	13.9%	88,938	13.9%	88,907	14.6%	86,743	15.4%	74,154	13.6%
<b>Total other loans</b>	<b>100,908</b>	<b>15.2%</b>	<b>97,558</b>	<b>15.2%</b>	<b>97,624</b>	<b>16.0%</b>	<b>107,067</b>	<b>19.0%</b>	<b>88,592</b>	<b>16.3%</b>
	663,737	100.0%	642,371	100.0%	610,837	100.0%	562,494	100.0%	545,839	100.0%
Deferred loan cost, net	(419)		(443)		(439)		(445)		(286)	
Allowance for loan losses	(4,536)		(4,826)		(6,112)		(5,700)		(6,289)	
<b>Total</b>	<b>\$ 658,782</b>		<b>\$ 637,102</b>		<b>\$ 604,286</b>		<b>556,349</b>		<b>539,264</b>	

(1)

Consists of loans secured by first liens on residential lots and loans secured by first mortgages on commercial real property, farmland and land.

*Loan Maturity Schedule.* The following table sets forth certain information at December 31, 2018 regarding the dollar amount of loans maturing in the portfolio based on their contractual maturity dates. Demand loans, loans having no stated schedule of repayments, loans having no stated maturity, and overdrafts are due in one year or less.

	Due the year ending December 31,			Due 3 through 5 years after December 31,	Due 5 through 10 years after December 31,	Due 10 through 15 years after December 31,	Due 15 years after December 31,	Total
	2019	2020	2021	2019	2019	2019	2019	
(Dollars in Thousands)								
One-to-four family residential	8,484	6,224	11,501	28,774	29,027	27,672	97,774	209,456
Multi-family residential	412	3,611	4,676	5,693	8,701	2,791	183	26,067

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Construction	12,741	6,510		18,352			1,097	38,700
Non-residential	29,417	17,788	29,111	58,758	77,242	30,761	45,529	288,606
Consumer	2,557	1,466	2,393	1,928		98		8,442
Commercial	35,911	4,646	10,635	15,080	22,306	1,021	2,867	92,466
Total	89,522	40,245	58,316	128,585	137,374	62,245	147,450	663,737

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The following table sets forth at December 31, 2018 the dollar amount of all loans due after December 31, 2019 which had predetermined interest rates and had floating or adjustable interest rates.

	<b>Predetermined Rate</b>	<b>Floating or Adjustable Rate</b>
	<b>(Dollars In Thousands)</b>	
One-to-four family residential	\$ 100,786	\$ 100,186
Multi-family residential	21,686	3,969
Construction	3,801	22,158
Non-residential	150,484	108,705
Consumer	5,885	
Commercial	40,577	15,978
<b>Total</b>	<b>\$ 323,219</b>	<b>\$ 250,996</b>

Scheduled contractual principal repayments of loans do not reflect the actual life of such assets. The average life of loans is substantially less than their contractual terms because of prepayments. In addition, due-on-sale clauses on loans generally give the lender the right to declare a loan immediately due and payable in the event, among other things, that the borrower sells the real property subject to the mortgage and the loan is not repaid. The average life of mortgage loans tends to increase when current mortgage loan market rates are substantially higher than rates on existing mortgage loans and, conversely, decrease when current mortgage loan market rates are substantially lower than rates on existing mortgage loans.

Management measures commercial real estate (CRE) concentrations as discussed in *Concentrations of Commercial Real Estate Lending, Sound Risk Management Practices* issued on December 12, 2006 jointly by the Office of the Comptroller of the Currency (OCC), Board of Governors of the Federal Reserve System (Federal Reserve) and the Federal Deposit Insurance Corporation (FDIC). In this guidance, the agencies make a significant distinction between owner-occupied CRE and non-owner occupied CRE. The agencies have a heightened level of concern with those loans with risk profiles sensitive to the condition of the CRE market.

CRE loans secured by non-farm, non-residential CRE where the primary source of repayment is the cash flow from the ongoing operations and activities conducted by the owner of the property are excluded from the guidance. The Company has determined that \$222.7 million of our loan portfolio, or 212.0% of the Company's risk based capital, consists of properties classified as non-owner occupied commercial real estate. Non-owner occupied commercial real estate loans ("NOOCRE") include all loans secured by multi-family properties, all construction and land development loans and certain other

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commercial real estate loans identified by regulations as non-owner occupied. At December 31, 2018 and December 31, 2017, the Company's NOOCRE portfolio consisted of the following:

	12/31/2018	12/31/2017
	(Dollars in Thousands)	
Multi-family	\$ 26,067	37,445
Construction	38,700	30,246
Land	12,175	14,873
Manufacturing	11,347	8,952
Medical	8,732	5,562
Hotel	30,844	17,281
Nursing Home	329	3,408
Office Building	15,885	16,105
Retail	62,368	60,062
Warehouse / Other	16,253	17,990
<b>Total</b>	<b>\$ 222,700</b>	<b>211,924</b>

*Loan Underwriting Policies.* Lending activities are subject to written, non-discriminatory underwriting standards and to loan origination procedures prescribed by the Board of Directors and its management. Detailed loan applications are obtained to determine the ability of borrowers to repay, and the more significant items on these applications are verified through the use of credit reports, financial statements and confirmations. Loan requests exceeding loan officer limits must be approved by the Chief Credit Officer, Chief Executive Officer, Executive Loan Committee of the Board of Directors or the entire Board of Directors.

The Bank offers a residential fixed rate loan program with maturities of 15, 20, and 30 years. The majority of our fixed rate single-family loans are underwritten and closed in accordance with secondary market standards. The Bank originates these loans with intent to sell on the secondary market. However, the Bank may choose to maintain a certain percentage of these loans in our portfolio. The Bank offers both servicing retained and servicing released products in an attempt to meet the needs of our customers. Due to the increasing level of regulatory burden imposed on companies that provide servicing for single family home loans, our pricing strategy provides incentives for the vast majority of our customers to select a servicing released loan product. At December 31, 2018, the Company's 1 - 4 family servicing portfolio totals \$14.3 million. The Company does not recognize a serving asset on its financial statements.

The Bank may lend up to 100% of the appraised value of the residential real property securing a mortgage loan. Under its lending policies, the Bank may originate a one-to-four family residential mortgage loan for owner-occupied property with a loan-to-value ratio of up to 95%. In most cases, the Bank requires private mortgage insurance for loan-to-value ratios exceeding 85%. For residential properties that are not owner-occupied, the Bank generally does not lend more than 80% of the appraised value. For all residential mortgage loans, the Bank may increase its lending level on a case-by-case basis.

At December 31, 2018 and December 31, 2017, the Bank's loan portfolio included loan balances totaling \$1.4 million and \$2.0 million, respectively that are secured by 1-4 family residential mortgages with a loan to value ratio exceeding 90% without private mortgage insurance. At December 31, 2018 and December 31, 2017, no loans with a loan to value exceeding 90% without private mortgage insurance were past due 30 days or more or in non-accrual status.

Under applicable law, with certain limited exceptions, loans and extensions of credit outstanding by a commercial bank to a person at one time shall not exceed 15% of the institution's unimpaired capital and surplus. Loans and extensions of credit fully secured by readily marketable collateral may comprise

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an additional 10% of unimpaired capital and surplus. Under these limits, the Bank's loans to one borrower were limited to approximately \$15.0 million at December 31, 2018. At that date, the Bank had no lending relationships in excess of the loans-to-one-borrower limit.

**Non-accrual Loans and Other Problem Assets**

The Company's non-accrual loan to total loan ratio at December 31, 2018 was 0.22%. Loans are classified as non-accrual when the loan is past due in excess of 90 days or the collection of principal and interest is doubtful. At December 31, 2018, the Company had no loans past due more than 90 days and accruing interest. At December 31, 2017, the Company had \$88,000 in loans secured by a single family residence that was past due more than 90 days and still accruing interest. The following table sets forth information with respect to the Company's non-performing loans at the dates indicated.

	At December 31,				
	2018	2017	2016	2015	2014
	(Dollars In Thousands)				
Accruing loans which are contractually past due 90 days or more:					
Residential real estate	\$	88			
<b>Total</b>		<b>88</b>			
Non-Accrual Loans:					
Residential real estate	164	672	672	2,282	1,501
Construction	152				
Multi-family				1,968	95
Land		40	7,675	1,553	215
Non-residential real estate	581		208	247	1,159
Farmland		111		166	115
Consumer	8	3	3	8	
Commercial	525	459	516	1,198	90
<b>Total non-performing loans</b>	<b>\$ 1,430</b>	<b>\$ 1,373</b>	<b>\$ 9,074</b>	<b>\$ 7,422</b>	<b>\$ 3,175</b>
Ratio of non-performing loans to total loans	0.22%	0.21%	1.49%	1.32%	0.58%

Federal regulations require commercial banks to classify their assets based on credit quality. In determining the classification of an asset, the Company utilizes a Classified Asset Committee consisting of members of senior management, credit analysis, loan review and collections. The committee attempts to determine the value of assets that are potentially impaired as well as the accurate reporting of Troubled Debt Restructuring (TDR) assets as defined later in this report. The committee's function is an important step in management's determination as to the necessary level of funding required in the Company's allowance for loan loss account.

An asset is classified as substandard if it is determined to be inadequately protected by the current retained earnings and paying capacity of the obligor or of the collateral pledged, if any and may or may not be paying as agreed. An asset is classified as doubtful if full collection is highly questionable or improbable. An asset is classified as loss if it is considered uncollectible, even if a partial recovery could be expected in the future. The regulations also provide for a special mention designation, described as assets which do not currently expose a savings institution to a sufficient degree of risk to warrant classification but do possess credit deficiencies or potential weaknesses deserving management's close attention. Such assets designated as special mention may include non-performing loans consistent with the above definition.

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Assets classified as substandard or doubtful with aggregate balances exceeding \$250,000 require the Company to conduct an impairment test to determine if the establishment of a specific reserve against the allowance for loan loss account is necessary. Typically, the basis for a loan impairment test is the current market value of the collateral, discounted to allow for selling and carrying cost. Typically, the Company obtains a new appraisal for all impairment testing of collateral when the loan balance exceeds \$250,000. If the Company determines that a loan relationship is collateral dependent, it will charge off the portion of that loan that is deemed to be impaired. The Company defines collateral dependent as any loan in that the customer will be unable to reduce the principal balance of the loan without the complete or partial sale of the collateral.

State and federal examiners may disagree with management's classifications. If management does not agree with an examiner's classification of an asset, it may appeal this determination to the appropriate supervisory examiner with the Kentucky Department of Financial Institutions ("KDFI") and the FDIC. Management regularly reviews its assets to determine whether any assets require classification or re-classification. At December 31, 2018, the Bank had \$14.3 million in loans classified as substandard and no loans classified as doubtful. Loans classified as substandard or doubtful by the Bank meet our classification of impaired loans, as defined by ASC 942-310-45-1. At December 31, 2018 and including our most recent examination, there were no material disagreements between examiners and management regarding risk grading or the funding of the allowance for loan loss account.

The tables below provide a summary of loans classified by the Bank as special mention and substandard by loan type for the years ended December 31, 2018 and December 31, 2017. The table also identifies the amount of the Bank's allowance for loan loss account specifically allocated to individual loans for the specific periods below:

December 31, 2018	Special Mention	Substandard	Specific Allowance for Impairment
(Dollars in Thousands)			
One-to-four family residential	\$	665	13
Home equity line of credit		97	
Junior lien		4	
Construction	152		
Non-residential real estate	596	9,505	
Farmland	233		
Consumer		209	52
Commercial	3,190	3,843	141
<b>Total</b>	<b>\$ 4,171</b>	<b>14,323</b>	<b>206</b>

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December 31, 2017	Special Mention	Substandard	Specific Allowance for Impairment
(Dollars in Thousands)			
One-to-four family residential	\$	572	
Home equity line of credit		412	
Junior lien			
Multi-family			
Land		555	
Non-residential real estate	979	7,072	2
Farmland	1,147	451	
Consumer		244	54
Commercial	3,572	1,474	233
Total	\$ 5,698	10,780	289

**Troubled Debt Restructuring**

A loan customer may experience financial hardship and make request that the Company modify the original terms of their loan agreement. The Company analyzes each request separately and grants loan modifications based on the customer's ability to eventually repay the loan and return to the original loan terms, the customer's current loan status and the current and projected future value of the Company's collateral. Loans that are modified as a result of a customer's financial distress are classified as TDRs. The classification of a loan as a TDR is important in that it indicates that a particular customer may not be past due but represents a credit weakness due to the Company's willingness to modify loan terms based on the financial weakness of the borrower. The table below provides a summary of the activity of loans classified as TDR for the year ended December 31, 2018:

	Balance at December 31, 2017	New TDR	Loss on Foreclosure	Loan Amortization	Balance at December 31, 2018
(Dollars in Thousands)					
Non-residential real estate	\$ 3,163	322		(62)	3,423
Commercial		109		(2)	107
Total TDR	\$ 3,163	431		(64)	3,530

The table below provides a summary of the activity of loans classified as TDR for the year ended December 31, 2017:

	Balance at December 31, 2016	New TDR	Loss on Foreclosure	Loan Amortization	Balance at December 31, 2017
(Dollars in Thousands)					
Multi-family real estate	\$ 815			(815)	
Non-residential real estate	5,646			(2,483)	3,163
Total TDR	\$ 6,461			(3,298)	3,163

**Foreclosed Assets**

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Real estate acquired by the Company as a result of foreclosure is classified as foreclosed assets until such time as it is sold. When such property is acquired, it is recorded at its fair value less estimated costs of sale. At the time of foreclosure, the collateral is reduced in value to its fair market value less holding and selling expenses and the remaining balance is charged against the allowance for loan losses. The value of foreclosed assets is periodically evaluated to ascertain its current market value. Additional reductions in market value are recognized as an expense through a charge to losses

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on foreclosures. At December 31, 2018, the Company's total non-performing asset to total asset ratio was 0.54%. The following table sets forth information with respect to the Bank's foreclosed assets at December 31, 2018, December 31, 2017, and December 31, 2016:

	December 31,		
	2018	2017	2016
	(Dollars in Thousands)		
1 - 4 family mortgages first mortgages	\$ 256	169	135
Home equity line of credit			28
Multi-family			1,775
Land	3,200	3,200	
Non-residential real estate	142		459
Total foreclosed assets	\$ 3,598	3,369	2,397

**Allowance for Loan Losses**

In originating loans, the Company recognizes that credit losses will be experienced and that the risk of loss will vary with, among other things, the type of loan being made, the creditworthiness of the borrower over the term of the loan, general economic conditions and, in the case of a secured loan, the quality of the security for the loan. It is management's policy to maintain an adequate allowance for loan losses based on, among other things, the Company's and the industry's historical loan loss experience, evaluation of economic conditions, regular reviews of delinquencies and loan portfolio quality and evolving standards imposed by federal bank examiners and other regulatory agencies. The Company increases its allowance for loan losses by charging provisions for loan losses against the Company's income.

Management will continue to actively monitor the Company's asset quality and allowance for loan losses. Management will charge off loans and properties acquired in settlement of loans against the allowances for loan losses on such loans and such properties when appropriate and will provide specific loss allowances when necessary. Although management believes it uses the best information available to make determinations with respect to the allowances for loan losses and believes such allowances are adequate, future adjustments may be necessary if economic conditions differ substantially from the economic conditions in the assumptions used in making the initial determinations.

The Company's methodology for establishing the allowance for loan losses takes into consideration probable losses that have been identified in connection with specific assets as well as losses that have not been identified but have occurred in the last twelve quarters. Management conducts regular reviews of the Company's assets and evaluates the need to establish allowances on the basis of this review. Allowances are established by the Board of Directors on a quarterly basis based on an assessment of risk in the Company's assets taking into consideration the composition and quality of the portfolio, delinquency trends, current charge-off and loss experience, loan concentrations, the state of the real estate market, regulatory reviews conducted in the regulatory examination process and economic conditions generally.

Specific reserves will be provided for individual assets, or portions of assets, when ultimate collection is considered improbable by management based on the current payment status of the assets and the fair value of the security. At the date of foreclosure or other repossession, the Company would transfer the property to foreclosed assets at the lower of cost or estimated fair value and subsequently at the lower of book value or fair value less estimated selling costs. Any portion of the outstanding loan balance in excess of fair value less estimated selling costs would be charged off against the allowance for loan losses. If, upon ultimate disposition of the property, net sales proceeds exceed the net carrying value of the property, a gain on sale of other real estate would be recorded.

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Financial institutions must provide adequate disclosure of the methodology used regarding maintenance of an adequate allowance for loan and lease losses and an effective loan review system. The Company utilizes a combination of its twelve quarter loan loss history and the sum of all impairment testing completed on individually classified loans deemed collateral dependent. The charge off history is weighted using the sum of the year's digits. This method provides a 15.4% weight to the most recent quarterly losses, then 14.1% for the prior quarter's losses, 12.8% for the 2<sup>nd</sup> prior quarter's losses and 11.5% for the prior quarter's losses and continuing for twelve quarters.

Using this method, the Company trends for increasing or decreasing levels of charge offs may materially impact the funding level of the allowance for loan loss account. Additionally, the Company reserves the loss amount of any loans deemed to be impaired. The Company also applies certain qualitative factors in reviewing its allowance funding, including local and national delinquency and loss trends, noted concentrations or risk and recent additions to regulatory guidance. Financial institutions regulated by the KDFI and FDIC may require institutions to immediately charge off any portion of a collateral dependent loan that is deemed to be impaired.

The following table sets forth an analysis of the Bank's allowance for loan losses for the years indicated.

	Year Ended December 31,				
	2018	2017	2016	2015	2014
	(Dollars in thousands)				
Balance at beginning of period	\$ 4,826	6,112	5,700	6,289	8,682
Loans charged off:					
Commercial loans	(372)	(2,832)	(1,016)	(1,334)	(501)
Consumer loans and overdrafts	(329)	(261)	(422)	(298)	(415)
Residential real estate	(6)	(66)	(30)	(235)	(316)
Total charge-offs	(707)	(3,159)	(1,468)	(1,867)	(1,232)
Recoveries	129	1,396	639	227	1,112
Net loans charged off	(578)	(1,763)	(829)	(1,640)	(120)
Provision for loan losses	288	477	1,241	1,051	(2,273)
Balance at end of period	\$ 4,536	4,826	6,112	5,700	6,289
Ratio of net charge-offs to average loans outstanding during the period	0.09%	0.28%	0.15%	0.29%	0.03%

The following table sets forth the breakdown of the allowance for loan losses by loan category at the dates indicated. Management believes that the allowance can be allocated by category only on an

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approximate basis. The allocation of the allowance to each category is not necessarily indicative of future losses and does not restrict the use of the allowance to absorb losses in any category.

	At December 31,							
	2018		2017		2016		2015	
	Amount	Percent of Allowance in Each Category To Total Allowance	Amount	Percent of Allowance in Each Category To Total Allowance	Amount	Percent of Allowance in Each Category To Total Allowance	Amount	Percent of Allowance in Each Category To Total Allowance
(Dollars in thousands)								
One-to-four family	\$ 1,164	25.7%	\$ 941	19.5%	\$ 1,120	18.3%	\$ 1,239	21.7%
Construction	171	3.8%	161	3.3%	277	4.5%	377	6.6%
Multi-family residential	172	3.8%	314	6.5%	412	6.8%	227	4.0%
Non-residential	2,242	49.4%	2,379	49.3%	3,502	57.3%	2,876	50.5%
Other loans	787	17.3%	1,031	21.4%	801	13.1%	981	17.2%
Total allowance for loan losses	\$ 4,536	100.0%	\$ 4,826	100.0%	\$ 6,112	100.0%	\$ 5,700	100.0%

	At December 31, 2014	
	Amount	Percent of Allowance In Each Category To Total Allowance
(Dollars In Thousands)		
One-to-four family	\$ 1,393	22.1%
Construction	146	2.3%
Multi-family residential	85	1.4%
Non-residential	3,667	58.3%
Other consumer loans	998	15.9%
Total allowance for loan losses	\$ 6,289	100.0%

**Investment Securities**

The Company purchases investments in order to maintain the levels of liquid assets required by regulatory authorities and manage cash flow, diversify its assets, obtain yield and to satisfy certain requirements for favorable tax treatment. The principal objective of the investment policy is to earn as high a rate of return as possible while giving consideration to financial risk, credit risk, liquidity risk and interest rate risk. The investment activities of the Company consist primarily of investments in U.S. Government agency securities, municipal and corporate bonds, CMOs (see definition below), and mortgage-backed securities. Typical investments include federally sponsored agency mortgage pass-through and federally sponsored agency and mortgage-related securities. Investment and aggregate investment limitations and credit quality parameters of each class of investment are prescribed in the Company's investment policy.

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The Company purchases U.S. government agency securities for terms fifteen years or less. Securities may or may not have call options. At December 31, 2018, the Company's agency security portfolio consisted of the following:

	<b>Book Value</b>	<b>Market Value</b>
	<b>(Dollars in Thousands)</b>	
<b>Small Business Administration:</b>		
Fixed rate bonds	\$ 44,170	43,928
Floating rate pools	3,571	3,511
<b>United State Agency Bonds:</b>		
Non-Callable	18,094	17,725
Callable	15,323	15,185
<b>Total Agency Bonds</b>	<b>\$ 81,158</b>	<b>80,349</b>

Small Business Administration ("SBA") fixed rates notes have a maturity of either ten or twenty years and may pay interest either monthly or semi-annually with principal typically paid semi-annually. SBA fixed rate notes typically finance commercial real estate and have a ten year prepayment penalty. SBA pools are floating rate securities are typically indexed to either the prime rate or LIBOR and have final maturities of ten, twenty-five or thirty years and pay principal and interest monthly. The interest rates on SBA pools reset quarterly or monthly, providing the Company with lower price volatility as compared to fixed rate securities. The purchase of variable rate securities with low price volatility provides the Company with a source of lower risk liquidity should loan demand improve or interest rates increase. The risk in purchasing SBA Pools is that they are typically purchased at large premiums and therefore carry a greater than higher level of prepayment risk while providing lower yields as compared to many long term fixed rate investment products.

At December 31, 2018, the Company has \$25.8 million in tax free municipal bonds and \$954,000 in taxable municipal bonds. The Company's investment policy limits the Company's total municipal bond portfolio to 125% of the Bank's Tier 1 Capital, places a concentration limit on the amounts of municipal bonds per issuer and limits concentrations in the amounts a single state guarantee program can provide to a bond at 75% of Tier 1 Capital. At December 31, 2018, the Company is in compliance with its concentration policy.

Mortgage-backed securities ("MBS") entitle the Company to receive a pro-rata portion of the cash flow from an identified pool of single family mortgages. A Collateralized Mortgage Obligation ("CMO") is a pool of single family loans in which the interest and principal cash flows may be structured so that certain classes of ownership receive principal payments in a manner other than a pro-rata basis. Collateralized mortgage-backed securities ("CMBS") held by the Company are securities collateralized by either a pool or a single multi-family property. The Company has one asset backed security issued by the U.S. Student Loan Marketing Association ("SLMA").

The asset backed security issued by SLMA has a 97% full faith and credit guarantee by the agency has a par value of \$3.8 million. The SLMA bond is floating rate security tied to the one month LIBOR rate and re-prices on a monthly basis. At December 31, 2018 and December 31, 2017, the Company owned one mortgage back security with a book and market value of \$20,000 and \$22,000, respectively that were not issued by an agency of the U.S. Government. All remaining securities owned by the

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Company labeled as MBS, CMO or CMBS were issued by a U.S. Government Agency. At December 31, 2018, the Company's mortgage backed security portfolio consisted of the following:

	<b>Book Value</b>	<b>Market Value</b>
	<b>(Dollars in Thousands)</b>	
CMO whole loan	\$ 21	20
CMO fixed rate	2,659	2,641
CMBS fixed rate	3,555	3,489
MBS fixed rate	54,908	53,794
Asset backed securities	3,766	3,775
 Total mortgage backed securities	 \$ 64,909	 63,719

**Deposit Activities**

Deposits are the primary source of the Company's funds for lending, investment activities and general operational purposes. In addition to deposits, the Company derives funds from loan principal and interest repayments, maturities of investment securities and mortgage-backed securities and interest payments thereon. Although scheduled loan repayments are a relatively stable source of funds, deposit inflows and outflows are influenced by general interest rates, and money market conditions and business cycles. Borrowings may be used on a short-term basis to compensate for reductions in the availability of funds, or on a long-term basis for general corporate purposes. The Company has access to borrow from the FHLB. The Company relies upon retail deposits rather than borrowings as its primary source of funding.

The Company attracts deposits principally from within its market area by offering competitive rates on its deposit instruments, including money market accounts, passbook savings accounts, individual retirement accounts, and certificates of deposit which range in maturity from three months to five years. The Company reviews its deposit mix and pricing on a weekly basis. In determining the characteristics of its deposit accounts, the Company considers the rates offered by competing institutions, lending and liquidity requirements, growth goals and federal regulations.

At December 31, 2018, the Company had \$65.8 million in brokered deposits, or 8.9% of total deposits compared to \$60.1 million at December 31, 2017. The Company utilizes brokered deposits to fill in maturity gaps in an effort to balance the amount of time deposits maturing in any one period and as an alternative source of funding. All brokered deposits are FDIC insured.

The Company attempts to compete for deposits with other institutions in its market area by offering competitively priced deposit instruments that meet the needs of its customers. Additionally, the Company seeks to meet customers' needs by providing convenient customer service to the community. With the exception of brokered deposits, substantially all of the Company's depositors are Kentucky or Tennessee residents who reside in the Company's market area.

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At December 31, 2018, the Company had deposit programs and balances as described below:

Interest Rate*	Minimum Term	Category	Minimum Amount	Balance	Percentage of Total Deposits
				(In Thousands)	
	% None	Non-interest bearing	\$ 100	\$ 129,476	17.6%
0.05	% None	Interest checking accounts	2,500	196,972	26.6%
0.15	% None	Savings and money market	10	97,232	13.1%
				423,680	57.3%
		<b>Certificates of Deposit</b>			
1.25	% 3 months or less	Fixed-term, fixed rate	1,000	40,300	5.5%
1.50	% 3 to 12 months	Fixed-term, fixed-rate	1,000	125,328	16.9%
2.51	% 12 to 24-months	Fixed-term, fixed-rate	1,000	67,500	9.1%
3.01	% 24 to 36-months	Fixed-term, fixed-rate	1,000	50,810	6.9%
2.75	% 36 to 48-months	Fixed-term, fixed-rate	1,000	9,177	1.2%
3.25	% 48 to 60-months	Fixed-term, fixed rate	1,000	23,042	3.1%
				316,157	42.7%
				\$ 739,837	100.0%

\*

Represents current interest rate offered by the Bank.

At December 31, 2018, certificates of deposits included approximately \$188.7 million of deposits greater than \$100,000, as compared to \$176.8 million and \$157.0 million at December 31, 2017 and December 31, 2016, respectively. Certificates of deposit at December 31, 2018 included approximately \$104.5 million of deposits with balances of \$250,000 or more compared to \$97.8 million and \$79.7 million at December 31, 2017 and December 31, 2016, respectively. Such time deposits may be risky because their continued presence in the Company is dependent partially upon the rates paid by the Company rather than any customer relationship and, therefore, may be withdrawn upon maturity if another institution offers higher interest rates. At this time, the Company does not believe that it will need to pay above market rates to maintain such certificates of deposit but does anticipate higher rates in the future.

The following table indicates the amount of the Company's certificates of deposit of \$250,000 or more by time remaining until maturity as of December 31, 2018.

Maturity Period	Certificates of Deposit (Dollars in Thousands)
Three months or less	\$ 13,495
Over three through six months	13,510
Over six through 12 months	25,056
Over 12 months	52,457
Total	\$ 104,518



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The following table sets forth the change in dollar amount of deposits in the various types of accounts offered by the Company between the dates indicated.

	Balance at December 31, 2018	% of Deposits	Increase (Decrease) from December 31, 2017	Balance at December 31, 2017	% of Deposits	Increase (Decrease) from December 31, 2016
(Dollars in Thousands)						
Non-interest bearing	\$ 129,476	17.5%	(6,721)	\$ 136,197	18.1%	5,052
Interest checking	196,972	26.6%	(11,524)	208,496	27.7%	(851)
Savings and MMDA	97,232	13.2%	(7,115)	104,347	13.8%	5,035
Time deposits	316,157	42.7%	11,188	304,969	40.4%	11,891
<b>Total</b>	<b>\$ 739,837</b>	<b>100.0%</b>	<b>(14,172)</b>	<b>\$ 754,009</b>	<b>100.0%</b>	<b>21,127</b>

	Balance at December 31, 2016	% of Deposits	Increase (Decrease) from December 31, 2015	Balance at December 31, 2015	% of Deposits
(Dollars in Thousands)					
Non-interest bearing	\$ 131,145	17.9%	6,075	125,070	16.9%
Interest checking	209,347	28.6%	5,568	203,779	27.5%
Savings and MMDA	99,312	13.5%	3,419	95,893	13.0%
Time deposits	293,078	40.0%	(21,586)	314,664	42.6%
<b>Total</b>	<b>\$ 732,882</b>	<b>100.0%</b>	<b>(6,524)</b>	<b>739,406</b>	<b>100.0%</b>

The following table sets forth the time deposits in the Company classified by rates at the dates indicated.

	At December 31,		
	2018	2017	2016
(Dollars in Thousands)			
0.01 - 2.00%	\$ 160,412	303,895	291,516
2.01 - 4.00%	155,745	1,074	1,562
4.01 - 6.00%			
<b>Total</b>	<b>\$ 316,157</b>	<b>304,969</b>	<b>293,078</b>

The following table sets forth the amount and maturities of time deposits at December 31, 2018.

	Amount Due				
	Less Than One Year	1 - 2 Years	2 - 3 Years	After 3 Years	Total
(Dollars in Thousands)					
0.00 - 2.00%	\$ 110,952	38,818	7,050	3,592	160,412



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2.01 - 4.00%	54,676	28,682	43,760	28,627	155,745
4.01 - 6.00%					
Total	\$ 165,628	67,500	50,810	32,219	316,157

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**Quantitative and Qualitative Disclosure about Market Risk**

**Quantitative Aspects of Market Risk.** The principal market risk affecting the Company is risk associated with interest rate volatility (interest rate risk). The Company does not maintain a trading account for investment securities. The Company is not subject to foreign currency exchange rate risk or commodity price risk. Substantially all of the Company's interest rate risk results from the Company's lending, deposit taking, and investment activities. This risk could result in reduced net income, loss in fair values of assets and/or increases in fair values of liabilities due to changes in interest rates.

**Qualitative Aspects of Market Risk.** The Company's principal financial objective is to achieve long-term profitability while reducing its exposure to fluctuating market interest rates. The Company has sought to reduce the exposure of its earnings to changes in market interest rates by attempting to manage the mismatch between assets and liabilities maturities and interest rates. The principal element in achieving this objective is to increase the interest rate sensitivity of the Company's interest-earning assets by retaining adjustable rate loans in our portfolio. The Company relies on retail deposits as its primary source of funds. However, management is utilizing brokered deposits, wholesale repurchase agreements and FHLB borrowings as sources of liquidity. As part of its interest rate risk management strategy, the Company promotes demand accounts, overnight repurchase agreements and certificates of deposit with primarily terms of up to five years.

**Impact of Inflation and Changing Prices**

The consolidated financial statements and notes thereto presented herein have been prepared in accordance with accounting principles generally accepted in the United States of America, which require the measurement of financial position and operating results in terms of historical dollars without considering the change in the relative purchasing power of money over time and due to inflation. The impact of inflation is reflected in the increased cost of the Company's operations.

Unlike most industrial companies, nearly all the assets and liabilities of the Company are monetary in nature. As a result, changes in interest rates have a greater impact on the Company's performance than do the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the price of goods and services.

Key components of a successful asset/liability strategy are the monitoring and managing of interest rate sensitivity of both the interest-earning asset and interest-bearing liability portfolios. The Company has employed various strategies intended to minimize the adverse effect of interest rate risk on future operations by providing a better match between the interest rate sensitivity between its assets and liabilities. In particular, the Company's strategies attempt to stabilize net interest income for the long-term by protecting its interest rate spread against increases in interest rates.

Such strategies include the origination of adjustable-rate mortgage loans secured by one-to-four family residential real estate, and, to a lesser extent, multi-family real estate loans and the origination of other loans with interest rates that are more sensitive to adjustment based upon market conditions than long-term, fixed-rate residential mortgage loans. At December 31, 2018, approximately \$108.7 million of the \$209.5 million of one-to-four family residential loans originated by the Company (comprising 51.9% of such loans) had adjustable rates or will mature within one year.

**Asset / Liability Management**

**Interest Rate Sensitivity Analysis**

The Company's profitability is affected by fluctuations in interest rates. A sudden and substantial increase or decrease in interest rates may adversely impact the Company's earnings to the extent that the interest rates on interest earning assets and interest bearing liabilities do not change at the same speed, to the same extent or on the same basis. As part of its effort to manage interest rate risk, the

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Company monitors its net economic value of capital ("EVE") by using our asset liability software to assist in modeling how changes in interest rates affect the values of various assets and liabilities on the Company's balance sheet. By calculating our EVE, the Company is able to construct models that show the effect of different interest rate changes on its total capital. This risk analysis is a key tool that allows Company to prepare against constantly changing interest rates.

Generally, EVE is a cash flow calculation that takes the present value of all asset cash flows and subtracts the present value of all liability cash flows. The application of the methodology attempts to quantify interest rate risk as the change in the EVE, which would result from a theoretical 200 basis point (1 basis point equals .01%) change in market rates. Both a 300 basis point increase in market interest rates and a 100 basis point decrease in market interest rates are considered.

The following table presents the Company's EVE at December 31, 2018 as calculated by the Company's asset liability model for the year period ending December 31, 2019:

Change In Rates	Net Portfolio Value		
	\$ Amount	\$ Change	% Change
	(Dollars in Thousands)		
+300 bp	\$ 75,508	\$ (22,640)	(23.1)%
+200 bp	82,907	(15,240)	(15.5)%
+100 bp	90,557	(7,590)	(7.7)%
0 bp	98,148		
100 bp	102,156	4,008	4.1%

Interest Rate Risk Measures: 200 Basis Point (bp) Rate Shock

Tangible Common Equity Ratio at December 31, 2018	9.8%
Pre-Shock Tier 1 Capital Ratio at December 31, 2018	11.0%
Exposure Measure: 2% Increase in Rates	9.1%

The computation of prospective effects of hypothetical interest rate changes are based on numerous assumptions, including relative levels of market interest rates, loan prepayments and deposit decay rates, and should not be relied upon as indicative of actual results. The computations do not contemplate any actions the Company could undertake in response to changes in interest rates. The matching of assets and liabilities may be analyzed by examining the extent to which such assets and liabilities are "interest rate sensitive" and by monitoring an institution's interest rate sensitivity "gap." An asset or liability is said to be interest rate sensitive within a specific period if it will mature or re-price within that period.

**Interest Income Analysis**

As a part of the Company's asset liability management process, an emphasis is placed on the effect that changes in interest rates have on the net interest income of the Company and the resulting change in the net present value of capital. As a part of its analysis, the Company uses third party software and analytical tools derived from the Company's regulatory reporting models to analyze the re-pricing characteristics of both assets and liabilities and the resulting net present value of the Company's capital given various changes in interest rates. The model also uses mortgage prepayment assumptions obtained from third party vendors to anticipate prepayment speeds on both loans and investments.

The Company's model uses incremental changes in interest rates. For example, a 3.0% change in annual rates includes a 75 basis point change in each of the next four quarters. The Company's analysis at December 31, 2018 indicates that changes in interest rates are likely to result in modest changes in

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the Company's annual net interest income. A summary of the Company's analysis at December 31, 2018 for the year ending December 31, 2019 is as follows:

	Down 1.00%	No Change	Up 1.00%	Up 2.00%	Up 3.00%
	(Dollars in Thousands)				
Net interest income	\$ 28,448	\$ 29,891	\$ 30,563	\$ 31,326	\$ 32,047

**Average Balance, Interest and Average Yields and Rates**

The following table sets forth certain information relating to the Company's average interest-earning assets and average interest-bearing liabilities and reflects the average yield on assets and average cost of liabilities for the periods and at the date indicated. Such yields and costs are derived by dividing income or expense by the average monthly balance of assets or liabilities, respectively, for the periods presented. Average balances are derived from month-end balances. Management does not believe that the use of month-end balances instead of daily balances has caused any material difference in the information presented.

	Years Ended December 31,									
	2018			2017			2016			
	Average Balance	Average Interest	Average Yield/Cost	Average Balance	Average Interest	Average Yield/Cost	Average Balance	Average Interest	Average Yield/Cost	
(Dollars in Thousands)										
<b>Interest-earning assets:</b>										
Loans receivable, net(a)(b)	\$ 662,541	31,795	4.80%	\$ 626,735	28,222	4.50%	\$ 570,674	25,801	4.52%	
Taxable securities AFS	151,201	4,080	2.70%	173,062	4,478	2.59%	190,843	4,595	2.41%	
Non-taxable securities AFS(b)	25,301	994	3.93%	30,787	1,516	4.93%	38,981	1,958	5.02%	
Other interest-bearing deposits	6,513	145	2.23%	6,976	96	1.38%	7,512	46	0.61%	
Total interest-earning assets	\$ 845,556	37,014	4.38%	\$ 837,560	34,312	4.10%	\$ 808,010	32,400	4.01%	
Non-interest-earning assets	64,231			69,004			72,407			
Total assets	\$ 909,787			\$ 906,564			\$ 880,417			
<b>Interest-bearing liabilities:</b>										
Deposits	\$ 605,485	6,276	1.04%	\$ 619,372	4,810	0.78%	\$ 596,109	4,240	0.71%	
Borrowings	81,426	1,898	2.32%	67,924	1,153	1.70%	66,280	1,059	1.60%	
Total interest-bearing liabilities	686,911	8,174	1.19%	687,296	5,963	0.87%	662,389	5,299	0.80%	
Non-interest-bearing liabilities	135,870			131,832			128,983			
Total liabilities	822,781			819,128			791,372			
Common stock	80			80			79			
Additional paid-in capital	58,965			58,742			58,630			
Retained earnings	52,716			50,615			48,678			
Treasury stock	(16,680)			(16,001)			(14,409)			
Unearned ESOP shares	(5,585)			(6,225)			(6,864)			
Accumulated other comprehensive income	(2,490)			225			2,931			
Total liabilities and equity	\$ 909,787			\$ 906,564			\$ 880,417			

Net interest income	28,840	28,349	27,101
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Interest rate spread	3.19%	3.23%	3.21%
Net interest margin	3.41%	3.38%	3.35%
Ratio of average interest-earning assets to average interest-bearing liabilities	121.86%	121.86%	121.98%

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(a) Average loans include non-performing loans.

(b) Interest income and yields are presented on a fully tax equivalent basis.

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The following table sets forth certain information regarding changes in interest income and interest expense of the Company for the periods indicated. For each category of interest-earning asset and interest-bearing liability, information is provided on changes attributable to: (i) changes in volume (changes in volume from year to year multiplied by the average rate for the prior year) and (ii) changes in rate (changes in the average rate from year to year multiplied by the prior year's volume). All amounts are quoted on a tax equivalent basis using a cost of funds rate of 1.19% for 2018 and 0.87% for 2017.

	Year Ended December 31,					
	2018 vs. 2017			2017 vs. 2016		
	Increase (Decrease) due to		Total Increase (Decrease)	Increase (Decrease) due to		Total Increase (Decrease)
Rate	Volume	Rate		Volume		
(Dollars in Thousands)						
<b>Interest-earning assets:</b>						
Loans receivable	\$ 1,855	1,718	3,573	\$ (103)	2,524	2,421
Securities available for sale, taxable	192	(590)	(398)	343	(460)	(117)
Securities available for sale, non-taxable	(307)	(215)	(522)	(38)	(404)	(442)
Other interest-earning assets	59	(10)	49	57	(7)	50
Total interest-earning assets	1,799	903	2,702	259	1,653	1,912
<b>Interest-bearing liabilities:</b>						
Deposits	1,509	(42)	1,467	353	217	570
Borrowings	479	265	744	69	25	94
Total interest-bearing liabilities	1,988	223	2,211	422	242	664
Increase (decrease) in net interest income	\$ (189)	680	491	\$ (163)	1,411	1,248

**Critical Accounting Policies and Estimates**

The Company's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The financial information contained within these statements is, to a significant extent, financial information that is based on appropriate measures of the financial effects of transactions and events that have already occurred. Based on its consideration of accounting policies that involved the most complex and subjective decisions and assessments, management has identified its most critical accounting policy to be that related to the allowance for loan losses. The Company's allowance for loan loss methodology incorporates a variety of risk considerations, both quantitative and qualitative; in establishing an allowance for loan loss that management believes is appropriate at each reporting date. Quantitative factors included the Company's historical loss experience, delinquency and charge-off trends, collateral values, changes in non-performing loans, and other factors. Quantitative factors also incorporate known information about individual loans, including borrower's sensitivity to economic conditions throughout the southeast and particular, the state of certain industries. Size and complexity of individual credits in relation to loan structure, existing loan policies and pace of portfolio growth are other qualitative factors that are considered in the methodology.

As the Company adds new products and increases the complexity of the loan portfolio, its methodology accordingly may change. In addition, it may report materially different amounts for the provision for loan losses in the statement of operations if management's assessment of the above factors changes in future periods. This discussion and analysis should be read in conjunction with the Company's consolidated financial statements and the accompanying notes presented elsewhere herein.

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Although management believes the levels of the allowance for loan losses as of both December 31, 2018 and December 31, 2017 were adequate to absorb inherent losses in the loan portfolio, a decline in local economic conditions, or other factors, could result in increasing losses that cannot be reasonably predicted at this time. The Company also considers its policy on non-accrual loans as a critical accounting policy.

**Liquidity and Capital Resources**

The Company's primary business is that of the Bank. Management believes dividends that may be paid from the Bank to the Company will provide sufficient funds for the Company's current and anticipated needs; however, no assurance can be given that the Company will not have a need for additional funds in the future. The Bank is subject to certain regulatory limitations with respect to the payment of dividends to the Company.

**Capital Resources.** At December 31, 2018, the Bank and Corporation exceeded all regulatory minimum capital requirements. For a detailed discussion of the Kentucky Department of Financial Institutions ("KDFI") and FDIC capital requirements, and for a tabular presentation of the Bank's compliance with such requirements, see Note 15 of Notes to Consolidated Financial Statements. See the Company's Risk Factors, located in our Annual Report filed on SEC form 10-K as of and for the year ended December 31, 2018 for comments related to effects that the implementation of Basel III will have on the Company's future operations.

**Liquidity.** Liquidity management is both a daily and long-term function of business management. If the Bank requires funds beyond its ability to generate them internally, the Bank believes that it could borrow funds from the FHLB. At December 31, 2018, the Bank had outstanding advances of \$33.0 million from the FHLB and \$49.6 million of letters of credit issued by the FHLB to secure municipal deposits. The Bank can immediately borrow an additional \$45.9 million from the FHLB and the Company has the ability to pledge another \$13.2 million in securities to the FHLB for additional borrowing capacity. The Bank can immediately borrow \$12.0 million from its correspondent bank. See Note 6 of Notes to Consolidated Financial Statements.

**Subordinated Debentures Issuance.** On September 25, 2003, the Company issued \$10,310,000 of subordinated debentures in a private placement offering. The securities have a thirty-year maturity and are callable at the issuer's discretion on a quarterly basis beginning five years after issuance. The securities are priced at a variable rate equal to the three-month LIBOR (London Interbank Offering Rate) plus 3.10%. Interest is paid and the rate of interest may change on a quarterly basis. The Company's subsidiary, a state chartered commercial bank supervised by the KDFI and the FDIC may recognize the proceeds of trust preferred securities as capital. KDFI and FDIC regulations provide that 25% of Tier 1 capital may consist of trust preferred proceeds. See Note 9 of Notes to Consolidated Financial Statements.

The Bank's primary sources of funds consist of deposits, repayment of loans and mortgage-backed securities, maturities of investments and interest-bearing deposits, and funds provided from operations. While scheduled repayments of loans and mortgage-backed securities and maturities of investment securities are predictable sources of funds, deposit flows and loan prepayments are greatly influenced by the general level of interest rates, economic conditions and competition. The Bank uses its liquidity resources principally to fund existing and future loan commitments, to fund maturing certificates of deposit and demand deposit withdrawals, to invest in other interest-earning assets, to maintain liquidity, and to meet operating expenses.

Management believes that loan repayments and other sources of funds will be adequate to meet the Bank's liquidity needs for the immediate future. A portion of the Bank's liquidity consists of cash and cash equivalents. At December 31, 2018, cash and cash equivalents totaled \$52.1 million. The level

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of these assets depends upon the Bank's operating, investing and financing activities during any given period.

**Summary of the Company's Market Area****Western Kentucky**

Small manufacturing and agri-business interests are the largest drivers of the local economy in our Western Kentucky markets. In Western Kentucky, small manufacturing typically revolves around the automotive, transportation, and chemical industries. The manufacturing sector is reasonably strong in the immediate area with most factories operating near capacity. Unemployment rates are low in many counties in Western Kentucky due largely to the rebound in automobile sales.

In 2016, local farmers enjoyed strong yields on their crops. However, the continued weak level of commodity prices has made it difficult for all those involved in the agri-business sector. Agri-business profitability remains marginal at best. In 2017, the agri-business community anticipates the operating conditions will remain challenging without a meaningful increase in commodity prices, which are projected to remain weak into 2018.

The tables below are a summary of selected information from the 2010 U.S. Census related to the Company's current market areas. The source of our future growth projections was the 2011 Kentucky State Data Center at the University of Louisville:

	2010 Median		Median Values			
	Household Income	Owner Occupied Housing Units	2010 Census	2020 Estimated	2030 Estimated	2040 Estimated
Calloway	\$ 39,194	\$ 105,300	37,191	40,411	43,618	46,607
Christian	\$ 37,061	\$ 95,500	73,955	77,840	81,015	82,947
Marshall	\$ 43,326	\$ 96,900	31,448	33,023	33,787	33,835
Todd	\$ 36,989	\$ 79,700	12,460	12,958	13,292	13,439
Trigg	\$ 41,825	\$ 98,300	14,339	16,244	17,913	19,179
Fulton	\$ 31,965	\$ 55,300	6,813	6,223	5,535	4,785
Total population			176,206	186,699	195,160	200,792
Estimated ten year population growth			8,542	10,493	8,461	5,632
Estimated population growth rate			5.1%	6.0%	4.5%	2.9%

**Clarksville, Montgomery County, Tennessee ("Clarksville")**

The Clarksville market is the largest market in which the Company has a significant retail banking presence. The Clarksville economy has several large employers and economic drivers including the United States ("U.S.") Army's 101<sup>st</sup> Airborne Division with approximately 29,000 active duty military personnel and 3,900 civilian employees assigned to the division. Fort Campbell supports the third largest military population in the U.S. Army and the seventh largest in the U.S. Department of Defense. The many services available on the army installation and the community's modest cost of living have resulted in a sizable military retirement population in the area. Clarksville is also home to Austin Peay State University, a 10,000 student public university as well as a diverse manufacturing sector.

Late in 2017, Hankook Tires began production in a new manufacturing facility in Clarksville. Hankook, a South Korean tire company, has hired approximately 1,000 employees with plans to increase employment to 1,800 and chose Clarksville due to its ideal location, strong transportation



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network and its proximity to automotive assembly plants owned by Nissan, Volkswagen, Toyota and General Motors. In February 2017, LG Electronics announced plans to construct a new home appliance manufacturing facility in Clarksville anticipates hiring 600 employees. The Clarksville market exhibits stronger growth and income demographics as compared to the communities in Western Kentucky. The 2010 census noted that Clarksville had a median household income of \$48,930 and a \$129,400 median value of owner occupied housing units. Clarksville's demographics benefit by its proximity to the Fort Campbell Army base; its proximity to Nashville, Tennessee; and the absence of a state income tax.

	2010 Census	2020 Estimated	2030 Estimated	2040 Estimated
Clarksville MSA	172,331	221,620	264,680	311,239
Ten year growth rate	27.9%	28.6%	19.4%	17.6%

**Middle Tennessee and Nashville MSA**

Cheatham County ("Cheatham") and Houston County ("Houston") are located in Middle Tennessee. However, Cheatham is located within the Nashville MSA, and its three largest communities are an easy commute to downtown Nashville. Cheatham's proximity to Nashville has resulted in higher levels of income and population growth as compared to Houston. The Company believes that the tables below support their views that the Clarksville and Nashville MSAs provide the greatest opportunities for growth within our current market area. The Company opened our Nashville LPO in October of 2014 and our Brentwood LPO (located in Williamson County, Tennessee) in October of 2016. The Nashville MSA has a population of approximately 1.6 million (includes Cheatham County, Tennessee) and attractive demographics outlined below:

Nashville TN MSA	2010 Estimated Census Population	Population Change 2000 - 2010	Median Household Income	Median Value Owner Occupied Housing Units
Robertson (Springfield)	66,283	21.8%	\$ 50,820	\$ 149,100
Sumner (Gallatin)	160,645	23.1%	\$ 54,916	\$ 169,100
Wilson (Lebanon)	113,193	28.4%	\$ 60,678	\$ 187,500
Rutherford (Murfreesboro)	262,604	44.3%	\$ 53,770	\$ 157,100
Williamson (Franklin)	183,182	44.7%	\$ 87,832	\$ 335,800
Maury (Columbia)	80,956	16.5%	\$ 46,278	\$ 137,100
Dickson	49,666	15.1%	\$ 44,554	\$ 128,700
Davidson (Nashville)	626,681	10.0%	\$ 45,668	\$ 164,700
Cheatham	39,105	9.0%	\$ 52,585	\$ 155,900

**Additional Growth Opportunities**

In addition to the Clarksville and Nashville MSA markets, management views promising opportunities for growth in the midsize metropolitan markets near the Company's current locations. Highly desirable markets include Bowling Green, Kentucky, Hardin, Kentucky, and Louisville, Kentucky. These markets provide desirable demographic and growth opportunities as compared to the Company's current footprint. As evident in the table below, Kentucky growth opportunities may be most attractive in Bowling Green, which is approximately 65 miles from the Company's corporate

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headquarters. The tables below include the two largest counties by population in Kentucky and other communities in Kentucky within a two-hour drive of the Company's headquarters:

Kentucky	2010 Census Population	Population Change 2000 - 2010	Median Household Income	Median Value Owner Occupied Housing Units
Henderson	46,250	3.2%	\$ 40,438	\$ 101,200
Hardin (Elizabethtown)	105,543	12.1%	\$ 47,540	\$ 131,900
Daviess (Owensboro)	96,656	5.6%	\$ 42,821	\$ 106,400
McCracken (Paducah)	65,565	0.1%	\$ 41,630	\$ 107,500
Warren (Bowling Green)	113,792	23.0%	\$ 43,954	\$ 135,400
Fayette (Lexington)	295,803	13.5%	\$ 47,469	\$ 159,200
Jefferson (Louisville)	741,096	6.8%	\$ 45,352	\$ 145,900

**Forward-Looking Statements**

Management's discussion and analysis includes certain forward-looking statements addressing, among other things, the Bank's prospects for earnings, asset growth and net interest margin. Forward-looking statements are accompanied by, and identified with, such terms as "anticipates," "believes," "expects," "intends," and similar phrases. Management's expectations for the Company's future involve a number of assumptions and estimates. Factors that could cause actual results to differ from the expectations expressed herein include: substantial changes in interest rates, and changes in the general economy; changes in the Company's strategies for credit-risk management, interest-rate risk management and investment activities. Accordingly, any forward-looking statements included herein do not purport to be predictions of future events or circumstances and may not be realized.

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The information set forth under "Management's Discussion and Analysis of Financial Condition and Results of Operations Interest Rate Sensitivity Analysis" in Item 7 of this Report is incorporated herein by reference.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA****Management Report on Internal Control**

The management of HopFed Bancorp, Inc. and its subsidiaries (collectively referred to as the Company) is responsible for the preparation, integrity and fair presentation of published financial statements and all other information presented in this annual report. The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and, as such, include amounts based on informed judgments and estimates made by management.

Management is responsible for establishing and maintaining adequate internal control over financial reporting for financial presentations in conformity with GAAP. Pursuant to the rules and regulations of the Securities and Exchange Commission, internal control over financial reporting is a process designed by, or under the supervision of, the Company's Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP and included those policies and procedures that:

Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company.

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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

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.

All internal control systems, no matter how well designed, have inherent limitations, including the possibility of human error and the circumvention of overriding controls. Accordingly, even effective internal control can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, or that the degree of compliance with the policies and procedures include in such controls may deteriorate.

Management has evaluated the effectiveness of its internal control over financial reporting as of December 31, 2018 based on the control criteria established in a report entitled *Internal Control Integrated Framework (2013)*, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on such evaluation, we have concluded that HopFed Bancorp's internal control over financial reporting is effective as of December 31, 2018.

HORNE LLP, the independent registered public accounting firm that audited the consolidated financial statements of the Company included in this Annual Report on Form 10-K, has issued an attestation report on the effectiveness of the Company's internal control over financial reporting as of December 31, 2018. The report, which expresses an unqualified opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2018 is included in this Item under the heading "Report of Independent Registered Public Accounting Firm."

Date: March 18, 2019

By: (signed) JOHN E. PECK

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John E. Peck  
*President and Chief Executive Officer*

By: (signed) BILLY C. DUVALL

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Billy C. Duvall  
*Senior Vice President and Treasurer  
(Principal Financial Officer)*

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**Report of Independent Registered Public Accounting Firm**

To the Shareholders and Board of Directors of HopFed Bancorp, Inc.

**Opinion on Financial Statement**

We have audited the accompanying consolidated balance sheet of HopFed Bancorp, Inc. and its subsidiaries (the "Company") as of December 31, 2018, the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the year then ended, and the related notes (collectively, referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018, and the results of its operations and its cash flows for the year then ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (the "PCAOB"), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in the *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, and our report dated March 18, 2019, expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

**Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits 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. We believe that our audits provide a reasonable basis for our opinion.

/s/ HORNE LLP

We have served as the Company's auditor since 2018.

Memphis, Tennessee  
March 18, 2019

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders  
HopFed Bancorp, Inc.

**Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheet of HopFed Bancorp, Inc. and subsidiaries (the "Company") as of December 31, 2017, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the two year period ended December 31, 2017, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2017, and the results of its operations and its cash flows for each of the years in the two year period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

**Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements 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. Our audits 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. We believe that our audits provide a reasonable basis for our opinion.

/s/ Carr, Riggs & Ingram, LLC

Nashville, Tennessee  
March 15, 2018

Table of Contents**HopFed Bancorp, Inc. and Subsidiaries****Consolidated Balance Sheets****December 31, 2018 and 2017****(Dollars in Thousands, Except Per Share Data)**

	<b>2018</b>	<b>2017</b>
<i>Assets</i>		
Cash and due from banks	\$ 36,339	\$ 37,965
Interest-bearing deposits in banks	15,711	7,111
Cash and cash equivalents	52,050	45,076
Federal Home Loan Bank stock, at cost	4,428	4,428
Securities available for sale	170,804	184,791
Loans held for sale	1,248	1,539
Loans receivable, net of allowance for loans of 4,536 at December 31, 2018 and 4,826 at December 31, 2017 and deferred loan fees of \$419 at December 31, 2018 and \$443 at December 31, 2017	658,782	637,102
Accrued interest receivable	3,503	3,589
Foreclosed assets, net	3,598	3,369
Bank owned life insurance	10,672	10,368
Premises and equipment, net	21,759	22,700
Deferred tax assets	1,825	1,764
Other assets	2,730	2,784
<b>Total assets</b>	<b>\$ 931,399</b>	<b>917,510</b>
<i>Liabilities and Stockholders' Equity</i>		
<b>Liabilities:</b>		
<b>Deposits:</b>		
Non-interest-bearing accounts	\$ 129,476	\$ 136,197
Interest-bearing accounts:		
Interest bearing checking accounts	196,972	208,496
Savings and money market accounts	97,232	104,347
Other time deposits	316,157	304,969
Total deposits	739,837	754,009
Advances from Federal Home Loan Bank	33,000	23,000
Repurchase agreements	53,011	38,353
Subordinated debentures	10,310	10,310
Advances from borrowers for taxes and insurance	1,279	808
Accrued expenses and other liabilities	3,176	3,618
<b>Total liabilities</b>	<b>840,613</b>	<b>830,098</b>
<b>Stockholders' equity</b>		
Preferred stock, par value \$0.01 per share; authorized 500,000 shares; no shares issued or outstanding at December 31, 2018 and December 31, 2017	\$	\$
Common stock, par value \$.01 per share; authorized 15,000,000 shares; 7,990,867 issued and 6,648,887 outstanding at December 31, 2018 and 7,976,131 issued and 6,637,771 outstanding at December 31, 2017	80	80
Additional paid-in-capital	59,105	58,825

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Retained earnings	55,134	51,162
Treasury stock, at cost (1,341,980 shares at December 31, 2018 and 1,338,360 shares at December 31, 2017)	(16,706)	(16,655)
Unearned ESOP shares (at cost 382,691 shares at December 31, 2018 and 434,548 at December 31, 2017)	(5,268)	(5,901)
Accumulated other comprehensive loss, net of taxes	(1,559)	(99)
<b>Total stockholders' equity</b>	<b>90,786</b>	<b>87,412</b>
Total liabilities and stockholders' equity	\$ 931,399	\$ 917,510

See accompanying notes to consolidated financial statements.

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Table of Contents**HopFed Bancorp, Inc. and Subsidiaries****Consolidated Statements of Income****For the Years ended December 31, 2018, 2017 and 2016****(Dollars in Thousands, Except Per Share Data)**

	2018	2017	2016
<b>Interest and dividend income</b>			
Loans	\$ 31,709	28,167	25,778
Taxable securities available for sale	4,080	4,478	4,595
Nontaxable securities available for sale	797	1,014	1,308
Interest bearing deposits in banks	145	96	46
<b>Total interest and dividend income</b>	<b>36,731</b>	<b>33,755</b>	<b>31,727</b>
<b>Interest expense:</b>			
Deposits	6,276	4,810	4,240
Advances from Federal Home Loan Bank	623	248	163
Repurchase agreements	736	469	508
Subordinated debentures	539	436	388
<b>Total interest expense</b>	<b>8,174</b>	<b>5,963</b>	<b>5,299</b>
<b>Net interest income</b>	<b>28,557</b>	<b>27,792</b>	<b>26,428</b>
<b>Provision for loan losses</b>	<b>288</b>	<b>477</b>	<b>1,241</b>
<b>Net interest income after provision for loan losses</b>	<b>28,269</b>	<b>27,315</b>	<b>25,187</b>
<b>Non-interest income:</b>			
Service charges	2,938	3,224	2,788
Merchant card	1,279	1,222	1,224
Mortgage origination	1,434	1,321	1,585
Realized gains from sale of securities available for sale, net	553	169	612
Income from bank owned life insurance	304	483	343
Financial services commission	677	536	614
Other operating	632	1,075	769
<b>Total non-interest income</b>	<b>7,817</b>	<b>8,030</b>	<b>7,935</b>
<b>Non-interest expenses:</b>			
Salaries and employee benefits	16,064	16,049	15,400
Occupancy	3,012	2,920	3,173
Data processing	3,168	2,884	2,942
State deposit tax	699	770	990
Professional services	1,711	2,316	1,404
Advertising	1,204	1,354	1,401
Foreclosed assets, net	72	9	448
Loss (gain) on sale of premises and equipment	10	2	(72)
Other operating	3,410	3,592	4,170
<b>Total non-interest expense</b>	<b>29,350</b>	<b>29,896</b>	<b>29,856</b>
<b>Income before income tax expense</b>	<b>6,736</b>	<b>5,449</b>	<b>3,266</b>



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Income tax expense		1,067	2,148	362
Net income	\$	5,669	3,301	2,904
Earnings per share available to common stockholders:				
Basic	\$	0.91	0.53	0.47
Diluted	\$	0.91	0.53	0.47
Weighted average shares outstanding basic		6,233,176	6,221,632	6,233,860
Weighted average shares outstanding diluted		6,233,176	6,221,632	6,233,860

See accompanying notes to consolidated financial statements.

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Table of Contents**HopFed Bancorp, Inc. and Subsidiaries****Consolidated Statements of Comprehensive Income****For the Years ended December 31, 2018, 2017 and 2016****(Dollars in Thousands, Except Per Share Data)**

	<b>2018</b>	<b>2017</b>	<b>2016</b>
Net income	\$ 5,669	3,301	2,904
Other comprehensive loss, net of tax:			
Unrealized loss on non-other than temporary impaired ("OTTI") investment securities available for sale, net of taxes	(1,256)	(387)	(1,351)
Unrealized gain (loss) on OTTI securities, net of taxes	233	(148)	(170)
Reclassification adjustment for gains and accretion included in net income, net of taxes	(437)	(112)	(405)
Total other comprehensive loss	(1,460)	(647)	(1,926)
Comprehensive income	\$ 4,209	2,654	978

See accompanying notes to consolidated financial statements.

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Table of Contents**HopFed Bancorp, Inc. and Subsidiaries****Consolidated Statements of Changes in Stockholders' Equity****For the Years ended December 31, 2018, 2017 and 2016****(Dollars in Thousands, Except Share Amounts)**

	Common Shares	Common Stock	Additional Paid-in Capital	Retained Earnings	Common Treasury Stock	Unearned ESOP Shares	Accumulated Other Comprehensive Income (Loss)	Total Equity
Balance January 1, 2016	6,865,811	79	58,604	47,124	(13,471)	(7,180)	2,474	87,630
Net income				2,904				2,904
Restricted stock awards	11,679	1						1
Net change in unrealized gain on securities available for sale, net of taxes of \$992							(1,926)	(1,926)
Cash dividend to common stockholders (\$0.16 per share)				(993)				(993)
Common stock repurchase	(160,248)				(1,876)			(1,876)
ESOP shares earned			(79)			632		553
Compensation expense, restricted stock awards			135					135
Balance December 31, 2016	6,717,242	\$ 80	58,660	49,035	(15,347)	(6,548)	548	86,428
Net income				3,301				3,301
Restricted stock awards	12,753							
Net change in unrealized gain on securities available for sale, net of taxes of \$172							(647)	(647)
Cash dividend to common stockholders (\$0.19 per share)				(1,174)				(1,174)
Common stock repurchase	(92,224)				(1,308)			(1,308)
ESOP shares earned			59			647		706
Compensation expense, restricted stock awards			106					106
Balance December 31, 2017	6,637,771	\$ 80	58,825	51,162	(16,655)	(5,901)	(99)	87,412
December 31, 2017	6,637,771	\$ 80	58,825	51,162	(16,655)	(5,901)	(99)	87,412
Net income				5,669				5,669
Restricted stock awards	15,039							
Net change in unrealized loss on securities available for sale, net of taxes of \$388							(1,460)	(1,460)
Cash dividend to common stockholders (\$0.26 per share)				(1,697)				(1,697)
Restricted stock awards forfeited	(303)							
Common stock repurchase	(3,620)				(51)			(51)
ESOP shares earned			116			633		749
Compensation expense, restricted stock awards			164					164
Balance December 31, 2018	6,648,887	\$ 80	59,105	55,134	(16,706)	(5,268)	(1,559)	90,786

See accompanying notes to consolidated financial statements.

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Table of Contents**HopFed Bancorp, Inc. and Subsidiaries****Consolidated Statements of Cash Flows****For the Years ended December 31, 2018, 2017 and 2016****(Dollars in Thousands)**

	2018	2017	2016
<b>Cash flows from operating activities:</b>			
Net income	\$ 5,669	3,301	2,904
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>			
Provision for loan losses	288	477	1,241
Depreciation	1,250	1,225	1,320
Amortization of investment premiums and discounts, net	799	1,073	1,515
OTTI recovery on available for sale securities	(4)	(17)	(17)
Expense for deferred income taxes	296	1,585	267
Stock compensation expense	164	106	135
Income from bank owned life insurance	(304)	(483)	(343)
Gain on sale of securities available for sale	(553)	(169)	(612)
Gain on sale of mortgage loans	(1,434)	(1,321)	(1,585)
Loss (gain) on disposal of premises and equipment	10	2	(72)
Proceeds from sale of mortgage loans	44,073	51,494	56,309
Gain on sale of foreclosed assets	(10)	(158)	(21)
Originations of mortgage loans sold	(42,639)	(50,618)	(53,026)
<b>(Increase) decrease in:</b>			
Accrued interest receivable	86	210	340
Other assets	(784)	389	145
(Decrease) increase in accrued expenses and other liabilities	(442)	1,173	(1,980)
<b>Net cash provided by operating activities</b>	<b>6,465</b>	<b>8,269</b>	<b>6,520</b>
<b>Cash flows from investing activities:</b>			
Proceeds from sales, calls and maturities of securities available for sale	35,298	54,416	67,671
Purchase of securities available for sale	(23,377)	(31,594)	(43,778)
Net increase in loans	(21,099)	(37,605)	(49,586)
Proceeds from sale of foreclosed assets	164	3,498	1,623
Proceeds from death benefit of bank owned life insurance policy		777	
Proceeds from sale of premises and equipment			100
Purchase of premises and equipment	(319)	(466)	(775)
<b>Net cash used in investing activities</b>	<b>(9,333)</b>	<b>(10,974)</b>	<b>(24,745)</b>
<b>Cash flows from financing activities:</b>			
Net (decrease) increase in deposits	\$ (14,172)	21,127	(6,524)
Increase in advance payments by borrowers for taxes and insurance	471	42	152
Advances from Federal Home Loan Bank	87,000	80,000	26,000
Repayment of advances from Federal Home Loan Bank	(77,000)	(68,000)	(30,000)
Increase (decrease) in repurchase agreements	14,658	(9,302)	1,885
Acquisition of treasury stock	(51)	(1,308)	(1,876)
Proceeds from repayment of ESOP loan	633	647	632
Dividends paid on common stock	(1,697)	(1,174)	(993)
<b>Net cash provided by (used in) financing activities</b>	<b>9,842</b>	<b>22,032</b>	<b>(10,724)</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>6,974</b>	<b>19,327</b>	<b>(28,949)</b>
Cash and cash equivalents, beginning of period	45,076	25,749	54,698
<b>Cash and cash equivalents, end of period</b>	<b>\$ 52,050</b>	<b>45,076</b>	<b>25,749</b>

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Supplemental disclosures of cash flow information:

Interest paid	\$	7,891	5,920	5,354
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Income taxes paid (refund)	\$	583	1,044	(564)
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Supplemental disclosures of non-cash investing and financing activities:

Foreclosures and in-substance foreclosures of loans during year	\$	383	4,312	2,263
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See accompanying notes to consolidated financial statements.

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**HopFed Bancorp, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**

**December 31, 2018, 2017 and 2016**

**(Table Amounts in Thousands, Except Per Share Data)**

**(1) Summary of Significant Accounting Policies:**

**Nature of Operations and Customer Concentration**

HopFed Bancorp, Inc. (the "Corporation") is a bank holding company which incorporated in the state of Delaware and headquartered in Hopkinsville, Kentucky. The Corporation's principal business activities are conducted through its wholly-owned subsidiary, Heritage Bank USA, Inc. (the "Bank"), a Kentucky state chartered commercial bank engaged in the business of accepting deposits and providing mortgage, consumer, construction and commercial loans to the general public through its retail banking offices. The Bank's business activities are primarily limited to western Kentucky and middle and western Tennessee. Deposits at the Bank are insured up to the applicable limits by the Federal Deposit Insurance Corporation (FDIC).

The Bank is a Kentucky commercial chartered bank and is supervised by the Kentucky Department of Financial Institutions ("KDFI") and the FDIC. Supervision of the Corporation is conducted by the Federal Reserve Bank of Saint Louis ("FED").

The Bank owns JBMM, LLC, a wholly owned limited liability company which owns and manages the Bank's foreclosed assets. The Bank owns Heritage USA Title, LLC, which sells title insurance to the Bank's real estate loan customers. The Bank owns Fort Webb LP, LLC, which owns a limited partnership interest in Fort Webb Elderly Housing LP, LLC, a low income senior citizen housing facility in Bowling Green, Kentucky. The facility offers apartments for rent for those senior citizens who qualify and is managed by the Bowling Green, Kentucky Housing Authority.

A substantial portion of the Bank's loans are secured by real estate in the western Kentucky and middle and west Tennessee markets. Accordingly, the ultimate ability to collect on a substantial portion of the Bank's loan portfolio and the recovery of a substantial portion of the carrying amount of foreclosed real estate is susceptible to changes in local market conditions.

**Principles of Consolidation**

The consolidated financial statements include the accounts of the Corporation, the Bank and its subsidiaries (collectively the "Company") for all periods. Significant inter-company balances and transactions have been eliminated in consolidation.

**Accounting**

The accounting and reporting policies of the Company are in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and conform to general practices in the banking industry. U.S. GAAP is generally defined by the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC"), as amended by Accounting Standards Updates ("ASUs"). Rules and interpretive releases of the Securities and Exchange Commission ("SEC") are also sources of authoritative U.S. GAAP for SEC registrants.

The Company determines whether it has a controlling financial interest in an entity by first evaluating whether the entity is a voting interest entity or a variable interest entity (VIE) under U.S. GAAP. Voting interest entities in which the total equity investment is a risk is sufficient to enable the entity to finance itself independently and provides the equity holders with the obligation to absorb

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**HopFed Bancorp, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2018, 2017 and 2016**

**(Table Amounts in Thousands, Except Per Share Data)**

**(1) Summary of Significant Accounting Policies: (Continued)**

losses, the right to receive residual returns and the right to make decision about the entity's activities. The Company consolidates voting interest entities in which it has all, or at least a majority of, the voting interest. A controlling financial interest in a VIE is present when an enterprise has both the power to direct the activities of the VIE that most significantly impact the VIE economic performance and an obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. The subsidiaries, HopFed Capital Trust I and Fort Webb LP, LLC are VIEs for which the Company is not the primary beneficiary. Accordingly, these accounts are not included in the Company's consolidated financial statements.

**Subsequent Events**

The Company has evaluated subsequent events for potential impact and disclosure through the issue date of these Consolidated Financial Statements. On January 7, 2019, First Financial Corporation (NASDAQ: THFF) ("First Financial") and the Company jointly announced today the execution of a definitive merger agreement under which the Company will merge into First Financial in a cash and stock transaction. Upon completion of the merger, the Bank will merge into First Financial Bank, N.A. ("First Financial Bank"), a wholly owned subsidiary of First Financial.

Under the terms of the merger agreement, which was unanimously approved by the boards of both companies, stockholders of the Company may elect to receive either (or a combination of) 0.444 shares of First Financial common stock or \$21.00 in cash for each share of HFBC common stock owned, subject to proration provisions specified in the merger agreement that provide for a targeted aggregate split of 50% of HFBC shares being exchanged for First Financial common stock and 50% for cash. Based upon the \$43.01 closing price of the common stock of First Financial on January 4, 2019 and assuming that a shareholder received 50% stock and 50% cash, the purchase price would be worth \$20.05 per share, with an aggregate transaction value of approximately \$128.3 million. The merger is subject to regulatory approval and an affirmative vote of shareholders and is expected to close in the second quarter of 2019.

**Estimates**

In preparing the consolidated financial statements in conformity with U.S. GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated balance sheets and revenues and expenses for each year. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses and the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans. In connection with the determination of the allowances for loan losses and foreclosed real estate, management obtains independent appraisals for significant collateral.

**Cash and Cash Equivalents**

Cash and cash equivalents are defined as cash on hand, amounts due on demand from commercial banks, interest-bearing deposits in other financial institutions and federal funds sold with maturities of



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**HopFed Bancorp, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2018, 2017 and 2016**

**(Table Amounts in Thousands, Except Per Share Data)**

**(1) Summary of Significant Accounting Policies: (Continued)**

three months or less. The Company is required to maintain reserve funds in either cash on hand or on deposit with the Federal Reserve Bank. At December 31, 2018, the Company's reserve requirement was met with available cash on hand.

**Securities**

The Company reports debt, readily-marketable equity, mortgage-backed and mortgage related securities in one of the following categories: (i) "trading" (held for current resale) which are to be reported at fair value, with unrealized gains and losses included in earnings; and (ii) "available for sale" (all other debt, equity, mortgage-backed and mortgage related securities) which are to be reported at fair value, with unrealized gains and losses reported net of tax as a separate component of stockholders' equity. The Company does not utilize a held to maturity classification for investment securities. At the time of new security purchases, a determination is made as to the appropriate classification. Realized and unrealized gains and losses on trading securities are included in net income. Unrealized gains and losses on securities available for sale are recognized as direct increases or decreases in stockholders' equity, net of any tax effect. Cost of securities sold is recognized using the specific identification method. Interest income on securities is recognized as earned. The Company purchases many agency bonds at either a premium or discount to its par value. Premiums and discounts on agency bonds are amortized using the net interest method. For callable bonds purchased at a premium, the premium is amortized to the first call date. If the bond is not called on that date, the premium is fully amortized and the Company recognizes an increase in the net yield of the investment. For agency bonds purchased at a discount, the discount is accreted to the final maturity date. For callable bonds purchased at discount and called before maturity, the Company recognizes a gain on the sale of securities. The Company amortizes premiums and accretes discounts on mortgage back securities and collateralized mortgage obligations based on the securities three-month average prepayment speed. Gains and losses on sales are recorded on the trade date.

**Other Than Temporary Impairment**

Management evaluates securities for other-than-temporary impairment ("OTTI") on at least a quarterly basis, and more frequently when economic conditions warrant such evaluation. A decline in the fair value of any available-for-sale security below cost that is deemed to be other-than-temporary results in a reduction in the carrying amount to fair value. To determine whether impairment is other-than-temporary, management considers whether the entity expects to recover the entire amortized cost basis of the security by reviewing the present value of the future cash flows associated with the security. The shortfall of the present value of the cash flows expected to be collected in relation to the amortized cost basis is referred to as a credit loss. If a credit loss is identified, management then considers whether it is more-likely-than-not that the Company will be required to sell the security prior to recovery. If management concludes that it is not more-likely-than-not that it will be required to sell the security, then the security is not other-than-temporarily impaired and the shortfall is recorded as a component of equity. If the security is determined to be other-than-temporarily impaired, the credit loss is recognized as a charge to earnings and a new cost basis for the security is established.

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**HopFed Bancorp, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2018, 2017 and 2016**

**(Table Amounts in Thousands, Except Per Share Data)**

**(1) Summary of Significant Accounting Policies: (Continued)**

**Other Securities**

Other securities which are not actively traded and may be restricted, such as Federal Home Loan Bank (FHLB) stock are recognized at cost. FHLB stock is periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

**Loans Receivable and Allowance for Loan Losses**

Loans receivable are stated at unpaid principal balances, less the allowance for loan losses and deferred loan cost, net of unearned income, ASC 310-20, *Nonrefundable Fees and Other Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases*, requires the recognition of loan origination fee income over the life of the loan and the recognition of certain direct loan origination costs over the life of the loan. Uncollectible interest on loans that are contractually past due is charged off, or an allowance is established based on management's periodic evaluation. The Company charges off loans after, in management's opinion, the collection of all or a large portion of the principal or interest is not probable. The allowance is established by a charge to interest income equal to all interest previously accrued, and income is subsequently recognized only to the extent that cash payments are received while the loan is classified as non-accrual, when the loan is ninety days past due. Loans may be returned to accrual status when all principal and interest amounts contractually due (including arrearages) are reasonably assured of repayment within an acceptable period of time, and there is a sustained period of repayment performance by the borrower in accordance with the contractual terms of interest and principal.

The Company provides an allowance for loan losses and includes a provision for loan losses determined by management. Subsequent recoveries, if any, are credited to the allowance. Management's periodic evaluation of the adequacy of the allowance is based on the Company's loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, and current economic conditions. The loss experience is determined by portfolio segment and is based on the actual losses experienced by the Company over the most recent three years.

Loans are considered to be impaired when, in management's judgment, principal or interest is not collectible according to the contractual terms of the loan agreement. When conducting loan evaluations, management considers various factors such as historical loan performance, the financial condition of the borrower and adequacy of collateral to determine if a loan is impaired. Impaired loans and loans classified as Troubled Debt Restructurings ("TDRs") may be classified as either substandard or doubtful and reserved for based on individual loans risk for loss. Loans not considered impaired may be classified as either special mention or watch and may have an allowance established for it. Typically, unimpaired classified loans exhibit some form of weakness in either industry trends, collateral, or cash flow that result in a default risk greater than that of the Company's typical loan. All classified amounts include all unpaid interest and fees as well as the principal balance outstanding.

The measurement of impaired loans may be based on the present value of future cash flows discounted at the historical effective interest rate. However, the majority of the Company's problem loans become collateral dependent at the time they are judged to be impaired. Therefore, the

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**HopFed Bancorp, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2018, 2017 and 2016**

**(Table Amounts in Thousands, Except Per Share Data)**

**(1) Summary of Significant Accounting Policies: (Continued)**

measurement of impairment requires the Company to obtain a current appraisal to determine the fair value of the collateral. The appraised value is then discounted to an estimate of the Company's net realizable value. When the measured amount of an impaired loan is less than the recorded investment in the loan, the impairment is recorded as a charge to income and a valuation allowance, which is included as a component of the allowance for loan losses. For loans not individually evaluated, management considers the Company's recent charge off history, the Company's current past due and non-accrual trends, banking industry trends and both local and national economic conditions when making an estimate as to the amount to reserve for losses. Management believes it has established the allowance in accordance with U.S. GAAP and has taken into account the views of its regulators and the current economic environment.

If an asset or portion thereof is classified as a loss, we establish a specific reserve for such amount. If the Company determines that a loan relationship is collateral dependent, the Company will charge off the portion of that loan that is deemed to be impaired against the allowance for loan loss account. The Company defines collateral dependent as any loan in that the customer will be unable to reduce the principal balance of the loan without the complete or partial sale of the collateral. The Company will charge off a portion or all of a loan balance once it deems the collection of any remaining interest and principal due to be unlikely.

**Loans Held For Sale**

Mortgage loans originated and intended for sale are carried at the lower of cost or estimated fair value as determined on a loan-by-loan basis. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income. Realized gains and losses are recognized when legal title to the loans has been transferred to the purchaser and sales proceeds have been received and are reflected in the accompanying consolidated statement of operations in gains on mortgage loans sold, net of related costs such as compensation expenses. The Company does not securitize mortgage loans.

**Fixed Rate Mortgage Originations**

The Company operates a mortgage division that originates mortgage loans in the name of assorted investors, including Federal Home Loan Mortgage Corporation (Freddie Mac). Originations for are sold through the Bank. On a limited basis, loans sold to Freddie Mac may result in the Bank retaining loan servicing rights. In recent years, customers have chosen lower origination rates over having their loan locally serviced; thereby limiting the amount of new loans sold with servicing retained. At December 31, 2018, the Bank maintained a servicing portfolio of one to four family real estate loans of approximately \$14.3 million.

**Foreclosed Assets**

Assets acquired through, or in lieu of, loan foreclosure or repossession are initially recorded at fair value less selling cost when acquired, establishing a new cost basis. These assets are subsequently accounted for at lower of cost or fair value less estimated cost to sell. Costs of improving the assets are capitalized if the Company determines that it is likely to recover the improvement cost. Other improvement costs and all costs relating to holding the property are expensed. Management conducts periodic valuations and any adjustments to value are recognized in the current period's operations.

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**HopFed Bancorp, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2018, 2017 and 2016**

**(Table Amounts in Thousands, Except Per Share Data)**

**(1) Summary of Significant Accounting Policies: (Continued)**

**Repurchase Agreements**

The Company sells investments from its portfolio to business and municipal customers with a written agreement to repurchase those investments on the next business day. The repurchase product gives business customers the opportunity to earn income on liquid cash reserves. These funds are overnight borrowings of the Company secured by Company assets and are not FDIC insured.

**Treasury Stock**

The Company may purchase its own common stock either in open market transactions or privately negotiated transactions. The value of the Company's common stock held in treasury is listed at cost.

**Unearned ESOP Shares**

The Company offers an Employee Stock Ownership Plan ("ESOP") to the employees of the Company. Compensation expense under the ESOP is equal to the fair value of common shares released or committed to be released to participants in the ESOP in each respective period. The unearned portion of common stock of the Company held in the ESOP Trust is recorded on the balance sheet at cost as a reduction of shareholder's equity. Common stock is released from the ESOP Trust to the participants as the Bank makes payments on the loan to the Corporation on behalf of the ESOP Trust.

**Comprehensive Income**

Comprehensive income consists of net income and other comprehensive income, net of applicable income taxes. Other comprehensive income includes unrealized appreciation (depreciation) on available-for-sale securities, net of tax.

**Transfers of Financial Assets**

Transfers of financial assets are accounted for as sales, when control over the assets have been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Company, 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 Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

**Revenue Recognition**

Mortgage loans held for sale are generally delivered to secondary market investors under best efforts sales commitments entered into prior to the closing of the individual loan. Loan sales and related gains or losses are recognized at settlement. Loan fees earned for the servicing of secondary market loans are recognized as earned. Interest income on loans receivable is reported on the interest method. Interest income is not reported when full loan repayment is in doubt, typically when the loan is impaired, placed in non-accrual status, or payments are past due more than 90 days. Interest is

Table of Contents**HopFed Bancorp, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****December 31, 2018, 2017 and 2016****(Table Amounts in Thousands, Except Per Share Data)****(1) Summary of Significant Accounting Policies: (Continued)**

reversed on any loans classified as non-accrual or past due more than 90 days. Interest may continue to accrue on loans over 90 days past due if they are well secured and in the process of collection.

**Income Taxes**

Income taxes are accounted for through the use of the asset and liability method. Under the asset and liability method, deferred taxes are recognized for the tax consequences of temporary differences by applying enacted statutory rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. The effect on deferred taxes of a change in tax rates are recognized in income in the period that includes the enactment date. Accordingly, deferred tax assets that will be realized at December 31, 2017 were revalued using the tax rates enacted as a result of the 2017 Tax Cuts and Jobs Act resulting in a revaluation charge of \$980,000, which is included in income tax expense for the year ended December 31, 2017. The Company files its federal and Kentucky income tax returns as well as its Kentucky and Tennessee franchise and excise tax returns on a consolidated basis with its subsidiaries. All taxes are accrued on a separate entity basis.

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 recognized on examination. For tax positions not meeting the "more likely than not test", no benefit is recorded.

**Operating Segments**

The Company's continuing operations include one primary segment, retail banking. The retail banking segment involves the origination of commercial, residential and consumer loans as well as the collections of deposits in eighteen branch offices.

**Premises and Equipment**

Land, land improvements, buildings, and furniture and equipment are carried at cost, less accumulated depreciation and amortization. Buildings and land improvements are depreciated generally by the straight-line method, and furniture and equipment are depreciated under various methods over the estimated useful lives of the assets. The Company capitalizes interest expense on construction in process at a rate equal to the Company's cost of funds. The estimated useful lives used to compute depreciation are as follows:

Land improvements	5 - 15 years
Buildings	40 years
Furniture and equipment	5 - 15 years

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**HopFed Bancorp, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2018, 2017 and 2016**

**(Table Amounts in Thousands, Except Per Share Data)**

**(1) Summary of Significant Accounting Policies: (Continued)**

**Bank Owned Life Insurance**

Bank owned life insurance policies (BOLI) are recorded at the cash surrender value or the amount to be realized upon current redemption. The realization of the redemption value is evaluated for each insuring entity that holds insurance contracts annually by management.

**Advertising**

The Company expenses the cost of advertising as incurred.

**Financial Instruments**

The Company has entered into off-balance-sheet financial instruments consisting of commitments to extend credit and commercial letters of credit. Such financial instruments are recorded in the consolidated financial statements when they are funded or related fees are incurred or received.

**Fair Values of Financial Instruments**

(ASC 825) requires disclosure of fair value information about financial instruments, whether or not recognized in the consolidated balance sheets for which it is practicable to estimate that value. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instruments. Fair value estimates are made at a point in time, based on relevant market information and information about the financial instrument. Accordingly, such estimates involve uncertainties and matters of judgment and therefore cannot be determined with precision. ASC 825 excludes certain financial instruments and all non-financial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

The following are the more significant methods and assumptions used by the Company in estimating the fair value of financial instruments:

*Available-for-sale securities*

Fair values for investment securities available-for-sale are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments provided by a third party pricing service. The Company reviews all securities in which the book value is greater than the market value for impairment that is other than temporary. For securities deemed to be other than temporarily impaired, the Company reduces the book value of the security to its market value by recognizing an impairment charge on its income statement.

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**HopFed Bancorp, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2018, 2017 and 2016**

**(Table Amounts in Thousands, Except Per Share Data)**

**(1) Summary of Significant Accounting Policies: (Continued)**

*Loans held for sale*

Mortgage loans originated and intended to be sold are carried at the lower of cost or estimated fair value as determined on a loan by loan basis. Gains or losses are recognized at the time of ownership transfer. Net unrealized losses, if any, are recognized through a valuation allowance and charged to income.

**Dividend Restrictions**

The Company is not permitted to pay a dividend to common shareholders if it fails to make a quarterly interest payment to the holders of the Company's subordinated debentures. Furthermore, the Bank may be restricted in the payment of dividends to the Corporation by the KDFI or FDIC. Any restrictions imposed by either regulator would effectively limit the Company's ability to pay a dividend to its common stockholders as discussed in Note 16. At December 31, 2018, there were no such restrictions. At December 31, 2018 and December 31, 2017, the Corporation had cash balances on hand to pay common dividends and repurchase treasury stock as outlined in Note 18 of approximately \$1.1 million and \$860,000, respectively.

**Earnings Per Share**

Earnings per share (EPS) consists of two separate components, basic EPS and diluted EPS. Basic EPS is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding for each period presented. Diluted EPS is calculated by dividing net income available to common shareholders by the weighted average number of common shares outstanding plus dilutive common stock equivalents (CSE). CSE consists of dilutive stock options granted through the Company's stock option plan. Restricted stock awards represent future compensation expense and are dilutive. Anti-dilutive common stock equivalents are not included for the purposes of this calculation. At December 31, 2018 and December 31, 2017, the Company has no warrants or stock options outstanding.

**Stock Compensation**

Compensation cost is recognized for restricted stock awards issued to employees based on the fair value of these awards at the date of grant. The cost is recognized over the required service period, generally defined as the vesting period.

**Effect of New Accounting Pronouncements**

In May 2014, the FASB issued new guidance related to "Revenue from Contracts with Customers Topic 606" This guidance supersedes the revenue recognition requirements in ASC Topic 605, *Revenue Recognition*, and most industry-specific guidance throughout the ASC. The guidance requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This guidance was adopted by the Company effective January 1, 2018. During the consideration and implementation of Topic 606, the Company reviewed the following income streams.

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**HopFed Bancorp, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2018, 2017 and 2016**

**(Table Amounts in Thousands, Except Per Share Data)**

**(1) Summary of Significant Accounting Policies: (Continued)**

*Service charges on deposits, investment services and interchange fees* Fees from these services are either transaction based, for which the performance obligations are satisfied when the individual transaction is processed, or set periodic service charges, for which the performance obligations are satisfied over the period the service is provided. Transaction-based fees are recognized at the time the transaction is processed, and periodic service charges are recognized over the service period. The adoption of Topic 606 had no impact on the Company's revenue recognition practice for these services.

*Title Insurance sales commissions* Title insurance commissions are received from insurance companies in return for the placement of policies with customers. No additional services are required from the Company after the loan is closed. The adoption of Topic 606 had no impact on the Company's revenue recognition related to title insurance sales commissions.

*Gains on sales of other real estate* ASU 2014-09 also creates Topic 610-20, under which a gain on sale should be recognized when a contract for sale exists and control of the asset has been transferred to the buyer. Topic 606 lists several criteria which must exist to conclude that a contract for sale exists, including a determination that the institution will collect substantially all of the consideration to which it is entitled. This presents a key difference between the prior and new guidance related to the recognition of the gain when the institution finances the sale of the property. Rather than basing recognition on the amount of the buyer's initial investment, which was the primary consideration under prior guidance, the analysis is now based on various factors including not only the loan to value ratio, but also the credit quality of the borrower, the structure of the loan, and any other factors that may affect collectability. While these differences may affect the decision to recognize or defer gains on sales of other real estate in circumstances where the Company has financed the sale, the effects would not be material to the Company's consolidated financial statements.

*ASU 2016-01, "Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities."* ASU 2016-01, among other things, (i) requires equity investments, with certain exceptions, to be measured at fair value with changes in fair value recognized in net income, (ii) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment, (iii) eliminates the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet, (iv) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, (v) requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments, (vi) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements and (vii) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale. ASU 2016-01 was effective on January 1, 2018. The implementation of ASU 2016-01 did not have a material effect on the Company's Consolidated Financial Statements.



Table of Contents**HopFed Bancorp, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****December 31, 2018, 2017 and 2016****(Table Amounts in Thousands, Except Per Share Data)****(1) Summary of Significant Accounting Policies: (Continued)**

ASU 2016-02, "*Leases (Topic 842)*." ASU 2016-02 will, among other things, require lessees to recognize a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. ASU 2016-02 does not significantly change lease accounting requirements applicable to lessors; however, certain changes were made to align, where necessary, lessor accounting with the lessee accounting model and ASC Topic 606, "Revenue from Contracts with Customers." ASU 2016-02 will be effective for us on January 1, 2019. The Company has determined that the leases existing at December 31, 2018 are not material to the Company's Consolidated Financial Statements.

ASU 2016-09, "*Compensation Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*." Under ASU 2016-09 all excess tax benefits and tax deficiencies related to share-based payment awards should be recognized as income tax expense or benefit in the income statement during the period in which they occur. Previously, such amounts were recorded in the pool of excess tax benefits included in additional paid-in capital, if such pool was available. Because excess tax benefits are no longer recognized in additional paid-in capital, the assumed proceeds from applying the treasury stock method when computing earnings per share should exclude the amount of excess tax benefits that would have previously been recognized in additional paid-in capital. Additionally, excess tax benefits should be classified along with other income tax cash flows as an operating activity rather than a financing activity, as was previously the case.

ASU 2016-09 also provides that an entity can make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest (current GAAP) or account for forfeitures when they occur. ASU 2016-09 changes the threshold to qualify for equity classification (rather than as a liability) to permit withholding up to the maximum statutory tax rates (rather than the minimum as was previously the case) in the applicable jurisdictions. ASU 2016-09 was effective on January 1, 2017. The implementation of ASU 2016-09 did not have a material effect on the Company's Consolidated Financial Statements.

On June 16, 2016, the FASB released its finalized ASU 2016-13, "*Financial Instruments Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*". The amendments to U.S. GAAP require businesses and other organization to measure the expected credit losses on financial assets, such as loans, securities, bond insurance, and many receivables, the FASB said. The accounting changes apply to instruments recorded on balance sheets at their historical cost, although there are some limited changes to the accounting for debt instruments classified as available-for-sale. Write-downs will be based on historical information, current business conditions, and forecasts, and FASB expects the forecasts to improve the loss estimates on financial assets that are losing value. FASB also said the techniques that are employed today to write down loans and other instruments can still be used, although it expects the variables for calculating the losses to change. ASU 2016-13 will become effective on January 1, 2020. Companies are permitted to adopt ASU 2016-13 in fiscal years beginning after December 15, 2018. The Company is currently evaluating the potential impact of ASU 2016-13.

ASU 2016-15 "*Statement of Cash Flows (Topic 230)*" is intended to reduce the diversity in practice around how certain transactions are classified within the statement of cash flows. ASU 2016-15 was

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**HopFed Bancorp, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2018, 2017 and 2016**

**(Table Amounts in Thousands, Except Per Share Data)**

**(1) Summary of Significant Accounting Policies: (Continued)**

effective for public companies for annual periods beginning after December 15, 2017 including interim periods within those fiscal years. Early adoption was permitted with retrospective application. The application of ASU 2016-15 did not have a material impact on the Company's Consolidated Financial Statements.

In January 2017, the FASB issued ASU 2017-01, "*Business Combinations (Topic 805): Clarifying the Definition of a Business*," ("ASU 2017-01") to improve such definition and, as a result, assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or as business combinations. The definition of a business impacts many areas of accounting including acquisitions, disposals, goodwill and consolidation. ASU 2017-01 was effective for the Company on January 1, 2018 and was to be applied under a prospective approach. The Company expects the adoption of this new guidance to impact the determination of whether future acquisitions are considered business combinations.

ASU 2017-08, "*Receivables - Nonrefundable Fees and Other Costs (Topic 310)*" amends the amortization period for certain purchased callable debt securities held at a premium. Prior to the issuance of this guidance, premiums were amortized as an adjustment of yield over the contractual life of instrument. ASU 2017-08 premiums on purchased callable debt securities that have an explicit, non-contingent call features that are callable at fixed prices to be amortized to the earliest call date. There are no accounting changes for securities held at a discount. This ASU is effective for annual periods and interim periods within those annual periods beginning after December 15, 2018 and early adoption was permitted. The adoption of ASU 2017-08 did not have a material impact on the Company's Consolidated Financial Statements.

ASU 2017-09 "*Compensation - Stock Compensation (Topic 718)*" clarifies when changes to the terms or conditions of a share-based payment must be accounted for as modifications. Under ASU 2017-09, an entity should account for changes to the terms or conditions of a share-based payment unless all of the following are met:

The fair value of the modified award is the same as the fair value of the original award immediately before modification,

The vesting conditions of the modified award is the same as the vesting conditions value of the original award immediately before modification, and

The classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before modification.

ASU 2017-09 was effective for the Company on January 1, 2018 and did not have a material impact on the Company's Consolidated Financial Statements.

ASU 2018-02, "*Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*." Issued in February 2018, ASU 2018-02 seeks to help entities reclassify certain stranded income tax effects in accumulated other comprehensive income resulting from the Tax Cuts and Jobs Act of 2017 (Tax Reform Act), enacted on December 22, 2017.

Table of Contents**HopFed Bancorp, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****December 31, 2018, 2017 and 2016****(Table Amounts in Thousands, Except Per Share Data)****(1) Summary of Significant Accounting Policies: (Continued)**

ASU 2018-02 was issued in response to concerns regarding current guidance in GAAP that requires deferred tax liabilities and assets to be adjusted for the effect of a change in tax laws or rates with the effect included in income from continuing operations in the reporting period that includes the enactment date, even in situations in which the related income tax effects of items in accumulated other comprehensive income were originally recognized in other comprehensive income, rather than net income, and as a result the stranded tax effects would not reflect the appropriate tax rate. The amendments of ASU 2018-02 allow an entity to make a reclassification from accumulated other comprehensive income to retained earnings for the stranded tax effects, which is the difference between the historical corporate income tax rate of 35.0% and the newly enacted corporate income tax rate of 21.0%.

ASU 2018-02 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018; however, public business entities are allowed to early adopt the amendments of ASU 2018-02 in any interim period for which the financial statements have not yet been issued. The amendments of ASU 2018-02 may be applied either at the beginning of the period (annual or interim) of adoption or retrospectively to each of the period(s) in which the effect of the change in the U.S. federal corporate tax rate in the Tax Reform Act is recognized. The Company adopted ASU 2018-02 during the year ended December 31, 2018.

ASU 2018-16, *"Derivatives and Hedging (Topic 815) Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes."* The amendments in this update permit use of the OIS rate based on SOFR as a U.S. benchmark interest rate for hedge accounting purposes under Topic 815 in addition to the interest rates on direct U.S. Treasury obligations, the LIBOR swap rate, the OIS rate based on the Fed Funds Effective Rate and the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Rate. ASU 2018-16 will be effective for us on January 1, 2019 and is not expected to have a significant impact on the Company's Consolidated Financial Statements.

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

Other accounting standards that have been issued or proposed by the FASB or other standards bodies are not expected to have a material impact on the Company's financial position, results of operations or cash flows.

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Certain items in prior financial statements have been reclassified to conform to the current presentation. Reclassifications had no effect on prior year's net income or shareholders' equity.

**(2) Securities:**

Securities, which consist of debt and equity investments, have been classified in the consolidated balance sheets according to management's intent. The carrying amount of securities and their estimated fair values follow:

	<b>December 31, 2018</b>			
	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Estimated Fair Value</b>
<b>Restricted:</b>				
FHLB stock	\$ 4,428			4,428
<b>Available for Sale:</b>				
U.S. Agency securities	\$ 81,158	345	(1,154)	80,349
Tax free municipal bonds	25,753	181	(152)	25,782
Taxable municipal bonds	957	2	(5)	954
Mortgage-backed securities	64,909	56	(1,246)	63,719
	\$ 172,777	584	(2,557)	170,804

	<b>December 31, 2017</b>			
	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Estimated Fair Value</b>
<b>Restricted:</b>				
FHLB stock	\$ 4,428			4,428
<b>Available for Sale:</b>				
U.S. Agency securities	\$ 84,210	536	(653)	84,093
Tax free municipal bonds	26,412	637	(83)	26,966
Taxable municipal bonds	1,279	5	(1)	1,283

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Trust preferred securities	1,650	35		1,685
Mortgage-backed securities	71,389	201	(826)	70,764
	\$ 184,940	1,414	(1,563)	184,791

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Table of Contents**HopFed Bancorp, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****December 31, 2018, 2017 and 2016****(Table Amounts in Thousands, Except Per Share Data)****(2) Securities: (Continued)**

The scheduled maturities of debt securities available for sale at December 31, 2018 are as follows:

<b>December 31, 2018</b>	<b>Amortized Cost</b>	<b>Estimated Fair Value</b>
Due within one year	\$ 2,991	2,996
Due in one to five years	28,101	27,736
Due in five to ten years	14,146	13,944
Due after ten years	14,890	14,971
Amortizing agency bonds	47,740	47,438
Mortgage-backed securities	64,909	63,719
	\$ 172,777	170,804

The estimated fair value and unrealized loss amounts of temporarily impaired investments as of December 31, 2018 and December 31, 2017 are as follows:

<b>December 31, 2018</b>	<b>Less than 12 months</b>		<b>12 months or longer</b>		<b>Total</b>	
	<b>Estimated Fair Value</b>	<b>Unrealized Losses</b>	<b>Estimated Fair Value</b>	<b>Unrealized Losses</b>	<b>Estimated Fair Value</b>	<b>Unrealized Losses</b>
<i>Available for sale</i>						
U.S. Agency securities	\$		54,441	(1,154)	54,441	(1,154)
Tax free municipals	1,465	(8)	5,619	(144)	7,084	(152)
Taxable municipals			507	(5)	507	(5)
Mortgage-backed securities			54,548	(1,246)	54,548	(1,246)
	\$ 1,465	(8)	115,115	(2,549)	116,580	(2,557)

<b>December 31, 2017</b>	<b>Less than 12 months</b>		<b>12 months or longer</b>		<b>Total</b>	
	<b>Estimated Fair Value</b>	<b>Unrealized Losses</b>	<b>Estimated Fair Value</b>	<b>Unrealized Losses</b>	<b>Estimated Fair Value</b>	<b>Unrealized Losses</b>
<i>Available for sale</i>						
U.S. Agency securities	\$ 41,501	(431)	9,846	(222)	51,347	(653)
Tax free municipals	4,860	(51)	913	(32)	5,773	(83)
Taxable municipals	521	(1)			521	(1)
Mortgage-backed securities	40,441	(289)	21,566	(537)	62,007	(826)
	\$ 87,323	(772)	32,325	(791)	119,648	(1,563)

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluations. Management gives consideration to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

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**HopFed Bancorp, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2018, 2017 and 2016**

**(Table Amounts in Thousands, Except Per Share Data)**

**(2) Securities: (Continued)**

At December 31, 2018, the Company has 86 securities with unrealized losses. Management believes these unrealized losses relate to changes in interest rates and not credit quality. Management also believes the Company has the ability to hold these securities until maturity and, therefore, no declines are deemed to be other than temporary. The carrying value of the Company's investment securities may decline in the future if the financial condition of issuers deteriorates and management determines it is probable that the Company will not recover the entire amortized cost bases of the securities. As a result, there is a risk that other-than-temporary impairment charges may occur in the future.

In June of 2008, the Company purchased \$2.0 million par value of a private placement subordinated debenture issued by First Financial Services Corporation ("FFKY"), the holding Company for First Federal Savings Bank ("First Fed"). At September 30, 2013, the Company recognized a \$400,000 impairment charge related to management's financial analysis of the issuing institution, and our opinion that it would be unable to make dividend payments after the five-year extension expired. In June 2018, the security was called at its \$2.0 million par value by its current sponsor. The unrealized accretion of the previous impairment was recognized as a \$373,000 gain on the sale of securities in June 2018.

During 2018, the Company sold investment securities classified as available for sale for proceeds of \$10.1 million resulting in gross gains of \$195,000 and gross losses of \$15,000. During 2017, the Company sold investment securities classified as available for sale for proceeds of \$18.0 million resulting in gross gains of \$272,000 and gross losses of \$103,000. During 2016, the Company sold investment securities classified as available for sale for proceeds of \$19.0 million resulting in gross gains of \$690,000 and gross losses of \$78,000.

As part of its normal course of business, the Bank holds significant balances of municipal and other deposits that require the Bank to pledge investment instruments as collateral. At December 31, 2018, the Bank pledged investments with a book value of \$96.5 million and a market value of approximately \$96.9 million to various municipal entities as required by law. In addition, the Bank has provided \$49.6 million of letters of credit issued by the Federal Home Loan Bank of Cincinnati to collateralize municipal deposits. At December 31, 2017, the Bank pledged investments with a book value of \$118.0 million and a market value of approximately \$119.8 million to various municipal entities as required by law. In addition, the Bank has provided \$47.6 million of letters of credit issued by the Federal Home Loan Bank of Cincinnati to collateralize municipal deposits. At December 31, 2018 and December 31, 2017, the collateral for the letters of credit issued are the Bank's one to four family loan portfolio.

**(3) Loans Receivable, Net:**

The Company uses the following loan segments as described below:

One-to-four family first mortgages are closed-end loans secured by residential housing. Loans may be either owner or non-owner occupied properties. If the loan is owner-occupied, the loan is analyzed and under-written as a consumer loan. Loan terms may be up to 30 years.



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**HopFed Bancorp, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2018, 2017 and 2016**

**(Table Amounts in Thousands, Except Per Share Data)**

**(3) Loans Receivable, Net: (Continued)**

Home equity lines of credit may be first or second mortgages secured by one-to-four family properties. Home equity loans carry a variable rate and typically are open ended for a period not to exceed ten years with a fifteen year final maturity. Loans secured by home equity lines of credit are under-written under the Company's consumer loan guidelines.

Junior liens are closed-end loans secured by one-to-four family residences with a fixed or variable rate. Typically, the collateral for these loans are owner occupied units with a subordinate lien. Loans secured by junior liens are under-written under the Company's consumer loan guidelines.

Multi-family loans are closed-end loans secured by residential housing with five or more units in a single building. Multi-family loans may carry a variable rate of interest or the interest rate on the loan is a fixed rate (usually five years). After the initial fixed rate period, the loan reverts to a variable rate or has balloon maturity. Multi-family loans have amortization terms of up to twenty years and are under-written under the Company's commercial loan underwriting guidelines.

Constructions loans may consist of residential or commercial properties and carry a fixed or variable rate for the term of the construction period. Construction loans have a maturity of between twelve and twenty-four months depending on the type of property. After the construction period, loans are amortized over a twenty-year period. All construction loans are under written under the Company's commercial loan underwriting guidelines for the type of property being constructed.

Land loans consist of properties currently under development, land held for future development and land held for recreational purposes. Land loans used for recreational purposes are amortized for twenty years and typically carry a fixed rate of interest for one-to-five years with a balloon maturity or floating rate period to follow and are under-written under the Company's commercial loan underwriting guidelines.

Non-residential real estate loans are secured by commercial real estate properties and may be either owner or non-owner occupied. The loans typically have a twenty year maturity and may be fixed for a period of five to ten years. After the initial fixed rate period, the note will either revert to a one year adjustable rate loan or have a balloon maturity. Loans secured by non-residential real estate are under-written under the Company's commercial loan underwriting standards.

Loans classified as farmland by the Company include properties that are used exclusively for the production of grain, livestock, poultry or swine. Loans secured by farmland have a maturity of up to twenty years and carry a fixed rate of interest for five to ten years. Loans secured by farmland are under-written under the Company's commercial loan underwriting guidelines.

The Company originates secured and unsecured consumer loans. Collateral for consumer loans may include deposits, brokerage accounts, automobiles and other personal items. Consumer loans are typically fixed for a term of one to five years and are under-written using the Company's consumer loan policy.



Table of Contents**HopFed Bancorp, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****December 31, 2018, 2017 and 2016****(Table Amounts in Thousands, Except Per Share Data)****(3) Loans Receivable, Net: (Continued)**

The Company originates unsecured and secured commercial loans. Secured commercial loans may have business inventory, accounts receivable and equipment as collateral. The typical customer may include all forms of manufacturing, retail and wholesale sales, professional services and various forms of agri-business interest. Commercial loans may be fixed or variable rate and typically have terms between one and five years.

Set forth below is selected data relating to the composition of the loan portfolio by type of loan at December 31, 2018 and December 31, 2017:

	December 31, 2018	December 31, 2017
Real estate loans:		
One-to-four family (closed end) first mortgages	\$ 175,638	\$ 163,565
Home equity lines of credit	32,781	35,697
Junior liens (closed end)	1,037	1,184
Multi-family	26,067	37,445
Construction	38,700	30,246
Land	12,175	14,873
Non-residential real estate	242,390	224,952
Farmland	34,041	36,851
Total mortgage loans	562,829	544,813
Consumer loans	8,442	8,620
Commercial loans	92,466	88,938
Total other loans	100,908	97,558
Total loans, gross	663,737	642,371
Deferred loan cost, net of fees	(419)	(443)
Less allowance for loan losses	(4,536)	(4,826)
Total loans	\$ 658,782	\$ 637,102

Although the Company has a diversified loan portfolio, 84.8% of the portfolio was concentrated in loans secured by real estate at December 31, 2018 and December 31, 2017. At December 31, 2018 and December 31, 2017, the majority of these loans are located within the Company's general operating areas of Western Kentucky and Middle and Western Tennessee.

**Risk Grade Classifications**

The Company uses the following risk definitions for commercial loan risk grades:

**Excellent** Loans in this category are to persons or entities of unquestioned financial strength, a highly liquid financial position, with collateral that is liquid and well margined. These borrowers have performed without question on past obligations, and the Bank expects their performance to continue. Internally generated cash flow covers current maturities of long-term debt by a substantial margin.



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**HopFed Bancorp, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2018, 2017 and 2016**

**(Table Amounts in Thousands, Except Per Share Data)**

**(3) Loans Receivable, Net: (Continued)**

Loans secured by Bank certificates of deposit and savings accounts, with appropriate holds placed on the accounts, are to be rated in this category.

**Very Good** These are loans to persons or entities with strong financial condition and above-average liquidity who have previously satisfactorily handled their obligations with the Bank. Collateral securing the Bank's debt is margined in accordance with policy guidelines. Internally generated cash flow covers current maturities of long-term debt more than adequately. Unsecured loans to individuals supported by strong financial statements and on which repayment is satisfactory may be included in this classification.

**Satisfactory** Assets of this grade conform to substantially all the Bank's underwriting criteria and evidence an average level of credit risk; however, such assets display more susceptibility to economic, technological or political changes since they lack the above average financial strength of credits rated Very Good. Borrower's repayment capacity is considered to be adequate. Credit is appropriately structured and serviced; payment history is satisfactory.

**Acceptable** Assets of this grade conform to most of the Bank's underwriting criteria and evidence an acceptable, though higher than average, level of credit risk; however, these loans have certain risk characteristics which could adversely affect the borrower's ability to repay given material adverse trends. Loans in this category require an above average level of servicing and show more reliance on collateral and guaranties to preclude a loss to the Bank should material adverse trends develop. If the borrower is a company, its earnings, liquidity and capitalization are slightly below average when compared to its peers.

**Watch** These loans are characterized by borrowers who have marginal cash flow, marginal profitability, or have experienced an unprofitable year and a declining financial condition. The borrower has in the past satisfactorily handled debts with the Bank, but in recent months has either been late, delinquent in making payments, or made sporadic payments. While the Bank continues to be adequately secured, margins have decreased or are decreasing, despite the borrower's continued satisfactory condition. Other characteristics of borrowers in this class include inadequate credit information, weakness of financial statement and repayment capacity, but with collateral that appears to limit exposure. This classification includes loans to established borrowers that are reasonably margined by collateral, but where potential for improvement in financial capacity appears limited.

All loans with a risk classification of watch or better are considered a pass credit.

**Special Mention** Loans in this category have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deteriorating prospects for the asset or in the institution's credit position at some future date. Borrowers may be experiencing adverse operating trends or market conditions. Non-financial reasons for rating a credit exposure Special Mention include, but are not limited to: management problems, pending litigations, ineffective loan agreement and/or inadequate loan documentation, structural weaknesses and/or lack of control over collateral.

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**HopFed Bancorp, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2018, 2017 and 2016**

**(Table Amounts in Thousands, Except Per Share Data)**

**(3) Loans Receivable, Net: (Continued)**

**Substandard** A substandard asset is inadequately protected by the current sound worth or paying capacity of the debtor or the collateral pledged. There exists one or more well defined weaknesses that jeopardize the liquidation of the debt. There is a distinct possibility the Bank will experience some loss if the deficiencies are not corrected.

**Doubtful** A loan classified as doubtful has all the weaknesses inherent in a loan classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. These are poor quality loans in which neither the collateral, if any, nor the financial condition of the borrower presently ensure collectability in full in a reasonable period of time; in fact, there is permanent impairment in the collateral securing the Bank's loan. These loans are in a work-out status and have a defined work-out strategy.

**Loss** Loans classified as loss are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. The Bank takes losses in the period in which they become uncollectible.

The following credit risk standards are assigned to consumer loans:

**Satisfactory** All consumer open-end and closed-end retail loans shall have an initial risk grade assigned of 3-Satisfactory. All consumer loans classified as satisfactory as classified as a pass credit.

**Substandard** All consumer open-end and closed-end retail loans past due 90 cumulative days from the contractual date will be classified as 7-Substandard. If a consumer/retail loan customer files bankruptcy, the loan will be classified as 7-Substandard regardless of payment history.

**Loss** All closed-end retail loans that become past due 120 cumulative days and open-end retail loans that become past due 180 cumulative days from the contractual due date will be charged off as loss assets. The charge-off will be taken by the end of the month in which the 120-day or 180-day time period elapses. All losses in retail credit will be recognized when the affiliate becomes aware of the loss, but in no case should the charge off exceed the time frames stated within this policy.

Table of Contents**HopFed Bancorp, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****December 31, 2018, 2017 and 2016****(Table Amounts in Thousands, Except Per Share Data)****(3) Loans Receivable, Net: (Continued)**

Loans by classification type and credit risk indicator at December 31, 2018 were as follows:

	Pass	Special Mention	Substandard	Doubtful	Total
One-to-four family mortgages	\$ 174,973		665		175,638
Home equity line of credit	32,684		97		32,781
Junior liens	1,033		4		1,037
Multi-family	26,067				26,067
Construction	38,548	152			38,700
Land	12,175				12,175
Non-residential real estate	232,289	596	9,505		242,390
Farmland	33,808	233			34,041
Consumer loans	8,233		209		8,442
Commercial loans	85,433	3,190	3,843		92,466
<b>Total</b>	<b>\$ 645,243</b>	<b>4,171</b>	<b>14,323</b>		<b>663,737</b>

Loans by classification type and credit risk indicator at December 31, 2017 were as follows:

	Pass	Special Mention	Substandard	Doubtful	Total
One-to-four family mortgages	\$ 162,993		572		163,565
Home equity line of credit	35,285		412		35,697
Junior liens	1,184				1,184
Multi-family	37,445				37,445
Construction	30,246				30,246
Land	14,318		555		14,873
Non-residential real estate	216,901	979	7,072		224,952
Farmland	35,253	1,147	451		36,851
Consumer loans	8,376		244		8,620
Commercial loans	83,892	3,572	1,474		88,938
<b>Total</b>	<b>\$ 625,893</b>	<b>5,698</b>	<b>10,780</b>		<b>642,371</b>

Table of Contents**HopFed Bancorp, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****December 31, 2018, 2017 and 2016****(Table Amounts in Thousands, Except Per Share Data)****(3) Loans Receivable, Net: (Continued)**

Impaired loans by classification type and the related valuation allowance amounts at December 31, 2018 were as follows:

	At December 31, 2018			For the year ended December 31, 2018	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Impaired loans with no specific allowance					
One-to-four family mortgages	\$			710	27
Home equity line of credit				261	4
Junior liens				2	
Multi-family					
Construction					
Land				312	
Non-residential real estate	9,174	9,174		5,973	693
Farmland				111	
Consumer loans				5	
Commercial loans	3,452	3,452		2,333	234
Total	12,626	12,626		9,707	958
Impaired loans with a specific allowance					
One-to-four family mortgages	\$ 274	274	13	55	12
Home equity line of credit					
Junior liens					
Multi-family					
Construction					
Land					
Non-residential real estate				1,115	
Farmland					
Consumer loans	208	208	52	284	
Commercial loans	141	141	141	793	23
Total	623	623	206	2,247	35
Total impaired loans	\$ 13,249	13,249	206	11,954	993



Table of Contents**HopFed Bancorp, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****December 31, 2018, 2017 and 2016****(Table Amounts in Thousands, Except Per Share Data)****(3) Loans Receivable, Net: (Continued)**

Impaired loans by classification type and the related valuation allowance amounts at December 31, 2017 were as follows:

	At December 31, 2017			For the year ended December 31, 2017	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Impaired loans with no specific allowance					
One-to-four family mortgages	\$ 257	257		1,235	35
Home equity line of credit				447	26
Junior liens				6	
Multi-family				1,135	
Construction					
Land	515	515		837	44
Non-residential real estate	7,086	7,086		8,979	395
Farmland	444	444		1,094	35
Consumer loans				8	2
Commercial loans	875	875		1,571	46
Total	9,177	9,177		15,312	583
Impaired loans with a specific allowance					
One-to-four family mortgages	\$				
Home equity line of credit					
Junior liens					
Multi-family					
Construction					
Land				4,006	
Non-residential real estate	2	2	2	88	2
Farmland				195	
Consumer loans	217	217	54	248	
Commercial loans	541	541	233	479	13
Total	760	760	289	5,016	15
Total impaired loans	\$ 9,937	9,937	289	20,328	598

The average recorded investment in impaired loans and income earned on impaired loans for the year ended December 31, 2016 was \$31.6 million and \$1.5 million, respectively.

**Allowance for Loan Losses**

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A loan is considered to be impaired when management determines that it is probable that the Company will be unable to collect all principal and interest payments due in accordance with the contractual terms of the loan agreement. The value of individually impaired loans is measured based on the present value of expected payments or using the fair value of the collateral if the loan is collateral dependent.

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Table of Contents**HopFed Bancorp, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****December 31, 2018, 2017 and 2016****(Table Amounts in Thousands, Except Per Share Data)****(3) Loans Receivable, Net: (Continued)**

The Company has certain lending policies and procedures in place that are designed to maximize loan income within an acceptable level of risk. Management reviews and approves these policies and procedures on a regular basis. A management reporting system supplements the review process by providing the Company with frequent reports related to loan production, loan quality, concentrations of credit, loan delinquencies and non-performing and potential problem loans. Diversification in the loan portfolio is a means of managing risk associated with fluctuations in economic conditions.

Management monitors and evaluates commercial real estate loans based on collateral, geography and risk grade criteria. The Company also utilizes third-party experts to provide insight and guidance about economic conditions and trends affecting market areas it serves. In addition, management tracks the level of owner-occupied commercial real estate loans versus non-owner occupied loans. At December 31, 2018, approximately \$96.6 million of the outstanding principal balance of the Company's non-residential real estate loans were secured by owner-occupied properties, approximately \$145.8 million was secured by non-owner occupied properties

At December 31, 2017, approximately \$95.6 million of the outstanding principal balance of the Company's non-residential real estate loans were secured by owner-occupied properties, approximately \$129.4 million was secured by non-owner occupied properties. At December 31, 2016, approximately \$78.7 million of the outstanding principal balance of the Company's non-residential real estate loans were secured by owner-occupied properties, approximately \$104.2 million was secured by non-owner occupied properties.

The following table presents the balance in the allowance for loan losses and the recorded investment in loans as of December 31, 2018 and December 31, 2017 by portfolio segment and based on the impairment method as of December 31, 2018 and December 31, 2017.

	Commercial	Land Development / Construction	Commercial Real Estate	Residential Real Estate	Consumer	Total
<b>December 31, 2018:</b>						
Allowance for loan losses:						
Ending allowance balance attributable to loans:						
Individually evaluated for impairment	\$ 141			13	52	206
Collectively evaluated for impairment	534	969	1,616	1,151	60	4,330
Total ending allowance balance	\$ 675	969	1,616	1,164	112	4,536
<b>Loans:</b>						
Loans individually evaluated for impairment	\$ 3,593		9,174	274	208	\$ 13,249
Loans collectively evaluated for impairment	88,873	50,875	293,324	209,182	8,234	650,488
Total ending loans balance	\$ 92,466	50,875	302,498	209,456	8,442	663,737



Table of Contents**HopFed Bancorp, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****December 31, 2018, 2017 and 2016****(Table Amounts in Thousands, Except Per Share Data)****(3) Loans Receivable, Net: (Continued)**

	Commercial	Land Development / Construction	Commercial Real Estate	Residential Real Estate	Consumer	Total
December 31, 2017:						
Allowance for loan losses:						
Ending allowance balance attributable to loans:						
Individually evaluated for impairment	\$ 233		2		54	289
Collectively evaluated for impairment	614	1,384	1,468	941	130	4,537
Total ending allowance balance	\$ 847	1,384	1,470	941	184	4,826
Loans:						
Loans individually evaluated for impairment	\$ 1,416	515	7,532	257	217	9,937
Loans collectively evaluated for impairment	87,522	44,604	291,716	200,189	8,403	632,434
Total ending loans balance	\$ 88,938	45,119	299,248	200,446	8,620	642,371

The following table provides a detail of the Company's activity in the allowance for loan loss account allocated by loan type for the years ended December 31, 2018, December 31, 2017 and December 31, 2016:

December 31, 2018	Balance 12/31/2017	Charge off	Recovery	Provision for Loan Loss	Ending Balance 12/31/2018
One-to-four family mortgages	\$ 747	(6)	13	238	992
Home equity line of credit	189		9	(30)	168
Junior liens	5			(1)	4
Multi-family	314			(142)	172
Construction	161			10	171
Land	1,223	(40)		(386)	797
Non-residential real estate	789	(23)	14	513	1,293
Farmland	367	(2)	1	(214)	152
Consumer loans	184	(329)	80	177	112
Commercial loans	847	(307)	12	123	675
	\$ 4,826	(707)	129	288	4,536



Table of Contents**HopFed Bancorp, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****December 31, 2018, 2017 and 2016****(Table Amounts in Thousands, Except Per Share Data)****(3) Loans Receivable, Net: (Continued)**

<b>December 31, 2017</b>	<b>Balance 12/31/2016</b>	<b>Charge off</b>	<b>Recovery</b>	<b>Provision for Loan Loss</b>	<b>Ending Balance 12/31/2017</b>
One-to-four family mortgages	\$ 852	(66)	13	(52)	747
Home equity line of credit	260		12	(83)	189
Junior liens	8		4	(7)	5
Multi-family	412		417	(515)	314
Construction	277			(116)	161
Land	1,760	(2,608)	559	1,512	1,223
Non-residential real estate	964		16	(191)	789
Farmland	778		10	(421)	367
Consumer loans	208	(261)	87	150	184
Commercial loans	593	(224)	278	200	847
	\$ 6,112	(3,159)	1,396	477	4,826

<b>December 31, 2016</b>	<b>Balance 12/31/2015</b>	<b>Charge off</b>	<b>Recovery</b>	<b>Provision for Loan Loss</b>	<b>Ending Balance 12/31/2016</b>
One-to-four family mortgages	\$ 1,030		167	(345)	852
Home equity line of credit	201	(30)	14	75	260
Junior liens	8		14	(14)	8
Multi-family	227	(421)		606	412
Construction	377			(100)	277
Land	1,379			381	1,760
Non-residential real estate	1,139		10	(185)	964
Farmland	358			420	778
Consumer loans	358	(422)	293	(21)	208
Commercial loans	623	(595)	141	424	593
	\$ 5,700	(1,468)	639	1,241	6,112

Non-accrual loans totaled \$1.4 million and \$1.3 million at December 31, 2018 and December 31, 2017, respectively. All non-accrual loans noted below are classified as substandard. Interest income foregone on such loans totaled \$127,000 at December 31, 2018, \$100,000 at December 31, 2017, and \$108,000 at December 31, 2016, respectively. The Company is not committed to lend additional funds to borrowers whose loans have been placed on a non-accrual basis. There were no loans past due more than three months and still accruing interest as of December 31, 2018 and December 31, 2016, respectively. At December 31, 2017, there was one loan with a balance \$88,000 that was past due more





Table of Contents**HopFed Bancorp, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****December 31, 2018, 2017 and 2016****(Table Amounts in Thousands, Except Per Share Data)****(3) Loans Receivable, Net: (Continued)**

than ninety days and still accruing interest. At December 31, 2018 and December 31, 2017, the Company's balances of non-accrual loans by loan type are as follows:

	12/31/2018	12/31/2017
One-to-four family first mortgages	\$ 62	\$ 266
Home equity lines of credit	98	402
Junior lien	4	4
Construction	152	
Land		40
Non-residential real estate	581	
Farmland		111
Consumer loans	8	3
Commercial loans	525	459
	\$ 1,430	\$ 1,285

The table below presents gross loan balances at December 31, 2018 by loan classification allocated between past due, performing and non-accrual:

	Currently Performing	30 - 89 Days Past Due	More than 90 days past Due and still Accruing	Non-accrual Loans	Total
One-to-four family mortgages	\$ 174,962	614		62	\$ 175,638
Home equity line of credit	32,525	158		98	32,781
Junior liens	1,033			4	1,037
Multi-family	26,067				26,067
Construction	38,548			152	38,700
Land	12,175				12,175
Non-residential real estate	241,809			581	242,390
Farmland	34,041				34,041
Consumer loans	8,408	26		8	8,442
Commercial loans	91,930	11		525	92,466
<b>Total</b>	<b>\$ 661,498</b>	<b>809</b>		<b>1,430</b>	<b>663,737</b>

Table of Contents**HopFed Bancorp, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****December 31, 2018, 2017 and 2016****(Table Amounts in Thousands, Except Per Share Data)****(3) Loans Receivable, Net: (Continued)**

The table below presents gross loan balances at December 31, 2017 by loan classification allocated between past due, performing and non-accrual:

	Currently Performing	30 - 89 Days Past Due	More than 90 days past Due and still Accruing	Non-accrual Loans	Total
One-to-four family mortgages	\$ 163,030	181	88	266	\$ 163,565
Home equity line of credit	35,295			402	35,697
Junior liens	1,180			4	1,184
Multi-family	37,445				37,445
Construction	30,246				30,246
Land	14,833			40	14,873
Non-residential real estate	224,743	209			224,952
Farmland	36,740			111	36,851
Consumer loans	8,614	3		3	8,620
Commercial loans	88,479			459	88,938
<b>Total</b>	<b>\$ 640,605</b>	<b>393</b>	<b>88</b>	<b>1,285</b>	<b>642,371</b>

**Troubled Debt Restructuring**

On a periodic basis, the Company may modify the terms of certain loans. In evaluating whether a restructuring constitutes a TDR, ASC 310; *A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring*, is determinative. In evaluating whether a restructuring constitutes a TDR, the Company must separately conclude that both of the following exist:

- a.) The restructuring constitutes a concession
- b.) The debtor is experiencing financial difficulties

ASC 310 provides the following guidance for the Company's evaluation of whether it has granted a concession.

If a debtor does not otherwise have access to funds at a market interest rate for debt with similar risk characteristics as the restructured debt, the restructured debt would be considered a below market rate, which may indicate that the Company may have granted a concession. In that circumstance, the Company should consider all aspects of the restructuring in determining whether it has granted a concession, the creditor must make a separate assessment about whether the debtor is experiencing financial difficulties to determine whether the restructuring constitutes a TDR.

A temporary or permanent increase in the interest rate on a loan as a result of a restructuring does not eliminate the possibility of the restructuring from being considered a concession if the new interest rate on the loan is below the market interest rate for loans of similar risk characteristics.



Table of Contents**HopFed Bancorp, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****December 31, 2018, 2017 and 2016****(Table Amounts in Thousands, Except Per Share Data)****(3) Loans Receivable, Net: (Continued)**

A restructuring that results in a delay in payment that is insignificant is not a concession. However, the Company must consider a variety of factors in assessing whether a restructuring resulting in a delay in payment is insignificant.

There were no loans as of December 31, 2018, December 31, 2017 and December 31, 2016 that were been modified as TDRs and within twelve months of the modification subsequently defaulted on their modified terms. At December 31, 2018 and December 31, 2017, there were no commitments to lend additional funds to any borrower whose loan terms have been modified in a TDR. There was no allowance for loan loss allocated to loans classified as a TDR at December 31, 2018 and December 31, 2017.

A summary of the activity in loans classified as TDRs for the year ended December 31, 2018 is as follows:

	Balance at 12/31/17	New TDR	Loss on Foreclosure	Transferred to Non-accrual	Loan Amortization	Balance at 12/31/18
Non-residential real estate	\$ 3,163	322			(62)	\$ 3,423
Commercial loans		109			(2)	107
<b>Total performing TDR</b>	<b>\$ 3,163</b>	<b>431</b>			<b>(64)</b>	<b>\$ 3,530</b>

During the year ended December 31, 2018, the Company made modifications to three loans which resulted in a TDR classification. The two new commercial loans classified as a TDR are secured by equipment and inventory. The TDR classification is the result of the borrower's declining financial condition, prompting the Company to lengthen the amortization period of both loans. Each loans current amortization period is in excess of the Company's lending policy. Both loans have a one year balloon and will be re-evaluated at that time. The new non-residential real estate loan classified as a TDR is an owner occupied property in which the cash flow generated by the business is declining. The owner is attempting to sell the business and building and the Bank has agreed to a six month interest only forbearance to provide the owner with some financial relieve while he attempts to liquidate the collateral. At December 31, 2018, the Company did not provide a specific reserve in its allowance for loan loss account for any loans classified as a TDR

A summary of the activity in loans classified as TDRs for the year ended December 31, 2017 is as follows:

	Balance at 12/31/16	New TDR	Loss on Foreclosure	Transferred to Non-accrual	Loan Amortization	Balance at 12/31/17
Multi-family real estate	\$ 815				(815)	
Non-residential real estate	5,646				(2,483)	3,163
<b>Total performing TDR</b>	<b>\$ 6,461</b>				<b>(3,298)</b>	<b>3,163</b>

During the year ended December 31, 2017, there were no loans newly classified as a TDR.

Table of Contents**HopFed Bancorp, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****December 31, 2018, 2017 and 2016****(Table Amounts in Thousands, Except Per Share Data)****(3) Loans Receivable, Net: (Continued)**

During the year ended December 31, 2016, the Company made financial concessions to one borrower having four loans totaling \$1.0 million that resulted in a TDR classification. The loans were secured by three multi-family real estate properties and one parcel of non-residential real estate. The borrower had financial problems and made a request of the Bank to make interest only payments for a period not to exceed one year while the borrower attempted to sell the collateral. The borrower successfully sold the collateral and the Company received all funds due.

The Company originates loans to officers and directors and their affiliates at terms substantially equivalent to those available to other borrowers. Loans to officers and directors at December 31, 2018 and December 31, 2017, were approximately \$5.2 million and \$5.9 million, respectively. At December 31, 2018 and December 31, 2017, there were no loans to officers and directors that were past due, classified as a TDR, impaired or placed into non-accrual status. At December 31, 2018 and December 31, 2017, funds committed that were undisbursed to officers and directors approximately \$300,000 and \$1.5 million, respectively.

The following summarizes activity of loans to officers and directors and their affiliates for the years ended December 31, 2018 and December 31, 2017:

	<b>2018</b>	<b>2017</b>
Balance at beginning of period	\$ 5,933	4,894
New loans	931	3,043
Principal repayments	(1,660)	(2,004)
Balance at end of period	\$ 5,204	5,933

**(4) Premises and Equipment:**

Components of premises and equipment included in the consolidated balance sheets as of December 31, 2018 and December 31, 2017 consisted of the following:

	<b>December 31,</b>	
	<b>2018</b>	<b>2017</b>
Land	\$ 6,546	6,555
Land improvements	1,141	1,153
Buildings	22,504	22,467
Furniture and equipment	6,071	6,957
	36,262	37,132
Less accumulated depreciation	(14,503)	14,432
Premises and equipment, net	\$ 21,759	22,700

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Depreciation expense was approximately \$1,250,000, \$1,225,000 and \$1,320,000 for the years ended December 31, 2018, December 31, 2017 and December 31, 2016, respectively.

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Table of Contents**HopFed Bancorp, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****December 31, 2018, 2017 and 2016****(Table Amounts in Thousands, Except Per Share Data)****(5) Deposits:**

At December 31, 2018, the scheduled maturities of other time deposits were as follows:

<b>Years Ending December 31,</b>	
2019	\$ 165,628
2020	67,500
2021	50,810
2022	9,177
2023	23,042
	\$ 316,157

The amount of other time deposits with a minimum denomination of \$250,000 or more was approximately \$104.5 million and \$97.8 million at December 31, 2018, and December 31, 2017, respectively. At December 31, 2018 and December 31, 2017, directors, members of senior management and their affiliates had deposits in the Bank of approximately \$1.6 million and \$2.1 million, respectively. At December 31, 2018 and December 31, 2017, the Company had deposits classified as brokered deposits totaling \$65.8 million and \$60.1 million, respectively.

Interest expense on deposits for the years ended December 31, 2018, December 31, 2017 and December 31, 2016, is summarized as follows:

	<b>2018</b>	<b>2017</b>	<b>2016</b>
Interest bearing checking accounts	\$ 1,492	\$ 1,262	1,183
Money market accounts	73	71	76
Savings	133	94	95
Other time deposits	4,578	3,383	2,886
	\$ 6,276	4,810	4,240

The Bank maintains clearing arrangements for its demand, interest bearing checking accounts and money market accounts with BBVA Compass Bank. The Bank is required to maintain certain cash reserves in its account to cover average daily clearings. For the month ended December 31, 2018, average daily clearings were approximately \$5.2 million.

At December 31, 2018 and December 31, 2017, the Company had deposit accounts in overdraft status that were reclassified to loans on the accompanying consolidated balance sheet of \$208,000 and \$217,000, respectively.

Table of Contents**HopFed Bancorp, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****December 31, 2018, 2017 and 2016****(Table Amounts in Thousands, Except Per Share Data)****(6) Advances from Federal Home Loan Bank:**

Federal Home Loan Bank advances are summarized as follows:

Types of Advances	2018		2017	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate
Fixed-rate	\$ 33,000	2.25%	\$ 23,000	1.57%

Scheduled maturities of FHLB advances as of December 31, 2018, are as follows:

Years Ending December 31,	Fixed Rate	Average Cost
2019	\$ 12,000	1.97%
2020	15,000	2.16%
2023	6,000	3.01%
Total	\$ 33,000	2.25%

At January 10, 2019, the Company had a \$7.0 million FHLB advance mature. The Company liquidated the advance without borrowing additional funds from the FHLB.

The Bank has an approved line of credit of \$30 million at the FHLB of Cincinnati, which is secured by a blanket agreement to maintain residential first mortgage loans and non-residential real estate loans with a principal value of 125% of the outstanding advances and has a variable interest rate. At December 31, 2018, the Bank could borrow an additional \$43.2 million from the FHLB of Cincinnati without pledging additional collateral. At December 31, 2018, the Bank has an additional \$13.2 million in additional collateral that could be pledged to the FHLB to secure additional advance requirements. The Bank has a \$12.0 million unsecured line of credit with BBVA Bank. The Company's overnight lines of credit with both the Federal Home Loan Bank of Cincinnati and BBVA Bank had no balance at December 31, 2018.

**(7) Repurchase Agreements:**

At December 31, 2018, the Company provided investment securities with a market value of \$53.0 million as collateral for repurchase agreements. The maximum repurchase balance outstanding during the year ended December 31, 2018 and December 31, 2017 was \$53.0 million and \$46.8 million, respectively.

At December 31, 2018 and December 31, 2017, the respective cost and maturities of the Company's repurchase agreements are as follows:

2018	Balance	Average Rate	Maturity
Various customers	\$ 53,011	2.15%	Overnight
Total	\$ 53,011	2.15%	





Table of Contents**HopFed Bancorp, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****December 31, 2018, 2017 and 2016****(Table Amounts in Thousands, Except Per Share Data)****(7) Repurchase Agreements: (Continued)**

2017	Balance	Average Rate	Maturity
Various customers	\$ 38,353	1.24%	Overnight
Total	\$ 38,353	1.24%	

**(8) Fair Value Measurement:**

ASC Topic 820, *Fair Value Measurements and Disclosures*, establishes a fair value hierarchy which requires an entity to maximize the use of observable input and minimize the use of unobservable inputs when measuring fair value. Although ASC 820 provides for fair value accounting, the Company did not elect the fair value option for any financial instrument not presently required to be accounted for at fair value.

Management has developed a process for determining fair values. Fair value is based upon quoted market prices, where available. If listed prices or quotes are not available, fair value is based upon internally developed models or processes that use primarily market based or based on third party market data, including interest rate yield curves, option volatilities and other third party information. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. Furthermore, while the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies, or assumptions, to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

ASC 820 establishes a three-level valuation hierarchy for disclosure of fair value measurement. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date.

Level 1 is for assets and liabilities that management has obtained quoted prices for identical assets or liabilities in active markets that the Company has the ability to access as of the measurement date.

Level 2 is for assets and liabilities in which significant unobservable inputs other than Level 1 prices such as quoted prices for similar assets and 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 is for assets and liabilities in which 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 are determined by a matrix pricing, which is a mathematical technique what is widely used in the industry to value debt securities without relying exclusively on quoted prices for the individual securities in the Company's portfolio but relying on the securities relationship to other benchmark quoted securities. Impaired loans are valued at the net present value of expected payments and considering the fair value of any assigned collateral. The fair



Table of Contents**HopFed Bancorp, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****December 31, 2018, 2017 and 2016****(Table Amounts in Thousands, Except Per Share Data)****(8) Fair Value Measurement: (Continued)**

value of these assets is based on information obtained from a third party bank and is reflected within level 2 of the valuation hierarchy.

**Assets and Liabilities Measured on a Recurring Basis**

The assets and liabilities measured at fair value on a recurring basis are summarized below:

Description	Total carrying value in the consolidated balance sheet at 12/31/2018	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(Dollars in Thousands)				
Securities available for sale				
U.S. Agency securities	\$ 80,349		80,349	
Taxable municipals	954		954	
Tax-free municipals	25,782		25,782	
Mortgage backed securities	63,719		93,719	
Total	\$ 170,804		170,804	

Description	Total carrying value in the consolidated balance sheet at 12/31/2017	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(Dollars in Thousands)				
Securities available for sale				
U.S. Agency securities	\$ 84,093		84,093	
Taxable municipals	1,283		1,283	
Tax-free municipals	26,966		26,966	
Trust preferred securities	1,685			1,685
Mortgage backed securities	70,764		70,764	
Total	\$ 184,791		183,106	1,685

The assets and liabilities measured at fair value on a non-recurring basis are summarized below:

December 31, 2018 Description	Total carrying value in the consolidated	Quoted Prices In Active Markets for	Significant Other Observable	Significant Unobservable Inputs
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	balance sheet At 12/31/2018	Identical Assets (Level 1)	Inputs (Level 2)	(Level 3)
Assets				
Foreclosed assets	\$			
Impaired loans, net of allowance of \$154	\$ 261			261

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Table of Contents**HopFed Bancorp, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)**

December 31, 2018, 2017 and 2016

(Table Amounts in Thousands, Except Per Share Data)

**(8) Fair Value Measurement: (Continued)**

December 31, 2017 Description	Total carrying value in the consolidated balance sheet At 12/31/2017	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Foreclosed assets	\$ 3,369			3,369
Impaired loans, net of allowance of \$289	\$ 473			473

December 31, 2016 Description	Total carrying value in the consolidated balance sheet At 12/31/2016	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Foreclosed assets	\$ 2,397			2,397
Impaired loans, net of allowance of \$1,148	\$ 6,123			6,123

The following table presents quantitative information about level 3 fair value measurements for assets measured at fair value on a recurring and non-recurring basis at December 31, 2018 and December 31, 2017:

**Level 3 Significant Unobservable Input Assumptions**

	Fair Value	Valuation Technique	Unobservable Input	Quantitative Range of Unobservable Inputs
<b>December 31, 2018</b>				
Assets measured on a non-recurring basis				
Foreclosed assets	\$	Discount to either actual sales price or appraised value of collateral	Appraisal and sales comparability adjustments	
Impaired loans	415	Discount to appraised value of collateral	Appraisal comparability adjustments	25% to 50%
<b>December 31, 2017</b>				
Assets measured on a non-recurring basis				
Foreclosed assets	\$ 3,369	Discount to either actual sales price or appraised value of collateral	Appraisal and sales comparability adjustments	30% to 55%
Impaired loans	760	Discount to appraised value of collateral	Appraisal comparability adjustments	10% to 25%
Asset measured on a recurring basis				
Trust preferred securities	1,685	Discounted cash flow Spread to Libor swap curve D-95	Compare to quotes for sale when available	One month libor plus 4% to 6%

Table of Contents**HopFed Bancorp, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****December 31, 2018, 2017 and 2016****(Table Amounts in Thousands, Except Per Share Data)****(8) Fair Value Measurement: (Continued)**

Foreclosed assets and impaired loans are valued at fair value, less cost to sell. Fair value of a foreclosed asset is determined by an appraised value of the underlying collateral to which a discount is applied. Management establishes the discount or adjustments based on recent sales and any unique features the collateral may possess. Management also considers the anticipated selling cost associated with the collateral when establishing the discounted percentage. Management may adjust the discounts based on the most recent sales of comparable collateral.

**Change in Level 3 fair value measurements:**

The table below includes a roll-forward of the balance sheet items for the years ended December 31, 2018 and 2017, (including the change in fair value) for assets and liabilities classified by the Company within Level 3 of the valuation hierarchy for assets and liabilities measured at fair value on a recurring basis. When a determination is made to classify a financial instrument within Level 3 of the valuation hierarchy, the determination is based upon the significance of the unobservable factors to the overall fair value measurement. However, since Level 3 financial instruments typically include, in addition to the unobservable or level 3 components, observable components (that is components that are actively quoted and can be validated to external sources), the gains and losses in the table below include changes in fair value due in part to observable factors that are part of the valuation methodology.

The Company based the value of its trust preferred security on a quarterly review of SEC filings by the issuer to ascertain overall financial strength. Based on our analysis, the Company then reviewed the Libor swap curve to analyze the overall yield of our investment as compared to long-term swap rates. On rare occasions, the Company received an offer from a broker to purchase similar instruments and the Company analyzed those offerings as compared to our investment. The security was called in June 2018 at par.

The following table provides a reconciliation for trust preferred securities owned by the Company and measured at fair value on a recurring basis using level 3 inputs during the years ended December 31, 2018 and December 31, 2017.

	2018	2017
	(Dollar in Thousands)	
Balance, January 1,	\$ 1,685	1,817
Accretion included in net income	4	16
Unrealized gain (loss) included in comprehensive income	294	(148)
Call of security at book value	(1,658)	
Realized gain on call of security	(325)	
Ending balance, December 31,		1,685

Table of Contents**HopFed Bancorp, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****December 31, 2018, 2017 and 2016****(Table Amounts in Thousands, Except Per Share Data)****(8) Fair Value Measurement: (Continued)**

The estimated fair values of financial instruments were as follows at December 31, 2018:

	Carrying Amount	Estimated Fair Value	Quoted Prices In Active Markets for Identical Assets Level 1	Using Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
<b>Financial Assets:</b>					
Cash and due from banks	\$ 36,339	36,339	36,339		
Interest-bearing deposits in banks	15,711	15,711	15,711		
Securities available for sale	170,804	170,804		170,804	
Federal Home Loan Bank stock	4,428	4,428			4,428
Loans held for sale	1,248	1,248		1,248	
Loans receivable	658,782	627,956			627,956
Accrued interest receivable	3,503	3,503			3,503
<b>Financial Liabilities:</b>					
Deposits	739,837	739,573		739,573	
Advances from borrowers for taxes and insurance	1,279	1,279		1,279	
Advances from Federal Home Loan Bank	33,000	32,830		32,830	
Repurchase agreements	53,011	53,011		53,011	
Subordinated debentures	10,310	10,310			10,310

The estimated fair values of financial instruments were as follows at December 31, 2017:

	Carrying Amount	Estimated Fair Value	Quoted Prices In Active Markets for Identical Assets Level 1	Using Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
<b>Financial Assets:</b>					
Cash and due from banks	\$ 37,965	37,965	37,965		
Interest-bearing deposits in banks	7,111	7,111	7,111		
Securities available for sale	184,791	184,791		183,106	1,685
Federal Home Loan Bank stock	4,428	4,428			4,428
Loans held for sale	1,539	1,539		1,539	
Loans receivable	637,102	615,265			615,265
Accrued interest receivable	3,589	3,589			3,589
<b>Financial Liabilities:</b>					
Deposits	754,009	754,510		754,510	
Advances from borrowers for taxes and insurance	808	808		808	
Advances from Federal Home Loan Bank	23,000	22,849		22,849	
Repurchase agreements	38,353	38,353		38,353	
Subordinated debentures	10,310	10,099			10,099

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**HopFed Bancorp, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2018, 2017 and 2016**

**(Table Amounts in Thousands, Except Per Share Data)**

**(8) Fair Value Measurement: (Continued)**

**Non-Financial Assets and Non-Financial Liabilities:**

The Company has no non-financial assets or non-financial liabilities measured at fair value on a recurring basis. Certain non-financial assets measured at fair value on a non-recurring basis include foreclosed assets (upon initial recognition or subsequent impairment), non-financial assets and other non-financial long-lived assets measured at fair value for impairment assessment. Non-financial assets measured at fair value on a non-recurring basis during the reported periods include certain foreclosed assets which, upon initial recognition, were re-measured and reported at fair value through a charge-off to the allowance for loan losses and certain foreclosed assets which, subsequent to their initial recognition, were re-measured at fair value through a write-down included in other non-interest expense. The fair value of a foreclosed asset is estimated using Level 2 inputs based on observable market data or Level 3 inputs based on customized discounting criteria.

Changes in economic conditions of model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. There were no transfers between levels for the years ended December 31, 2018, December 31, 2017 and December 31, 2016.

**(9) Subordinated Debentures:**

On September 25, 2003, the Company formed HopFed Capital Trust I (the "Trust"). The Trust is a statutory trust formed under the laws of the state of Delaware. In September 2003, the Trust issued variable rate capital securities with an aggregate liquidation amount of \$10,000,000 (\$1,000 per preferred security) to a third-party investor. The Company then issued floating rate junior subordinated debentures aggregating \$10,310,000 to the Trust. The junior subordinated debentures are the sole assets of the Trust. The junior subordinated debentures and the capital securities pay interest and dividends, respectively, on a quarterly basis. The variable interest rate is the three-month LIBOR plus 3.10% adjusted quarterly. The most recent interest rate adjustment for the trust was effective January 8, 2019, which adjusted the total coupon rate to 5.89%. These junior subordinated debentures mature in 2033, at which time the capital securities must be redeemed. The junior subordinated debentures and capital securities became redeemable contemporaneously, in whole or in part, beginning October 8, 2008 at a redemption price of \$1,000 per capital security.

The Company has provided a full-irrevocable and unconditional guarantee on a subordinated basis of the obligations of the Trust under the capital securities in the event of the occurrence of an event of default, as defined in such guarantee.

**(10) Concentrations of Credit Risk:**

Most of the Bank's business activity is with customers located within the western part of the Commonwealth of Kentucky and middle and western Tennessee. One-to-four family residential and non residential real estate collateralize the majority of the loans. The Bank requires collateral for the majority of loans.

The distribution of commitments to extend credit approximates the distribution of loans outstanding. The contractual amounts of credit-related financial instruments such as commitments to

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**HopFed Bancorp, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2018, 2017 and 2016**

**(Table Amounts in Thousands, Except Per Share Data)**

**(10) Concentrations of Credit Risk: (Continued)**

extend credit and commercial letters of credit represent the amounts of potential accounting loss should the contract be fully drawn upon, the customer default, and the value of any existing collateral become worthless.

At December 31, 2018 and December 31, 2017, all cash and cash equivalents are deposited with BBVA Bank, the Federal Reserve Bank or the Federal Home Loan Bank of Cincinnati (FHLB). Deposits at BBVA Bank are insured to \$250,000. All deposits at the FHLB are liabilities of the individual bank and were not federally insured. The FHLB is a government sponsored enterprise (GSE) and has the second highest rating available by all rating agencies. At December 31, 2018, total FHLB deposits were approximately \$7.3 million and total deposits at the Federal Reserve were \$15.7 million, none of which is insured by the FDIC. At December 31, 2018, total deposits at BBVA were \$9.8 million, of which \$500,000 is insured by the FDIC. At December 31, 2017 total FHLB deposits were approximately \$5.6 million and total deposits at the Federal Reserve were \$7.1 million, none of which is insured by the FDIC. At December 31, 2017, total deposits at BBVA were \$26.3 million, of which \$500,000 were insured by the FDIC.

**(11) Employee Benefit Plans:**

**HopFed Bancorp Long Term Incentive Plans**

On March 20, 2013, the Board of Directors of the Company adopted the HopFed Bancorp, Inc. 2013 Long Term Incentive Plan (the "Plan"), which was subsequently approved at the 2013 Annual Meeting of Stockholders. Under the Plan, the Compensation Committee has discretionary authority to grant up to 300,000 shares in the form of restricted stock grants and options to such employees, directors and advisory directors as the committee shall designate. The grants vest in equal installments over three or four year periods. Grants may vest immediately upon specific events, including a change of control of the Company, death or disability of award recipient, and termination of employment of the recipient by the Company without cause.

Awards are recognized as an expense to the Company in accordance with the vesting schedule. Awards in which the vesting is accelerated must be recognized as an expense immediately. Awards are valued at the closing stock price on the day the award is granted. For the year ended December 31, 2018, the Compensation Committee granted 15,039 shares of restricted stock with a market value of \$225,000. For the year ended December 31, 2017, the Compensation Committee granted 12,753 shares of restricted stock with a market value of \$178,000. For the year ended December 31, 2016, the Compensation Committee granted 11,679 shares of restricted stock with a market value of \$145,000. The Company recognized \$164,000, \$106,000 and \$135,000 in compensation expense for the years

Table of Contents**HopFed Bancorp, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****December 31, 2018, 2017 and 2016****(Table Amounts in Thousands, Except Per Share Data)****(11) Employee Benefit Plans: (Continued)**

ending December 31, 2018, December 31, 2017 and December 31, 2016, respectively. The remaining compensation expense to be recognized at December 31, 2018, is as follows:

<b>Year Ending December 31,</b>	<b>Approximate Future Compensation Expense</b>	
2019	\$	138
2020		116
2021		24
2022		3
<b>Total</b>	<b>\$</b>	<b>281</b>

The Compensation Committee may make additional awards of restricted stock, thereby increasing the future expense related to this plan. The early vesting of restricted stock awards due to factors outlined in the award agreement may accelerate future compensation expenses related to the plan, including a change in control of the Company. However, the total amount of future compensation expense would not change as a result of an accelerated vesting of shares. At December 31, 2018, the Company has 214,786 restricted shares available from the Plan that may be awarded.

**401(K) Plan**

The Company has a 401(K) retirement program that is available to all employees who meet minimum eligibility requirements. In 2015, the Company discontinued all employer 401(K) contributions on behalf of employees while allowing employees to continue contributions to the 401(K) plan.

**HopFed Bancorp, Inc. 2015 Employee Stock Ownership Plan**

On March 2, 2015, the Company implemented the HopFed Bancorp, Inc. 2015 Employee Stock Ownership Plan which covers substantially all employees who are at least 21 years old with at least one year of employment with the Company and Heritage Bank USA, Inc., the Company's commercial bank subsidiary. The ESOP has three individuals who have been selected by the Company to serve as trustees. A directed corporate trustee has also been appointed. The ESOP will be administered by a committee (the "Committee") currently composed of eleven employees selected by the Company or its designee.

On March 2, 2015, the ESOP purchased 600,000 shares from the Corporation at a cost of \$7,884,000 using the proceeds of a loan granted to the ESOP from the Company. In accordance with the ESOP Loan documents, the common stock purchased by the ESOP serves as collateral for the ESOP Loan. The ESOP Loan will be repaid principally from discretionary contributions by the Bank to the ESOP. The ESOP Loan requires annual payments and has a final maturity of December 9, 2026. The interest rate on the ESOP Loan is 3.0%. Shares purchased by the ESOP are held in a trust account for allocation among participants as the ESOP Loan is repaid. The ESOP shares receive dividends. Dividends on unearned shares will be used to repay the ESOP Loan.

Table of Contents**HopFed Bancorp, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****December 31, 2018, 2017 and 2016****(Table Amounts in Thousands, Except Per Share Data)****(11) Employee Benefit Plans: (Continued)**

For the year ended December 31, 2018, the Company recognized an expense of \$633,000 related to the ESOP loan payment and the Company released 51,856 shares from the ESOP trust to individual participants of the plan as a result of the 2018 loan payment. For the year ended December 31, 2017, the Company recognized an expense of \$706,000 related to the ESOP loan payment and the Company released 64,032 shares from the ESOP trust to individual participants of the plan as a result of the 2017 loan payment. For the year ended December 31, 2016, the Company recognized an expense of \$553,000 related to the ESOP loan payment and released 48,067 shares from the ESOP trust to individual participants as a result of the 2016 loan payment. At December 31, 2018 and December 31, 2017, shares held by the ESOP were as follows:

	December 31, 2018	December 31, 2017
Earned ESOP shares	215,510	165,686
Unearned ESOP shares	382,691	434,548
<b>Total ESOP shares</b>	<b>598,201</b>	<b>600,234</b>

Share price at December 31,	\$	13.29	\$	14.10
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Fair value of unearned ESOP shares	\$	5,085,963	\$	6,127,127
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**(12) Income Taxes:**

The provision for income tax expense for the years ended December 31, 2018, December 31, 2017 and December 31, 2016, consisted of the following:

	2018	2017	2016
<b>Current</b>			
Federal	\$ 676	468	
State	95	95	95
	771	563	95
<b>Deferred</b>			
Federal	296	1,585	267
State			
	296	1,585	267
	<b>\$ 1,067</b>	<b>2,148</b>	<b>362</b>



Table of Contents**HopFed Bancorp, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****December 31, 2018, 2017 and 2016****(Table Amounts in Thousands, Except Per Share Data)****(12) Income Taxes: (Continued)**

Total income tax expense for the years ended December 31, 2018, December 31, 2017 and December 31, 2016, differed from the amounts computed by applying the applicable statutory federal income tax rate to income before income taxes as follows:

	<b>2018</b>	<b>2017</b>	<b>2016</b>
Expected federal income tax expense at statutory tax rate	\$ 1,415	1,853	1,110
Effect of nontaxable interest income	(220)	(345)	(452)
Effect of nontaxable bank owned life insurance income	(64)	(164)	(117)
Effect of Qualified Zone Academy Bond (QZAB)			(114)
State taxes on income, net of federal benefit	75	59	59
Other tax credits	(129)	(243)	(128)
Deferred tax asset revaluation		980	
Other	(23)		
Non-deductible expenses	13	8	4
 Total income tax expense	 \$ 1,067	 2,148	 362

Income tax rate	15.8%	39.4%	11.1%
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The components of deferred taxes as of December 31, 2018 and December 31, 2017 are summarized as follows:

	<b>2018</b>	<b>2017</b>
<b>Deferred tax assets:</b>		
Allowance for loan loss	\$ 953	1,014
Accrued expenses	79	77
Net operating loss carry forward	160	192
Tax credit carry forward	540	651
Unrealized loss on securities available for sale	414	57
Intangible amortization		192
Depreciation and amortization	18	
Other	147	77
	2,311	2,260
 <b>Deferred tax liabilities:</b>		
FHLB stock dividends	(486)	(486)
Depreciation and amortization		(10)
	486	(496)

Net deferred tax asset	\$	1,825	1,764
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At December 31, 2018, the Company has operating loss carry forwards of approximately \$763,000, which begin to expire in 2034.

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Table of Contents**HopFed Bancorp, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****December 31, 2018, 2017 and 2016****(Table Amounts in Thousands, Except Per Share Data)****(12) Income Taxes: (Continued)**

No valuation allowance for deferred tax assets was recorded at December 31, 2018 and December 31, 2017, as management believes it is more likely than not that all of the deferred tax assets will be realized because they were supported by recoverable taxes paid in prior years and expected future taxable income. There were no unrecognized tax benefits during any of the reported periods. The Corporation files income tax returns in the U.S. federal jurisdiction. The Company is no longer subject to U.S. federal income tax examinations by tax authorities for years before 2014. The Company recognizes interest and penalties on income taxes, if any, as a component of income tax expense.

**(13) Foreclosed Asset:**

The Company's foreclosed asset balances at December 31, 2018 and December 31, 2017 represent properties and personal collateral acquired by the Bank through customer loan defaults. The property is recorded at fair value less selling cost at the date acquired with any loss recognized as a charge off through the allowance for loan loss account. Additional real estate and other asset losses may be determined on individual properties at specific intervals or at the time of disposal. Additional losses are recognized as a non-interest expense. The compensation and activity in the Company's foreclosed assets are summarized below:

	<b>Balance 12/31/2017</b>	<b>Foreclosure</b>	<b>Sales</b>	<b>Reduction in Values</b>	<b>Gain on Sale</b>	<b>Balance 12/31/2018</b>
One-to-four family mortgages	\$ 169	241	(164)	(5)	15	\$ 256
Non-residential real estate		142				142
Land	3,200					3,200
<b>Total</b>	<b>3,369</b>	<b>383</b>	<b>(164)</b>	<b>(5)</b>	<b>15</b>	<b>3,598</b>

	<b>Balance 12/31/2016</b>	<b>Foreclosure</b>	<b>Sales</b>	<b>Reduction in Values</b>	<b>Gain (Loss) on Sale</b>	<b>Balance 12/31/2017</b>
One-to-four family mortgages	\$ 163	1,069	(1,237)	(10)	184	\$ 169
Multi-family	1,775		(1,761)		(14)	
Non-residential real estate	459	43	(500)		(2)	
Land		3,200				3,200
<b>Total</b>	<b>2,397</b>	<b>4,312</b>	<b>(3,498)</b>	<b>(10)</b>	<b>168</b>	<b>3,369</b>

	<b>Balance 12/31/2015</b>	<b>Foreclosure</b>	<b>Sales</b>	<b>Reduction in Values</b>	<b>Gain (Loss) on Sale</b>	<b>Balance 12/31/2016</b>
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One-to-four family mortgages	\$	55	203	(77)	(8)	(10)	\$	163
Multi-family			1,915	(153)			13	1,775
Non-residential real estate		738		(270)			(9)	459
Consumer			15	(15)				
Land		943	130	(1,108)			35	
Total		1,736	2,263	(1,623)	(8)	(10)		2,397

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Table of Contents**HopFed Bancorp, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****December 31, 2018, 2017 and 2016****(Table Amounts in Thousands, Except Per Share Data)****(14) Commitments and Contingencies:**

In the ordinary course of business, the Bank has various outstanding commitments and contingent liabilities that are not reflected in the accompanying consolidated financial statements. The table below outlines the Company's open loan commitments at December 31, 2018 and December 31, 2017:

	December 31,	
	2018	2017
Commitments to extend credit	50,158	54,458
Standby letters of credit	1,046	143
Unused commercial lines of credit	45,912	62,910
Unused home equity lines of credit	31,733	32,701
Unused personal lines of credit	12,109	17,048

The Company and the Bank have agreed to enter into employment agreements with certain officers, which provide certain benefits in the event of their termination following a change in control of the Company or the Bank. The employment agreements provide for an initial term of three years. On each anniversary of the commencement date of the employment agreements, the term of each agreement may be extended for an additional year at the discretion of the Board. In the event of a change in control of the Company or the Bank, as defined in the agreement, the officers shall be paid an amount equal to 2.9 times the officer's base salary as defined in the employment agreement.

The Company and the Bank have entered into commitments to rent facilities, purchase services and lease operating equipment that are non-cancelable. At December 31, 2018, future minimal purchase, lease and rental commitments were as follows:

Years Ending December 31,	
2019	\$ 308
2020	260
2021	224
2022	173
2023	22
<b>Total</b>	<b>\$ 987</b>

The Company incurred rental expenses of approximately \$121,000, \$130,000 and \$127,000 for the years ended December 31, 2018, December 31, 2017 and December 31, 2016, respectively. In the normal course of business, the Bank and Corporation have entered into operating contracts necessary to conduct the Company's daily business. The most significant operating contract is for the Bank's data processing services, ACH item processing and ATM / Debit card processing which is variable based on the number of accounts and usage but has an expected annual cost of approximately \$3.0 million. The entire data processing contract expires in September of 2019.

The Company is partially self-insured for medical benefits provided to employees. Heritage Bank is named as the plan administrator for this plan and has retained Anthem Blue Cross Blue Shield ("Anthem") to process claims and handle other duties of the plan. Anthem does not assume any

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**HopFed Bancorp, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2018, 2017 and 2016**

**(Table Amounts in Thousands, Except Per Share Data)**

**(14) Commitments and Contingencies: (Continued)**

liabilities as a third-party administrator. The Bank purchased two stop-loss insurance policies to limit total medical claims from Anthem. The first specific stop-loss policy limits the Company's annual cost per covered individual in 2018, 2017 and 2016 of \$100,000, \$100,000 and \$90,000, respectively. The Company has purchased a second stop-loss policy that limits the aggregate claims for the Company in 2018, 2017 and 2016 at \$1.8 million, \$1.7 million and \$1.8 million, respectively, based upon the Company's enrollment during those years. The Company has established a liability for outstanding claims as well as incurred but unreported claims. While management uses what it believes are pertinent factors in estimating the plan liability, the actual liability is subject to change based upon unexpected claims experience and fluctuations in enrollment during the plan year. At December 31, 2018 and December 31, 2017, the Company recognized a liability for self-insured medical expenses of approximately \$210,000 and \$172,000, respectively.

The Company 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 and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit, standby letters of credit, and financial guarantees. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets. The contract or notional amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit and financial guarantees written is represented by the contractual notional amount of those instruments. The Company uses the same credit policies in making these commitments and conditional obligations as it does for on-balance-sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the counter-party. Collateral held varies but may include property, plant, and equipment and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third-party. Those guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing, and similar transactions. Most guarantees extend from one to two years. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

The Bank, in the normal course of business, originates fixed rate mortgages that are sold to Freddie Mac. Upon tentative underwriting approval by Freddie Mac, the Bank issues a best effort commitment to originate a fixed rate first mortgage under specific terms and conditions that the Bank intends to sell to Freddie Mac. The Bank no longer assumes a firm commitment to originate fixed rate

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**HopFed Bancorp, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2018, 2017 and 2016**

**(Table Amounts in Thousands, Except Per Share Data)**

**(14) Commitments and Contingencies: (Continued)**

loans, thus eliminating the risk of having to deliver loans they did not close or pay commitment fees to make Freddie Mac whole.

The Company is subject to various claims and legal actions that have arisen in the course of conducting business. The Company records these as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not expect the ultimate disposition of these matters to have a material adverse impact of the Company's consolidated financial statements.

**(15) Regulatory Matters:**

The Company is a commercial bank holding company and, as such, is subject to regulation, examination and supervision by the Board of Governors of the Federal Reserve System. The Company's wholly owned bank subsidiary is a state chartered commercial bank supervised by the KDFI and the FDIC. 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 Company's and the Bank's financial statements.

Under regulatory capital regulations and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's 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 Bank to maintain minimum amounts and ratios (set forth in the table below) of tangible and core capital (as defined in the regulations) to adjusted total assets (as defined), and of total capital (as defined) and Tier 1 to risk weighted assets (as defined). The minimum required capital amounts presented include the minimum required capital levels as of December 31, 2018 and December 31, 2017. Management believes, as of December 31, 2018 and December 31, 2017, that the Bank meets all capital adequacy requirements to which it is subject.

Table of Contents**HopFed Bancorp, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****December 31, 2018, 2017 and 2016****(Table Amounts in Thousands, Except Per Share Data)****(15) Regulatory Matters: (Continued)**

The Company's consolidated capital ratios and the Bank's actual capital amounts and ratios as of December 31, 2018 and December 31, 2017 are presented below:

	Actual		Minimum Capital Required		To be Well Capitalized for Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2018						
Tier 1 leverage capital to adjusted total assets						
Company	\$ 100,520	11.0%	\$ 36,417	4.0%	\$ 45,521	5.0%
Bank	\$ 99,478	10.9%	\$ 36,361	4.0%	\$ 45,451	5.0%
Total capital to risk weighted assets						
Company	\$ 105,055	16.2%	\$ 52,049	8.0%	\$ 65,061	10.0%
Bank	\$ 104,014	16.0%	\$ 51,937	8.0%	\$ 64,922	10.0%
Tier 1 capital to risk weighted assets						
Company	\$ 100,520	15.5%	\$ 39,037	6.0%	\$ 52,049	8.0%
Bank	\$ 99,478	15.3%	\$ 38,953	6.0%	\$ 51,937	8.0%
Common equity tier 1 capital to risk weighted assets						
Company	\$ 100,520	15.5%	\$ 29,277	4.5%	n/a	n/a
Bank	\$ 99,478	15.3%	\$ 29,215	4.5%	\$ 42,199	6.5%
As of December 31, 2017						
Tier 1 leverage capital to adjusted total assets						
Company	\$ 95,709	10.6%	\$ 36,137	4.0%	\$ 45,171	5.0%
Bank	\$ 95,123	10.5%	\$ 36,090	4.0%	\$ 45,112	5.0%
Total capital to risk weighted assets						
Company	\$ 100,535	16.0%	\$ 50,352	8.0%	\$ 62,940	10.0%
Bank	\$ 99,949	15.9%	\$ 50,314	8.0%	\$ 62,892	10.0%
Tier 1 capital to risk weighted assets						
Company	\$ 95,709	15.2%	\$ 37,764	6.0%	\$ 50,352	8.0%
Bank	\$ 95,123	15.1%	\$ 37,735	6.0%	\$ 50,314	8.0%
Common equity tier 1 capital to risk weighted assets						
Company	\$ 95,709	15.2%	\$ 28,323	4.5%	n/a	n/a
Bank	\$ 95,123	15.1%	\$ 28,301	4.5%	\$ 40,880	6.5%

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized, although



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**HopFed Bancorp, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2018, 2017 and 2016**

**(Table Amounts in Thousands, Except Per Share Data)**

**(15) Regulatory Matters: (Continued)**

these terms are not used to represent overall financial status. At December 31, 2018 and 2017, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. Management is not aware of any conditions or events that have changed the Bank's status as a well-capitalized bank.

**(16) Stockholders' Equity:**

The Company's sources of income and funds for dividends to its stockholders are earnings on its investments and dividends from the Bank. The Bank's primary regulator, the KDFI, has regulations that impose certain restrictions on payment of dividends to the Corporation. Current regulations of the KDFI allow the Bank (based upon its current capital level and supervisory status assigned by the KDFI) to pay a dividend as long as the Bank subsidiary maintains an appropriate Tier 1 Capital ratio. Furthermore, for the Bank to pay a dividend to the Corporation without regulatory approval, the dividend is limited to the total amount of the Bank's current year net income plus the Bank's net income of the prior two years less any previous dividends paid by the Bank to the Corporation during that time.

At December 31, 2018, the Company holds a total of 1,341,980 shares of treasury stock at an average price of \$12.45 per share. At December 31, 2018, the Company may purchase 296,380 shares of treasury stock under a new stock repurchase plan announced on November 11, 2017 that expires December 31, 2019. The Company conducts repurchases through open market transactions or in privately negotiated transactions that may be made from time to time depending on market conditions and other factors.

The Company has paid all interest payments due on HopFed Capital Trust I. If interest payments to HopFed Capital Trust I are not made in a timely manner, the Company is prohibited from making cash dividend payments to its common shareholders.

In July 2013, the Federal Reserve Board and the FDIC approved final rules that substantially amend the regulatory risk-based capital rules applicable to Heritage Bank USA, Inc. and HopFed Bancorp, Inc. The final rules implement the regulatory capital reforms of the Basel Committee on Banking Supervision reflected in "Basel III: A Global Regulatory Framework for More Resilient Banks and Banking Systems" (Basel III) and changes required by the Dodd-Frank Act.

Under these rules, the leverage capital and risk-based capital ratios of bank holding companies may not be lower than the leverage and risk-based capital ratios for insured depository institutions. The final rules implementing the Basel III regulatory capital reforms became effective on January 1, 2015, and include new minimum risk-based capital and leverage ratios. Moreover, these rules refine the definition of what constitutes "capital" for purposes of calculating those ratios, including the definitions of Tier 1 capital and Tier 2 capital.

The new minimum capital level requirements applicable to bank holding companies and banks subject to the rules are:

a new common equity Tier 1 capital ratio of 4.5%;

Table of Contents**HopFed Bancorp, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****December 31, 2018, 2017 and 2016****(Table Amounts in Thousands, Except Per Share Data)****(16) Stockholders' Equity: (Continued)**

a Tier 1 risk-based capital ratio of 6% (increased from 4%);

a total risk-based capital ratio of 8% (unchanged from current rules); and

a Tier 1 leverage ratio of 4% for all institutions.

The rules also establish a "capital conservation buffer" of 2.5% (to be phased by 2019) above the new regulatory minimum risk-based capital ratios, and result in the following minimum ratios once the capital conservation buffer is fully phased in:

a common equity Tier 1 risk-based capital ratio of 7.0%;

a Tier 1 risk-based capital ratio of 8.5%; and

a total risk-based capital ratio of 10.5%.

At December 31, 2018, the Bank and Corporation met all fully phased capital requirements of Basel III, including the capital conservation buffer of 2.5% to be fully phased in by January 1, 2019. The Capital conservation buffer for 2017 is 1.25% and 1.875% for 2018. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital.

**(17) Earnings Per Share:**

Earnings per share of common stock are based on the weighted average number of basic shares and dilutive shares outstanding during the year. Common stock warrants outstanding are not included in the dilutive earnings per share computations because they would be anti-dilutive.

The following is a reconciliation of weighted average common shares for the basic and dilutive earnings per share computations:

	<b>For the years ended December 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
Basic earnings per share:			
Weighted average common shares	6,641,796	6,695,721	6,757,345
Less: Average unallocated ESOP shares	(408,620)	(474,089)	(523,485)
Weighted average common shares	6,233,176	6,221,632	6,233,860

Dilutive effect of stock options



Weighted average common shares diluted	6,233,176	6,221,632	6,233,860
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**(18) Condensed Parent Company Only Financial Statements:**

The following condensed balance sheets as of December 31, 2018 and December 31, 2017 and condensed statements of income and cash flows for the years ended December 31, 2018, December 31, 2017 and December 31, 2016, of the parent company only should be read in conjunction with the consolidated financial statements and the notes thereto.

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Table of Contents**HopFed Bancorp, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****December 31, 2018, 2017 and 2016****(Table Amounts in Thousands, Except Per Share Data)****(18) Condensed Parent Company Only Financial Statements: (Continued)**

## Condensed Balance Sheets:

	2018	2017
Assets:		
Cash	\$ 1,086	862
Investment in subsidiary	99,745	96,826
Prepaid expenses and other assets	871	1,109
<b>Total assets</b>	<b>101,702</b>	<b>98,797</b>
Liabilities:		
Dividend payable common	463	353
Interest payable	141	112
Other liabilities	2	610
Subordinated debentures	10,310	10,310
<b>Total liabilities</b>	<b>10,916</b>	<b>11,385</b>
Equity:		
Preferred stock		
Common stock	80	80
Additional paid-capital	59,105	58,825
Retained earnings	55,134	51,162
Treasury stock common stock	(16,706)	(16,655)
Unearned ESOP shares	(5,268)	(5,901)
Accumulated other comprehensive loss	(1,559)	(99)
<b>Total equity</b>	<b>90,786</b>	<b>87,412</b>
<b>Total liabilities and equity</b>	<b>\$ 101,702</b>	<b>98,797</b>

Table of Contents**HopFed Bancorp, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****December 31, 2018, 2017 and 2016****(Table Amounts in Thousands, Except Per Share Data)****(18) Condensed Parent Company Only Financial Statements: (Continued)**

## Condensed Statements of Income:

	2018	2017	2016
Interest and dividend income:			
Dividend income from subsidiary Bank	\$ 2,500	2,500	2,000
<b>Total interest and dividend income</b>	<b>2,500</b>	<b>2,500</b>	<b>2,000</b>
Interest expense	538	436	388
Non-interest expenses	964	1,538	391
<b>Total expenses</b>	<b>1,502</b>	<b>1,974</b>	<b>779</b>
Income before income taxes and equity in undistributed earnings of subsidiary	998	526	1,221
Income tax benefits	(291)	(545)	(319)
Income before equity in undistributed earnings of subsidiary	1,289	1,071	1,540
Equity in earnings of subsidiary	4,380	2,230	1,364
<b>Income available to common shareholders</b>	<b>\$ 5,669</b>	<b>3,301</b>	<b>2,904</b>

## Condensed Statements of Cash Flows:

	2018	2017	2016
Cash flows from operating activities			
Net income	\$ 5,669	\$ 3,301	2,904
Adjustments to reconcile net income to net cash provided by operating activities			
Equity in undistributed earnings of subsidiary	(4,380)	(2,230)	(1,364)
Amortization of restricted stock	164	106	135
Increase (decrease) in:			
Current income taxes payable	187	330	(49)
Accrued expenses	(301)	106	(392)
<b>Net cash provided by operating activities</b>	<b>1,339</b>	<b>1,613</b>	<b>1,234</b>
Cash flows from financing activities:			
Purchase of treasury stock	(51)	(1,308)	(1,876)
Proceeds on ESOP loan	633	647	632
Dividends paid on common stock	(1,697)	(1,174)	(993)
<b>Net cash used in financing activities</b>	<b>(1,115)</b>	<b>(1,835)</b>	<b>(2,237)</b>
<b>Net increase (decrease) in cash</b>	<b>224</b>	<b>(222)</b>	<b>(1,003)</b>

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Cash and due from banks at beginning of year	862	1,084	2,087
Cash and due from banks at end of year	\$ 1,086	\$ 862	1,084

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Table of Contents**HopFed Bancorp, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****December 31, 2018, 2017 and 2016****(Table Amounts in Thousands, Except Per Share Data)****(19) Investments in Affiliated Companies (Unaudited):**

Investments in affiliated companies accounted for under the equity method consist of 100% of the common stock of HopFed Capital Trust I (the Trust), a wholly owned statutory business trust. The Trust was formed on September 25, 2003. Summary financial information for the HopFed Capital Trust 1 is as follows:

**Summary Balance Sheets**

	<b>December 31, 2018</b>	<b>December 31, 2017</b>
Asset investment in subordinated debentures issued by HopFed Bancorp, Inc.	\$ 10,310	10,310
Liabilities		
Stockholders' equity:		
Trust preferred securities	10,000	10,000
Common stock (100% owned by HopFed Bancorp, Inc.)	310	310
Total stockholder's equity	10,310	10,310
Total liabilities and stockholder's equity	\$ 10,310	10,310

**Summary Statements of Income**

	<b>Year Ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
Income interest income from subordinated debentures issued by HopFed Bancorp, Inc.	\$ 555	449
Net income	\$ 555	449

Table of Contents**HopFed Bancorp, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****December 31, 2018, 2017 and 2016****(Table Amounts in Thousands, Except Per Share Data)****(19) Investments in Affiliated Companies (Unaudited): (Continued)****Summary Statements of Stockholder's Equity**

	Trust Preferred Securities	Common Stock	Retained Earnings	Total Stockholder's Equity
Beginning balances, January 1, 2018	\$ 10,000	310		10,310
Retained earnings:				
Net income			555	555
Dividends:				
Trust preferred securities			(538)	(538)
Common dividends paid to HopFed Bancorp, Inc.			(17)	(17)
Total retained earnings				
Ending balances, December 31, 2018	\$ 10,000	310		10,310

**(20) Quarterly Results of Operations: (Unaudited)**

Summarized unaudited quarterly operating results for the year ended December 31, 2018:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
December 31, 2018:				
Interest and dividend income	\$ 8,798	9,115	9,344	9,474
Interest expense	1,612	1,835	2,231	2,496
Net interest income	7,186	7,280	7,113	6,978
Provision for loan losses	68	62	74	84
Net interest income after provision for loan losses	7,118	7,218	7,039	6,894
Noninterest income	1,744	2,364	1,893	1,816
Noninterest expense	7,540	7,574	7,512	6,724
Income before income taxes	1,322	2,008	1,420	1,986
Income taxes	196	323	180	368
Net income	\$ 1,126	1,685	1,240	1,618
Basic earnings per share	\$ 0.18	0.28	0.20	0.26

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Diluted earnings per share	\$	0.18	0.28	0.20	0.26
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Weighted average shares outstanding:

Basic	6,188,413	6,142,680	6,211,636	6,266,585
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Diluted	6,188,413	6,142,680	6,211,636	6,266,585
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Table of Contents**HopFed Bancorp, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****December 31, 2018, 2017 and 2016****(Table Amounts in Thousands, Except Per Share Data)****(20) Quarterly Results of Operations: (Unaudited) (Continued)**

Summarized unaudited quarterly operating results for the year ended December 31, 2017:

	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>Fourth Quarter</b>
December 31, 2017:				
Interest and dividend income	\$ 8,160	8,419	8,635	8,541
Interest expense	1,406	1,454	1,537	1,566
Net interest income	6,754	6,965	7,098	6,975
Provision for loan losses	291	59	71	56
Net interest income after provision for loan losses	6,463	6,906	7,027	6,919
Noninterest income	2,296	1,836	2,030	1,868
Noninterest expense	7,689	7,233	7,168	7,806
Income before income taxes	1,070	1,509	1,889	981
Income taxes	135	368	486	1,159
Net income (loss)	\$ 935	1,141	1,403	(178)
Basic earnings (loss) per share	\$ 0.15	0.18	0.22	(0.03)
Diluted earnings (loss) per share	\$ 0.15	0.18	0.22	(0.03)
Weighted average shares outstanding:				
Basic	6,218,706	6,228,994	6,236,075	6,202,635
Diluted	6,218,706	6,228,994	6,236,075	6,202,635

**(21) Comprehensive Income:**

FASB ASC 220, *Comprehensive Income*, established standards for reporting comprehensive income. Comprehensive income includes net income and other comprehensive net income which is defined as non-owner related transactions in equity. The following table sets forth the



amounts of other

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Table of Contents**HopFed Bancorp, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****December 31, 2018, 2017 and 2016****(Table Amounts in Thousands, Except Per Share Data)****(21) Comprehensive Income: (Continued)**

comprehensive income (loss) included in stockholders' equity along with the related tax effect for the years ended December 31, 2018, 2017 and 2016.

	Pre-Tax Amount	Tax Benefit (Expense)	Net of Tax Amount
December 31, 2018:			
Unrealized holding gains (losses) on:			
Available for sale securities	\$ (1,589)	333	(1,256)
Available for sale securities OTTI	294	(61)	233
Reclassification adjustments for gains on:			
Available for sale securities	(553)	116	(437)
	\$ (1,848)	388	(1,460)

December 31, 2017:			
Unrealized holding gains (losses) on:			
Available for sale securities	\$ (585)	198	(387)
Available for sale securities OTTI	(224)	76	(148)
Reclassification adjustments for gains on:			
Available for sale securities	(169)	57	(112)
	\$ (978)	331	(647)

December 31, 2016:			
Unrealized holding gains (losses) on:			
Available for sale securities	\$ (2,048)	697	(1,351)
Available for sale securities OTTI	(258)	88	(170)
Reclassification adjustments for gains on:			
Available for sale securities	(612)	207	(405)
	\$ (2,918)	992	(1,926)

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

The Audit Committee of the Board of Directors conducted a competitive process to determine the Company's independent registered public accounting firm for the Company's fiscal year ended December 31, 2018. The Audit Committee invited nine qualified accounting firms to participate in the process, including Carr, Riggs & Ingram, LLC ("CRI"), the Company's then independent registered public accounting firm. As a result of this process, on March 13, 2018, the Audit Committee approved the engagement of HORNE LLP ("HORNE") as the Company's independent registered public accounting firm for the Company's 2018 fiscal year and dismissed CRI. On March 19, 2018, the Company filed a Current Report on Form 8-K to discuss the change in its independent registered public accounting firm.

During the Company' fiscal years ended December 31, 2016 and 2017, and the subsequent interim period through the date of filing the Form 8-K report announcing the change, there were (i) no "disagreements" as that term is defined in Item 304(1)(iv) of Regulation S-K between the Company and CRI on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedures, any of which, if not resolved to CRI's satisfaction, would have caused CRI to make reference to the subject matter of the disagreement in its report on the Company's consolidated financial statements for the relevant year, and (ii) no "reportable events" as that term is defined in Item 304(a)(1)(v) of Regulation S-K.

During the fiscal years ended December 31, 2016 and December 31, 2017, and the subsequent interim period through the date of the filing of the Form 8-K report, neither the Company nor anyone on its behalf has consulted with HORNE regarding (i) the application of accounting principles to a specific transaction, either completed or proposed, (ii) the type of audit opinion that might be rendered on the Company's financial statements, and neither a written report nor oral advice was provided to the Company that HORNE concluded was an important factor considered by the Company in reaching a decision as to any accounting, auditing, or financial reporting issue, or (iii) any matter that was either the subject of a disagreement within the meaning of Item 304(a)(1)(iv) of Regulation S-K, or a reportable event within the meaning of Item 304(a)(1)(v) of Regulation S-K.

**ITEM 9A. CONTROLS AND PROCEDURES**

The Company maintains disclosure controls and procedures, as defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934 (the "Exchange Act") that are designed to insure that information required to be disclosed by it in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified under the SEC's rules and forms and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decision making regarding required disclosure. The Company, under the supervision and participation of its management, including the Company's Chief Executive Officer and the Chief Financial Officer, carried out an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the period covered by this report pursuant to the Exchange Act. Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in ensuring that all material information required to be disclosed in this annual report has been accumulated and communicated to them in a manner appropriate to allow timely decisions regarding required disclosures.

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**Management Report on Internal Control**

The management of HopFed Bancorp, Inc. and its subsidiaries (collectively referred to as the "Company") is responsible for the preparation, integrity and fair presentation of published financial statements and all other information presented in this annual report. The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America over financial reporting ("U.S. GAAP") and, as such, include amounts based on informed judgments and estimates made by management.

Management is responsible for establishing and maintaining adequate internal control over financial reporting for financial presentations in conformity with U.S. GAAP. Pursuant to the rules and regulations of the Securities and Exchange Commission, internal control over financial reporting is a process designed by, or under the supervision of, the Company's Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP and included those policies and procedures that:

Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company.

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

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.

All internal control systems, no matter how well designed, have inherent limitations, including the possibility of human error and the circumvention of overriding controls. Accordingly, even effective internal control can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, or that the degree of compliance with the policies and procedures include in such controls may deteriorate.

Management has evaluated the effectiveness of its internal control over financial reporting as of December 31, 2018, based on the control criteria established in a report entitled *Internal Control Integrated Framework (2013 Framework)*, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on such evaluation, we have concluded that HopFed Bancorp's internal control over financial reporting is effective as of December 31, 2018.

HORNE LLP, the independent registered public accounting firm that audited the consolidated financial statements of the Company included in this Annual Report on Form 10-K, has issued an attestation report on the effectiveness of the Company's internal control over financial reporting as of December 31, 2018. The report, which expresses an unqualified opinion on the effectiveness of the

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Company's internal control over financial reporting as of December 31, 2018 is included in this Item under the heading "Report of Independent Registered Public Accounting Firm."

Date: March 18, 2019

By: (signed) JOHN E. PECK

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John E. Peck  
*President and Chief Executive Officer*

By: (signed) BILLY C. DUVALL

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Billy C. Duvall  
*Senior Vice President and Treasurer  
(Principal Financial Officer)*

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**Report of Independent Registered Public Accounting Firm**

To the Shareholders and Board of Directors of HopFed Bancorp, Inc.

**Opinion on the Internal Control Over Financial Reporting**

We have audited HopFed Bancorp, Inc. and subsidiaries' (the "Company") internal control over financial reporting as of December 31, 2018, based on criteria established in the *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria for effective internal control over financial reporting described in the *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (the "PCAOB"), the consolidated financial statements of the Company as of December 31, 2018 and our report dated March 18, 2019 expressed an unqualified opinion.

**Basis for Opinion**

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting in the accompanying Report on Management's Assessment of Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit 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 audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

**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 (a) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (b) 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 (c) 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.

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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.

/s/ HORNE LLP

Memphis, Tennessee  
March 18, 2019

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**ITEM 9B. OTHER INFORMATION**

Not Applicable

**PART III**

**ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE OF THE REGISTRANT**

Pursuant to our charter and bylaws, the Company's board of directors is divided into three classes. Directors are elected for a term of three years, with a term of office of one of the three classes of directors expiring each year. Each director will hold office for the term to which he or she is elected or until his successor is duly elected and qualified. Information regarding the Board of Directors is as follows:

**Richard Perkins.** Mr. Perkins was appointed to the Board of Directors on January 15, 2014. Mr. Perkins graduated from Western Kentucky University with a business degree and later from the Stonier Graduate School of Banking. Mr. Perkins began his career with the Federal Deposit Insurance Corporation ("FDIC") as a field examiner, later serving as field supervisor in western Kentucky and southern Illinois. Mr. Perkins currently provides part-time consulting services to ProBank Austin. Mr. Perkins regulatory experience with the FDIC and as a consultant to financial institutions, as well as his business and accounting experience are among his qualifications to serve on the Board of Directors and provide significant value to the Board.

**Ted S. Kinsey.** Mr. Kinsey, elected in 2008, has served as the owner and operator of Parkway Chrysler, Inc. in Benton, Kentucky since 1980. Mr. Kinsey previously served as a Director of the Bank of Marshall County in Benton, Kentucky and Mercantile Bank of St. Louis, Missouri. Mr. Kinsey has served as a director of the Benton Electric System since 2004 and the Marshall County Hospital in Benton, Kentucky since 2006. Mr. Kinsey is a member and serves on the finance committee of the First Baptist Church of Benton, Kentucky. Mr. Kinsey's business and banking experience and contacts in the local community are among his qualifications to serve on the Board of Directors and provides significant value to the Board.

**John E. Peck.** Mr. Peck has served as President and Chief Executive Officer of both the Company and the Bank since July 2000. Prior to that, Mr. Peck was President and Chief Executive Officer of United Commonwealth Bank and President of Firststar Bank-Calloway County. Mr. Peck was a past Board Member and Chairman of the Christian County Chamber of Commerce, Jennie Stuart Hospital and Murray-Calloway County Hospital. Mr. Peck holds a Bachelor of Science of Business Administration with a concentration in Finance from the University of Louisville. Mr. Peck is a graduate of the Louisiana State University School of Banking. Mr. Peck is a member and serves on the finance committee of the First Baptist Church of Hopkinsville. Mr. Peck's banking experience, his knowledge of products and services and the regulatory environment in which the Company operates, as well as his relationships in the banking and financial services industry are among his qualifications to serve on the Board of Director and provide significant value to the Board.

**Mark D. Alcott.** Mr. Alcott was elected to the Board of Directors of the Company on April 18, 2018 pursuant to the terms of the Standstill Agreement dated April 10, 2018, by and among the Company, the Stilwell Group, Joseph Stilwell and Mr. Alcott. Mr. Alcott earned an undergraduate degree in Agri-Business from Western Kentucky University ("WKU") and graduated from the University of Kentucky Law School. Mr. Alcott is the managing partner for his law firm, Harlin Parker of Bowling Green, Kentucky. Mr. Alcott has served the City of Bowling Green in several leadership capacities including City Commissioner, Bowling Green Chamber of Commerce, Bowling Green Municipal Utilities as well as the Bowling Green Warren County Bar Association. Mr. Alcott currently



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serves on the Ogden College Advisory Board at WKU. Mr. Alcott is a Deacon and Moderator at First Baptist Church of Bowling Green.

**Steve Hunt.** Mr. Hunt, elected in 2010, is Vice-President of Agri-Power Inc., a Board Member of Agri-Chem and a partner in Hunt Farms, all headquartered in Hopkinsville, Kentucky. Agri-Power operates eighteen retail dealerships for IH Case, New Holland, Kubota and Kinze in western Kentucky, southern Indiana, southern Illinois, western Tennessee, northern Alabama and Mississippi. Agri-Chem provides agricultural related products and services throughout Western Kentucky as well as operates a river terminal on the Cumberland River in Lyon County, Kentucky. Hunt Farms is a family owned farm with approximately 10,000 acres of corn, wheat and soybeans and approximately 25 acres of tobacco. Mr. Hunt is a sixteen year board member of the Christian County Water District, a nineteen year board member and past president of the Kentucky Small Grain Grower Association, a six year board member of the Christian County Chamber of Commerce Agricultural and Commerce Committee and member of Hillcrest Baptist Church. Mr. Hunt's business experience and contacts in the local community are among his qualifications to serve on the Board of Directors and provides significant value to the Board.

**Michael L. Woolfolk.** Mr. Woolfolk has served as Executive Vice President and Chief Operations Officer of the Bank since August 2000. Mr. Woolfolk was appointed to the Board of Directors of the Company on August 15, 2012. Mr. Woolfolk was elected to the Company's Board of Directors in 2013. Prior to that, he was President of First-Star Bank-Marshall County, President and Chief Executive Officer of Bank of Marshall County and President of Mercantile Bank. Mr. Woolfolk is a member of Hillcrest Baptist Church of Hopkinsville. Mr. Woolfolk has extensive banking experience and is knowledgeable of banking products and services as well as the regulatory environment in which the Company operates. This industry knowledge as well as his relationship in the banking and financial services industries are among his qualifications to serve on the Board of Director and provide significant value to the Board.

**Harry J. Dempsey, MD.** Dr. Dempsey, first elected in 1999, served as an anesthesiologist with Christian County Anesthesia in Hopkinsville, Kentucky, from 1985 through 2016. Dr. Dempsey currently serves as Medical Director of Anesthesia at Baptist Health Madisonville, Kentucky. Dr. Dempsey has a variety of business interest including agricultural, retail and residential development and retail and residential construction. Dr. Dempsey has twice served as a Medical Staff President at Jennie Stuart Medical Center and as a director on the Medical Center's hospital board. Dr. Dempsey is currently a Director and Treasurer for the Christian County Health Department. Dr. Dempsey is a past chairman of the United Way of Christian County. Dr. Dempsey's business experience and contacts in the local community are among his qualifications to serve on the Board of Directors and provide significant value to the Board.

**Thomas I. Miller, Ph.D.** Dr. Miller served as a Director of the Company from 2002 to 2013. Dr. Miller was re-appointed to the Board of Directors on December 16, 2015 upon the retirement of Mr. Gilbert E. Lee. Dr. Miller was appointed to serve the remaining term of Mr. Lee, which expired at the 2017 Annual Meeting of Stockholders and was re-elected at that meeting. From 1967 to 2014, Dr. Miller served as an instructor, assistant professor, associate professor, and professor of accounting at Murray State University. Dr. Miller served as Chairman of the Accounting Department for 17 years; coordinator of planned giving for 5 years; Executive Director of the Murray State University Foundation for over 20 years; and served twice as the interim president of Murray State University and was appointed the 12th President of Murray State University in 2014. Dr. Miller was a partner in the public accounting firm of Miller & Wilson, a certified public accounting firm located in Murray, Kentucky from 1993 through 2010. He was a member of the AICPA, the Kentucky Society of CPAs, the American College of Forensic Examiners and the American Accounting Association. Dr. Miller is a former chairman and trustee of the Murray-Calloway County Hospital Board and served as a board

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member of the Murray Electric System for 12 years. Dr. Miller's academic and professional experience are among his qualifications to serve on the Company's Board of Directors and provide significant value to the Board.

**Other Executive Officers of the Company**

**Billy C. Duvall.** Mr. Duvall has served as Senior Vice President, Chief Financial Officer and Treasurer of the Company and the Bank since June 1, 2001. Prior to that, he was an auditor with Rayburn, Betts & Bates, PC, independent public accountants and nine years as a Principal Examiner with the National Credit Union Administration. Mr. Duvall holds a Bachelor of Business Administration from Austin Peay State University in Accounting and Finance. Mr. Duvall is a Certified Public Accountant of the Commonwealth of Virginia. Mr. Duvall serves on College of Business Advisory Board at Austin Peay State University. Mr. Duvall is a Board Member for the Pennyroyal Mental Health Center and a member of Southside Church of Christ in Hopkinsville.

**Bailey C. Knight.** Mr. Knight was promoted to Chief Credit Officer on January 15, 2016. Mr. Knight was hired by the Company on April 2, 2012 as the Cheatham County Market President and has served as the Company's Senior Lending officer. Prior to that, he was the Regional Executive and Team Lead with Capital Bank/GreenBank and has over 25 years of Commercial Banking experience. Mr. Knight holds a Bachelor of Business Administration in Finance from Austin Peay State University. Mr. Knight previously served on the Board of the Mid-Cumberland Area Development Company and the Cheatham County Chamber of Commerce. Mr. Knight is a past Board Member of the Clarksville Downtown Kiwanis Club and of Clarksville Aspire. He is also a graduate of Leadership Clarksville; Southeastern School of Banking; Southeastern School of Commercial Lending and a member of Lone Oak Baptist Church, Cunningham, Tennessee.

**CORPORATE GOVERNANCE AND OTHER MATTERS  
BOARD OF DIRECTORS AND STOCKHOLDER MEETINGS**

The Board of Directors met twenty-one times during the fiscal year ended December 31, 2018. All directors attended at least 75% of the Board of Director's meetings and assigned committee meetings in 2018. The Company encourages directors' attendance at its Annual Meetings and requests that directors make reasonable efforts to attend. All members of the Board of Directors attended the 2018 Annual Meeting.

**STOCKHOLDER COMMUNICATION**

Stockholders may communicate directly with members of the Board of Directors or the individual Chairman of standing Board of Directors committees by writing directly to those individuals at the following address: P.O. Box 537, Hopkinsville, Kentucky 42241-0537. The Company's general policy is to forward, and not to intentionally screen, any mail received at the Company's corporate office that is sent directly to an individual, unless the Company believes the communication may pose a security risk. The Board of Directors reserves the right to revise this policy in the event it is abused, becomes unworkable or otherwise does not efficiently serve the policy's purpose.

**CODE OF ETHICS**

The Board of Directors has adopted a Code of Ethics that applies to all officers, other employees and directors. A link to the Code of Ethics is on the Investor Relations portion of the Company's website. Any waiver or substantive amendments of the Code of Ethics applicable to the Company's directors and executive officers also will be disclosed on the Company's website.

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**SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's officers and directors, and persons who own more than 10% of a registered class of the Company's equity securities, to file reports of ownership and changes in ownership with the SEC. Officers, directors and greater than 10% stockholders are required to furnish the Company with copies of all such reports. Based solely on its review of copies of such reports received by it, or representations from certain reporting persons that no annual report of change in beneficial ownership is required, the Company believes that during the year ended December 31, 2018 all such filing requirements were compiled in a timely.

**COMMITTEES OF THE BOARD OF DIRECTORS**

The Board of Directors has a standing Audit Committee, Compensation Committee, and Nominating Corporate Governance Committee. The Board of Directors has determined that all of the directors who serve on these committees are independent within the meaning of applicable Securities and Exchange Commission ("SEC") rules and NASDAQ listing standards. The Board of Directors has adopted a charter for each of the three standing committees. Links to these committee charters are on the "Investor Relations" portion of the Company's website at: [www.bankwithheritage.com](http://www.bankwithheritage.com). The Board of Directors of each of the Company and the Bank also has an Executive Committee.

**Audit Committee**

The current members of the Audit Committee are Mr. Perkins, who serves as the Chairman, and Messrs. Miller and Hunt. Each of the members of the Audit Committee is independent within the meaning of applicable NASDAQ rules. The Board of Directors has determined that each of the Audit Committee members has the requisite expertise generally required of an audit committee member under NASDAQ standards and that Mr. Perkins is an "audit committee financial expert" as defined in Item 407(d)(5) of SEC Regulation S-K.

Mr. Perkins was employed by more than 25 years by the Federal Deposit Insurance Corporation ("FDIC") as both an examiner and supervisory of examiners of several offices in the Midwest. Mr. Perkins supervised commercial banks of various sizes and complexities, including publically traded institutions that were required to adhere to both FDICA and Sarbanes Oxley requirements. Mr. Perkins professional requirements precluded him from owning stocks in the commercial banks that he did or could supervise in his normal duties. The Board of Directors has deemed that Mr. Perkins educational and professional background possess sufficient experience to qualify as an audit committee financial expert.

Dr. Miller served as an instructor, assistant professor, associate professor and professor of accounting at Murray State University from 1967 to 2014. Dr. Miller was chairman of the accounting department for 17 years and twice served as interim president of Murray State University. Dr. Miller was later appointed as the 12<sup>th</sup> President of Murray State University. Dr. Miller was a partner in a public accounting firm of Miller and Wilson from 1993 to 2010. Along with other attributes outlined in Dr. Miller's biography included in this report, the Board of Directors deems that Dr. Miller's educational and professional background qualify him to serve as an audit committee financial expert.

The Board of Directors believes that each member of the Audit Committee has sufficient knowledge in financial and auditing matters to serve on the committee. The Audit Committee has authority to engage legal counsel, accounting professionals and other experts it deems appropriate to carry out its responsibilities. The Audit Committee has oversight responsibility for the quality and integrity of the Company's financial statements. The Audit Committee meets privately with the independent auditors, has the sole authority to retain and dismiss the independent auditors and reviews their performance and independence from management. The independent auditors have unrestricted access and report directly to the committee.

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The Audit Committee met four times during 2018. The primary functions of the Audit Committee are to oversee: (i) the audit of the financial statements of the Company provided to the SEC, the shareholders and the general public; (ii) the Company's internal financial and accounting processes; and (iii) the independent audit process. Additionally, the Audit Committee has responsibilities relating to: (i) registered public accounting firms; (ii) complaints relating to accounting, internal accounting controls or auditing matters; (iii) authority to engage advisors; and (iv) funding as determined by the audit committee. These and other aspects of the Audit Committee's authority are more particularly described in the Audit Committee Charter adopted by the Board of Directors, available on the "Investor Relations" portion of the Company's website at: [www.bankwithheritage.com](http://www.bankwithheritage.com).

The Audit Committee has adopted a formal policy concerning approval of audit and non-audit services to be provided to the Company by its independent auditor. The policy requires that all services to be provided by the independent auditor, including audit services and permitted audit-related and non-audit services, must be pre-approved by the Audit Committee. The Audit Committee approved all audit and non-audit services provided during 2018.

**Compensation Committee**

The members of the Compensation Committee are Mr. Hunt, who serves as the Chairman, and Messrs. Kinsey and Miller, each of whom is a non-employee director and is also independent within the meaning of NASDAQ listing standards. The Compensation Committee met three times during 2018. The functions of the Compensation Committee include making recommendations to the Board of Directors concerning compensation, including incentive compensation, of the executive officers and directors. The Compensation Committee also administers our stock incentive plans. A link to the Compensation Committee Charter is on the "Investor Relations" portion of our website.

**Nominating and Corporate Governance Committee**

The independent members of the Board of Directors serve as the Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee is responsible for evaluating and recommending individuals for election or re-election to the Board of Directors, including those recommendations submitted by stockholders, the evaluation of the performance of the Board of Directors and its committees, and the evaluation and recommendation of corporate governance policies. In 2018, the Nominating and Corporate Governance Committee **held four meetings**.

It is a policy of the Nominating and Corporate Governance Committee that candidates for director possess the highest personal and professional integrity, have demonstrated exceptional ability and judgment and have skills and expertise appropriate for the Company and serving the long-term interests of the Company's stockholders. The committee's process for identifying and evaluating nominees is as follows: (1) in the case of incumbent directors whose terms of office are set to expire, the committee reviews such director's overall service to the Company during their terms, including the number of meetings attended, level of participation, quality of performance, and any related party transactions with the Company during the applicable time period (incumbent directors whose terms are to expire do not participate in such review); and (2) in the case of new director candidates, the committee first conducts any appropriate and necessary inquiries into the backgrounds and qualifications of possible candidates after considering the function and needs of the Board of Directors.

The Nominating and Corporate Governance Committee meets to discuss and consider such candidates' qualifications, including whether the nominee is independent within the meaning of NASDAQ rules, and then selects a candidate for recommendation to the Board of Directors by majority vote. In seeking potential nominees, the Nominating and Corporate Governance Committee uses a network of contacts to compile a list of potential candidates, but may also engage, if it deems

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appropriate, a professional search firm. To date, the Nominating and Corporate Governance Committee has not paid a fee to any third party to assist in the process of identifying or evaluating director candidates, nor has the committee rejected a timely director nominee from a stockholder(s) holding more than 5% of the Company's voting stock.

The Nominating and Corporate Governance Committee will consider director candidates recommended by stockholders, provided the stockholders follow the procedures set forth in the Company's Certificate of Incorporation. The committee does not intend to alter the manner in which it evaluates candidates, including the criteria set forth above, and based on whether the candidate was recommended by a stockholder or otherwise.

The Company's Certificate of Incorporation provides that, to be timely, a stockholder's notice of nomination must be delivered or mailed to the Secretary of the Company not less than 30 days nor more than 60 days prior to an annual meeting; provided, however, that in the event that less than 40 days' notice of the meeting is given or made to stockholders, notice by the stockholder, to be timely, must be not later than close of business on the 10th day following the date on which notice is mailed. A stockholder's notice of nomination must also set forth as to each person who the stockholder proposes to nominate for election as a director, (a) the name, age, business address and, if known, residence address of such person, (b) the principal occupation or employment of such person, (c) the class and number of shares of the Company which are beneficially owned by such person, and (d) any other information reasonably requested by the Company.

At the request of the Board of Directors, any person nominated by the Board of Directors for election as a director shall furnish to the Secretary of the Company that information required to be set forth in a stockholder's notice of nomination which pertains to the nominee. Stockholder nominations may be proposed by any shareholder eligible to vote at an annual meeting provided the notice is timely and complies with the informational requirements of the Certificate of Incorporation. See "Date for Submission of Stockholder Proposals."

The Nominating and Corporate Governance Committee may reject any nomination by a stockholder not made in accordance with the requirements of the Company's Certificate of Incorporation. Notwithstanding the foregoing procedures, if neither the Board of Directors nor such committee makes a determination as to the validity of any nominations by a shareholder, the chairman of the annual meeting shall, if the facts warrant, determine at the annual meeting whether the nomination was made in accordance with the terms of the Certificate of Incorporation.

**Executive Committees**

The Board of Directors of each of the Company and the Bank has established an Executive Committee which, when the Board of the Company or the Bank is not in session, may exercise all of the authority of the Board except to the extent that such authority is limited by law or Board resolution. Members of the Executive Committee of each of the Company and the Bank are Messrs. Hunt, Dempsey, Kinsey and Peck. During 2018, the Executive Committee of the Company and the Bank meet two times.

Table of Contents**ITEM 11. EXECUTIVE COMPENSATION****COMPENSATION DISCUSSION AND ANALYSIS****Overview of Compensation Program**

The Compensation Committee of the Board of Directors (the "Committee"), comprised of three independent directors, has responsibility for establishing, implementing and monitoring adherence with the Company's compensation program. The role of the Committee is to oversee, on behalf of the Board and for the benefit of the Company and its stockholders, the Company's compensation and benefit plans and policies, administer its stock plans (including reviewing and approving equity grants to directors and executive officers) and review and approve annually all compensation decisions relating to the President and Chief Executive Officer ("CEO") and the other executive officers of the Company. The Committee meets a minimum of two times annually to review executive compensation programs, approve compensation levels and performance targets, review management performance, and approve final executive bonus distributions. The Committee operates in accordance with a charter, most recently revised in January 2018, which sets forth its rights and responsibilities. The Committee and the Board annually review the charter.

**Introduction**

In this section, we discuss certain aspects of our compensation program as it pertains to our Named Executive Officers listed in the Summary Compensation Table. Our discussion focuses on compensation and practices relating to our most recently completed fiscal year.

**Summary Compensation Table**

The following table sets forth compensation information for the Company's CEO, CFO, and the three other most highly compensated executive officers for the fiscal year ended December 31, 2018, December 31, 2017, and December 31, 2016.

Name and Principal Position	Year	Salary	Bonus(1)	Stock Awards(2)	All other Compensation(3)	Total
John E. Peck President & CEO	2018	\$ 316,096	\$ 31,990	\$ 63,996	\$ 52,482	\$ 464,564
	2017	\$ 316,096	\$ 25,815	\$ 51,625	\$ 65,871	\$ 459,407
	2016	\$ 316,096	\$ 31,083	\$ 52,687	\$ 62,922	\$ 462,788
Billy C. Duvall Treasurer & CFO	2018	\$ 194,964	\$ 19,731	\$ 39,475	\$ 17,269	\$ 271,439
	2017	\$ 194,964	\$ 15,922	\$ 31,844	\$ 21,112	\$ 263,842
	2016	\$ 194,964	\$ 19,171	\$ 32,489	\$ 19,758	\$ 266,382
Michael L. Woolfolk Chief Operating Officer Board Secretary	2018	\$ 236,888	\$ 23,974	\$ 47,949	\$ 42,226	\$ 351,037
	2017	\$ 236,888	\$ 19,346	\$ 38,698	\$ 42,848	\$ 337,780
	2016	\$ 236,888	\$ 23,294	\$ 39,480	\$ 73,015	\$ 372,677
Bailey C. Knight Chief Credit Officer	2018	\$ 191,100	\$ 19,330	\$ 43,663	\$ 16,388	\$ 270,481
	2017	\$ 191,100	\$ 15,607	\$ 36,219	\$ 17,305	\$ 260,231
	2016	\$ 182,645	\$ 5,168	\$ 5,001	\$ 14,353	\$ 207,167

(1) Bonus payments were earned by meeting improved financial performance metrics as outlined by the Company's Compensation Committee.

(2) Restricted stock awards approved by the Compensation Committee under the 2013 Plan that was approved at the 2013 Annual Meeting of Shareholders may vest over a three or four year period at a rate of 33.3% per year. All awards granted to the named executive officers were granted under the 2013 Plan. With the exception of Mr. Knight, whose has portions of his restricted stock awards



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vesting over a four year period, all restricted stock awards granted to Named Executive Officers under the 2013 Plan in 2018 and 2017 vest over a three year period. Under the 2013 Plan, vesting is accelerated upon a change in control, the exercise of eligible options, the death or termination of employment without cause of the grant recipient or the termination of employment upon reaching normal retirement age. For Messrs. Peck, Woolfolk, Duvall and Knight, the Committee granted restricted stock awards totaling 4,327 shares, 3,242 shares, 2,669 shares and 2,614 shares, respectively on March 21, 2018 that vest over a three-year period. Mr. Knight was granted 338 shares on April 2, 2018 that vest over a four-year period. For Messrs. Peck, Woolfolk, Duvall and Knight, the Committee granted restricted stock awards totaling 3,706 shares, 2,778 shares, 2,286 shares and 2,241 shares, respectively on September 20, 2017 that vest over a three-year period. Mr. Knight was granted 350 shares of restricted stock on April 3, 2017 that vest over a four-year period. For Messrs. Peck, Woolfolk and Duvall, the Committee granted restricted stock awards totaling 4,844 shares, 3,360 shares and 2,765 shares, respectively on January 20, 2016 that vest over a three-year period. The committee granted a restricted stock award of 436 shares to Mr. Knight on April 4, 2016 that vest over a four-year period. The grant date fair value of the awards shown in the above table was computed in accordance with FASB ASC TOPIC 718 and represents the total projected expense to the Company of awards made in 2018, 2017 and 2016.

(3)

In 2016, the Company's benefit for participation in the ESOP for Messrs. Peck, Woolfolk, Duvall and Knight was \$19,207, \$19,207, \$17,888 and \$13,810, respectively. In 2017, the Company's benefit for participation in the ESOP for Messrs. Peck, Woolfolk, Duvall and Knight was \$19,564, \$21,233, \$19,398 and \$16,766, respectively. In 2018, the Company's benefit for participation in the ESOP for Messrs. Peck, Woolfolk, Duvall and Knight was \$19,914, 19,914, 17,553 and \$16,658, respectively. In 2018, 2017 and 2016, Mr. Peck was paid \$10,256, 8,986 and \$9,340, respectively, for the Company's use of a building he owns. In 2018, Messrs. Peck and Woolfolk received fees paid to the as Board of Directors of the Company totaling \$22,275. In 2017, Messrs. Peck and Woolfolk received fees paid to the as Board of Directors of the Company totaling \$18,400. In 2016, Messrs. Peck and Woolfolk received fees paid to the as Board of Directors of the Company totaling \$16,075 and \$15,300, respectively. The column also includes amounts of previously unpaid dividends and 5% interest on the unpaid dividends on restricted stock that vested in 2017.



Table of Contents**Grant of Plan-Based Awards**

The following table sets forth the plan-based grants made during the fiscal years ended December 31, 2018, December 31, 2017 and December 31, 2016.

Name	Grant Date(1)	Estimated future payouts under Non-Equity Incentive Plan Awards	Estimated future payouts under Equity Incentive Plan Awards	All Other Stock Awards: Number of Shares of Stock(2)(3)	All Other Option Awards: Number of Securities Underlying Options	Exercise or Base Price of Stock and Option Awards	Grant Date Fair Value of Stock and Option Awards(4)
John E. Peck	3/21/2018	N/A	N/A	4,327(2)	N/A	\$ 14.79	\$ 63,996
	9/20/2017	N/A	N/A	3,706(2)	N/A	\$ 13.93	\$ 51,625
	1/20/2016	N/A	N/A	4,484(2)	N/A	\$ 11.75	\$ 52,687
Michael L. Woolfolk	3/21/2018	N/A	N/A	3,242(2)	N/A	\$ 14.79	\$ 47,949
	9/20/2017	N/A	N/A	2,778(2)	N/A	\$ 13.93	\$ 38,698
	1/20/2016	N/A	N/A	3,360(2)	N/A	\$ 11.75	\$ 39,480
Billy Duvall	3/21/2018	N/A	N/A	2,669(2)	N/A	\$ 14.79	\$ 39,475
	9/20/2017	N/A	N/A	2,286(2)	N/A	\$ 13.93	\$ 31,844
	1/20/2016	N/A	N/A	2,765(2)	N/A	\$ 11.75	\$ 32,489
Bailey Knight	4/02/2018	N/A	N/A	338(3)	N/A	\$ 14.80	\$ 5,002
	3/21/2018	N/A	N/A	2,614(2)	N/A	\$ 14.79	\$ 38,661
	9/20/2017	N/A	N/A	2,241(2)	N/A	\$ 13.93	\$ 31,217
	4/03/2017	N/A	N/A	350(3)	N/A	\$ 14.29	\$ 5,002
	4/04/2016	N/A	N/A	436(3)	N/A	\$ 11.47	\$ 5,001

- (1) The Compensation Committee granted Messrs. Peck, Woolfolk and Duvall restricted stock awards on March 21, 2018, September 20, 2017 and January 20, 2016. The Compensation Committee granted Mr. Knight restricted stock awards on April 2, 2018, March 21, 2018, September 20, 2017, April 3, 2017 and April 4, 2016. All awards were granted under the 2013 Plan.
- (2) Restricted stock awards approved by the Compensation Committee and awarded to Messrs. Peck, Woolfolk, Duvall vest over a three year period at a rate of 33.3% per year. The restricted stock award granted to Mr. Knight on March 21, 2018 and September 20, 2017 vest over a three year period at a rate of 33.3% per year. Under the 2013 Plan, vesting is accelerated upon a change in control, the exercise of eligible options, the death or disability of the grants recipient, the termination without cause of the grant recipient or the grant recipient leaving service after reaching normal retirement age.
- (3) Restricted stock awards approved by the Compensation Committee under the 2013 Plan and awarded to Mr. Knight on April 2, 2018, April 3, 2017 and April 4, 2016 vest over a four year period at a rate of 25% per year. Under the 2013 Plan, vesting is accelerated upon a change in control, the death of the recipient or termination without cause of the grant recipient.
- (4) The grant date fair value of the awards shown in the above table was computed in accordance with FASB ASC Topic 718 and represents the total projected expense to the Company of awards made in 2018, 2017 and 2016.

Table of Contents**Outstanding Equity Awards at Fiscal Year-End**

The following table sets forth the outstanding equity awards as of December 31, 2018. All outstanding restricted stock awards have been issued under the 2013 Plan. All outstanding restricted stock awards will immediately vest upon a change of control of the Company.

Name	Underlying Unexercised Options Exercisable	Underlying Unexercised Options Unexercisable	Exercisable Option Exercise Price	Unexercisable Option Exercise Price	Number of Shares that have not vested	Value of Shares that have not Vested(1)
John Peck						
2018 Restricted Stock Award					4,327(2)	\$ 57,506
2017 Restricted Stock Award					2,471(3)	\$ 32,840
2016 Restricted Stock Award					1,494(4)	\$ 19,855
Michael Woolfolk						
2018 Restricted Stock Award					3,242(2)	\$ 43,086
2017 Restricted Stock Award					1,852(3)	\$ 24,613
2016 Restricted Stock Award					1,120(4)	\$ 14,885
Billy Duvall						
2018 Restricted Stock Award					2,669(2)	\$ 35,471
2017 Restricted Stock Award					1,524(3)	\$ 20,254
2016 Restricted Stock Award					921(4)	\$ 12,240
Bailey Knight						
2018 Restricted Stock Award					2,614(2)	\$ 34,740
2018 Restricted Stock Award					338(5)	\$ 4,492
2017 Restricted Stock Award					1,494(3)	\$ 19,855
2017 Restricted Stock Award					263(6)	\$ 3,495
2016 Restricted Stock Award					218(7)	\$ 2,897
2015 Restricted Stock Award					97(8)	\$ 1,289

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- (1) The fair market value of the Company's common stock price at the end of the fiscal year was \$13.29 per share.
- (2) Remaining unvested shares that will vest 33.3% on March 21, 2019, 33.3% on March 21, 2020 and 33.4% on March 21, 2021.
- (3) Remaining unvested shares that will vest 50% on September 20, 2019 and 50% on September 20, 2020.
- (4)

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Remaining shares will vest on January 20, 2019.

- (5) Remaining unvested shares will vest 25% on April 2, 2019, 25% on April 2, 2020, 25% on April 2, 2021 and 25% on April 2, 2022.
- (6) Remaining unvested shares will vest 33.3% on April 3, 2019, 33.3% on April 3, 2020 and 33.4% on April 3, 2021.
- (7) Remaining unvested shares will vest 50% on April 2, 2019 and 50% on April 2, 2020.
- (8) Remaining unvested shares will vest April 2, 2019.

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Table of Contents**Option Exercises and Stock Vested**

The following table sets forth exercised options and vested awards for the fiscal year ended December 31, 2018.

Name	Option Awards(1)		Stock Awards	
	Number of Shares Acquired on Exercise	Value Realized on Exercise	Number of Shares Acquired on Vesting(2)	Value Realized on Vesting(3)
John E. Peck	N/A	N/A	2,730	\$ 42,751
Billy C. Duvall	N/A	N/A	1,684	\$ 26,372
Michael L. Woolfolk	N/A	N/A	2,046	\$ 32,042
Bailey Knight	N/A	N/A	1,168	\$ 19,580

(1) In 2018, the Compensation Committee did not grant any options.

(2) Represents the number of shares of restricted stock vested in 2018.

(3) For Messrs. Peck, Woolfolk and Duvall, the dollar value realized on vesting shares was computed using the closing price of the Company's common stock at September 20, 2018, and January 22, 2018, of \$17.55 and \$15.04, respectively, plus unpaid dividends and interest on unpaid dividends of 5% per year. For Mr. Knight, the dollar realized on vesting shares was computed using the closing price of the Company's common stock on April 2, 2018, April 3, 2018, April 4, 2018, July 2, 2018 and September 20, 2018, with a weighted average price of \$16.47 per share, plus unpaid dividends and interest on unpaid dividends of 5% per year

The following table sets forth exercised options and vested awards for the fiscal year ended December 31, 2017.

Name	Option Awards(1)		Stock Awards	
	Number of Shares Acquired on Exercise	Value Realized on Exercise	Number of Shares Acquired on Vesting(2)	Value Realized on Vesting(3)
John E. Peck	N/A	N/A	3,764	\$ 53,211
Billy C. Duvall	N/A	N/A	2,321	\$ 32,812
Michael L. Woolfolk	N/A	N/A	2,820	\$ 39,865
Bailey Knight	N/A	N/A	427	\$ 6,126

(1) In 2017, the Compensation Committee did not grant any options.

(2) Represents the number of shares of restricted stock vested in 2017.

(3) For Messrs. Peck, Woolfolk and Duvall, the dollar realized on vesting shares was computed using the closing price of the Company's common stock on June 19, 2017, at \$14.51 per share and January 20, 2017, at \$13.57 per share, plus unpaid dividends and interest on unpaid dividends of 5% per year. For Mr. Knight, the dollar realized on vesting shares was computed using the closing price of the Company's common stock on April 3, 2017, April 4, 2017 and July 3, 2017, which was a weighted average price of \$14.35 per share, plus unpaid dividends and interest on unpaid dividends of 5% per year

**Compensation Philosophy and Objectives**

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The Company and the Committee believe that the compensation paid to executive officers should be closely aligned with the long term performance of the Company, such compensation must be competitive with similar institutions in the region, and compensation should assist the Company in

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attracting and retaining key executives critical to the Company's long-term success. The Committee utilizes both salary and equity compensation as a tool to attract and retain key executive officers.

The Committee believes that compensation should be structured to ensure that a portion of the executive's compensation opportunities will be directly related to the Company achieving its longer term goals established in its Three Year Business Plan. Execution of the Company's Three Year Business Plan may not result in immediate improvement in the Company's stock price as the Company's plan includes the reduction of loans classified as substandard, the introduction of loan production offices in Nashville, Tennessee, and quality loan portfolio growth. In prior years, the Committee chose to de-emphasize many established financial metrics such as return on assets and return on equity as the Company's performance against these metrics may be lower than ideal in the short term and may work against the Company's long term best interest. As the financial industry has largely recovered from a severe recession, the Board of Directors and the Compensation Committee has sought to integrate selected financial metrics into the evaluation of NEOs and the awarding of restricted stock grants.

The Board of Directors assigned the Compensation Committee with the task of integrating specific performance based metrics with the HopFed Bancorp, Inc. 2015 Long Term Incentive Plan ("HFBC Plan"). The change in compensation policies are being undertaken to ensure that the Company's compensation practices provide meaningful incentives to Named Executive Officer's ("NEO's") while also enhancing shareholder value. In prior years, NEOs received 25% of their base salary in restricted stock grants with no cash bonuses. This practice was intended to increase the NEOs level of equity ownership in the Company and retain NEOs deemed by the Board of Directors to be critical to the Company's future success.

The Compensation Committee retained Blanchard to assist in identifying a pool of similar financial institutions that the Committee could use as a peer group and to conduct an analysis of the compensation practices for NEOs of those institutions. The Compensation Committee is authorized to engage outside advisors (including compensation consultants and legal counsel) to assist the Committee in achieving its mission and responsibilities. The Compensation Committee assessed the independence of Blanchard, taking into account related factors in accordance with SEC and NASDAQ rules and concluded that the work of Blanchard did not raise any conflict of interest that would prevent the firm from independently advising the Committee.

On March 28, 2016, the Compensation Committee approved final revisions to the Company's compensation policies for NEOs. The Compensation Committee will place additional requirements for NEOs that receive restricted stock awards under the HFBC Plan. The Compensation Committee has made the following policy revision for NEOs receiving future restricted stock awards:

All future incentive awards to NEOs will include claw back provisions in the event of material misstatements of the Company's financial statements which require a material restatement of our Consolidated Financial Statements. The NEO participating in the HFBC Plan may be required to refund the Company for any cash bonus received and restricted stock award granted if the receipt of that award was achieved by financial results that were materially misstated and required a restatement of the Company's audited financial statements.

All NEOs will be required to own a minimum amount of the Company's common stock to qualify for restricted stock awards. The CEO must own HFBC common stock with a value equal to 1.5 times the CEO's annual base salary. The Company's Executive Vice President ("EVP") must own HFBC common stock with a value equal to 1.25 times of the EVP's annual base salary. All Senior Vice Presidents ("SVP") must own HFBC common stock with a value equal to 1.0 times of the SVP's annual base salary. All current NEOs are in compliance with these ownership requirements with the exception of Mr. Knight, who was appointed Chief Credit Officer on January 16, 2016. Mr. Knight and any newly appointed NEO may participate in the

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plan under the revised policy and may take up to five years from the date of their appointment as a NEO to achieve this required level of common stock ownership.

Incentive awards may be modified, reduced or eliminated by the Compensation Committee based on the Company's satisfactory level of regulatory performance.

Each NEO must receive a satisfactory performance evaluation by the Compensation Committee before any incentive award is granted.

The Company's banking subsidiary must have achieved 70% of the current year's budgeted net income before any incentive payments are granted.

Incentive awards for NEOs will be in the form of restricted stock, with the award vesting over a three year period.

The Compensation Committee may award cash bonuses in addition to restricted stock awards. Cash awards are discretionary by the Compensation Committee.

The Compensation Committee is solely responsible for establishing the criteria and various financial, operational and other targets used to determine incentive payouts. The Compensation Committee will use a proportional approach to calculate incentive payouts for performance that falls in-between each of the above criteria levels.

For the year ending December 31, 2017, the Compensation Committee selected three financial metrics to determine the level of NEO performance based awards. The Board of Directors will maintain discretionary authority with a 20% weighting. The metrics chosen and their respective weightings are as follows and are measured at the subsidiary Heritage Bank level:

Return on Average Assets	Weighted 30%
Non-performing assets / Total Asset Ratio	Weighted 30%
Efficiency Ratio	Weighted 20%
Board Discretion	Weighted 20%

Each metric has three levels of payout, a threshold level, a target level and a maximum level of payout. To receive credit for a specific metric, the Bank must achieve the threshold level which will equal 10% of the NEO's base salary. By reaching target level, the payout increases to 25% of base salary and the maximum payout is 40% of base salary. The Board of Directors will receive and approve identified levels of threshold, target and maximum levels each year.

For the year ended December 31, 2017, the actual results of Heritage Bank were as follows:

Return on Average Assets	0.52%
Non-performing assets / Total Assets	0.51%
Efficiency Ratio	78.62%

On March 23, 2018, the Board of Directors determined that no changes would be made to the base salaries of Messrs. Peck, Woolfolk, Duvall and Knight. On March 23, 2018, the Company made the following awards under the 2013 HopFed Bancorp, Inc. Long Term incentive Plan:

Named Executive	Cash Bonus	Shares of Restricted Stock
John E. Peck	\$ 31,990	4,327
Michael L. Woolfolk	\$ 23,974	3,242
Billy C. Duvall	\$ 19,731	2,669
Bailey C. Knight	\$ 19,330	2,614

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On April 10, 2018, the Company filed an 8-K that described changes in compensation policies with respect to future compensation actions applicable to named executive officers. These changes were approved by the Company's Board of Directors and Compensation Committee.

Annually, the Compensation Committee will review the return on average equity ("ROAE") calculated based upon the most recent publicly available financial statements issued by the Company's chosen peer group as disclosed or to be disclosed in the Company's proxy statement to stockholders for its Annual Meeting of Stockholders. If the Company's ROAE for the most recently completed fiscal year does not equal or exceed the peer group's average ROAE for the most recently completed year, then the Compensation Committee will not 1) approve salary increases, new bonus or incentive awards, perquisites, or any other additional compensation for the NEOs for such recently completed fiscal year; 2) extend or renew any employment agreement for the NEOs that includes one or more provisions that award perquisites or other personal benefits to the NEO that are not otherwise available to non-executive employees, including, but not limited to, use of or payment for a Company-leased vehicle, club membership, including reimbursement of country club dues, reimbursement for use of a home office, financial planning assistance, tax preparation, and/or cash payment for the payment of personal federal or state income taxes; or 3) award any additional restricted stock awards to NEOs. Such policy does not apply to payments or compensation to be made in accordance with pre-existing change in control agreements or equity award agreements.

**Role of Executive Officers and Compensation Consultants**

The Committee makes all compensation decisions for the CEO and all other executive officers of the Company. The CEO annually reviews the performance of each other Named Executive Officer. The conclusions reached and recommendations based on these reviews, including with respect to salary adjustments and annual award amounts, are presented to the Committee. The Committee considers the CEO's recommendations when making its final compensation decision for all executives other than the CEO.

The Committee utilizes the Human Resource Department and also has the authority under its charter to engage the services of outside consultants to assist the Committee. In accordance with this authority, the Committee in 2017 utilized the 2016 ABA Compensation and Benefits Survey Report (the "ABA Survey"), prepared for the American Bankers Association ("ABA"), to compare and benchmark the total compensation program for the CEO and other executive officers. The ABA Survey collects data from over 350 financial institutions and reports data on more than 200 bank employee salaries.

**Setting Executive Compensation**

Beginning in 2015, the Compensation Committee engaged Blanchard to review executive compensation. The Compensation Committee engaged Blanchard as an independent and objective third party to summarize issues relative to topics such as competitive compensation, cash and equity incentives, and executive benefits. Blanchard's report to the Compensation Committee provided compensation benchmarks for the top four executives using data from publicly traded financial institutions and national industry surveys. In addition to compensation data, Blanchard will assist the Compensation Committee in the development and implementation of performance criteria to be used in conjunction with the Company's long term incentive plan.

The Compensation Committee selected a peer group of twenty publically traded bank holding companies with assets between \$585 million and \$1.6 billion at December 31, 2017. The peer group includes bank holding companies located in Kentucky, Tennessee, West Virginia, Ohio, Missouri, Indiana and Illinois. The median size, financial performance, and financial condition of these institutions were analyzed to ensure similarity of business plans and comparability to the Company.



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Pursuant to NASDAQ Stock Market Rule 5605(d)(3)(D), the Committee conducted and completed an independence assessment.

The Compensation Committee developed the Company's peer group using metrics in line with the methods of the two largest international proxy advisory groups. The following is a list of the Compensation Committee's selected peer group:

MVBF	MVB Financial Corp	KTYB	Kentucky Bancshares, Inc.
BFIN	BankFinancial Corporation	HWBK	Hawthorn Bancshares
PFBI	Premier Financial Bancorp, Inc.	IROQ	IF Bancorp, Inc.
LCNB	LCNB Corp	OVBC	Ohio Valley Banc Corp.
UBOH	United Bancshares, Inc.	NWIN	NorthWest Indiana Bancorp
LMST	Limestone Bancorp	FSFG	First Savings Financial Group, Inc.
RBNC	Reliant Bancorp, Inc.	SBFG	SB Financial Group, Inc.
FMAO	Farmers and Merchants Bancorp, Inc.	MBCN	Middlefield Banc Corp
CLDB	Cortland Bancorp	FCAP	First Capital, Inc.
GFED	Guaranty Federal Bancshares, Inc.	CSBB	CSB Bancorp, Inc.
IROQ	IF Bancorp, Inc.		

The table below provides selected financial metrics for the above mentioned peer group utilized by the Company's compensation committee:

	Total Assets	Return on Average Assets	Return on Average Equity	Net Interest Margin	Efficiency Ratio	Non-Performing / Total Assets
Average	1,054,464	0.95%	11.94%	3.63%	67.26%	1.06%
25th Percentile	794,460	0.62%	5.23%	3.41%	70.76%	1.25%
50th Percentile	1,026,290	0.88%	8.13%	3.63%	67.38%	0.99%
75th Percentile	1,295,638	1.02%	10.14%	3.81%	61.79%	0.46%
2017 HopFed Bancorp	917,510	0.36%	3.78%	3.36%	82.88%	0.85%
2018 HopFed Bancorp	931,399	0.62%	6.52%	3.41%	80.07%	0.54%

For the year ended December 31, 2018, the performance differences between the Company and Heritage Bank are disclosed on Note 18 of the Company's Consolidated Financial Statements filed on SEC Form 10-K on March 15, 2019. At December 31, 2018, the Corporation's income statement included approximately \$964,000 in non-interest expenses and \$538,000 of interest expense that was directly related to the operation of the corporation and included in the Company's consolidated financial statements.

The tables below includes the 2018 base salary for the named executive officer, any bonus paid in 2017 and a three year average of equity awards granted in 2015 to 2017. All other compensation represents the Company's ESOP benefits, life insurance premiums and Director fees. For Mr. Peck, this amount includes \$10,256 in fees paid by the Company for Heritage Bank's use of a building Mr. Peck owns. The table below summarizes the compensation comparison of the Company's Chief Executive Officer as compared to the Company's Compensation peer group (21 companies reporting):

	Salary	Bonus	Comp	Equity	Comp	Comp
25th percentile	\$ 303,160	39,589	369,861		396,701	457,549
50th percentile	333,587	93,140	439,010	23,321	455,789	548,297
75th percentile	389,550	126,882	513,136	95,310	608,564	692,301
John Peck, HFBC	\$ 316,096	31,990	348,086	63,996	412,082	453,784
Peer percentile		31%	18%	16%	67%	41%

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The table below summarizes the compensation comparison of the Company's Chief Operating Officer as compared to the Company's Compensation peer group (8 companies reporting):

	Salary	Bonus	Cash Comp	Total Equity	Direct Comp	Total Comp
25th percentile	\$ 189,828	37,947	276,752	4,264	284,348	329,139
50th percentile	216,291	52,980	289,305	17,546	304,103	373,062
75th percentile	246,459	77,840	298,172	40,962	336,682	431,349
Mike Woolfolk, HFBC	\$ 236,888	23,974	260,862	47,949	308,811	353,092
Peer percentile	70%	10%	19%	88%	55%	36%

The table below summarizes the compensation comparison of the Company's Chief Financial Officer as compared to the Company's Compensation peer group (20 companies reporting):

	Salary	Bonus	Cash Comp	Total Equity	Direct Comp	Total Comp
25th percentile	\$ 171,264	21,723	204,480		213,431	255,720
50th percentile	205,375	38,975	245,680	12,349	256,438	290,071
75th percentile	223,591	48,230	300,645	50,433	333,678	374,311
Billy Duvall, HFBC	\$ 194,964	15,922	210,866	39,475	254,170	273,880
Peer percentile	44%	22%	38%	71%	49%	40%

The table below summarizes the compensation comparison of the Company's Chief Credit Officer as compared to the Company's Compensation peer group (14 companies reporting):

	Salary	Bonus	Cash Comp	Total Equity	Direct Comp	Total Comp
25th percentile	\$ 183,645	17,473	243,548	1,421	244,430	271,160
50th percentile	193,078	48,760	253,647	14,019	276,691	310,466
75th percentile	249,100	58,796	291,622	59,282	349,118	361,428
Bailey C. Knight, HFBC	\$ 191,100	19,330	210,430	43,663	254,093	270,906
Peer percentile	37%	26%	20%	61%	40%	25%

**Base Salary**

Base salary ranges are established based on a number of factors, including information gathered from the ABA Survey and the Blanchard survey of the Compensation Committee's selected peer group. The surveys illustrate the market rate for select executive positions expressed as a percentage of the median paid by the respondent companies. Executive positions are individually benchmarked against these survey sources annually to establish a competitive salary range for each position, which is typically targeted to be at or slightly above the median of the survey results.

The actual base salary of each executive officer relative to the target established above is determined by the executive's performance, which is evaluated annually by the CEO and reviewed and approved by the Committee. In the case of the CEO, the Committee also considers the performance of the Company, and the anticipated level of difficulty of replacing the CEO with someone of comparable experience and skill. Salaries for the named executive officers are set forth on the Summary Compensation Table.

The Committee did not adjust the salaries of Messrs. Peck, Woolfolk, Duvall, and Knight from the prior year of \$316,098, \$236,888, \$194,964 and \$191,100, respectively. The Committee will review the contracts of Messer's Peck, Woolfolk and Duvall in June 2019, with any changes effective July 1, 2019. In 2017, the Committee chose to extend to contracts of Messrs. Peck, Duvall and Knight for one additional year.

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**Long Term Incentive Compensation**

On March 21, 2018, the Company made restricted stock awards of 4,327, 3,242, 2,669 and 2,614 to Messrs. Peck, Woolfolk, Duvall and Knight, respectively. On April 2, 2018, Mr. Knight received an additional award of 338 shares. On April 25, 2018 and July 2, 2018, the Company awarded 1,849 shares of restricted stock to non-executive management employees. In December 2018, 303 shares of restricted stock that were awarded in July of 2018 were forfeited due to the employee's resignation. For the year ended December 31, 2018, all grants were awarded under the Company's 2013 Long Term Incentive Plan.

**Retirement Plans**

***401(k) Plan***

The Company's 401(k) Plan is a tax-qualified plan that covers all eligible salaried and hourly employees. The Company does not provide any matching dollars to employees who participate in the plan, including named executive officers. The 401(k) Plan is a defined contribution plan and as such the ultimate benefit is a derivative of the contributions made and the performance of the underlying investments. Each participant self directs their respective investments from an approved master list of qualifying investment funds. No Company issued securities are held in the 401(k) plan.

***HopFed Bancorp, Inc. 2015 Employee Stock Ownership Plan***

On March 2, 2015, the Company implemented the HopFed Bancorp, Inc. 2015 Employee Stock Ownership Plan (the "ESOP") which covers substantially all employees who are at least 21 years old with at least one year of employment with the Company and Heritage Bank. Employer contributions to the ESOP are expected to replace matching and profit sharing contributions to the Heritage Bank 401(k) Plan sponsored by Heritage Bank. The Company has appointed three individuals as trustees of the ESOP. A directed corporate trustee has also been appointed. The ESOP will be administered by an Employee ESOP Committee (the "Committee") currently composed of eleven individuals selected by the Company.

On March 2, 2015, the ESOP purchased an initial block of 600,000 shares from the Company at a cost of \$7,884,000, using proceeds from the first advance under the ESOP Loan. In accordance with the ESOP Loan documents, the common stock purchased by the ESOP serves as collateral for the ESOP Loan. Shares purchased by the ESOP will be held in a suspense account for allocation among participants as the ESOP Loan is repaid. The ESOP shares are dividend paying. Dividends on unearned shares will be used to repay the ESOP Loan. For the year ended December 31, 2018, the Company expense for ESOP loan payments was \$633,000. At December 31, 2018, the ESOP has released a total of 215,510 shares to the employees eligible to participate in the plan, including 51,856 released to participants for the year ended December 31, 2018.

**Perquisites and Other Personal Benefits**

The Company does not provide the named executive officers with perquisites or other personal benefits such as Company vehicles, club memberships, financial planning assistance, tax preparation, or other benefits not described above.

**Employment and Other Agreements**

The Company and Heritage Bank have employment agreements with Messrs. Peck, Woolfolk, Duvall and Knight. The employment agreements with Messrs. Peck, Woolfolk, Duvall and Knight are three-year agreements. On each annual anniversary date of these agreements (June 30), the employment agreements may be extended for an additional one-year period beyond the then effective

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expiration date, provided that the Board determines in a duly adopted resolution that the performance of Messrs. Peck, Woolfolk, Duvall and Knight has met the Board's requirements and standards. The agreements provide for a base salary and certain perquisites as noted above. In addition, the agreements provide certain payments to Messrs. Peck, Woolfolk, Duvall and Knight in the event his employment is terminated as a result of a change of control of the Company or the Bank and Messrs. Peck, Woolfolk, Duvall and Knight are either 1) the principal executive office of the Company is relocated more than thirty miles from Hopkinsville, Kentucky (2) the Company requires Messrs. Peck and Woolfolk to be based anywhere other than an area in which the Company's principal executive office is located (3) Messrs. Peck, Woolfolk, Duvall and Knight duties, responsibilities, authority are material diminished (4) a material reduction in Messrs. Peck, Woolfolk, Duvall and Knight's base salary (5) a material reduction in the duties, responsibilities and authority of Messrs. Woolfolk, Duvall and Knight's supervisor or Messrs. Peck, Woolfolk, Duvall and Knight are terminated without just cause.

Upon a termination within 12 months after a change in control, Mr. Woolfolk would be entitled to receive a lump sum payment equal to 2.9 times of his base salary. The employment contract of Mr. Woolfolk was not extended in 2018 and now expires on June 30, 2020. The current base salary of Mr. Woolfolk is \$236,888. The Company's employment agreement for Mr. Woolfolk provides for a gross-up payment to offset the effects of any excise taxes imposed on him under Section 4999 of the Internal Revenue Code. Upon a termination without just cause, Mr. Woolfolk would be entitled to a lump sum payment equal to his remaining salary under the agreements.

On June 26, 2018, the Company and the Bank entered into an employment agreement with Bailey K. Knight, Chief Credit Officer. The employment agreements have an initial term of three-years, each ending as of June 30, 2021. Prior to July 1 of each year, the agreements will be extended for an additional one-year period beyond the then applicable expiration date, if the Compensation Committee determines that the employee's performance has met the requirements and standards of the Board of Directors and that the term of such agreements should be extended. The employment agreements with Mr. Knight provide for continuation of his current base salary of \$191,100 per annum in the aggregate. The employee may participate with other senior management in discretionary bonuses and in any fringe benefits that may become available and are commensurate with the responsibilities and functions to be performed by the employee.

Mr. Knight's employment agreements provide for a payment of 2.9 times the employee's base salary in the event of termination of employment within one year following a change of control of the Registrant or the Bank (as defined in the agreements), subject to certain limitations, and for payment of the employee's salary up to the expiration of the remaining term of such agreements upon termination of the employee without cause and absent a change in control transaction.

The agreements provide that, in the event any payment or distribution to Mr. Knight under the agreements or otherwise, would be subject to the excise tax under Section 4999 of the Internal Revenue Code of 1986, as amended, following a change in control transaction, the after-tax payments to him (as defined in the agreements) would be reduced to avoid payment of this excise tax unless his after-tax benefits would be greater without such reduction and his payment of such excise tax. The agreements prohibit Mr. Knight, for a period of 12 months after a termination of employment in certain circumstances, from soliciting employees of the Registrant and the Bank for hire. Mr. Knight's current employment agreements expire on June 30, 2021.

On June 26, 2018, the Company and the Bank each approved an amendment and restatement of the employment agreements with Mr. John E. Peck, President and Chief Executive Officer. The changes to Mr. Peck's employment agreements with the Registrant and the Bank include a new term of three-years, ending as of June 30, 2021. Mr. Peck's employment agreements provide for a payment of 2.9 times the employee's base salary in the event of termination of employment within one year following a change of control of the Registrant or the Bank (as defined in the agreements), subject to

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certain limitations, and for payment of the employee's salary up to the expiration of the remaining term of such agreements upon termination of the employee without cause and absent a change in control transaction.

In addition, Mr. Peck's revised contracts removed the provisions that would have provided a tax gross-up payment in the event that Mr. Peck would have incurred any excise taxes related to compensation under Section 4999 of the Internal Revenue Code of 1986, as amended, following a change in control transaction. In lieu of such tax gross-up provision, Mr. Peck's contracts provide that, in the event any payment or distribution to Mr. Peck under the agreements or otherwise, would be subject to the excise tax under Section 4999 of the Internal Revenue Code of 1986, as amended, following a change in control transaction, the after-tax payments to him (as defined in the agreements) would be reduced to avoid payment of this excise tax unless his after-tax benefits would be greater without such reduction and his payment of such excise tax. Mr. Peck's current employment agreements expire on June 30, 2021.

Mr. Duvall's employment agreement is for a three-year term beginning on July 1, 2013, and ending on June 30, 2016. The Compensation Committee may extend the employment agreement for an additional year prior to July 1 of each year. Since July 1, 2014, the Compensation Committee has extended the contract each year and the contract now expires on June 30, 2021. The contract provides for a base salary as noted above. In addition, the agreement provides certain payments to Mr. Duvall in the event his employment is terminated as a result of a change of control of the Company or the Bank and if either (1) the principal executive office of the Company is relocated more than thirty miles from Hopkinsville, Kentucky (2) the Company requires Mr. Duvall to be based anywhere other than an area in which the Company's principal executive office is located (3) Mr. Duvall's duties, responsibilities, authority or that of his supervisor are material diminished (4) a material reduction in Mr. Duvall's base salary or he is terminated without just cause.

Upon a termination within 12 months after a change in control, Mr. Duvall would be entitled to receive an amount equal to 2.9 times his base salary if the change of control results in a diminution in the authority, duties or responsibilities of Mr. Duvall or the supervisor who he reports to or if the principal executive office of the Company is relocated more than thirty miles from Hopkinsville, Kentucky. Upon a termination without just cause, Mr. Duvall would be entitled to a lump sum payment equal to their remaining salary under the agreement. Mr. Duvall's current base salary is \$194,964.

The employment contracts for Messrs. Peck, Woolfolk and Duvall, Knight contain a non-solicitation provision which provides that Messrs. Peck, Woolfolk and Duvall will not make initiate contact with any employees of the Company or Bank with whom he had contact with during his term of employment for the purpose of soliciting such employee for hire for a period of one year. In the event of a change of control, the non-solicitation provision for Messrs. Peck, Woolfolk, Duvall and Knight becomes void. The Compensation Committee may continue to extend the employment agreement for an additional year prior to July 1 of each year.

The severance payments provided in the agreements are intended to qualify as short-term deferrals under Section 409A of the Internal Revenue Code and the regulations and guidance there-under. Except for these agreements, and our broad-based severance policy, none of our named executive officers has an agreement which requires us to pay their salaries for any period of time. We entered into these agreements because the banking industry has been consolidating for a number of years, and we do not want our executives distracted by a rumored or actual change in control. Further, if a change in control should occur, we want our executives to be focused on the business of the organization and the interests of shareholders. In addition, we think it is important that our executives can react neutrally to a potential change in control and not be influenced by personal financial concerns. We believe these agreements are consistent with market practice and assist us in retaining our executive talent. Deductibility of Executive Compensation.

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Section 162(m) of the Internal Revenue Code limits the deductibility for federal income tax purposes of executive compensation paid to the CEO and the four other most highly compensated officers of a public company to \$1,000,000 per year, but contains an exception for certain performance-based compensation. Base salary, by its nature, does not qualify as performance-based compensation under Section 162(m). Grants of stock options and restricted stock under its stock award plans qualify as performance-based compensation under Section 162(m).

**Computation of Principal Executive Officer to the Median Employee's Compensation**

In 2015, the SEC adopted a rule that requires the Company to annually disclose the ratio of the total annual compensation of its principal executive officer to the median employee's total annual compensation as mandated by the Dodd-Frank Act. Item 402(u) of Regulation S-K sets forth the disclosure requirements and provides registrants with substantial flexibility to determine the pay ratio. The Company selected the median salary from this list of all employees who received compensation in the month of December 2017. This employee list excluded the principal executive officer but included all part time employees. Using this process, the Company determined that the median salary and benefits of the Company's identified median employee is a customer service representative. For the purposes of this disclosure, the Company used the salary of the same employee selected in 2017 for our 2018 analysis.

After identifying the median employee based on total compensation, the Company calculated total annual compensation for such employee using the same methodology used for the principal executive officer as set forth in the Summary Compensation Table in this Proxy Statement. Using this process, the Company determined that the median salary and benefits of the Company's identified median employee was \$42,769. The total annual compensation of the Company's Chief Executive Officer was \$464,564. The ratio of total annual compensation of the Chief Executive Officer to the Company's median employee for the year ended December 31, 2018 was 10.9 to 1. The ratio of total annual compensation of the Chief Executive Officer to the Company's median employee for the year ended December 31, 2017 was 11.6 to 1.

**COMPENSATION COMMITTEE REPORT**

The Compensation Committee of the Board of Directors hereby furnishes this report to the stockholders of the Company in accordance with rules adopted by the Securities and Exchange Commission. The Compensation Discussion and Analysis in this Proxy Statement is management's report on the Company's compensation programs and, among other things, describes material elements of compensation paid to the President and Chief Executive officer and other Named Executive Officers. The Compensation Committee has reviewed and discussed with management the Company's Compensation Discussion and Analysis contained in this Proxy Statement. Based upon this review and discussion, and subject to the limitations on the role and responsibility of the Compensation Committee, the Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2018. This report is submitted on behalf of the members of the Compensation Committee.

Respectfully submitted on March 15, 2019.

Steve Hunt, *Chairman*  
Ted Kinsey  
Thomas I. Miller  
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**2013 Long-Term Incentive Plan.** Pursuant to the 2013 Plan, which was approved at the 2013 Annual Meeting of Stockholders, 300,000 shares of Common Stock (subject to adjustment as provided for in the 2013 Plan) are available for issuance pursuant to a variety of awards, including options, share appreciation rights, restricted shares, restricted share units, deferred share units, and performance-based awards. The purpose of the 2013 Plan is to attract, retain and motivate select employees, officers, directors, advisors and consultants of the Company and its affiliates and to provide incentives and rewards for superior performance. The Compensation Committee did not make any restricted stock awards to non-employee directors during years ended December 31, 2018, and December 31, 2017. At December 31, 2018, the Company has issued 85,575 restricted stock awards under the 2013 Plan and may issue another 214,425 shares under the 2013 Plan.

The following table provides information as of December 31, 2018, with respect to the shares of Common Stock that may be issued under the Company's existing equity compensation plans.

<b>Plan Category</b>	<b>Number of Securities to be issued upon Exercise of Outstanding Options, Warrants and Rights</b>	<b>Weighted Average Exercise Price of Outstanding Options, Warrants and Rights</b>	<b>Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans</b>
Equity compensation plans approved by shareholders:			
2013 Plan	300,000		214,425
Equity compensation plans not approved by shareholders			
<b>Total</b>	300,000		214,425

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The following table sets forth for the nominees and for each director and named executive officer such person's name, age, and the year such person first became a director, and the number of shares and percentage of Common Stock beneficially owned.

NAME	AGE(1)	YEAR FIRST ELECTED DIRECTOR	PRESENT TERM TO EXPIRE	SHARES OF COMMON STOCK BENEFICIALLY OWNED(2)(3)(4)	PERCENT OF CLASS(3)
Richard Perkins	66	2014	2021	1,100	n/a
Ted S. Kinsey	73	2008	2021	16,169	0.2%
John E. Peck	54	2000	2021	57,284	0.9%
Steve Hunt	57	2010	2019	4,161	0.1%
Michael L. Woolfolk	65	2012	2019	64,601	1.0%
Mark Alcott(5)	51		2019		
Harry J. Dempsey	61	1999	2020	38,544	0.6%
Dr. Thomas I. Miller	74	2015	2020	21,728	0.3%
<b>Other Named Executive Officers</b>					
Billy C. Duvall	53			39,023	0.6%
Bailey C. Knight	51			11,861	0.2%
All Executive Officers and Directors as a Group (10 persons)				254,471	3.9%(6)

(1)

At December 31, 2018.

(2)

At December 31, 2018. In accordance with Rule 13d-3 under the Exchange Act, a person is considered to "beneficially own" any shares of Common Stock (a) over which he has or shares voting or investment power, or (b) as to which he has the right to acquire beneficial ownership at any time within 60 days of the Record Date. As used herein, "voting power" is the power to vote or direct the vote of shares and "investment power" is the power to dispose or direct the disposition of shares. Includes shares owned directly by the named individuals, shares held by their spouses, minor children and trusts over which they have or share voting or investment power. Does not include shares held or beneficially owned by other relatives as to which the named individuals disclaim beneficial ownership.

(3)

Includes unvested shares held in the Company's 2013 Long-Term Incentive Plan (the "2013 Plan") that may be voted by the Following persons: 8,292 shares by Mr. Peck, 6,214 shares by Mr. Woolfolk, 5,114 shares by Mr. Duvall and 5,023 shares by Mr. Knight. All shares issued to Messrs. Peck, Woolfolk and Duvall under the 2013 Plan vest over a three year period at 33.3% per year. Mr. Knight has 4,108 shares issued that will vest over a three year period and 915 shares that vest over a four year period. All restricted shares immediately vest upon a change of control of the Company. Includes shares earned and held in the Company's ESOP that may be voted by the following persons: 4,371 shares by Mr. Peck, 6,096 shares by Mr. Woolfolk, 5,475 shares by Mr. Duvall and 4,559 shares by Mr. Knight.

(4)

Includes 6,648,589 shares of the Company's Common Stock outstanding at December 31, 2018.

(5)

Mr. Alcott was elected to the Company's Board of Directors on April 18, 2018.

Persons and groups owning in excess of 5% of Common Stock are required to file certain reports regarding such ownership with the Company and the Securities and Exchange Commission (the "SEC") pursuant to the Securities Exchange Act of 1934, as amended (the "Exchange Act"). As of the Record Date, management of the Company was aware that the persons listed below beneficially owned more





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than 5% of the outstanding shares of Common Stock. This information is based on the most recent reports filed by such persons.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Shares of Common Stock Outstanding
UBS Group AG2	692,400(1)	10.4%
Wellington Management Group LLP		
Wellington Investment Advisors Holdings LLP		
Wellington Group Holdings LLP		
Ithan Creek Master Investors (Cayman) L.P.	434,604(2)	6.5%
Joseph Stilwell		
Stilwell Activist Fund, L.P.		
Stilwell Activist Investments, L.P. Stilwell Associates, L.P.		
Stilwell Value LLC	627,128(3)	9.5%
HopFed Bancorp, Inc.		
Employee Stock Ownership Plan	598,201(4)	9.0%
Emanuel J. Friedman		
EJF Capital LLC		
EJF Sidecar Fund, Series LLC		
Small Financial Equities Series	541,661(5)	8.2%
Context BH Capital Management, LP		
Context BH Partners, LP		
Context BH Financial Opportunities Master Fund, LP	352,912(6)	5.3%
Martin Friedman		
FJ Capital Management LLC		
Financial Opportunity Fund LLC		
Financial Hybrid Opportunity Fund LLC		
Financial Hybrid Opportunity SPV I LLC	581,687(7)	8.8%

(1)

The information regarding beneficial ownership by UBS Group AG2 directly and on behalf of certain subsidiaries, a Switzerland Corporation, is reported in a Schedule 13G filed with the SEC on February 8, 2019. According to Schedule 13G, UBS Group AG2 has sole power to vote or to direct to vote of no shares and shared power to vote or to direct to vote 692,400 shares. The address of the principal offices of UBS Group AG2 is Bahnhofstrasse 45, P.O. Box Ch-80982C, Switzerland.

(2)

The information regarding beneficial ownership by Ithan Creek Master Investors (Cayman) L.P. ("Ithan Creek"), a Cayman Islands limited liability partnership, Wellington Management Group, LLP ("WMG"), a Massachusetts limited liability partnership, Wellington Group Holdings LLP ("WGH"), Wellington Investment Advisors Holdings LLP ("WIAH") and Wellington Management Company LLP ("WMC"). WGH, WIAH and WMC are Delaware limited liability partnerships. WMG, WGH, WIAH and WMC are the general partners of Ithan Creek as reported in a Schedule 13G/A filed with the SEC on February 12, 2019 by Ithan Creek and WMG. According to the Schedule 13G/A filed on February 12, 2019, Ithan Creek, WMG, WGH, WIAH and WMC each have shared voting and shared dispositive power over 484,604 shares. The address of the principal offices of Ithan Creek, WMG, WGH, WIAH and WMC is c/o Wellington Management Company LLP, 280 Congress Street, Boston, MA 02210.

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- (3) The information regarding beneficial ownership by Joseph Stilwell and certain affiliated entities (collectively, "Stilwell") is reported in a Schedule 13D/A, (the "Stilwell Schedule 13D/A"), filed by Stilwell Activist Fund, L.P. with the SEC on February 8, 2018. In its capacity as an investment adviser, Stilwell may be deemed to share beneficial ownership over the shares owned of record by its clients. According to the Stilwell Schedule 13F, Stilwell has shared voting and shared dispositive power over 637,128 shares. According to the Stilwell Schedule 13F, Stilwell Activist Fund, L.P., a Delaware limited liability company ("Stilwell Activist"), owns 627,128 shares. The address of the principal office of Stilwell is 111 Broadway, 12th Floor, New York, New York 10006.
- (4) The information regarding beneficial ownership of shares held in trust for the benefit of the HopFed Bancorp, Inc. 2015 Employee Stock Ownership Plan ("ESOP") is reported in a Schedule 13G filed with the SEC on February 13, 2019 by the ESOP. Dr. Thomas I. Miller, John E. Peck and Billy C. Duvall serve as Trustees for the ESOP. As of the record date, 215,510 shares have been allocated to the accounts of participating employees and 382,691 shares were unallocated. Beneficial ownership of Named Executive Officers includes their respective percentage of this allocation. Under the terms of the ESOP, the Trustees must vote all allocated shares in the ESOP in accordance with the instructions of participating employees. Unallocated shares and allocated shares not voted are voted in the same ratio on any matter as those shares for which instructions are given. The amount of common stock beneficially owned by each individual Trustee and by all Directors and officers as a group does not include the unallocated shares held by the ESOP Trust. The address of the ESOP Trust is 4155 Lafayette Road, Hopkinsville, Kentucky 42240.
- (5) The information regarding beneficial ownership by Emanuel J. Friedman and certain affiliated entities (collectively, "EJF Capital") is reported in a Schedule 13G, (the "EJF Capital Schedule 13G"), filed by EJF Capital LLC with the SEC on February 22, 2018. According to the EJF Capital Schedule 13G, Emanuel Friedman has shared voting and shared dispositive power over 541,661 shares. According to the EJF Capital Schedule 13G, EJF Capital LLC and EJF Sidecar Fund, Series LLC Small Financial Equities Series have shared voting power over 541,661 shares. The address of the principal office of EJF Capital is 2107 Wilson Boulevard, Suite 410, Arlington, VA 22201.
- (6) The information regarding beneficial ownership by Context BH Capital Management, LP and certain affiliated entities (collectively, "Context BH") is reported in a Schedule 13G, (the "Context BH Schedule 13G"), filed by Context BH with the SEC on January 21, 2019. According to the Context BH Schedule 13G, Context BH has shared voting and shared dispositive power over 352,912 shares. According to the Context BH Schedule 13G, Context BH Partners LP has shared voting power and shared dispositive power over 322,686 shares. Context BH Financial Opportunities Master Fund, LP has shared voting power and dispositive power over 20,686 shares of which the General Partner is CCP BH III, LP, and 9,900 shares are directly owned by private investment funds to which Context BH Capital Management acts as sub-adviser to the adviser to such private investment funds. The address of the principal office of Context BH 2401 City Avenue, Suite 800, Bala Cynwyd, Pennsylvania 19004.
- (7) The information regarding beneficial ownership by Martin Friedman and certain affiliated entities (collectively, "FJ Capital") is reported in a Schedule 13G, (the "FJ Capital 13G"), filed by FJ Capital Management LLC with the SEC on February 14, 2019. According to the FJ Schedule 13G, Martin Friedman has shared voting and shared dispositive power over 581,687 shares. According to the FJ Capital Schedule 13G, Financial Opportunity Fund LLC has shared voting power and shared dispositive power over 185,305 shares. Financial Hybrid Opportunity Fund, LLC has shared voting power and shared dispositive power over 151,560 shares. Financial Hybrid Opportunity SPV I LLC has shared voting power and shared dispositive power over 223,899 shares. FJ Capital Management has shared voting power and shared dispositive power over 581,687 shares. The address of the principal office of FJ Capital is 1313 Dolley Madison Blvd, Suite 306, McLean, VA 22101.

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**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE**

Board of Director Independence

The Securities and Exchange Commission has approved listing standards for the NASDAQ Global Market ("NASDAQ") relating to director independence. The listing standards affect the composition of the Company's Board of Directors and Board committees and impact individual Board members. NASDAQ requires that a majority of the Company's Board of Directors be independent.

Each year, the Board of Directors reviews the relationships that each director has with the Company and with other parties. Only those directors who do not have any of the categorical relationships that preclude them from being independent within the meaning of applicable NASDAQ rules and who the Board of Directors affirmatively determines have no relationships that would interfere with their exercise of independent judgment in carrying out the responsibilities of a director are considered to be "independent directors." The Board of Directors has reviewed a number of factors to evaluate the independence of each of its members. These factors include its members' relationships with the Company and its competitors, suppliers and customers; their relationships with management, other directors and stockholders; the relationships their current and former employers have with the Company; and the relationships between the Company and other companies of which the Company's Board members are directors or executive officers. After evaluating these factors, the Board of Directors has determined that Messrs. Dempsey, Hunt, Kinsey, Miller, Perkins and Alcott are independent directors of the Company within the meaning of applicable NASDAQ listing standards. Independent Board members met in executive session without management present two times during the year ended December 31, 2018.

Under NASDAQ rules, a director who is employed by the Company is not considered to be independent. Accordingly, the Board of Directors has determined that Messrs. Peck and Woolfolk, each of whom is employed by both the Company and the Bank, are not independent.

Table of Contents**DIRECTOR COMPENSATION**

The following table sets forth the compensation received by the Company's Board of Directors for the year ending December 31, 2018.

Name	Fees Earned or Paid in Cash	Stock Awards	Option Awards	All Other Compensation(2)	Total(3)
Harry J. Dempsey	\$ 48,175		N/A		\$ 48,175
Mark Alcott(5)	\$ 21,550		N/A		\$ 21,550
Thomas I. Miller	\$ 44,325		N/A	\$ 5,400	\$ 49,725
Ted S. Kinsey	\$ 25,975		N/A	\$ 5,400	\$ 31,375
Steve Hunt	\$ 27,100		N/A		\$ 27,100
Clay Smith(4)	\$ 12,800		N/A		\$ 12,800
John Peck(1)	\$ 22,275		N/A		\$ 22,275
Michael Woolfolk(1)	\$ 22,275		N/A		\$ 22,275
Richard Perkins	\$ 26,275		N/A		\$ 26,275

- (1) Members of the Board of Directors of the Company receive fees in their capacity as such. Messrs. Peck and Woolfolk, as Directors who are employed by the Company and the Bank receive compensation of \$1,275 per meeting as a director. Their Board Compensation is also included in the "Other Compensation" section of the Named Executive Officers portion of this report.
- (2) Cash payments to Directors of the Company for the participation in local Community Boards.
- (3) Includes a \$500 monthly retainer and, with the exception of Board Chairman Dempsey, an additional \$775 per month for each Bank board meeting attended. The Chairman of the Board receives \$1,025 per month for each Bank board meeting attended. In addition, each non-employee board member receives \$350 for committee meetings attended. Messrs. Kinsey and Miller also serve as community board members for the Bank. Community board members serve on non-voting advisory boards in their local communities of residence or influence. Messrs. Kinsey and Miller receive a monthly retainer of \$450 as a community board member.
- (4) Mr. Smith resigned from the Board of Directors on May 18, 2018.
- (5) Mr. Alcott was appointed to the Board of Directors on April 18, 2018.

During the year ended December 31, 2018, the fees paid to the Directors of the Bank and Company totaled \$309,375, which included cash payments of \$24,350 and \$23,475, respectively, to two Directors of the Bank who are not Directors of the Company. The Compensation Committee annually reviews and makes recommendations regarding director compensation. These recommendations are based upon, among other things, the Committee's consideration of compensation paid to directors of comparable financial institutions.

**Other Benefits.** Our Bylaws require us to indemnify our directors and officers to the fullest extent permitted by law so that they will be free from undue concern about personal liability in connection with their service to the Company. We also provide our directors with customary directors and officers liability insurance.

**Potential Payments Upon a Change In Control or Termination**

The following table quantifies the estimated change in control payment that would have been payable to each named executive officer assuming a change in control or involuntary termination without cause had occurred on December 31, 2018, and other requirements for payment had been met.



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The Company is not required to make any payments to executive officers upon their voluntary termination or termination with cause.

	Cash Severance	Restricted Stock Accelerated(1)	Tax Payments(2)	Total
<b>John Peck</b>				
Change of Control	\$ 916,678	\$ 110,201		\$ 1,026,879
Involuntary termination without cause	790,240	110,201		900,441
<b>Billy Duvall</b>				
Change of Control	565,396	67,965		633,361
Involuntary termination without cause	487,410	67,965		555,375
<b>Michael Woolfolk</b>				
Change of Control	686,975	82,584		769,559
Involuntary termination without cause	592,220	82,584		674,804
<b>Bailey C. Knight</b>				
Change of Control	554,190	66,768		620,958
Involuntary termination without cause	477,975	66,768		544,743

(1) Assumes the immediate vesting of all unvested restricted stock upon a change in control using the fair market value of our Common Stock at December 31, 2018 of \$13.29.

(2) Represents taxes associated with "excess parachute payments." These taxes include any excise tax imposed under Section 4999 of the Internal Revenue Code as well as any federal, state or local tax resulting from the excise tax payment. For Mr. Woolfolk, a compensation consultant hired by the Company has determined that no Section 4999 taxes would be due as a result Mr. Woolfolk's change of control clause in his contract.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES****Changes in Registrant's Independent Registered Public Accounting Firm**

As previously disclosed in the Company's Form 8-K filed with the SEC on March 13, 2018, the Audit Committee of the Board of Directors of HopFed Bancorp, Inc. (the "Company") conducted a competitive process to determine the Company's independent registered public accounting firm for the Company's fiscal year ending December 31, 2018. The Audit Committee invited nine qualified accounting firms to participate in the process, including CRI, the Company's then independent registered public accounting firm. As a result of this process, on March 13, 2018, the Audit Committee approved the engagement of HORNE LLP as the Company's independent registered public accounting firm for the Company's 2018 fiscal year and dismissed CRI.

During the Company's fiscal years ended December 31, 2017 and 2016, and the subsequent interim period through March 13, 2018, there were (i) no "disagreements" as that term is defined in Item 304(l)(iv) of Regulation S-K between the Company and CRI on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedures, any of which, if not resolved to CRI's satisfaction, would have caused CRI to make reference to the subject matter of the disagreement in its report on the Company's consolidated financial statements for the relevant year, and (ii) no "reportable events" as that term is defined in Item 304(a)(1)(v) of Regulation S-K.

During the fiscal years ended December 31, 2018 and December 31, 2017, and the subsequent interim period through March 13, 2018, neither the Company nor anyone on its behalf has consulted with HORNE or CRI regarding (i) the application of accounting principles to a specific transaction,

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either completed or proposed,(ii) the type of audit opinion that might be rendered on the Company's financial statements, and neither a written report nor oral advice was provided to the Company that HORNE concluded was an important factor considered by the Company in reaching a decision as to any accounting, auditing, or financial reporting issue, or (iii) any matter that was either the subject of a disagreement within the meaning of Item 304(a)(1)(iv) of Regulation S-K, or a reportable event within the meaning of Item 304(a)(1)(v) of Regulation S-K.

**Audit Fees and Other Matters**

HORNE LLP provide audit services to the Company in 2018 consisting of the annual audit of the Company's 2018 consolidated financial statements contained in the Company's Annual Report on Form 10-K and effectiveness of internal control over financial reporting for the year ended December 31, 2018 as well as for the Company's 2017 income tax returns. CRI provided audit services to the Company consisting of the annual audit of the Company's 2017 consolidated financial statements contained in the Company's Annual Report on Form 10-K/A and effectiveness of internal control over financial report for the year ended December 31, 2017 as well as the Company's 2016 income tax returns and employee benefit audits for 2017.

Fee Category	Fiscal Year 2018	% of Total	Fiscal Year 2017	% of Total
Audit Fees	\$ 240,500	87.0%	\$ 222,500	84.0%
Audit-Related Fees	\$ 15,000	6.5%	\$ 27,000	10.4%
Tax Fees	\$ 15,000	6.5%	\$ 15,000	5.6%
All Other Fees	\$		\$	
<b>Total Fees</b>	<b>\$ 270,500</b>	<b>100.0%</b>	<b>\$ 265,000</b>	<b>100.0%</b>

The Audit Committee approved all services provided by HORNE and CRI during 2018 and 2017. Additional details describing the services provided in the categories in the above table are as follows:

Neither HORNE nor CRI provided any services related to the financial information systems design and implementation of the Company during 2018 and 2017.

*Audit Fees.* These are fees related to professional services rendered in connection with the audit of the Company's annual financial statements and effectiveness of internal control over financial reporting, reviews of the financial statements included in each of the Company's Quarterly Reports on Form 10-Q.

*Audit-Related Fees.* These fees include an audit of the Company's 401(k) plan and ESOP as well as completion of federal and state tax returns.

*Tax Fees.* These are fees billed for professional services related to the completion of federal and state tax return preparation, state tax research and state tax planning strategies.

*All Other Fees:* No other fees are noted.

**Policy on Pre-approval of Audit and Permissible Non-audit Services**

The Audit Committee has considered whether the provision of non-audit services by the Company's independent auditors is compatible with maintaining audit independence. The Audit Committee is authorized to pre-approve all audit and permissible non-audit services provided by the independent auditors. These services may include audit services, audit-related services, tax services and other services. Pre-approval is generally provided for up to one year and any pre-approval is detailed as to the particular service or category of services and is generally subject to a specific budget. The independent auditors and management are required to periodically report to the Audit Committee



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regarding the extent of services provided by the independent auditors in accordance with this pre-approval, and the fees for the services performed to date. The Audit Committee may also pre-approve particular services on a case-by-case basis.

In assessing requests for services by the independent auditors, the Audit Committee considers whether these services are consistent with the auditors' independence, whether the independent auditors are likely to provide the most effective and efficient service based upon their familiarity with the Company, and whether the service could enhance the Company's ability to manage or control risk or improve audit quality. For 2018 and 2017, non-audit services included only those services described above for "Audit-Related Fees" and "Tax Fees." All of the audit-related and tax services and related fees were approved in advance by the Audit Committee.

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**PART IV**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

(a)

The following consolidated financial statements of the Company included in the Annual Report to Stockholders for the year ended December 31, 2018, are incorporated herein by reference in Item 8 of this Report. The remaining information appearing in the Annual Report to Stockholders is not deemed to be filed as part of this Report, except as expressly provided herein.

1. Report of Independent Registered Public Accounting Firm HORNE LLP for the year ending December 31, 2018.
2. Report of Independent Registered Public Accounting Firm Carr, Riggs & Ingram, LLC for the year ending December 31, 2017 for the Company's balance sheet and for the income statement for the years ended December 31, 2017 and December 31, 2016.
3. Report of Independent Registered Public Accounting Firm HORNE LLP on the Company's Opinion on Internal Controls for the year ending December 31, 2018
4. Consolidated Balance Sheets December 31, 2018 and December 31, 2017.
5. Consolidated Statements of Income for the Years Ended December 31, 2018, 2017 and 2016.
6. Consolidated Statements of Comprehensive Income (Loss) for the Years Ended December 31, 2018, 2017 and 2016.
7. Consolidated Statements of Changes in Stockholders' Equity for the Years Ended December 31, 2018, 2017 and 2016.
8. Consolidated Statements of Cash Flows for the Years Ended December 31, 2018, 2017 and 2016.
9. Notes to Consolidated Financial Statements.

(b)

The following exhibits either are filed as part of this Report or are incorporated herein by reference:

Exhibit No. 2.1. Plan of Conversion of Hopkinsville Federal Savings Bank. Incorporated herein by reference to Exhibit No. 2 to Registrant's Registration Statement on Form S-1 (File No. 333-30215).

Exhibit No. 3.1. Certificate of Incorporation. Incorporated herein by reference to Exhibit 3.1 to Registrant's Current Report on Form 10-K for the fiscal year ended December 31, 2013.

Exhibit No. 3.2 Bylaws, as amended and restated, Incorporated herein by reference to Exhibit No. 3.1 to Registrant's Current Report on Form 8-K dated October 3, 2017 (filed on October 4, 2017).

Exhibit No. 4.1. Form of Common Stock Certificate incorporated herein by reference to Exhibit No. 4 to Registrant's Registration Statement on Form S-1 (File No. 333-30215).

Exhibit No. 10.1. HopFed Bancorp, Inc. Management Recognition Plan. Incorporated herein by reference to Exhibit 99.1 to Registration Statement on Form S-8 (File No. 333-79391).

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Exhibit No. 10.2. HopFed Bancorp, Inc. 1999 Stock Option Plan. Incorporated herein by reference to Exhibit 99.2 to Registration Statement on Form S-8 (File No. 333-79391).

Exhibit No. 10.3. HopFed Bancorp, Inc. 2000 Stock Option Plan. Incorporated herein by reference to Exhibit 10.10 to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2000.

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Exhibit No. 10.4 HopFed Bancorp, Inc. 2004 Long Term Incentive Plan Incorporated herein by reference to Exhibit 4.1 to Registration Statement on Form S-8 (File No. 333-117956) dated August 5, 2004.

Exhibit No. 10.5 HopFed Bancorp, Inc. 2013 Long Term Incentive Plan Incorporated herein by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K dated May 15, 2013 (filed May 28, 2013).

Exhibit No. 10.6. Employment Agreement by and between Registrant and John E. Peck. Incorporated herein by reference to Exhibit No. 10.3 to Registrant's Current Report on Form 8-K dated June 26, 2018 (filed June 26, 2018).

Exhibit No. 10.7. Employment Agreement by and between Heritage Bank and John E. Peck. Incorporated herein by reference to Exhibit No. 10.4 to Registrant's Current Report on Form 8-K dated June 26, 2018 (filed June 26, 2018).

Exhibit No. 10.8. Employment Agreement by and between Registrant and Billy C. Duvall. Incorporated herein by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K dated July 1, 2013 (filed July 8, 2013).

Exhibit No. 10.9. Employment Agreement by and between Heritage Bank and Billy C. Duvall. Incorporated herein by reference to Exhibit 10.2 to Registrant's Current Report on Form 8-K dated July 1, 2013 (filed July 8, 2013).

Exhibit No. 10.10. Employment Agreement by and between Registrant and Michael L. Woolfolk. Incorporated herein by reference to Exhibit 10.3 to Registrant's Current Report on Form 8-K dated April 17, 2008 (filed April 22, 2008).

Exhibit No. 10.11. Employment Agreement by and between Heritage Bank and Michael L. Woolfolk. Incorporated herein by reference to Exhibit 10.4 to Registrant's Current Report on Form 8-K dated April 17, 2008 (filed April 22, 2008).

Exhibit No. 10.12 Employment Agreement by and between Heritage Bank and Keith Bennett. Incorporated herein by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K dated April 25, 2013 (filed April 29, 2013).

Exhibit No. 10.13. Employment Agreement by and between Registrant and Bailey K. Knight. Incorporated herein by reference to Exhibit No. 10.1 to Registrant's Current Report on Form 8-K dated June 26, 2018 (filed June 26, 2018).

Exhibit No. 10.14. Employment Agreement by and between Heritage Bank and Bailey K. Knight Incorporated herein by reference to Exhibit No. 10.2 to Registrant's Current Report on Form 8-K dated June 26, 2018 (filed June 26, 2018).

Exhibit No. 10.15 Restricted Share Award Agreement with John E. Peck. Incorporated herein by reference to Registrant's Current Report on Form 8-K dated June 23, 2010 (filed June 28, 2010).

Exhibit No. 10.16 Restricted Share Award Agreement with John E. Peck. Incorporated herein by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K dated June 23, 2012 (filed June 25, 2012).

Exhibit No. 10.17 Employee Stock Ownership Plan. Incorporated herein by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K dated February 27, 2015 (filed March 3, 2015).

Exhibit No. 10.18 Employee Stock Ownership Trust. Incorporated herein by reference to Exhibit 10.2 to Registrant's Current Report on Form 8-K dated February 27, 2015 (filed March 3, 2015).

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Exhibit No. 14.1. Code of Ethics. Incorporated herein by reference to Exhibit 14 to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2003.

Exhibit No. 21.1 Subsidiaries of the Registrant. (Previously filed)

Exhibit No. 23.1. Consent of Carr, Riggs & Ingram, LLC.

Exhibit No. 23.2 Consent of HORNE LLP

Exhibit No. 31.1 Certification of Principal Executive Officer pursuant to Exchange Act Rule 13a-14(a) or 15d-14(a).

Exhibit No. 31.2 Certification of Principal Financial Officer pursuant to Exchange Act Rule 13a-14(a) or 15d-14(a).

Exhibit No 32.1. Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002.

Exhibit No 32.2. Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002.

Exhibit No. 99.1 Stock Purchase Agreement with Maltese Capital Management. Incorporated herein by reference to Exhibit 99.1 to Registrant's Current Report on 8-K dated February 2, 2015 (filed February 3, 2015)

Exhibit No. 99.2 Stilwell Standstill Agreement with Stilwell Activist Fund, L.P., Stilwell Activist Investments, L.P., Stilwell Associates, L.P., Stilwell Value LLC, Joseph Stilwell and Mark D. Alcott. Incorporated herein by reference to Exhibit 10.1 to Registrant's Current Report on 8-K dated April 10, 2018 (filed April 11, 2018).

Exhibit 101. The following materials from the Company's annual report on Form 10-K for the years ended December 31, 2018 and December 31, 2017, formatted in XBRL (extensible Business Reporting Language): (i) Condensed Consolidated Statement of Financial Condition as of December 31, 2018 and December 31, 2017, (ii) Condensed Consolidated Statements of Income for the years ended December 31, 2018, 2017 and 2016, respectively (iii) Condensed Statements of Comprehensive Income (Loss) for the years ended December 31, 2018, 2017, and 2016, respectively (iv) Condensed Consolidated Statements of Cash Flows, for the years ended December 31, 2018, 2017 and 2016 respectively, and (v) Notes to Condensed Consolidated Financial Statements (unaudited), tagged as blocks of text.

(c)

All schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and therefore have been omitted.

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**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 behalf by the undersigned, thereunto duly authorized.

HOPFED BANCORP, INC.  
(Registrant)

Date: April 3, 2019

By: (signed) JOHN E. PECK

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John E. Peck  
*President and Chief Executive Officer*

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**PART II INFORMATION NOT REQUIRED IN PROSPECTUS**

**Item 20. Indemnification of Directors and Officers.**

First Financial Corporation ("First Financial") is an Indiana corporation. First Financial's officers and directors (and those who have agreed to such positions) are entitled to be indemnified against certain liabilities and expenses in accordance with the Indiana Business Corporation Law (the "IBCL") and First Financial's Articles of Incorporation. First Financial's Bylaws do not include provisions with respect to indemnification. The following discussion is necessarily subject to the complete text of Chapter 37 of the IBCL and Article 11 of First Financial's Articles of Incorporation, and is qualified in its entirety by reference thereto.

Chapter 37 of the IBCL provides that an Indiana corporation may indemnify an individual made a party to a proceeding because the individual is or was a director against liability incurred in the proceeding if (i) the individual's conduct was in good faith, (ii) the individual reasonably believed, in the case of conduct in the individual's official capacity with the corporation, that the individual's conduct was in the best interests of the corporation and, in all other cases, that the individual's conduct was at least not opposed to the corporation's best interests, and (iii) in the case of any criminal proceeding, the individual either had reasonable cause to believe that the individual's conduct was lawful or the individual had no reasonable cause to believe that the individual's conduct was unlawful. A corporation may not indemnify a director under the foregoing provision unless authorized in the specific case after a determination has been made that indemnification of the director is permissible in the circumstances because the director has met the standard of conduct.

Additionally, unless limited by its articles of incorporation, a corporation must indemnify a director who was wholly successful, on the merits or otherwise, in the defense of any proceeding to which the director was a party because the director is or was a director of the corporation against reasonable expenses incurred by the director in defense of the proceeding. Unless limited by its articles of incorporation, officers of the corporation, whether or not a director, are similarly entitled this mandatory indemnification to the same extent as a director.

A corporation may pay for or reimburse the reasonable expenses incurred by a director who is a party to a proceeding in advance of final disposition of the proceeding if: (1) the director furnishes the corporation a written affirmation of the director's good faith belief that the director has met the standard of conduct; (2) the director furnishes the corporation a written undertaking, executed personally or on the director's behalf, to repay the advance if it is ultimately determined that the director did not meet the standard of conduct; and (3) a determination is made that the facts then known to those making the determination would not preclude indemnification under the IBCL.

Unless limited by its articles of incorporation, a corporation may also indemnify and advance expenses to an officer, employee, or agent of the corporation, whether or not a director, to the same extent as to a director under the IBCL.

Article 11 of First Financial's Articles of Incorporation provides that First Financial must, to the fullest extent permitted by applicable law, indemnify any person who was or is a party, or is threatened to be made a party, to any threatened, pending, or completed action, suit, or proceeding, whether civil, criminal, administrative, or investigative and whether formal or informal, by reason of the fact that he or she is or was a director, officer, employee, or agent of First Financial, or who, while serving as such director, officer, employee, or agent of First Financial, is or was serving at the request of First Financial as a director, officer, partner, trustee, employee, or agent of another corporation, partnership, joint venture, trust, employee benefit plan, or other enterprise, whether for profit or not, against expenses (including counsel fees), judgments, settlements, penalties, and fines (including excise taxes assessed with respect to employee benefit plans) actually or reasonably incurred by him or her in accordance with such action, suit, or proceeding, if he or she acted in good faith and in a manner he or

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she reasonably believed, in the case of conduct in his or her official capacity, was in the best interests of First Financial, and in all other cases, was not opposed to the best interests of First Financial, and, with respect to any criminal action or proceeding, he or she either had reasonable cause to believe his or her conduct was lawful or no reasonable cause to believe his or her conduct was unlawful.

First Financial's Articles of Incorporation further provide that, to the extent that a director, officer, employee, or agent of First Financial has been successful, on the merits or otherwise, in the defense of any action, suit, or proceeding referred to above, or in the defense of any claim, issue, or matter therein, First Financial must indemnify such person against expenses (including counsel fees) actually and reasonably incurred by such person in connection therewith. Any other indemnification referred to above (unless ordered by a court) will be made by First Financial only as authorized in the specific case, upon a determination that indemnification of the director, officer, employee or agent is permissible in the circumstances because he or she has met the applicable standard of conduct.

First Financial may advance expenses upon making a determination that indemnification is not precluded and upon receipt of a written affirmation from the director, officer, employee, or agent as to his or her good faith belief they are eligible for indemnification and a written undertaking by such person to repay such expenses if it should ultimately be determined that he or she is not entitled to indemnification.

First Financial may purchase and maintain insurance on behalf of any such person against any liability asserted against or incurred by the individual in that capacity or arising from the individual's status as a director, officer, employee or agent, whether or not First Financial would have power to indemnify the individual against the same liability under First Financial's Articles of Incorporation.

First Financial maintains insurance policies under which directors and officers of First Financial and its subsidiaries are insured, within the limits and subject to the limitations of such policies, against expenses in connection with the defense of actions, suits, or proceedings, and certain liabilities that might be imposed as a result of such actions, suits, or proceedings, to which they are parties by reason of being or having been directors or officers of First Financial or its subsidiaries.



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**Item 21. Exhibits and Financial Statement Schedules.**

(a)

Exhibits: The following is a list of exhibits to this Registration Statement.

<b>Exhibit No.</b>	<b>Description</b>
2.1	Agreement and Plan of Merger, dated as of January 7, 2019, by and between First Financial Corporation and HopFed Bancorp, Inc. (attached as Annex A to the proxy statement/prospectus contained in this Registration Statement)*
3.1	Amended and Restated Articles of Incorporation of First Financial Corporation (incorporated by reference to Exhibit 3(i) of First Financial's Form 10-Q for the quarter ended September 30, 2002 and filed on November 14, 2002)
3.2	Code of By-Laws of First Financial Corporation (incorporated by reference to Exhibit 3(ii) of First Financial's Form 8-K filed on August 24, 2012)
5.1	Opinion of SmithAmundsen LLC regarding the validity of the securities to be issued
8.1	Opinion of SmithAmundsen LLC regarding certain tax matters
8.2	Opinion of Jones Walker LLP regarding certain tax matters
10.1	Voting Agreement, dated January 7, 2019 (incorporated by reference to Exhibit 10.1 of First Financial's Amendment to Form 8-K filed on January 9, 2019)
10.2	Standstill Agreement, dated December 21, 2018 (incorporated by reference to Exhibit 10.2 of First Financial's Amendment to Form 8-K filed on January 9, 2019)
10.3	Employment Agreement, dated January 7, 2019, by and among John E. Peck, First Financial Bank and First Financial Corporation (incorporated by reference to Exhibit 10.3 of First Financial's Amendment to Form 8-K filed on January 9, 2019)
10.4	Retention Bonus Agreement, dated January 7, 2019, by and between John E. Peck and First Financial Bank (incorporated by reference to Exhibit 10.4 of First Financial's Amendment to Form 8-K filed on January 9, 2019)
10.5	Mutual Termination of Employment Agreement, dated January 7, 2019, by and among John E. Peck, HopFed, Heritage Bank USA, Inc., First Financial and First Financial Bank (incorporated by reference to Exhibit 10.5 of First Financial's Amendment to Form 8-K filed on January 9, 2019)
10.6	Non-Disclosure and Non-Solicitation Agreement, dated January 7, 2019, by and among John E. Peck and First Financial, First Financial Bank, HopFed and Heritage Bank USA (incorporated by reference to Exhibit 10.6 of First Financial's Amendment to Form 8-K filed on January 9, 2019)
10.7	Mutual Termination of Employment Agreement, dated January 7, 2019, by and among Billy C. Duvall, HopFed, Heritage Bank USA, Inc., First Financial and First Financial Bank (incorporated by reference to Exhibit 10.7 of First Financial's Amendment to Form 8-K filed on January 9, 2019)
10.8	Non-Disclosure and Non-Solicitation Agreement, dated January 7, 2019, by and among Billy C. Duvall and First Financial, First Financial Bank, HopFed and Heritage Bank USA (incorporated by reference to Exhibit 10.8 of First Financial's Amendment to Form 8-K filed on January 9, 2019)

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<b>Exhibit No.</b>	<b>Description</b>
10.9	Mutual Termination of Employment Agreement, dated January 7, 2019, by and among Michael L. Woolfolk, HopFed, Heritage Bank USA, Inc., First Financial and First Financial Bank (incorporated by reference to Exhibit 10.9 of First Financial's Amendment to Form 8-K filed on January 9, 2019)
10.10	Non-Disclosure and Non-Solicitation Agreement, dated January 7, 2019, by and among Michael L. Woolfolk and First Financial, First Financial Bank, HopFed and Heritage Bank USA (incorporated by reference to Exhibit 10.10 of First Financial's Amendment to Form 8-K filed on January 9, 2019)
10.11	Mutual Termination of Employment Agreement, dated January 7, 2019, by and among Bailey C. Knight, HopFed, Heritage Bank USA, Inc., First Financial and First Financial Bank (incorporated by reference to Exhibit 10.11 of First Financial's Amendment to Form 8-K filed on January 9, 2019)
10.12	Non-Disclosure and Non-Solicitation Agreement, dated January 7, 2019, by and among Bailey C. Knight and First Financial, First Financial Bank, HopFed and Heritage Bank USA (incorporated by reference to Exhibit 10.12 of First Financial's Amendment to Form 8-K filed on January 9, 2019)
21.1	Subsidiaries of First Financial Corporation (incorporated by reference to Exhibit 21 of First Financial's Form 10-K for fiscal year end December 31, 2018 and filed on March 6, 2019)
23.1	Consent of SmithAmundsen LLC (included in Exhibit 5.1)
23.2	Consent of SmithAmundsen LLC (included in Exhibit 8.1)
23.3	Consent of Jones Walker LLP (included in Exhibit 8.2)
23.4	Consent of Crowe LLP (with respect to First Financial Corporation)
23.5	Consent of HORNE LLP (with respect to HopFed Bancorp, Inc.)
23.6	Consent of Carr, Riggs & Ingram, LLC (with respect to HopFed Bancorp, Inc.)
24.1	Power of Attorney (included on signature page)
99.1	Consent of Keefe, Bruyette & Woods, Inc.
99.2	Form of HopFed Bancorp, Inc. Proxy Card**
99.3	Form of Voting Instruction Letter and Voting Instruction Card for the HopFed Bancorp, Inc. 2015 Employee Stock Ownership Plan**

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\* Annexes, schedules, and exhibits have been omitted pursuant to Item 601 of Regulation S-K. First Financial agrees to furnish supplementally a copy of any omitted attachment to the Securities and Exchange Commission on a confidential basis upon request.

\*\* To be filed by amendment.

(b) Financial Statement Schedules: Not applicable.

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**Item 22. Undertakings.**

**The undersigned registrant hereby undertakes:**

- (1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement: (i) to include any prospectus required by Section 10(a)(3) of the Securities Act of 1933; (ii) to reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement (notwithstanding the foregoing, any increase or decrease in the volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the SEC pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement); and (iii) to include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement.
- (2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.
- (3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.
- (4) That, for purposes of determining any liability under the Securities Act of 1933, each filing of the registrant's annual report pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (and, where applicable, each filing of an employee benefit plan's annual report pursuant to Section 15(d) of the Securities Exchange Act of 1934) that is incorporated by reference in this registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.
- (5) That prior to any public reoffering of the securities registered hereunder through use of a prospectus which is a part of this registration statement, by any person or party who is deemed to be an underwriter within the meaning of Rule 145(c), the registrant undertakes that such reoffering prospectus will contain the information called for by the applicable registration form with respect to reofferings by persons who may be deemed underwriters, in addition to the information called for by the other items of the applicable form.
- (6) That every prospectus (i) that is filed pursuant to paragraph (5) above, or (ii) that purports to meet the requirements of Section 10(a)(3) of the Securities Act and is used in connection with an offering of securities subject to Rule 415, will be filed as a part of an amendment to the registration statement and will not be used until such amendment has become effective, and that for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.
- (7) To respond to requests for information that is incorporated by reference into the prospectus pursuant to Items 4, 10(b), 11 or 13 of this Form, within one business day of receipt of such request, and to send the incorporated documents by first class mail or other equally prompt means.

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This includes information contained in documents filed subsequent to the effective date of the registration statement through the date of responding to the request.

- (8) To supply by means of a post-effective amendment all information concerning a transaction, and the company being acquired involved therein, that was not the subject of, and included in, this registration statement when it became effective.
- (9) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers, and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission, such indemnification is against public policy as expressed in the Securities Act of 1933 and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer, or controlling person of the registrant in the successful defense of any action, suit, or proceeding) is asserted by such director, officer, or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

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**EXHIBIT INDEX**

<b>Exhibit No.</b>	<b>Description</b>
2.1	<u>Agreement and Plan of Merger, dated as of January 7, 2019, by and between First Financial Corporation and HopFed Bancorp, Inc. (attached as Annex A to the proxy statement/prospectus contained in this Registration Statement)*</u>
3.1	<u>Amended and Restated Articles of Incorporation of First Financial Corporation (incorporated by reference to Exhibit 3 (i) of First Financial's Form 10-Q for the quarter ended September 30, 2002 and filed on November 14, 2002)</u>
3.2	<u>Code of By-Laws of First Financial Corporation (incorporated by reference to Exhibit 3(ii) of First Financial's Form 8-K filed on August 24, 2012)</u>
5.1	<u>Opinion of SmithAmundsen LLC regarding the validity of the securities to be issued</u>
8.1	<u>Opinion of SmithAmundsen LLC regarding certain tax matters</u>
8.2	<u>Opinion of Jones Walker LLP regarding certain tax matters</u>
10.1	<u>Voting Agreement, dated January 7, 2019 (incorporated by reference to Exhibit 10.1 of First Financial's Amendment to Form 8-K filed on January 9, 2019)</u>
10.2	<u>Standstill Agreement, dated December 21, 2018 (incorporated by reference to Exhibit 10.2 of First Financial's Amendment to Form 8-K filed on January 9, 2019)</u>
10.3	<u>Employment Agreement, dated January 7, 2019, by and among John E. Peck, First Financial Bank and First Financial Corporation (incorporated by reference to Exhibit 10.3 of First Financial's Amendment to Form 8-K filed on January 9, 2019)</u>
10.4	<u>Retention Bonus Agreement, dated January 7, 2019, by and between John E. Peck and First Financial Bank (incorporated by reference to Exhibit 10.4 of First Financial's Amendment to Form 8-K filed on January 9, 2019)</u>
10.5	<u>Mutual Termination of Employment Agreement, dated January 7, 2019, by and among John E. Peck, HopFed, Heritage Bank USA, Inc., First Financial and First Financial Bank (incorporated by reference to Exhibit 10.5 of First Financial's Amendment to Form 8-K filed on January 9, 2019)</u>
10.6	<u>Non-Disclosure and Non-Solicitation Agreement, dated January 7, 2019, by and among John E. Peck and First Financial, First Financial Bank, HopFed and Heritage Bank USA (incorporated by reference to Exhibit 10.6 of First Financial's Amendment to Form 8-K filed on January 9, 2019)</u>
10.7	<u>Mutual Termination of Employment Agreement, dated January 7, 2019, by and among Billy C. Duvall, HopFed, Heritage Bank USA, Inc., First Financial and First Financial Bank (incorporated by reference to Exhibit 10.7 of First Financial's Amendment to Form 8-K filed on January 9, 2019)</u>
10.8	<u>Non-Disclosure and Non-Solicitation Agreement, dated January 7, 2019, by and among Billy C. Duvall and First Financial, First Financial Bank, HopFed and Heritage Bank USA (incorporated by reference to Exhibit 10.8 of First Financial's Amendment to Form 8-K filed on January 9, 2019)</u>
10.9	<u>Mutual Termination of Employment Agreement, dated January 7, 2019, by and among Michael L. Woolfolk, HopFed, Heritage Bank USA, Inc., First Financial and First Financial Bank (incorporated by reference to Exhibit 10.9 of First Financial's Amendment to Form 8-K filed on January 9, 2019)</u>

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Exhibit No.	Description
10.10	<u>Non-Disclosure and Non-Solicitation Agreement, dated January 7, 2019, by and among Michael L. Woolfolk and First Financial, First Financial Bank, HopFed and Heritage Bank USA (incorporated by reference to Exhibit 10.10 of First Financial's Amendment to Form 8-K filed on January 9, 2019)</u>
10.11	<u>Mutual Termination of Employment Agreement, dated January 7, 2019, by and among Bailey C. Knight, HopFed, Heritage Bank USA, Inc., First Financial and First Financial Bank (incorporated by reference to Exhibit 10.11 of First Financial's Amendment to Form 8-K filed on January 9, 2019)</u>
10.12	<u>Non-Disclosure and Non-Solicitation Agreement, dated January 7, 2019, by and among Bailey C. Knight and First Financial, First Financial Bank, HopFed and Heritage Bank USA (incorporated by reference to Exhibit 10.12 of First Financial's Amendment to Form 8-K filed on January 9, 2019)</u>
21.1	<u>Subsidiaries of First Financial Corporation (incorporated by reference to Exhibit 21 of First Financial's Form 10-K for fiscal year end December 31, 2018 and filed on March 6, 2019)</u>
23.1	<u>Consent of SmithAmundsen LLC (included in Exhibit 5.1)</u>
23.2	<u>Consent of SmithAmundsen LLC (included in Exhibit 8.1)</u>
23.3	<u>Consent of Jones Walker LLP (included in Exhibit 8.2)</u>
23.4	<u>Consent of Crowe LLP (with respect to First Financial Corporation)</u>
23.5	<u>Consent of HORNE LLP (with respect to HopFed Bancorp, Inc.)</u>
23.6	<u>Consent of Carr, Riggs &amp; Ingram, LLC (with respect to HopFed Bancorp, Inc.)</u>
24.1	<u>Power of Attorney (included on signature page)</u>
99.1	<u>Consent of Keefe, Bruyette &amp; Woods, Inc.</u>
99.2	Form of HopFed Bancorp, Inc. Proxy Card**
99.3	Form of Voting Instruction Letter and Voting Instruction Card for the HopFed Bancorp, Inc. 2015 Employee Stock Ownership Plan**

\*

Annexes, schedules, and exhibits have been omitted pursuant to Item 601 of Regulation S-K. First Financial agrees to furnish supplementally a copy of any omitted attachment to the Securities and Exchange Commission on a confidential basis upon request.

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To be filed by amendment.

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**SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Terre Haute, State of Indiana, on April 11, 2019.

**FIRST FINANCIAL CORPORATION**

By: /s/ NORMAN L. LOWERY

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Name: Norman L. Lowery  
Title: President and Chief Executive Officer

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Each person whose signature appears below constitutes and appoints each of Norman L. Lowery and Rodger A. McHargue, with full power to act without the other, his or her true and lawful attorney-in-fact and agent, with full and several power of substitution, for him or her and in his or her name, place, and stead, in any and all capacities, to sign any or all amendments, including post-effective amendments to this registration statement and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission and any applicable securities exchange or securities self-regulatory body, granting unto said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as they or he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents as his, her, or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, as amended, this registration statement has been signed by the following persons in the capacities indicated on April 11, 2019.

Signature	Title
<u>/s/ NORMAN L. LOWERY</u> Norman L. Lowery	Vice Chairman, President, CEO, and Director (Principal Executive Officer)
<u>/s/ RODGER A. MCHARGUE</u> Rodger A. McHargue	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)
<u>/s/ B. GUILLE COX, JR.</u> B. Guille Cox, Jr.	Chairman of the Board
<u>/s/ W. CURTIS BRIGHTON</u> W. Curtis Brighton	Director
<u>/s/ THOMAS T. DINKEL</u> Thomas T. Dinkel	Director
<u>/s/ ANTON H. GEORGE</u> Anton H. George	Director
<u>/s/ GREGORY L. GIBSON</u> Gregory L. Gibson	Director
<u>/s/ WILLIAM R. KRIEBLE</u> William R. Kriebel	Director



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Signature	Title
/s/ RONALD K. RICH	Director
Ronald K. Rich	
/s/ WILLIAM J. VOGES	Director
William J. Voges	

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