FIRST FINANCIAL BANCORP /OH/
Form 10-Q
August 07, 2017
Table of Contents

FORM 10-Q
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

x QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2017

OR

o TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ____________________ to ____________________

Commission file number 001-34762
FIRST FINANCIAL BANCORP.
(Exact name of registrant as specified in its charter)

Ohio (State or other jurisdiction of incorporation or organization)	31-1042001 (I.R.S. Employer Identification No.)
255 East Fifth Street, Suite 700 Cincinnati, Ohio	45202
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (877) 322-9530

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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

Large accelerated filer x Accelerated filer o

Non-accelerated filer o Smaller reporting company o

Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of Exchange Act).
Yes o No x

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at 8/4/2017
Common stock, No par value	62,152,514

Table of Contents

FIRST FINANCIAL BANCORP.

INDEX

	Page No.
Part I - FINANCIAL INFORMATION	
Item 1 - Financial Statements	
Consolidated Balance Sheets - June 30, 2017 (unaudited) and December 31, 2016	1
Consolidated Statements of Income - Three and Six Months Ended June 30, 2017 and 2016 (unaudited)	2
Consolidated Statements of Comprehensive Income - Three and Six Months Ended June 30, 2017 and 2016 (unaudited)	3
Consolidated Statements of Changes in Shareholders' Equity - Six Months Ended June 30, 2017 and 2016 (unaudited)	4
Consolidated Statements of Cash Flows - Six Months Ended June 30, 2017 and 2016 (unaudited)	5
Notes to Consolidated Financial Statements (unaudited)	6
Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations	35
Item 3 - Quantitative and Qualitative Disclosures about Market Risk	51
Item 4 - Controls and Procedures	51
Part II - OTHER INFORMATION	
Item 1 - Legal Proceedings	52
Item 1A - Risk Factors	52
Item 2 - Unregistered Sales of Equity Securities and Use of Proceeds	53
Item 6 - Exhibits	54
Signatures	55

Table of Contents

Glossary of Abbreviations and Acronyms

First Financial 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.

the Act	Private Securities Litigation Reform Act	FASB	Financial Accounting Standards Board
ALLL	Allowance for loan and lease losses	Fair Value Topic	FASB ASC Topic 825, Financial Instruments
ASC	Accounting standards codification	FDIC	Federal Deposit Insurance Corporation
ASU	Accounting standards update	FHLB	Federal Home Loan Bank
ATM	Automated teller machine	First Financial	First Financial Bancorp.
Bank	First Financial Bank	Form 10-K	First Financial Bancorp. Annual Report on Form 10-K
Basel III	Basel Committee regulatory capital reforms, Third Basel Accord	GAAP	U.S. Generally Accepted Accounting Principles
Bp/bps	Basis point(s)	IRLC	Interest Rate Lock Commitment
CDs	Certificates of deposit	N/A	Not applicable
C&I	Commercial and Industrial	NII	Net interest income
CRE	Commercial Real Estate	Oak Street	Oak Street Holdings Corporation
Company	First Financial Bancorp.	OREO	Other real estate owned
ERM	Enterprise Risk Management	SEC	United States Securities and Exchange Commission
EVE	Economic value of equity	TDR	Troubled debt restructuring

Table of Contents

PART I - FINANCIAL INFORMATION
ITEM I - FINANCIAL STATEMENTS
FIRST FINANCIAL BANCORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)

	June 30, 2017 (Unaudited)	December 31, 2016
Assets		
Cash and due from banks	$ 117,478	$ 121,598
Interest-bearing deposits with other banks	29,839	82,450
Investment securities available-for-sale, at fair value (amortized cost $1,295,377 at June 30, 2017 and $1,045,337 at December 31, 2016)	1,298,578	1,039,870
Investment securities held-to-maturity (fair value $698,722 at June 30, 2017 and $763,575 at December 31, 2016)	696,269	763,254
Other investments	53,285	51,077
Loans held for sale	11,939	13,135
Loans and leases		
Commercial and industrial	1,824,589	1,781,948
Lease financing	88,152	93,108
Construction real estate	443,112	399,434
Commercial real estate	2,471,655	2,427,577
Residential real estate	490,398	500,980
Home equity	464,066	460,388
Installment	47,654	50,639
Credit card	44,139	43,408
Total loans and leases	5,873,765	5,757,482
Less: Allowance for loan and lease losses	54,873	57,961
Net loans and leases	5,818,892	5,699,521
Premises and equipment	128,956	131,579
Goodwill and other intangibles	210,045	210,625
Accrued interest and other assets	344,761	324,858
Total assets	$ 8,710,042	$ 8,437,967
Liabilities		
Deposits		
Interest-bearing demand	$ 1,496,173	$ 1,513,771
Savings	2,398,262	2,142,189
Time	1,097,911	1,321,843
Total interest-bearing deposits	4,992,346	4,977,803
Noninterest-bearing	1,476,563	1,547,985
Total deposits	6,468,909	6,525,788
Federal funds purchased and securities sold under agreements to repurchase	130,633	120,212
Federal Home Loan Bank short-term borrowings	957,700	687,700
Total short-term borrowings	1,088,333	807,912
Long-term debt	119,669	119,589
Total borrowed funds	1,208,002	927,501
Accrued interest and other liabilities	135,014	119,454

Total liabilities	7,811,925	7,572,743
Shareholders' equity		
Common stock - no par value		
Authorized - 160,000,000 shares; Issued - 68,730,731 shares in 2017 and 2016	569,302	570,382
Retained earnings	463,250	437,188
Accumulated other comprehensive loss	(22,222)	(28,443)
Treasury stock, at cost, 6,589,660 shares in 2017 and 6,751,179 shares in 2016	(112,213)	(113,903)
Total shareholders' equity	898,117	865,224
Total liabilities and shareholders' equity	$ 8,710,042	$ 8,437,967

See Notes to Consolidated Financial Statements.

Table of Contents

FIRST FINANCIAL BANCORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Dollars in thousands, except per share data)
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Interest income				
Loans, including fees	$67,748	$ 64,424	$134,616	$127,823
Investment securities				
Taxable	12,598	10,706	24,206	22,079
Tax-exempt	1,457	1,156	2,810	2,318
Total interest on investment securities	14,055	11,862	27,016	24,397
Other earning assets	(1,014)	(1,103)	(2,015)	(2,242)
Total interest income	80,789	75,183	159,617	149,978
Interest expense				
Deposits	8,679	5,457	15,604	10,987
Short-term borrowings	2,051	1,053	3,483	2,223
Long-term borrowings	1,539	1,541	3,078	3,081
Total interest expense	12,269	8,051	22,165	16,291
Net interest income	68,520	67,132	137,452	133,687
Provision for loan and lease losses	467	4,037	834	5,692
Net interest income after provision for loan and lease losses	68,053	63,095	136,618	127,995
Noninterest income				
Service charges on deposit accounts	4,772	4,455	9,416	8,836
Trust and wealth management fees	3,405	3,283	7,152	6,723
Bankcard income	3,501	3,130	6,636	6,012
Client derivative fees	1,489	1,799	2,592	2,894
Net gains from sales of loans	1,327	1,846	2,543	3,027
Net gains (losses) on sales of investment securities	838	(188)	1,354	(164)
Other	2,122	5,869	5,125	8,378
Total noninterest income	17,454	20,194	34,818	35,706
Noninterest expenses				
Salaries and employee benefits	31,544	29,526	63,294	59,141
Net occupancy	4,302	4,491	8,817	9,448
Furniture and equipment	2,136	2,130	4,313	4,343
Data processing	3,501	2,765	6,799	5,483
Marketing	982	801	1,492	1,866
Communication	468	477	915	958
Professional services	1,469	1,299	3,227	3,112
State intangible tax	721	639	1,442	1,278
FDIC assessments	1,018	1,112	1,950	2,244
Loss (gain) - other real estate owned	162	43	186	(147)
Other	5,253	6,130	10,166	12,407
Total noninterest expenses	51,556	49,413	102,601	100,133
Income before income taxes	33,951	33,876	68,835	63,568
Income tax expense	11,215	11,308	21,685	21,186
Net income	$22,736	$ 22,568	$47,150	$42,382

Net earnings per common share - basic	$0.37	$ 0.37	$0.77	$0.69
Net earnings per common share - diluted	$0.37	$ 0.36	$0.76	$0.68
Cash dividends declared per share	$0.17	$ 0.16	$0.34	$0.32
Average common shares outstanding - basic	61,543,478	61,194,254	61,471,347	61,115,525
Average common shares outstanding - diluted	62,234,022	62,027,008	62,187,473	61,912,366

See Notes to Consolidated Financial Statements.

Table of Contents

FIRST FINANCIAL BANCORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in thousands)
(Unaudited)

	Three months ended		Six months ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Net income	$22,736	$22,568	$47,150	$42,382
Other comprehensive income (loss), net of tax:				
Unrealized gains (losses) on investment securities arising during the period	4,076	5,192	5,563	12,235
Change in retirement obligation	213	201	402	401
Unrealized gain (loss) on derivatives	128	128	256	256
Other comprehensive income (loss)	4,417	5,521	6,221	12,892
Comprehensive income	$27,153	$28,089	$53,371	$55,274

See Notes to Consolidated Financial Statements.

Table of Contents

FIRST FINANCIAL BANCORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Dollars in thousands except per share data)
(Unaudited)

	Common Stock	Common Stock	Retained	Accumulated other comprehensive	Treasury stock		
	Shares	Amount	Earnings	income (loss)	Shares	Amount	Total
Balance at January 1, 2016	68,730,731	$571,155	$388,240	$ (30,580)	(7,089,051)	$(119,439)	$809,376
Net income			42,382				42,382
Other comprehensive income (loss)				12,892			12,892
Cash dividends declared:							
Common stock at $0.32 per share			(19,729)				(19,729)
Warrant exercises		(971)			57,575	971	0
Excess tax benefit on share-based compensation		156					156
Exercise of stock options, net of shares purchased		(177)			45,928	774	597
Restricted stock awards, net of forfeitures		(4,872)			214,346	3,525	(1,347)
Share-based compensation expense		2,396					2,396
Balance at June 30, 2016	68,730,731	$567,687	$410,893	$ (17,688)	(6,771,202)	$(114,169)	$846,723
Balance at January 1, 2017	68,730,731	$570,382	$437,188	$ (28,443)	(6,751,179)	$(113,903)	$865,224
Net income			47,150				47,150
Other comprehensive income (loss)				6,221			6,221
Cash dividends declared:							
Common stock at $0.34 per share			(21,088)				(21,088)
Warrant Exercises		(25)			1,484	25	0
Exercise of stock options, net of shares purchased		(462)			39,062	660	198
Restricted stock awards, net of forfeitures		(3,559)			120,973	1,005	(2,554)
Share-based compensation expense		2,966					2,966
Balance at June 30, 2017	68,730,731	$569,302	$463,250	$ (22,222)	(6,589,660)	$(112,213)	$898,117

See Notes to Consolidated Financial Statements.

Table of Contents

FIRST FINANCIAL BANCORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(Unaudited)

	Six months ended June 30,	
	2017	2016
Operating activities		
Net income	$47,150	$42,382
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	834	5,692
Depreciation and amortization	6,354	6,479
Stock-based compensation expense	2,966	2,396
Pension expense (income)	(637)	(450)
Net amortization (accretion) on investment securities	4,998	4,005
Net (gains) losses on sales of investment securities	(1,354)	164
Originations of loans held for sale	(75,543)	(100,437)
Net gains from sales of loans held for sale	(2,543)	(3,027)
Proceeds from sales of loans held for sale	78,771	113,604
Deferred income taxes	3,987	741
Decrease (increase) cash surrender value of life insurance	(116)	3,979
Decrease (increase) in interest receivable	(1,397)	(1,611)
Decrease (increase) in indemnification asset	2,418	3,126
(Decrease) increase in interest payable	148	148
Decrease (increase) in other assets	(18,472)	(22,622)
(Decrease) increase in other liabilities	(5,571)	(8,034)
Net cash provided by (used in) operating activities	41,993	46,535
Investing activities		
Proceeds from sales of securities available-for-sale	125,606	98,734
Proceeds from calls, paydowns and maturities of securities available-for-sale	102,893	70,842
Purchases of securities available-for-sale	(464,543)	(74,856)
Proceeds from calls, paydowns and maturities of securities held-to-maturity	72,078	53,880
Purchases of securities held-to-maturity	(14,441)	0
Net decrease (increase) in interest-bearing deposits with other banks	52,611	14,823
Net decrease (increase) in loans and leases	(121,944)	(315,691)
Proceeds from disposal of other real estate owned	2,292	4,172
Purchases of premises and equipment	(4,247)	(5,023)
Net cash provided by (used in) investing activities	(249,695)	(153,119)
Financing activities		
Net (decrease) increase in total deposits	(56,879)	(60,000)
Net (decrease) increase in short-term borrowings	280,421	176,659
Cash dividends paid on common stock	(20,243)	(19,520)
Proceeds from exercise of stock options	283	622
Excess tax benefit on share-based compensation	0	156
Net cash provided by (used in) financing activities	203,582	97,917
Cash and due from banks		

Change in cash and due from banks	(4,120)	(8,667)
Cash and due from banks at beginning of period	121,598	114,841
Cash and due from banks at end of period	$117,478	$106,174

See Notes to Consolidated Financial Statements.

FIRST FINANCIAL BANCORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017
(Unaudited)

NOTE 1: 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 periods' amounts have been made to conform to current year presentation. Such reclassifications had no effect on net earnings.

The preparation of 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. These estimates, assumptions and judgments are inherently subjective and may be susceptible to significant change. Actual realized amounts could differ materially from these estimates.

These interim financial statements have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X, and serve to update the Form 10-K for the year ended December 31, 2016. These interim financial statements may not include all information and notes necessary to constitute a complete set of financial statements under GAAP applicable to annual periods and it is suggested that these interim statements be read in conjunction with the Form 10-K. Management believes these unaudited consolidated financial statements reflect all adjustments of a normal recurring nature which are necessary for a fair presentation of the results for the interim periods presented. The results of operations for the interim periods are not necessarily indicative of the results that may be expected for the full year or any other interim period. The Consolidated Balance Sheet as of December 31, 2016 has been derived from the audited financial statements in the Company’s 2016 Form 10-K.

NOTE 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. First Financial's revenue is balanced between net interest income on financial assets and liabilities, which is explicitly excluded from the scope of the new guidance, and noninterest income. While interest income is not included within the scope of this update, management is currently evaluating revenue streams within noninterest income, specifically service charges on deposits and trust and wealth management fees, to assess applicability of this guidance, and does not anticipate that it will have a material impact on its Consolidated Financial Statements, however additional disclosures will be required.

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 leases outstanding as of June 30, 2017, First

Table of Contents

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 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 ASC 815-15-25-42. 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 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 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 2017. Adoption of this guidance resulted in a $1.2 million reduction in income tax expense during the first six months of 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 collectability 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 a 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.

Table of Contents

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 annual reporting periods beginning after December 15, 2017, including interim periods within those periods, 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. The guidance in this ASU will become effective for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019, with early adoption permitted for goodwill impairment tests performed on testing dates after January 1, 2017. First Financial does not anticipate this update will have a material impact on its 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 annual 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 fiscal years, and interim periods within those fiscal years, 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 annual reporting periods beginning after December 15, 2017, including interim periods within those periods, 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.

Table of Contents

NOTE 3: INVESTMENTS

For the three months ending June 30, 2017, proceeds on the sale of $103.4 million of available-for-sale securities resulted in gains of $1.0 million and losses of $0.1 million. For the comparable quarter in 2016, proceeds on the sale of $64.8 million of available-for-sale securities resulted in gains of $24 thousand and losses of $0.2 million.

For the six months ended June 30, 2017, proceeds on the sale of $125.6 million of available-for-sale securities resulted in gains of $1.5 million and losses of $0.1 million. For the six months ended June 30, 2016, proceeds on the sale of $107.5 million of available-for-sale securities resulted in gains of $0.3 million and $0.5 million of losses.

The following is a summary of held-to-maturity and available-for-sale investment securities as of June 30, 2017:

(Dollars in thousands)	Held-to-maturity				Available-for-sale			
	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	$ 0	$98
Securities of U.S. government agencies and corporations	12,130	28	(17)	12,141	16,967	159	0	17,126
Mortgage-backed securities - residential	181,553	1,996	(1,338)	182,211	262,052	1,140	(2,019)	261,173
Mortgage-backed securities - commercial	261,739	3,156	(1,912)	262,983	157,138	682	(412)	157,408
Collateralized mortgage obligations	165,625	1,138	(1,083)	165,680	324,712	1,289	(1,609)	324,392
Obligations of state and other political subdivisions	75,222	884	(399)	75,707	122,511	2,206	(889)	123,828
Asset-backed securities	0	0	0	0	327,564	1,717	(504)	328,777
Other securities	0	0	0	0	84,335	1,748	(307)	85,776
Total	$696,269	$ 7,202	$ (4,749)	$698,722	$1,295,377	$ 8,941	$ (5,740)	$1,298,578

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

(Dollars in thousands)	Held-to-maturity				Available-for-sale			
	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

Table of Contents

The following table provides a summary of investment securities by contractual maturity as of June 30, 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.

(Dollars in thousands)	Held-to-maturity		Available-for-sale	
	Amortized cost	Fair value	Amortized cost	Fair value
By Contractual Maturity:				
Due in one year or less	$170	$170	$2,236	$2,238
Due after one year through five years	3,657	3,660	25,504	25,743
Due after five years through ten years	2,691	2,790	73,547	75,012
Due after ten years	80,834	81,228	122,624	123,835
Mortgage-backed securities - residential	181,553	182,211	262,052	261,173
Mortgage-backed securities - commercial	261,739	262,983	157,138	157,408
Collateralized mortgage obligations	165,625	165,680	324,712	324,392
Asset-backed securities	0	0	327,564	328,777
Total	$696,269	$698,722	$1,295,377	$1,298,578

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 June 30, 2017 or December 31, 2016.

As of June 30, 2017, the Company's investment securities portfolio consisted of 761 securities, of which 197 were in an unrealized loss position. As of December 31, 2016, the Company's investment securities portfolio consisted of 706 securities, of which 255 securities 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:

(Dollars in thousands)	June 30, 2017					
	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
Securities of U.S. Government agencies and corporations	$6,281	$(17)	$0	$0	$6,281	$(17)
Mortgage-backed securities - residential	201,854	(3,077)	9,021	(280)	210,875	(3,357)
Mortgage-backed securities - commercial	94,052	(1,059)	60,816	(1,265)	154,868	(2,324)
Collateralized mortgage obligations	193,840	(1,454)	45,729	(1,238)	239,569	(2,692)
Obligations of state and other political subdivisions	79,823	(1,006)	14,664	(282)	94,487	(1,288)
Asset-backed securities	14,147	(89)	30,621	(415)	44,768	(504)
Other securities	10,680	(134)	2,472	(173)	13,152	(307)
Total	$600,677	$(6,836)	$163,323	$(3,653)	$764,000	$(10,489)

Table of Contents

	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 14 – Fair Value Disclosures.

NOTE 4: LOANS AND LEASES

First Financial offers clients a variety of commercial and consumer loan and lease products with distinct interest rates and payment terms. Lending activities are primarily concentrated in states where the Bank currently operates banking centers (Ohio, Indiana and Kentucky). Additionally, First Financial has two national 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 secured by commissions and cash collateral accounts primarily to insurance agents and brokers. 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.

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 of 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 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 previously described are derived from standard regulatory rating definitions and are assigned upon initial approval of credit to borrowers and updated periodically thereafter.

Table of Contents

First Financial considers repayment performance to be 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 assets 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 June 30, 2017				
	Commercial	Real Estate		Lease	
(Dollars in thousands)	and industrial	Construction	Commercial	financing	Total
Pass	$1,767,573	$442,021	$2,414,945	$87,875	$4,712,414
Special Mention	27,225	0	11,096	65	38,386
Substandard	29,791	1,091	45,614	212	76,708
Doubtful	0	0	0	0	0
Total	$1,824,589	$443,112	$2,471,655	$88,152	$4,827,508

(Dollars in thousands)	Residential real estate	Home equity	Installment	Credit card	Total
Performing	$481,770	$460,362	$47,329	$44,139	$1,033,600
Nonperforming	8,628	3,704	325	0	12,657
Total	$490,398	$464,066	$47,654	$44,139	$1,046,257

	As of December 31, 2016				
	Commercial	Real Estate		Lease	
(Dollars in thousands)	and industrial	Construction	Commercial	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

(Dollars in thousands)	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 date of the scheduled payment.

Table of Contents

Loan delinquency, including loans classified as nonaccrual, was as follows:

As of June 30, 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	$6,705	$255	$4,336	$11,296	$1,809,190	$1,820,486	$4,103	$1,824,589	$ 0
Lease financing	199	0	0	199	87,953	88,152	0	88,152	0
Construction real estate	0	0	1,075	1,075	441,520	442,595	517	443,112	0
Commercial real estate	1,047	1,281	9,234	11,562	2,392,126	2,403,688	67,967	2,471,655	0
Residential real estate	78	635	3,521	4,234	443,491	447,725	42,673	490,398	0
Home equity	431	157	885	1,473	459,495	460,968	3,098	464,066	0
Installment	87	142	268	497	46,364	46,861	793	47,654	0
Credit card	274	119	124	517	43,622	44,139	0	44,139	124
Total	$8,821	$2,589	$19,443	$30,853	$5,723,761	$5,754,614	$119,151	$5,873,765	$ 124

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.

Table of Contents

First Financial had 229 TDRs totaling $29.6 million at June 30, 2017, including $20.1 million on accrual status and $9.4 million classified as nonaccrual. First Financial had $0.2 million of commitments outstanding to lend additional funds to borrowers whose loan terms have been modified through TDRs, and the ALLL included reserves of $1.1 million related to TDRs at June 30, 2017. For the three months ended June 30, 2017 and 2016, the Company charged off $0.1 million and $0.3 million, respectively, for the portion of TDRs determined to be uncollectible. For the six months ended June 30, 2017 and 2016, First Financial charged off $0.1 million and $0.5 million respectively, for the portion of TDRs determined to be uncollectible. Additionally, as of June 30, 2017, approximately $13.8 million of 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 classified as nonaccrual. First Financial had $0.9 million of commitments outstanding to lend additional funds to borrowers whose loan terms had 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.

The following tables provide information on loan modifications classified as TDRs during the three and six months ended June 30, 2017 and 2016:

	Three months ended					
	June 30, 2017			June 30, 2016		
(Dollars in thousands)	Number of loans	Pre-modification loan balance	Period end balance	Number of loans	Pre-modification loan balance	Period end balance
Commercial and industrial	4	$ 2,177	$ 2,183	2	$ 44	$ 35
Construction real estate	0	0	0	0	0	0
Commercial real estate	6	1,506	1,449	9	1,468	1,040
Residential real estate	0	0	0	0	0	0
Home equity	0	0	0	0	0	0
Installment	0	0	0	1	2	2
Total	10	$ 3,683	$ 3,632	12	$ 1,514	$ 1,077

	Six months ended					
	June 30, 2017			June 30, 2016		
(Dollars in thousands)	Number of loans	Pre-modification loan balance	Period end balance	Number of loans	Pre-modification loan balance	Period end balance
Commercial and industrial	6	$ 5,679	$ 5,624	10	$ 2,127	$ 2,130
Construction real estate	0	0	0	0	0	0
Commercial real estate	6	1,506	1,449	10	1,510	1,082
Residential real estate	0	0	0	2	282	247
Home equity	0	0	0	4	149	140
Installment	0	0	0	3	9	9
Total	12	$ 7,185	$ 7,073	29	$ 4,077	$ 3,608

Table of Contents

The following table provides information on how TDRs were modified during the three and six months ended June 30, 2017 and 2016:

	Three months ended June 30,		Six months ended June 30,	
(Dollars in thousands)	2017	2016	2017	2016
Extended maturities	$2,587	$35	$3,261	$521
Adjusted interest rates	0	0	2,767	0
Combination of rate and maturity changes	180	0	180	162
Forbearance	827	88	827	88
Other [(1)]	38	954	38	2,837
Total	$3,632	$1,077	$7,073	$3,608

[(1)] 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.

There were no TDRs for which there was a payment default during the period that occurred within twelve months of the loan modification for the three months ended June 30, 2017 and 2016, respectively. There were no TDRs for which there was a payment default during the period that occurred within twelve months of the loan modification for the six months ended June 30, 2017. For the six months ended June 30, 2016, there were four TDRS with balances of $0.3 million, 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:

(Dollars in thousands)	June 30, 2017	December 31, 2016
Impaired loans		
Nonaccrual loans [(1)]		
Commercial and industrial	$15,099	$ 2,419
Lease financing	94	195
Construction real estate	1,075	0
Commercial real estate	12,617	6,098
Residential real estate	4,442	5,251
Home equity	2,937	3,400
Installment	307	367
Credit card	0	0
Nonaccrual loans [(1)]	36,571	17,730
Accruing troubled debt restructurings	20,135	30,240
Total impaired loans	$56,706	$ 47,970

[(1)] Nonaccrual loans include nonaccrual TDRs of $9.4 million and $5.1 million as of June 30, 2017 and December 31, 2016, respectively.

Table of Contents

	Three months ended		Six months ended	
	June 30,		June 30,	
(Dollars in thousands)	2017	2016	2017	2016
Interest income effect on impaired loans				
Gross amount of interest that would have been recorded under original terms	$1,158	$714	$1,974	$1,468
Interest included in income				
Nonaccrual loans	163	96	305	172
Troubled debt restructurings	169	209	395	441
Total interest included in income	332	305	700	613
Net impact on interest income	$826	$409	$1,274	$855

First Financial individually reviews all impaired commercial loan relationships greater than $250,000, as well as consumer loan TDRs greater than $100,000, 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.

Table of Contents

First Financial's investment in impaired loans was as follows:

	As of June 30, 2017			As of 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	$15,315	$ 18,938	$ 0	$12,134	$ 12,713	$ 0
Lease financing	94	94	0	195	195	0
Construction real estate	1,075	1,075	0	0	0	0
Commercial real estate	23,285	26,082	0	12,232	14,632	0
Residential real estate	7,557	8,844	0	8,412	9,648	0
Home equity	3,603	4,750	0	3,973	5,501	0
Installment	325	497	0	437	603	0
Total	51,254	60,280	0	37,383	43,292	0
Loans with an allowance recorded						
Commercial and industrial	3,484	3,484	2,443	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	796	796	124	8,228	8,277	593
Residential real estate	1,071	1,075	160	1,189	1,189	179
Home equity	101	101	2	101	101	2
Installment	0	0	0	0	0	0
Total	5,452	5,456	2,729	10,587	10,638	1,324
Total						
Commercial and industrial	18,799	22,422	2,443	13,203	13,784	550
Lease financing	94	94	0	195	195	0
Construction real estate	1,075	1,075	0	0	0	0
Commercial real estate	24,081	26,878	124	20,460	22,909	593
Residential real estate	8,628	9,919	160	9,601	10,837	179
Home equity	3,704	4,851	2	4,074	5,602	2
Installment	325	497	0	437	603	0
Total	$56,706	$ 65,736	$ 2,729	$47,970	$ 53,930	$ 1,324

Table of Contents

First Financial's average impaired loans by class and interest income recognized by class was as follows:

	Three months ended			
	June 30, 2017		June 30, 2016	
(Dollars in thousands)	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Loans with no related allowance recorded				
Commercial and industrial	$17,198	$ 87	$13,022	$ 75
Lease financing	98	1	109	1
Construction real estate	1,075	0	0	0
Commercial real estate	25,465	144	14,924	91
Residential real estate	7,605	46	7,405	49
Home equity	3,926	27	5,176	21
Installment	357	1	378	2
Total	55,724	306	41,014	239
Loans with an allowance recorded				
Commercial and industrial	2,301	11	1,064	9
Lease financing	0	0	535	8
Construction real estate	0	0	0	0
Commercial real estate	658	8	7,034	40
Residential real estate	1,126	6	1,470	8
Home equity	101	1	101	1
Installment	0	0	0	0
Total	4,186	26	10,204	66
Total				
Commercial and industrial	19,499	98	14,086	84
Lease financing	98	1	644	9
Construction real estate	1,075	0	0	0
Commercial real estate	26,123	152	21,958	131
Residential real estate	8,731	52	8,875	57
Home equity	4,027	28	5,277	22
Installment	357	1	378	2
Total	$59,910	$ 332	$51,218	$ 305

Table of Contents

(Dollars in thousands)	Six months ended June 30, 2017 Average Recorded Investment	Interest Income Recognized	June 30, 2016 Average Recorded Investment	Interest Income Recognized
Loans with no related allowance recorded				
Commercial and industrial	$15,607	$ 196	$14,154	$ 149
Lease financing	149	2	113	1
Construction real estate	538	0	0	0
Commercial real estate	19,939	304	15,383	161
Residential real estate	8,032	92	7,419	95
Home equity	4,111	51	5,231	42
Installment	413	3	336	3
Total	48,789	648	42,636	451
Loans with an allowance recorded				
Commercial and industrial	1,094	24	1,040	18
Lease financing	0	0	357	8
Construction real estate	0	0	0	0
Commercial real estate	4,374	13	7,473	117
Residential real estate	1,185	13	1,496	17
Home equity	101	2	101	2
Installment	0	0	0	0
Total	6,754	52	10,467	162
Total				
Commercial and industrial	16,701	220	15,194	167
Lease financing	149	2	470	9
Construction real estate	538	0	0	0
Commercial real estate	24,313	317	22,856	278
Residential real estate	9,217	105	8,915	112
Home equity	4,212	53	5,332	44
Installment	413	3	336	3
Total	$55,543	$ 700	$53,103	$ 613

Table of Contents

OREO. 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.

Changes in OREO were as follows:

	Three months ended		Six months ended	
	June 30,		June 30,	
(Dollars in thousands)	2017	2016	2017	2016
Balance at beginning of period	$5,300	$11,939	$6,284	$13,254
Additions				
Commercial and industrial	50	102	172	888
Residential real estate	1,913	169	2,078	291
Total additions	1,963	271	2,250	1,179
Disposals				
Commercial and industrial	(682)	(1,893)	(1,607)	(2,093)
Residential real estate	(448)	(244)	(685)	(2,079)
Total disposals	(1,130)	(2,137)	(2,292)	(4,172)
Valuation adjustment				
Commercial and industrial	(116)	(29)	(162)	(146)
Residential real estate	(56)	(13)	(119)	(84)
Total valuation adjustment	(172)	(42)	(281)	(230)
Balance at end of period	$5,961	$10,031	$5,961	$10,031

The preceding table includes OREO subject to loss sharing agreements of $0.7 million and $0.1 million at June 30, 2017 and 2016, respectively.

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 $9.6 million and $12.0 million as of June 30, 2017 and December 31, 2016, respectively.

The accounting for the FDIC indemnification asset is closely related to the accounting for the underlying, indemnified assets as well as the on-going 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. For a detailed discussion on the indemnification asset, please refer to the Loans and Leases Note in the 2016 Form 10-K.

NOTE 5: 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.

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.

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 on the loans. First Financial updated the valuations related to covered/formerly covered loans during the second quarter of 2017.

Table of Contents

Changes in the allowance for loan and lease losses were as follows:

(Dollars in thousands)	Three months ended June 30, 2017	2016	Six months ended June 30, 2017	2016
Changes in the allowance for loan and lease losses on loans, excluding covered/formerly covered loans				
Balance at beginning of period	$48,807	$44,375	$49,422	$43,149
Provision for loan and lease losses	1,508	3,760	2,989	5,495
Loans charged-off	(3,936)	(2,049)	(6,450)	(3,416)
Recoveries	1,972	845	2,390	1,703
Balance at end of period	$48,351	$46,931	$48,351	$46,931
Changes in the allowance for loan and lease losses on covered/formerly covered loans				
Balance at beginning of period	$7,519	$9,357	$8,539	$10,249
Provision for loan and lease losses	(1,041)	277	(2,155)	197
Loans charged-off	(562)	(653)	(798)	(1,728)
Recoveries	606	796	936	1,059
Balance at end of period	$6,522	$9,777	$6,522	$9,777
Changes in the allowance for loan and lease losses				
Balance at beginning of period	$56,326	$53,732	$57,961	$53,398
Provision for loan and lease losses	467	4,037	834	5,692
Loans charged-off	(4,498)	(2,702)	(7,248)	(5,144)
Recoveries	2,578	1,641	3,326	2,762
Balance at end of period	$54,873	$56,708	$54,873	$56,708

Changes in the allowance for loan and lease losses by loan category were as follows:

Three months ended June 30, 2017

(Dollars in thousands)	Commercial and industrial	Lease financing	Real Estate Construction	Real Estate Commercial	Real Estate Residential	Home Equity	Installment	Credit card	Total
Allowance for loan and lease losses:									
Balance at beginning of period	$17,148	$ 616	$3,607	$ 23,745	$ 5,485	$3,774	$ 419	$1,532	$56,326
Provision for loan and lease losses	3,537	(67)	(280)	(2,941)	(305)	526	19	(22)	467
Gross charge-offs	(3,065)	0	0	(485)	(223)	(384)	(126)	(215)	(4,498)
Recoveries	693	1	89	1,398	59	222	43	73	2,578
Total net charge-offs	(2,372)	1	89	913	(164)	(162)	(83)	(142)	(1,920)
Ending allowance for loan and lease losses	$18,313	$ 550	$3,416	$ 21,717	$ 5,016	$4,138	$ 355	$1,368	$54,873

Three months ended June 30, 2016

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 period	$18,170	$ 866	$2,272	$ 22,416	$ 4,040	$3,976	$ 354	$1,638	$53,732
Provision for loan and lease losses	2,572	1,014	447	1,283	(801)	(707)	(3)	232	4,037
Loans charged off	(265)	0	(28)	(1,596)	(28)	(398)	(30)	(357)	(2,702)
Recoveries	420	1	202	681	81	131	62	63	1,641
Total net charge-offs	155	1	174	(915)	53	(267)	32	(294)	(1,061)
Ending allowance for loan and lease losses	$20,897	$ 1,881	$2,893	$ 22,784	$ 3,292	$3,002	$ 383	$1,576	$56,708

21

Table of Contents

	Six months ended June 30, 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 period	$19,225	$716	$3,282	$26,540	$3,208	$3,043	$388	$1,559	$57,961
Provision for loan and lease losses	2,941	(167)	45	(5,507)	2,024	1,331	28	139	834
Loans charged off	(4,808)	0	0	(970)	(284)	(564)	(175)	(447)	(7,248)
Recoveries	955	1	89	1,654	68	328	114	117	3,326
Total net charge-offs	(3,853)	1	89	684	(216)	(236)	(61)	(330)	(3,922)
Ending allowance for loan and lease losses	$18,313	$550	$3,416	$21,717	$5,016	$4,138	$355	$1,368	$54,873

	As of June 30, 2017								
			Real Estate						
	Commercial and industrial	Lease financing	Construction	Commercial	Residential	Home equity	Installment	Credit card	Total
Ending allowance balance attributable to loans									
Individually evaluated for impairment	$2,443	$0	$0	$124	$160	$2	$0	$0	$2,729
Collectively evaluated for impairment	15,870	550	3,416	21,593	4,856	4,136	355	1,368	52,144
Ending allowance for loan and lease losses	$18,313	$550	$3,416	$21,717	$5,016	$4,138	$355	$1,368	$54,873
Loans									
	$18,799	$94	$1,075	$24,081	$8,628	$3,704	$325	$0	$56,706

Individually evaluated for impairment									
Collectively evaluated for impairment	1,805,790	88,058	442,037	2,447,574	481,770	460,362	47,329	44,139	5,817,059
Total loans	$1,824,589	$88,152	$443,112	$2,471,655	$490,398	$464,066	$47,654	$44,139	$5,873,765

	Six months ended June 30, 2016								
			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 period	$16,995	$821	$1,810	$23,656	$4,014	$3,943	$386	$1,773	$53,398
Provision for loan and lease losses	4,004	1,059	886	863	(793)	(522)	(61)	256	5,692
Loans charged off	(744)	0	(31)	(2,858)	(73)	(738)	(103)	(597)	(5,144)
Recoveries	642	1	228	1,123	144	319	161	144	2,762
Total net charge-offs	(102)	1	197	(1,735)	71	(419)	58	(453)	(2,382)
Ending allowance for loan and lease losses	$20,897	$1,881	$2,893	$22,784	$3,292	$3,002	$383	$1,576	$56,708

	As of December 31, 2016								
			Real Estate						
(Dollars in thousands)	Commercial and industrial	Lease financing	Construction	Commercial	Residential	Home equity	Installment	Credit card	Total
Ending allowance balance attributable to loans									
Individually evaluated for impairment	$550	$0	$0	$593	$179	$2	$0	$0	$1,324
Collectively evaluated for impairment	18,675	716	3,282	25,947	3,029	3,041	388	1,559	56,637
	$19,225	$716	$3,282	$26,540	$3,208	$3,043	$388	$1,559	$57,961

Ending allowance for loan and lease losses									
Loans									
Individually evaluated for impairment	$13,203	$195	$0	$20,460	$9,601	$4,074	$437	$0	$47,970
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

22

Table of Contents

NOTE 6: 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. First Financial had goodwill of $204.1 million as of June 30, 2017 and December 31, 2016, respectively, and recorded no additional goodwill during 2017 or 2016.

Goodwill is not amortized, but 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 most recent annual impairment test as of October 1, 2016 and no impairment was indicated. As of June 30, 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 June 30, 2017 and December 31, 2016, First Financial had $6.0 million and $6.5 million, respectively, of other intangible assets, 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 $3.9 million and $4.5 million as of June 30, 2017 and December 31, 2016, respectively. First Financial's core deposit intangibles have an estimated weighted average remaining life of 4.3 years. Amortization expense recognized on intangible assets for the three months ended June 30, 2017 and 2016 was $0.3 million and $0.4 million, respectively. Amortization expense recognized on intangible assets for the six months ended June 30, 2017 and 2016 was $0.7 million and $0.8 million, respectively.

NOTE 7: 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. To secure it's liability to the client, the Bank is authorized to sell or repurchase U.S. Treasury, government agency and mortgage-backed securities.

First Financial had $1.0 billion in short-term borrowings with the FHLB at June 30, 2017 and $687.7 million as of December 31, 2016. These short-term borrowings are used to manage normal liquidity needs and support the Company's asset and liability management strategies.

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, if needed, for various corporate activities, including the repurchase of First Financial common stock and the payment of dividends to shareholders. As of June 30, 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 June 30, 2017 and December 31, 2016.

In 2015, First Financial issued $120.0 million 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. 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 $0.3 million and $0.4 million of FHLB long-term advances as of June 30, 2017 and December 31, 2016, respectively. These instruments are primarily utilized to reduce overnight liquidity risk and to mitigate interest rate sensitivity on the Consolidated Balance Sheets.

Table of Contents

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

	June 30, 2017		December 31, 2016	
(Dollars in thousands)	Amount	Average rate	Amount	Average rate
Subordinated debt	$120,000	5.13 %	$120,000	5.13 %
Unamortized debt issuance costs	(1,449)	N/A	(1,537)	N/A
FHLB borrowings	343	1.46 %	351	1.43 %
Capital loan with municipality	775	0.00 %	775	0.00 %
Total long-term debt	$119,669	5.14 %	$119,589	5.15 %

NOTE 8: 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 reclassifications out of accumulated other comprehensive income (loss) are as follows:

	Three months ended June 30, 2017							
	Total other comprehensive income					Total accumulated other comprehensive income		
(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	$7,170	$ 838	$6,332	$(2,256)	$ 4,076	$(3,062)	$ 4,076	$1,014
Unrealized gain (loss) on derivatives	202	0	202	(74)	128	(963)	128	(835)
Retirement obligation	0	(335)	335	(122)	213	(22,614)	213	(22,401)
Total	$7,372	$ 503	$6,869	$(2,452)	$ 4,417	$(26,639)	$ 4,417	$(22,222)

	Three months ended June 30, 2016							
	Total other comprehensive income					Total accumulated other comprehensive income		
(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	$7,877	$ (188)	$8,065	$(2,873)	$ 5,192	$2,110	$ 5,192	$7,302
Unrealized gain (loss) on derivatives	203	0	203	(75)	128	(1,471)	128	(1,343)
Retirement obligation	0	(317)	317	(116)	201	(23,848)	201	(23,647)
Total	$8,080	$ (505)	$8,585	$(3,064)	$ 5,521	$(23,209)	$ 5,521	$(17,688)

	Six months ended June 30, 2017							
	Total other comprehensive income					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	$10,002	$ 1,354	$8,648	$(3,085)	$ 5,563	$(4,549)	$ 5,563	$1,014
Unrealized gain (loss) on derivatives	405	0	405	(149)	256	(1,091)	256	(835)
Retirement obligation	0	(670)	670	(268)	402	(22,803)	402	(22,401)
Total	$10,407	$ 684	$9,723	$(3,502)	$ 6,221	$(28,443)	$ 6,221	$(22,222)

Table of Contents

	Six months ended June 30, 2016							
	Total other comprehensive income					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	$18,852	$ (164)	$19,016	$(6,781)	$12,235	$(4,933)	$12,235	$7,302
Unrealized gain (loss) on derivatives	405	0	405	(149)	256	(1,599)	256	(1,343)
Retirement obligation	0	(634)	634	(233)	401	(24,048)	401	(23,647)
Total	$19,257	$ (798)	$20,055	$(7,163)	$12,892	$(30,580)	$12,892	$(17,688)

The following table presents the activity reclassified from accumulated other comprehensive income into income during the three and six month periods ended June 30, 2017 and 2016, respectively:

	Amount reclassified from accumulated other comprehensive income [1]				
	Three months ended June 30,		Six months ended June 30,		
(Dollars in thousands)	2017	2016	2017	2016	Affected Line Item in the Consolidated Statements of Income
Realized gains and losses on securities available-for-sale	$838	$(188)	$1,354	$(164)	Net gains on sales of investments securities
Defined benefit pension plan					
Amortization of prior service cost [2]	104	104	207	207	Salaries and employee benefits
Recognized net actuarial loss [2]	(439)	(421)	(877)	(841)	Salaries and employee benefits
Defined benefit pension plan total	(335)	(317)	(670)	(634)	
Total reclassifications for the period, before tax	$503	$(505)	$684	$(798)	

[1] Negative amounts are reductions to net income.
[2] Included in the computation of net periodic pension cost (see Note 12 - Employee Benefit Plans for additional details).

NOTE 9: DERIVATIVES

First Financial uses 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. First Financial 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. First Financial 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 established in the interest rate 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 June 30, 2017, the Company had a total counterparty notional amount outstanding of $711.5 million, spread among ten counterparties, with an outstanding liability from these contracts of $3.7 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

Table of Contents

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 classification and amounts recognized in the Consolidated Balance Sheets for client derivatives:

		June 30, 2017			December 31, 2016		
			Estimated fair value			Estimated fair value	
(Dollars in thousands)	Balance sheet classification	Notional amount	Gain	Loss	Notional amount	Gain	Loss
Client derivatives - instruments associated with loans							
Matched interest rate swaps with borrower	Accrued interest and other assets	$711,489	$9,090	$(3,611)	$677,028	$8,401	$(4,158)
Matched interest rate swaps with counterparty	Accrued interest and other liabilities	711,489	3,611	(9,092)	677,028	4,158	(8,429)
Total		$1,422,978	$12,701	$(12,703)	$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 liabilities recognized in the Consolidated Balance Sheets:

	June 30, 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 with counterparty	$12,703	$ (5,309)	$ 7,394	$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 June 30, 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	$711,489	5.9	$5,479	3.76 %	3.18 %
Pay fixed, matched interest rate swaps with counterparty	711,489	5.9	(5,481)	3.18 %	3.76 %

Total client derivatives	$1,422,978	5.9	$(2)	3.47 %	3.47 %

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 $61.2 million as of June 30, 2017 and $64.9 million as of December 31, 2016. The fair value of these agreements was recorded in Accrued interest and other liabilities on the Consolidated Balance Sheets and was $21 thousand and $29 thousand at June 30, 2017 and December 31, 2016, respectively.

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 loans held for sale. At June 30, 2017, the notional amount of the IRLCs was $24.8 million and the notional amount of forward commitments was $25.5

Table of Contents

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 June 30, 2017 and $0.2 million at December 31, 2016.

NOTE 10: COMMITMENTS AND CONTINGENCIES

First Financial offers a variety of financial instruments including standby letters of credit and outstanding commitments to extend credit to assist clients in meeting their requirement for liquidity and credit enhancement. 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 by the counterparty 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 incurred losses inherent 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 conditions 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 June 30, 2017 and December 31, 2016, respectively. As of June 30, 2017, loan commitments with a fixed interest rate totaled $112.0 million while commitments with variable interest rates totaled $1.9 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 issued letters of credit (including standby letters of credit) aggregating $26.6 million and $18.4 million at June 30, 2017 and December 31, 2016, respectively. Management conducts regular reviews of these instruments on an individual client basis.

Investments in affordable housing tax credits. First Financial has made 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. 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. First Financial's affordable housing commitments totaled $40.6 million and $32.7 million as of June 30, 2017 and December 31, 2016, respectively. The Company recognized tax credits of $0.8 million and $0.5 million for the three months ended June 30, 2017 and 2016, respectively. The Company recognized tax credits of $1.6 million and $1.1 million related to its investments in affordable housing projects for the six months ended June 30,

2017 and 2016, respectively. The Company recognized amortization expense which was included in income tax expense of $1.2 million and $0.8 million for the three months ended June 30, 2017 and 2016, respectively. The Company recognized amortization expense of $2.2 million and $1.4 million for the six months ended June 30, 2017 and 2016, respectively. First Financial had no affordable housing contingent commitments as of June 30, 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. Investments in historic tax credits are accounted for under the equity method of accounting and are carried in Accrued interest and other assets on the Consolidated Balance Sheets. The Company's recorded investment in these entities was approximately $4.9 million at both June 30, 2017 and December 31, 2016. The maximum exposure to loss related to these

investments was $13.7 million at June 30, 2017 and December 31, 2016, respectively, representing the Company's investment balance and its unfunded commitments to invest additional amounts. Investments in historic tax credits resulted in $0.1 million of tax credits for each of the three months ended June 30, 2017 and 2016, respectively. Investments in historic tax credits resulted in $0.3 million of tax credits for each of the six months ended June 30, 2017 and June 30, 2016, respectively.

Contingencies/Litigation. First Financial and its subsidiaries are engaged in various matters of litigation, other 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 are 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 June 30, 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 June 30, 2017 or December 31, 2016.

NOTE 11: INCOME TAXES

For the second quarter 2017, income tax expense was $11.2 million, resulting in an effective tax rate of 33.0% compared with income tax expense of $11.3 million and an effective tax rate of 33.4% for the comparable period in 2016. For the first six months of 2017, income tax expense was $21.7 million, resulting in an effective tax rate of 31.5% compared with $21.2 million and an effective tax rate of 33.3% for the comparable period in 2016. ASU 2016-09, Compensation-Stock Compensation Improvements to Employee Share-Based Payment Accounting, became effective during the first quarter of 2017 and requires the recognition of the income tax effects of share-based awards through the income statement as a component income tax expense. First Financial recorded a $45 thousand tax benefit as a result of share awards vesting and exercised during the second quarter of 2017 and $1.2 million during the first six months of 2017.

At December 31, 2016, First Financial had $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. The unrecognized tax benefits relate to state income tax exposures from taking tax positions where the Company 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 June 30, 2017 and December 31, 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 2013 have been closed and are no longer subject to U.S. federal income tax examinations. Tax years 2013 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 in various jurisdictions.

NOTE 12: EMPLOYEE BENEFIT PLANS

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 fixed income and publicly traded equity mutual funds. The pension plan does not directly own any shares of First Financial common stock or any other First Financial security or product.

First Financial made no cash contributions to fund the pension plan during the six months ended June 30, 2017, or the year ended December 31, 2016, and does not expect to make cash contributions to the plan through the remainder of 2017. As a result of the plan's actuarial projections, First Financial recorded income of $0.3 million and $0.2 million for the quarters ended June 30, 2017 and 2016, respectively. First Financial recorded income of $0.6 million and $0.5 million for the six months ended June 30, 2017 and 2016, respectively.

Table of Contents

The following table sets forth information concerning amounts recognized in First Financial's Consolidated Statements of Income related to the Company's pension plan:

	Three months ended June 30,		Six months ended June 30,	
(Dollars in thousands)	2017	2016	2017	2016
Service cost	$1,239	$1,309	$2,477	$2,617
Interest cost	589	581	1,178	1,162
Expected return on assets	(2,481)	(2,432)	(4,962)	(4,863)
Amortization of prior service cost	(104)	(104)	(207)	(207)
Net actuarial loss	439	421	877	841
Net periodic benefit (income) cost	$(318)	$(225)	$(637)	$(450)

NOTE 13: EARNINGS PER COMMON SHARE

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

	Three months ended June 30,		Six months ended June 30,	
(Dollars in thousands, except per share data)	2017	2016	2017	2016
Numerator				
Net income available to common shareholders	$22,736	$ 22,568	$47,150	$ 42,382
Denominator				
Basic earnings per common share - weighted average shares	61,543,478	61,194,254	61,471,347	61,115,525
Effect of dilutive securities				
Employee stock awards	625,031	763,206	649,706	734,493
Warrants	65,513	69,548	66,420	62,348
Diluted earnings per common share - adjusted weighted average shares	62,234,022	62,027,008	62,187,473	61,912,366
Earnings per share available to common shareholders				
Basic	$0.37	$ 0.37	$0.77	$ 0.69
Diluted	$0.37	$ 0.36	$0.76	$ 0.68

Warrants to purchase 112,233 and 177,527 shares of the Company's common stock were outstanding as of June 30, 2017 and 2016, 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 exercise prices 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 end of period price, there were no antidilutive options at June 30, 2017 and June 30, 2016.

Table of Contents

NOTE 14: FAIR VALUE DISCLOSURES

Fair Value Measurement
The fair value framework as disclosed in the 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 previously described are considered 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 as a result of restrictions placed on transferability.

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 within noninterest income in the Consolidated Statements of Income.

Loans and leases. The fair value of C&I loans, lease financing, CRE, residential real estate and other consumer loans were estimated by discounting the future cash flows using the current rates at which similar loans and leases 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,

Table of Contents

licensed third-party appraiser (Level 3). The value of business equipment is based on 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 initially recorded at the lower of cost or fair value less costs to sell. 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 exceeds 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.

FDIC indemnification asset. Fair value of the FDIC indemnification asset is estimated using projected cash flows related to the loss sharing agreements based on expected reimbursements for losses and the applicable loss sharing percentages. The expected cash flows are discounted to reflect the uncertainty of the timing and receipt of the loss sharing reimbursement from the FDIC. The five year period of loss protection expired for the majority of First Financial's non-single family assets effective October 1, 2014, and the ten year period of loss protection on all other covered loans and covered OREO expires October 1, 2019. The Company classifies the estimated fair value of the indemnification asset as Level 3 in the fair value hierarchy.

Accrued interest receivable and payable. The carrying amounts of accrued interest receivable and accrued interest payable approximate their fair values and are 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 approximate 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 in 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, using primarily observable market inputs such as interest rate yield curves which represents the cost to terminate the swap if First Financial should choose to do so. 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.

Table of Contents

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
June 30, 2017					
Financial assets					
Cash and short-term investments	$147,317	$147,317	$147,317	$0	$ 0
Investment securities held-to-maturity	696,269	698,722	0	698,722	0
Other investments	53,285	N/A	N/A	N/A	N/A
Loans held for sale	11,939	11,939	0	11,939	0
Loans and leases, net of ALLL	5,818,892	5,858,101	0	0	5,858,101
FDIC indemnification asset	9,599	5,378	0	0	5,378
Accrued interest receivable	19,968	19,968	0	7,126	12,842
Financial liabilities					
Deposits					
Noninterest-bearing	$1,476,563	$1,476,563	$0	$1,476,563	$ 0
Interest-bearing demand	1,496,173	1,496,173	0	1,496,173	0
Savings	2,398,262	2,398,262	0	2,398,262	0
Time	1,097,911	1,092,974	0	1,092,974	0
Total deposits	6,468,909	6,463,972	0	6,463,972	0
Short-term borrowings	1,088,333	1,088,333	1,088,333	0	0
Long-term debt	119,669	119,101	0	119,101	0
Accrued interest payable	5,197	5,197	844	4,353	0

Table of Contents

(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
FDIC indemnification asset	12,017	6,720	0	0	6,720
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 financial assets and liabilities measured at fair value on a recurring basis in the consolidated financial statements were as follows:

	Fair value measurements using			
(Dollars in thousands)	Level 1	Level 2	Level 3	Assets/liabilities at fair value
June 30, 2017				
Assets				
Derivatives	$ 0	$ 12,847	$ 0	$ 12,847
Investment securities available-for-sale	8,924	1,289,654	0	1,298,578
Total	$ 8,924	$ 1,302,501	$ 0	$ 1,311,425
Liabilities				
Derivatives	$ 0	$ 12,750	$ 0	$ 12,750

Table of Contents

(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 usually result from the application of lower of cost or fair value accounting or 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
June 30, 2017			
Assets			
Impaired loans	$ 0	$ 0	$ 1,713
OREO	0	0	3,217

(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

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (MD&A)
FIRST FINANCIAL BANCORP. AND SUBSIDIARIES
(Unaudited)

All reclassifications of prior period amounts, if applicable, have been made to conform to the current period's presentation and had no effect on the Company's previously reported net income or financial condition.

SUMMARY

First Financial is an $8.7 billion bank holding company headquartered in Cincinnati, Ohio, that operates primarily in Ohio, Indiana and Kentucky through its subsidiaries. These subsidiaries include a commercial bank, First Financial Bank, with 102 banking centers and 124 ATMs. First Financial provides 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 provides equipment and leasehold improvement financing for franchisees in the quick service and casual dining restaurant sector and commission-based financing, primarily to insurance agents and brokers, throughout the United States. Commercial and private banking includes wealth management, which provides wealth planning, portfolio management, trust and estate, brokerage and retirement plan services and had $2.6 billion in assets under management as of June 30, 2017.

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 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 concentrate plans for future growth and capital investment within its current metropolitan markets, and will continue to evaluate additional growth opportunities in metropolitan markets located within, or in close proximity to, the Company's current geographic footprint. Additionally, First Financial may assess strategic acquisitions that provide product line extensions or additional 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.

On July 25, 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 63% of the combined company and MainSource shareholders will own approximately 37%, 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.

OVERVIEW OF OPERATIONS

Second quarter 2017 net income was $22.7 million and earnings per diluted common share were $0.37. This compares with second quarter 2016 net income of $22.6 million and earnings per diluted common share of $0.36. For the six months ended June 30, 2017, net income was $47.2 million, and earnings per diluted common share were $0.76. This compares with net income of $42.4 million and earnings per diluted common share of $0.68 for the first six months of 2016.

Return on average assets for the second quarter 2017 was 1.06% compared to 1.11% for the comparable period in 2016 and return on average shareholders’ equity for the second quarter 2017 was 10.25% compared to 10.84% for the comparative period in 2016. Return on average assets for the six months ended June 30, 2017 was 1.12% compared to 1.04% for the same period in 2016, and return on average shareholders' equity was 10.80% and 10.27% for the first six months of 2017 and 2016, respectively.

A discussion of First Financial's results of operations for the three and six months ended June 30, 2017 follows.

Table of Contents

NET INTEREST INCOME

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 earning assets and the volume, mix and rates paid for the deposits and borrowed money that support the earning assets.

For analytical purposes, net interest income is also presented in the table that follows, adjusted to 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.

	Three months ended June 30,		Six months ended June 30,	
(Dollars in thousands)	2017	2016	2017	2016
Net interest income	$68,520	$67,132	$137,452	$133,687
Tax equivalent adjustment	1,294	1,058	2,519	2,110
Net interest income - tax equivalent	$69,814	$68,190	$139,971	$135,797
Average earning assets	$7,855,564	$7,475,711	$7,776,082	$7,436,862
Net interest margin [1]	3.50 %	3.61 %	3.56 %	3.62 %
Net interest margin (fully tax equivalent) [1]	3.56 %	3.67 %	3.63 %	3.67 %

[1] Calculated using annualized net interest income divided by average earning assets.

Net interest income for the second quarter 2017 was $68.5 million, increasing $1.4 million, or 2.1%, from second quarter 2016 net interest income of $67.1 million. The increase in net interest income for the second quarter 2017 as compared to the same period in 2016 was primarily driven by a $5.6 million, or 7.5%, increase in interest income, which was partially offset by a $4.2 million, or 52.4%, increase in interest expense. Net interest income on a fully tax equivalent basis for the second quarter 2017 was $69.8 million compared to $68.2 million for the second quarter 2016.

Net interest margin on a fully tax equivalent basis declined 11 bps to 3.56% for the second quarter 2017 compared to 3.67% for the second quarter 2016. The decline in net interest margin was driven by funding costs outpacing earning asset yields as rising interest rates resulted in the immediate repricing of variable rate funding and combined with the Company's earning asset mix, among other factors, to offset a moderate increase in interest income.

Higher interest income resulted from an increase in average earning assets from $7.5 billion in the second quarter of 2016 to $7.9 billion in the second quarter of 2017, as well as an increase in the yield on earning assets over those same periods from 4.03% to 4.13%, respectively. The increase in average earning assets was due to an increase in average loan balances of $215.5 million, or 3.9%, in the second quarter 2017 compared to the second quarter 2016, primarily as a result of strong organic loan growth. Average investment securities balances also increased $165.8 million, or 8.9% in the second quarter of 2017 compared to the second quarter of 2016. The yield on earning assets was impacted by higher interest earned on loans and investment securities, resulting from recent increases in interest rates and slower investment prepayment speeds.

Interest expense increased as a result of higher average interest-bearing deposits, as well as higher rates paid on deposits during the period. Average interest-bearing deposits increased $188.8 million, or 3.9%, from the second quarter 2016 as a result of strong deposit generation efforts in recent quarters. Rising interest rates and a higher mix of variable rate deposit balances in recent periods contributed to a 24 bps increase in deposit costs from 45 bps for the second quarter of 2016 to 69 bps for the second quarter of 2017. Average short-term borrowing yields also increased 44 bps to 94 bps for the second quarter 2017 from 50 bps in the second quarter of 2016, reflecting recent increases in interest rates.

For the six months ended June 30, 2017, net interest income was $137.5 million, an increase of $3.8 million, or 2.8%, from net interest income of $133.7 million for the comparable period in 2016. Net interest income on a fully-tax equivalent basis for the six months ended June 30, 2017 was $140.0 million compared to $135.8 million for the comparable period in 2016. Similar to

Table of Contents

the comparable quarter items discussed above, the increase in net interest income was primarily driven by higher earning asset balances resulting from strong organic loan growth and higher investment securities balances. Higher interest income was partially offset by a $5.9 million, or 36.1% increase in interest expense during the six months ended June 30, 2017 compared to the six months ended June 30, 2016. The net interest margin on a fully tax equivalent basis declined four basis points to 3.63% for the six months ended 2017 compared to 3.67% during the same period in 2016. The decline in net interest margin was primarily related to an increase in average interest-bearing deposit balances of $191.5 million, or 4.0%, when compared to the similar period in 2016, as well as a 17 bps increase in the cost of deposit funding from 46 bps in 2016 to 63 bps in 2017, reflecting rising interest rates in recent quarters. Also, as a result of the recent increases in interest rates, short-term borrowing yields increased 31 bps from 50 bps in the comparable period in 2016 to 81 bps for the first six months of 2017, driving a $1.3 million increase in short-term borrowing costs during the period.

CONSOLIDATED AVERAGE BALANCE SHEETS AND NET INTEREST INCOME ANALYSIS

	Quarterly Averages				Year-to-Date Averages			
	June 30, 2017		June 30, 2016		June 30, 2017		June 30, 2016	
(Dollars in thousands)	Balance	Yield	Balance	Yield	Balance	Yield	Balance	Yield
Earning assets								
Investments								
Investment securities	$2,035,334	2.77%	$1,869,540	2.54%	$1,971,372	2.76%	$1,904,156	2.58%
Interest-bearing deposits with other banks	20,293	1.11%	21,687	0.50%	30,582	0.90%	22,989	0.52%
Gross loans [1]	5,799,937	4.61%	5,584,484	4.55%	5,774,128	4.63%	5,509,717	4.59%
Total earning assets	7,855,564	4.13%	7,475,711	4.03%	7,776,082	4.14%	7,436,862	4.07%
Nonearning assets								
Allowance for loan and lease losses	(57,379)		(55,504)		(57,917)		(55,193)	
Cash and due from banks	116,123		121,426		115,922		119,604	
Accrued interest and other assets	668,653		662,204		662,409		660,118	
Total assets	$8,582,961		$8,203,837		$8,496,496		$8,161,391	
Interest-bearing liabilities								
Deposits								
Interest-bearing demand	$1,483,186	0.27%	$1,483,025	0.13%	$1,483,803	0.23%	$1,437,308	0.14%
Savings	2,408,950	0.69%	2,042,188	0.25%	2,317,338	0.59%	1,990,197	0.26%
Time	1,164,087	1.23%	1,342,226	1.10%	1,198,667	1.20%	1,380,841	1.08%
Total interest-bearing deposits	5,056,223	0.69%	4,867,439	0.45%	4,999,808	0.63%	4,808,346	0.46%
Borrowed funds								
Short-term borrowings	875,481	0.94%	846,376	0.50%	862,175	0.81%	896,281	0.50%
Long-term debt	119,651	5.16%	119,575	5.17%	119,628	5.19%	119,564	5.20%
Total borrowed funds	995,132	1.45%	965,951	1.08%	981,803	1.35%	1,015,845	1.05%
Total interest-bearing liabilities	6,051,355	0.81%	5,833,390	0.55%	5,981,611	0.75%	5,824,191	0.56%
Noninterest-bearing liabilities								
Noninterest-bearing demand deposits	1,513,995		1,441,068		1,506,587		1,413,918	
Other liabilities	128,007		91,967		127,838		93,782	
Shareholders' equity	889,604		837,412		880,460		829,500	
	$8,582,961		$8,203,837		$8,496,496		$8,161,391	

Total liabilities and shareholders' equity				
Net interest income	$68,520	$67,132	$137,452	$133,687
Net interest spread	3.32%	3.48%	3.39%	3.51%
Contribution of noninterest-bearing sources of funds	0.18%	0.13%	0.17%	0.11%
Net interest margin [2]	3.50%	3.61%	3.56%	3.62%
Tax equivalent adjustment	0.06%	0.06%	0.07%	0.05%
Net interest margin (fully tax equivalent) [2]	3.56%	3.67%	3.63%	3.67%

(1) Loans held for sale, nonaccrual loans, covered loans and indemnification asset are included in gross loans.
(2) The net interest margin exceeds the interest spread as noninterest-bearing funding sources, demand deposits, other liabilities and shareholders' equity also support earning assets.

37

Table of Contents

RATE/VOLUME ANALYSIS

The impact on net interest income from changes in interest rates as well as the volume of interest-earning assets and interest-bearing liabilities is illustrated in the table below:

	Changes for the three months ended June 30, 2017			Changes for the six months ended June 30, 2017		
	Comparable quarter income variance			Comparable quarter income variance		
(Dollars in thousands)	Rate	Volume	Total	Rate	Volume	Total
Earning assets						
Investment securities	$ 1,048	$ 1,145	$ 2,193	$ 1,698	$ 921	$ 2,619
Interest-bearing deposits with other banks	33	(4)	29	44	34	78
Gross loans [1]	907	2,477	3,384	876	6,066	6,942
Total earning assets	1,988	3,618	5,606	2,618	7,021	9,639
Interest-bearing liabilities						
Total interest-bearing deposits	2,898	324	3,222	4,019	598	4,617
Borrowed funds						
Short-term borrowings	930	68	998	1,398	(138)	1,260
Long-term debt	(3)	1	(2)	(5)	2	(3)
Total borrowed funds	927	69	996	1,393	(136)	1,257
Total interest-bearing liabilities	3,825	393	4,218	5,412	462	5,874
Net interest income	$ (1,837)	$ 3,225	$ 1,388	$ (2,794)	$ 6,559	$ 3,765

[1] Loans held for sale, nonaccrual loans and indemnification asset are included in gross loans.

NONINTEREST INCOME

Second quarter 2017 noninterest income was $17.5 million, declining $2.7 million, or 13.6%, from $20.2 million in the second quarter of 2016. This decrease was due primarily to a $3.7 million, or 63.8%, decrease in other noninterest income, a $0.5 million, or 28.1%, decrease in net gains on sales of loans and a $0.3 million, or 17.2%, decrease in client derivative fees, which were partially offset by a $1.0 million increase in net gains on sale of investment securities and a $0.4 million, or 11.9%, increase in bankcard income.

Other noninterest income decreased from $5.9 million during the second quarter 2016 to $2.1 million for the second quarter 2017 primarily due to a $2.4 million gain on redemption of a limited partnership investment in 2016 as well as a $1.2 million decrease in income from the accelerated discount on covered loans resulting from the continued decline in covered loan balances. Lower net gains on sales of loans and client credit derivative fees in the second quarter of 2017 both reflect particularly strong loan demand in the second quarter of 2016.

Net gain on sales of investment securities increased in the second quarter of 2017 as the sale of $103.4 million of investment securities resulted in net gains of $0.8 million during the period. The increase in bankcard income was the result of elevated card volume and customer activity in the second quarter of 2017.

Noninterest income for the six months ended June 30, 2017 was $34.8 million, declining $0.9 million, or 2.5%, from noninterest income of $35.7 million for the first six months of 2016. The decrease in noninterest income from the comparable period in 2016 was due primarily to a $3.3 million, or 38.8%, decrease in other noninterest income and a $0.3 million, or 10.4%, decrease in client derivative fees, which were partially offset by a $1.5 million increase in net gains on sale of investment securities, and a $0.6 million, or 10.4%, increase in bankcard income.

Similar to the comparable quarter items previously discussed, the decline in other noninterest income for the first six months of 2017 was primarily due to the redemption of a limited partnership investment in 2016 in addition to a $2.2

million decline in income from the accelerated discount on covered loans. Net gains on sales of loans and client credit derivative fees both decreased due to notably high loan demand in 2016. Net gain on sales of investment securities increased in the first six months of 2017 as the sale of $125.6 million of investment securities resulted in net gains of $1.4 million during the period, and the increase in bankcard income resulted from elevated card volume and customer activity in 2017.

NONINTEREST EXPENSE

Second quarter 2017 noninterest expense was $51.6 million compared with $49.4 million for the second quarter of 2016. The $2.1 million, or 4.3%, increase from the comparable quarter in 2016 was primarily attributable to a $2.0 million, or 6.8%, increase in salaries and employee benefits and a $0.7 million, or 26.6%, increase in data processing expenses, partially offset by a $0.9 million, or 14.3%, decline in other noninterest expenses.

Higher salary and benefits expenses during the second quarter of 2017 were primarily related to higher staffing and health care costs, as well as annual compensation adjustments and $0.5 million of severance costs related to efficiency initiatives. Elevated data processing expenses resulted from investments in enterprise data management and system upgrades, in addition to various other software license expenses. Lower other noninterest expenses were primarily driven by lower regulatory costs resulting from the 2016 charter conversion and a decline in collection expenses during the period.

Noninterest expense for the six months ended June 30, 2017 was $102.6 million compared with $100.1 million in the six months ended June 30, 2016. The $2.5 million, or 2.5%, increase from the comparable period in 2016 was primarily attributable to a $4.2 million, or 7.0%, increase in salaries and benefits and a $1.3 million, or 24.0%, increase in data processing expenses, partially offset by a $2.2 million, or 18.1%, decrease in other noninterest expenses and a $0.6 million, or 6.7%, decrease in net occupancy expenses. The increase in salaries and benefits was primarily due to higher staffing levels and performance-based compensation, annual compensation adjustments and higher health care costs during the period similar to the comparable quarter variance. The year to date increase in data processing expenses was primarily related to investments in data management and system upgrades, as well as various other software license expenses. Lower other noninterest expenses were primarily driven by lower regulatory costs resulting from the 2016 charter conversion, fewer collection expenses and a decline in the reserve for unfunded commitments. Lower occupancy expenses resulted from branch consolidation activities.

INCOME TAXES

Income tax expense was $11.2 million for the second quarter of 2017, resulting in an effective tax rate of 33.0% compared to $11.3 million and 33.4% for the comparable period in 2016. For the first six months of 2017, income tax expense was $21.7 million, resulting in an effective tax rate of 31.5% compared to $21.2 million and an effective tax rate of 33.3% for the comparable period in 2016. The lower effective tax rate during the first six months of 2017 related primarily to the adoption of ASU 2016-09 regarding employee share-based compensation. ASU 2016-09, Compensation-Stock Compensation Improvements to Employee Share-Based Payment Accounting, became effective during the first quarter of 2017 and requires the recognition of the income tax effects of share-based awards through the income statement as a component of income tax expense. First Financial recorded a $1.2 million tax benefit as a result of share-based awards vesting and exercised during the first six months of 2017.

While the Company's effective tax rate may fluctuate from quarter to quarter due to tax jurisdiction changes, the level of tax-enhanced assets and tax credit investments, the full year effective tax rate for 2017 is expected to be approximately 31.5% - 32.5%.

LOANS

Loans, excluding loans held for sale, totaled $5.9 billion as of June 30, 2017, and increased $116.3 million, or 2.0%, compared to December 31, 2016. The increase in loan balances from December 31, 2016 was the result of the Company's sales efforts, expanded presence in key metropolitan markets and investments in a diversified product suite. Higher loan balances at June 30, 2017 were driven by a $44.1 million, or 1.8%, increase in CRE loans, a $43.7

million, or 10.9%, increase in construction real estate loans and a $42.6 million, or 2.4%, increase in C&I loans during the period.

Second quarter 2017 average loans, excluding loans held for sale, increased $223.0 million, or 4.0%, from the second quarter of 2016. The increase in average loans, excluding loans held for sale, was driven by a $123.4 million, or 5.4%, increase in CRE loans, a $99.6 million, or 28.6%, increase in construction real estate loans and a $26.3 million, or 1.5%, increase in C&I loans. Increases in average loan balances were attributable to strong organic loan growth in recent periods.

Table of Contents

Loans accounted for under FASB ASC Topic 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality, are referred to as purchased impaired loans. First Financial accounts for the majority of loans acquired in FDIC transactions as purchased impaired loans, except for loans with revolving privileges, which are outside the scope of FASB ASC Topic 310-30, and loans for which cash flows could not be estimated, which are accounted for under the cost recovery method. Purchased impaired loans include loans previously covered under loss sharing agreements as well as loans that remain subject to FDIC loss sharing coverage. First Financial had purchased impaired loans totaling $119.2 million and $138.0 million, at June 30, 2017 and December 31, 2016, respectively. These balances exclude contractual interest not yet accrued.

Loans acquired in FDIC-assisted transactions covered under loss sharing agreements whereby the FDIC will reimburse First Financial for the majority of any losses incurred are referred to as covered loans. The Company's loss sharing agreements with the FDIC related to non-single family assets expired effective October 1, 2014, and the ten year period of loss protection on all other covered loans and covered OREO expires October 1, 2019. The three year period for sharing recoveries on non-single family loans expires on October 1, 2017. Covered loans declined 6.2% to $87.3 million at June 30, 2017 from $93.1 million as of December 31, 2016. A decline in covered loan balances was expected as there were no acquisitions of loans subject to loss sharing agreements during the period. The covered loan portfolio will continue to decline through payoffs, loan sales, charge-offs and termination or expiration of loss sharing coverage, unless First Financial acquires additional loans subject to loss sharing agreements in the future.

ASSET QUALITY

Nonperforming assets consist of nonaccrual loans, accruing TDRs (collectively, nonperforming loans) 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 borrower's continued failure to adhere to contractual payment terms, 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. 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.

Nonperforming assets increased $8.4 million, or 15.5%, to $62.7 million at June 30, 2017 from $54.3 million as of December 31, 2016, due to an $8.7 million, or 18.2%, increase in nonperforming loans which was partially offset by a $0.3 million, or 5.1%, decline in OREO balances during the period. Higher nonperforming assets at June 30, 2017 were primarily driven by three commercial relationships downgraded to nonaccrual status, which offset the Company's resolution efforts during the period.

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. TDRs totaled $29.6 million at June 30, 2017, which is a $5.8 million, or 16.5%, decrease from $35.4 million at December 31, 2016.

Classified assets, which are defined by the Company as nonperforming assets plus performing loans internally rated substandard or worse, declined 21.4% to $98.4 million as of June 30, 2017 compared to $125.2 million at December 31, 2016. The decrease in classified assets was the result of strong workout efforts and improved credit risk ratings on previously classified assets during the period.

The table that follows details nonperforming, underperforming and classified assets, in addition to related credit quality ratios as of June 30, 2017 and the four previous quarters.

Table of Contents

	Quarter ended				
	2017		2016		
(Dollars in thousands)	June 30,	Mar. 31,	Dec. 31,	Sept. 30,	June 30,
Nonperforming loans, nonperforming assets, and underperforming assets					
Nonaccrual loans [1]					
Commercial and industrial	$15,099	$9,249	$2,419	$3,201	$2,980
Lease financing	94	102	195	214	1,167
Construction real estate	1,075	1,075	0	0	0
Commercial real estate	12,617	14,324	6,098	5,985	8,750
Residential real estate	4,442	4,520	5,251	4,759	4,824
Home equity	2,937	3,571	3,400	3,815	4,123
Installment	307	322	367	327	433
Nonaccrual loans	36,571	33,163	17,730	18,301	22,277
Accruing troubled debt restructurings	20,135	29,948	30,240	32,164	28,022
Total nonperforming loans	56,706	63,111	47,970	50,465	50,299
Other real estate owned	5,961	5,300	6,284	7,577	9,302
Total nonperforming assets	62,667	68,411	54,254	58,042	59,601
Accruing loans past due 90 days or more	124	96	142	130	981
Total underperforming assets	$62,791	$68,507	$54,396	$58,172	$60,582
Total classified assets	$98,391	$114,550	$125,155	$142,169	$143,331
Credit quality ratios					
Allowance for loan and lease losses to					
Nonaccrual loans	150.05 %	169.85 %	326.91 %	314.84 %	254.56 %
Nonperforming loans	96.77 %	89.25 %	120.83 %	114.17 %	112.74 %
Total ending loans	0.93 %	0.98 %	1.01 %	1.00 %	0.99 %
Nonperforming loans to total loans	0.97 %	1.10 %	0.83 %	0.87 %	0.88 %
Nonperforming assets to					
Ending loans, plus OREO	1.07 %	1.19 %	0.94 %	1.00 %	1.04 %
Total assets	0.72 %	0.80 %	0.64 %	0.69 %	0.72 %
Nonperforming assets, excluding accruing TDRs to					
Ending loans, plus OREO	0.72 %	0.67 %	0.42 %	0.45 %	0.55 %
Total assets	0.49 %	0.45 %	0.28 %	0.31 %	0.38 %
Classified assets to total assets	1.13 %	1.34 %	1.48 %	1.70 %	1.72 %

[1] Nonaccrual loans include nonaccrual TDRs of $9.4 million, $7.8 million, $5.1 million, $5.6 million and $8.0 million as of June 30, 2017, March 31, 2017, December 31,2016, September 30, 2016 and June 30, 2016, respectively.

INVESTMENTS

First Financial's investment portfolio totaled $2.0 billion, or 23.5% of total assets, at June 30, 2017 and $1.9 billion, or 22.0% of total assets, at December 31, 2016. Securities available-for-sale totaled $1.3 billion at June 30, 2017 and $1.0 billion at December 31, 2016, while held-to-maturity securities totaled $696.3 million at June 30, 2017 and $763.3 million at December 31, 2016.

The Company's investment portfolio increased $193.9 million, or 10.5%, during the first six months of 2017 as a result of soft loan demand earlier in the year. The overall duration of the investment portfolio was 3.2 years as of June 30, 2017 and December 31, 2016, respectively.

The Company invests in certain securities whose realization is dependent on future principal and interest repayments and thus carry credit risk. First Financial performs a detailed pre-purchase collateral and structural analysis on these securities and strategically invests in asset classes in which First Financial has expertise and experience, as well as a senior position in the capital structure. First Financial continuously monitors credit risk and geographic concentration risk in its evaluation of market opportunities that enhance the overall performance of the portfolio.

First Financial recorded a $1.0 million unrealized after-tax gain on the investment portfolio as a component of equity in accumulated other comprehensive income at June 30, 2017. The total unrealized gain on the investment portfolio increased $5.6 million, or 122.3%, from a $4.5 million unrealized after-tax loss at December 31, 2016.

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.

DEPOSITS AND FUNDING

Total deposits as of June 30, 2017 were $6.5 billion, representing a decrease of $56.9 million, or 0.9%, compared to December 31, 2016, as total time deposits decreased $223.9 million, or 16.9%, and total noninterest-bearing deposits decreased $71.4 million, or 4.6%, while total savings deposits increased $256.1 million, or 12.0%, during the period.

Non-time deposit balances totaled $5.4 billion as of June 30, 2017, increasing $167.1 million, or 3.2%, compared to December 31, 2016 from strong deposit sales efforts. Time deposit balances declined as a result of the intentional runoff of higher-cost brokered CDs.

Average deposits increased $261.7 million, or 4.1%, to $6.6 billion at June 30, 2017 from $6.3 billion at June 30, 2016 due to a $366.8 million, or 18.0%, increase in average savings deposits and a $72.9 million, or 5.1%, increase in average noninterest-bearing deposits, which were partially offset by a $178.1 million, or 13.3%, decline in average time deposits. Higher average deposit balances resulted from strong organic growth in recent periods, notably in variable rate products.

Borrowed funds increased to $1.2 billion at June 30, 2017 from $927.5 million at December 31, 2016 primarily the result of the Company's funding needs and the cyclical nature of public fund depositors. First Financial had $957.7 million in short-term borrowings with the FHLB at June 30, 2017 and $687.7 million as of December 31, 2016, which are used to manage normal liquidity needs and support the Company's asset and liability management strategies. In 2015, First Financial issued $120.0 million of subordinated notes. The subordinated notes 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. 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.

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 other short and long-term funding sources, which include subordinated notes, longer-term advances from the FHLB and its short-term line of credit.

As of June 30, 2017 and December 31, 2016, outstanding subordinated debt totaled $118.6 million and $118.5 million, respectively, which included prepaid debt issuance costs of $1.4 million for each period. Long-term debt also

included FHLB long-term advances of $0.3 million and $0.4 million as of June 30, 2017 and December 31, 2016, respectively as well as an interest-free $0.8 million capital loan outstanding with a municipality at June 30, 2017 and December 31, 2016. First Financial's total remaining borrowing capacity from the FHLB was $414.4 million at June 30, 2017.

Table of Contents

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, negatively impacting financial condition and liquidity. Key factors in maintaining high credit ratings include consistent and diverse earnings, strong credit quality and capital ratios, varied funding sources and disciplined liquidity monitoring procedures. The ratings of First Financial and the Bank at June 30, 2017 were as follows:

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

For ease of borrowing execution, First Financial utilizes a blanket collateral agreement with the FHLB. First Financial pledged certain eligible residential, commercial and farm real estate loans, home equity lines of credit and government, agency and CMBS securities totaling $3.5 billion as collateral for borrowings from the FHLB as of June 30, 2017.

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 June 30, 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 line of credit as of June 30, 2017 and December 31, 2016.

First Financial's principal source of asset-funded liquidity is marketable investment securities, particularly those of shorter maturities. The market value of investment securities classified as available-for-sale totaled $1.3 billion and $1.0 billion at June 30, 2017 and December 31, 2016, respectively. Securities classified as held-to-maturity that are maturing within a short period of time are an additional source of liquidity and totaled $17.1 million and $1.0 million at June 30, 2017 and December 31, 2016, respectively. Other sources of liquidity include cash and due from banks, interest-bearing deposits with other banks and loans maturing within one year.

At June 30, 2017, in addition to liquidity on hand of $147.3 million, First Financial had unused and available overnight wholesale funding of $2.5 billion, or 29.2% 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 the Bank totaled $27.6 million for the first six months of 2017. As of June 30, 2017, the Bank had retained earnings of $518.2 million of which $134.7 million was available for distribution to First Financial without prior regulatory approval. Additionally, First Financial had $57.5 million in cash at the parent company as of June 30, 2017, which approximates the Company's annual regular shareholder dividend and operating expenses.

Share repurchases, if any, also impact First Financial's liquidity. For further information regarding share repurchases, see the Capital section that follows.

Capital expenditures, such as banking center expansions and technology investments were $4.2 million and $5.0 million for the first six months of 2017 and 2016, respectively. Management believes that sufficient liquidity exists to fund its future capital expenditure commitments.

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 of Contents

CAPITAL

Risk-Based Capital. 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 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. 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.

Management believes, as of June 30, 2017, that First Financial met all capital adequacy requirements to which it was subject. To be categorized as well-capitalized, First Financial must maintain minimum Total risk-based capital, Tier 1 risk-based capital and Tier 1 leverage ratios as set forth in the table that follows. The Company's most recent regulatory notifications categorized First Financial as "well-capitalized" under the regulatory framework for prompt corrective action. There have been no conditions or events since those notifications that management believes has changed the Company's categorization.

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. First Financial's tier 1 ratio increased from 10.46% as of December 31, 2016 to 10.54% as of June 30, 2017, while the total capital ratio decreased from 13.10% as of December 31, 2016 to 13.05% as of June 30, 2017. The leverage ratio increased to 8.69% at June 30, 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 8.09% during the current quarter. All regulatory capital ratios exceeded the amounts necessary to be classified as “well capitalized,” and total regulatory capital exceeded the minimum requirement by $263.6 million on a consolidated basis at June 30, 2017.

Table of Contents

The following tables present the actual and required capital amounts and ratios as of June 30, 2017 and December 31, 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.

	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
June 30, 2017								
Common equity tier 1 capital to risk-weighted assets								
Consolidated	$731,024	10.54%	$398,858	5.75%	N/A	N/A	$485,567	7.00 %
First Financial Bank	771,900	11.16%	397,800	5.75%	$449,687	6.50 %	484,278	7.00 %
Tier 1 capital to risk-weighted assets								
Consolidated	731,128	10.54%	502,908	7.25%	N/A	N/A	589,617	8.50 %
First Financial Bank	772,004	11.16%	501,574	7.25%	553,460	8.00 %	588,052	8.50 %
Total capital to risk-weighted assets								
Consolidated	905,222	13.05%	641,642	9.25%	N/A	N/A	728,350	10.50%
First Financial Bank	834,901	12.07%	639,939	9.25%	691,826	10.00%	726,417	10.50%
Leverage ratio								
Consolidated	731,128	8.69 %	336,609	4.00%	N/A	N/A	336,609	4.00 %
First Financial Bank	772,004	9.18 %	336,245	4.00%	420,306	5.00 %	336,245	4.00 %

Table of Contents

The following table presents the actual and required capital amounts and ratios as of December 31, 2016 under the regulatory capital rules then in effect.

	Actual		Minimum capital required - Basel III		Required to be considered well capitalized		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 ratio								
Consolidated	703,995	8.60 %	327,605	4.00 %	N/A	N/A	327,605	4.00 %
First Financial Bank	747,255	9.13 %	327,436	4.00 %	409,295	5.00 %	327,436	4.00 %

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

Shareholder Dividends. First Financial paid a dividend of $0.17 per common share on July 3, 2017 to shareholders of record as of June 2, 2017. Additionally, First Financial's board of directors authorized a dividend of $0.17 per common share for the next regularly scheduled dividend, payable on October 2, 2017 to shareholders of record as of September 1, 2017.

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 shares. First Financial did not repurchase any shares under this plan during the first six months of 2017 and 2016. At June 30, 2017, 3,509,133 common shares remained available for repurchase under the 2012 share repurchase plan.

ATM Offering. During the first quarter of 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.

Shareholders' Equity. Total shareholders’ equity at June 30, 2017 was $898.1 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.

RISK MANAGEMENT

First Financial manages risk 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. 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.

For a full discussion of these risks, see the Risk Management section in Management's Discussion and Analysis in First Financial’s 2016 Annual Report. The sections that follow provide additional discussion related to credit risk and market risk.

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 process, periodically reviewing and approving its credit exposures using credit policies and guidelines approved by the board of directors.

Allowance for loan and lease losses. First Financial records a provision for loan and lease losses 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.

The ALLL was $54.9 million as of June 30, 2017 and $58.0 million as of December 31, 2016, and as a percentage of period-end loans, the ALLL was 0.93% as of June 30, 2017 compared to 1.01% as of December 31, 2016. The decline in the ALLL when compared to December 31, 2016 is consistent with the Company's stable overall credit outlook, and was the result of lower classified asset balances as well as the decline in covered/formerly covered loans.

The ALLL as a percentage of nonaccrual loans was 150.05% at June 30, 2017 and 326.91% at December 31, 2016. The ALLL as a percentage of nonperforming loans, which include accruing TDRs, declined to 96.77% as of June 30, 2017 from 120.83% as of December 31, 2016 due to the lower ALLL and an $8.7 million, or 18.2%, increase in nonperforming loans. The increase in nonperforming loans during the first six months of 2017 was primarily driven by three commercial relationships downgraded to nonaccrual status during the period, which offset the Company's resolution efforts.

Second quarter 2017 net charge-offs were $1.9 million, or 0.13% of average loans and leases on an annualized basis, compared to net charge-offs of $1.1 million, or 0.08% of average loans and leases on an annualized basis for the comparable quarter in 2016. The $0.9 million increase in net charge-offs from the comparable period in 2016 was primarily the result of higher C&I loan charge-offs, partially offset by a decline in CRE loan charge-offs and higher C&I and CRE recoveries during the period.

Provision expense is a product of the Company's ALLL model, as well as net charge-off activity during the period. Second quarter 2017 provision expense was $0.5 million compared to $4.0 million during the comparable quarter in 2016, driven by a $44.9 million, or 31.4% decline in classified asset balances and the continued runoff of covered/formerly covered loan balances, both of which generally have higher reserve percentages than other loan types. Provision expense was $0.8 million compared to $5.7 million for the six months ended June 30, 2017 and 2016, respectively.

See Note 5 – Allowance for Loan and Lease Losses in the Notes to Consolidated Financial Statements, for further discussion of First Financial's ALLL.

Table of Contents

The table that follows includes the activity in the ALLL for the quarterly periods presented.

	Three months ended					Six months ended	
	2017		2016			June 30,	
(Dollars in thousands)	June 30,	Mar. 31,	Dec. 31,	Sept. 30,	June 30,	2017	2016
Allowance for loan and lease loss activity							
Balance at beginning of period	$56,326	$57,961	$57,618	$56,708	$53,732	$57,961	$53,398
Provision for loan losses	467	367	2,761	1,687	4,037	834	5,692
Gross charge-offs							
Commercial and industrial	3,065	1,743	1,590	296	265	4,808	744
Lease financing	0	0	0	0	0	0	0
Construction real estate	0	0	(2)	64	28	0	31
Commercial real estate	485	485	990	1,135	1,596	970	2,859
Residential real estate	223	61	224	90	28	284	73
Home equity	384	180	232	475	398	564	738
Installment	126	49	60	223	30	175	102
Credit card	215	232	326	267	357	447	597
Total gross charge-offs	4,498	2,750	3,420	2,550	2,702	7,248	5,144
Recoveries							
Commercial and industrial	693	262	186	327	420	955	641
Lease financing	1	0	0	0	1	1	1
Construction real estate	89	0	51	6	202	89	228
Commercial real estate	1,398	256	382	997	681	1,654	1,123
Residential real estate	59	9	54	38	81	68	145
Home equity	222	106	144	257	131	328	319
Installment	43	71	118	56	62	114	161
Credit card	73	44	67	92	63	117	144
Total recoveries	2,578	748	1,002	1,773	1,641	3,326	2,762
Total net charge-offs	1,920	2,002	2,418	777	1,061	3,922	2,382
Ending allowance for loan and lease losses	$54,873	$56,326	$57,961	$57,618	$56,708	$54,873	$56,708
Net charge-offs to average loans and leases (annualized)							
Commercial and industrial	0.53%	0.34%	0.32%	(0.01)%	(0.04)%	0.44%	0.01%
Lease financing	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Construction real estate	(0.08)%	0.00%	(0.06)%	0.06%	(0.20)%	(0.04)%	(0.12)%
Commercial real estate	(0.15)%	0.04%	0.10%	0.02%	0.16%	(0.06)%	0.15%
Residential real estate	0.13%	0.04%	0.13%	0.04%	(0.04)%	0.09%	(0.03)%
Home equity	0.14%	0.07%	0.08%	0.19%	0.23%	0.10%	0.18%
Installment	0.65%	(0.18)%	(0.47)%	1.40%	(0.29)%	0.24%	(0.28)%
Credit card	1.28%	1.73%	2.35%	1.64%	2.88%	1.50%	2.21%
Total net charge-offs	0.13%	0.14%	0.17%	0.05%	0.08%	0.14%	0.09%

Table of Contents

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, including instantaneous shocks. EVE is calculated by discounting the cash flows for all balance sheet instruments under different interest-rate scenarios. First Financial uses EVE sensitivity analysis to understand the impact of changes in interest rates on long-term cash flows, income and capital. EVE is calculated by discounting the cash flows for all balance sheet instruments under different interest-rate scenarios. 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 all of the Company's assets, liabilities and off-balance sheet exposure. A number of assumptions are also 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 70% in its interest rate risk modeling as of June 30, 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 +200 BP scenario, thereby increasing deposit costs and reducing asset sensitivity.

Presented below is the estimated impact on First Financial's NII and EVE position as of June 30, 2017, assuming immediate, parallel shifts in interest rates:

	% Change from base case for immediate parallel changes in rates		
	-100 BP [1]	+100 BP	+200 BP
NII-Year 1	(3.69)%	1.63 %	2.60 %
NII-Year 2	(5.70)%	4.06 %	5.96 %
EVE	(4.05)%	(0.30)%	0.29 %

[1] Because certain current interest rates are at or below 1.00%, the 100 bp downward shock assumes that certain corresponding interest rates approach an implied floor that, in effect, reflects a decrease of less than the full 100 basis point downward shock.

“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 all internal policy limits set for interest rate risk monitoring as of June 30, 2017. The projected results for NII and EVE became became less asset sensitive during the second quarter of 2017 due to a liability mix toward rate sensitive deposit products, coupled with the impact from higher fixed rate investment securities. Partially offsetting the downward sensitivity pressures, was the continued focus on variable rate lending and while limiting fixed rate originations. First Financial continues to manage its balance sheet with a bias toward asset sensitivity while simultaneously balancing the potential earnings impact of this strategy.

Table of Contents

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 June 30, 2017 assuming both a 25% increase and decrease to the beta assumption on managed rate deposits:

	Beta sensitivity (% change from base)			
	+100 BP		+200 BP	
	Beta 25% lower	Beta 25% higher	Beta 25% lower	Beta 25% higher
NII-Year 1	2.64%	0.56%	4.28%	0.92%
NII-Year 2	5.06%	3.01%	7.61%	4.30%

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

CRITICAL ACCOUNTING POLICIES

First Financial’s Consolidated Financial Statements are prepared based on the application of the Company's accounting policies. These policies require the reliance on estimates and assumptions. 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, certain accounting policies have a more significant impact than others on First Financial’s financial reporting. For First Financial, these areas currently include accounting for the ALLL, goodwill, pension and income taxes. These accounting policies are discussed in detail in the Critical Accounting Policies section of Management’s Discussion and Analysis in First Financial’s 2016 Annual Report. There were no material changes to these accounting policies during the six months ended June 30, 2017.

ACCOUNTING AND REGULATORY MATTERS

Note 2 - Recently Adopted and Issued Accounting Standards in the Notes to Consolidated Financial Statements, discusses new accounting standards adopted by First Financial during 2017 and the expected impact of accounting standards recently issued but not yet required to be adopted. To the extent the adoption of new accounting standards materially affects financial condition, results of operations or liquidity, the impacts are discussed in the applicable section(s) of Management’s Discussion and Analysis and the Notes to the Consolidated Financial Statements.

FORWARD-LOOKING INFORMATION

This Form 10-Q contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are not based on historical or current facts, but rather on our current beliefs, expectations, assumptions and projections about our business, the economy and other future conditions. Forward-looking statements often include words such as ‘‘believes,’’ ‘‘anticipates,’’ “likely,” “expected,” ‘‘intends,’’ “could,” and other similar references to future periods. Examples of forward-looking statements include, but are not limited to, statements we make about (i) our future operating or financial performance, including revenues, income or loss and earnings or loss per share, (ii) future common stock dividends, (iii) our capital structure, including future capital levels, (iv) our plans, objectives and strategies, and (v) the assumptions that underlie our forward-looking statements.

As with any forecast or projection, forward-looking statements are subject to inherent uncertainties, risks and changes in circumstances that may cause actual results to differ materially from those set forth in the forward-looking statements. Important factors that could cause actual results to differ materially from those in our forward-looking statements include the following, without limitation: (i) economic, market, liquidity, credit, interest rate, operational and technological risks associated with the Company’s business; (ii) the effect of and changes in policies and laws or

regulatory agencies, including the Dodd-Frank Wall Street Reform and Consumer Protection Act and other legislation and regulation relating to the banking industry; (iii) management's ability to effectively execute its business plans; (iv) mergers and acquisitions, including costs or difficulties related to the integration of acquired companies; (v) the Company's ability to comply with the terms of loss sharing agreements with the FDIC; (vi) the effect of changes in accounting policies and practices; (vii) changes in consumer spending, borrowing and saving and changes in unemployment; (viii) changes in customers' performance and creditworthiness; and (ix) the costs and effects of litigation and of unexpected or adverse outcomes in such litigation. Additional factors that may cause our actual results to differ materially from those described in our forward-looking statements can be found in the Form 10-K for the year ended December 31, 2016, as well as its other filings with the SEC, which are available on the SEC website at www.sec.gov.

Table of Contents

Forward-looking statements are meaningful only on the date when such statements are made. We undertake no obligation to update any forward-looking statement to reflect events or circumstances that may arise after the date on which a forward-looking statement is made.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information contained in "Item 2-Management's Discussion and Analysis of Financial Condition and Results of Operations—Market Risk" of this report is incorporated herein by reference in response to this item.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Management is responsible for establishing and maintaining effective disclosure controls and procedures, as defined under Rule 13a-15 of the Securities Exchange Act of 1934, that are designed to cause the material information required to be disclosed by First Financial in the reports it files or submits under the Securities Exchange Act of 1934 to be recorded, processed, summarized, and reported to the extent applicable within the time periods required by the Securities and Exchange Commission's rules and forms. In designing and evaluating the disclosure controls and procedures, management recognized that a control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

As of the end of the period covered by this report, First Financial performed an evaluation under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of its disclosure controls and procedures pursuant to Rule 13a-15 of the Securities Exchange Act of 1934. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

No changes were made to the Corporation's internal control over financial reporting (as defined in Rule 13a-15 under the Securities Exchange Act of 1934) during the last fiscal quarter that materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

Table of Contents

PART II-OTHER INFORMATION

Item 1. Legal Proceedings.

There have been no material changes to the disclosure in response to "Part I - Item 3. Legal Proceedings" in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

Item 1A. Risk Factors.

There are a number of factors that may adversely affect the Company's business, financial results, or stock price. See "Risk Factors" as disclosed in response to "Item 1A. to Part I - Risk Factors" of Form 10-K for the year ended December 31, 2016.

Table of Contents

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

(c) The following table shows the total number of shares repurchased in the second quarter of 2017.

Issuer Purchases of Equity Securities

Period	(a) Total Number Of Shares Purchased [1]	(b) Average Price Paid Per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans [2]	(d) Maximum Number of Shares that may yet be purchased Under the Plans
April 1 to April 30, 2017				
Share repurchase program	0	$ 0.00	0	3,509,133
Stock Plans	0	0.00	N/A	N/A
May 1 to May 31, 2017				
Share repurchase program	0	$ 0.00	0	3,509,133
Stock Plans	8,591	28.05	N/A	N/A
June 1 to June 30, 2017				
Share repurchase program	0	$ 0.00	0	3,509,133
Stock Plans	0	0.00	N/A	N/A
Total				
Share repurchase program	0	$ 0.00	0	
Stock Plans	8,591	$ 28.05	N/A	

(1) The number of shares purchased in column (a) and the average price paid per share in column (b) include the purchase of shares other than through publicly announced plans. The shares purchased other than through publicly announced plans were purchased pursuant to First Financial's 1999 Stock Incentive Plan for Officers and Employees, Amended and Restated 2009 Non-Employee Director Stock Plan, 2012 Stock Plan and 2012 Amended and Restated Stock Plan(collectively referred to hereafter as the Stock Plans). The table shows the number of shares purchased pursuant to the Stock Plans and the average price paid per share. Under the Stock Plans, shares were purchased from plan participants at the then current market value in satisfaction of stock option exercise prices.

(2) First Financial has one previously announced stock repurchase plan under which it is authorized to purchase shares of its common stock. The plan has no expiration date. The table that follows provides additional information regarding this plan.

Announcement Date	Total Shares Approved for Repurchase	Total Shares Repurchased Under the Plan	Expiration Date
10/25/2012	5,000,000	1,490,867	None

53

Table of Contents

Item 6. Exhibits

(a) Exhibits:

Exhibit Number	
10.1	First Financial Bancorp. Amended and Restated 2012 Stock Plan (filed as Exhibit 10.1 to First Financial Bancorp's Form 8-K filed on May 24, 2017) (File No. 001-34762).*
10.2	Form of Agreement for Restricted Stock Awards under the First Financial Bancorp. Amended and Restated 2012 Stock Plan (Directors, 1-year vest/accrual of dividends).*
10.3	Form of Agreement for Restricted Stock Awards under the First Financial Bancorp. Amended and Restated 2012 Stock Plan (employees of First Financial Bank, 3-year vesting/accrual of dividends).
10.4	Form of Agreement for Restricted Stock Awards under the First Financial Bancorp. Amended and Restated 2012 Stock Plan (employees of Oak Street Funding, 3-year vesting/accrual of dividends).*
10.5	Form of Agreement for Restricted Stock Awards under the First Financial Bancorp. Amended and Restated 2012 Stock Plan (employees of First Franchise Capital Corporation, 3-year vesting/accrual of dividends).*
10.6	Form of Agreement for Performance Stock Awards under the First Financial Bancorp. Amended and Restated 2012 Stock Plan (employees of First Financial Bank) 3-year vesting/accrual of dividends).*
10.7	Form of Agreement for Performance Stock Awards under the First Financial Bancorp. Amended and Restated 2012 Stock Plan (employees of Oak Street Funding, 3-year vesting/accrual of dividends).*
10.8	Form of Agreement for Stock Awards under the Key Executive Short Term Incentive Plan and the First Financial Bancorp. Amended and Restated 2012 Stock Plan (immediate vest, 1-year holding).*
31.1	Certification by Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 filed herewith.
31.2	Certification by Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 filed herewith.
32.1	Certification of Periodic Financial Report by Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 furnished herewith.
32.2	Certification of Periodic Financial Report by Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 furnished herewith.
101.1	Financial statements from the Quarterly Report on Form 10-Q of the Company for the quarter ended June 30, 2017, formatted in XBRL (eXtensible Business Reporting Language) pursuant to Rule 405 of

Regulation S-T: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statements of Changes in Shareholders' Equity, (v) Consolidated Statements of Cash Flows and (vi) Notes to Consolidated Financial Statements, as blocks of text and in detail.**

First Financial will furnish, without charge, to a security holder upon request a copy of the documents and will furnish any other Exhibit upon payment of reproduction costs. Unless as otherwise noted, documents incorporated by reference involve File No. 001-34762.

* Compensation plan(s) and arrangement(s).
** As provided in Rule 406T of Regulation S-T, this information shall not be deemed “filed” for purposes of Section 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934 or otherwise subject to liability under those sections.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

	FIRST FINANCIAL BANCORP. (Registrant)
/s/ John M. Gavigan	/s/ Scott T. Crawley
John M. Gavigan	Scott T. Crawley
Senior Vice President and Chief Financial Officer	First Vice President and Controller
	(Principal Accounting Officer)
Date 8/7/2017	Date 8/7/2017