FIRST

first financial bancorp

# Positioned for Success

2017 ANNUAL REPORT

# Dear Fellow Shareholders,

2017 was a transformative year for our Company in many ways. With the announcement of the merger with MainSource Financial Group midway through the year, we created excitement and opportunity, but also challenges and uncertainty. Through it all, our team remained focused on executing our strategy and providing exceptional service to clients. And, while things did not always go as planned, we adjusted course when necessary and produced another year of solid financial results.

### 2017 Highlights

- Net income increased 9.3% to $96.8 million or $1.56 per diluted share
- Return on average assets increased 5 basis points to 1.12%
- Total loans increased 4.4%, driven primarily by strong Commercial and Investor Commercial Real Estate originations
- Total deposits increased 5.7%, highlighted by noninterest bearing and transaction deposit growth reflecting execution of targeted strategic initiatives
- Solid execution of mid-year performance improvement plan, including a 10% reduction to staffing, consolidation of 8 banking centers and realigned deposit pricing and sales efforts
- Strong credit performance, including an 18% decline in nonperforming assets and a 30% decline in classified assets while loan losses remain at historically low levels

Our strong performance in 2017, combined with the recent tax reform legislation, allowed us to announce a 12% dividend increase during the first quarter of 2018, increase the minimum starting wage for associates to $15 per hour and establish the First Financial Foundation with an initial $3 million contribution.

### Looking Ahead — 2018

The past year's performance provides a solid foundation for our Company moving forward. Put simply, the MainSource merger will make us a stronger company, with the depth of product, talent and scale to compete in a rapidly evolving industry. Combined with our ability to produce organic growth, I am more confident than ever in our ability to build on our past success and continue our trajectory in the coming years.

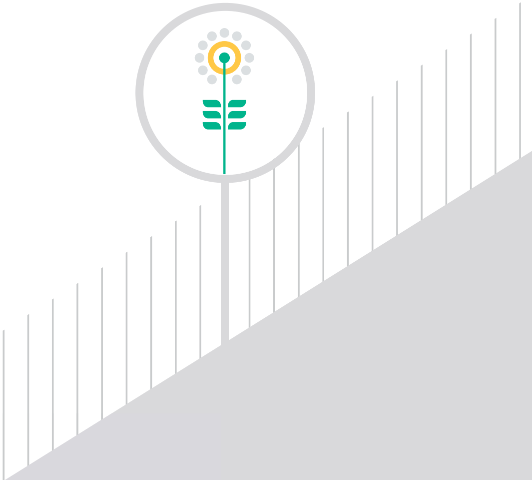
In addition to continued execution and achievement of superior financial results, successfully completing the merger integration and providing a smooth transition for clients is a primary focus for our Company in 2018. Additionally, we will utilize the talent and scale across the combined company to enhance our efforts around innovation and technologies that improve the client experience. Finally, we remain committed to being an employer of choice with an emphasis on improving compensation for entry-level positions, continuing to embrace diversity and providing career development for all associates.

In closing, I'd like to take this opportunity to point out that this is my last time writing to you as CEO of First Financial Bank. It has truly been an honor to serve in this role for the last 13 years alongside such wonderful associates and fellow leaders. Together, we have made tremendous strides along our own path to get us to this pivotal time in our Company's history. I am extremely excited for what the future holds, and about working with Archie Brown, our next CEO, to continue our Company's success. As I transition to the Executive Chairman position, my commitment remains to the long-term growth of our Company and providing superior returns to shareholders.

Thank you for your continued support. I look forward to helping write the next chapter in our Company's great history!

**Claude E. Davis**
Chief Executive Officer

**Consistent and dependable performance**



**109** CONSECUTIVE QUARTERS OF PROFITABILITY

**154** YEARS OF STRENGTH AND STABILITY

## A scalable platform to facilitate growth

Customer Relationship Management and Sales Process

Enterprise Data Warehouse

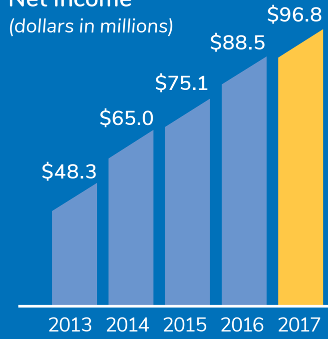
Product and Distribution

Risk and Compliance Governance

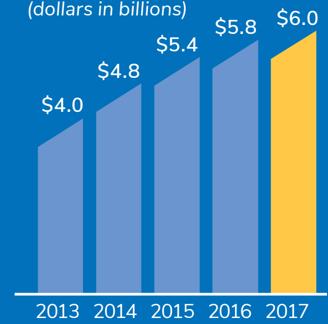
Talent Management Strategy

## Solid financial performance

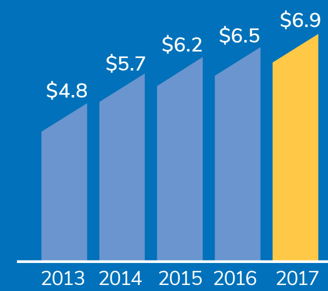
### Net Income
*(dollars in millions)*



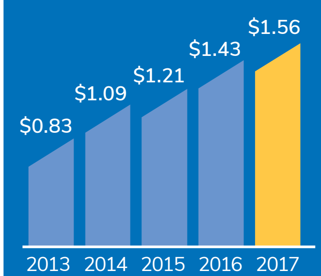

### Total Loans
*(dollars in billions)*



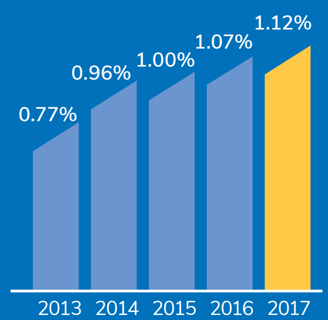

### Total Deposits
*(dollars in billions)*



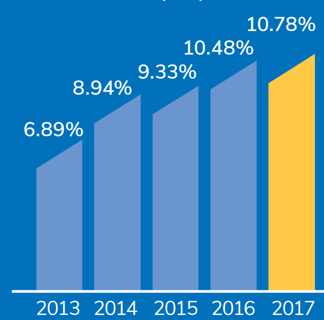

### Earnings Per Share



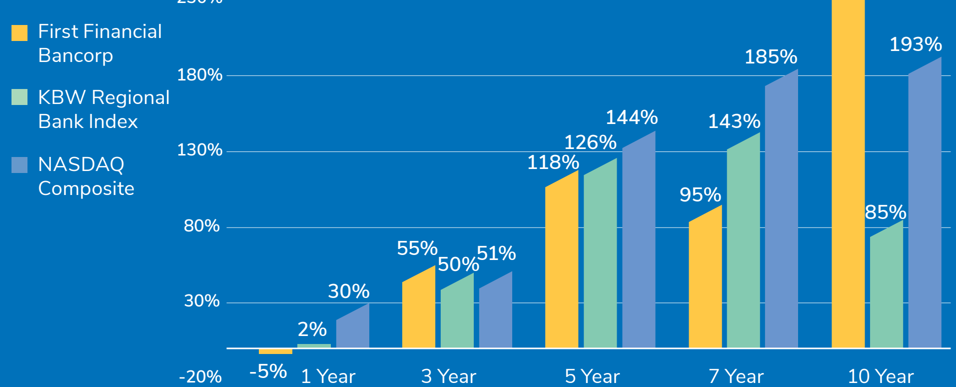

### Return on Assets




### Return on Equity




### Total Shareholder Return



## Senior Management

**Claude E. Davis**
Chief Executive Officer

**Matthew B. Burgess**
Chief Internal Auditor

**Scott T. Crawley**
Corporate Controller and
Principal Accounting Officer

**Richard S. Dennen**
President, Commercial Finance

**John M. Gavigan**
Chief Financial Officer

**William R. Harrod**
Chief Credit Officer

**Shannon M. Kuhl**
Chief Legal Officer
and Chief Risk Officer

**Bradley J. Ringwald**
President, Community Banking

**Paul C. Silva**
President, Investment
Commercial Real Estate

**Anthony M. Stollings**
President and Chief Banking Officer

## Board of Directors

**Murph Knapke**
Chairman of the Board, First Financial Bancorp,
Partner, Knapke Law Office

**J. Wickliffe Ach**
Vice Chair of the Board, Chief Executive Officer,
Hixson Inc.

**David S. Barker**
Retired

**Cynthia O. Booth**
President and Chief Executive Officer,
COBCO Enterprises, LLC

**Claude E. Davis**
Chief Executive Officer,
First Financial Bancorp and First Financial Bank

**Corinne R. Finnerty**
Principal,
McConnell Finnerty PC

**Susan L. Knust**
Owner and President,
Omega Warehouse Services

**William J. Kramer**
Vice President of Operations,
Valco Companies, Inc.

**Jeffrey D. Meyer**
President,
Clean Title Agency, Inc.

**John T. Neighbours**
General Counsel,
AmeriQual Holdings Group

**Richard E. Olszewski**
Owner/Operator,
7 Eleven Food Stores

**Maribeth S. Rahe**
President and Chief Executive Officer,
Fort Washington Investment
Advisors, Inc.

# FINANCIAL HIGHLIGHTS

| *(Dollars in thousands, except per share data)* | **2017** | 2016 | % Change |
|---|---|---|---|
| **Earnings** | | | |
| Net interest income | $ 283,545 | $ 272,671 | 4.0 % |
| Net income | 96,787 | 88,526 | 9.3 % |
| | | | |
| **Per Share** | | | |
| Net income per common share-basic | $ 1.57 | $ 1.45 | 8.3 % |
| Net income per common share-diluted | 1.56 | 1.43 | 9.1 % |
| Cash dividends declared per common share | 0.68 | 0.64 | 6.3 % |
| Tangible book value per common share (end of year) | 11.62 | 10.56 | 10.0 % |
| Market price (end of year) | 26.35 | 28.45 | (7.4)% |
| | | | |
| **Balance Sheet - End of Year** | | | |
| Total assets | $ 8,896,923 | $ 8,437,967 | 5.4 % |
| Loans | 6,013,183 | 5,757,482 | 4.4 % |
| Investment securities | 2,056,556 | 1,854,201 | 10.9 % |
| Deposits | 6,895,046 | 6,525,788 | 5.7 % |
| Shareholders' equity | 930,664 | 865,224 | 7.6 % |
| | | | |
| **Ratios** | | | |
| Return on average assets | 1.12% | 1.07% | |
| Return on average shareholders' equity | 10.78% | 10.48% | |
| Return on average tangible shareholders' equity | 14.07% | 13.96% | |
| Net interest margin | 3.59% | 3.62% | |
| Net interest margin (fully tax equivalent) | 3.66% | 3.68% | |

# 2017 Financial Highlights

## Glossary of Abbreviations and Acronyms

First Financial Bancorp has identified the following list of abbreviations and acronyms that are used in the Notes to Consolidated Financial Statements and the Management's Discussion and Analysis of Financial Condition and Results of Operations.

| | | | |
|---|---|---|---|
| ABL | Asset based lending | FHLMC | Federal Home Loan Mortgage Corporation |
| the Act | Private Securities Litigation Reform Act | First Financial | First Financial Bancorp. |
| ALLL | Allowance for loan and lease losses | FNMA | Federal National Mortgage Association |
| ASC | Accounting standards codification | Form 10-K | First Financial Bancorp. Annual Report on Form 10-K |
| ASU | Accounting standards update | FRB | Federal Reserve Bank |
| ATM | Automated teller machine | GAAP | U.S. Generally Accepted Accounting Principles |
| Bank | First Financial Bank | GDP | Gross Domestic Product |
| Basel III | Basel Committee regulatory capital reforms, Third Basel Accord | GNMA | Government National Mortgage Association |
| Bp/bps | Basis point(s) | IRLC | Interest Rate Lock Commitment |
| CDs | Certificates of deposit | MBSs | Mortgage-backed securities |
| C&I | Commercial and industrial | N/A | Not applicable |
| CLOs | Collateralized loan obligations | NII | Net interest income |
| CMOs | Collateralized mortgage obligations | N/M | Not meaningful |
| Company | First Financial Bancorp. | Oak Street | Oak Street Holdings Corporation |
| ERM | Enterprise Risk Management | ODFI | Ohio Department of Financial Institutions |
| EVE | Economic value of equity | OREO | Other real estate owned |
| Fair Value Topic | FASB ASC Topic 825, Financial Instruments | SEC | United States Securities and Exchange Commission |
| FASB | Financial Accounting Standards Board | Special Assets | Special Assets Division |
| FDIC | Federal Deposit Insurance Corporation | TDR | Troubled debt restructuring |
| FHLB | Federal Home Loan Bank | | |

**Table 1 • Financial Summary**

| *(Dollars in thousands, except per share data)* | 2017 | 2016 | December 31, 2015 | 2014 | 2013 |
|---|---|---|---|---|---|
| **Summary of operations** | | | | | |
| Interest income | $ 333,073 | $ 305,950 | $ 269,759 | $ 247,859 | $ 245,208 |
| Tax equivalent adjustment [1] | 5,259 | 4,215 | 4,017 | 3,224 | 2,142 |
| Interest income tax – equivalent [1] | 338,332 | 310,165 | 273,776 | 251,083 | 247,350 |
| Interest expense | 49,528 | 33,279 | 23,257 | 19,234 | 16,888 |
| **Net interest income tax – equivalent** [1] | $ 288,804 | $ 276,886 | $ 250,519 | $ 231,849 | $ 230,462 |
| Interest income | $ 333,073 | $ 305,950 | $ 269,759 | $ 247,859 | $ 245,208 |
| Interest expense | 49,528 | 33,279 | 23,257 | 19,234 | 16,888 |
| **Net interest income** | 283,545 | 272,671 | 246,502 | 228,625 | 228,320 |
| Provision for loan and lease losses | 3,582 | 10,140 | 9,641 | 1,528 | 8,909 |
| Noninterest income | 76,142 | 69,601 | 75,202 | 63,965 | 73,647 |
| Noninterest expenses | 239,942 | 201,401 | 201,130 | 196,034 | 225,475 |
| Income before income taxes | 116,163 | 130,731 | 110,933 | 95,028 | 67,583 |
| Income tax expense | 19,376 | 42,205 | 35,870 | 30,028 | 19,234 |
| **Net income** | $ 96,787 | $ 88,526 | $ 75,063 | $ 65,000 | $ 48,349 |
| **Per share data** | | | | | |
| **Earnings per common share** | | | | | |
| Basic | $ 1.57 | $ 1.45 | $ 1.23 | $ 1.11 | $ 0.84 |
| Diluted | $ 1.56 | $ 1.43 | $ 1.21 | $ 1.09 | $ 0.83 |
| **Cash dividends declared per common share** | $ 0.68 | $ 0.64 | $ 0.64 | $ 0.61 | $ 0.94 |
| Average common shares outstanding–basic (in thousands) | 61,529 | 61,206 | 61,063 | 58,663 | 57,270 |
| Average common shares outstanding–diluted (in thousands) | 62,172 | 61,985 | 61,848 | 59,393 | 58,073 |
| **Selected year-end balances** | | | | | |
| Total assets | $8,896,923 | $8,437,967 | $8,147,411 | $7,217,821 | $6,417,213 |
| Earning assets | 8,117,115 | 7,719,285 | 7,431,707 | 6,594,626 | 5,840,849 |
| Investment securities [2] | 2,056,556 | 1,854,201 | 1,970,626 | 1,761,090 | 1,798,300 |
| Total loans and leases | 6,013,183 | 5,757,482 | 5,388,760 | 4,777,235 | 3,963,514 |
| Interest-bearing demand deposits | 1,453,463 | 1,513,771 | 1,414,291 | 1,225,378 | 1,125,723 |
| Savings deposits | 2,462,420 | 2,142,189 | 1,945,805 | 1,889,473 | 1,612,005 |
| Time deposits | 1,317,105 | 1,321,843 | 1,406,124 | 1,255,364 | 952,327 |
| Noninterest-bearing demand deposits | 1,662,058 | 1,547,985 | 1,413,404 | 1,285,527 | 1,147,452 |
| Total deposits | 6,895,046 | 6,525,788 | 6,179,624 | 5,655,742 | 4,837,507 |
| Short-term borrowings | 814,565 | 807,912 | 938,425 | 661,392 | 748,749 |
| Long-term debt | 119,654 | 119,589 | 119,540 | 48,241 | 60,780 |
| Shareholders' equity | 930,664 | 865,224 | 809,376 | 784,077 | 682,161 |
| **Select Financial Ratios** | | | | | |
| Average loans to average deposits [3] | 88.12% | 89.33% | 84.00% | 83.20% | 82.12% |
| Net charge-offs to average loans and leases | 0.13% | 0.10% | 0.18% | 0.27% | 0.99% |
| Average shareholders' equity to average total assets | 10.42% | 10.24% | 10.73% | 10.75% | 11.17% |
| Return on average assets | 1.12% | 1.07% | 1.00% | 0.96% | 0.77% |
| Return on average equity | 10.78% | 10.48% | 9.33% | 8.94% | 6.89% |
| Net interest margin | 3.59% | 3.62% | 3.60% | 3.71% | 3.97% |
| Net interest margin (tax equivalent basis) [1] | 3.66% | 3.68% | 3.66% | 3.76% | 4.01% |
| Dividend payout | 43.31% | 44.14% | 52.03% | 54.95% | 111.90% |

[1] Tax equivalent basis was calculated using a 35.00% tax rate in all years presented.
[2] Includes investment securities held-to-maturity, investment securities available-for-sale, investment securities trading, and other investments.
[3] Includes covered loans and loans held for sale.

This annual report contains forward-looking statements. See the Forward-Looking Statements section that follows for further information on the risks and uncertainties associated with forward-looking statements. The following discussion and analysis is presented to facilitate the understanding of the financial position and results of operations of First Financial Bancorp. The discussion and analysis identifies trends and material changes that occurred during the reporting periods presented and should be read in conjunction with the Statistical Data, Consolidated Financial Statements and accompanying Notes.

Certain reclassifications of prior years' amounts have been made to conform to current year presentation. Such reclassifications had no effect on net earnings, total assets, liabilities and shareholders' equity.

**EXECUTIVE SUMMARY**

First Financial is an $8.9 billion bank holding company headquartered in Cincinnati, Ohio and operates through its subsidiaries, primarily in Ohio, Indiana and Kentucky. These subsidiaries include a commercial bank, First Financial Bank, with 94 banking centers and 117 ATMs. First Financial provides traditional banking and financial services products to business and retail clients through its four lines of business: commercial and private banking, retail banking, investment commercial real estate and commercial finance. Commercial finance primarily provides financing solutions for franchisees in the quick service and casual dining restaurant sector, as well as insurance agents and brokers throughout the United States. Commercial and private banking includes First Financial Wealth Management, which had $2.7 billion in assets under management as of December 31, 2017 and provides wealth planning, portfolio management, trust and estate, brokerage and retirement plan services.

First Financial acquired the banking operations of Peoples Community Bank, and Irwin Union Bank and Trust Company and Irwin Union Bank, F.S.B., through FDIC-assisted transactions in 2009. In connection with these FDIC-assisted transactions, First Financial entered into loss sharing agreements with the FDIC. Under the terms of these agreements the FDIC reimburses First Financial for a percentage of losses with respect to certain loans (covered loans) and OREO (covered OREO) (collectively, covered assets). These agreements provided for loss protection on covered single-family, residential loans for a period of ten years and First Financial is required to share any recoveries of previously charged-off amounts for the same time period, on the same pro-rata basis with the FDIC. All other covered loans were provided loss protection for a period of five years and recoveries of previously charged-off amounts were shared with the FDIC for an additional three year period, on the same pro-rata basis and the Company’s five year loss sharing indemnification period related to non-single-family loans expired effective October 1, 2014. The three year period for sharing recoveries on non-single-family loans expired on October 1, 2017. First Financial reached a preliminary agreement with the FDIC to early terminate the FDIC loss sharing agreements as of December 31, 2017, with final settlement expected to occur in the first quarter of 2018.

The major components of First Financial’s operating results for the previous five years are summarized in Table 1 – Financial Summary and are discussed in greater detail in the sections that follow.

**MARKET STRATEGY AND BUSINESS COMBINATIONS**

First Financial’s goal is to develop a competitive advantage by utilizing a local market focus to provide a superior level of service and build long-term relationships with clients in order to help them reach greater levels of financial success. First Financial serves a combination of metropolitan and non-metropolitan markets in Ohio, Indiana and Kentucky through its full-service banking centers, and provides financing throughout the United States to franchise owners and clients within the financial services industry. First Financial’s market selection process includes a number of factors, but markets are primarily chosen for their potential for growth and long-term profitability. First Financial intends to focus plans for future growth and capital investments within its current metropolitan markets and to evaluate other growth opportunities in metropolitan markets located within, or in close proximity to, the Company's current geographic footprint. In addition, First Financial will evaluate potential strategic acquisitions that provide product line extensions or industry verticals that compliment our existing business. First Financial's investment in non-metropolitan markets has historically provided stable, low-cost funding sources and remains an important part of the Bank's core funding base.

In July 2017, First Financial Bancorp and MainSource Financial Group, Inc. entered into a definitive merger agreement under which MainSource will merge into First Financial in a stock-for-stock transaction and MainSource Bank, a wholly owned subsidiary of MainSource, will merge into First Financial Bank. Under the terms of the merger agreement, shareholders of MainSource will receive 1.3875 common shares of First Financial common stock for each share of MainSource common stock. Including outstanding options and warrants on MainSource common stock, the transaction is valued at approximately $1.0 billion. Upon closing, First Financial shareholders will own approximately 65% of the combined company and MainSource shareholders will own approximately 35%, on a fully diluted basis. The merger was approved by the FRB of Cleveland and the ODFI during the first quarter of 2018 and is expected to close on April 1, 2018. Once complete, the merger will position the combined company to better serve the complimentary geographies of Ohio, Indiana and Kentucky, and will create a higher performing bank with greater scale and capabilities.

**OVERVIEW OF OPERATIONS**

Net income for the year ended December 31, 2017 was $96.8 million, resulting in earnings per diluted common share of $1.56. This compares to net income of $88.5 million and earnings per diluted common share of $1.43 in 2016. First Financial's return on average shareholders' equity for 2017 was 10.78%, compared to 10.48% for 2016, and First Financial's return on average assets was 1.12% and 1.07% for 2017 and 2016, respectively.

Net interest income in 2017 increased $10.9 million, or 4.0%, from 2016, to $283.5 million, primarily driven by higher earning asset balances as well as higher yields earned on the investment and loan portfolios from rising interest rates. The net interest margin on a fully tax equivalent basis was 3.66% for 2017 compared with 3.68% in 2016.

Noninterest income increased $6.5 million, or 9.4%, during the year, from $69.6 million in 2016 to $76.1 million in 2017. The increase in noninterest income was primarily due to income from the early redemption of certain off-balance sheet securitizations associated with the 2009 FDIC-assisted transactions, increased client derivative fees and higher bankcard income, which were partially offset by lower gains from sales of loans.

Noninterest expense increased $38.5 million, or 19.1%, from $201.4 million in 2016 to $239.9 million in 2017, as higher other noninterest expenses, salaries and benefits and professional services expenses were partially offset by a decline in net occupancy expenses.

Income tax expense decreased $22.8 million, or 54.1%, from $42.2 million in 2016 to $19.4 million in 2017, with the effective tax rate decreasing from 32.3% in 2016 to 16.7% in 2017. The lower effective tax rate in 2017 was primarily due to the passage of the Tax Cuts and Jobs Act, which was signed into law in December 2017, and the recognition of a significant historic tax credit investment.

Total loans increased $255.7 million, or 4.4%, from $5.8 billion at December 31, 2016 to $6.0 billion at December 31, 2017, as a result of solid organic growth. Total deposits increased $369.3 million, or 5.7%, from $6.5 billion at December 31, 2016 to $6.9 billion as of December 31, 2017, reflecting strong deposit generation efforts during the year.

The ALLL was $54.0 million, or 0.90% of total loans at December 31, 2017, compared to $58.0 million, or 1.01% of total loans at December 31, 2016. First Financial's credit quality performance remained strong in 2017, reflecting disciplined underwriting and credit monitoring procedures, as well as stable economic conditions in the Company's markets.

First Financial's operational results may be influenced by certain economic factors and conditions, such as market interest rates, industry competition, household and business spending levels, consumer confidence and the regulatory environment. For a more detailed discussion of the Company's operations, please refer to the sections that follow.

**NET INCOME**

**2017 vs. 2016.** First Financial's net income increased $8.3 million, or 9.3%, to $96.8 million in 2017, compared to net income of $88.5 million in 2016. The increase was primarily related to a $22.8 million, or 54.1%, decline in income tax expense, a $10.9 million, or 4.0%, increase in net interest income and a $6.5 million, or 9.4%, increase in noninterest income. These increases were partially offset by a $38.5 million, or 19.1%, increase in noninterest expenses during 2017.

**2016 vs. 2015.** First Financial's net income increased $13.5 million, or 17.9%, to $88.5 million in 2016, compared to net income of $75.1 million in 2015. The increase was primarily related to a $26.2 million, or 10.6%, increase in net interest income, partially offset by a decrease in noninterest income of $5.6 million, or 7.4%, and an increase in income tax expense of $6.3 million, or 17.7%, during 2016.

For more detail, refer to the Net interest income, Noninterest income, Noninterest expenses and Income taxes sections that follow.

## NET INTEREST INCOME

First Financial's net interest income for the years 2013 through 2017 is shown in Table 1 – Financial Summary. Net interest income, First Financial's principal source of income, is the excess of interest received from earning assets, including loan-related fees, less interest paid on interest-bearing liabilities. The amount of net interest income is determined by the volume and mix of earning assets, the rates earned on such assets and the volume, mix and rates paid for the deposits and borrowed money that support the earning assets. Earning assets consist of interest-bearing loans to customers as well as marketable investment securities.

For analytical purposes, net interest income is also presented in Table 1 – Financial Summary on a tax equivalent basis assuming a 35.00% marginal tax rate. Net interest income is presented on a tax equivalent basis to consistently reflect income from tax-exempt assets, such as municipal loans and investments, in order to facilitate a comparison between taxable and tax-exempt amounts. Management believes that it is a standard practice in the banking industry to present net interest margin and net interest income on a fully tax equivalent basis as these measures provide useful information to make peer comparisons. First Financial's tax equivalent net interest margin was 3.66%, 3.68% and 3.66% for 2017, 2016 and 2015, respectively.

Table 2 – Volume/Rate Analysis - Tax Equivalent Basis describes the extent to which changes in interest rates as well as changes in the volume of earning assets and interest-bearing liabilities have affected First Financial's net interest income on a tax equivalent basis during the years presented. Nonaccrual loans and loans held for sale were included in the average loan balances used to determine the yields in Table 2 – Volume/Rate Analysis - Tax Equivalent Basis. Table 2 – Volume/Rate Analysis - Tax Equivalent Basis should be read in conjunction with the Statistical Information table.

Loan fees included in the interest income computation for 2017, 2016 and 2015 were $7.4 million, $9.9 million and $5.6 million, respectively. Lower loan fees in 2017 were primarily a result of prepayment activity during the year.

**2017 vs. 2016.** Net interest income increased $10.9 million, or 4.0%, from $272.7 million in 2016 to $283.5 million in 2017, primarily due to an increase in average earning assets and higher yields earned during 2017. Average earning assets increased from $7.5 billion in 2016 to $7.9 billion in 2017, while the yield on earning assets increased from 4.07% in 2016 to 4.22% in 2017.

Interest income was $333.1 million in 2017, a $27.1 million, or 8.9%, increase from 2016. The increase was primarily attributable to interest income from loans, which increased $17.4 million, or 6.6%, from $262.7 million in 2016 to $280.1 million in 2017 as well as a $7.5 million, or 17.3%, increase in taxable interest income earned on investment securities during the period. The increase in interest income on loans resulted from an increase in average loan balances of $219.3 million, or 3.9%, as well as higher loan yields resulting from rising interest rates. Higher loan balances in 2017 resulted from solid organic loan growth during the period. The increase in interest income on investment securities was driven by a $142.5 million, or 7.7%, increase in average investment balances as well as higher yields earned during the period.

Interest expense was $49.5 million in 2017, which was a $16.2 million, or 48.8%, increase from 2016. Interest expense increased as the average balance of interest-bearing deposits increased $249.6 million, or 5.2%, due to the Company's strong deposit generation efforts during the period. Additionally, rising interest rates and a higher mix of variable rate deposit balances during the twelve month period contributed to the cost of funds related to these deposits increasing to 69 bps for 2017 from 47 bps in 2016. In an effort to contain rising funding costs, First Financial converted approximately $1.5 billion of previously indexed deposits to managed rate products during the third quarter of 2017, while also lowering the rates paid on these products by a weighted average of 35 bps. Interest expense was also impacted in 2017 by an increase in short-term borrowing rates from 51 bps in 2016 to 99 bps in 2017 as a result of rising interest rates.

**2016 vs. 2015.** Net interest income increased $26.2 million, or 10.6%, from $246.5 million in 2015 to $272.7 million in 2016, primarily due to an increase in average earning assets and higher yields earned during 2016. Average earning assets increased from $6.8 billion in 2015 to $7.5 billion in 2016, while the yield on earning assets increased from 3.94% in 2015 to 4.07% in 2016.

Interest income was $306.0 million in 2016, a $36.2 million, or 13.4%, increase from 2015. The increase was primarily attributable to interest income from loans, which increased $32.5 million, or 14.1%, from $230.2 million in 2015 to $262.7 million in 2016 as well as a $3.5 million, or 8.9%, increase in taxable interest income earned on investment securities during the period. The increase in interest income was primarily related to an increase in interest and fees earned on the Company's loan portfolio as average loan balances increased $666.0 million, or 13.5%, during 2016 resulted from strong organic loan growth during the period and the full year impact from loans acquired in the Oak Street transaction, which were partially offset by continued paydowns and resolutions in the Company's high-yielding covered/formerly covered loan portfolio. The increase in interest income on investment securities was driven by higher yields earned during the 2016.

Interest expense was $33.3 million in 2016, which was a $10.0 million, or 43.1%, increase from 2015. Interest expense increased as the average balance of interest-bearing deposits increased $275.6 million, or 6.0%, due to the Company's strong deposit generation efforts during 2016. Additionally, the cost of funds related to these deposits increased slightly to 47 bps for 2016 from 43 bps in 2015, reflecting the full year impact of an increase in interest rates in December 2015. Interest expense was also impacted in 2016 by a $254.8 million, or 40.7%, increase in average short-term borrowings which were utilized to help fund the Company's asset growth during the year.

**Table 2 • Volume/Rate Analysis - Tax Equivalent Basis [1]**

| | 2017 change from 2016 due to | | | 2016 change from 2015 due to | | |
|---|---|---|---|---|---|---|
| *(Dollars in thousands)* | Volume | Rate | Total | Volume | Rate | Total |
| **Interest income** | | | | | | |
| Loans [2] | $ 10,487 | $ 7,220 | $ 17,707 | $ 31,284 | $ 1,412 | $ 32,696 |
| Indemnification asset | 2,150 | (1,512) | 638 | 1,655 | (1,424) | 231 |
| Investment securities [3] | | | | | | |
| Taxable | 2,783 | 4,682 | 7,465 | 641 | 2,885 | 3,526 |
| Tax-exempt | 1,906 | 222 | 2,128 | 54 | (171) | (117) |
| Total investment securities interest [3] | 4,689 | 4,904 | 9,593 | 695 | 2,714 | 3,409 |
| Interest-bearing deposits with other banks | 101 | 128 | 229 | (14) | 67 | 53 |
| **Total** | 17,427 | 10,740 | 28,167 | 33,620 | 2,769 | 36,389 |
| | | | | | | |
| **Interest expense** | | | | | | |
| Interest-bearing demand deposits | 72 | 2,051 | 2,123 | 293 | 619 | 912 |
| Savings deposits | 2,578 | 7,804 | 10,382 | 140 | 1,248 | 1,388 |
| Time deposits | (2,091) | 2,155 | 64 | 246 | 593 | 839 |
| Short-term borrowings | (494) | 4,181 | 3,687 | 1,304 | 1,838 | 3,142 |
| Long-term debt | 60 | (67) | (7) | 2,465 | 1,276 | 3,741 |
| **Total** | 125 | 16,124 | 16,249 | 4,448 | 5,574 | 10,022 |
| **Net interest income** | $ 17,302 | $ (5,384) | $ 11,918 | $ 29,172 | $ (2,805) | $ 26,367 |

[1] Tax equivalent basis was calculated using a 35.00% tax rate.
[2] Includes nonaccrual loans and loans held-for-sale.
[3] Includes investment securities held-to-maturity, investment securities available-for-sale and other investments.

## NONINTEREST INCOME AND NONINTEREST EXPENSES

Noninterest income and noninterest expenses for 2017, 2016 and 2015 are shown in Table 3 – Noninterest income and Noninterest expenses.

## NONINTEREST INCOME

**2017 vs. 2016.** Noninterest income increased $6.5 million, or 9.4%, from $69.6 million in 2016 to $76.1 million in 2017. The increase was primarily related to a $2.0 million, or 14.8%, increase in other noninterest income, a $1.8 million, or 40.4% increase in client derivative fees, a $1.4 million, or 604.7%, increase in net gains on sales of investment securities and a $1.2 million, or 9.6%, increase in bankcard income, partially offset by a $1.6 million, or 24.0%, decrease in net gains from sales of loans. Accelerated discounts on covered/formerly covered loans result from prepayment activity and the accelerated recognition of the remaining discount that would have been recognized over the life of the loan had it not prepaid. Lower income from the accelerated discount on covered/formerly covered loans during 2016 was related to the continued decline in the covered/formerly covered portfolio as well as prepayment activity during the period.

Other noninterest income increased from $13.7 million in 2016 to $15.8 million in 2017, primarily related to $5.8 million of income from the early redemption of certain off balance sheet securitizations associated with the 2009 FDIC-assisted transactions, which was partially offset by a $3.5 million decrease in income from the accelerated discount on covered/formerly covered loans.

Higher client derivative fees in 2017 reflect strong loan demand and net gains on sales of investment securities increased in 2017 as proceeds from the sale of $190.0 million of available-for-sale securities resulted in gains of $1.8 million and losses of $0.2 million during the year. Bankcard income increased as a result of deeper client penetration and increased customer activity during 2017.

Partially offsetting the increase in noninterest income was a decrease in net gains on sales of loans from $6.8 million in 2016 to $5.2 million in 2017 primarily due to lower sales volume during the period.

**2016 vs. 2015.** Noninterest income declined $5.6 million, or 7.4%, from $75.2 million in 2015 to $69.6 million in 2016. The decline was primarily related to a $5.4 million, or 28.2%, decline in other noninterest income and a $1.3 million, or 84.5%, decline in net gains on sales of investment securities, partially offset by a $0.6 million, or 4.8%, increase in bankcard income.

Other noninterest income declined primarily as a result of a $6.9 million, or 64.3%, decrease in income from the accelerated discount on covered/formerly covered loans, related to lower levels of prepayment activity during the year. Lower income from accelerated discount was partially offset by an increase in FDIC loss sharing income of $0.9 million, or 37.2%, from negative $2.5 million during 2015 to negative $1.6 million in 2016. FDIC loss sharing income represents the proportionate share of credit losses, recoveries and resolution expenses on covered assets that First Financial expects to receive from or pay to the FDIC. Negative FDIC loss sharing income during 2016 and 2015 reflects a net payable due to the FDIC. First Financial also recognized $2.4 million of previously unrealized income from the redemption a limited partnership investment during 2016, which partially offset the decline in accelerated discount within other noninterest income.

Noninterest income from gains on sales of investment securities decreased $1.3 million, or 84.5%, in 2016 as $207.0 million of sales of investment securities resulted in net gains of $0.2 million during 2016 compared to sales of $70.2 million of investment securities that resulted in net gains of $1.5 million during 2015.

Bankcard income increased as a result of elevated card volume and customer activity during 2016.

**Table 3 • Noninterest Income and Noninterest Expenses**

| | 2017 | | 2016 | | 2015 | |
|---|---|---|---|---|---|---|
| *(Dollars in thousands)* | Total | % Change | Total | % Change | Total | % Change |
| **Noninterest income** | | | | | | |
| Service charges on deposit accounts | $ 19,775 | 4.4 % | $ 18,933 | (0.4)% | $ 19,015 | (6.2)% |
| Trust and wealth management fees | 14,073 | 6.6 % | 13,200 | 0.5 % | 13,128 | (3.7)% |
| Bankcard income | 13,298 | 9.6 % | 12,132 | 4.8 % | 11,578 | 7.8 % |
| Client derivative fees | 6,418 | 40.4 % | 4,570 | 4.1 % | 4,389 | 188.9 % |
| Net gains from sales of loans | 5,169 | (24.0)% | 6,804 | 5.1 % | 6,471 | 48.3 % |
| Other | 15,760 | 14.8 % | 13,728 | (28.2)% | 19,116 | 43.0 % |
| Subtotal | 74,493 | 7.4 % | 69,367 | (5.9)% | 73,697 | 15.3 % |
| Gains on sales of investment securities | 1,649 | N/M | 234 | (84.5)% | 1,505 | N/M |
| **Total** | $ 76,142 | 9.4 % | $ 69,601 | (7.4)% | $ 75,202 | 17.6 % |
| **Noninterest expenses** | | | | | | |
| Salaries and employee benefits | $ 132,560 | 8.3 % | $ 122,361 | 9.5 % | $ 111,792 | 3.8 % |
| Net occupancy | 17,397 | (5.1)% | 18,329 | 0.5 % | 18,232 | (5.0)% |
| Furniture and equipment | 8,443 | (2.5)% | 8,663 | (0.7)% | 8,722 | 2.0 % |
| Data processing | 14,022 | 22.9 % | 11,406 | 5.0 % | 10,863 | (16.2)% |
| Marketing | 3,201 | (19.3)% | 3,965 | 6.5 % | 3,723 | 3.3 % |
| Communication | 1,819 | (3.7)% | 1,889 | (12.6)% | 2,161 | (5.1)% |
| Professional services | 15,023 | 138.3 % | 6,303 | (34.5)% | 9,622 | 55.9 % |
| State intangible tax | 2,655 | 30.5 % | 2,034 | (12.7)% | 2,331 | 10.4 % |
| FDIC assessments | 3,944 | (8.1)% | 4,293 | (3.4)% | 4,446 | (0.4)% |
| Loss (gain)-other real estate owned | 642 | (153.0)% | (1,212) | (165.1)% | 1,861 | 115.9 % |
| Other | 40,236 | 72.2 % | 23,370 | (14.6)% | 27,377 | (2.7)% |
| **Total** | $ 239,942 | 19.1 % | $ 201,401 | 0.1 % | $ 201,130 | 2.6 % |

## NONINTEREST EXPENSES

**2017 vs. 2016.** Noninterest expenses increased $38.5 million, or 19.1%, in 2017 compared to 2016, primarily due to a $16.9 million, or 72.2%, increase in other noninterest expense, a $10.2 million, or 8.3%, increase in salaries and employee benefits, an $8.7 million, or 138.3%, increase in professional services and a $2.6 million, or 22.9%, increase in data processing expenses during the period. These increases were partially offset by a $0.9 million, or 5.1%, decrease in net occupancy expenses and an $0.8 million, or 19.3%, decrease in marketing expenses.

Higher other noninterest expenses during 2017 were primarily driven by an $11.3 million historic tax credit investment write-down, a $5.1 million impairment charge resulting from the preliminary agreement to early terminate the Company's FDIC loss sharing agreements and a $3.0 million charitable contribution to the First Financial Foundation, partially offset by a $1.2 million decrease in regulatory fees. Higher salaries and employee benefits were primarily attributable to $3.4 million of severance costs related to efficiency efforts during the period as well as higher performance-based compensation and health care costs, in addition to annual compensation adjustments. Elevated professional service costs were primarily the result of merger-related expenses, while data processing expenses resulted from investments in enterprise data management and system upgrades, in addition to other software license expenses. For further discussion of the historic tax credit investment, see the Income taxes section that follows.

Lower net occupancy expenses were primarily driven by branch consolidation activities during the year as First Financial continues to assess branch profitability, while marketing expenses declined as a result of the Company's cost reduction efforts.

**2016 vs. 2015.** Noninterest expenses increased $0.3 million, or 0.1%, in 2016 compared to 2015, primarily due to a $10.6 million, or 9.5%, increase in salaries and employee benefits and a $0.5 million, or 5.0%, increase in data processing expenses during the period. These increases were partially offset by a $3.3 million, or 34.5%, decrease in professional services, a $3.1 million, or 165.1%, decline in OREO losses and a $4.0 million, or 14.6%, decrease in other noninterest expenses.

The increase in salaries and employee benefits in 2016 resulted from the full year impact of staff additions from the Oak Street acquisition and higher performance-based compensation, in addition to annual compensation adjustments. Higher data processing expenses were primarily related to investments in data management and system upgrades, in addition to various other software license expenses during 2016, while the decline in professional services was primarily related to $2.2 million of acquisition-related costs associated with the Oak Street transaction in 2015. OREO losses decreased as the Company recorded $1.2 million of gains on sales of OREO properties in 2016, compared to losses of $1.9 million in 2015. The decline in other noninterest expenses from $27.4 million in 2015 to $23.4 million in 2016 was primarily the result of a legal settlement accrual and debt extinguishment costs in 2015, in addition to a decline in loss sharing expenses in 2016 due to lower collection costs resulting from the continued decline in covered asset balances.

**INCOME TAXES**

First Financial's income tax expense in 2017 totaled $19.4 million compared to $42.2 million in 2016 and $35.9 million in 2015, resulting in effective tax rates of 16.7%, 32.3% and 32.3% in 2017, 2016 and 2015, respectively. The lower effective tax rate in 2017 was driven by corporate tax reform and the Company's investment in a historic tax credit. The Tax Cuts and Jobs Act was signed into law in December 2017, and as a result, First Financial revalued its deferred tax assets and liabilities as well as its investments in affordable housing projects utilizing a 21% federal rate resulting in an $8.2 million reduction in income tax expense. 2017 income tax expense was also impacted by the recognition of a significant historic tax credit investment, which reduced income tax expense by $12.5 million for the year, and resulted in a $1.1 million increase to net income for the year when netted against the investment write-down included in noninterest expense.

For further information on income taxes, see Note 14 – Income Taxes in the Notes to Consolidated Financial Statements.

**LENDING PRACTICES**

First Financial remains dedicated to meeting the financial needs of individuals and businesses through its client-focused business model. The loan portfolio is comprised of a broad range of borrowers primarily located in the Ohio, Indiana and Kentucky markets; however, the commercial finance line of business serves a national client base.

First Financial's loan portfolio consists of commercial loan types, including C&I, construction real estate, commercial real estate and lease financing (equipment leasing), as well as consumer loan types, such as residential real estate, home equity, installment and credit card loans.

*Commercial and Industrial* **–** C&I loans include revolving lines of credit and term loans to commercial customers for use in normal business operations to finance working capital needs, equipment purchases, leasehold improvements or other projects. C&I loans are generally underwritten individually and secured with the assets of the Company and/or the personal guarantee of the business owners. C&I loans also include ABL, equipment and leasehold improvement financing for select concepts and franchisees in the quick service and casual dining restaurant sector and commission-based loans to insurance agents and brokers. ABL transactions typically involve larger commercial clients and are secured by specific assets, such as inventory, accounts receivable, machinery and equipment. In the franchise lending space, First Financial focuses on a limited number of restaurant concepts that have sound economics, low closure rates and strong brand awareness within specified local, regional or national markets. Under the nationwide insurance lending platform, First Financial serves insurance agents and brokers that are looking to maximize their book-of-business value and grow their agency business. First Financial's lending portfolios are managed to avoid the creation of inappropriate industry, geographic, franchise concept or borrower concentration risk.

While economic trends, including positive GDP momentum, wage gains and unemployment rates showed further improvement during 2017, the pace of growth remains gradual and business spending levels have not materially increased. First Financial is optimistic that economic improvements realized in 2017 and the tax reform legislation passed at the end of the year will lead to further economic expansion in the coming periods, and stimulate business growth and economic investment among current and prospective customers, resulting in additional lending opportunities for the Bank.

First Financial maintains vigorous underwriting processes to assess prospective C&I borrowers' credit worthiness prior to origination, and actively monitors C&I relationships subsequent to funding in order to ensure adequate oversight of the portfolio.

*Construction Real Estate* **–** Real estate construction loans are term loans to individuals, companies or developers used for the construction of a commercial or residential property for which repayment will be generated by the sale or permanent financing of the property. Generally, these loans are for construction projects that have been pre-sold, pre-leased or have secured permanent financing, as well as loans to real estate companies with significant equity invested in the project. An independent credit team underwrites construction real estate loans, which are managed by experienced lending officers and monitored through the construction phase by a centralized funding desk that manages loan disbursements.

First Financial moderated the pace of new construction originations in recent periods in an effort to improve profitability and limit certain sector concentrations. As economic conditions, and property values have improved, First Financial has pursued select real estate construction lending opportunities while actively monitoring industry and portfolio-specific credit trends and concentrations.

*Commercial Real Estate* – Commercial real estate loans consist of term loans secured by a mortgage lien on real estate properties such as apartment buildings, office and industrial buildings and retail shopping centers. Additionally, the Company's franchise lending activities discussed in the "Commercial and Industrial" section often include the financing of real estate in addition to equipment. The credit underwriting for both owner-occupied and investor income producing real estate loans includes detailed market analysis, historical and projected cash flow analysis, appropriate equity margins, assessment of lessees and lessors, environmental risks and the type, age, condition and location of real estate, among other factors.

Credit risk is mitigated by limiting total credit exposure to individual borrowers and by requiring borrowers to have adequate down payments or cash equity, thereby limiting the loan balance in relation to the market value of the property. First Financial also regularly reviews borrower financial performance, makes periodic site visits to financed properties and monitors rental rates, occupancy trends, capitalization rates and other factors that could potentially influence real estate collateral values in the Company's markets.

The CRE sector has demonstrated gradual, but continuous improvement in recent periods and the Company believes its current underwriting criteria, coupled with active credit monitoring, provides adequate oversight of the commercial real estate loan portfolio.

*Lease Financing* – Lease financing consists of lease transactions for the purchase of both new and used business equipment for commercial clients. Lease products may include tax leases, finance leases, lease lines of credit and interim funding. The credit underwriting for lease transactions includes detailed analysis of the lessee's industry and business model, nature of the equipment, equipment resale values, historical and projected cash flow analysis, secondary sources of repayment and guarantor analysis in addition to other considerations.

*Residential Real Estate* – Residential real estate loans represent loans to consumers for the financing of a residence. These loans generally have a 15 to 30 year term and a fixed interest rate, but may have a shorter term to maturity with an adjustable interest rate, and in most cases, are extended to borrowers to finance their primary residence. First Financial sells residential real estate loan originations into the secondary market on both servicing retained and servicing released bases. Residential real estate loans are generally underwritten to secondary market lending standards, utilizing underwriting processes that rely on empirical data to assess credit risk as well as analysis of the borrower's ability to repay their obligations, credit history, the amount of any down payment and the market value or other characteristics of the property. First Financial also offers a residential mortgage product that features similar borrower credit characteristics but a more streamlined underwriting process than typically required to sell to government-sponsored enterprises and thus is retained on the Consolidated Balance Sheets.

While First Financial continues to sell the majority of residential real estate originations into the secondary market, the Company believes its current underwriting criteria coupled with the monitoring of a number of portfolio metrics, including credit scores and loan-to-value ratios, provides adequate oversight of this portfolio.

*Home Equity* – Home equity lending includes both home equity loans and revolving lines of credit secured by a first or second lien on the borrower's residence. First Financial's origination practices for home equity lending keep both the credit decision and the documentation within First Financial's control. Home equity lending underwriting considerations include the borrower's credit history as well as to debt-to-income and loan-to-value policy limits.

First Financial believes its current underwriting criteria coupled with the monitoring of a number of portfolio metrics including credit scores, loan-to-value ratios, line size and utilization rates provide adequate oversight of the home equity portfolio.

*Installment* – Installment lending consists of consumer loans not secured by real estate, including loans secured by automobiles and unsecured personal loans.

*Credit Card* – Credit card lending consists of secured and unsecured revolving lines of credit to consumer and business customers. Credit card lines are generally available for an indefinite period of time as long as the borrower's credit characteristics do not materially or adversely change, but may be canceled by the Company under certain circumstances.

Underwriting for installment and credit card lending focuses on a borrower's debt-to-income ratios and credit history among other considerations.

**Credit Management.** Subject to First Financial's credit policy and guidelines, credit underwriting and approval occur within the market and/or the centralized line of business originating the loan. First Financial has delegated to each market president and line of business manager a lending limit sufficient to address the majority of client requests in a timely manner. Loan requests for amounts greater than those limits require the approval of a designated credit officer or senior credit committee and may require additional approvals from the chief credit officer, the chief executive officer and the board of directors. This allows First Financial to manage the initial credit risk exposure through a standardized, strategic and disciplined loan approval process, but with an increasingly higher level of authority. Plans to purchase or sell a participation in a loan, or a group of loans, requires the approval of certain senior lending and administrative officers, and in some cases could include the board of directors.

Credit management practices are dependent on the type and nature of the loan. First Financial monitors all significant exposures on an ongoing basis. Commercial loans are assigned internal risk ratings reflecting the risk of loss inherent in the loan. These internal risk ratings are assigned upon initial approval of credit and are updated periodically thereafter. First Financial reviews and adjusts its risk ratings based on actual experience, which is the basis for determining an appropriate ALLL, and provides the Company with an assessment of the current risk level in the portfolio. First Financial's commercial risk ratings of pass, special mention, substandard and doubtful are derived from standard regulatory rating definitions and facilitate the monitoring of credit quality across the commercial loan portfolio. For further information regarding these risk ratings, see Note 5 – Loans and Leases in the Notes to the Consolidated Financial Statements.

Commercial loans rated as special mention, substandard or doubtful are considered criticized, while loans rated as substandard or doubtful are considered classified. Commercial loans may be designated as criticized/classified based on individual borrower performance or industry and environmental factors. Criticized/classified loans are subject to more frequent internal reviews to assess the borrower's credit status and develop appropriate action plans.

Classified loans are managed by the Special Assets department. Special Assets is a credit group whose primary focus is to handle the day-to-day management of workouts, commercial recoveries and problem loan resolutions. Special Assets ensures that First Financial has appropriate oversight, improved communication and timely resolution of issues throughout the loan portfolio. Additionally, the Credit Risk Management group within First Financial's Risk Management function provides objective oversight and assessment of commercial credit quality and processes using an independent credit risk review approach.

Consumer lending credit approvals are based on, among other factors, the financial strength and payment history of the borrower, type of exposure and the transaction structure. Consumer loans are generally smaller dollar amounts than other types of lending and are made to a large number of customers, providing diversification within the portfolio. Credit risk in the consumer loan portfolio is managed by loan type, and consumer loan asset quality indicators, including delinquency, are continuously monitored. The Credit Risk Management group performs product-level performance reviews and assesses credit quality and compliance with underwriting and loan administration guidelines across the consumer loan portfolio.

## LOANS AND LEASES

**2017 vs. 2016.** First Financial experienced solid loan demand in 2017 as a result of focused sales efforts, our diversified product suite and expanded presence in key metropolitan markets. Loans, excluding loans held for sale, totaled $6.0 billion at December 31, 2017, increasing $255.7 million, or 4.4%, compared to December 31, 2016. The increase in loan balances from December 31, 2016 reflected strong organic growth during the period. C&I loans increased $130.8 million, or 7.3%, construction real estate loans increased $68.3 million, or 17.1%, and commercial real estate loans increased $62.5 million, or 2.6%, during 2017. Average loan balances, excluding loans held for sale, increased $219.3 million, or 3.9%, from $5.6 billion at December 31, 2016 to $5.8 billion at December 31, 2017.

Covered loans declined to $78.8 million at December 31, 2017 from $93.1 million as of December 31, 2016. Declines in covered loan balances were expected as there were no acquisitions of loans subject to loss sharing agreements during the period. In December 2017, First Financial entered into a preliminary agreement with the FDIC to early terminate its FDIC loss sharing agreements, and upon settlement, all future recoveries, gains, losses and expenses related to these previously covered assets will now be recognized entirely by First Financial given the FDIC will no longer share in such gains or losses. First Financial expects the remaining indemnification asset balance to be realized through the final settlement of the termination agreement with the FDIC in 2018.

At December 31, 2017, C&I loans represented 31.8% of loans while commercial real estate, construction real estate and lease financing balances represented 41.4%, 7.8% and 1.5% of the portfolio, respectively. Residential real estate loans represented 7.8% of loan balances while home equity, installment and credit card loans represented 8.2%, 0.7% and 0.8%, respectively.

Comparatively, at December 31, 2016, C&I loans represented 31.0% of loans while commercial real estate, construction real estate and lease financing balances represented 42.2%, 6.9% and 1.6%, respectively. Residential real estate loans represented 8.7% of loan balances while home equity, installment and credit card loans represented 8.0%, 0.9% and 0.8%, respectively.

**Table 4 • Loan and Lease Portfolio**

| | December 31, | | | | |
|---|---|---|---|---|---|
| *(Dollars in thousands)* | 2017 | 2016 | 2015 | 2014 | 2013 |
| Commercial and industrial | $ 1,912,743 | $ 1,781,948 | $ 1,663,102 | $ 1,315,114 | $ 1,077,984 |
| Lease financing | 89,347 | 93,108 | 93,986 | 77,567 | 80,135 |
| Real estate – construction | 467,730 | 399,434 | 311,712 | 197,571 | 89,297 |
| Real estate – commercial | 2,490,091 | 2,427,577 | 2,258,297 | 2,140,667 | 1,765,620 |
| Real estate – residential | 471,391 | 500,980 | 512,311 | 501,894 | 433,664 |
| Home equity | 493,604 | 460,388 | 466,629 | 458,627 | 426,078 |
| Installment | 41,586 | 50,639 | 41,506 | 47,320 | 52,774 |
| Credit card | 46,691 | 43,408 | 41,217 | 38,475 | 37,962 |
| **Total loans and leases** | $ 6,013,183 | $ 5,757,482 | $ 5,388,760 | $ 4,777,235 | $ 3,963,514 |

Table 5 – Loan Maturity/Rate Sensitivity indicates the contractual maturity of C&I loans and construction real estate loans outstanding at December 31, 2017 as well as their sensitivity to changes in interest rates.

For discussion of risks associated with the loan portfolio and First Financial's ALLL, see the Credit Risk section included in Management's Discussion and Analysis.

**Table 5 • Loan Maturity/Rate Sensitivity**

| | December 31, 2017 | | | |
|---|---|---|---|---|
| | Maturity | | | |
| *(Dollars in thousands)* | Within one year | After one but within five years | After five years | Total |
| Commercial and industrial | $ 587,755 | $ 953,655 | $ 371,333 | $ 1,912,743 |
| Construction real estate | 250,595 | 200,563 | 16,572 | 467,730 |
| **Total** | $ 838,350 | $ 1,154,218 | $ 387,905 | $ 2,380,473 |

| *(Dollars in thousands)* | Within one year | After one but within five years | After five years | Total |
|---|---|---|---|---|
| Fixed rate | $ 94,664 | $ 195,440 | $ 59,948 | $ 350,052 |
| Variable rate | 743,686 | 958,778 | 327,957 | 2,030,421 |
| **Total** | $ 838,350 | $ 1,154,218 | $ 387,905 | $ 2,380,473 |

## ASSET QUALITY

Nonperforming assets consist of nonaccrual loans, accruing TDRs and OREO. Loans are classified as nonaccrual when, in the opinion of management, collection of principal or interest is doubtful or when principal or interest payments are 90 days or more past due. Generally, loans are classified as nonaccrual due to the continued failure to adhere to contractual payment terms by the borrower coupled with other pertinent factors, such as insufficient collateral value. The accrual of interest income is discontinued and previously accrued but unpaid interest is reversed when a loan is classified as nonaccrual. Classified assets include nonperforming assets plus performing loans internally rated substandard or worse.

Purchased impaired loans are classified as performing, even though they may be contractually past due, as any nonpayment of contractual principal or interest is considered in the periodic re-estimation of expected cash flows and is included in the resulting recognition of current period provision for loan and lease losses or prospective yield adjustments.

Loans are classified as TDRs when borrowers are experiencing financial difficulties and concessions are made by the Company that would not otherwise be considered for a borrower with similar credit characteristics. TDRs are generally classified as nonaccrual for a minimum period of six months and may qualify for return to accrual status once they have demonstrated performance with the restructured terms of the loan agreement. OREO consists of properties acquired by First Financial primarily through loan defaults by borrowers.

See Table 6 – Nonperforming Assets for a summary of First Financial’s nonaccrual loans, TDRs and OREO.

**2017 vs. 2016.** Total nonperforming assets declined $9.8 million, or 18.1%, to $44.4 million at December 31, 2017 from $54.3 million at December 31, 2016, due to a $12.7 million decline in accruing TDRs and a $3.5 million decline in OREO, which were partially offset by a $6.4 million increase in nonaccrual loans.

The decline in accruing TDR's during 2017 was the result of resolution efforts during the period. Lower OREO balances resulted from the resolution and sale of $7.0 million of commercial and residential real estate property in addition to $0.6 million of valuation adjustments, partially offset by $4.1 million of additions during the year. The increase in nonaccrual loans was primarily attributable to the addition of a single relationship in 2017.

First Financial's nonperforming loans as a percentage of total loans and leases declined to 0.69% at December 31, 2017 from 0.83% at December 31, 2016 as a result of declining nonperforming loan balances and growth in the loan portfolio during the period. Additionally, classified asset balances declined $37.9 million, or 30.3%, to $87.3 million at December 31, 2017 from $125.2 million at December 31, 2016.

The declines in nonperforming and classified assets during 2017 reflect successful resolution efforts and diligent credit monitoring practices as well as stable economic conditions in the markets in which First Financial operates. The U.S. economy has maintained consistent growth levels in recent periods and management remains optimistic that sustained improvement in employment rates and real estate markets, as well as stable levels of business and consumer confidence, will combine with the positive momentum generated from tax reform to positively impact the Company's credit quality trends in future periods.

**Table 6 • Nonperforming Assets**

| | December 31, | | | | |
|---|---|---|---|---|---|
| *(Dollars in thousands)* | 2017 | 2016 | 2015 | 2014 | 2013 |
| Nonaccrual loans (1) | $ 24,082 | $ 17,730 | $ 27,997 | $ 48,469 | $ 41,392 |
| Accruing troubled debt restructurings (2) | 17,545 | 30,240 | 28,876 | 15,928 | 15,429 |
| Other real estate owned (OREO) | 2,781 | 6,284 | 13,254 | 22,674 | 46,926 |
| **Total nonperforming assets** | $ 44,408 | $ 54,254 | $ 70,127 | $ 87,071 | $ 103,747 |
| Nonperforming assets as a percent of total loans plus OREO | 0.74% | 0.94% | 1.30% | 1.81% | 2.59% |
| Accruing loans past due 90 days or more | $ 61 | $ 142 | $ 108 | $ 216 | $ 218 |
| Classified assets | $ 87,293 | $ 125,155 | $ 132,431 | $ 154,804 | $ 234,251 |

(1) Nonaccrual loans include nonaccrual TDRs of $5.5 million, $5.1 million, $9.3 million, $12.3 million and $13.8 million as of December 31, 2017, 2016, 2015, 2014 and 2013, respectively.
(2) Accruing troubled debt restructurings include TDRs past due 90 days or more and still accruing of $2.7 million as of December 31, 2016. There were no TDRs 90 days past due and still accruing as of December 31, 2017, 2015, 2014 and 2013, respectively.

## INVESTMENTS

First Financial utilizes its investment portfolio as a source of liquidity and interest income, as well as a tool for managing the Company's interest rate risk profile. As such, the Company's primary investment strategy is to invest in debt securities with low credit risk, such as treasury and agency-backed residential MBSs. The investment portfolio is also managed with consideration to prepayment and extension/maturity risk. First Financial invests primarily in MBSs issued by U.S. government agencies and corporations, such as the GNMA, the FHLMC and the FNMA, as these securities are considered to have a low credit risk and high liquidity profile due to government agency guarantees. Government and agency backed securities comprised 60.4% and 67.3% of First Financial's investment securities portfolio as of December 31, 2017 and 2016, respectively.

The Company also invests in certain securities that are not supported by government or agency guarantees, and whose realization is dependent on future principal and interest repayments, thus carrying greater credit risk. First Financial performs a detailed pre-purchase collateral and structural analysis on these securities and limits investments to asset classes in which the Company has expertise and experience. The Company further limits these investments to securities with senior positions in the capital structure to provide additional credit protection. First Financial continuously monitors credit risk and geographic concentration risk in its evaluation of market opportunities that would enhance the overall performance of the portfolio. Securities not supported by government or agency guarantees represented 39.6% and 32.7% of First Financial's investment securities portfolio as of December 31, 2017 and 2016, respectively.

The other investments category in the Consolidated Balance Sheets consists primarily of First Financial's investments in FRB and FHLB stock.

Gains and losses on debt securities are generally due to fluctuations in current market yields relative to the yields of the debt securities at their amortized cost. All securities with unrealized losses are reviewed quarterly to determine if any impairment is considered other than temporary, requiring a write-down to fair value. First Financial considers the percentage loss on a security, duration of the loss, average life or duration of the security, credit rating of the security as well as payment performance and the Company's intent and ability to hold the security when determining whether any impairment is other than temporary. First Financial had no other than temporary impairment expense for the years ended December 31, 2017 and 2016.

**2017 vs. 2016.** First Financial's investment portfolio at December 31, 2017 totaled $2.1 billion, a $202.4 million, or 10.9%, increase from December 31, 2016, and represented 23.1% and 22.0% of total assets at December 31, 2017 and December 31, 2016, respectively. The increase in the investment portfolio during 2017 was primarily related to loan demand, as well as the overall position of the Company's balance sheet.

First Financial classified $1.3 billion, or 65.6%, and $1.0 billion, or 56.1%, of investment securities as available-for-sale at December 31, 2017 and 2016, respectively. First Financial classified $654.0 million, or 31.8%, and $763.3 million, or 41.2%, of investment securities as held-to-maturity at December 31, 2017 and 2016, respectively.

First Financial recorded a $0.2 million unrealized after-tax loss on the investment portfolio as a component of equity in accumulated other comprehensive income resulting from changes in the fair value of available-for-sale securities at December 31, 2017, which increased $4.4 million from a $4.5 million unrealized after-tax loss at December 31, 2016.

Security debentures issued by the U.S. government and U.S. government agencies and corporations, including the FHLB, FHLMC, FNMA and the U.S. Export/Import Bank represented 1.4% and 1.1% of the investment portfolio at December 31, 2017 and 2016, respectively.

Investments in MBSs, including CMOs, represented 22.5% and 21.6% of First Financial's portfolio at December 31, 2017 and 2016, respectively. MBSs are participations in pools of residential real estate loans, the principal and interest payments of which are passed through to the security investors. MBSs are subject to prepayment risk, particularly during periods of falling interest rates, and extension risk during periods of rising interest rates. Prepayments of the underlying residential real estate loans may shorten the lives of the securities, thereby affecting yields to maturity and market values.

Tax-exempt securities of states, municipalities and other political subdivisions increased to $207.9 million as of December 31, 2017 from $167.5 million as of December 31, 2016 and comprised 10.4% and 9.3% of the investment portfolio at December 31, 2017 and 2016, respectively. The securities are diversified to include states as well as issuing authorities within states, thereby decreasing geographic portfolio risk. First Financial continuously monitors the risk associated with this investment type and reviews underlying ratings for possible downgrades. First Financial does not own any state or other political subdivision securities that are currently impaired.

Asset-backed securities were $379.0 million, or 18.9% of the investment portfolio at December 31, 2017 and $321.2 million, or 17.8% of the investment portfolio at December 31, 2016. First Financial considers these investment securities to have lower credit risk and a high liquidity profile as a result of explicit guarantees on the collateral.

Other securities, consisting primarily of taxable securities of states, municipalities and other political subdivisions and debt securities issued by corporations, increased to $85.1 million, or 4.2% of the investment portfolio, at December 31, 2017 from $46.7 million and 2.6% at December 31, 2016.

The overall duration of the investment portfolio decreased to 2.9 years as of December 31, 2017 from 3.2 years as of December 31, 2016. First Financial has avoided adding to its portfolio any particular securities that would materially increase credit risk or geographic concentration risk and the Company continuously monitors and considers these risks in its evaluation of current market opportunities that would enhance the overall performance of the portfolio.

**Table 7 • Investment Securities as of December 31**

| | 2017 | | 2016 | |
|---|---|---|---|---|
| *(Dollars in thousands)* | Amount | Percent of Portfolio | Amount | Percent of Portfolio |
| U.S. treasuries | $ 97 | 0.0% | $ 97 | 0.0% |
| Securities of U.S. government agencies and corporations | 27,083 | 1.4% | 20,027 | 1.1% |
| Mortgage-backed securities-residential | 451,136 | 22.5% | 388,917 | 21.6% |
| Mortgage-backed securities-commercial | 404,130 | 20.2% | 432,329 | 24.0% |
| Collateralized mortgage obligations | 448,937 | 22.4% | 426,422 | 23.6% |
| Obligations of state and other political subdivisions | 207,930 | 10.4% | 167,466 | 9.3% |
| Asset-backed securities | 378,977 | 18.9% | 321,212 | 17.8% |
| Other securities | 85,126 | 4.2% | 46,654 | 2.6% |
| **Total** | $ 2,003,416 | 100.0% | $ 1,803,124 | 100.0% |

The estimated maturities and weighted-average yields of held-to-maturity and available-for-sale investment securities are shown in Table 8 – Investment Securities as of December 31, 2017. Tax-equivalent adjustments, using a 35.00% rate, were included in calculating yields on tax-exempt obligations of state and other political subdivisions.

First Financial held cash on deposit with the Federal Reserve of $34.0 million and $82.5 million at December 31, 2017 and 2016, respectively. First Financial continually monitors its liquidity position as part of its enterprise risk management framework, specifically through its asset/liability management process.

First Financial will continue to monitor loan and deposit demand, as well as balance sheet composition, capital sensitivity and the interest rate environment as it manages investment strategies in future periods. See Note 4 – Investment Securities in the Notes to Consolidated Financial Statements for additional information on the Company's investment portfolio and Note 20 – Fair Value Disclosures for additional information on how First Financial determines the fair value of investment securities.

**Table 8 • Investment Securities as of December 31, 2017**

| | Maturity [2] | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Within one year | | After one but within five years | | After five but within ten years | | After ten years | |
| *(Dollars in thousands)* | Amount | Yield[1] | Amount | Yield[1] | Amount | Yield[1] | Amount | Yield[1] |
| **Held-to-Maturity** | | | | | | | | |
| Securities of other U.S. government agencies and corporations | $ 0 | 0.00% | $ 0 | 0.00% | $ 11,168 | 2.80% | $ 0 | 0.00% |
| Mortgage-backed securities-residential | 15,294 | 1.22% | 105,932 | 2.56% | 40,867 | 2.99% | 0 | 0.00% |
| Mortgage-backed securities-commercial | 2,987 | 3.00% | 244,517 | 2.79% | 7,523 | 2.21% | 0 | 0.00% |
| Collateralized mortgage obligations | 2,304 | 1.18% | 130,621 | 2.52% | 10,620 | 2.73% | 0 | 0.00% |
| Obligations of state and other political subdivisions | 1,220 | 2.14% | 29,078 | 3.20% | 36,109 | 2.90% | 15,768 | 3.29% |
| **Total** | $ 21,805 | 1.51% | $ 510,148 | 2.70% | $ 106,287 | 2.86% | $ 15,768 | 3.29% |
| | | | | | | | | |
| **Available-for-Sale** | | | | | | | | |
| U.S. treasuries | $ 0 | 0.00% | $ 97 | 2.00% | $ 0 | 0.00% | $ 0 | 0.00% |
| Securities of other U.S. government agencies and corporations | 0 | 0.00% | 0 | 0.00% | 15,915 | 2.20% | 0 | 0.00% |
| Mortgage-backed securities-residential | 828 | 3.92% | 97,910 | 2.80% | 190,305 | 2.83% | 0 | 0.00% |
| Mortgage-backed securities-commercial | 15,295 | 3.24% | 110,934 | 3.12% | 22,874 | 3.11% | 0 | 0.00% |
| Collateralized mortgage obligations | 263 | 4.72% | 177,633 | 2.49% | 99,227 | 2.89% | 28,269 | 2.98% |
| Obligations of state and other political subdivisions | 14,131 | 0.80% | 57,054 | 2.70% | 51,418 | 3.30% | 3,152 | 3.88% |
| Asset-backed securities | 63,464 | 3.16% | 202,813 | 3.10% | 106,774 | 2.90% | 5,926 | 2.28% |
| Other securities | 7,556 | 4.86% | 41,454 | 5.50% | 23,313 | 4.60% | 12,803 | 2.86% |
| **Total** | $ 101,537 | 2.98% | $ 687,895 | 3.01% | $ 509,826 | 2.98% | $ 50,150 | 2.91% |

[1] Tax equivalent basis was calculated using a 35.00% tax rate and yields were based on amortized cost.
[2] Maturity represents estimated life of investment securities.

## DERIVATIVES

First Financial is authorized to use certain derivative instruments, including interest rate caps, floors and swaps, to meet the needs of its clients while managing the interest rate risk associated with certain transactions. The Company does not use derivatives for speculative purposes.

First Financial primarily utilizes interest rate swaps as a means to offer borrowers credit-based products that meet their needs and achieve the Company's desired interest rate risk profile. These interest rate swaps generally involve the receipt by First Financial of floating rate amounts from swap counterparties in exchange for payments to these counterparties by First Financial of fixed rate amounts received from borrowers. This results in the Company's loan customers receiving fixed rate funding while providing First Financial with a floating rate asset.

In conjunction with participating interests in commercial loans, First Financial periodically enters into risk participation agreements with counterparties whereby First Financial assumes a portion of the credit exposure associated with an interest rate swap on the participated loan in exchange for a fee. Under these agreements, First Financial will make payments to the counterparty if the loan customer defaults on its obligation to perform under the interest rate swap contract with the counterparty.

First Financial enters into IRLCs and forward commitments for the future delivery of mortgage loans to third party investors, which are considered derivatives. When borrowers secure an IRLC with First Financial and the loan is intended to be sold, First Financial will enter into forward commitments for the future delivery of the loans to third party investors in order to hedge against the effect of changes in interest rates impacting IRLCs and loans held for sale.

See Note 11 – Derivatives in the Notes to Consolidated Financial Statements for additional information regarding First Financial's use of derivative instruments.

**DEPOSITS**

First Financial solicits deposits by offering commercial and consumer clients a wide variety of transaction and savings accounts, including checking, savings, money-market and time deposits of various maturities and rates.

**2017 vs. 2016.** First Financial's total deposits increased $369.3 million, or 5.7%, from $6.5 billion at December 31, 2016 to $6.9 billion as of December 31, 2017. Noninterest bearing deposits increased $114.1 million, or 7.4%, and savings deposits increased $320.2 million, or 14.9%, while interest-bearing checking deposits decreased $60.3 million, or 4.0%, and time deposits decreased $4.7 million, or 0.4%, during the period.

Non-time deposit balances totaled $5.6 billion as of December 31, 2017, increasing $374.0 million, or 7.2%, compared to December 31, 2016 from strong deposit sales efforts. Time deposit balances were relatively unchanged as lower retail CD balances were offset by an increase in brokered CDs, which the Company utilizes as an alternative to short and long-term borrowings.

Total average deposits for 2017 increased $333.2 million, or 5.3%, from 2016 primarily due to increases in average savings deposits of $390.2 million, or 19.3%, average noninterest bearing deposits of $83.6 million, or 5.7%, and average interest-bearing demand deposits of $25.3 million, or 1.7%, partially offset by a decrease in average time deposits of $165.9 million, or 12.2%. The year-over-year growth in average deposits was due to strong organic deposit generation efforts.

Table 9 – Maturities of Time Deposits Greater Than or Equal to $100,000 details the contractual maturity of these deposits. Time Deposits Greater Than or Equal to $100,000 represent 11.4% of total deposits outstanding at December 31, 2017.

**Table 9 • Maturities Of Time Deposits Greater Than Or Equal To $100,000**

| | December 31, 2017 | | | |
|---|---|---|---|---|
| *(Dollars in thousands)* | CDs | IRAs | Brokered CDs | Total |
| Maturing in | | | | |
| 3 months or less | $ 48,929 | $ 3,019 | $ 264,039 | $ 315,987 |
| 3 months to 6 months | 38,588 | 703 | 88,477 | 127,768 |
| 6 months to 12 months | 89,586 | 12,733 | 0 | 102,319 |
| over 12 months | 193,626 | 43,980 | 3,370 | 240,976 |
| **Total** | $ 370,729 | $ 60,435 | $ 355,886 | $ 787,050 |

**BORROWINGS**

First Financial's short-term borrowings are utilized to manage normal liquidity needs and include repurchase agreements utilized for corporate sweep accounts with cash management account agreements in place as well as overnight advances from the FHLB. The Company's long-term borrowings consist of subordinated debt, FHLB long-term advances and repurchase agreements utilizing investment securities pledged as collateral.

**2017 vs. 2016.** Short-term borrowings increased slightly to $814.6 million at December 31, 2017, from $807.9 million at December 31, 2016.

First Financial utilizes short-term borrowings and longer-term advances from the FHLB as wholesale funding sources. First Financial had $742.3 million of short-term borrowings from the FHLB at December 31, 2017 compared to $687.7 million at December 31, 2016. In addition to FHLB borrowings, short term borrowings included repurchase agreements of $72.3 million and $120.2 million at December 31, 2017 and 2016, respectively.

Total long-term debt was $119.7 million and $119.6 million at December 31, 2017 and 2016, respectively and consists primarily of subordinated notes, which have a fixed interest rate of 5.125% payable semiannually, and mature on August 25, 2025. These notes are not redeemable by the Company or callable by the holders of the notes prior to maturity and are treated as Tier 2 capital for regulatory capital purposes. Outstanding subordinated debt totaled $118.6 million and $118.5 million, and included prepaid debt issuance costs of $1.4 million and $1.5 million as of December 31, 2017 and 2016, respectively. Long-term debt also included FHLB long-term advances of $0.2 million and $0.4 million as of December 31, 2017 and 2016, respectively, as well as an interest-free $0.8 million capital loan outstanding with a municipality at December 31, 2017 and 2016. First Financial's total remaining borrowing capacity from the FHLB was $643.5 million at December 31, 2017.

Both short-term and long-term FHLB advances must be collateralized with qualifying assets, which are typically commercial and residential real estate loans, as well as government and agency-backed securities. For ease of borrowing execution First Financial utilizes a blanket collateral agreement with the FHLB and had $3.6 billion of assets pledged as collateral at December 31, 2017.

See Note 10 – Borrowings in the Notes to Consolidated Financial Statements for additional information on First Financial's borrowings.

## LIQUIDITY

Liquidity management is the process by which First Financial manages the continuing flow of funds necessary to meet its financial commitments on a timely basis and at a reasonable cost. These funding commitments include withdrawals by depositors, credit commitments to borrowers, shareholder dividends, share repurchases, operating expenses and capital expenditures. Liquidity is derived primarily from deposit growth, principal and interest payments on loans and investment securities, maturing loans and investment securities, access to wholesale funding sources and collateralized borrowings.

First Financial's most stable source of liability-funded liquidity for both long and short-term needs is deposit growth and retention of the core deposit base. In addition to core deposit funding, First Financial also utilizes a variety of short and long-term funding sources, which include subordinated notes, longer-term advances from the FHLB and a short-term line of credit.

Both First Financial and the Bank received investment grade credit ratings from Kroll Bond Rating Agency, Inc, an independent rating agency. These credit ratings impact the cost and availability of financing to First Financial, and a downgrade to these credit ratings could affect First Financial's or the Bank's abilities to access the credit markets and potentially increase borrowing costs, which would negatively impact financial condition and liquidity. Key factors in maintaining high credit ratings include consistent and diverse earnings, strong credit quality and capital ratios, diverse funding sources and disciplined liquidity monitoring procedures. The ratings of First Financial and the Bank at December 31, 2017 were as follows:

| | First Financial Bancorp | First Financial Bank |
|---|---|---|
| Senior Unsecured Debt | BBB+ | A- |
| Subordinated Debt | BBB | BBB+ |
| Short-Term Debt | K2 | K2 |
| Deposit | N/A | A- |
| Short-Term Deposit | N/A | K2 |

First Financial maintains a short-term credit facility with an unaffiliated bank for $15.0 million that matures on May 29, 2018. This facility can have a variable or fixed interest rate and provides First Financial additional liquidity, if needed, for various corporate activities, including the repurchase of First Financial shares and the payment of dividends to shareholders. As of December 31, 2017 and December 31, 2016, there was no outstanding balance. The credit agreement requires First Financial to maintain certain covenants related to asset quality and capital levels, and First Financial was in compliance with all covenants associated with this line of credit as of December 31, 2017 and December 31, 2016.

First Financial's principal source of asset-funded liquidity is marketable investment securities. The market value of investment securities classified as available-for-sale totaled $1.3 billion at December 31, 2017. Securities classified as held-to-maturity that are maturing within one year are an additional source of liquidity and totaled $21.8 million at December 31, 2017. Sources of liquidity also include other types of assets such as cash and due from banks, interest-bearing deposits with other banks, as well as loans maturing within one year.

At December 31, 2017, in addition to liquidity on hand of $184.6 million, First Financial had unused and available overnight wholesale funding sources of $2.4 billion, or 27.5% of total assets, to fund loan and deposit activities, as well as general corporate requirements.

Certain restrictions exist regarding the ability of First Financial's subsidiary, First Financial Bank, to transfer funds to First Financial in the form of cash dividends, loans, other assets or advances. The approval of the Bank's primary federal regulator is required to pay dividends in excess of regulatory limitations. Dividends paid to First Financial from its subsidiaries totaled $54.6 million, $52.7 million and $17.3 million for 2017, 2016 and 2015, respectively. As of December 31, 2017, First Financial's subsidiaries had retained earnings of $546.5 million, of which $163.1 million was available for distribution to First Financial without prior regulatory approval. Additionally, First Financial had $57.7 million in cash at the parent company as of December 31, 2017, which approximates the Company's annual shareholder dividend and operating expenses.

Capital expenditures, such as banking center expansion, remodeling and technology investments, were $6.5 million for 2017, $9.7 million for 2016 and $7.5 million for 2015. Material commitments for capital expenditures as of December 31, 2017, were $4.9 million. Management believes that sufficient liquidity exists to fund its future capital expenditure commitments.

Share repurchases, if any, also impact First Financial's liquidity. For further information regarding share repurchases, see the Capital section that follows. Management is not aware of any other events or regulatory requirements that, if implemented, are likely to have a material effect on First Financial's liquidity.

**Table 10 • Contractual Obligations as of December 31, 2017**

| *(Dollars in thousands)* | Less than one year | One to three years | Three to five years | More than five years | Total |
|---|---|---|---|---|---|
| **Contractual Obligations** | | | | | |
| Long-term debt obligations (including interest) | | | | | |
| Federal Home Loan Bank borrowings | $ 115 | $ 118 | $ 0 | $ 0 | $ 233 |
| Subordinated debt | 5,637 | 12,813 | 12,300 | 137,933 | 168,683 |
| Capital loan with municipality | 0 | 0 | 0 | 775 | 775 |
| Operating lease obligations | 6,468 | 12,174 | 8,273 | 8,346 | 35,261 |
| Pension obligations | 4,758 | 9,843 | 10,787 | 29,825 | 55,213 |
| Time deposits | 783,451 | 437,439 | 95,926 | 289 | 1,317,105 |
| **Total** | $ 800,429 | $ 472,387 | $ 127,286 | $ 177,168 | $ 1,577,270 |

## CAPITAL

**Risk-Based Capital.** First Financial and its subsidiary, First Financial Bank, are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations involve quantitative measures of assets, liabilities and certain off-balance sheet items calculated under regulatory guidelines. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet minimum capital requirements can initiate regulatory action.

The Board of Governors of the Federal Reserve System approved a rule implementing changes intended to strengthen the regulatory capital framework for all banking organizations (Basel III), subject to a phase-in period for certain provisions. Basel III established and defined quantitative measures to ensure capital adequacy which require First Financial to maintain minimum amounts and ratios of Common Equity tier 1 capital, total and tier 1 capital to risk-weighted assets and tier 1 capital to average assets (leverage ratio).

Basel III includes a minimum ratio of common equity tier 1 capital to risk-weighted assets of 4.5% and a capital conservation buffer of 2.5% of risk-weighted assets which began on January 1, 2016 at 0.625% and will be phased-in over a four-year period, increasing by the same amount on each subsequent January 1 until fully phased-in on January 1, 2019. Further, Basel III increased the minimum ratio of tier 1 capital to risk-weighted assets from 4.0% to 6.0% and all banks are now subject to a 4.0% minimum leverage ratio. The required total risk-based capital ratio was unchanged by Basel III. Failure to maintain the required common equity Tier 1 capital conservation buffer will result in potential restrictions on a bank's ability to pay dividends, repurchase stock and/or pay discretionary compensation to its employees. The capital requirements also provide strict eligibility criteria for regulatory capital instruments and change the method for calculating risk-weighted assets in an effort to better identify riskier assets, such as highly volatile commercial real estate and nonaccrual loans.

First Financial's tier 1 capital is comprised of total shareholders' equity less unrealized gains and losses on investment securities available-for-sale, any amounts resulting from retirement plan valuation adjustments that are recorded within accumulated other comprehensive income (loss), intangible assets and any valuation related to mortgage servicing rights. Total risk-based capital consists of Tier 1 capital plus the qualifying ALLL and gross unrealized gains or losses on investment securities.

For purposes of calculating the leverage ratio, average assets represents quarterly average assets, less assets not qualifying for Total risk-based capital, including intangible assets, non-qualifying mortgage servicing rights and the ALLL.

First Financial's tier 1 capital increased from 10.46% at December 31, 2016 to 10.63%, at December 31, 2017, while the total capital ratio decreased from 13.10% to 13.07% during the same period. The increase in the Company's tier 1 capital ratio was primarily due to an increase in capital from increased earnings, partially offset by an increase in risk-weighted assets resulting from organic loan growth during the period. The decrease in the Company's total capital ratio was due to the increase in risk-weighted assets in 2017. The leverage ratio increased to 8.84% at December 31, 2017 compared to 8.60% as of December 31, 2016 and the Company's tangible common equity ratio increased from 7.96% at December 31, 2016 to 8.30% at December 31, 2017 primarily due to a $54.7 million, or 12.5%, increase in retained earnings.

Management believes that, as of December 31, 2017, First Financial met all capital adequacy requirements to which it was subject. At December 31, 2017 and 2016, regulatory notifications categorized First Financial Bank as well-capitalized under the regulatory framework for prompt corrective action. There have been no conditions or events that management believes has changed the Company's capital categorization.

For further detail on First Financial's capital ratios at December 31, 2017, see Note 17 – Capital in the Notes to Consolidated Financial Statements.

**Table 11 • Capital Adequacy**

| | December 31, | |
|---|---|---|
| *(Dollars in thousands)* | 2017 | 2016 |
| **Consolidated capital calculations** | | |
| Common stock | $ 573,109 | $ 570,382 |
| Retained earnings | 491,847 | 437,188 |
| Accumulated other comprehensive loss | (20,390) | (28,443) |
| Treasury stock, at cost | (113,902) | (113,903) |
| **Total shareholders' equity** | 930,664 | 865,224 |
| Common equity tier I capital adjustments | | |
| Goodwill and other intangibles | (209,379) | (210,625) |
| **Total tangible equity** | $ 721,285 | $ 654,599 |
| Total assets | $ 8,896,923 | $ 8,437,967 |
| Goodwill and other intangibles | (209,379) | (210,625) |
| **Total tangible assets** | $ 8,687,544 | $ 8,227,342 |
| **Common tier 1 capital** | $ 755,735 | $ 703,891 |
| **Tier 1 capital** | 755,839 | 703,995 |
| **Total capital** | 929,148 | 881,158 |
| **Total risk-weighted assets** | 7,108,629 | 6,728,737 |
| **Average assets** (1) | 8,554,938 | 8,189,039 |
| | | |
| **Regulatory capital** | | |
| Common tier 1 ratio | 10.63% | 10.46% |
| Tier 1 ratio | 10.63% | 10.46% |
| Total capital ratio | 13.07% | 13.10% |
| Leverage ratio | 8.84% | 8.60% |
| | | |
| **Other capital ratios** | | |
| Total shareholders' equity to ending assets | 10.46% | 10.25% |
| Total tangible shareholders' equity to ending tangible assets | 8.30% | 7.96% |

(1) For purposes of calculating the Leverage ratio, certain intangible assets are excluded from average assets.

First Financial generally seeks to balance the return of earnings to shareholders through shareholder dividends and share repurchases with capital retention in order to maintain adequate levels of capital and support the Company's growth plans.

**Shareholder Dividends.** First Financial’s dividend payout ratio, or total dividends paid divided by net income available to common shareholders, was 43.3%, 44.1% and 52.0% for the years 2017, 2016 and 2015, respectively. The dividend payout ratio is continually reviewed by management and the board of directors for consistency with First Financial’s overall capital planning activities and compliance with applicable regulatory limitations. In January 2018, the board of directors authorized an increase to the Company's quarterly dividend from $0.17 to $0.19 per common share, payable on March 15, 2018 to all shareholders of record as of March 1, 2018.

**Share Repurchases.** In October 2012, First Financial's board of directors approved a share repurchase plan under which the Company has the ability to repurchase up to 5,000,000 common shares. The Company did not repurchase any shares under this plan during 2016 or 2017. The Company repurchased 40,255 shares for $0.7 million under the 2012 share repurchase plan during 2015 at an average price of $17.32 per share. At December 31, 2017, 3,509,133 shares remained available for purchase under the 2012 share repurchase plan.

**Shareholders' Equity.** Total shareholders' equity at December 31, 2017 was $930.7 million, compared to total shareholders' equity at December 31, 2016 of $865.2 million.

For further detail, see the Consolidated Statements of Changes in Shareholders' Equity.

## PENSION PLAN

First Financial sponsors a non-contributory defined-benefit pension plan covering substantially all employees. The significant assumptions used in the valuation and accounting for the pension plan include the discount rate, expected return on plan assets and the rate of employee compensation increase. The discount rate assumption was determined using published December 31, 2017 corporate bond indices, projected plan cash flows and comparisons to external industry surveys. The expected return on plan assets was 7.25% for 2017 and 7.50% for 2016, and was based on the composition of plan assets as well as economic forecasts and trends in addition to actual returns. The assumed rate of compensation increase was 3.5% and was compared to historical increases for plan participants for reasonableness.

Presented below is the estimated impact on First Financial's projected benefit obligation and pension expense as of December 31, 2017, assuming shifts in the significant assumptions:

| | Discount rate | | Expected return on plan assets | | Rate of compensation increase | |
|---|---|---|---|---|---|---|
| *(Dollars in thousands)* | -100 BP | +100 BP | -100 BP | +100 BP | -100 BP | +100 BP |
| Change in Projected Benefit Obligation | $ 6,930 | $ (5,408) | N/A | N/A | $ (426) | $ 715 |
| Change in Pension Expense | 239 | (94) | $ 1,291 | $ (1,291) | (120) | 238 |

As a result of the plan's current funding status and updated actuarial projections for 2017, First Financial recorded income related to its pension plan of $0.6 million for 2017, $1.2 million for 2016 and $1.0 million for 2015 in the Consolidated Statements of Income. Contributions, if necessary, are required to meet ERISA's minimum funding standards and the estimated quarterly contribution requirements during this period. First Financial made no cash contributions to fund the pension plan in 2017, 2016 or 2015 and does not expect to make a cash contribution to its pension plan in 2018 given the plan's over-funded status.

See Note 15 – Employee Benefit Plans in the Notes to Consolidated Financial Statements for additional information on First Financial's pension plan.

## ENTERPRISE RISK MANAGEMENT

First Financial considers risk to be any issue that could impact the Company's ability to meet its objectives or have an adverse impact on its capital or earnings. First Financial manages risks through a structured ERM approach that routinely assesses the overall level of risk, identifies specific risks and evaluates the steps being taken to mitigate those risks. First Financial continues to enhance its risk management capabilities and has, over time, embedded risk awareness as part of the culture of the Company. ERM allows First Financial to align a variety of risk management activities within the Company into a cohesive, enterprise-wide approach and focus on process-level risk management activities and strategic objectives within the risk management culture. Additionally, ERM allows the Company to deliberately develop risk responses and evaluate the effectiveness of mitigation compared to established thresholds for risk appetite and tolerance, in addition to facilitating the consideration of significant organizational changes and consolidation of information through a common process for management and the board of directors.

First Financial has identified ten types of risk that it monitors in its ERM framework. These risks include credit, market, operational, compliance, strategic, reputation, information technology, cyber, legal and environmental/external.

First Financial uses a robust regulatory risk framework as one of the foundational components of its ERM framework. This allows for a common categorization across the Company and provides a consistent and complete risk framework that can be summarized and assessed enterprise-wide. Additionally, the risk framework utilized is consistent with that used by the Company's regulators, which results in additional feedback on First Financial's ability to assess and measure risk across the organization as well as the ability for management and the board of directors to identify and understand differences in assessed risk profiles.

ERM helps ensure that First Financial continues to identify and adequately address risks that emerge from a combination of new customers, products and associates, changing markets, new lines of business and processes and new or evolving systems.

The goals of First Financial's ERM framework are to:

- focus on the Company at both the enterprise and line of business levels;
- align the Company's risk appetite with its strategic, operational, compliance and reporting objectives;
- enhance risk response decisions;
- reduce operational deficiencies and possible losses;
- identify and manage interrelated risks;
- provide integrated responses to multiple risks;
- improve the deployment and allocation of capital; and
- improve overall business performance.

Specific enterprise-level objectives include:

- creating a holistic view of risk in which risk is comprehensively considered, consistently communicated and documented in decision making;
- centralizing the oversight of risk management activities;
- defining the risks that will be addressed by the enterprise and each functional area or business unit to create an awareness of risks affecting the Company;
- establishing and maintaining systems and mechanisms to identify, assess, monitor and measure risks that may impact First Financial's ability to achieve its business objectives;
- creating a process which ensures that, for all new lines of business and new product decisions, management evaluates the expertise needed and assesses the risks involved;
- establishing and maintaining systems and mechanisms to monitor risk responses;
- developing risk occurrence information systems to provide early warning of events or situations that create risk for the Company;
- maintaining a compliance culture and framework that ensures adherence to laws, rules and regulations, fair treatment and privacy of customers and prevention of money laundering and terrorist financing;
- implementing and reviewing risk measurement techniques that management may use to establish the Company's risk tolerance, assess risk likelihood and impact and analyze risk monitoring processes; and
- establishing appropriate management reporting systems regarding the enterprise-wide risk exposures and allocation of capital.

Line of business-level objectives focus on why the particular business or business unit risk exists; how the business affects the Company's strategy, earnings, reputation and other key success factors; and whether the line of business objectives are aligned with enterprise objectives.

**Board of Directors and Board Risk & Compliance Committee.** First Financial's board of directors is responsible for understanding the Company's compliance and risk management objectives and risk tolerance, and as such, board oversight of the Company's compliance and risk management activities is a key component to an effective risk management process. Responsibilities of the board of directors include:

- establishing and guiding the Company's strategic direction and tolerance for risk, including the determination of the aggregate risk appetite and identifying the senior managers who have the responsibility for managing risk;
- monitoring the Company's performance and overall risk profile, ensuring that the level of risk is maintained at prudent levels and is supported by adequate capital;
- ensuring that the Company implements sound fundamental principles that facilitate the identification, measurement, monitoring and control of risk;
- ensuring that adequate resources are dedicated to compliance and risk management; and
- ensuring that awareness of risk management activities is evident throughout the organization.

The board of directors has defined broad risk tolerance levels, or limits, to guide management in the decision-making process, and is responsible for establishing information and communication requirements to ensure that risk management activities remain within these tolerance limits. The risk and compliance committee, a standing committee of the board of directors, is responsible for carrying out the board's responsibilities in this regard. Other standing committees of the board (audit, compensation, corporate governance and nominating, and capital markets) oversee particular areas of risk assigned specifically to them.

**Executive and Senior Management.** Members of executive and senior management are responsible for managing risk activities and delegating risk authority and tolerance to the responsible risk owners.

Management must identify which processes and activities are critical to achieving the Company’s business objectives within the designated tolerance levels. Management must then delegate responsibility, authority and accountability to the appropriate risk owners who are responsible for ensuring that the respective processes and activities are designed and implemented to manage the related risks within those delegated tolerance levels.

**Chief Risk Officer.** The chief risk officer is responsible for the oversight of the Company’s ERM processes. The chief risk officer may appoint other officers or establish other management committees as required for effective risk management and governance, including risk identification, risk measurement, risk monitoring, risk control or mitigation and risk reporting. The chief risk officer is also responsible for the maintenance of procedures, methodologies and guidelines considered necessary to administer the ERM program.

**Chief Compliance Officer.** The chief compliance officer is responsible for the oversight of the Company’s compliance management function, which includes Bank Secrecy Act/Anti-Money Laundering and all other regulatory compliance. The chief compliance officer is authorized to implement all necessary actions to ensure achievement of the objectives of an effective compliance program and may appoint other officers or establish other management committees as required for effective compliance management. The chief compliance officer reviews and evaluates compliance issues and concerns and is responsible for monitoring and reporting results of the compliance efforts in addition to providing guidance to the board of directors and senior management team on matters relating to compliance.

**Committee Chairs.** The ERM program utilizes multiple management committees as its primary assessment and communication mechanism for identified risks. Committee chairs play key roles in the execution of risk management activities throughout the enterprise and are responsible for continuous updates and communication among committee members in conjunction with the risk management department regarding changes to risk profiles, changes to risk assessments and the emergence of new risks that could impact the Company.

**Internal Audit.** Internal audit is responsible for planning audit activities to periodically reassess the design and operation of key risk management processes and to make periodic evaluations of the ongoing accuracy and effectiveness of the communications from risk owners to senior management and from senior management to the board of directors.

**Risk Assessment Process.** The periodic assessment of risks is a key component of a sound ERM program. Managers, business line leaders and executives are responsible for developing the risk assessment for their individual departments, business lines and subsidiaries. The chief risk officer, management and the board risk and compliance committee are responsible for ensuring that risk is viewed and analyzed from a global perspective. Furthermore, interrelated risks are considered, assessing how a single risk or event may create multiple risks.

Risk management programs, in each functional component and in aggregate, accomplish the following:

- identify risks and their respective owners;
- link identified risks and their mitigation to the Company's strategic objectives;
- evaluate the risks and their associated likelihood of occurrence and consequences;
- develop strategies to manage risk, such as avoiding the risk; reducing the negative effect of the risk; transferring the risk to another party; and/or accepting some or all of the consequences of a particular risk;
- prioritize the risk issues with regard to the current risk status and trend;
- provide reports to management and risk owners that will assist them in implementing appropriate risk management processes;
- assist management in assessing the alternatives for managing risks;
- assist management in the development of risk management plans; and
- track risk management efforts.

**Monitoring and Reporting.** The board of directors oversees risk reporting and monitoring through the board risk and compliance committee, which meets at least quarterly.

Management continually reviews any risk identified as key, as well as the appropriateness of established tolerance limits and the actions considered as necessary to mitigate key risks. As circumstances warrant, management provides recommendations to the board risk and compliance committee related to changes or adjustments to key risks or tolerance limits.

First Financial believes that communication is fundamental to successful risk management and productive reporting and communication between the risk management department, management and the board of directors is required for collaborative and effective risk management.

## CREDIT RISK

Credit risk represents the risk of loss due to failure of a customer or counterparty to meet its financial obligations in accordance with contractual terms. First Financial manages credit risk through its underwriting practices, periodically reviewing and approving its credit exposures using credit policies and guidelines approved by the board of directors.

**Allowance for loan and lease losses.** The ALLL is a reserve accumulated on the Consolidated Balance Sheets through the recognition of the provision for loan and lease losses. First Financial records the provision in the Consolidated Statements of Income to maintain the ALLL at a level considered sufficient to absorb probable incurred loan and lease losses inherent in the portfolio. Actual losses on loans and leases are charged against the ALLL. The recorded values of the loans and leases actually removed from the Consolidated Balance Sheets due to credit deterioration are referred to as charge-offs. First Financial's policy is to charge-off all or a portion of a loan when, in management's opinion, it is unlikely to collect the principal amount owed in full either through payments from the borrower or from the liquidation of collateral. All loans charged-off are subject to continuous review and concerted efforts are made to maximize any recovery. In most cases, the borrower’s debt obligation is not canceled even though the balance may have been charged-off. Any subsequent recovery of a previously charged-off loan is credited back to the ALLL.

Management determines the adequacy of the ALLL based on historical loss experience as well as other significant factors such as composition of the portfolio; economic conditions; geographic footprint; the results of periodic internal and external evaluations of delinquent, nonaccrual and classified loans; and any other situations that may affect a specific borrower's ability to repay. The evaluation of these factors is the responsibility of the ALLL committee, which is comprised of senior officers from the risk management, credit administration, finance and lending areas.

See Table 12 – Summary of the ALLL and Selected Statistics for a summary of activity impacting the allowance and Table 13 – Allocation of the ALLL for detail on the composition of the allowance.

**2017 vs. 2016.** The ALLL at December 31, 2017 was $54.0 million, or 0.90% of loans, which was a $3.9 million, or 6.8%, decrease from $58.0 million, or 1.01% of loans at December 31, 2016. Provision expense decreased $6.6 million, or 64.7%, to $3.6 million in 2017 from $10.1 million in 2016.

Net charge-offs increased $1.9 million, or 34.9%, to $7.5 million for 2017 compared to $5.6 million for 2016, while the ratio of net charge-offs as a percentage of average loans outstanding increased to 0.13% in 2017 from 0.10% in 2016. The slight increase in net charge-offs during 2017 was primarily related to the charge-off of a single franchise relationship during 2017, however net charge-offs remain at historically low levels.

The decrease in the ALLL during 2017 reflected continued strong credit quality results which include declining nonperforming and classified asset balances during the period. The ALLL as a percentage of loans reflects continued stability in property values and improving economic conditions across the Company's footprint. The ALLL as a percentage of nonperforming loans, including accruing TDRs was 129.8% at December 31, 2017 compared with 120.8% at December 31, 2016.

For further discussion of First Financial's ALLL, see Note 6 – Allowance for Loan and Lease Losses in the Notes to Consolidated Financial Statements.

**Table 12 • Summary Of The ALLL And Selected Statistics**

| *(Dollars in thousands)* | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|
| Transactions in the allowance for loan and lease losses: | | | | | |
| Balance at January 1 | $ 57,961 | $ 53,398 | $ 52,858 | $ 62,730 | $ 92,967 |
| Provision for loan and lease losses | 3,582 | 10,140 | 9,641 | 1,528 | 8,909 |
| Loans charged-off: | | | | | |
| Commercial and industrial | 10,194 | 2,630 | 5,408 | 9,156 | 11,695 |
| Lease financing | 0 | 0 | 0 | 0 | 496 |
| Real estate – construction | 1 | 93 | 85 | 1,348 | 611 |
| Real estate – commercial | 1,038 | 4,983 | 10,083 | 9,478 | 36,622 |
| Real estate – residential | 435 | 387 | 1,531 | 1,454 | 1,729 |
| Home equity | 913 | 1,445 | 1,891 | 2,774 | 3,533 |
| Installment | 225 | 386 | 509 | 605 | 536 |
| Credit card | 857 | 1,190 | 1,049 | 1,158 | 1,285 |
| Total loans charged-off | 13,663 | 11,114 | 20,556 | 25,973 | 56,507 |
| Recoveries of loans previously charged-off: | | | | | |
| Commercial and industrial | 1,650 | 1,155 | 3,724 | 4,769 | 4,218 |
| Lease financing | 1 | 1 | 2 | 63 | 9 |
| Real estate – construction | 89 | 285 | 253 | 381 | 679 |
| Real estate – commercial | 2,719 | 2,502 | 5,214 | 7,617 | 10,630 |
| Real estate – residential | 215 | 236 | 558 | 531 | 265 |
| Home equity | 1,027 | 720 | 1,001 | 511 | 914 |
| Installment | 234 | 335 | 463 | 358 | 393 |
| Credit card | 206 | 303 | 240 | 343 | 253 |
| Total recoveries | 6,141 | 5,537 | 11,455 | 14,573 | 17,361 |
| Net charge-offs | 7,522 | 5,577 | 9,101 | 11,400 | 39,146 |
| **Balance at December 31** | $ 54,021 | $ 57,961 | $ 53,398 | $ 52,858 | $ 62,730 |
| **Net charge-offs to average loans and leases** | | | | | |
| Commercial and industrial | 0.47 % | 0.08 % | 0.12 % | 0.37 % | 0.75 % |
| Lease financing | 0.00 % | 0.00 % | 0.00 % | (0.05)% | 0.51 % |
| Real estate-construction | (0.02)% | (0.05)% | (0.07)% | 0.71 % | (0.07)% |
| Real estate-commercial | (0.07)% | 0.11 % | 0.23 % | 0.10 % | 1.42 % |
| Real estate-residential | 0.05 % | 0.03 % | 0.19 % | 0.20 % | 0.34 % |
| Home equity | (0.02)% | 0.16 % | 0.19 % | 0.52 % | 0.62 % |
| Installment | (0.02)% | 0.11 % | 0.11 % | 0.50 % | 0.25 % |
| Credit card | 1.44 % | 2.10 % | 2.04 % | 2.14 % | 2.82 % |
| **Total net charge-offs** | 0.13 % | 0.10 % | 0.18 % | 0.27 % | 0.99 % |
| Credit quality ratios: | | | | | |
| As a percent of year-end loans, net of unearned income: | | | | | |
| Allowance for loan and lease losses | 0.90 % | 1.01 % | 0.99 % | 1.11 % | 1.58 % |
| Nonperforming loans [(1)] | 0.69 % | 0.83 % | 1.06 % | 1.35 % | 1.43 % |
| Allowance for loan and lease losses to nonperforming loans [(1)] | 129.77 % | 120.83 % | 93.89 % | 82.08 % | 110.40 % |

[(1)] Includes loans classified as nonaccrual and troubled debt restructurings.

**Table 13 • Allocation Of The ALLL**

| | December 31, | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 | | 2016 | | 2015 | | 2014 | | 2013 | |
| *(Dollars in thousands)* | Allowance | Percent of Loans to Total Loans | Allowance | Percent of Loans to Total Loans | Allowance | Percent of Loans to Total Loans | Allowance | Percent of Loans to Total Loans | Allowance | Percent of Loans to Total Loans |
| Balance at End of Period Applicable to: | | | | | | | | | | |
| Commercial and industrial | $ 17,598 | 31.8% | $ 19,225 | 31.0% | $ 16,995 | 30.9% | $ 13,870 | 27.5% | $ 19,968 | 27.2% |
| Lease financing | 675 | 1.5% | 716 | 1.6% | 821 | 1.7% | 435 | 1.6% | 461 | 2.0% |
| Real estate – construction | 3,577 | 7.8% | 3,282 | 6.9% | 1,810 | 5.8% | 1,045 | 4.2% | 824 | 2.3% |
| Real estate – commercial | 20,930 | 41.4% | 26,540 | 42.2% | 23,656 | 41.9% | 27,086 | 44.8% | 28,993 | 44.6% |
| Real estate – residential | 4,683 | 7.8% | 3,208 | 8.7% | 4,014 | 9.5% | 3,753 | 10.5% | 4,140 | 10.9% |
| Installment, home equity & credit card | 6,558 | 9.7% | 4,990 | 9.6% | 6,102 | 10.2% | 6,669 | 11.4% | 8,344 | 13.0% |
| **Total** | $ 54,021 | 100.0% | $ 57,961 | 100.0% | $ 53,398 | 100.0% | $ 52,858 | 100.0% | $ 62,730 | 100.0% |

## MARKET RISK

Market risk is the risk of loss arising from adverse changes in the fair value of financial instruments due to changes in interest rates, foreign exchange rates and equity prices. The primary source of market risk for First Financial is interest rate risk. Interest rate risk is the risk to earnings and the value of the Company's equity arising from changes in market interest rates. Interest rate risk arises in the normal course of business to the extent that there is a divergence between the amount of interest-earning assets and the amount of interest-bearing liabilities that are prepaid, withdrawn, re-priced or mature in specified periods. First Financial seeks to achieve consistent growth in net interest income and equity while managing volatility from shifts in market interest rates.

First Financial monitors the Company's interest rate risk position using income simulation models and EVE sensitivity analyses that capture both short-term and long-term interest rate risk exposure. Income simulation involves forecasting NII under a variety of interest rate scenarios. EVE is calculated by discounting the cash flows for all balance sheet instruments under different interest-rate scenarios and First Financial uses EVE sensitivity analysis to understand the impact of changes in interest rates on long-term cash flows, income and capital. For both NII and EVE modeling, First Financial leverages instantaneous parallel shocks to evaluate interest rate risk exposure across rising and falling rate scenarios. Additional scenarios evaluated include implied market forward rate forecasts and various non-parallel yield curve twists.

First Financial’s interest rate risk models are based on the contractual and assumed cash flows and repricing characteristics for the Company’s assets, liabilities and off-balance sheet exposure. A number of assumptions are incorporated into the interest rate risk models, including prepayment behaviors and repricing spreads for assets in addition to attrition and repricing rates for liabilities. Assumptions are primarily derived from behavior studies of the Company’s historical client base and are continually refined. Modeling the sensitivity of NII and EVE to changes in market interest rates is highly dependent on the assumptions incorporated into the modeling process.

Non-maturity deposit modeling is particularly dependent on the assumption for repricing sensitivity known as a beta. Beta is the amount by which First Financial’s interest bearing non-maturity deposit rates will increase when short-term interest rates rise. The Company utilized a weighted average deposit beta of 61% in its interest rate risk modeling as of December 31, 2017. First Financial also includes an assumption for the migration of non-maturity deposit balances into CDs for all upward rate scenarios beginning with the +100 BP scenario, thereby increasing deposit costs and reducing asset sensitivity.

Presented below is the estimated impact on First Financial's NII and EVE as of December 31, 2017, assuming immediate, parallel shifts in interest rates:

| | % Change from base case for immediate parallel changes in rates | | |
|---|---|---|---|
| | -100 BP | +100 BP | +200 BP |
| NII - Year 1 | (5.77)% | 2.40% | 4.73% |
| NII - Year 2 | (8.38)% | 3.75% | 7.27% |
| EVE | (4.09)% | 1.65% | 2.13% |

*"Risk-neutral"* refers to the absence of a strong bias toward either asset or liability sensitivity. *"Asset sensitivity"* is when a company's interest-earning assets reprice more quickly or in greater quantities than interest-bearing liabilities. Conversely, *"liability sensitivity"* is when a company's interest-bearing liabilities reprice more quickly or in greater quantities than interest-earning assets. In a rising interest rate environment, asset sensitivity results in higher net interest income while liability sensitivity results in lower net interest income. In a declining interest rate environment, asset sensitivity results in lower net interest income while liability sensitivity results in higher net interest income.

First Financial was within internal policy limits set for the above interest rate risk scenarios as of December 31, 2017. Projected results for NII became more asset sensitive during 2017 as a result of growth in variable rate loans and noninterest-bearing deposit balances in addition to fewer fixed rate investment securities and the conversion of certain indexed deposit products to managed rates in order to better align First Financial with market rates. The projected results for EVE became less asset sensitive during 2017 due to updated deposit discount rate assumptions. First Financial continues to manage its balance sheet with a bias toward asset sensitivity while simultaneously balancing the potential earnings impact of this strategy.

First Financial continually evaluates the sensitivity of its interest rate risk position to modeling assumptions. The table that follows reflects First Financial's estimated NII sensitivity profile as of December 31, 2017 assuming both a 25% increase and decrease to the beta assumption on managed rate deposit products:

| | Beta sensitivity (% change from base) | | | |
|---|---|---|---|---|
| | +100 BP | | +200 BP | |
| | Beta 25% lower | Beta 25% higher | Beta 25% lower | Beta 25% higher |
| NII-Year 1 | 4.19% | 0.62% | 8.16% | 1.30% |
| NII-Year 2 | 5.50% | 2.00% | 10.62% | 3.93% |

See the Net Interest Income section of Management's Discussion and Analysis for further discussion.

Table 14 – Market Risk Disclosure projects the principal maturities and yields of First Financial's interest-bearing financial instruments at December 31, 2017 for the next five years and thereafter, as well as the fair value of the instruments. For loans, securities and liabilities with contractual maturities, the table presents principal cash flows and related weighted-average interest rates by contractual maturities. For investment securities, including MBSs and CMOs, principal cash flows are based on estimated average lives. For loan instruments without contractual maturities, such as credit card loans, principal payments are allocated based on historical of payment activity trends. Maturities for interest-bearing liability accounts with no contractual maturity dates are estimated according to historical experience of cash flows and current expectations of client behaviors when calculating fair value, but are included in the maturing in one year or less category as they can be withdrawn on demand. For interest rate swaps, the table includes notional amounts and weighted-average interest rates by contractual maturity dates. The variable receiving rates are indexed to one-month LIBOR or Prime plus a spread.

**Table 14 • Market Risk Disclosure**

| *(Dollars in thousands)* | 2017 | 2018 | 2019 | 2020 | 2021 | Thereafter | Total | Fair Value December 31, 2017 |
|---|---|---|---|---|---|---|---|---|
| | | | Principal Amount Maturing In: | | | | | |
| **Rate sensitive assets** | | | | | | | | |
| Fixed interest rate loans [1] | $ 326,647 | $ 208,287 | $ 176,793 | $ 165,963 | $ 124,246 | $ 340,643 | $ 1,342,579 | $ 1,342,272 |
| Average interest rate | 4.66% | 4.88% | 4.83% | 4.76% | 5.36% | 4.43% | 4.73% | |
| Variable interest rate loans [1] | 1,101,963 | 636,748 | 447,239 | 430,088 | 429,382 | 1,582,665 | 4,628,085 | 4,675,886 |
| Average interest rate | 4.49% | 4.55% | 4.60% | 4.66% | 5.17% | 4.60% | 4.63% | |
| Fixed interest rate securities | 52,516 | 118,068 | 209,472 | 253,654 | 281,155 | 444,468 | 1,359,333 | 1,358,415 |
| Average interest rate | 3.78% | 3.13% | 2.85% | 2.84% | 2.73% | 2.97% | 2.92% | |
| Variable interest rate securities | 70,826 | 35,786 | 82,575 | 58,684 | 158,649 | 237,563 | 644,083 | 644,094 |
| Average interest rate | 2.35% | 2.72% | 2.33% | 2.80% | 3.36% | 3.00% | 2.90% | |
| Other earning assets | 33,974 | 0 | 0 | 0 | 0 | 0 | 33,974 | 33,974 |
| Average interest rate | 1.50% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 1.50% | |
| | | | | | | | | |
| **Rate sensitive liabilities** | | | | | | | | |
| Noninterest-bearing checking [2] | $ 1,662,058 | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 | $ 1,662,058 | $ 1,662,058 |
| Savings and interest-bearing checking [2] | 391,588 | 3,524,295 | 0 | 0 | 0 | 0 | 3,915,883 | 3,915,883 |
| Average interest rate | 0.50% | 0.50% | 0.00% | 0.00% | 0.00% | 0.00% | 0.50% | |
| Time deposits | 776,956 | 315,305 | 122,165 | 68,545 | 27,394 | 6,740 | 1,317,105 | 1,306,674 |
| Average interest rate | 1.15% | 1.68% | 1.52% | 1.46% | 1.02% | 0.12% | 1.32% | |
| Fixed interest rate borrowings | 742,418 | 124 | 0 | 0 | 0 | 119,412 | 861,954 | 860,208 |
| Average interest rate | 1.43% | 5.99% | 0.00% | 0.00% | 0.00% | 5.15% | 1.95% | |
| Variable interest rate borrowings | 72,265 | 0 | 0 | 0 | 0 | 0 | 72,265 | 72,265 |
| Average interest rate | 0.19% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.19% | |

[1] Includes loans held for sale.
[2] Deposits without a stated maturity are represented as maturing within one year due to the ability of the client to withdraw deposited amounts on demand.

## OPERATIONAL RISK

Operational risk is the risk of loss due to human behavior, inadequate or failed internal systems and controls and external influences such as market conditions, fraudulent activities, natural disasters and security risks. First Financial continuously strives to strengthen the Company's system of internal controls and operating processes as well as associates' ability to assess the impact on earnings and capital from operational risk.

## COMPLIANCE RISK

Compliance risk represents the risk of regulatory sanctions, reputational impact or financial loss resulting from the Company's failure to comply with rules and regulations issued by the various banking agencies and standards of good banking practice. Activities which may expose First Financial to compliance risk include, but are not limited to, those dealing with the prevention of money laundering, privacy and data protection, community reinvestment initiatives, fair lending challenges resulting from the Company's expansion of its banking center network and employment and tax matters.

## STRATEGIC AND REPUTATION RISK

Strategic risk represents the risk of loss due to failure to fully develop and execute business plans, failure to assess current and new business opportunities, markets and products and any other event not identified in the defined risk types previously mentioned. Strategic risk focuses on analyzing factors that affect the direction of the institution or improper implementation of decisions.

Reputation risk represents the risk of loss or impairment of earnings and capital from negative publicity. This affects the ability of First Financial to establish new relationships or services or to continue servicing existing relationships. Reputation risk is recognized by the effect that public opinion could have on First Financial's franchise value and has evolved in recent years with the growth in social media.

Mitigation of strategic and reputation risk elements is achieved through initiatives that help First Financial better understand and report on the various risks it faces each day, including those related to the development of new products and business initiatives.

**INFORMATION TECHNOLOGY RISK**

Information technology risk is the risk that the information technologies utilized by FFB are not efficiently and effectively supporting the current and future needs of the business, operating as intended or compromise the availability, integrity and reliability of data and information. This risk also considers whether or not the Company's information technology exposes the Company's assets to potential loss or misuse, or threatens the Company's ability to sustain the operation of critical business processes.

**CYBER RISK**

Cyber risk is differentiated from information technology risk by threat interactions that yield high impact consequences and ever-increasing probability. While standard security operations address most day to day incidents, cyber risk includes threats and attacks that often use advanced tools, techniques and processes to evade detection or inflict maximum damage to an organization's information assets. Cyber threats and attacks adapt and evolve rapidly, so First Financial works to continuously strengthen the Company's posture toward cybersecurity. Critical components to the Company's cyber risk control structure include corporate governance, threat intelligence, security awareness training and patch management programs. Cyber risk mitigation includes effectively identifying, detecting, responding to, protecting and recovering from cyber threats.

**LEGAL RISK**

Legal risk encompasses the impact of unenforceable contracts, lawsuits or adverse judgments, which can disrupt or otherwise negatively affect the Company's operations or condition. Legal risk also includes the exposure from litigation, fiduciary relationships and contractual obligations from both traditional and nontraditional financial institution activities. Legal risk is present in all areas of the Company and its activities.

**ENVIRONMENTAL/EXTERNAL RISK**

Environmental risk arises from failure to understand customer needs and failure to anticipate or react to actions of competitors. Environmental risk increases when there are external forces that could significantly change the fundamentals that drive the Company's overall objectives and strategies and potentially threaten the continued operations of the Company. While not a specific element of the regulatory risk framework, First Financial identified this as a separate category (or source) of risk for consistent consideration as environmental risks are a critical consideration in understanding the full potential of scenarios that could impact the Company. Management's assumptions regarding the business environment are a foundational element in formulating and evaluating business strategies. These assumptions include the strategic profile of major competitors, demographic and social trends, new technologies that provide opportunities for competitive advantage and economic, political and regulatory developments.

**CRITICAL ACCOUNTING POLICIES**

First Financial's Consolidated Financial Statements are prepared based on the application of accounting policies, the most significant of which are described in Note 1 – Summary of Significant Accounting Policies in the Notes to Consolidated Financial Statements. These policies require the reliance on estimates and assumptions which are inherently subjective and may be susceptible to significant change. Changes in underlying factors, assumptions or estimates could have a material impact on First Financial's future financial condition and results of operations. In management's opinion, some of these estimates and assumptions have a more significant impact than others on First Financial's financial reporting. For First Financial, these estimates and assumptions include accounting for the ALLL, goodwill, pension and income taxes.

**ALLL.** For each reporting period, management maintains the ALLL at a level that it considers sufficient to absorb probable incurred loan and lease losses inherent in the portfolio. Management determines the adequacy of the ALLL based on historical loss experience as well as other significant factors such as composition of the portfolio, economic conditions, geographic footprint, the results of periodic internal and external evaluations of delinquent, nonaccrual and classified loans and any other adverse situations that may affect a specific borrower's ability to repay (including the timing of future payments).

Management's determination of the adequacy of the ALLL is based on an assessment of the probable incurred loan and lease losses inherent in the portfolio given the conditions at the time. The ALLL is generally increased by provision expense and decreased by charge-offs, net of recoveries of amounts previously charged-off. Loans are charged off when management believes that the collection of the principal amount owed in full, either through payments from the borrower or from the liquidation of collateral, is unlikely.

To the extent actual outcomes differ from management's estimates, additional provision for credit losses may be required that would impact First Financial's operating results. The Credit Risk section of this annual report provides management's analysis of the ALLL.

**Goodwill.** Assets and liabilities acquired in a business combination are recorded at their estimated fair values as of the acquisition date. The excess cost of the acquisition over the fair value of net assets acquired is recorded as goodwill. The Company is required to evaluate goodwill for impairment on an annual basis or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. First Financial performs its annual impairment test effective October 1, absent events or changes in circumstances that indicate the carrying value of goodwill may not be recoverable.

The Company's goodwill is accounted for in a reporting unit representing the consolidated entity. Fair value is estimated using the market capitalization of the Company, as of the annual impairment testing date. First Financial also utilizes additional information and analysis to corroborate the use of the Company's market capitalization as a proper indicator of fair value for purposes of the annual goodwill impairment test.

The additional information and analysis compares readily available external market data regarding the Company's value to total shareholders' equity. These analyses include utilizing a multiple of earnings method in which First Financial's annualized earnings are compared to equity to provide an implied book value-to earnings multiple, which is then compared to current marketplace earnings multiples at which banks are being traded. Also, the analyses use the discounted cash flows of First Financial's assets and liabilities, to determine an implied fair value of the Company, which is compared to the Company's book value.

**Pension.** First Financial sponsors a non-contributory defined-benefit pension plan covering substantially all employees. Accounting for the pension plan involves material estimates regarding future plan obligations and investment returns on plan assets. Significant assumptions used in the pension plan include the discount rate, expected return on plan assets and the rate of compensation increase. First Financial determines the discount rate assumption using published corporate bond indices and the projected cash flows of the pension plan. First Financial also utilizes external surveys for industry comparisons which provided a test for reasonableness. The expected long-term return on plan assets is based on the composition of plan assets as well as a economic forecasts and trends in addition to actual returns, while the rate of compensation increase is compared to historical increases for plan participants. Changes in these assumptions can have a material impact on the amount of First Financial's future pension obligations, on the funded status of the plan and on the Company's operating results.

**Income Taxes.** First Financial evaluates and assesses the relative risks and appropriate tax treatment of transactions after considering statutes, regulations, judicial precedent and other information, and maintains tax accruals consistent with its evaluation of these relative risks. Changes to the estimate of accrued taxes occur periodically due to changes in tax rates, interpretations of tax laws, the status of examinations being conducted by taxing authorities and changes to statutory, judicial and regulatory guidance that impact the relative risks of tax positions. These changes, when they occur, can affect deferred taxes and accrued taxes as well as the current period's income tax expense and can be material to the Company's operating results.

First Financial regularly reviews its tax positions and establishes reserves for income tax-related uncertainties based on estimates of whether it is more likely than not that the tax uncertainty would be sustained upon challenge by the appropriate tax authorities which would then result in additional taxes, penalties and interest due. Provisions for tax reserves, if any, are included in income tax expense in the Consolidated Financial Statements.

## FORWARD-LOOKING STATEMENTS

Certain statements contained in this report which are not statements of historical fact constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act (the Act). In addition, certain statements in future filings by First Financial with the SEC, in press releases, and in oral and written statements made by or with the approval of First Financial which are not statements of historical fact constitute forward-looking statements within the meaning of the Act. Examples of forward-looking statements include, but are not limited to, projections of revenues, income or loss, earnings or loss per share, the payment or non-payment of dividends, capital structure and other financial items, statements of plans and objectives of First Financial or its management or board of directors and statements of future economic performances and statements of assumptions underlying such statements. Words such as "believes," "anticipates," “likely,” “expected,” "intends," and other similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements. Management's analysis contains forward-looking statements that are provided to assist in the understanding of anticipated future financial performance. However, such performance involves risks and uncertainties that may cause actual results to differ materially. Factors that could cause actual results to differ from those discussed in the forward-looking statements include, but are not limited to:

- management's ability to effectively execute its business plan;
- the risk that the strength of the United States economy in general and the strength of the local economies in which we conduct operations may deteriorate resulting in, among other things, a further deterioration in credit quality or a reduced demand for credit, including the resultant effect on our loan portfolio, allowance for loan and lease losses and overall financial performance;
- U.S. fiscal debt and budget matters;
- the ability of financial institutions to access sources of liquidity at a reasonable cost;
- the impact of upheaval in the financial markets and the effectiveness of domestic and international governmental actions taken in response, and the effect of such governmental actions on us, our competitors and counterparties, financial markets generally and availability of credit specifically, and the U.S. and international economies, including potentially higher FDIC premiums arising from increased payments from FDIC insurance funds as a result of depository institution failures;
- the effect of and changes in policies and laws or regulatory agencies (notably the Dodd-Frank Wall Street Reform and Consumer Protection Act and the capital rules promulgated by federal banking regulators);
- the effect of the current interest rate environment or changes in interest rates on our net interest margin and our loan originations and securities holdings;
- our ability to keep up with technological changes;
- failure or breach of our operational or security systems or infrastructure, or those of our third party vendors or other service providers;
- our ability to comply with the terms of loss sharing agreements with the FDIC;
- the expiration of loss sharing agreements with the FDIC;
- mergers and acquisitions, including costs or difficulties related to the integration of acquired companies;
- the risk that exploring merger and acquisition opportunities may detract from management's time and ability to successfully manage our business;
- expected cost savings in connection with acquisitions may not be fully realized or realized within the expected time frames, and deposit attrition, customer loss and revenue loss following completed acquisitions may be greater than expected;
- our ability to increase market share and control expenses;
- the effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies as well as the FASB and the SEC;
- adverse changes in the creditworthiness of our borrowers and lessees, collateral values, the value of investment securities and asset recovery values, including the value of the FDIC indemnification asset and related assets covered by FDIC loss sharing agreements;
- adverse changes in the securities, debt and/or derivatives markets;
- our success in recruiting and retaining the necessary personnel to support business growth and expansion and maintain sufficient expertise to support increasingly complex products and services;
- monetary and fiscal policies of the Board of Governors of the Federal Reserve System (Federal Reserve) and the U.S. government and other governmental initiatives affecting the financial services industry;
- unpredictable natural or other disasters could have an adverse effect on us in that such events could materially disrupt our operations or our vendors' operations or willingness of our customers to access the financial services we offer;
- our ability to manage loan delinquency and charge-off rates and changes in estimation of the adequacy of the allowance for loan and lease losses; and

- the costs and effects of litigation and of unexpected or adverse outcomes in such litigation.

Such forward-looking statements are meaningful only on the date when such statements are made, and First Financial undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such a statement is made to reflect the occurrence of unanticipated events.

These and other risk factors are more fully described in First Financial's Annual Report on Form 10-K for the year ended December 31, 2017 under the section entitled "Item 1A. Risk Factors" and from time to time, in other filings with the SEC. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this report. Actual results may differ materially from those expressed in or implied by any forward-looking statements. Except to the extent required by applicable law or regulation, First Financial undertakes no obligation to revise or update publicly any forward-looking statements for any reason.

## Statistical Information

| (Dollars in thousands) | 2017 Average Balance | 2017 Interest | 2017 Average Yield | 2016 Average Balance | 2016 Interest | 2016 Average Yield | 2015 Average Balance | 2015 Interest | 2015 Average Yield |
|---|---|---|---|---|---|---|---|---|---|
| **Earning assets** | | | | | | | | | |
| Loans and leases [1], [4] | | | | | | | | | |
| Commercial and industrial [2] | $1,815,925 | $ 98,683 | 5.43 % | $1,741,084 | $ 91,278 | 5.24 % | $1,425,032 | $ 68,719 | 4.82 % |
| Lease financing [2] | 86,662 | 3,999 | 4.61 % | 96,337 | 3,968 | 4.12 % | 83,316 | 3,340 | 4.01 % |
| Construction-real estate | 429,868 | 18,076 | 4.21 % | 357,171 | 13,894 | 3.89 % | 249,559 | 10,872 | 4.36 % |
| Commercial-real estate | 2,448,570 | 110,586 | 4.52 % | 2,359,480 | 106,122 | 4.50 % | 2,148,139 | 100,026 | 4.66 % |
| Residential-real estate | 499,397 | 19,588 | 3.92 % | 521,654 | 21,037 | 4.03 % | 512,888 | 21,185 | 4.13 % |
| Installment and other consumer | 565,441 | 31,251 | 5.53 % | 552,891 | 28,177 | 5.10 % | 543,900 | 27,638 | 5.08 % |
| Total loans and leases | 5,845,863 | 282,183 | 4.83 % | 5,628,617 | 264,476 | 4.70 % | 4,962,834 | 231,780 | 4.67 % |
| Indemnification asset | 9,535 | (3,871) | (40.60)% | 14,831 | (4,509) | (30.40)% | 20,274 | (4,740) | (23.38)% |
| Investment securities [3] | | | | | | | | | |
| Taxable | 1,791,729 | 50,568 | 2.82 % | 1,693,105 | 43,103 | 2.55 % | 1,667,933 | 39,577 | 2.37 % |
| Tax-exempt [2] | 209,658 | 9,105 | 4.34 % | 165,773 | 6,977 | 4.21 % | 164,497 | 7,094 | 4.31 % |
| Total investment securities [3] | 2,001,387 | 59,673 | 2.98 % | 1,858,878 | 50,080 | 2.69 % | 1,832,430 | 46,671 | 2.55 % |
| Interest-bearing deposits with other banks | 30,933 | 347 | 1.12 % | 21,907 | 118 | 0.54 % | 24,430 | 65 | 0.27 % |
| **Total earning assets** | 7,887,718 | 338,332 | 4.29 % | 7,524,233 | 310,165 | 4.12 % | 6,839,968 | 273,776 | 4.00 % |
| | | | | | | | | | |
| **Nonearning assets** | | | | | | | | | |
| Allowance for loan and lease losses | (56,599) | | | (56,860) | | | (54,111) | | |
| Cash and due from banks | 116,409 | | | 119,444 | | | 115,273 | | |
| Accrued interest and other assets | 663,875 | | | 664,886 | | | 602,939 | | |
| **Total assets** | $8,611,403 | | | $8,251,703 | | | $7,504,069 | | |
| | | | | | | | | | |
| **Interest-bearing liabilities** | | | | | | | | | |
| Deposits | | | | | | | | | |
| Interest-bearing demand | $1,491,114 | $ 4,242 | 0.28 % | $1,465,804 | $ 2,119 | 0.14 % | $1,263,388 | $ 1,207 | 0.10 % |
| Savings | 2,412,788 | 15,941 | 0.66 % | 2,022,564 | 5,559 | 0.27 % | 1,971,699 | 4,171 | 0.21 % |
| Time | 1,189,963 | 14,999 | 1.26 % | 1,355,875 | 14,935 | 1.10 % | 1,333,550 | 14,096 | 1.06 % |
| Total interest-bearing deposits | 5,093,865 | 35,182 | 0.69 % | 4,844,243 | 22,613 | 0.47 % | 4,568,637 | 19,474 | 0.43 % |
| Borrowed funds | | | | | | | | | |
| Short-term borrowings | 830,365 | 8,193 | 0.99 % | 880,457 | 4,506 | 0.51 % | 625,674 | 1,364 | 0.22 % |
| Long-term debt | 120,794 | 6,153 | 5.09 % | 119,622 | 6,160 | 5.15 % | 71,748 | 2,419 | 3.37 % |
| Total borrowed funds | 951,159 | 14,346 | 1.51 % | 1,000,079 | 10,666 | 1.07 % | 697,422 | 3,783 | 0.54 % |
| **Total interest-bearing liabilities** | 6,045,024 | 49,528 | 0.82 % | 5,844,322 | 33,279 | 0.57 % | 5,266,059 | 23,257 | 0.44 % |
| **Noninterest-bearing liabilities** | | | | | | | | | |
| Noninterest-bearing demand deposits | 1,540,384 | | | 1,456,802 | | | 1,339,802 | | |
| Other liabilities | 128,564 | | | 105,795 | | | 93,292 | | |
| **Shareholders' equity** | 897,431 | | | 844,784 | | | 804,916 | | |
| **Total liabilities and shareholders' equity** | $8,611,403 | | | $8,251,703 | | | $7,504,069 | | |
| **Net interest income and interest rate spread (fully tax equivalent)** | | $288,804 | 3.47 % | | $276,886 | 3.55 % | | $250,519 | 3.56 % |
| **Net interest margin (fully tax equivalent)** | | | 3.66 % | | | 3.68 % | | | 3.66 % |
| Interest income and yield | | $333,073 | 4.22 % | | $305,950 | 4.07 % | | $269,759 | 3.94 % |
| Interest expense and rate | | 49,528 | 0.82 % | | 33,279 | 0.57 % | | 23,257 | 0.44 % |
| **Net interest income and spread** | | $283,545 | 3.40 % | | $272,671 | 3.50 % | | $246,502 | 3.50 % |
| **Net interest margin** | | | 3.59 % | | | 3.62 % | | | 3.60 % |

[1] Nonaccrual loans are included in average loan balance and loan fees are included in interest income.

[2] Interest income on tax-exempt investments and on certain tax-exempt loans and leases has been adjusted to a tax equivalent basis using a 35.00% tax rate.

[3] Includes investment securities held-to-maturity, investment securities available-for-sale, trading investment securities and other investments.

[4] Includes loans held-for-sale.

**Management's Report On Internal Control Over Financial Reporting**

First Financial's management is responsible for establishing and maintaining adequate internal control over financial reporting. First Financial's internal control over financial reporting is a process designed under the supervision of First Financial's chief executive officer and chief financial officer 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. Any system of internal control, no matter how well designed, has inherent limitations, including the possibility that a control can be circumvented or overridden and misstatements due to error or fraud may occur and not be detected. Also, because of changes in conditions, internal control effectiveness may vary over time. Accordingly, even an effective system of internal control will provide only reasonable assurance with respect to financial statement preparation. As of December 31, 2017, First Financial's management, including the chief executive officer and the chief financial officer, evaluated the effectiveness of First Financial's internal controls over financial reporting, using as its framework for that evaluation the Internal Control – Integrated Framework published by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission (2013 framework). Based on the evaluation, we believe that, as of December 31, 2017, our internal control over financial reporting is effective based on those criteria.

Crowe Horwath LLP, the independent registered public accounting firm that audited the consolidated financial statements included in this Form 10-K, has issued an attestation report on First Financial's internal control over financial reporting as of December 31, 2017. The report, which expresses an unqualified opinion on First Financial's internal control over financial reporting as of December 31, 2017, is included in the information that follows under the heading "Report of Independent Registered Public Accounting Firm."

| | |
|---|---|
| /s/ Claude E. Davis | /s/ John M. Gavigan |
| Chief Executive Officer | Senior Vice President and Chief Financial Officer |
| February 26, 2018 | February 26, 2018 |

Crowe Horwath LLP
Independent Member Crowe Horwath International

Report of Independent Registered Public Accounting Firm

Shareholders and the Board of Directors of First Financial Bancorp
Cincinnati, Ohio

**Opinions on the Financial Statements and Internal Control over Financial Reporting**

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

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

**Basis for Opinions**

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

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

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

**Definition and Limitations of Internal Control Over Financial Reporting**

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

Crowe Horwath LLP

Crowe Horwath LLP

We have served as the Company's auditor since 2015, which is the year the engagement letter was signed for the audit of the 2016 financial statements.

Indianapolis, Indiana
February 26, 2018

## Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of First Financial Bancorp

We have audited the accompanying consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows of First Financial Bancorp (the Company) for the year ended December 31, 2015. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated results of operations and cash flows of First Financial Bancorp for the year ended December 31, 2015, in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

Cincinnati, Ohio
February 23, 2016

## Consolidated Balance Sheets

| (Dollars in thousands) | December 31, 2017 | December 31, 2016 |
|---|---|---|
| **Assets** | | |
| Cash and due from banks | $ 150,650 | $ 121,598 |
| Interest-bearing deposits with other banks | 33,974 | 82,450 |
| Investment securities available-for-sale, at fair value (amortized cost $1,348,227 at December 31, 2017 and $1,045,337 at December 31, 2016) | 1,349,408 | 1,039,870 |
| Investment securities held-to-maturity (fair value $653,101 at December 31, 2017 and $763,575 at December 31, 2016) | 654,008 | 763,254 |
| Other investments | 53,140 | 51,077 |
| Loans held for sale | 11,502 | 13,135 |
| Loans and leases | | |
| Commercial and industrial | 1,912,743 | 1,781,948 |
| Lease financing | 89,347 | 93,108 |
| Construction real estate | 467,730 | 399,434 |
| Commercial real estate | 2,490,091 | 2,427,577 |
| Residential real estate | 471,391 | 500,980 |
| Home equity | 493,604 | 460,388 |
| Installment | 41,586 | 50,639 |
| Credit card | 46,691 | 43,408 |
| **Total loans and leases** | 6,013,183 | 5,757,482 |
| Less: Allowance for loan and lease losses | 54,021 | 57,961 |
| **Net loans and leases** | 5,959,162 | 5,699,521 |
| Premises and equipment | 125,036 | 131,579 |
| Goodwill and other intangibles | 209,379 | 210,625 |
| Accrued interest and other assets | 350,664 | 324,858 |
| **Total assets** | $ 8,896,923 | $ 8,437,967 |
| | | |
| **Liabilities** | | |
| Deposits | | |
| Interest-bearing demand | $ 1,453,463 | $ 1,513,771 |
| Savings | 2,462,420 | 2,142,189 |
| Time | 1,317,105 | 1,321,843 |
| Total interest-bearing deposits | 5,232,988 | 4,977,803 |
| Noninterest-bearing | 1,662,058 | 1,547,985 |
| **Total deposits** | 6,895,046 | 6,525,788 |
| Federal funds purchased and securities sold under agreements to repurchase | 72,265 | 120,212 |
| Federal Home Loan Bank short-term borrowings | 742,300 | 687,700 |
| **Total short-term borrowings** | 814,565 | 807,912 |
| Long-term debt | 119,654 | 119,589 |
| **Total borrowed funds** | 934,219 | 927,501 |
| Accrued interest and other liabilities | 136,994 | 119,454 |
| **Total liabilities** | 7,966,259 | 7,572,743 |
| | | |
| **Shareholders' equity** | | |
| Common stock - no par value | | |
| Authorized - 160,000,000 shares; Issued - 68,730,731 shares in 2017 and 2016 | 573,109 | 570,382 |
| Retained earnings | 491,847 | 437,188 |
| Accumulated other comprehensive income (loss) | (20,390) | (28,443) |
| Treasury stock, at cost, 6,661,644 shares in 2017 and 6,751,179 shares in 2016 | (113,902) | (113,903) |
| **Total shareholders' equity** | 930,664 | 865,224 |
| **Total liabilities and shareholders' equity** | $ 8,896,923 | $ 8,437,967 |

See Notes to Consolidated Financial Statements.

## Consolidated Statements of Income

| (Dollars in thousands except per share data) | 2017 | 2016 | 2015 |
|---|---|---|---|
| **Interest income** | | | |
| Loans, including fees | $ 280,111 | $ 262,703 | $ 230,246 |
| Investment securities | | | |
| Taxable | 50,568 | 43,103 | 39,577 |
| Tax-exempt | 5,918 | 4,535 | 4,611 |
| Total investment securities interest | 56,486 | 47,638 | 44,188 |
| Other earning assets | (3,524) | (4,391) | (4,675) |
| **Total interest income** | 333,073 | 305,950 | 269,759 |
| **Interest expense** | | | |
| Deposits | 35,182 | 22,613 | 19,474 |
| Short-term borrowings | 8,193 | 4,506 | 1,364 |
| Long-term borrowings | 6,153 | 6,160 | 2,419 |
| **Total interest expense** | 49,528 | 33,279 | 23,257 |
| **Net interest income** | 283,545 | 272,671 | 246,502 |
| Provision for loan and lease losses | 3,582 | 10,140 | 9,641 |
| **Net interest income after provision for loan and lease losses** | 279,963 | 262,531 | 236,861 |
| **Noninterest income** | | | |
| Service charges on deposit accounts | 19,775 | 18,933 | 19,015 |
| Trust and wealth management fees | 14,073 | 13,200 | 13,128 |
| Bankcard income | 13,298 | 12,132 | 11,578 |
| Client derivative fees | 6,418 | 4,570 | 4,389 |
| Net gains on sales of loans | 5,169 | 6,804 | 6,471 |
| Net gains (losses) on sales of investment securities | 1,649 | 234 | 1,505 |
| Other | 15,760 | 13,728 | 19,116 |
| **Total noninterest income** | 76,142 | 69,601 | 75,202 |
| **Noninterest expenses** | | | |
| Salaries and employee benefits | 132,560 | 122,361 | 111,792 |
| Net occupancy | 17,397 | 18,329 | 18,232 |
| Furniture and equipment | 8,443 | 8,663 | 8,722 |
| Data processing | 14,022 | 11,406 | 10,863 |
| Marketing | 3,201 | 3,965 | 3,723 |
| Communication | 1,819 | 1,889 | 2,161 |
| Professional services | 15,023 | 6,303 | 9,622 |
| State intangible tax | 2,655 | 2,034 | 2,331 |
| FDIC assessments | 3,944 | 4,293 | 4,446 |
| Loss (gain) - other real estate owned | 642 | (1,212) | 1,861 |
| Other | 40,236 | 23,370 | 27,377 |
| **Total noninterest expenses** | 239,942 | 201,401 | 201,130 |
| Income before income taxes | 116,163 | 130,731 | 110,933 |
| Income tax expense | 19,376 | 42,205 | 35,870 |
| **Net income** | $ 96,787 | $ 88,526 | $ 75,063 |
| **Earnings per common share** | | | |
| Basic | $ 1.57 | $ 1.45 | $ 1.23 |
| Diluted | $ 1.56 | $ 1.43 | $ 1.21 |
| **Average common shares outstanding - basic** | 61,529,460 | 61,206,093 | 61,062,657 |
| **Average common shares outstanding - diluted** | 62,171,590 | 61,985,422 | 61,847,547 |

Years ended December 31.

See Notes to Consolidated Financial Statements.

## Consolidated Statements of Comprehensive Income

| (Dollars in thousands) | Years ended December 31, 2017 | 2016 | 2015 |
|---|---|---|---|
| Net income | $ 96,787 | $ 88,526 | $ 75,063 |
| Other comprehensive income (loss), net of tax: | | | |
| Unrealized gain (loss) on investment securities arising during the period | 4,367 | 384 | (2,427) |
| Change in retirement obligation | 3,172 | 1,245 | (6,144) |
| Unrealized gain (loss) on derivatives | 514 | 508 | (650) |
| Unrealized gain (loss) on foreign currency exchange | 0 | 0 | 50 |
| Other comprehensive income (loss) | 8,053 | 2,137 | (9,171) |
| **Comprehensive income** | $ 104,840 | $ 90,663 | $ 65,892 |

See Notes to Consolidated Financial Statements.

## Consolidated Statements of Changes in Shareholders' Equity

| *(Dollars in thousands, except share amounts)* | Common stock shares | Common stock amount | Retained earnings | Accumulated other comprehensive income (loss) | Treasury stock Shares | Treasury stock Amount | Total |
|---|---|---|---|---|---|---|---|
| Balances at January 1, 2015 | 68,730,731 | $ 574,643 | $ 352,893 | $ (21,409) | (7,274,184) | $ (122,050) | $ 784,077 |
| Adjustment for accounting changes: | | | | | | | |
| FASB ASU 2014-01 adjustment | | | (306) | | | | (306) |
| Net income | | | 75,063 | | | | 75,063 |
| Other comprehensive income (loss) | | | | (9,171) | | | (9,171) |
| Cash dividends declared: | | | | | | | |
| Common stock at $0.64 per share | | | (39,410) | | | | (39,410) |
| Purchase of common stock | | | | | (239,967) | (4,498) | (4,498) |
| Warrant exercises | | (975) | | | 58,812 | 988 | 13 |
| Excess tax benefit on share-based compensation | | 146 | | | | | 146 |
| Exercise of stock options, net of shares purchased | | (367) | | | 62,261 | 1,046 | 679 |
| Restricted stock awards, net of forfeitures | | (6,341) | | | 304,027 | 5,075 | (1,266) |
| Share-based compensation expense | | 4,049 | | | | | 4,049 |
| Balances at December 31, 2015 | 68,730,731 | 571,155 | 388,240 | (30,580) | (7,089,051) | (119,439) | 809,376 |
| Net income | | | 88,526 | | | | 88,526 |
| Other comprehensive income (loss) | | | | 2,137 | | | 2,137 |
| Cash dividends declared: | | | | | | | |
| Common stock at $0.64 per share | | | (39,578) | | | | (39,578) |
| Warrant exercises | | (1,507) | | | 89,383 | 1,507 | 0 |
| Excess tax benefit on share-based compensation | | 264 | | | | | 264 |
| Exercise of stock options, net of shares purchased | | (379) | | | 65,515 | 1,105 | 726 |
| Restricted stock awards, net of forfeitures | | (4,505) | | | 182,974 | 2,924 | (1,581) |
| Share-based compensation expense | | 5,354 | | | | | 5,354 |
| Balances at December 31, 2016 | 68,730,731 | 570,382 | 437,188 | (28,443) | (6,751,179) | (113,903) | 865,224 |
| Net income | | | 96,787 | | | | 96,787 |
| Other comprehensive income (loss) | | | | 8,053 | | | 8,053 |
| Cash dividends declared: | | | | | | | |
| Common stock at $0.68 per share | | | (42,128) | | | | (42,128) |
| Warrant exercises | | (99) | | | 5,843 | 99 | 0 |
| Exercise of stock options, net of shares purchased | | (912) | | | 58,212 | 987 | 75 |
| Restricted stock awards, net of forfeitures | | (1,708) | | | 25,480 | (1,085) | (2,793) |
| Share-based compensation expense | | 5,446 | | | | | 5,446 |
| **Balances at December 31, 2017** | 68,730,731 | $ 573,109 | $ 491,847 | $ (20,390) | (6,661,644) | $ (113,902) | $ 930,664 |

See Notes to Consolidated Financial Statements.

## Consolidated Statements of Cash Flows

| (Dollars in thousands) | Year ended December 31, 2017 | 2016 | 2015 |
|---|---|---|---|
| **Operating activities** | | | |
| Net income | $ 96,787 | $ 88,526 | $ 75,063 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | | |
| Provision for loan and lease losses | 3,582 | 10,140 | 9,641 |
| Depreciation and amortization | 12,645 | 13,037 | 13,266 |
| Stock-based compensation expense | 5,446 | 5,354 | 4,049 |
| Pension expense (income) | (628) | (1,153) | (1,042) |
| Net amortization (accretion) on investment securities | 10,798 | 8,476 | 7,899 |
| Net (gains) losses on sales of investments securities | (1,649) | (234) | (1,505) |
| Originations of loans held for sale | (157,796) | (232,526) | (246,845) |
| Net (gains) losses on sales of loans held for sale | (5,169) | (6,804) | (6,471) |
| Proceeds from sales of loans held for sale | 163,300 | 246,829 | 242,029 |
| Deferred income taxes | (4,488) | 346 | 4,192 |
| Decrease (increase) cash surrender value of life insurance | (3,792) | (186) | (5,379) |
| Decrease (increase) in interest receivable | (5,707) | (1,456) | (995) |
| Decrease in indemnification asset | 10,117 | 5,613 | 5,036 |
| (Decrease) increase in interest payable | 55 | 46 | 2,296 |
| Decrease (increase) in other assets | (23,808) | (5,347) | (33,370) |
| (Decrease) increase in other liabilities | 21,478 | 7,700 | 23,703 |
| Net cash provided by (used in) operating activities | 121,171 | 138,361 | 91,567 |
| **Investing activities** | | | |
| Proceeds from sales of investment securities available-for-sale | 189,962 | 206,990 | 70,219 |
| Proceeds from calls, paydowns and maturities of securities available-for-sale | 224,690 | 186,132 | 120,953 |
| Purchases of securities available-for-sale | (723,131) | (396,984) | (547,901) |
| Proceeds from sales of securities held-to-maturity | 0 | 4,862 | 0 |
| Proceeds from calls, paydowns and maturities of securities held-to-maturity | 121,903 | 127,021 | 140,059 |
| Purchases of securities held-to-maturity | (23,402) | (11,196) | (3,520) |
| Net decrease (increase) in interest-bearing deposits with other banks | 48,476 | (48,716) | (11,104) |
| Net decrease (increase) in loans and leases | (266,043) | (376,848) | (390,312) |
| Proceeds from disposal of other real estate owned | 6,983 | 9,356 | 15,817 |
| Purchases of premises and equipment | (6,537) | (9,726) | (7,467) |
| Net cash (paid) acquired from business combinations | 0 | 0 | (305,591) |
| Net cash provided by (used in) investing activities | (427,099) | (309,109) | (918,847) |
| **Financing activities** | | | |
| Net (decrease) increase in total deposits | 369,258 | 346,164 | 523,882 |
| Net (decrease) increase in short-term borrowings | 6,653 | (130,513) | 277,033 |
| Payments on long-term borrowings | (94) | (86) | (46,238) |
| Proceeds from issuance of long-term debt | 0 | 0 | 120,000 |
| Cash dividends paid on common stock | (41,178) | (39,125) | (39,070) |
| Purchases of treasury stock | 0 | 0 | (4,498) |
| Proceeds from exercise of stock options | 341 | 801 | 744 |
| Excess tax benefit on share-based compensation | 0 | 264 | 146 |
| Net cash provided by (used in) financing activities | 334,980 | 177,505 | 831,999 |
| Cash and due from banks | | | |
| **Net (decrease) increase in Cash and due from banks** | 29,052 | 6,757 | 4,719 |
| Cash and due from banks at beginning of year | 121,598 | 114,841 | 110,122 |
| **Cash and due from banks at end of year** | $ 150,650 | $ 121,598 | $ 114,841 |
| **Supplemental disclosures** | | | |
| Interest paid | $ 49,474 | $ 33,233 | $ 20,961 |
| Income taxes paid | $ 38,329 | $ 37,566 | $ 31,193 |
| Acquisition of other real estate owned through foreclosure | $ 4,119 | $ 2,872 | $ 8,398 |
| Issuance of restricted stock awards | $ 6,416 | $ 5,759 | $ 7,760 |

See Notes to Consolidated Financial Statements.

## Notes to Consolidated Financial Statements

### 1. Summary of Significant Accounting Policies

**Basis of presentation.** The Consolidated Financial Statements of First Financial Bancorp., a bank holding company, principally serving Ohio, Indiana and Kentucky, include the accounts and operations of First Financial and its wholly owned subsidiary, First Financial Bank. All significant intercompany transactions and accounts have been eliminated in consolidation. Certain reclassifications of prior years' amounts have been made to conform to current year presentation. Such reclassifications had no effect on net earnings.

**Use of estimates.** The preparation of Consolidated Financial Statements in conformity with GAAP requires management to make estimates, assumptions and judgments that affect the amounts reported in the Consolidated Financial Statements and accompanying Notes. Actual realized amounts could differ materially from those estimates.

**Cash and due from banks.** Cash and due from banks consist of currency, coin and cash items due from banks. Cash items due from banks include noninterest bearing deposits held at other banks.

**Investment securities.** First Financial classifies debt and equity securities into three categories: held-to-maturity, trading and available-for-sale. Management classifies investment securities into the appropriate category at the time of purchase and re-evaluates that classification as deemed appropriate.

Investment securities are classified as held-to-maturity when First Financial has the positive intent and ability to hold the securities to maturity. Held-to-maturity securities are recorded at amortized cost.

Investment securities classified as trading are held principally for resale in the near-term and are recorded at fair value. Fair value is determined using quoted market prices. Gains or losses on trading securities, both realized and unrealized, are reported in noninterest income.

Investment securities not classified as either held-to-maturity or trading are classified as available-for-sale. Available-for-sale securities are recorded at fair value, with the unrealized gains and losses, net of tax, reported as a separate component of accumulated other comprehensive income (loss) in shareholders' equity.

The amortized cost of investment securities classified as either held-to-maturity or available-for-sale is adjusted for amortization of premiums and accretion of discounts to maturity, or in the case of mortgage-backed securities, over the estimated life of the security. Such amortization and accretion are considered an adjustment to the yield on the security and included in interest income from investments. Interest and dividends are included in interest income from investment securities in the Consolidated Statements of Income.

Realized gains and losses are based on the amortized cost of the security sold using the specific identification method. Available-for-sale and held-to-maturity securities are reviewed quarterly for potential impairment. In performing this review, management considers the length of time and extent to which the fair value of the security has been less than amortized cost, the financial condition and near-term prospects of the issuer and the ability and intent of First Financial to hold the security for a period sufficient to allow for any anticipated recovery in fair value. If the fair value of a security is less than the amortized cost and the impairment is determined to be other-than-temporary, the security is written down, establishing a new and reduced cost basis. The related charge is recorded in the Consolidated Statements of Income.

**Other investments.** Other investments include holdings in FRB stock and FHLB stock, which are both carried at cost.

**Loans held for sale.** Loans held for sale consists of residential real estate loans newly originated for the purpose of sale to third parties, and in certain circumstances, loans previously originated that have been specifically identified by management for sale based on predetermined criteria. Loans transferred to held for sale status are carried at the lower of cost or fair value. Any subsequent change in the carrying value of transferred loans, not to exceed original cost, is recorded in the Consolidated Statements of Income. The Bank sells loans with servicing retained or released depending on pricing and market conditions.

**Loans and leases, excluding purchased impaired loans.** Loans and leases for which First Financial has the intent and ability to hold for the foreseeable future, or until maturity or payoff, are classified in the Consolidated Balance Sheets as loans and leases. Loans and leases are carried at the principal amount outstanding, net of unamortized deferred loan origination fees and costs, and net of unearned income, with the exception of loans subject to fair value requirements. Loan origination and commitment fees received, as well as certain direct loan origination costs paid, are deferred, and the net amount is amortized as an adjustment to the related loan's yield.

Interest income on loans and leases is recorded on an accrual basis. When a loan is classified as nonaccrual, the accrual of interest income is discontinued and previously accrued, but unpaid interest is reversed. Any payments received while a loan is classified as nonaccrual are applied as a reduction to the carrying value of the loan. A loan may return to accrual status if collection of future principal and interest payments is no longer doubtful.

**Acquired loans.** Acquired loans are recorded at their estimated fair value at the time of acquisition. Estimated fair values for acquired loans are based on a discounted cash flow methodology that considers various factors including the type of loan and related collateral, classification status, interest rate, term of loan, whether or not the loan was amortizing and a discount rate reflecting the Company's assessment of risk inherent in the cash flow estimates. Acquired loans are grouped together according to similar characteristics and treated in the aggregate when applying various valuation techniques.

First Financial evaluates acquired loans for impairment in accordance with the provisions of FASB ASC Topic 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality. Acquired loans with evidence of credit deterioration since origination are accounted for under FASB ASC Topic 310-30 and are referred to as purchased impaired loans. Interest income, through accretion of the difference between the carrying value of the loans and the expected cash flows (accretable difference) is recognized on all purchased impaired loans.

Acquired loans outside of the scope of FASB ASC Topic 310-30 are accounted for under FASB ASC Topic 310-20, Receivables-Nonrefundable Fees and Costs. Discounts created when the loans were recorded at their estimated fair values at acquisition are amortized over the remaining term of the loan as an adjustment to the related loan's yield. The accrual of interest income is discontinued when the collection of a loan or interest, in whole or in part, is doubtful.

Certain loans acquired in FDIC-assisted transactions were initially covered under loss sharing agreements and are referred to as covered loans during the indemnification period. Subsequent to the indemnification period, they are referred to as formerly covered loans.

**Allowance for loan and lease losses.** For each reporting period, management maintains the ALLL at a level that it considers sufficient to absorb probable incurred loan and lease losses inherent in the portfolio. Management determines the adequacy of the ALLL based on historical loss experience as well as other significant factors such as composition of the portfolio, economic conditions, geographic footprint, the results of periodic internal and external evaluations of delinquent, nonaccrual and classified loans and any other adverse situations that may affect a specific borrower's ability to repay, including the timing of future payments.

Management's determination of the adequacy of the ALLL is based on an assessment of the probable incurred loan and lease losses inherent in the portfolio given the conditions at the time. The ALLL is increased by provision expense and decreased by charge-offs net of recoveries of amounts previously charged-off. First Financial's policy is to charge-off all, or a portion of a loan, when, in management's opinion, it is unlikely to collect the principal amount owed in full either through payments from the borrower or from the liquidation of collateral.

Commercial loan and lease relationships (including time and demand notes, tax-exempt loans, C&I, construction, commercial real estate, mezzanine loans and lease financing) greater than $250,000 that are considered impaired, or designated as a TDR, are evaluated to determine the need for a specific allowance based on the borrower's overall financial condition, resources, payment record, guarantor support and the realizable value of any collateral.

The allowance for non-impaired commercial loans and leases, as well as impaired commercial loan and lease relationships less than $250,000, includes a process of estimating the probable losses incurred in the portfolio by loan type, based on First Financial's internal system of credit risk ratings and historical loss data. These estimates may also be adjusted based upon trends in the values of the underlying collateral, delinquent and nonaccrual loans, prevailing economic conditions and changes in lending strategies, among other influencing factors.

Consumer loans are generally evaluated by loan type, as these loans exhibit homogeneous characteristics. The allowance for consumer loans, which includes residential real estate, installment, home equity, credit card loans and overdrafts, is established by estimating probable losses incurred in each particular category of consumer loans. The estimate of losses is primarily based on historical loss rates for each category, as well as trends in delinquent and nonaccrual loans, prevailing economic conditions and other significant influencing factors. Consumer loans greater than $250,000 classified as TDRs are individually evaluated to determine an appropriate allowance.

For purchased impaired loans, expected cash flows are re-estimated periodically with declines in gross expected cash flows recorded as provision expense during the period. The related, estimated reimbursement for loan losses due from the FDIC under loss sharing agreements, if applicable, is recorded as FDIC loss sharing income.

**Reserve for unfunded commitments**. First Financial maintains a reserve that it considers sufficient to absorb probable losses incurred in standby letters of credit and outstanding loan commitments. This reserve is included in Accrued interest and other liabilities on the Consolidated Balance Sheets, First Financial determines the adequacy of the reserve based upon an evaluation of the unfunded credit facilities, which includes consideration of historical commitment utilization experience, credit risk ratings and historical loss rates, consistent with the Company's ALLL methodology. Adjustments to the reserve for unfunded commitments are included in Other noninterest expense in the Consolidated Statements of Income.

**FDIC indemnification asset.** The FDIC indemnification asset results from the loss sharing agreements entered into in conjunction with First Financial's FDIC-assisted transactions, and represents expected reimbursements from the FDIC for losses on covered assets. The FDIC indemnification asset is measured separately from the related assets covered by loss sharing agreements with the FDIC as it is not contractually embedded in those assets and is not transferable should First Financial choose to dispose of the covered assets. Pursuant to the terms of the loss sharing agreements, covered assets are subject to stated loss thresholds whereby the FDIC will reimburse First Financial for 80% of losses up to the stated loss thresholds, and 95% of losses in excess of the thresholds. The FDIC indemnification asset was recorded at its estimated fair value at the time of the FDIC-assisted transactions. Fair values were estimated using projected cash flows related to the loss sharing agreements based on the expected reimbursements for losses and the applicable loss sharing percentages. These cash flows were discounted to reflect the uncertainty of the timing of the loss sharing reimbursement from the FDIC.

The accounting for the FDIC indemnification asset is closely related to the accounting for the underlying, indemnified assets as well as ongoing assessment of the collectibility of the indemnification asset. The primary activities impacting the FDIC indemnification asset are FDIC claims, amortization, FDIC loss sharing income and accelerated discount.

In December 2017, First Financial entered into a preliminary agreement with the FDIC to early terminate the FDIC loss sharing agreements. See Note 5 for further discussion of the indemnification asset and the preliminary agreement to terminate the FDIC loss sharing agreements.

**Premises and equipment.** Premises and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization are principally computed on the straight-line method over the estimated useful lives of the assets. Useful lives generally range from 10 to 40 years for building and building improvements; 3 to 10 years for furniture, fixtures and equipment; and 3 to 5 years for software, hardware and data handling equipment. Land improvements are depreciated over 20 years and leasehold improvements are depreciated over the lesser of the term of the respective lease or the useful life of the asset. Premises and equipment are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Maintenance and repairs are expensed as incurred.

**Goodwill and other indefinite lived intangible assets.** Under accounting for business combinations, the net assets of entities acquired by First Financial are recorded at their estimated fair value at the date of acquisition. The excess cost of the acquisition over the fair value of net assets acquired is recorded as goodwill. Goodwill and intangible assets deemed to have indefinite lives, if any, are not amortized, but are subject to annual impairment tests. The Company is required to evaluate goodwill for impairment on an annual basis or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. First Financial performs its annual impairment test effective October 1, absent events or changes in circumstances that indicate the carrying value of goodwill may not be recoverable.

The Company’s goodwill is accounted for in a single reporting unit representing the consolidated entity. Fair value is estimated using the market capitalization of the Company as of the annual impairment testing date. First Financial also utilizes additional information and analyses to corroborate the use of the Company’s market capitalization as a proper indicator of fair value for purposes of the annual goodwill impairment test.

**Core deposit intangibles.** CDI represent the estimated value of acquired customer deposit relationships. CDI are recorded at fair value at the date of acquisition and are based on a discounted cash flow methodology that gives appropriate consideration to expected customer attrition rates, cost of the deposit base, reserve requirements and the net maintenance cost attributable to customer deposits. Core deposit intangibles are amortized on an accelerated basis over their estimated useful lives.

**Other real estate owned.** OREO consists of properties acquired by the Company primarily through the loan foreclosure or repossession process, or other resolution activity that results in partial or total satisfaction of problem loans. OREO properties are recorded at fair value, less estimated disposal costs (net realizable value). Losses arising at the time of acquisition of such properties are charged against the ALLL. Management performs periodic valuations to assess the adequacy of recorded OREO balances and subsequent write-downs in the carrying value of OREO properties are expensed as incurred. Improvements to OREO properties may be capitalized if the improvements contribute to the overall value of the property, but may not be capitalized in excess of the net realizable value of the property. When management disposes of an OREO property, any gains or losses realized at the time of disposal are reflected in the Consolidated Statements of Income.

**Affordable housing projects.** First Financial has investment in certain qualified affordable housing projects. These projects are indirect federal subsidies that provide tax incentives to encourage investment in the development, acquisition and rehabilitation of affordable rental housing, and allow investors to claim tax credits and other tax benefits (such as deductions from taxable income for operating losses) on their federal income tax returns. The principal risk associated with qualified affordable housing investments is the potential for noncompliance with the tax code requirements, such as, failure to rent properties to qualified tenants, resulting in unavailability or recapture of the tax credits and other tax benefits. Investments in affordable housing projects are accounted for under the proportional amortization method and are included in Accrued interest and other assets in the Consolidated Balance Sheets.

**Investments in historic tax credits.** First Financial has noncontrolling financial investments in private investment funds and partnerships which are not consolidated. These investments may generate a return through the realization of federal and state income tax credits, as well as other tax benefits, such as tax deductions from net operating losses of the investments over a period of time. Investments in historic tax credits are accounted for under the equity method of accounting. The Company's recorded investment in these entities is carried in Accrued interest and other assets on the Consolidated Balance Sheets.

**Income taxes.** First Financial and its subsidiaries file a consolidated federal income tax return. Each subsidiary provides for income taxes on a separate return basis, and remits to First Financial amounts determined to be currently payable. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Interest and penalties on income tax assessments or income tax refunds are recognized as a component of noninterest expense in the Consolidated Statements of Income.

**Pension.** First Financial sponsors a non-contributory defined benefit pension plan covering substantially all employees. The measurement of the accrued benefit liability and the annual pension expense involves actuarial and economic assumptions, which include the discount rate, the expected return on plan assets and the rate of compensation increase.

**Derivative instruments.** First Financial accounts for its derivative financial instruments in accordance with FASB ASC Topic 815, Derivatives and Hedging. FASB ASC Topic 815 requires all derivative instruments to be carried at fair value on the balance sheet.

The accounting for changes in the fair value of derivatives is based on the intended use of the derivative and the resulting designation. Derivatives used to hedge the exposure to changes in the fair value of an asset, liability or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives used to hedge the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges.

*Client derivatives* - First Financial utilizes interest rate swaps as a means to offer commercial borrowers fixed rate funding while providing the Company with floating rate assets. Upon entering into an interest rate swap with a borrower, the Bank simultaneously enters into an offsetting swap agreement with an institutional counterparty, with substantially matching terms. These matched interest rate swap agreements generally involve the receipt by First Financial of floating rate amounts from the counterparties in exchange for payments to these counterparties by First Financial of fixed rate amounts received from commercial borrowers over the life of the agreements.

First Financial's matched interest rate swaps qualify as derivatives, but are not designated as hedging instruments. The net interest receivable or payable on matched interest rate swaps is accrued and recognized as an adjustment to interest income. The fair values of back to back swaps are included within Accrued interest and other assets and Accrued interest and other liabilities on the Consolidated Balance Sheets.

*Credit derivatives* - In conjunction with participating interests in commercial loans, First Financial periodically enters into risk participation agreements with counterparties whereby First Financial assumes a portion of the credit exposure associated with an interest rate swap on the participated loan in exchange for a fee. Under these agreements, First Financial will make payments to the counterparty if the loan customer defaults on its obligation to perform under the interest rate swap contract with the counterparty. The fair value of these agreements is recorded on the Consolidated Balance Sheets in Accrued interest and other liabilities.

*Mortgage derivatives* - First Financial enters into IRLCs and forward commitments for the future delivery of mortgage loans to third party investors, which are considered derivatives. When borrowers secure an IRLC with First Financial and the loan is intended to be sold, First Financial will enter into forward commitments for the future delivery of the loans to third party investors in order to hedge against the effect of changes in interest rates impacting IRLCs and and Loans held for sale. The fair value of these agreements is recorded on the Consolidated Balance Sheets in Accrued interest and other assets.

**Stock-based compensation.** First Financial grants stock-based awards, including restricted stock awards and options to purchase the Company's common stock. Stock option grants are for a fixed number of shares to employees and directors with an exercise price equal to the fair value of the shares at the date of grant. Stock-based compensation expense is recognized in the Consolidated Statements of Income on a straight-line basis over the vesting period. As compensation expense is recognized, a deferred tax asset is recorded that represents an estimate of the future tax deduction from exercise. At the time stock-based awards are exercised, canceled or expire, First Financial may be required to recognize an adjustment to tax expense.

**Earnings per share.** Basic earnings per common share is computed by dividing net income available to common shareholders by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per common share is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding, unvested shares and dilutive common stock equivalents outstanding during the period. Common stock equivalents, which consist of common stock issuable under the assumed exercise of stock options granted under First Financial's stock-based compensation plans and the assumed conversion of common stock warrants, are calculated using the treasury stock method.

**Segments and related information.** While the Company monitors the operating results of its four lines of business, operations are managed and financial performance is evaluated on a consolidated basis. Accordingly, and consistent with prior years, all of the Company's operations are considered by management to be aggregated in one reportable operating segment.

## 2. Recently Adopted and Issued Accounting Standards

In May 2014, the FASB issued an update (ASU 2014-09, Revenue from Contracts with Customers) which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. Under the revised standard, an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU applies to all contracts with customers except those that are within the scope of other topics in the FASB Accounting Standards Codification. Certain of the ASU's provisions also apply to transfers of nonfinancial assets, including in-substance nonfinancial assets that are not an output of an entity's ordinary activities, such as sales of property, plant, and equipment; real estate; or intangible assets. The ASU also requires significantly expanded disclosures about revenue recognition. The provisions of ASU 2014-09 become effective for interim and annual reporting periods beginning after December 15, 2017. The amended guidance does not apply to revenue associated with financial instruments, including loans and securities. As such management has evaluated revenue streams within noninterest income, specifically service charges on deposits and trust and wealth management fees, to assess applicability of this guidance, and anticipates adopting the amended guidance using a modified retrospective approach in the first quarter of 2018. First Financial does not anticipate that this update will impact Income before taxes or net income, however additional disclosures will be required upon adoption.

In January 2016, the FASB issued an update (ASU 2016-01, Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities) which requires entities to measure many equity investments at fair value and recognize changes in fair value in net income. This update does not apply to equity investments that result in consolidation, those accounted for under the equity method and certain others, and will eliminate use of the available for sale classification for equity securities while providing a new measurement alternative for equity investments that do not have readily determinable fair values and do not qualify for the net asset value practical expedient. The guidance in this ASU will become effective for interim and annual reporting periods beginning after December 15, 2017, with early adoption permitted. First Financial does not anticipate this update will have a material impact on its Consolidated Financial Statements.

In February 2016, the FASB issued an update (ASU 2016-02, Leases) which requires lessees to record most leases on their balance sheet and recognize leasing expenses in the income statement. Operating leases, except for short-term leases that are subject to an accounting policy election, will be recorded on the balance sheet for lessees by establishing a lease liability and corresponding right-of-use asset. The guidance in this ASU will become effective for interim and annual reporting periods beginning after December 15, 2018, with early adoption permitted. Given operating leases outstanding as of December 31, 2017, First Financial does not expect this ASU to have a material impact on the income statement, but does anticipate an increase in the Company's assets and liabilities. Decisions to repurchase, modify or renew leases prior to the implementation date will impact this level of materiality.

In March 2016, the FASB issued an update (ASU 2016-05, Derivatives and Hedging: Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships) which clarifies that the novation of a derivative contract in a hedge accounting relationship does not, in and of itself, require de-designation of that hedge accounting relationship. In the event of a novation, hedge accounting relationships could continue if all other hedge accounting criteria are met, including the expectation that the hedge will be highly effective when the creditworthiness of the new counterparty to the derivative contract is considered. The guidance in this ASU became effective in the first quarter of 2017 and did not have a material impact on the Consolidated Financial Statements.

In March 2016, the FASB issued an update (ASU 2016-06, Derivatives and Hedging: Contingent Put and Call Options in Debt Instruments) which clarifies that an assessment of whether an embedded contingent put or call option is clearly and closely related to the debt host requires only an analysis of the four-step decision sequence in FASB Topic ASC Topic 815, Derivatives and Hedging. Entities are required to apply the guidance to existing debt instruments (or hybrid financial instruments that are determined to have a debt host) using a modified retrospective transition method as of the period of adoption. The guidance in this ASU became effective in the first quarter of 2017 and did not have a material impact on the Consolidated Financial Statements.

In March 2016, the FASB issued an update (ASU 2016-07, Investments-Equity Method and Joint Ventures: Simplifying the Transition to the Equity Method of Accounting) which eliminates the requirement to retrospectively apply the equity method when an investment that had been accounted for utilizing another method qualifies for use of the equity method. The guidance in this ASU became effective in the first quarter of 2017 and did not have a material impact on the Consolidated Financial Statements.

In March 2016, the FASB issued an update (ASU 2016-09, Compensation-Stock Compensation: Improvements to Employee Share-Based Payment Accounting) which requires recognition of the income tax effects of share-based awards in the income statement when the awards vest or are settled (i.e., Additional Paid-in-Capital pools will be eliminated). The guidance in this ASU became effective in the first quarter of 2017. Adoption of this guidance resulted in a $1.6 million reduction in income tax expense during 2017.

In June 2016, the FASB issued an update (ASU 2016-13, Financial Instruments-Credit Losses: Measurement of Credit Losses on Financial Instruments) which significantly changes how entities are required to measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. This update will replace the current incurred loss approach for estimating credit losses with an expected loss model for instruments measured at amortized cost, including loans and leases. Expected credit losses are required to be based on amortized cost and reflect losses expected over the remaining contractual life of the asset. Management is expected to consider any available information relevant to assessing the collectibility of contractual cash flows, such as information about past events, current conditions, voluntary prepayments and reasonable and supportable forecasts, when developing expected credit loss estimates.

In addition to the new framework for calculating the ALLL, this update requires allowances for available-for-sale debt securities rather than a reduction of the security's carrying amount under the current other-than-temporary impairment model. This update also simplifies the accounting model for purchased credit-impaired debt securities and loans and will require new and updated footnote disclosures.

The guidance in this ASU will become effective for interim and annual reporting periods beginning after December 15, 2019. Early adoption is permitted for all entities for interim and annual reporting periods beginning after December 15, 2018. First Financial has formed an internal committee that is currently evaluating the impact of this update on its Consolidated Financial Statements.

In August 2016, the FASB issued an update (ASU 2016-15 Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments) which may change how an entity classifies certain cash receipts and cash payments on its statement of cash flows to reduce diversity in practice. The update also provides guidance on when an entity should separate cash flows and classify them into more than one class and when an entity should classify the aggregate of those cash flows into a single class based on the predominance principle. The guidance in this ASU will become effective for interim and annual reporting periods beginning after December 15, 2017, with early adoption permitted. First Financial does not anticipate this update will have a material impact on its Consolidated Financial Statements.

In January 2017, the FASB issued an update (ASU 2017-01, Business Combinations (Topic 805), Clarifying the Definition of a Business) which clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The update also provides a more robust framework to use in determining when a set of assets and activities is a business. The guidance in this ASU will become effective for reporting periods beginning after December 15, 2017, and should be applied prospectively on or after the effective date, with early adoption permitted. First Financial does not anticipate this update will have a material impact on its Consolidated Financial Statements.

In January 2017, the FASB issued an update (ASU 2017-04, Intangibles - Goodwill and Other (Topic 350), Simplifying the Test for Goodwill Impairment) which simplifies the subsequent measurement of goodwill by eliminating Step 2 from goodwill impairment testing. This update requires an entity to perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount, and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, with any loss recognized not to exceed the total amount of goodwill allocated to that reporting unit. Additionally, the update requires consideration of the income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable, and eliminates the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment. First Financial early adopted the provisions set forth in this update in 2017. Adoption of this update did not have a material impact on First Financial's Consolidated Financial Statements.

In March 2017, the FASB issued an update (ASU 2017-07, Compensation - Retirement Benefits (Topic 715), Improving the Presentation of the Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost) which requires disaggregation of the service cost component from the other components of net benefit cost. This update also provides explicit guidance on how to present the service cost component and the other components of net benefit cost in the income statement and allows only the service cost component of net benefit cost to be eligible for capitalization. The guidance in this ASU will become effective for reporting periods beginning after December 15, 2017, with early adoption permitted. First Financial does not anticipate this update will have a material impact on its Consolidated Financial Statements, but will result in updated disclosures.

In March 2017, the FASB issued an update (ASU 2017-08, Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20), Premium Amortization on Purchased Callable Debt Securities) which amends the amortization period for certain purchased callable debt securities held at a premium and shortens the amortization period for the premium to the earliest call date rather than as an adjustment of yield over the contractual life of the instrument. This update more closely aligns the amortization period of premiums and discounts to expectations incorporated in market pricing on the underlying securities, as in most cases, market participants price securities to the call date that produces the worst yield when the coupon is above current market rates (that is, the security is trading at a premium) and price securities to maturity when the coupon is below market rates (that is, the security is trading at a discount) in anticipation that the borrower will act in its economic best interest in an attempt to more closely align interest income recorded on bonds held at a premium or a discount with the economics of the underlying instrument. The guidance in this ASU will become effective for reporting periods, beginning after December 15, 2018, with early adoption permitted. First Financial is currently evaluating the impact of this update on its Consolidated Financial Statements.

In May 2017, the FASB issued an update (ASU 2017-09, Compensation - Stock Compensation (Topic 718), Scope of Modification Accounting), which provides clarity and reduces the diversity in practice, cost and complexity when accounting for a change to the terms or conditions of a share-based payment award. The amendments in this update provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718 clarifying that an entity will not apply modification accounting to a share-based payment award if the award's fair value (or calculated value or intrinsic value), vesting conditions and classification as an equity or liability instrument are the same immediately before and after the change. The guidance in this ASU will become effective for reporting periods beginning after December 15, 2017, with early adoption permitted and will be applied prospectively to an award modified on or after the adoption date.  First Financial does not anticipate this update will have a material impact on its Consolidated Financial Statements.

In August 2017, the FASB issued an update (ASU 2017-12, Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities) to better align financial reporting for hedging activities with the economic objectives of those activities. This update aligns certain aspects of hedge documentation, effectiveness assessments, accounting and disclosures, and expands permissible hedge strategies as of the date of adoption.  The guidance in this ASU will become effective for reporting periods beginning after December 15, 2018, with early adoption permitted, and will require a modified retrospective transition method with recognition of the cumulative effect of the change on the opening balance of each affected component of equity.  Amended disclosures will be required prospectively.  First Financial is currently evaluating the impact of this update on its Consolidated Financial Statements.

In February 2018, the FASB issued an update (ASU 2018-02,  Income statement-Reporting Comprehensive Income: Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income), which allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. Consequently, the amendments eliminated the stranded tax effects resulting from the Tax Cuts and Jobs Act and will improve the usefulness of information reported to financial statement users.  The amendments only relate to the reclassification of the income tax effects of the Tax Cuts and Jobs Act, the underlying guidance that requires that the effect of a change in tax laws or rates be included in income from continuing operations is not effected.  The amendments in this update also require certain disclosures about stranded tax effects.  The guidance in this ASU will become effective for reporting periods beginning after December 15, 2018, with early adoption permitted, and will be applied either in the period of adoption or retrospectively to each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act is recognized.  As a result of the guidance in this ASU, First Financial anticipates reclassifying $4.9 million from accumulated other comprehensive income to retained earnings during the first quarter of 2018.

## 3. Restrictions On Cash And Dividends

First Financial is required by the FRB to hold cash in reserve against deposit liabilities when total reservable deposit liabilities exceed the regulatory exemption known as the reserve requirement.  The reserve requirement is calculated based on a two-week average of daily net transaction account deposits as defined by the FRB and may be satisfied with average vault cash during the following two-week maintenance period.  When vault cash is not sufficient to meet the reserve requirement, the remaining amount must be satisfied with average funds held at the FRB.  First Financial's deposit at the FRB is recorded in Interest-bearing deposits with other banks on the Consolidated Balance Sheets.  The average required reserve balances, based upon the average level of First Financial's transaction deposits were $66.7 million and $58.9 million for 2017 and 2016, respectively.

Dividends paid by First Financial to its shareholders are principally funded through dividends paid to the Company by its subsidiaries, however, certain restrictions exist regarding the ability of the Bank to transfer funds to First Financial in the form of cash dividends, loans or advances.  The approval of the Federal Reserve Board and the Ohio Division of Financial Institutions is required for the Bank to pay dividends in excess of the regulatory limit, which is equal to the net income of the current year through the dividend date, combined with the Bank's retained net income from the two preceding years.  As of December 31, 2017, First Financial's subsidiaries had retained earnings of $546.5 million, of which $163.1 million was available for distribution to First Financial without prior regulatory approval.

## 4. Investment Securities

The following is a summary of held-to-maturity and available-for-sale investment securities as of December 31, 2017:

| | Held-to-maturity | | | | Available-for-sale | | | |
|---|---|---|---|---|---|---|---|---|
| *(Dollars in thousands)* | Amortized cost | Unrecognized gain | Unrecognized loss | Fair value | Amortized cost | Unrealized gain | Unrealized loss | Fair value |
| U.S. Treasuries | $ 0 | $ 0 | $ 0 | $ 0 | $ 98 | $ 0 | $ (1) | $ 97 |
| Securities of U.S. government agencies and corporations | 11,168 | 0 | (76) | 11,092 | 15,695 | 220 | 0 | 15,915 |
| Mortgage-backed securities - residential | 162,093 | 2,042 | (1,535) | 162,600 | 290,793 | 849 | (2,599) | 289,043 |
| Mortgage-backed securities - commercial | 255,027 | 1,372 | (3,000) | 253,399 | 150,356 | 164 | (1,417) | 149,103 |
| Collateralized mortgage obligations | 143,545 | 354 | (1,602) | 142,297 | 306,095 | 1,158 | (1,861) | 305,392 |
| Obligations of state and other political subdivisions | 82,175 | 1,804 | (266) | 83,713 | 124,269 | 2,162 | (676) | 125,755 |
| Asset-backed securities | 0 | 0 | 0 | 0 | 377,655 | 1,628 | (306) | 378,977 |
| Other securities | 0 | 0 | 0 | 0 | 83,266 | 2,147 | (287) | 85,126 |
| **Total** | $ 654,008 | $ 5,572 | $ (6,479) | $ 653,101 | $ 1,348,227 | $ 8,328 | $ (7,147) | $ 1,349,408 |

The following is a summary of held-to-maturity and available-for-sale investment securities as of December 31, 2016:

| | Held-to-maturity | | | | Available-for-sale | | | |
|---|---|---|---|---|---|---|---|---|
| *(Dollars in thousands)* | Amortized cost | Unrecognized gain | Unrecognized loss | Fair value | Amortized cost | Unrealized gain | Unrealized loss | Fair value |
| U.S. Treasuries | $ 0 | $ 0 | $ 0 | $ 0 | $ 98 | $ 0 | $ (1) | $ 97 |
| Securities of U.S. government agencies and corporations | 13,011 | 0 | (110) | 12,901 | 7,056 | 0 | (40) | 7,016 |
| Mortgage-backed securities - residential | 205,522 | 1,740 | (1,166) | 206,096 | 184,960 | 1,175 | (2,740) | 183,395 |
| Mortgage-backed securities - commercial | 278,728 | 3,254 | (1,817) | 280,165 | 154,239 | 188 | (826) | 153,601 |
| Collateralized mortgage obligations | 195,408 | 1,125 | (1,476) | 195,057 | 232,701 | 634 | (2,321) | 231,014 |
| Obligations of state and other political subdivisions | 70,585 | 117 | (1,346) | 69,356 | 96,934 | 1,461 | (1,514) | 96,881 |
| Asset-backed securities | 0 | 0 | 0 | 0 | 322,708 | 517 | (2,013) | 321,212 |
| Other securities | 0 | 0 | 0 | 0 | 46,641 | 741 | (728) | 46,654 |
| **Total** | $ 763,254 | $ 6,236 | $ (5,915) | $ 763,575 | $ 1,045,337 | $ 4,716 | $ (10,183) | $ 1,039,870 |

During the year ended December 31, 2017, proceeds on the sale of $190.0 million of available-for-sale securities resulted in gains of $1.8 million and losses of $0.2 million. During the year ended December 31, 2016, proceeds on the sale of $207.0 million of available-for-sale securities resulted in gains of $1.2 million and losses of $1.0 million. During the year ended December 31, 2015, proceeds on the sale of $70.2 million of available-for-sale securities resulted in gains of $1.5 million and losses of $1 thousand.

The carrying value of investment securities pledged as collateral to secure public deposits, repurchase agreements and for other purposes as required by law totaled $819.4 million at December 31, 2017 and $1.0 billion at December 31, 2016.

The following table provides a summary of investment securities by contractual maturity as of December 31, 2017, except for residential and commercial mortgage-backed securities, collateralized mortgage obligations and asset-backed securities, which are shown as single totals, due to the unpredictability of the timing in principal repayments:

| | Held-to-maturity | | Available-for-sale | |
|---|---|---|---|---|
| *(Dollars in thousands)* | Amortized cost | Fair value | Amortized cost | Fair value |
| Due in one year or less | $ 165 | $ 165 | $ 2,422 | $ 2,423 |
| Due after one year through five years | 4,492 | 4,494 | 37,064 | 37,149 |
| Due after five years through ten years | 2,500 | 2,723 | 82,404 | 84,168 |
| Due after ten years | 86,186 | 87,423 | 101,438 | 103,153 |
| Mortgage-backed securities - residential | 162,093 | 162,600 | 290,793 | 289,043 |
| Mortgage-backed securities - commercial | 255,027 | 253,399 | 150,356 | 149,103 |
| Collateralized mortgage obligations | 143,545 | 142,297 | 306,095 | 305,392 |
| Asset-backed securities | 0 | 0 | 377,655 | 378,977 |
| **Total** | $ 654,008 | $ 653,101 | $ 1,348,227 | $ 1,349,408 |

Unrealized gains and losses on debt securities are generally due to fluctuations in current market yields relative to the yields of the debt securities at their amortized cost. All securities with unrealized losses are reviewed quarterly to determine if any impairment is considered other than temporary, requiring a write-down to fair value. First Financial considers the percentage loss on a security, duration of the loss, average life or duration of the security, credit rating of the security and payment performance as well as the Company's intent and ability to hold the security to maturity when determining whether any impairment is other than temporary. At this time First Financial does not intend to sell, and it is not more likely than not that the Company will be required to sell debt securities temporarily impaired prior to maturity or recovery of the recorded value. First Financial had no other than temporary impairment related to its investment securities portfolio as of December 31, 2017 or 2016.

As of December 31, 2017, the Company's investment securities portfolio consisted of 775 securities, of which 237 securities were in an unrealized loss position. As of December 31, 2016, the Company's investment securities portfolio consisted of 706 securities, of which 255 were in an unrealized loss position.

The following tables provide the fair value and gross unrealized losses on investment securities in an unrealized loss position, aggregated by investment category and the length of time the individual securities have been in a continuous loss position:

| | December 31, 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Less than 12 months | | 12 months or more | | Total | |
| *(Dollars in thousands)* | Fair value | Unrealized loss | Fair value | Unrealized loss | Fair value | Unrealized loss |
| U.S. Treasuries | $ 97 | $ (1) | $ 0 | $ 0 | $ 97 | $ (1) |
| Securities of U.S. government agencies and corporations | 11,092 | (76) | 0 | 0 | 11,092 | (76) |
| Mortgage-backed securities - residential | 175,183 | (1,109) | 108,782 | (3,025) | 283,965 | (4,134) |
| Mortgage-backed securities - commercial | 132,818 | (1,713) | 72,139 | (2,704) | 204,957 | (4,417) |
| Collateralized mortgage obligations | 164,909 | (1,138) | 101,436 | (2,325) | 266,345 | (3,463) |
| Obligations of state and other political subdivisions | 38,450 | (507) | 21,639 | (435) | 60,089 | (942) |
| Asset-backed securities | 44,941 | (200) | 24,396 | (106) | 69,337 | (306) |
| Other securities | 2,605 | (1) | 7,124 | (286) | 9,729 | (287) |
| **Total** | $ 570,095 | $ (4,745) | $ 335,516 | $ (8,881) | $ 905,611 | $ (13,626) |

| | December 31, 2016 | | | | | |
|---|---|---|---|---|---|---|
| | Less than 12 months | | 12 months or more | | Total | |
| *(Dollars in thousands)* | Fair value | Unrealized loss | Fair value | Unrealized loss | Fair value | Unrealized loss |
| U.S. Treasuries | $ 97 | $ (1) | $ 0 | $ 0 | $ 97 | $ (1) |
| Securities of U.S. Government agencies and corporations | 19,917 | (150) | 0 | 0 | 19,917 | (150) |
| Mortgage-backed securities - residential | 180,654 | (3,621) | 9,890 | (285) | 190,544 | (3,906) |
| Mortgage-backed securities - commercial | 123,122 | (1,200) | 65,007 | (1,443) | 188,129 | (2,643) |
| Collateralized mortgage obligations | 201,305 | (2,882) | 42,314 | (915) | 243,619 | (3,797) |
| Obligations of state and other political subdivisions | 94,632 | (2,710) | 12,023 | (150) | 106,655 | (2,860) |
| Asset-backed securities | 116,057 | (764) | 92,629 | (1,249) | 208,686 | (2,013) |
| Other securities | 7,746 | (237) | 21,357 | (491) | 29,103 | (728) |
| **Total** | $ 743,530 | $ (11,565) | $ 243,220 | $ (4,533) | $ 986,750 | $ (16,098) |

For further detail on the fair value of investment securities, see Note 20 – Fair Value Disclosures.

## 5. Loans and Leases

First Financial offers clients a variety of commercial and consumer loan and lease products with various interest rates and payment terms. Commercial loan categories include commercial and industrial, commercial real estate, construction real estate and lease financing. Consumer loan categories include residential real estate, home equity, installment and credit card.

Lending activities are primarily concentrated in states where the Bank operates banking centers (Ohio, Indiana and Kentucky). First Financial also offers two nationwide lending platforms, one that provides equipment and leasehold improvement financing for franchisees in the quick service and casual dining restaurant sector and another that provides loans primarily to insurance agents and brokers that are secured by commissions and cash collateral accounts.

**Credit quality.** To facilitate the monitoring of credit quality for commercial loans, and for purposes of determining an appropriate ALLL, First Financial utilizes the following categories of credit grades:

*Pass* - Higher quality loans that do not fit any of the other categories described below.

*Special Mention* - First Financial assigns a special mention rating to loans and leases with potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or lease or in First Financial's credit position at some future date.

*Substandard* - First Financial assigns a substandard rating to loans or leases that are inadequately protected by the current sound financial worth and paying capacity of the borrower or the collateral pledged, if any. Substandard loans and leases have well-defined weaknesses that jeopardize repayment of the debt. Substandard loans and leases are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not addressed.

*Doubtful* - First Financial assigns a doubtful rating to loans and leases with all of the attributes of a substandard rating with the added characteristic that the weaknesses make collection or liquidation in full highly questionable and improbable, on the basis of currently existing facts, conditions and values. The possibility of loss is extremely high, but because of certain important and reasonably specific pending factors that may work to the advantage and strengthening of the credit quality of the loan or lease, its classification as an estimated loss is deferred until its more exact status may be determined. Pending factors include proposed merger, acquisition or liquidation procedures, capital injection, perfecting liens on additional collateral and refinancing plans.

The credit grades described above, which are derived from standard regulatory rating definitions, are assigned upon initial approval of credit to borrowers and updated periodically thereafter.

First Financial considers repayment performance as the best indicator of credit quality for consumer loans. Consumer loans that have principal and interest payments that are past due by 90 days or more are generally classified as nonperforming. Additionally, consumer loans that have been modified in a TDR are classified as nonperforming. Purchased impaired loans are not classified as nonperforming as the loans are considered to be performing under FASB ASC Topic 310-30.

Commercial and consumer credit exposure by risk attribute was as follows:

| | As of December 31, 2017 | | | | |
|---|---|---|---|---|---|
| | | Real Estate | | | |
| *(Dollars in thousands)* | Commercial and industrial | Construction | Commercial | Lease financing | Total |
| Pass | $ 1,882,464 | $ 467,687 | $ 2,446,999 | $ 88,078 | $ 4,885,228 |
| Special Mention | 6,226 | 0 | 4,436 | 0 | 10,662 |
| Substandard | 24,053 | 43 | 38,656 | 1,269 | 64,021 |
| Doubtful | 0 | 0 | 0 | 0 | 0 |
| **Total** | $ 1,912,743 | $ 467,730 | $ 2,490,091 | $ 89,347 | $ 4,959,911 |

| | Residential real estate | Home Equity | Installment | Credit card | Total |
|---|---|---|---|---|---|
| Performing | $ 463,459 | $ 489,148 | $ 41,331 | $ 46,691 | $ 1,040,629 |
| Nonperforming | 7,932 | 4,456 | 255 | 0 | 12,643 |
| **Total** | $ 471,391 | $ 493,604 | $ 41,586 | $ 46,691 | $ 1,053,272 |

| | As of December 31, 2016 | | | | |
|---|---|---|---|---|---|
| | | Real Estate | | | |
| *(Dollars in thousands)* | Commercial and industrial | Construction | Commercial | Lease financing | Total |
| Pass | $ 1,725,451 | $ 398,155 | $ 2,349,662 | $ 92,540 | $ 4,565,808 |
| Special Mention | 18,256 | 1,258 | 15,584 | 108 | 35,206 |
| Substandard | 38,241 | 21 | 62,331 | 460 | 101,053 |
| Doubtful | 0 | 0 | 0 | 0 | 0 |
| **Total** | $ 1,781,948 | $ 399,434 | $ 2,427,577 | $ 93,108 | $ 4,702,067 |

| | Residential real estate | Home equity | Installment | Credit card | Total |
|---|---|---|---|---|---|
| Performing | $ 491,380 | $ 456,314 | $ 50,202 | $ 43,408 | $ 1,041,304 |
| Nonperforming | 9,600 | 4,074 | 437 | 0 | 14,111 |
| **Total** | $ 500,980 | $ 460,388 | $ 50,639 | $ 43,408 | $ 1,055,415 |

**Delinquency.** Loans are considered past due or delinquent when the contractual principal or interest due in accordance with the terms of the loan agreement or any portion thereof remains unpaid after the due date of the scheduled payment.

Loan delinquency, including nonaccrual loans, was as follows:

| | As of December 31, 2017 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| *(Dollars in thousands)* | 30 – 59 days past due | 60 – 89 days past due | > 90 days past due | Total past due | Current | Subtotal | Purchased impaired | Total | > 90 days past due and still accruing |
| **Loans** | | | | | | | | | |
| Commercial and industrial | $ 755 | $ 1,657 | $ 5,078 | $ 7,490 | $ 1,901,821 | $ 1,909,311 | $ 3,432 | $ 1,912,743 | $ 0 |
| Lease financing | 485 | 0 | 0 | 485 | 88,862 | 89,347 | 0 | 89,347 | 0 |
| Construction real estate | 234 | 0 | 0 | 234 | 467,216 | 467,450 | 280 | 467,730 | 0 |
| Commercial real estate | 1,716 | 201 | 8,777 | 10,694 | 2,419,969 | 2,430,663 | 59,428 | 2,490,091 | 0 |
| Residential real estate | 526 | 811 | 1,992 | 3,329 | 430,500 | 433,829 | 37,562 | 471,391 | 0 |
| Home equity | 2,716 | 394 | 1,753 | 4,863 | 485,127 | 489,990 | 3,614 | 493,604 | 0 |
| Installment | 179 | 29 | 205 | 413 | 40,529 | 40,942 | 644 | 41,586 | 0 |
| Credit card | 285 | 87 | 62 | 434 | 46,257 | 46,691 | 0 | 46,691 | 62 |
| **Total** | $ 6,896 | $ 3,179 | $ 17,867 | $ 27,942 | $ 5,880,281 | $ 5,908,223 | $ 104,960 | $ 6,013,183 | $ 62 |

| | As of December 31, 2016 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| *(Dollars in thousands)* | 30 - 59 days past due | 60 - 89 days past due | > 90 days past due | Total past due | Current | Subtotal | Purchased impaired | Total | > 90 days past due and still accruing |
| **Loans** | | | | | | | | | |
| Commercial and industrial | $ 1,257 | $ 208 | $ 1,339 | $ 2,804 | $ 1,773,939 | $ 1,776,743 | $ 5,205 | $ 1,781,948 | $ 0 |
| Lease financing | 137 | 0 | 115 | 252 | 92,856 | 93,108 | 0 | 93,108 | 0 |
| Construction real estate | 0 | 0 | 0 | 0 | 398,877 | 398,877 | 557 | 399,434 | 0 |
| Commercial real estate | 777 | 134 | 5,589 | 6,500 | 2,339,327 | 2,345,827 | 81,750 | 2,427,577 | 2,729 |
| Residential real estate | 821 | 37 | 2,381 | 3,239 | 450,631 | 453,870 | 47,110 | 500,980 | 0 |
| Home equity | 195 | 145 | 1,776 | 2,116 | 456,143 | 458,259 | 2,129 | 460,388 | 0 |
| Installment | 24 | 1 | 258 | 283 | 49,058 | 49,341 | 1,298 | 50,639 | 0 |
| Credit card | 457 | 177 | 142 | 776 | 42,632 | 43,408 | 0 | 43,408 | 142 |
| **Total** | $ 3,668 | $ 702 | $ 11,600 | $ 15,970 | $ 5,603,463 | $ 5,619,433 | $ 138,049 | $ 5,757,482 | $ 2,871 |

**Nonaccrual.** Loans are classified as nonaccrual when, in the opinion of management, collection of principal or interest is doubtful or when principal or interest payments are 90 days or more past due. Generally, loans are classified as nonaccrual due to the continued failure to adhere to contractual payment terms by the borrower, coupled with other pertinent factors. When a loan is classified as nonaccrual, the accrual of interest income is discontinued and previously accrued but unpaid interest is reversed. Any payments received while a loan is on nonaccrual status are applied as a reduction to the carrying value of the loan. A loan classified as nonaccrual may return to accrual status if collection of future principal and interest payments is no longer doubtful.

Purchased impaired loans are classified as performing, even though they may be contractually past due, as any nonpayment of contractual principal or interest is considered in the periodic re-estimation of expected cash flows and is included in the resulting recognition of current period provision for loan and lease losses or prospective yield adjustments.

**Troubled debt restructurings.** A loan modification is considered a TDR when the borrower is experiencing financial difficulty and concessions are made by the Company that would not otherwise be considered for a borrower with similar credit characteristics. The most common types of modifications include interest rate reductions, maturity extensions and modifications to principal amortization, including interest-only structures. Modified terms are dependent upon the financial position and needs of the individual borrower. If the modification agreement is violated, the loan is managed by the Company's credit administration group for resolution, which may result in foreclosure in the case of real estate.

TDRs are generally classified as nonaccrual for a minimum period of six months and may qualify for return to accrual status once they have demonstrated performance with the restructured terms of the loan agreement.

First Financial had 214 TDRs totaling $23.9 million at December 31, 2017, including $17.5 million of loans on accrual status and $6.4 million of loans classified as nonaccrual. First Financial had an insignificant amount of commitments outstanding to lend additional funds to borrowers whose loan terms have been modified through TDRs, and the ALLL included reserves of $1.3 million related to TDRs as of December 31, 2017. For the years ended December 31, 2017, 2016 and 2015, First Financial charged off $0.3 million, $0.5 million and $2.7 million, respectively, for the portion of TDRs determined to be uncollectible. Additionally, as of December 31, 2017, approximately $17.2 million of the accruing TDRs have been performing in accordance with the restructured terms for more than one year.

First Financial had 247 TDRs totaling $35.4 million at December 31, 2016, including $30.2 million of loans on accrual status and $5.1 million of loans classified as nonaccrual. First Financial had $0.9 million of commitments outstanding to lend additional funds to borrowers whose loan terms have been modified through TDRs. At December 31, 2016 the ALLL included reserves of $1.9 million related to TDRs, and $22.6 million of the accruing TDRs had been performing in accordance with the restructured terms for more than one year.

First Financial had 271 TDRs totaling $38.2 million at December 31, 2015, including $28.9 million of loans on accrual status and $9.3 million of loans classified as nonaccrual. First Financial had $1.8 million of commitments outstanding to lend additional funds to borrowers whose loan terms have been modified through TDRs. At December 31, 2015, the ALLL included reserves of $6.3 million related to TDRs, and $10.3 million of the accruing TDRs had been performing in accordance with the restructured terms for more than one year.

The following table provides information on loan modifications classified as TDRs during the years ended December 31, 2017, 2016 and 2015:

| | Years ended December 31, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2017 | | | 2016 | | | 2015 | | |
| *(Dollars in thousands)* | Number of loans | Pre-modification loan balance | Period end balance | Number of loans | Pre-modification loan balance | Period end balance | Number of loans | Pre-modification loan balance | Period end balance |
| Commercial and industrial | 7 | $ 5,724 | $ 5,661 | 18 | $ 3,402 | $ 3,508 | 33 | $ 9,035 | $ 8,203 |
| Construction real estate | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Commercial real estate | 8 | 1,816 | 1,758 | 16 | 5,200 | 4,752 | 18 | 20,249 | 16,474 |
| Residential real estate | 6 | 416 | 315 | 5 | 840 | 787 | 10 | 1,292 | 1,238 |
| Home equity | 1 | 39 | 39 | 5 | 165 | 156 | 25 | 2,859 | 2,221 |
| Installment | 0 | 0 | 0 | 3 | 9 | 9 | 10 | 97 | 97 |
| **Total** | 22 | $ 7,995 | $ 7,773 | 47 | $ 9,616 | $ 9,212 | 96 | $ 33,532 | $ 28,233 |

The following table provides information on how TDRs were modified during the years ended December 31, 2017, 2016 and 2015:

| | Years Ended December 31, | | |
|---|---|---|---|
| *(Dollars in thousands)* | 2017 | 2016 | 2015 |
| Extended maturities | $ 3,261 | $ 2,571 | $ 12,883 |
| Adjusted interest rates | 2,767 | 0 | 0 |
| Combination of rate and maturity changes | 489 | 3,046 | 1,244 |
| Forbearance | 1,181 | 88 | 260 |
| Other [(1)] | 75 | 3,507 | 13,846 |
| **Total** | $ 7,773 | $ 9,212 | $ 28,233 |

[(1)] Other includes covenant modifications and other concessions or combination of concessions that do not consist of interest rate adjustments, forbearance and maturity extensions.

First Financial considers repayment performance as an indication of the effectiveness of the Company's loan modifications. Borrowers that are 90 days or more past due on any principal or interest payments, or who prematurely terminate a restructured loan agreement without paying off the contractual principal balance (for example, in a deed-in-lieu arrangement), are considered to be in payment default of the terms of the TDR agreement.

For the twelve months ended December 31, 2017, 2016 and 2015, there were one, four and ten TDRs, respectively, with balances of $1.5 million, $0.3 million and $1.6 million, respectively, for which there was a payment default during the period that occurred within twelve months of the loan modification.

**Impaired loans.** Loans classified as nonaccrual and loans modified as TDRs are considered impaired. The following table provides information on impaired loans, excluding purchased impaired loans, as of December 31:

| *(Dollars in thousands)* | 2017 | 2016 | 2015 |
|---|---|---|---|
| **Impaired loans** | | | |
| Nonaccrual loans [1] | | | |
| Commercial and industrial | $ 5,229 | $ 2,419 | $ 8,405 |
| Lease financing | 82 | 195 | 122 |
| Construction real estate | 29 | 0 | 0 |
| Commercial real estate | 10,616 | 6,098 | 9,418 |
| Residential real estate | 4,140 | 5,251 | 5,027 |
| Home equity | 3,743 | 3,400 | 4,898 |
| Installment | 243 | 367 | 127 |
| Total nonaccrual loans | 24,082 | 17,730 | 27,997 |
| Accruing troubled debt restructurings | 17,545 | 30,240 | 28,876 |
| **Total impaired loans** | $ 41,627 | $ 47,970 | $ 56,873 |
| | | | |
| **Interest income effect** | | | |
| Gross amount of interest that would have been recorded under original terms | $ 3,397 | $ 2,848 | $ 3,595 |
| Interest included in income | | | |
| Nonaccrual loans | 535 | 375 | 475 |
| Troubled debt restructurings | 710 | 876 | 682 |
| Total interest included in income | 1,245 | 1,251 | 1,157 |
| **Net impact on interest income** | $ 2,152 | $ 1,597 | $ 2,438 |
| | | | |
| **Commitments outstanding to borrowers with nonaccrual loans** | $ 0 | $ 0 | $ 1 |

[1] Nonaccrual loans include nonaccrual TDRs of $6.4 million, $5.1 million and $9.3 million as of December 31, 2017, 2016 and 2015, respectively.

First Financial individually reviews all impaired commercial loan relationships greater than $250,000, as well as consumer loan TDRs greater than $250,000, to determine if a specific allowance is necessary based on the borrower's overall financial condition, resources, and payment record, support from guarantors and the realizable value of any collateral. Specific allowances are based on discounted cash flows using the loan's initial effective interest rate or the fair value of the collateral for certain collateral dependent loans.

First Financial's investment in impaired loans, excluding purchased impaired loans, is as follows:

| | December 31, 2017 | | | December 31, 2016 | | |
|---|---|---|---|---|---|---|
| *(Dollars in thousands)* | Current balance | Contractual principal balance | Related allowance | Current balance | Contractual principal balance | Related allowance |
| **Loans with no related allowance recorded** | | | | | | |
| Commercial and industrial | $ 7,162 | $ 8,460 | $ 0 | $ 12,134 | $ 12,713 | $ 0 |
| Lease financing | 82 | 82 | 0 | 195 | 195 | 0 |
| Construction real estate | 29 | 60 | 0 | 0 | 0 | 0 |
| Commercial real estate | 18,423 | 20,837 | 0 | 12,232 | 14,632 | 0 |
| Residential real estate | 6,876 | 8,145 | 0 | 8,412 | 9,648 | 0 |
| Home equity | 4,356 | 5,399 | 0 | 3,973 | 5,501 | 0 |
| Installment | 255 | 422 | 0 | 437 | 603 | 0 |
| Total | 37,183 | 43,405 | 0 | 37,383 | 43,292 | 0 |
| **Loans with an allowance recorded** | | | | | | |
| Commercial and industrial | 169 | 169 | 169 | 1,069 | 1,071 | 550 |
| Lease financing | 0 | 0 | 0 | 0 | 0 | 0 |
| Construction real estate | 0 | 0 | 0 | 0 | 0 | 0 |
| Commercial real estate | 3,119 | 3,120 | 448 | 8,228 | 8,277 | 593 |
| Residential real estate | 1,056 | 1,063 | 160 | 1,189 | 1,189 | 179 |
| Home equity | 100 | 100 | 2 | 101 | 101 | 2 |
| Installment | 0 | 0 | 0 | 0 | 0 | 0 |
| Total | 4,444 | 4,452 | 779 | 10,587 | 10,638 | 1,324 |
| **Total** | | | | | | |
| Commercial and industrial | 7,331 | 8,629 | 169 | 13,203 | 13,784 | 550 |
| Lease financing | 82 | 82 | 0 | 195 | 195 | 0 |
| Construction real estate | 29 | 60 | 0 | 0 | 0 | 0 |
| Commercial real estate | 21,542 | 23,957 | 448 | 20,460 | 22,909 | 593 |
| Residential real estate | 7,932 | 9,208 | 160 | 9,601 | 10,837 | 179 |
| Home equity | 4,456 | 5,499 | 2 | 4,074 | 5,602 | 2 |
| Installment | 255 | 422 | 0 | 437 | 603 | 0 |
| **Total** | $ 41,627 | $ 47,857 | $ 779 | $ 47,970 | $ 53,930 | $ 1,324 |

| | Years ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2017 | | 2016 | | 2015 | |
| *(Dollars in thousands)* | Average balance | Interest income recognized | Average balance | Interest income recognized | Average balance | Interest income recognized |
| **Loans with no related allowance recorded** | | | | | | |
| Commercial and industrial | $ 13,167 | $ 280 | $ 13,619 | $ 309 | $ 10,468 | $ 258 |
| Lease financing | 112 | 4 | 150 | 3 | 24 | 0 |
| Construction real estate | 601 | 1 | 0 | 0 | 150 | 0 |
| Commercial real estate | 20,935 | 563 | 14,252 | 357 | 19,363 | 344 |
| Residential real estate | 7,616 | 196 | 7,752 | 199 | 8,143 | 184 |
| Home equity | 4,032 | 99 | 4,830 | 86 | 5,648 | 82 |
| Installment | 332 | 4 | 366 | 7 | 380 | 7 |
| Total | 46,795 | 1,147 | 40,969 | 961 | 44,176 | 875 |
| | | | | | | |
| **Loans with an allowance recorded** | | | | | | |
| Commercial and industrial | 1,204 | 28 | 1,098 | 37 | 1,409 | 26 |
| Lease financing | 0 | 0 | 214 | 8 | 0 | 0 |
| Construction real estate | 0 | 0 | 0 | 0 | 0 | 0 |
| Commercial real estate | 2,634 | 40 | 7,792 | 211 | 12,928 | 213 |
| Residential real estate | 1,112 | 26 | 1,374 | 30 | 1,696 | 40 |
| Home equity | 101 | 4 | 101 | 4 | 101 | 3 |
| Installment | 0 | 0 | 0 | 0 | 0 | 0 |
| Total | 5,051 | 98 | 10,579 | 290 | 16,134 | 282 |
| | | | | | | |
| **Total** | | | | | | |
| Commercial and industrial | 14,371 | 308 | 14,717 | 346 | 11,877 | 284 |
| Lease financing | 112 | 4 | 364 | 11 | 24 | 0 |
| Construction real estate | 601 | 1 | 0 | 0 | 150 | 0 |
| Commercial real estate | 23,569 | 603 | 22,044 | 568 | 32,291 | 557 |
| Residential real estate | 8,728 | 222 | 9,126 | 229 | 9,839 | 224 |
| Home equity | 4,133 | 103 | 4,931 | 90 | 5,749 | 85 |
| Installment | 332 | 4 | 366 | 7 | 380 | 7 |
| **Total** | $ 51,846 | $ 1,245 | $ 51,548 | $ 1,251 | $ 60,310 | $ 1,157 |

**OREO.** OREO is comprised of properties acquired by the Company primarily through the loan foreclosure or repossession process, or other resolution activities that result in partial or total satisfaction of problem loans.

Changes in OREO were as follows:

| | Years ended December 31, | | |
|---|---|---|---|
| *(Dollars in thousands)* | 2017 | 2016 | 2015 |
| Balance at beginning of year | $ 6,284 | $ 13,254 | $ 22,674 |
| Additions | | | |
| Commercial | 1,732 | 1,850 | 5,187 |
| Residential | 2,387 | 1,022 | 3,211 |
| Total additions | 4,119 | 2,872 | 8,398 |
| Disposals | | | |
| Commercial | (5,409) | (6,993) | (12,722) |
| Residential | (1,574) | (2,363) | (3,095) |
| Total disposals | (6,983) | (9,356) | (15,817) |
| Valuation adjustments | | | |
| Commercial | (439) | (345) | (1,617) |
| Residential | (200) | (141) | (384) |
| Total valuation adjustments | (639) | (486) | (2,001) |
| **Balance at end of year** | $ 2,781 | $ 6,284 | $ 13,254 |

**FDIC indemnification asset.** The FDIC indemnification asset results from the loss sharing agreements entered into in conjunction with First Financial's FDIC-assisted transactions, and represents expected reimbursements from the FDIC for losses on covered assets. First Financial's FDIC indemnification asset balance was $1.9 million and $12.0 million as of December 31, 2017 and 2016, respectively.

The accounting for FDIC indemnification assets is closely related to the accounting for the underlying, indemnified assets as well as on-going assessment of the collectibility of the indemnification assets. The primary activities impacting the FDIC indemnification asset are FDIC claims, amortization, FDIC loss sharing income and accelerated discount.

In December 2017, First Financial reached a preliminary agreement with the FDIC to early terminate its loss sharing agreements. As such, First Financial recorded a $5.1 million impairment charge to its indemnification asset as a component of noninterest expense as all future recoveries, gains, losses and expenses related to these previously covered assets will now be recognized entirely by First Financial given the FDIC will no longer share in such gains or losses.

## 6. Allowance for Loan and Lease Losses

**Loans and leases.** Management maintains the ALLL at a level that it considers sufficient to absorb probable incurred loan and lease losses inherent in the portfolio. Management determines the adequacy of the ALLL based on historical loss experience as well as other significant factors such as composition of the portfolio, economic conditions, geographic footprint, the results of periodic internal and external evaluations of delinquent, nonaccrual and classified loans and any other adverse situations that may affect a specific borrower's ability to repay, including the timing of future payments. For further discussion of First Financial's allowance methodology, see Note 1 – Summary of Significant Accounting Policies.

The ALLL is increased by provision expense and decreased by charge-offs, net of recoveries of amounts previously charged-off. First Financial's policy is to charge-off all or a portion of a loan when, in management's opinion, it is unlikely to collect the principal amount owed in full, either through payments from the borrower, or from the liquidation of collateral.

During 2015, First Financial closed its merger with Oak Street. Loans acquired in this transaction were recorded at estimated fair value at the acquisition date with no carryover of the related ALLL.

**Covered/formerly covered loans.** The majority of covered/formerly covered loans are purchased impaired loans, whereby First Financial is required to periodically re-estimate the expected cash flows. For further detail regarding accounting for purchased impaired loans and the related allowance, see Note 1 – Summary of Significant Accounting Policies.

Changes in the ALLL for the three years ended December 31 were as follows:

| *(Dollars in thousands)* | 2017 | 2016 | 2015 |
|---|---|---|---|
| **Changes in the ALLL, excluding covered/formerly covered loans** | | | |
| Balance at beginning of year | $ 49,422 | $ 43,149 | $ 42,820 |
| Provision for loan and lease losses | 8,038 | 9,322 | 7,926 |
| Loans charged-off | (12,712) | (6,652) | (11,660) |
| Recoveries | 4,124 | 3,603 | 4,063 |
| **Balance at end of year** | $ 48,872 | $ 49,422 | $ 43,149 |
| | | | |
| **Changes in the ALLL for covered/formerly covered loans** | | | |
| Balance at beginning of year | $ 8,539 | $ 10,249 | $ 10,038 |
| Provision for loan and lease losses | (4,456) | 818 | 1,715 |
| Loans charged-off | (951) | (4,462) | (8,896) |
| Recoveries | 2,017 | 1,934 | 7,392 |
| **Balance at end of year** | $ 5,149 | $ 8,539 | $ 10,249 |
| | | | |
| **Total changes in the ALLL** | | | |
| Balance at beginning of year | $ 57,961 | $ 53,398 | $ 52,858 |
| Provision for loan and lease losses | 3,582 | 10,140 | 9,641 |
| Loans charged-off | (13,663) | (11,114) | (20,556) |
| Recoveries | 6,141 | 5,537 | 11,455 |
| **Balance at end of year** | $ 54,021 | $ 57,961 | $ 53,398 |

Changes in the ALLL by loan category as of December 31 were as follows:

| | 2017 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | Real Estate | | | | | | |
| *(Dollars in thousands)* | Commercial and industrial | Lease financing | Construction | Commercial | Residential | Home Equity | Installment | Credit card | Total |
| **Allowance for loan and lease losses** | | | | | | | | | |
| Balance at beginning of year | $ 19,225 | $ 716 | $ 3,282 | $ 26,540 | $ 3,208 | $ 3,043 | $ 388 | $ 1,559 | $ 57,961 |
| Provision for loan and lease losses | 6,917 | (42) | 207 | (7,291) | 1,695 | 1,778 | (90) | 408 | 3,582 |
| Gross charge-offs | (10,194) | 0 | (1) | (1,038) | (435) | (913) | (225) | (857) | (13,663) |
| Recoveries | 1,650 | 1 | 89 | 2,719 | 215 | 1,027 | 234 | 206 | 6,141 |
| Total net charge-offs | (8,544) | 1 | 88 | 1,681 | (220) | 114 | 9 | (651) | (7,522) |
| **Ending allowance for loan and lease losses** | $ 17,598 | $ 675 | $ 3,577 | $ 20,930 | $ 4,683 | $ 4,935 | $ 307 | $ 1,316 | $ 54,021 |

| (Dollars in thousands) | 2016<br>Commercial and industrial | Lease financing | Real Estate<br>Construction | Commercial | Residential | Home Equity | Installment | Credit card | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Allowance for loan and lease losses** | | | | | | | | | |
| Balance at beginning of year | $ 16,995 | $ 821 | $ 1,810 | $ 23,656 | $ 4,014 | $ 3,943 | $ 386 | $ 1,773 | $ 53,398 |
| Provision for loan and lease losses | 3,705 | (106) | 1,280 | 5,365 | (655) | (175) | 53 | 673 | 10,140 |
| Gross charge-offs | (2,630) | 0 | (93) | (4,983) | (387) | (1,445) | (386) | (1,190) | (11,114) |
| Recoveries | 1,155 | 1 | 285 | 2,502 | 236 | 720 | 335 | 303 | 5,537 |
| Total net charge-offs | (1,475) | 1 | 192 | (2,481) | (151) | (725) | (51) | (887) | (5,577) |
| **Ending allowance for loan and lease losses** | $ 19,225 | $ 716 | $ 3,282 | $ 26,540 | $ 3,208 | $ 3,043 | $ 388 | $ 1,559 | $ 57,961 |

| (Dollars in thousands) | 2015<br>Commercial and industrial | Lease financing | Real Estate<br>Construction | Commercial | Residential | Home Equity | Installment | Credit card | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Allowance for loan and lease losses** | | | | | | | | | |
| Balance at beginning of year | $ 13,870 | $ 435 | $ 1,045 | $ 27,086 | $ 3,753 | $ 4,260 | $ 407 | $ 2,002 | $ 52,858 |
| Provision for loan and lease losses | 4,809 | 384 | 597 | 1,439 | 1,234 | 573 | 25 | 580 | 9,641 |
| Gross charge-offs | (5,408) | 0 | (85) | (10,083) | (1,531) | (1,891) | (509) | (1,049) | (20,556) |
| Recoveries | 3,724 | 2 | 253 | 5,214 | 558 | 1,001 | 463 | 240 | 11,455 |
| Total net charge-offs | (1,684) | 2 | 168 | (4,869) | (973) | (890) | (46) | (809) | (9,101) |
| **Ending allowance for loan and lease losses** | $ 16,995 | $ 821 | $ 1,810 | $ 23,656 | $ 4,014 | $ 3,943 | $ 386 | $ 1,773 | $ 53,398 |

The ALLL balance and the recorded investment in loans by portfolio segment and based on impairment method as of December 31 were as follows:

| (Dollars in thousands) | December 31, 2017<br>Commercial and industrial | Lease financing | Real Estate<br>Construction | Commercial | Residential | Home Equity | Installment | Credit card | Total |
|---|---|---|---|---|---|---|---|---|---|
| Ending allowance on loans individually evaluated for impairment | $ 169 | $ 0 | $ 0 | $ 448 | $ 160 | $ 2 | $ 0 | $ 0 | $ 779 |
| Ending allowance on loans collectively evaluated for impairment | 17,429 | 675 | 3,577 | 20,482 | 4,523 | 4,933 | 307 | 1,316 | 53,242 |
| **Ending allowance for loan and lease losses** | $ 17,598 | $ 675 | $ 3,577 | $ 20,930 | $ 4,683 | $ 4,935 | $ 307 | $ 1,316 | $ 54,021 |
| | | | | | | | | | |
| **Loans and Leases** | | | | | | | | | |
| Ending balance of loans individually evaluated for impairment | $ 7,331 | $ 82 | $ 29 | $ 21,542 | $ 7,932 | $ 4,456 | $ 255 | $ 0 | $ 41,627 |
| Ending balance of loans collectively evaluated for impairment | 1,905,412 | 89,265 | 467,701 | 2,468,549 | 463,459 | 489,148 | 41,331 | 46,691 | 5,971,556 |
| **Total loans** | $ 1,912,743 | $ 89,347 | $ 467,730 | $ 2,490,091 | $ 471,391 | $ 493,604 | $ 41,586 | $ 46,691 | $ 6,013,183 |

| | December 31, 2016 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | Real Estate | | | | | | |
| *(Dollars in thousands)* | Commercial and industrial | Lease financing | Construction | Commercial | Residential | Home equity | Installment | Credit card | Total |
| Ending allowance on loans individually evaluated for impairment | $ 550 | $ 0 | $ 0 | $ 593 | $ 179 | $ 2 | $ 0 | $ 0 | $ 1,324 |
| Ending allowance on loans collectively evaluated for impairment | 18,675 | 716 | 3,282 | 25,947 | 3,029 | 3,041 | 388 | 1,559 | 56,637 |
| **Ending allowance for loan and lease losses** | $ 19,225 | $ 716 | $ 3,282 | $ 26,540 | $ 3,208 | $ 3,043 | $ 388 | $ 1,559 | $ 57,961 |
| | | | | | | | | | |
| **Loans and Leases** | | | | | | | | | |
| Ending balance of loans individually evaluated for impairment | $ 13,203 | $ 195 | $ 0 | $ 20,460 | $ 9,601 | $ 4,074 | $ 437 | $ 0 | $ 47,970 |
| Ending balance of loans collectively evaluated for impairment | 1,768,745 | 92,913 | 399,434 | 2,407,117 | 491,379 | 456,314 | 50,202 | 43,408 | 5,709,512 |
| **Total loans** | $ 1,781,948 | $ 93,108 | $ 399,434 | $ 2,427,577 | $ 500,980 | $ 460,388 | $ 50,639 | $ 43,408 | $ 5,757,482 |

## 7. Premises and Equipment

Premises and equipment at December 31 were as follows:

| *(Dollars in thousands)* | 2017 | 2016 |
|---|---|---|
| Land and land improvements | $ 41,711 | $ 41,112 |
| Buildings | 104,576 | 107,918 |
| Furniture and fixtures | 55,165 | 55,368 |
| Leasehold improvements | 19,377 | 19,544 |
| Construction in progress | 1,721 | 3,791 |
| | 222,550 | 227,733 |
| | | |
| Less: Accumulated depreciation and amortization | 97,514 | 96,154 |
| **Total** | $ 125,036 | $ 131,579 |

Rental expense recorded under operating leases in 2017, 2016 and 2015 was $7.1 million, $7.9 million and $7.0 million, respectively.

First Financial's future minimum lease payments for operating leases are as follows:

| *(Dollars in thousands)* | |
|---|---|
| 2018 | $ 6,468 |
| 2019 | 6,212 |
| 2020 | 5,962 |
| 2021 | 5,161 |
| 2022 | 3,112 |
| Thereafter | 8,346 |
| **Total** | $ 35,261 |

## 8. Goodwill and Other Intangible Assets

**Goodwill.** Assets and liabilities acquired in a business combination are recorded at their estimated fair values as of the acquisition date. The excess cost of the acquisition over the fair value of net assets acquired is recorded as goodwill. During 2017 and 2016, First Financial did not record any additions to goodwill. Additions to goodwill in 2015 resulted from the acquisition of Oak Street.

Changes in the carrying amount of goodwill for the years ended December 31, 2017, 2016 and 2015 are shown below.

| *(Dollars in thousands)* | 2017 | 2016 | 2015 |
|---|---|---|---|
| Balance at beginning of year | $ 204,084 | $ 204,084 | $ 137,739 |
| Goodwill resulting from business combinations | 0 | 0 | 66,345 |
| **Balance at end of year** | $ 204,084 | $ 204,084 | $ 204,084 |

Goodwill is evaluated for impairment on an annual basis as of October 1 of each year, or whenever events or changes in circumstances indicate that the fair value of a reporting unit may be below its carrying value. First Financial performed its annual impairment test of goodwill as of October 1, 2017 and no impairment was indicated. As of December 31, 2017, no events or changes in circumstances indicated that the fair value of a reporting unit was below its carrying value.

**Other intangible assets.** As of December 31, 2017 and 2016, First Financial had $5.3 million and $6.5 million, respectively, of other intangibles which primarily consist of core deposit intangibles and are included in Goodwill and other intangibles in the Consolidated Balance Sheets. Core deposit intangibles represent the estimated fair value of acquired customer deposit relationships. Core deposit intangibles are recorded at fair value on the date of acquisition and are then amortized on an accelerated basis over their estimated useful lives. Core deposit intangibles were $3.3 million and $4.5 million as of December 31, 2017 and December 31, 2016, respectively. First Financial recorded no additions to core deposit intangibles in 2017 or 2016. First Financial's core deposit intangibles have an estimated weighted average remaining life of 3.9 years as of December 31, 2017.

Amortization expense recognized on intangible assets for 2017, 2016 and 2015 was $1.3 million, $1.6 million and $1.9 million, respectively. The estimated amortization expense of intangible assets for the next five years is as follows:

| *(Dollars in thousands)* | Amortization Expense |
|---|---|
| 2018 | $ 1,097 |
| 2019 | 1,020 |
| 2020 | 788 |
| 2021 | 636 |
| 2022 | 189 |

## 9. Deposits

Time deposits that meet or exceed the FDIC insurance limit of $250,000 at December 31, 2017 and 2016 were $174.8 million and $190.9 million, respectively.

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

| *(Dollars in thousands)* | Total |
|---|---|
| 2018 | $ 783,451 |
| 2019 | 315,274 |
| 2020 | 122,165 |
| 2021 | 68,532 |
| 2022 | 27,394 |
| Thereafter | 289 |
| Total | $ 1,317,105 |

## 10. Borrowings

Short-term borrowings on the Consolidated Balance Sheets include repurchase agreements utilized for corporate sweep accounts with cash management account agreements in place, overnight advances from the FHLB and a short-term line of credit. All repurchase agreements are subject to terms and conditions of repurchase/security agreements between the Bank and the client. The Bank is authorized to sell or repurchase U.S. Treasury, government agency and mortgage-backed securities to secure its liability to the client.

First Financial has a $15.0 million short-term credit facility with an unaffiliated bank that matures on May 29, 2018. This facility can have a variable or fixed interest rate and provides First Financial additional liquidity for various corporate activities, including the repurchase of First Financial shares and the payment of dividends to shareholders. As of December 31, 2017 and December 31, 2016, there was no outstanding balance. The credit agreement requires First Financial to comply with certain covenants including those related to asset quality and capital levels, and First Financial was in compliance with all covenants associated with this facility as of December 31, 2017 and December 31, 2016.

The following is a summary of short-term borrowings for the last three years:

| | 2017 | | 2016 | | 2015 | |
|---|---|---|---|---|---|---|
| *(Dollars in thousands)* | Amount | Rate | Amount | Rate | Amount | Rate |
| At December 31, | | | | | | |
| Federal funds purchased and securities sold under agreements to repurchase | $ 72,265 | 0.19% | $ 120,212 | 0.12% | $ 89,325 | 0.11% |
| FHLB borrowings | 742,300 | 1.43% | 687,700 | 0.66% | 849,100 | 0.47% |
| **Total** | $ 814,565 | 1.32% | $ 807,912 | 0.58% | $ 938,425 | 0.44% |
| | | | | | | |
| Average for the year | | | | | | |
| Federal funds purchased and securities sold under agreements to repurchase | $ 69,766 | 0.19% | $ 89,157 | 0.05% | $ 73,191 | 0.07% |
| FHLB borrowings | 760,558 | 1.05% | 791,259 | 0.55% | 552,360 | 0.24% |
| Other short-term borrowings | 41 | 4.07% | 41 | 3.56% | 123 | 3.30% |
| **Total** | $ 830,365 | 0.98% | $ 880,457 | 0.50% | $ 625,674 | 0.22% |
| | | | | | | |
| Maximum month-end balances | | | | | | |
| Federal funds purchased and securities sold under agreements to repurchase | $ 130,633 | | $ 122,242 | | $ 123,374 | |
| FHLB borrowings | 957,700 | | 1,035,000 | | 849,100 | |
| Other short-term borrowings | 0 | | 0 | | 15,000 | |

In 2015, First Financial issued $120.0 million of subordinated notes, which have a fixed interest rate of 5.13% payable semiannually and mature in August 2025. These notes are not redeemable by the Company or callable by the holders of the notes prior to maturity. The subordinated notes are treated as Tier 2 capital for regulatory capital purposes and are included in Long-term debt on the Consolidated Balance Sheets.

Long-term debt also includes FHLB long-term advances as of December 31, 2017 and 2016. These instruments are primarily utilized to reduce overnight liquidity risk and to mitigate interest rate sensitivity on the Consolidated Balance Sheets.

FHLB advances, both short-term and long-term, must be collateralized with qualifying assets, typically certain commercial and residential real estate loans, as well as certain government and agency securities. For ease of borrowing execution, First Financial utilizes a blanket collateral agreement with the FHLB, and at December 31, 2017, had collateral pledged with a book value of $3.6 billion.

The following is a summary of First Financial's long-term debt:

| | 2017 | | 2016 | |
|---|---|---|---|---|
| *(Dollars in thousands)* | Amount | Average Rate | Amount | Average Rate |
| Subordinated debt | $ 120,000 | 5.13% | $ 120,000 | 5.13% |
| Unamortized debt issuance costs | (1,362) | n/a | (1,537) | n/a |
| FHLB | 241 | 1.09% | 351 | 1.43% |
| Capital loan with municipality | 775 | 0.00% | 775 | 0.00% |
| **Total long-term debt** | $ 119,654 | 5.14% | $ 119,589 | 5.15% |

As of December 31, 2017, First Financial's long-term debt matures as follows:

| *(Dollars in thousands)* | Long-term debt |
|---|---|
| 2018 | $ 15 |
| 2019 | 226 |
| 2020 | 0 |
| 2021 | 0 |
| 2022 | 0 |
| Thereafter | 119,413 |
| **Total** | $ 119,654 |

## 11. Derivatives

First Financial uses certain derivative instruments, including rate caps, floors and swaps, to meet the needs of its clients while managing the interest rate risk associated with certain transactions. First Financial does not use derivatives for speculative purposes. For discussion of First Financial's accounting for derivative instruments, see Note 1 – Summary of Significant Accounting Policies.

First Financial primarily utilizes interest rate swaps as a means to offer borrowers credit-based products that meet their needs and may also utilize interest rate swaps to manage the interest rate risk profile of the Company.

Interest rate payments are exchanged with counterparties, based on the notional amount as established in the swap agreement. As only interest rate payments are exchanged, the cash requirements and credit risk associated with interest rate swaps are significantly less than the notional amount and the Company's credit risk exposure is limited to the market value of the instruments. First Financial manages this market value credit risk through counterparty credit policies, which require the Company to maintain a total derivative notional position of less than 35% of assets, total credit exposure of less than 3% of capital and no single counterparty credit risk exposure greater than $20.0 million. The Company is currently below all single counterparty and portfolio limits.

At December 31, 2017, the Company had a total counterparty notional amount outstanding of $837.5 million, spread among thirteen counterparties, with an outstanding liability from these contracts of $1.3 million. At December 31, 2016, the Company had a total counterparty notional amount outstanding of $677.8 million, spread among ten counterparties, with an outstanding liability from these contracts of $5.2 million.

First Financial's exposure to credit loss, in the event of nonperformance by a borrower, is limited to the market value of the derivative instrument associated with that borrower. First Financial monitors its derivative credit exposure to borrowers by monitoring the creditworthiness of the related loan customers through the normal credit review processes the Company performs on all borrowers. Additionally, the Company monitors derivative credit risk exposure related to problem loans through the Company's ALLL committee. First Financial considers the market value of a derivative instrument to be part of the carrying value of the related loan for these purposes as the borrower is contractually obligated to pay First Financial this amount in the event the derivative contract is terminated.

**Client derivatives.** First Financial utilizes interest rate swaps as a means to offer commercial borrowers fixed rate funding while providing the Company with floating rate assets. The following table details the location and amounts recognized in the Consolidated Balance Sheets for client derivatives:

| | | December 31, 2017 | | | December 31, 2016 | | |
|---|---|---|---|---|---|---|---|
| | | | Estimated fair value | | | Estimated fair value | |
| *(Dollars in thousands)* | Balance Sheet Location | Notional amount | Gain | Loss | Notional amount | Gain | Loss |
| Client derivatives | | | | | | | |
| Matched interest rate swaps with borrower | Accrued interest and other assets and other liabilities | $ 837,040 | $ 7,153 | $ (5,529) | $ 677,028 | $ 8,401 | $ (4,158) |
| Matched interest rate swaps with counterparty | Accrued interest and other liabilities | 837,040 | 5,529 | (7,158) | 677,028 | 4,158 | (8,429) |
| **Total** | | $1,674,080 | $ 12,682 | $(12,687) | $1,354,056 | $ 12,559 | $(12,587) |

In connection with its use of derivative instruments, First Financial and its counterparties are required to post cash collateral to offset the market position of the derivative instruments under certain conditions. First Financial maintains the right to offset these derivative positions with the collateral posted against them by or with the relevant counterparties. First Financial classifies the derivative cash collateral outstanding with its counterparties as an adjustment to the fair value of the derivative contracts within Accrued interest and other assets or Accrued interest and other liabilities in the Consolidated Balance Sheets.

The following table discloses the gross and net amounts of assets and liabilities recognized in the Consolidated Balance Sheets:

| | December 31, 2017 | | | December 31, 2016 | | |
|---|---|---|---|---|---|---|
| *(Dollars in thousands)* | Gross amounts of recognized liabilities | Gross amounts offset in the Consolidated Balance Sheets | Net amounts of assets presented in the Consolidated Balance Sheets | Gross amounts of recognized liabilities | Gross amounts offset in the Consolidated Balance Sheets | Net amounts of assets presented in the Consolidated Balance Sheets |
| Client derivatives | | | | | | |
| Matched interest rate swaps | $ 12,687 | $ 2,279 | $ 14,966 | $ 12,587 | $ (462) | $ 12,125 |

The following table details the derivative financial instruments, the average remaining maturities and the weighted-average interest rates being paid and received by First Financial at December 31, 2017:

| | | | | Weighted-Average Rate | |
|---|---|---|---|---|---|
| *(Dollars in thousands)* | Notional amount | Average maturity (years) | Fair value | Receive | Pay |
| Client derivatives | | | | | |
| Receive fixed, matched interest rate swaps with borrower | $ 837,040 | 5.9 | $ 1,624 | 4.37% | 3.66% |
| Pay fixed, matched interest rate swaps with counterparty | 837,040 | 5.9 | (1,629) | 3.66% | 4.37% |
| **Total client derivatives** | $ 1,674,080 | 5.9 | $ (5) | 4.01% | 4.01% |

**Credit derivatives.** In conjunction with participating interests in commercial loans, First Financial periodically enters into risk participation agreements with counterparties whereby First Financial assumes a portion of the credit exposure associated with an interest rate swap on the participated loan in exchange for a fee. Under these agreements, First Financial will make payments to the counterparty if the loan customer defaults on its obligation to perform under the interest rate swap contract with the counterparty. The total notional value of these agreements totaled $95.9 million as of December 31, 2017 and $64.9 million as of December 31, 2016. The fair value of these agreements were recorded in Accrued interest and other liabilities on the Consolidated Balance Sheets.

**Mortgage Derivatives.** First Financial enters into IRLCs and forward commitments for the future delivery of mortgage loans to third party investors, which are considered derivatives. When borrowers secure an IRLC with First Financial and the loan is intended to be sold, First Financial will enter into forward commitments for the future delivery of the loans to third party investors in order to hedge against the effect of changes in interest rates impacting IRLCs and and loans held for sale. At December 31, 2017, the notional amount of the IRLCs was $12.3 million and the notional amount of forward commitments was $15.4 million. As of December 31, 2016, the notional amount of IRLCs was $13.2 million and the notional amount of forward commitments was $17.8 million. The fair value of these agreements was recorded on the Consolidated Balance Sheets in Accrued interest and other assets and was $0.1 million at December 31, 2017 and $0.2 million at December 31, 2016.

## 12. Commitments and Contingencies

First Financial offers a variety of financial instruments with off-balance sheet risk to its clients to assist them in meeting their requirement for liquidity and credit enhancement. These financial instruments include standby letters of credit and outstanding commitments to extend credit. GAAP does not require these financial instruments to be recorded in the Consolidated Financial Statements.

First Financial utilizes the same credit policies in issuing commitments and conditional obligations as it does for credit instruments recorded on the Consolidated Balance Sheets. First Financial's exposure to credit loss, in the event of nonperformance, is represented by the contractual amounts of those instruments. First Financial utilizes the ALLL methodology to maintain a reserve that it considers sufficient to absorb probable losses incurred in standby letters of credit and outstanding loan commitments and records the reserve within Accrued interest and other liabilities on the Consolidated Balance Sheets.

**Loan commitments.** Loan commitments are agreements to extend credit to a client absent any violation of any condition established in the commitment agreement. 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 amount of collateral obtained, if deemed necessary by First Financial upon extension of credit, is based on management's credit evaluation of the client. The collateral held varies, but may include securities, real estate, inventory, plant or equipment. First Financial had commitments outstanding to extend credit, totaling $2.1 billion and $2.0 billion at December 31, 2017 and December 31, 2016, respectively. As of December 31, 2017, loan commitments with a fixed interest rate totaled $44.3 million while commitments with variable interest rates totaled $2.0 billion. The fixed rate loan commitments have interest rates ranging from 0.00% to 21.00% and maturities ranging from 1 to 29 years.

**Letters of credit.** Letters of credit are conditional commitments issued by First Financial to guarantee the performance of a client to a third party. First Financial's portfolio of standby letters of credit consists primarily of performance assurances made on behalf of clients who have a contractual commitment to produce or deliver goods or services. The risk to First Financial arises from its obligation to make payment in the event of the client's contractual default to produce the contracted good or service to a third party. First Financial has issued letters of credit (including standby letters of credit) aggregating $25.3 million and $18.4 million at December 31, 2017, and December 31, 2016, respectively. Management conducts regular reviews of these instruments on an individual client basis.

**Investments in affordable housing projects.** First Financial has investments in certain qualified affordable housing tax credits. These credits are an indirect federal subsidy that provide tax incentives to encourage investment in the development, acquisition and rehabilitation of affordable rental housing, and allow investors to claim tax credits and other tax benefits (such as deductions from taxable income for operating losses) on their federal income tax returns. The principal risk associated with qualified affordable housing investments is the potential for noncompliance with the tax code requirements, such as failure to rent property to qualified tenants, resulting in the unavailability or recapture of the tax credits and other tax benefits. First Financial's affordable housing commitments totaled $35.9 million and $32.7 million as of December 31, 2017 and

December 31, 2016, respectively. The Company recognized tax credits of $3.2 million and $2.1 million related to its investments in affordable housing projects for the years ended December 31, 2017 and 2016, respectively. The Company recognized amortization expense which was included in income tax expense of $4.2 million and $2.7 million for the years ended December 31, 2017 and 2016, respectively. First Financial had no affordable housing contingent commitments as of December 31, 2017 or December 31, 2016.

**Investments in historic tax credits.** First Financial has noncontrolling financial investments in private investment funds and partnerships which are not consolidated. These investments may generate a return through the realization of federal and state income tax credits, as well as other tax benefits, such as tax deductions from net operating losses of the investments over a period of time. The Company's recorded investment in these entities was approximately $3.0 million at December 31, 2017, and $4.9 million at December 31, 2016. The maximum exposure to loss related to these investments was $3.0 million at December 31, 2017 and $13.7 million at December 31, 2016, representing the Company's investment balance and its unfunded commitments to invest additional amounts. Investments in historic tax credits resulted in $13.7 million and $0.6 million of tax credits for the years ended December 31, 2017 and 2016, respectively. Recognition of a significant historic tax credit investment resulted in a $12.5 million reduction in income tax expense and $11.3 million of other noninterest expenses during 2017.

**Contingencies/Litigation.** First Financial and its subsidiaries are engaged in various matters of litigation, assertions of improper or fraudulent loan practices or lending violations and other matters from time to time, and have a number of unresolved claims pending. Additionally, as part of the ordinary course of business, First Financial and its subsidiaries are parties to litigation involving claims to the ownership of funds in particular accounts, the collection of delinquent accounts, challenges to security interests in collateral and foreclosure interests, that is incidental to our regular business activities. While the ultimate liability with respect to these other litigation matters and claims cannot be determined at this time, First Financial believes that damages, if any, and other amounts relating to pending matters are not probable or cannot be reasonably estimated as of December 31, 2017. Reserves are established for these various matters of litigation, when appropriate, under FASB ASC Topic 450, Contingencies, based in part upon the advice of legal counsel. First Financial had no reserves related to litigation matters as of December 31, 2017 or December 31, 2016.

## 13. Related Party Transactions

Loans to directors, executive officers, principal holders of First Financial's common stock and certain related persons were as follows:

| *(Dollars in thousands)* | 2017 |
|---|---|
| Beginning balance | $ 6,930 |
| Additions | 3,904 |
| Deductions | (961) |
| **Ending balance** | $ 9,873 |
| **Loans 90 days or more past due** | $ 0 |

Related parties of First Financial, as defined for inclusion in the table above, were clients of, and had transactions with, subsidiaries of First Financial during the periods noted. Similar transactions with related parties may be expected in future periods.

## 14. Income Taxes

Income tax expense consisted of the following components:

| *(Dollars in thousands)* | 2017 | 2016 | 2015 |
|---|---|---|---|
| Current expense | | | |
| Federal | $ 22,599 | $ 40,537 | $ 31,428 |
| State | 1,265 | 1,322 | 250 |
| **Total current expense** | 23,864 | 41,859 | 31,678 |
| Deferred (benefit) expense | | | |
| Federal | (4,657) | 528 | 3,980 |
| State | 169 | (182) | 212 |
| **Total deferred (benefit) expense** | (4,488) | 346 | 4,192 |
| **Income tax expense** | $ 19,376 | $ 42,205 | $ 35,870 |

The difference between the federal income tax rates, applied to income before income taxes, and the effective rates were due to the following:

| *(Dollars in thousands)* | 2017 | 2016 | 2015 |
|---|---|---|---|
| Income taxes computed at federal statutory rate (35%) on income before income taxes | $ 40,657 | $ 45,756 | $ 38,827 |
| Benefit from tax-exempt income | (3,427) | (2,911) | (2,815) |
| Tax credits | (16,806) | (2,691) | (1,388) |
| Tax rate reduction impact | (8,191) | 0 | 0 |
| Basis reduction on historic tax credit | 4,599 | 0 | 0 |
| Tax benefit of equity compensation | (1,449) | (72) | (35) |
| State income taxes, net of federal tax benefit | 932 | 741 | 301 |
| Affordable housing investments | 2,798 | 1,923 | 455 |
| Other | 263 | (541) | 525 |
| **Income tax expense** | $ 19,376 | $ 42,205 | $ 35,870 |

On December 22, 2017, the Tax Cuts and Jobs Act was signed into law. As a result, First Financial revalued its deferred tax assets and liabilities as well as its investments in affordable housing projects utilizing a 21% federal rate compared to a 35% rate in prior periods. As a result, the Company recorded an $8.2 million tax benefit in 2017.

The major components of the temporary differences that give rise to deferred tax assets and liabilities at December 31, 2017, and 2016, were as follows:

| *(Dollars in thousands)* | 2017 | 2016 |
|---|---|---|
| Deferred tax assets | | |
| Allowance for loan and lease losses | $ 12,134 | $ 20,955 |
| Deferred compensation | 384 | 627 |
| Postretirement benefits other than pension liability | 564 | 925 |
| Accrued stock-based compensation | 932 | 1,094 |
| Other real estate owned write-downs | 97 | 888 |
| Interest on nonaccrual loans | 616 | 844 |
| Accrued expenses | 3,051 | 5,081 |
| Net unrealized losses on investment securities and derivatives | 249 | 3,141 |
| Other | 708 | 453 |
| **Total deferred tax assets** | 18,735 | 34,008 |
| | | |
| Deferred tax liabilities | | |
| Tax depreciation greater than book depreciation | (2,510) | (5,166) |
| FHLB and FRB stock | (3,384) | (5,535) |
| Mortgage-servicing rights | (343) | (530) |
| Leasing activities | (2,792) | (4,933) |
| Prepaid pension | (8,888) | (12,539) |
| Intangible assets | (11,559) | (16,611) |
| Deferred loan fees and costs | (371) | (1,238) |
| Prepaid expenses | (210) | (348) |
| Partnership investments | (1,230) | (1,218) |
| Fair value adjustments on acquisitions | 0 | (1,404) |
| Other | (2,415) | (852) |
| **Total deferred tax liabilities** | (33,702) | (50,374) |
| **Total net deferred tax liability** | $ (14,967) | $ (16,366) |

The realization of the Company's deferred tax assets is dependent upon the Company's ability to generate taxable income in future periods, the reversal of deferred tax liabilities during the same period and the ability to carryback any losses. The Company has evaluated the available evidence supporting the realization of its deferred tax assets and determined it is more likely than not that the assets will be realized and thus no valuation allowance was required at December 31, 2017 and 2016.

Unrecognized tax benefits

At December 31, 2017 and 2016, First Financial had $2.9 million and $2.4 million of unrecognized tax benefits, as determined in FASB ASC Topic 740-10, Income Taxes, that, if recognized, would favorably affect the effective income tax rate in future periods. A progression of unrecognized tax benefits as of December 31, 2017 and 2016 is as follows:

| *(Dollars in thousands)* | 2017 | 2016 |
|---|---|---|
| Balance at beginning of year | $ 3,735 | $ 0 |
| Additions for tax positions of prior years | 0 | 3,735 |
| Balance at end of year | $ 3,735 | $ 3,735 |

The unrecognized tax benefits relate to state income tax exposures where First Financial believes it is likely that, upon examination, a state may take a position contrary to the position taken by the Company. The Company believes that resolution regarding our uncertain tax positions is reasonably possible within the next twelve months and could result in full, partial or no recognition of the benefit.

First Financial recognizes interest accrued related to unrecognized tax benefits and penalties as income tax expense. At December 31, 2017 and 2016, the Company had no interest or penalties recorded.

First Financial and its subsidiaries are subject to U.S. federal income tax as well as state and local income tax in several jurisdictions. Tax years prior to 2014 have been closed and are no longer subject to U.S. federal income tax examinations. Tax years 2014 through 2016 remain open to examination by the federal taxing authority.

First Financial is no longer subject to state and local income tax examinations for years prior to 2011. Tax years 2011 through 2016 remain open to state and local examination by various other jurisdictions.

## 15. Employee Benefit Plans

**Pension plan.** First Financial sponsors a non-contributory defined benefit pension plan covering substantially all employees and uses a December 31 measurement date for the plan. Plan assets were primarily invested in equity mutual funds and fixed income mutual funds. The pension plan does not directly own any shares of First Financial common stock or any other First Financial security or product.

The investment objective of the Plan is to structure the assets to mirror the liabilities of the Plan, with the fixed income component matching the identified near and long-term plan distributions and the equity component generating growth of capital to meet other future Plan liabilities. The determination of the overall expected long-term return on plan assets was based on the composition of plan assets and a consensus of estimates from similarly managed portfolios of expected future returns.

As a result of the plan's updated actuarial projections for 2017, First Financial recorded income related to its pension plan of $0.6 million for 2017, $1.2 million for 2016 and $1.0 million for 2015. First Financial made no cash contributions to the pension plan in 2017, 2016 or 2015.

The following tables set forth information concerning amounts recognized in First Financial's Consolidated Balance Sheets and Consolidated Statements of Income related to the Company's pension plan:

| | December 31, | |
|---|---|---|
| *(Dollars in thousands)* | 2017 | 2016 |
| **Change in benefit obligation** | | |
| Benefit obligation at beginning of year | $ 62,729 | $ 60,664 |
| Service cost | 4,894 | 5,034 |
| Interest cost | 2,325 | 2,262 |
| Actuarial (gain) loss | 6,107 | 142 |
| Benefits paid, excluding settlement | (4,901) | (5,373) |
| **Benefit obligation at end of year** | 71,154 | 62,729 |
| | | |
| **Change in plan assets** | | |
| Fair value of plan assets at beginning of year | 131,011 | 125,714 |
| Actual return on plan assets | 18,239 | 10,670 |
| Benefits paid, excluding settlement | (4,901) | (5,373) |
| **Fair value of plan assets at end of year** | 144,349 | 131,011 |
| | | |
| **Amounts recognized in the Consolidated Balance Sheets** | | |
| Assets | 73,195 | 68,282 |
| Liabilities | 0 | 0 |
| **Net amount recognized** | $ 73,195 | $ 68,282 |
| | | |
| **Amounts recognized in accumulated other comprehensive income (loss)** | | |
| Net actuarial loss | $ 33,580 | $ 38,278 |
| Net prior service cost | (1,921) | (2,334) |
| Deferred tax assets | (12,028) | (13,141) |
| **Net amount recognized** | $ 19,631 | $ 22,803 |
| | | |
| **Change in accumulated other comprehensive income (loss)** | $ (3,172) | $ (1,245) |
| | | |
| **Accumulated benefit obligation** | $ 69,678 | $ 61,909 |

**Components of net periodic benefit cost**

| *(Dollars in thousands)* | December 31, 2017 | 2016 | 2015 |
|---|---|---|---|
| Service cost | $ 4,894 | $ 5,034 | $ 4,807 |
| Interest cost | 2,325 | 2,262 | 2,120 |
| Expected return on assets | (9,358) | (9,644) | (9,444) |
| Amortization of prior service cost | (413) | (413) | (413) |
| Recognized net actuarial loss | 1,924 | 1,608 | 1,888 |
| **Net periodic benefit (income) cost** | (628) | (1,153) | (1,042) |
| | | | |
| **Other changes recognized in accumulated other comprehensive income (loss)** | | | |
| Net actuarial (gain) loss | (2,775) | (884) | 11,014 |
| Prior service cost | 0 | 0 | 0 |
| Amortization of prior service cost | 413 | 413 | 413 |
| Amortization of gain | (1,924) | (1,608) | (1,888) |
| **Total recognized in accumulated other comprehensive income (loss)** | (4,286) | (2,079) | 9,539 |
| **Total recognized in net periodic benefit cost and accumulated other comprehensive income (loss)** | $ (4,914) | $ (3,232) | $ 8,497 |
| | | | |
| **Amount expected to be recognized in net periodic pension expense in the coming year** | | | |
| Amortization of (gain) loss | $ 2,090 | $ 1,754 | $ 1,642 |
| Amortization of prior service credit | (413) | (413) | (413) |

**Pension plan assumptions**

| | December 31, 2017 | 2016 | 2015 |
|---|---|---|---|
| **Benefit obligations** | | | |
| Discount rate | 3.43% | 3.88% | 4.05% |
| Rate of compensation increase | 3.50% | 3.50% | 3.50% |
| | | | |
| **Net periodic benefit cost** | | | |
| Discount rate | 3.88% | 4.05% | 3.76% |
| Expected return on plan assets | 7.25% | 7.50% | 7.50% |
| Rate of compensation increase | 3.50% | 3.50% | 3.50% |

The fair value of the plan assets as of December 31, 2017 by asset category is shown in the table that follows:

| *(Dollars in thousands)* | Fair Value Measurements Total | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| **Asset Category** | | | | |
| Cash | $ 175 | $ 175 | $ 0 | $ 0 |
| U. S. Government agencies | 6,853 | 0 | 6,853 | 0 |
| Fixed income mutual funds | 69,154 | 69,154 | 0 | 0 |
| Equity mutual funds | 68,167 | 68,167 | 0 | 0 |
| **Total** | $ 144,349 | $ 137,496 | $ 6,853 | $ 0 |

The fair value of the plan assets as of December 31, 2016 by asset category is shown in the table that follows:

| | | Fair Value Measurements | | |
|---|---|---|---|---|
| *(Dollars in thousands)* | Total | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| **Asset Category** | | | | |
| Cash | $ 190 | $ 190 | $ 0 | $ 0 |
| U. S. Government agencies | 6,026 | 0 | 6,026 | 0 |
| Fixed income mutual funds | 66,483 | 66,483 | 0 | 0 |
| Equity mutual funds | 58,311 | 58,311 | 0 | 0 |
| **Total** | $ 131,010 | $ 124,984 | $ 6,026 | $ 0 |

The level within the fair value hierarchy is based on the lowest level of input that is significant in the fair value measurement. See Note 20 – Fair Value Disclosures for further information related to the framework for measuring fair value and the fair value hierarchy.

The following benefit payments, which reflect expected future service, are expected to be paid:

| *(Dollars in thousands)* | Retirement Benefits |
|---|---|
| 2018 | $ 4,758 |
| 2019 | 4,426 |
| 2020 | 5,417 |
| 2021 | 5,771 |
| 2022 | 5,016 |
| Thereafter | 29,825 |

**401(k) thrift plan.** First Financial sponsors a defined contribution 401(k) thrift plan which covers substantially all employees. Employees may contribute up to 50.0% of their earnings into the plan, not to exceed applicable limitations prescribed by the Internal Revenue Service. First Financial's contributions to the 401(k) plan are discretionary and vest immediately. First Financial measures the Company's performance compared to its identified peer group in determining whether to recommend a Company contribution, with the amount of the recommended contribution not to exceed 3% of the employee's annual earnings. First Financial recorded $1.9 million and $0.8 million of expense related to the Company's contributions to the 401(k) plan during the years ended December 31, 2017 and 2016, respectively. First Financial made no contributions to the 401(k) plan during 2015.

**Bank-owned life insurance.** First Financial purchases life insurance policies on the lives of certain employees and is the owner and beneficiary of the policies. The Bank invests in these policies to provide an efficient form of funding for long-term retirement and other employee benefits costs. The policies are included within Accrued interest and other assets in the Consolidated Balance Sheets at each policy’s respective cash surrender value with changes recorded in Other noninterest income in the Consolidated Statements of Income. The carrying value of bank-owned life insurance policies was $102.3 million and $98.5 million at December 31, 2017, and 2016, respectively.

## 16. Accumulated Other Comprehensive Income (Loss)

Shareholders' equity is affected by transactions and valuations of asset and liability positions that require adjustments to accumulated other comprehensive income (loss). The related tax effects allocated to other comprehensive income and accumulated other comprehensive income (loss) are as follows:

| | December 31, 2017 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Total other comprehensive income (loss) | | | | | Total accumulated other comprehensive income (loss) | | |
| *(Dollars in thousands)* | Prior to Reclassification | Reclassification from | Pre-tax | Tax-effect | Net of tax | Beginning Balance | Net Activity | Ending Balance |
| Unrealized gain (loss) on investment securities | $ 8,447 | $ 1,649 | $ 6,798 | $ (2,431) | $ 4,367 | $ (4,549) | $ 4,367 | $ (182) |
| Unrealized gain (loss) on derivatives | 810 | 0 | 810 | (296) | 514 | (1,091) | 514 | (577) |
| Retirement obligation | 2,775 | (1,511) | 4,286 | (1,114) | 3,172 | (22,803) | 3,172 | (19,631) |
| **Total** | $ 12,032 | $ 138 | $ 11,894 | $ (3,841) | $ 8,053 | $ (28,443) | $ 8,053 | $ (20,390) |

| | December 31, 2016 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Total other comprehensive income (loss) | | | | | Total accumulated other comprehensive income (loss) | | |
| *(Dollars in thousands)* | Prior to Reclassification | Reclassification from | Pre-tax | Tax-effect | Net of tax | Beginning Balance | Net Activity | Ending Balance |
| Unrealized gain (loss) on investment securities | $ 751 | $ 234 | $ 517 | $ (133) | $ 384 | $ (4,933) | $ 384 | $ (4,549) |
| Unrealized gain (loss) on derivatives | 809 | 0 | 809 | (301) | 508 | (1,599) | 508 | (1,091) |
| Retirement obligation | 884 | (1,195) | 2,079 | (834) | 1,245 | (24,048) | 1,245 | (22,803) |
| **Total** | $ 2,444 | $ (961) | $ 3,405 | $ (1,268) | $ 2,137 | $ (30,580) | $ 2,137 | $ (28,443) |

| | December 31, 2015 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Total other comprehensive income (loss) | | | | | Total accumulated other comprehensive income (loss) | | |
| *(Dollars in thousands)* | Prior to Reclassification | Reclassification from | Pre-tax | Tax-effect | Net of tax | Beginning Balance | Net Activity | Ending Balance |
| Unrealized gain (loss) on investment securities | $ (2,200) | $ 1,505 | $ (3,705) | $ 1,278 | $ (2,427) | $ (2,506) | $ (2,427) | $ (4,933) |
| Unrealized gain (loss) on derivatives | (1,020) | 0 | (1,020) | 370 | (650) | (949) | (650) | (1,599) |
| Retirement obligation | (11,014) | (1,475) | (9,539) | 3,395 | (6,144) | (17,904) | (6,144) | (24,048) |
| Foreign currency translation | 50 | 0 | 50 | 0 | 50 | (50) | 50 | 0 |
| **Total** | $ (14,184) | $ 30 | $ (14,214) | $ 5,043 | $ (9,171) | $ (21,409) | $ (9,171) | $ (30,580) |

The following table details the activity reclassified from accumulated other comprehensive income into income during the period:

| | Amount Reclassified from Accumulated Other Comprehensive Income [1] | | | |
|---|---|---|---|---|
| | December 31, | | | |
| *(Dollars in thousands)* | 2017 | 2016 | 2015 | Affected Line Item in the Consolidated Statements of Income |
| Realized gains and losses on securities available-for-sale | $ 1,649 | $ 234 | $ 1,505 | Gains on sales of investments securities |
| Defined benefit pension plan | | | | |
| Amortization of prior service cost [2] | 413 | 413 | 413 | Salaries and employee benefits |
| Recognized net actuarial loss [2] | (1,924) | (1,608) | (1,888) | Salaries and employee benefits |
| Amortization and settlement charges of defined benefit pension items | (1,511) | (1,195) | (1,475) | |
| **Total reclassifications for the period, before tax** | $ 138 | $ (961) | $ 30 | |

(1) Negative amounts are debits to profit/loss.
(2) Included in the computation of net periodic pension cost (see Note 15 - Employee Benefit Plans for additional details).

## 17. Capital

**Risk-based capital.** First Financial and its subsidiary, First Financial Bank, are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations involve quantitative measures of assets, liabilities and certain off-balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet minimum capital requirements can initiate regulatory action.

The Board of Governors of the Federal Reserve System approved a final rule implementing changes intended to strengthen the regulatory capital framework for all banking organizations (Basel III) which became effective January 1, 2015, subject to a phase-in period for certain provisions. Basel III establishes and defines quantitative measures to ensure capital adequacy which require First Financial to maintain minimum amounts and ratios of Common Equity tier 1 capital, total and tier 1 capital to risk-weighted assets and tier 1 capital to average assets (leverage ratio).

The rule includes a new minimum ratio of common equity tier 1 capital to risk-weighted assets of 5.750% and a capital conservation buffer of 2.5% of risk-weighted assets that began on January 1, 2016 at 0.625% and will be phased in over a four-year period, increasing by the same amount each subsequent January 1, until fully phased-in on January 1, 2019. Further, Basel III increased the minimum ratio of tier 1 capital to risk-weighted assets increased from 4.00% to 7.250% and and all banks are now subject to a 4.0% minimum leverage ratio. The required total risk-based capital ratio is unchanged. Failure to maintain the required common equity Tier 1 capital conservation buffer will result in potential restrictions on a bank’s ability to pay dividends, repurchase stock and/or pay discretionary compensation to its employees.

First Financial's Tier 1 capital is comprised of total shareholders' equity less unrealized gains and losses on investment securities available-for-sale, accounted for under FASB ASC Topic 320, Investments-Debt and Equity Securities, and any amounts resulting from the application of FASB ASC Topic 715, Compensation-Retirement Benefits, that are recorded within accumulated other comprehensive income (loss), intangible assets and any valuation related to mortgage servicing rights. Total risk-based capital consists of Tier 1 capital plus the qualifying allowance for loan and lease losses and gross unrealized gains on equity securities. For purposes of calculating the leverage ratio, average assets represents quarterly average assets less assets ineligible for total risk-based capital including all or portions of intangible assets, mortgage servicing assets and the ALLL.

The revised capital requirements also provide strict eligibility criteria for regulatory capital instruments, and the method for calculating risk-weighted assets includes identification of riskier assets which require higher capital allocations, such as highly volatile commercial real estate and nonaccrual loans.

The following tables present the actual and required capital amounts and ratios as of December 31, 2017 and 2016 under the Basel III Capital Rules. The minimum required capital amounts presented include the minimum required capital levels based on the phase-in provisions of the Basel III Capital Rules as well as the minimum required capital levels as of January 1, 2019 when the Basel III Capital Rules have been fully phased-in. Capital levels required to be considered "well capitalized" are based upon prompt corrective action regulations, as amended to reflect the changes under the Basel III Capital Rules. All First Financial's regulatory capital ratios exceeded the amounts necessary to be classified as “well capitalized,” and total regulatory capital exceeded the “minimum” requirement by $271.6 million on a consolidated basis.

| | Actual | | Minimum capital required - Basel III current period | | Required to be considered well capitalized - current period | | Minimum capital required - Basel III fully phased-in | |
|---|---|---|---|---|---|---|---|---|
| *(Dollars in thousands)* | Capital amount | Ratio | Capital amount | Ratio | Capital amount | Ratio | Capital amount | Ratio |
| **December 31, 2017** | | | | | | | | |
| Common equity tier 1 capital to risk-weighted assets | | | | | | | | |
| Consolidated | $ 755,735 | 10.63% | $ 408,746 | 5.750% | N/A | N/A | $ 497,604 | 7.00% |
| First Financial Bank | 794,251 | 11.21% | 407,220 | 5.750% | $ 460,336 | 6.50% | 495,746 | 7.00% |
| Tier 1 capital to risk-weighted assets | | | | | | | | |
| Consolidated | 755,839 | 10.63% | 515,376 | 7.250% | N/A | N/A | 604,233 | 8.50% |
| First Financial Bank | 794,355 | 11.22% | 513,452 | 7.250% | $ 566,567 | 8.00% | 601,978 | 8.50% |
| Total capital to risk-weighted assets | | | | | | | | |
| Consolidated | 929,148 | 13.07% | 657,548 | 9.250% | N/A | N/A | 746,406 | 10.50% |
| First Financial Bank | 856,363 | 12.09% | 655,093 | 9.250% | 708,209 | 10.00% | 743,619 | 10.50% |
| Leverage | | | | | | | | |
| Consolidated | 755,839 | 8.84% | 342,198 | 4.00% | N/A | N/A | 342,198 | 4.00% |
| First Financial Bank | 794,355 | 9.29% | 342,113 | 4.00% | 427,642 | 5.00% | 342,113 | 4.00% |

| | Actual | | Minimum capital required - Basel III current period | | Required to be considered well capitalized - current period | | Minimum capital required - Basel III fully phased-in | |
|---|---|---|---|---|---|---|---|---|
| *(Dollars in thousands)* | Capital amount | Ratio | Capital amount | Ratio | Capital amount | Ratio | Capital amount | Ratio |
| **December 31, 2016** | | | | | | | | |
| Common equity tier 1 capital to risk-weighted assets | | | | | | | | |
| Consolidated | $ 703,891 | 10.46% | $ 344,848 | 5.125% | N/A | N/A | $ 471,012 | 7.00% |
| First Financial Bank | 747,151 | 11.13% | 344,038 | 5.125% | $ 436,341 | 6.50% | 469,906 | 7.00% |
| Tier 1 capital to risk-weighted assets | | | | | | | | |
| Consolidated | 703,995 | 10.46% | 445,779 | 6.625% | N/A | N/A | 571,943 | 8.50% |
| First Financial Bank | 747,255 | 11.13% | 444,732 | 6.625% | 537,035 | 8.00% | 570,600 | 8.50% |
| Total capital to risk-weighted assets | | | | | | | | |
| Consolidated | 881,158 | 13.10% | 580,354 | 8.625% | N/A | N/A | 706,517 | 10.50% |
| First Financial Bank | 813,433 | 12.12% | 578,991 | 8.625% | 671,294 | 10.00% | 704,859 | 10.50% |
| Leverage | | | | | | | | |
| Consolidated | 703,995 | 8.60% | 327,562 | 4.00% | N/A | N/A | 327,562 | 4.00% |
| First Financial Bank | 747,255 | 9.13% | 327,392 | 4.00% | 409,240 | 5.00% | 327,392 | 4.00% |

**Share repurchases.** In October 2012, First Financial's board of directors approved a share repurchase plan under which the Company has the ability to repurchase up to 5,000,000 common shares. The Company did not repurchase any shares under this plan during 2016 or 2017. The Company repurchased 239,967 shares under the 2012 share repurchase plan during 2015 at an average price of $18.75 per share. At December 31, 2017, 3,509,133 common shares remained available for purchase under this repurchase plan.

**ATM Offering.** In March 2017, First Financial initiated an "at-the-market" equity offering program to provide flexibility with respect to capital planning and to support future growth. First Financial was not active through the ATM program during the period.

## 18. Stock Options and Awards

First Financial follows the provisions of FASB ASC Topic 718, Compensation-Stock Compensation, which requires measurement of compensation cost for all stock-based awards at fair value on the date of grant and recognition of compensation expense over the service period for all awards expected to vest. First Financial recorded share-based compensation expense of $5.4 million for the years ended December 31, 2017 and December 31, 2016 and $4.0 million for the year ended December 31, 2015, within salaries and employee benefits expense related to stock options and restricted stock awards. Total unrecognized compensation cost related to non-vested share-based compensation was $5.5 million at December 31, 2017 and is expected to be recognized over a weighted average period of 1.9 years.

As of December 31, 2017, First Financial had three active stock-based compensation plans: the 1999 Plan, the 2012 Stock Plan, and the Amended and Restated 2012 Stock Plan (each as described below), however additional awards may only be granted under the Amended and Restated 2012 Stock Plan.

The 1999 Stock Incentive Plan for Officers and Employees (the 1999 Plan) provided incentive stock options, non-qualified stock options and stock awards to certain key employees of First Financial for up to 7,507,500 common shares. The options become exercisable at a rate of 25% per year on the anniversary date of the grant and remain outstanding for 10 years after the initial grant date with all options expiring at the end of the exercise period. No additional awards may be granted under the 1999 Plan. At December 31, 2017, 11,800 options were outstanding under the 1999 Plan, all of which expire on or before February 14, 2018.

On May 22, 2012, shareholders approved the First Financial Bancorp. 2012 Stock Plan and amendments to the 2009 Non-Employee Director Plan. At December 31, 2017, there were no shares available for issuance under the 2012 stock plan.

On May 23, 2017, the shareholders amended and restated the 2012 Stock Plan as the First Financial Bancorp. Amended and Restated 2012 Stock Plan. At December 31, 2017, there were 2,154,251 shares available for issuance under the Amended and Restated 2012 Stock Plan.

First Financial utilizes the Black-Scholes valuation model to determine the fair value of stock options granted. In addition to the stock option strike price, the Black-Scholes valuation model incorporates the following assumptions: the expected dividend yield based on historical dividend payouts; the expected stock price volatility based on the historical volatility of Company stock for a period approximating the expected life of the options; the risk-free rate based on the U.S. Treasury yield curve in effect at the time of grant for periods corresponding with the expected life of the option; and the expected option life represented by the period of time the options are expected to be outstanding, and is based on historical trends. No options were granted in 2017, 2016 or 2015.

Stock option activity for the year ended December 31, 2017, is summarized as follows:

| *(Dollars in thousands, except share and per share data)* | Number of shares | Weighted average exercise price | Weighted average remaining contractual life | Aggregate intrinsic value |
|---|---|---|---|---|
| Outstanding at beginning of year | 113,307 | $ 12.08 | | |
| Granted | 0 | 0.00 | | |
| Exercised | (101,507) | 12.13 | | |
| Forfeited or expired | 0 | 0.00 | | |
| **Outstanding at end of year** | 11,800 | $ 11.64 | 0.12 | $ 174 |
| **Exercisable at end of year** | 11,800 | $ 11.64 | 0.12 | $ 174 |

The intrinsic value of stock options is defined as the difference between the current market value and the exercise price. First Financial uses treasury shares purchased under the Company's share repurchase program to satisfy share-based exercises.

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Total intrinsic value of options exercised | $ 1,533 | $ 661 | $ 492 |
| Cash received from exercises | $ 341 | $ 801 | $ 744 |
| Tax benefit from exercises | $ 1,991 | $ 1,958 | $ 1,488 |

Restricted stock awards are recorded at fair value as of the grant date as a component of shareholders' equity and amortized on a straight-line basis to salaries and benefits expense over the specified vesting periods, which is currently three years for employees and one year for non-employee directors. The vesting of these awards for employees and non-employee directors may require a service period to be met, and certain awards may also require performance measures to be met.

Activity in restricted stock for the previous three years ended December 31 is summarized as follows:

| | 2017 | | 2016 | | 2015 | |
|---|---|---|---|---|---|---|
| | Number of shares | Weighted average grant date fair value | Number of shares | Weighted average grant date fair value | Number of shares | Weighted average grant date fair value |
| Nonvested at beginning of year | 648,817 | $ 17.82 | 643,641 | $ 17.21 | 494,452 | $ 16.43 |
| Granted | 234,529 | 27.36 | 317,695 | 18.13 | 439,674 | 17.65 |
| Vested | (307,825) | 18.12 | (263,713) | 16.82 | (227,905) | 16.45 |
| Forfeited | (107,149) | 21.18 | (48,806) | 17.37 | (62,580) | 16.58 |
| **Nonvested at end of year** | 468,372 | $ 21.63 | 648,817 | $ 17.82 | 643,641 | $ 17.21 |

The fair value of restricted stock is determined based on the number of shares granted and the quoted price of First Financial's common stock. The fair value of restricted stock vested during 2017, 2016 and 2015 was $5.6 million, $4.4 million and $3.8 million, respectively.

## 19. Earnings Per Common Share

The following table sets forth the computation of basic and diluted earnings per share:

| *(Dollars in thousands, except share and per share data)* | 2017 | 2016 | 2015 |
|---|---|---|---|
| **Numerator** | | | |
| Net income | $ 96,787 | $ 88,526 | $ 75,063 |
| | | | |
| **Denominator** | | | |
| Basic earnings per common share - weighted average shares | 61,529,460 | 61,206,093 | 61,062,657 |
| Effect of dilutive securities | | | |
| Employee stock awards | 581,329 | 729,335 | 670,282 |
| Warrants | 60,801 | 49,994 | 114,608 |
| Diluted earnings per common share - adjusted weighted average shares | 62,171,590 | 61,985,422 | 61,847,547 |
| | | | |
| Earnings per share available to common shareholders | | | |
| Basic | $ 1.57 | $ 1.45 | $ 1.23 |
| Diluted | $ 1.56 | $ 1.43 | $ 1.21 |

Warrants to purchase 104,200, 114,678 and 322,312 shares of the Company's common stock were outstanding as of December 31, 2017, 2016 and 2015, respectively. These warrants, each representing the right to purchase one share of common stock, no par value per share, have an exercise price of $12.12 and expire on December 23, 2018.

Stock options and warrants, with an exercise price greater than the average market price of the common shares, were not included in the computation of net income per diluted share as they would have been antidilutive. Using the period end price, there were no antidilutive options at December 31, 2017, 2016, or 2015.

As of December 31, 2017, 2016, and 2015, no preferred shares were issued or outstanding.

## 20. Fair Value Disclosures

Fair Value Measurement
The fair value framework as disclosed in the Fair Value Measurements and Disclosure Topic of FASB ASC Topic 825, Financial Instruments (Fair Value Topic), includes a hierarchy which focuses on prioritizing the inputs used in valuation techniques. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1), a lower priority to observable inputs other than quoted prices in active markets for identical assets and liabilities (Level 2), and the lowest priority to unobservable inputs (Level 3). When determining the fair value measurements for assets and liabilities, First Financial looks to active markets to price identical assets or liabilities whenever possible and classifies such items in Level 1. When identical assets and liabilities are not traded in active markets, First Financial looks to observable market data for similar assets and liabilities and classifies such items as Level 2. Certain assets and liabilities are not actively traded in observable markets and First Financial must use alternative techniques, based on unobservable inputs, to determine the fair value and classifies such items as Level 3. The level within the fair value hierarchy is based on the lowest level of input that is significant in the fair value measurement.

The following methods, assumptions and valuation techniques were used by First Financial to measure different financial assets and liabilities at fair value and in estimating its fair value disclosures for financial instruments.

**Cash and short-term investments.** The carrying amounts reported in the Consolidated Balance Sheets for cash and short-term investments, such as federal funds sold, approximated the fair value of those instruments. The Company classifies cash and short-term investments in Level 1 of the fair value hierarchy.

**Investment securities.** Investment securities classified as trading and available-for-sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted market prices, when available (Level 1). If quoted market prices are not available, fair values are measured utilizing independent valuation techniques of identical or similar investment securities. First Financial compiles prices from various sources who may apply such techniques as matrix pricing to determine the value of identical or similar investment securities (Level 2). Matrix pricing is a mathematical technique widely used in the banking industry to value investment securities without relying exclusively on quoted prices for the specific investment securities but rather relying on the investment securities' relationship to other benchmark quoted investment securities. Any investment securities not valued based upon the methods above are classified in Level 3.

First Financial utilizes values provided by third-party pricing vendors to price the investment securities portfolio in accordance with the fair value hierarchy of the Fair Value Topic and reviews the pricing methodologies utilized by the pricing vendors to ensure that the fair value determination is consistent with the applicable accounting guidance. First Financial's pricing process includes a series of quality assurance activities where prices are compared to recent market conditions, historical prices and other independent pricing services. Further, the Company periodically validates the fair values of a sample of securities in the portfolio by comparing the fair values to prices from other independent sources for the same or similar securities. First Financial analyzes unusual or significant variances, conducts additional research with the pricing vendor, and if necessary, takes appropriate action based on its findings. The results of the quality assurance process are incorporated into the selection of pricing providers by the portfolio manager.

**Other investments.** Other investments include holdings in FRB and FHLB stock, which are carried at cost due to the inability to determine the fair value resulting from transferability restrictions.

**Loans held for sale.** Loans held for sale are carried at fair value. These loans currently consist of one-to-four family residential real estate loans originated for sale to qualified third parties. Fair value is based on the market price or contractual price to be received from these third parties, which is not materially different than cost due to the short duration between origination and sale (Level 2). As such, First Financial records any fair value adjustments on a nonrecurring basis. Gains and losses on the sale of loans are recorded as Net gains from sales of loans on the Consolidated Statements of Income.

**Loans and leases.** The fair value of C&I, lease financing, CRE, residential real estate and other consumer loans was estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities or repricing frequency. The Company classifies the estimated fair value of loans as Level 3 in the fair value hierarchy.

Impaired loans are specifically reviewed for purposes of determining the appropriate amount of impairment to be allocated to the ALLL. Fair value is generally measured based on the value of the collateral securing the loans. Collateral may be in the form of real estate or business assets including equipment, inventory and accounts receivable. The value of real estate collateral is determined utilizing an income or market valuation approach based on an appraisal conducted by an independent, licensed third-party appraiser (Level 3). The value of business equipment is based upon an outside appraisal, if deemed significant, or the net book value on the applicable borrower financial statements. Likewise, values for inventory and accounts receivable collateral are based on borrower financial statement balances or aging reports on a discounted basis as appropriate (Level 3). Impaired loans are measured at fair value on a nonrecurring basis. Any fair value adjustments are recorded in the period incurred as Provision for loan and lease losses on the Consolidated Statements of Income.

**OREO.** Assets acquired through loan foreclosure are recorded at fair value less costs to sell, with any difference between the fair value of the property and the carrying value of the loan recorded as a charge-off. If the fair value is higher than the carrying amount of the loan, the excess is recognized first as a recovery and then as noninterest income. Subsequent declines in value are reported as adjustments to the carrying amount and are recorded in noninterest expense. The carrying value of OREO is not re-measured to fair value on a recurring basis, but is subject to fair value adjustments when the carrying value differs from the fair value, less estimated selling costs. Fair value is based on recent real estate appraisals and is updated at least annually. The Company classifies OREO in level 3 of the fair value hierarchy.

**Accrued interest receivable and payable.** The carrying amount of accrued interest receivable and accrued interest payable approximate their fair values and is aligned with the underlying assets or liabilities (Level 1, Level 2 or Level 3).

**Deposits.** The fair value of demand deposits, savings accounts and certain money-market deposits represents the amount payable on demand at the reporting date. The carrying amounts for variable-rate CDs approximated their fair values at the reporting date. The fair value of fixed-rate CDs is estimated using a discounted cash flow calculation which applies the interest rates currently offered for deposits of similar remaining maturities. The Company classifies the estimated fair value of deposit liabilities as Level 2 in the fair value hierarchy.

**Borrowings.** The carrying amounts of federal funds purchased and securities sold under agreements to repurchase and other short-term borrowings approximate their fair values. The Company classifies the estimated fair value of short-term borrowings as Level 1 of the fair value hierarchy.

The fair value of long-term debt is estimated using a discounted cash flow calculation which utilizes the interest rates currently offered for borrowings of similar remaining maturities. The Company classifies the estimated fair value of long-term debt as Level 2 in the fair value hierarchy.

**Derivatives.** The fair values of derivative instruments are based primarily on a net present value calculation of the cash flows related to the interest rate swaps at the reporting date which represents the cost to terminate the swap if First Financial should choose to do so. This net present value is derived using primarily observable market inputs such as interest rate yield curves. Additionally, First Financial utilizes an internally-developed model to value the credit risk component of derivative assets and liabilities, which is recorded as an adjustment to the fair value of the derivative asset or liability on the reporting date. Derivative instruments are classified as Level 2 in the fair value hierarchy.

The estimated fair values of First Financial's financial instruments not measured at fair value on a recurring or nonrecurring basis in the consolidated financial statements were as follows:

| | Carrying | Estimated fair value | | | |
|---|---|---|---|---|---|
| *(Dollars in thousands)* | value | Total | Level 1 | Level 2 | Level 3 |
| **December 31, 2017** | | | | | |
| **Financial assets** | | | | | |
| Cash and short-term investments | $ 184,624 | $ 184,624 | $ 184,624 | $ 0 | $ 0 |
| Investment securities held-to-maturity | 654,008 | 653,101 | 0 | 653,101 | 0 |
| Other investments | 53,140 | N/A | N/A | N/A | N/A |
| Loans held for sale | 11,502 | 11,502 | 0 | 11,502 | 0 |
| Loans and leases, net of ALLL | 5,959,162 | 6,006,656 | 0 | 0 | 6,006,656 |
| Accrued interest receivable | 24,496 | 24,496 | 0 | 8,265 | 16,231 |
| | | | | | |
| **Financial liabilities** | | | | | |
| Deposits | | | | | |
| Noninterest-bearing | $ 1,662,058 | $ 1,662,058 | $ 0 | $ 1,662,058 | $ 0 |
| Interest-bearing demand | 1,453,463 | 1,453,463 | 0 | 1,453,463 | 0 |
| Savings | 2,462,420 | 2,462,420 | 0 | 2,462,420 | 0 |
| Time | 1,317,105 | 1,306,674 | 0 | 1,306,674 | 0 |
| Total deposits | 6,895,046 | 6,884,615 | 0 | 6,884,615 | 0 |
| Short-term borrowings | 814,565 | 814,565 | 814,565 | 0 | 0 |
| Long-term debt | 119,654 | 117,908 | 0 | 117,908 | 0 |
| Accrued interest payable | 5,104 | 5,104 | 204 | 4,900 | 0 |

| (Dollars in thousands) | Carrying Value | Estimated Fair Value Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|---|
| **December 31, 2016** | | | | | |
| **Financial assets** | | | | | |
| Cash and short-term investments | $ 204,048 | $ 204,048 | $ 204,048 | $ 0 | $ 0 |
| Investment securities held-to-maturity | 763,254 | 763,575 | 0 | 763,575 | 0 |
| Other investments | 51,077 | N/A | N/A | N/A | N/A |
| Loans held for sale | 13,135 | 13,135 | 0 | 13,135 | 0 |
| Loans and leases, net of ALLL | 5,699,521 | 5,754,845 | 0 | 0 | 5,754,845 |
| Accrued interest receivable | 18,503 | 18,503 | 0 | 5,705 | 12,798 |
| | | | | | |
| **Financial liabilities** | | | | | |
| Deposits | | | | | |
| Noninterest-bearing | $ 1,547,985 | $ 1,547,985 | $ 0 | $ 1,547,985 | $ 0 |
| Interest-bearing demand | 1,513,771 | 1,513,771 | 0 | 1,513,771 | 0 |
| Savings | 2,142,189 | 2,142,189 | 0 | 2,142,189 | 0 |
| Time | 1,321,843 | 1,316,333 | 0 | 1,316,333 | 0 |
| Total deposits | 6,525,788 | 6,520,278 | 0 | 6,520,278 | 0 |
| Short-term borrowings | 807,912 | 807,912 | 807,912 | 0 | 0 |
| Long-term debt | 119,589 | 117,878 | 0 | 117,878 | 0 |
| Accrued interest payable | 5,049 | 5,049 | 410 | 4,639 | 0 |

The following table summarizes the financial assets and liabilities measured at fair value on a recurring basis:

| *(Dollars in thousands)* | Fair Value Measurements Using Level 1 | Level 2 | Level 3 | Assets/ Liabilities at Fair Value |
|---|---|---|---|---|
| **December 31, 2017** | | | | |
| **Assets** | | | | |
| Derivatives | $ 0 | $ 12,757 | $ 0 | $ 12,757 |
| Investment securities available-for-sale | 2,969 | 1,346,439 | 0 | 1,349,408 |
| **Total** | $ 2,969 | $ 1,359,196 | $ 0 | $ 1,362,165 |
| **Liabilities** | | | | |
| Derivatives | $ 0 | $ 12,755 | $ 0 | $ 12,755 |

| *(Dollars in thousands)* | Fair Value Measurements Using Level 1 | Level 2 | Level 3 | Assets/ Liabilities at Fair Value |
|---|---|---|---|---|
| **December 31, 2016** | | | | |
| **Assets** | | | | |
| Derivatives | $ 0 | $ 12,922 | $ 0 | $ 12,922 |
| Investment securities available-for-sale | 8,711 | 1,031,159 | 0 | 1,039,870 |
| **Total** | $ 8,711 | $ 1,044,081 | $ 0 | $ 1,052,792 |
| **Liabilities** | | | | |
| Derivatives | $ 0 | $ 12,725 | $ 0 | $ 12,725 |

Certain financial assets and liabilities are measured at fair value on a nonrecurring basis. Adjustments to the fair market value of these assets and liabilities usually result from the write-downs of individual assets. The following table summarizes financial assets and liabilities measured at fair value on a nonrecurring basis:

| *(Dollars in thousands)* | Fair Value Measurements Using Level 1 | Level 2 | Level 3 |
|---|---|---|---|
| **December 31, 2017** | | | |
| **Assets** | | | |
| Impaired loans | $ 0 | $ 0 | $ 2,671 |
| OREO | 0 | 0 | 1,086 |

| *(Dollars in thousands)* | Fair Value Measurements Using Level 1 | Level 2 | Level 3 |
|---|---|---|---|
| **December 31, 2016** | | | |
| **Assets** | | | |
| Impaired loans | $ 0 | $ 0 | $ 8,154 |
| OREO | 0 | 0 | 3,921 |

## 21. Pending Business Combination (Unaudited)

In July 2017, First Financial Bancorp and MainSource Financial Group, Inc. entered into a definitive merger agreement under which MainSource will merge into First Financial in a stock-for-stock transaction. MainSource Bank, a wholly owned subsidiary of MainSource, will merge into First Financial Bank. Under the terms of the merger agreement, shareholders of MainSource will receive 1.3875 common shares of First Financial common stock for each share of MainSource common stock. Including outstanding options and warrants on MainSource common stock, the transaction is valued at approximately $1.0 billion. Upon closing, First Financial shareholders will own approximately 65% of the combined company and MainSource shareholders will own approximately 35%, on a fully diluted basis. The merger will position the combined company to better serve the complimentary geographies of Ohio, Indiana and Kentucky, and create a higher performing bank with greater scale and capabilities. Pro forma information for the periods ended June 30, 2017 and December 31, 2016 was as follows:

| *(Dollars in thousands, except per share data)* | **For the six months ended June 30, 2017 (Unaudited)** | **For the year ended December 31, 2016 (Unaudited)** |
|---|---|---|
| Pro Forma Condensed Combined Income Statement Information | | |
| Net interest income | $ 204,518 | $ 387,725 |
| Provision for loan and lease losses | 834 | 10,140 |
| Income before income taxes | 92,591 | 170,132 |
| Net income | 65,884 | 119,661 |

| | **As of June 30, 2017 (Unaudited)** |
|---|---|
| Pro Forma Condensed Combined Balance Sheet Information | |
| Loans and leases, net | $ 8,818,392 |
| Total assets | 13,806,092 |
| Deposits | 9,987,298 |
| Total shareholders' equity | 1,913,682 |

The merger was approved by the FRB of Cleveland and the ODFI during the first quarter of 2018 and is expected to close on April 1, 2018.

The selected pro forma financial data included in the preceding table is based on preliminary estimates, and is subject to change upon completion of the merger. In October 2017, the Company filed a registration statement on Form S-4 that included historical and pro forma information required in connection with the merger.

## 22. First Financial Bancorp (Parent Company Only) Financial Information

### Balance Sheets

| *(Dollars in thousands)* | December 31, 2017 | 2016 |
|---|---|---|
| **Assets** | | |
| Cash | $ 57,719 | $ 59,285 |
| Investment securities, available for sale | 442 | 386 |
| Subordinated notes from subsidiaries | 7,500 | 7,500 |
| Investment in subsidiaries | | |
| Commercial banks | 970,290 | 909,798 |
| Total investment in subsidiaries | 970,290 | 909,798 |
| Premises and equipment | 1,378 | 1,395 |
| Other assets | 26,778 | 19,487 |
| **Total assets** | $ 1,064,107 | $ 997,851 |
| | | |
| **Liabilities** | | |
| Subordinated debentures | $ 118,638 | $ 118,463 |
| Dividends payable | 10,965 | 10,386 |
| Other liabilities | 3,840 | 3,778 |
| **Total liabilities** | 133,443 | 132,627 |
| **Shareholders' equity** | 930,664 | 865,224 |
| **Total liabilities and shareholders' equity** | $ 1,064,107 | $ 997,851 |

### Statements of Income

| *(Dollars in thousands)* | Years Ended December 31, 2017 | 2016 | 2015 |
|---|---|---|---|
| **Income** | | | |
| Interest income | $ 6 | $ 48 | $ 81 |
| Noninterest income | 86 | 2,596 | 253 |
| Dividends from subsidiaries | 54,600 | 52,700 | 17,250 |
| **Total income** | 54,692 | 55,344 | 17,584 |
| | | | |
| **Expenses** | | | |
| Interest expense | 6,152 | 6,151 | 2,157 |
| Salaries and employee benefits | 5,519 | 5,445 | 4,224 |
| Miscellaneous professional services | 970 | 711 | 723 |
| Other | 4,819 | 4,841 | 5,564 |
| **Total expenses** | 17,460 | 17,148 | 12,668 |
| **Income before income taxes and equity in undistributed net earnings of subsidiaries** | 37,232 | 38,196 | 4,916 |
| Income tax benefit | (7,080) | (5,302) | (4,563) |
| Equity in undistributed earnings (loss) of subsidiaries | 52,475 | 45,028 | 65,584 |
| **Net income** | $ 96,787 | $ 88,526 | $ 75,063 |

**Statements of Cash Flows**

| *(Dollars in thousands)* | Years Ended December 31, 2017 | 2016 | 2015 |
|---|---|---|---|
| **Operating activities** | | | |
| Net income | $ 96,787 | $ 88,526 | $ 75,063 |
| Adjustments to reconcile net income to net cash provided by operating activities | | | |
| Equity in undistributed (earnings) loss of subsidiaries | (52,475) | (45,028) | (65,584) |
| Depreciation and amortization | 193 | 192 | 78 |
| Stock-based compensation expense | 5,446 | 5,354 | 4,049 |
| Deferred income taxes | (360) | 584 | (85) |
| (Decrease) increase in dividends payable | 579 | 135 | 2 |
| (Decrease) increase in other liabilities | (889) | (389) | 1,965 |
| Decrease (increase) in other assets | (6,951) | (9,065) | 1,459 |
| Net cash provided by (used in) operating activities | 42,330 | 40,309 | 16,947 |
| **Investing activities** | | | |
| Capital contributions to subsidiaries | 0 | (53,000) | (40,000) |
| Proceeds from calls and maturities of investment securities | 0 | 5,978 | 87 |
| Purchases of investment securities | 0 | (333) | (412) |
| Net cash provided by (used in) investing activities | 0 | (47,355) | (40,325) |
| **Financing activities** | | | |
| Proceeds from long-term borrowings | 0 | 0 | 120,000 |
| Cash dividends paid on common stock | (41,178) | (39,125) | (39,070) |
| Treasury stock purchase | 0 | 0 | (4,498) |
| Proceeds from exercise of stock options, net of shares purchased | 341 | 801 | 744 |
| Excess tax benefit on share-based compensation | 0 | 264 | 146 |
| Other | (3,059) | (1,681) | (3,064) |
| Net cash provided by (used in) financing activities | (43,896) | (39,741) | 74,258 |
| **Net increase (decrease) in cash** | (1,566) | (46,787) | 50,880 |
| Cash at beginning of year | 59,285 | 106,072 | 55,192 |
| **Cash at end of year** | $ 57,719 | $ 59,285 | $ 106,072 |

## Quarterly Financial And Common Stock Data (Unaudited)

| *(Dollars in thousands, except per share data)* | Three months ended March 31 | June 30 | September 30 | December 31 |
|---|---|---|---|---|
| **2017** | | | | |
| Interest income | $ 78,828 | $ 80,789 | $ 84,918 | $ 88,538 |
| Interest expense | 9,896 | 12,269 | 14,439 | 12,924 |
| Net interest income | 68,932 | 68,520 | 70,479 | 75,614 |
| Provision for loan and lease losses | 367 | 467 | 2,953 | (205) |
| Noninterest income | | | | |
| Gain on sale of investment securities | 516 | 838 | 276 | 19 |
| All other | 16,848 | 16,616 | 22,666 | 18,363 |
| Total noninterest income | 17,364 | 17,454 | 22,942 | 18,382 |
| Noninterest expenses | 51,045 | 51,556 | 54,443 | 82,898 |
| Income before income taxes | 34,884 | 33,951 | 36,025 | 11,303 |
| Income tax expense | 10,470 | 11,215 | 11,199 | (13,508) |
| **Net income** | $ 24,414 | $ 22,736 | $ 24,826 | $ 24,811 |
| | | | | |
| **Earnings per common share:** | | | | |
| Basic | $ 0.40 | $ 0.37 | $ 0.40 | $ 0.40 |
| Diluted | $ 0.39 | $ 0.37 | $ 0.40 | $ 0.40 |
| **Cash dividends paid per common share** | $ 0.16 | $ 0.17 | $ 0.17 | $ 0.17 |
| **Market price** | | | | |
| High | $ 28.90 | $ 28.95 | $ 28.50 | $ 29.15 |
| Low | $ 26.00 | $ 25.05 | $ 23.10 | $ 25.30 |
| | | | | |
| **2016** | | | | |
| Interest income | $ 74,795 | $ 75,183 | $ 77,325 | $ 78,647 |
| Interest expense | 8,240 | 8,051 | 8,507 | 8,481 |
| Net interest income | 66,555 | 67,132 | 68,818 | 70,166 |
| Provision for loan and lease losses | 1,655 | 4,037 | 1,687 | 2,761 |
| Noninterest income | | | | |
| Gain on sale of investment securities | 24 | (188) | 398 | 0 |
| All other | 15,488 | 20,382 | 16,551 | 16,946 |
| Total noninterest income | 15,512 | 20,194 | 16,949 | 16,946 |
| Noninterest expenses | 50,720 | 49,413 | 51,105 | 50,163 |
| Income before income taxes | 29,692 | 33,876 | 32,975 | 34,188 |
| Income tax expense | 9,878 | 11,308 | 10,125 | 10,894 |
| **Net income** | $ 19,814 | $ 22,568 | $ 22,850 | $ 23,294 |
| | | | | |
| **Earnings per common share:** | | | | |
| Basic | $ 0.32 | $ 0.37 | $ 0.37 | $ 0.38 |
| Diluted | $ 0.32 | $ 0.36 | $ 0.37 | $ 0.38 |
| **Cash dividends paid per common share** | $ 0.16 | $ 0.16 | $ 0.16 | $ 0.16 |
| **Market price** | | | | |
| High | $ 18.36 | $ 20.16 | $ 22.52 | $ 29.35 |
| Low | $ 14.91 | $ 17.49 | $ 18.83 | $ 21.05 |

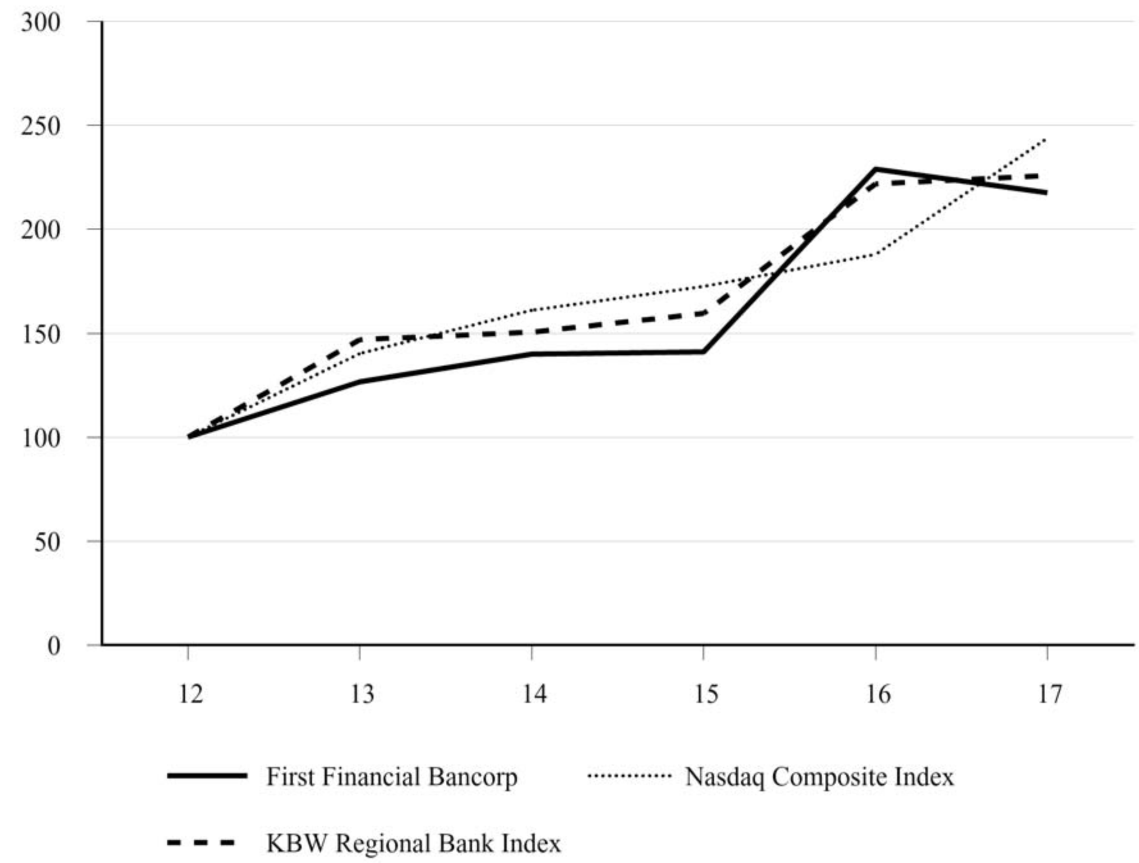
First Financial Bancorp common stock trades on the Nasdaq Stock Market under the symbol FFBC.

## Total Return to Shareholders

The following graph compares the five-year cumulative total return to shareholders of First Financial Bancorp common stock with that of companies that comprise the Nasdaq Composite Index and the KBW Regional Bank Index. The KBW Regional Bank Index is comprised of 50 bank holding companies headquartered throughout the country and is used frequently by investors when comparing First Financial Bancorp's stock performance to that of other similarly sized institutions. First Financial Bancorp is included in the KBW Regional Bank Index.

The following table assumes $100 invested on December 31, 2012 in First Financial Bancorp, the Nasdaq Composite Index and the KBW Regional Bank Index, and assumes that dividends are reinvested.

**COMPARISON OF FIVE-YEAR CUMULATIVE TOTAL RETURN AMONG FIRST FINANCIAL BANCORP, NASDAQ COMPOSITE INDEX AND KBW REGIONAL BANK INDEX**




| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|
| First Financial Bancorp | 100.00 | 126.61 | 139.96 | 140.91 | 228.81 | 217.49 |
| Nasdaq Composite Index | 100.00 | 140.16 | 160.94 | 172.38 | 187.84 | 243.67 |
| KBW Regional Bank Index | 100.00 | 146.83 | 150.39 | 159.41 | 221.77 | 225.79 |

# Shareholder Information

**Annual Shareholder Meeting**
The annual meeting of shareholders will be held on Tuesday, May 22, 2018, at 10:00 a.m. (EDT) via a virtual Shareholder meeting.

**Common Stock Listing**
First Financial Bancorp's common stock trades on the Nasdaq Stock Market (NASDAQ) under the symbol FFBC.

FFBC NASDAQ GLOBAL SELECT

**Registrar and Transfer Agent**
Computershare Shareholder Services serves as the registrar and transfer agent for First Financial Bancorp common stock for registered shareholders. Shareholder account inquiries, including changes of address or ownership, transferring stock, and replacing lost certificates or dividend checks should be directed to Computershare Shareholder Services at:

**Transfer Agent**
Computershare Shareholder Services
P.O. Box 30170
College Station, TX 77842-3170
1-800-368-5948

Shareholders of record can also access their shareholder account records and request information related to their shareholder account via the internet. To register for online account access, go to: *www.computershare.com/investor.*

**Dividend Reinvestment and Stock Purchase Plan**
Shareholders of record holding 25 shares or more are eligible to participate in our Dividend Reinvestment Plan. Shareholders of record may elect to have cash dividends automatically reinvested in additional common shares and can also purchase additional common shares by making optional cash payments. To obtain a prospectus, enroll in the plan, or to contact Investor Relations, please visit the Investor Relations section of our website at *www.bankatfirst.com/investor.*

**Investor Relations**
Corporate and investor information, including news releases, webcasts, investor presentations, annual reports, proxy statements and SEC filings, as well as information on the Company's corporate governance practices are available within the Investor Relations section of our website at *www.bankatfirst.com/investor.*

Shareholders, analysts and other investment professionals who would like corporate and financial information on First Financial Bancorp should contact:

**John Gavigan**
Chief Financial Officer
First Financial Bancorp
255 East Fifth Street, 29th Floor
Cincinnati, OH 45202
513-887-5400
E-mail: InvestorRelations@bankatfirst.com

**Securities and Exchange Commission Filings**
All reports filed electronically by First Financial Bancorp with the United States Securities and Exchange Commission (SEC), including the Annual Report on Form 10-K, quarterly reports on Form 10-Q, and current event reports on Form 8-K, as well as any amendments to those reports, are accessible at no cost within the Investor Relations section of our website at *www.bankatfirst.com/investor*, or by contacting Investor Relations. These filings are also accessible on the SEC's website at *www.sec.gov.*

first financial bancorp

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