

2019
Annual Report

TRANSFORMING OUR BUSINESS

first

first financial bancorp

Dear Fellow Shareholders,

The past year was transformational for First Financial Bancorp. With the completion of the MainSource merger in 2018, First Financial emerged as a \$10+ billion company, raising our profile within the industry and assuming new responsibilities to shareholders, regulators, and the clients and communities we serve.

Transformation is never simple. It presents challenges to our people, processes, and the products and services we offer. I'm pleased to report that we rose to the challenge and emerged as a stronger bank, better positioned to compete, innovate, and win.

2019 Highlights

First Financial's 2019 achievements are evidenced by important developments internally, in the services we offer, and in the ways with which we engage our clients:

- The roll out of our Corporate Strategic Plan, setting clear direction for our planning efforts and aligning our people with the core tenets of our business
- Investments in key talent, adding high-quality associates in strategic roles to drive innovation and growth
- The formation of our Digital Solutions Group, the creation of a three-year digital roadmap, and the rollout of new technologies that enable improved online business and retail mortgage lending capabilities
- The acquisition of Bannockburn Global Forex, adding foreign currency hedging, advising, and trading capabilities to our specialty services offerings
- The opening of our 4th & Vine Innovation Center in Cincinnati, providing a new distribution approach for banking services, innovation, and financial wellness
- The renovation of our Greensburg Operations Center and our commitment of \$500,000 in support of the capital campaign to expand the Greensburg, IN YMCA with a Decatur County Memorial Hospital wellness facility
- A \$1 million donation to the Cincinnati USA Regional Chamber's Minority Business Accelerator to help continue the development of sizable minority businesses in the Greater Cincinnati area

Financially, 2019 was another successful year for First Financial. The year was highlighted by record earnings, top-quartile returns, and shareholder-focused capital actions despite headwinds from Fed rate cuts, legislatively mandated reductions in interchange revenue, and increased credit costs. This success is a direct reflection of the resolve and dedication of our associates, who continue to deliver unparalleled service to our clients and return to our shareholders.

What's Ahead In 2020

With a strong foundation firmly established, we move forward in 2020 with specific execution plans that continue our transformation. We will adapt to changes in our markets,

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we must be in the right place at the right time with the right advice and solutions to help our clients

in technology, and in the social, economic, and political conditions that impact our key stakeholders.

We must be in the right place at the right time with the right advice and solutions to help our clients along their financial journeys. This means understanding the needs of our clients on an instinctive level. We will immerse ourselves into client segments, working to understand the economic, social, and psychographic nuances of Low and Moderate Income, Mass Affluent, and High Net Worth individuals and families. Similarly, we continue to develop specialized skills in understanding the specific needs of Corporate, Middle Market, Commercial, and Small Business clients, responding to – and ultimately anticipating – needs in ways that keep businesses moving forward on their journeys. We will take the concept of an advisor to an entirely new level, leveraging data to better understand needs and trends, removing friction, and making the First Financial banking experience easier and more pleasing than any financial relationship our clients have ever had.

Client centric. Ready to engage. Delivering expert advice and solutions. This is where we're going in 2020. This is the next stage in First Financial Bank's transformation.

Thank you for your continued support.

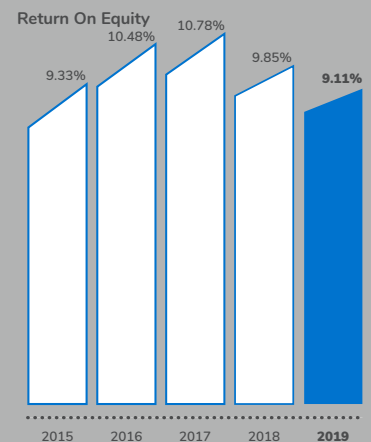
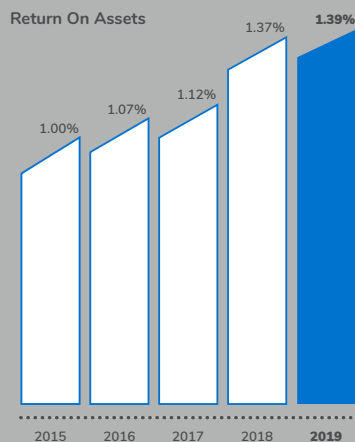
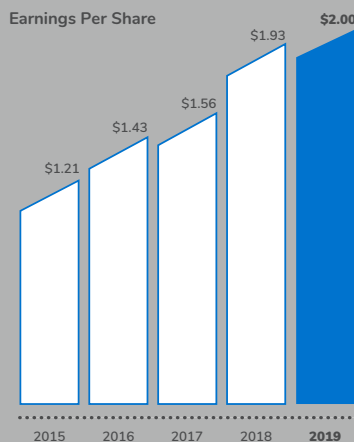
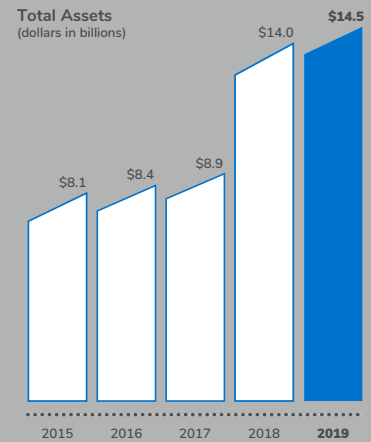
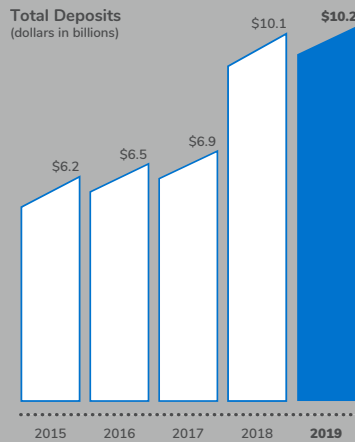
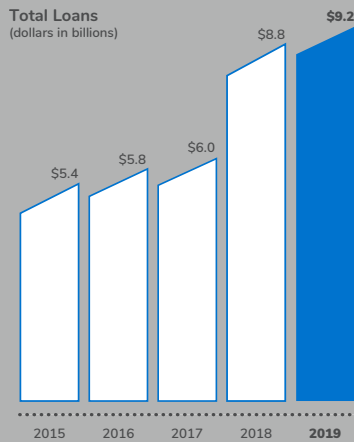
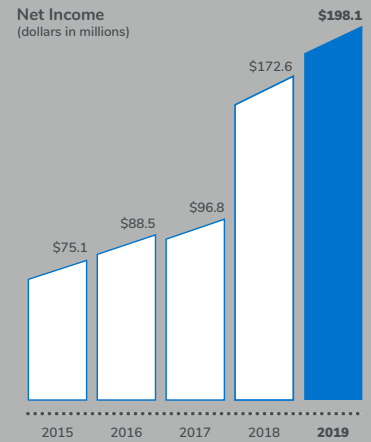


Archie M. Brown

Archie M. Brown
President & Chief Executive Officer

117 CONSECUTIVE
QUARTERS OF
PROFITABILITY

156 YEARS OF
STRENGTH &
STABILITY



Leadership

Senior Management

Archie M. Brown
President and Chief Executive Officer

John M. Gavigan
Chief Operating Officer

Amanda N. Neeley
Chief Strategy Officer

James M. Anderson
Chief Financial Officer

William R. Harrod
Chief Credit Officer

James R. Shank
Chief Internal Auditor

Scott T. Crawley
Corporate Controller and
Principal Accounting Officer

Andrew K. Hauck
Chief Commercial Banking Officer

Karen B. Woods
General Counsel and
Chief Risk Officer

Richard S. Dennen
President, Oak Street Funding

Catherine M. Myers
Chief Consumer Banking Officer

Board of Directors

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Board Chair, First Financial Bancorp
Managing Director
Brixey and Meyer Capital

J. Wickliffe Ach
Lead Independent Director
Board of Directors of First Financial Bancorp

Kathleen L. Bardwell
Senior Vice President, Chief Compliance Officer
STERIS Corporation

William G. Barron
Chairman and President
William G. Barron Enterprises

Vincent A. Berta
President and Managing Director
Covington Capital, LLC

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

Archie M. Brown
President and Chief Executive Officer
First Financial Bancorp and First Financial Bank

Corinne R. Finnerty
Principal
McConnell Finnerty PC

Erin P. Hoeflinger
Senior Vice President, Business Strategy and Execution
Aetna

Susan L. Knust
Owner and President
Omega Warehouse Services

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

John T. Neighbours
General Counsel
AmeriQual Group Holdings

Thomas M. O'Brien
Senior Advisor
Boston Consulting Group

Richard E. Olszewski
Owner/Operator
7 Eleven Food Stores

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

FINANCIAL HIGHLIGHTS

(Dollars in thousands, except per share data)

	2019	2018	% Change
Earnings			
Net interest income	\$ 484,254	\$ 449,235	7.8 %
Net income	198,075	172,595	14.8 %
Per Share			
Net income per common share-basic	\$ 2.01	\$ 1.95	3.1 %
Net income per common share-diluted	2.00	1.93	3.6 %
Cash dividends declared per common share	0.90	0.78	15.4 %
Tangible book value per common share (end of year)	12.42	11.72	6.0 %
Market price (end of year)	25.44	23.72	7.3 %
Balance Sheet - End of Year			
Total assets	\$ 14,511,625	\$ 13,986,660	3.8 %
Loans	9,201,665	8,824,214	4.3 %
Investment securities	3,119,966	3,324,243	(6.1)%
Deposits	10,210,229	10,140,394	0.7 %
Shareholders' equity	2,247,705	2,078,249	8.2 %
Ratios			
Return on average assets	1.39%	1.37%	
Return on average shareholders' equity	9.11%	9.85%	
Return on average tangible shareholders' equity	16.32%	17.32%	
Net interest margin	3.95%	4.05%	
Net interest margin (fully tax equivalent)	4.00%	4.10%	

2019 Financial Highlights

Glossary of Abbreviations and Acronyms

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

ABL	Asset based lending	FHLMC	Federal Home Loan Mortgage Corporation
ACL	Allowance for credit losses	First Financial	First Financial Bancorp.
the Act	Private Securities Litigation Reform Act	FNMA	Federal National Mortgage Association
AFS	Available-for-sale	Form 10-K	First Financial Bancorp. Annual Report on Form 10-K
ALLL	Allowance for loan and lease losses	FRB	Federal Reserve Bank
AOCI	Accumulated other comprehensive income	GAAP	U.S. Generally Accepted Accounting Principles
ASC	Accounting standards codification	GDP	Gross Domestic Product
ASU	Accounting standards update	GNMA	Government National Mortgage Association
ATM	Automated teller machine	HTM	Held-to-maturity
Bank	First Financial Bank	Insignificant	Less than \$0.1 million
Basel III	Basel Committee regulatory capital reforms, Third Basel Accord	IRLC	Interest Rate Lock Commitment
BGF or Bannockburn	Bannockburn Global Forex, LLC	MBSs	Mortgage-backed securities
Bp/bps	Basis point(s)	MSFG	MainSource Financial Group, Inc.
BOLI	Bank owned life insurance	N/A	Not applicable
CDs	Certificates of deposit	NII	Net interest income
CECL	Current Expected Credit Loss	N/M	Not meaningful
C&I	Commercial & industrial	Oak Street	Oak Street Holdings Corporation
CLOs	Collateralized loan obligations	ODFI	Ohio Department of Financial Institutions
CMOs	Collateralized mortgage obligations	OREO	Other real estate owned
CRE	Commercial real estate	PCA	Prompt corrective action
Company	First Financial Bancorp.	ROU	Right-of-use
ERM	Enterprise Risk Management	SEC	United States Securities and Exchange Commission
EVE	Economic value of equity	Topic 842	FASB ASC Topic 842, Leasing
Fair Value Topic	FASB ASC Topic 825, Financial Instruments	Special Assets	Special Assets Division
FASB	Financial Accounting Standards Board	TDR	Troubled debt restructuring
FDIC	Federal Deposit Insurance Corporation	USD	United States dollars
FHLB	Federal Home Loan Bank		

Management's Discussion and Analysis of Financial Condition and Results of Operations

Table 1 • Financial Summary

<i>(Dollars in thousands, except per share data)</i>	December 31,				
	2019	2018	2017	2016	2015
Summary of operations					
Interest income	\$ 607,578	\$ 540,382	\$ 333,073	\$ 305,950	\$ 269,759
Tax equivalent adjustment ⁽¹⁾	6,328	5,147	5,259	4,215	4,017
Interest income tax – equivalent ⁽¹⁾	613,906	545,529	338,332	310,165	273,776
Interest expense	123,324	91,147	49,528	33,279	23,257
Net interest income tax – equivalent ⁽¹⁾	\$ 490,582	\$ 454,382	\$ 288,804	\$ 276,886	\$ 250,519
Interest income	\$ 607,578	\$ 540,382	\$ 333,073	\$ 305,950	\$ 269,759
Interest expense	123,324	91,147	49,528	33,279	23,257
Net interest income	484,254	449,235	283,545	272,671	246,502
Provision for loan and lease losses	30,598	14,586	3,582	10,140	9,641
Noninterest income	131,373	103,382	76,142	69,601	75,202
Noninterest expenses	342,167	323,810	239,942	201,401	201,130
Income before income taxes	242,862	214,221	116,163	130,731	110,933
Income tax expense	44,787	41,626	19,376	42,205	35,870
Net income	\$ 198,075	\$ 172,595	\$ 96,787	\$ 88,526	\$ 75,063
Per share data					
Earnings per common share					
Basic	\$ 2.01	\$ 1.95	\$ 1.57	\$ 1.45	\$ 1.23
Diluted	\$ 2.00	\$ 1.93	\$ 1.56	\$ 1.43	\$ 1.21
Cash dividends declared per common share	\$ 0.90	\$ 0.78	\$ 0.68	\$ 0.64	\$ 0.64
Average common shares outstanding–basic (in thousands)	98,306	88,582	61,529	61,206	61,063
Average common shares outstanding–diluted (in thousands)	98,851	89,614	62,172	61,985	61,848
Selected year-end balances					
Total assets	\$14,511,625	\$13,986,660	\$ 8,896,923	\$ 8,437,967	\$ 8,147,411
Earning assets	12,392,259	12,190,567	8,117,115	7,719,285	7,431,707
Investment securities	3,119,966	3,324,243	2,056,556	1,854,201	1,970,626
Total loans and leases	9,201,665	8,824,214	6,013,183	5,757,482	5,388,760
Interest-bearing demand deposits	2,364,881	2,307,071	1,453,463	1,513,771	1,414,291
Savings deposits	2,960,979	3,167,325	2,462,420	2,142,189	1,945,805
Time deposits	2,240,441	2,173,564	1,317,105	1,321,843	1,406,124
Noninterest-bearing demand deposits	2,643,928	2,492,434	1,662,058	1,547,985	1,413,404
Total deposits	10,210,229	10,140,394	6,895,046	6,525,788	6,179,624
Short-term borrowings	1,316,181	1,040,691	814,565	807,912	938,425
Long-term debt	414,376	570,739	119,654	119,589	119,540
Shareholders' equity	2,247,705	2,078,249	930,664	865,224	809,376
Select Financial Ratios					
Average loans to average deposits ⁽²⁾	88.59%	87.49%	88.12%	89.33%	84.00%
Net charge-offs to average loans and leases	0.33%	0.15%	0.13%	0.10%	0.18%
Average shareholders' equity to average total assets	15.30%	13.89%	10.42%	10.24%	10.73%
Return on average assets	1.39%	1.37%	1.12%	1.07%	1.00%
Return on average equity	9.11%	9.85%	10.78%	10.48%	9.33%
Net interest margin	3.95%	4.05%	3.59%	3.62%	3.60%
Net interest margin (tax equivalent basis) ⁽¹⁾	4.00%	4.10%	3.66%	3.68%	3.66%
Dividend payout	44.78%	40.00%	43.31%	44.14%	52.03%

⁽¹⁾ Tax equivalent basis was calculated using a 21.00% tax rate for 2019 and 2018 and a 35.00% tax rate for 2017, 2016 and 2015.

⁽²⁾ Includes loans held for sale.

This annual report contains forward-looking statements. See the Forward-Looking Statements section that follows for further information on the risks and uncertainties associated with forward-looking statements.

The following discussion and analysis is presented by management to facilitate the understanding of the financial position and results of operations of First Financial Bancorp. Management's discussion and analysis identifies trends and material changes that occurred during the reporting periods presented and should be read in conjunction with the Statistical Data, Consolidated Financial Statements and accompanying Notes.

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

EXECUTIVE SUMMARY

First Financial Bancorp. is a \$14.5 billion financial holding company headquartered in Cincinnati, Ohio, which operates through its subsidiaries primarily in Ohio, Indiana, Kentucky and Illinois. These subsidiaries include First Financial Bank, an Ohio-chartered commercial bank, which operated 145 full service banking centers as of December 31, 2019. First Financial provides banking and financial services products to business and retail clients through its six lines of business: Commercial, Retail Banking, Mortgage Banking, Wealth Management, 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. Wealth Management had \$2.9 billion in assets under management as of December 31, 2019 and provides the following services: financial planning, investment management, trust administration, estate settlement, brokerage services and retirement planning.

Additional information about the Company, including its products, services and banking locations, is available at www.bankatfirst.com.

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

MARKET STRATEGY

First Financial aims to develop a competitive advantage by utilizing a local market focus to provide superior service and build long-term relationships with clients while helping them achieve greater financial success. First Financial serves a combination of metropolitan and community markets in Ohio, Indiana, Kentucky and Illinois through its full-service banking centers, and provides financing to franchise owners and clients within the financial services industry throughout the United States. 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 its existing business and diversify its product suite and revenue streams. First Financial's investment in community markets remains an important part of the Bank's core funding base and has historically provided stable, low-cost funding sources.

BUSINESS COMBINATIONS

In August 2019, the Company acquired Bannockburn Global Forex, LLC, an industry-leading capital markets firm. The Cincinnati-based company provides transactional currency payments, foreign exchange hedging and other advisory products to closely held enterprises, financial sponsors and financial institutions across the United States. Bannockburn became a division of the Bank and continues to operate as Bannockburn Global Forex, taking advantage of its existing brand recognition within the foreign exchange industry. The total purchase consideration was \$114.6 million, consisting of \$53.7 million in cash and \$60.9 million of First Financial common stock. The transaction resulted in First Financial recording \$58.0 million of goodwill on the Consolidated Balance Sheet, which reflects the business's high growth potential and the expectation that the acquisition will provide additional revenue growth and diversification. The goodwill is deductible for income tax purposes as the transaction is considered a taxable exchange.

In April 2018, First Financial completed its acquisition of MainSource Financial Group, Inc. and its banking subsidiary, MainSource Bank. The merger positioned the combined company to better serve the complementary geographies of Ohio,

Indiana, Kentucky and Illinois by creating a higher performing bank with greater scale and capabilities. Under the terms of the merger agreement, shareholders of MSFG received 1.3875 common shares of First Financial common stock for each share of MSFG common stock. Including outstanding options and warrants on MSFG common stock, total purchase consideration was \$1.1 billion. In the merger, First Financial acquired \$4.4 billion of total assets, \$2.8 billion of loans and \$3.3 billion of deposits, which resulted in goodwill of \$675.6 million.

The BGF and MSFG transactions were accounted for using the acquisition method of accounting. Accordingly, assets acquired, liabilities assumed and consideration exchanged were recorded at estimated fair value on the acquisition date, in accordance with FASB ASC Topic 805, Business Combinations.

See Note 23 – Business Combinations in the Notes to Consolidated Financial Statements, for further discussion of these transactions.

OVERVIEW OF OPERATIONS

Net income for the year ended December 31, 2019 was \$198.1 million, resulting in earnings per diluted common share of \$2.00. This compares to net income of \$172.6 million and earnings per diluted common share of \$1.93 in 2018. First Financial's return on average shareholders' equity for 2019 was 9.11%, compared to 9.85% for 2018, and First Financial's return on average assets was 1.39% and 1.37% for 2019 and 2018, respectively.

Net interest income in 2019 increased \$35.0 million, or 7.8%, from 2018, to \$484.3 million, primarily driven by higher average earning asset balances subsequent to the MSFG merger as well as higher yields earned on the investment and loan portfolios. The net interest margin on a fully tax equivalent basis was 4.00% for 2019 compared to 4.10% in 2018 as rising interest costs outpaced interest income growth.

Noninterest income increased \$28.0 million, or 27.1%, during 2019 to \$131.4 million from \$103.4 million in 2018. The increase in 2019 was driven primarily by the full year impact of the MSFG merger, an increase in client derivative fees and the BGF acquisition in August of 2019.

Noninterest expense increased \$18.4 million, or 5.7%, from \$323.8 million in 2018 to \$342.2 million in 2019. This increase was impacted by the larger scale created by the MSFG merger as well as the BGF acquisition.

Income tax expense increased \$3.2 million, or 7.6%, to \$44.8 million in 2019 from \$41.6 million in 2018, with the effective tax rate decreasing to 18.4% in 2019 from 19.4% in 2018. The lower effective tax rate in 2019 was primarily related to the recognition of a historic tax credit investment during the period.

Total loans increased \$377.5 million, or 4.3%, to \$9.2 billion at December 31, 2019 from \$8.8 billion at December 31, 2018. Total deposits increased \$69.8 million, or 0.7%, to \$10.2 billion as of December 31, 2019 from \$10.1 billion at December 31, 2018.

The ALLL was \$57.7 million, or 0.63% of total loans at December 31, 2019, compared to \$56.5 million, or 0.64% of total loans at December 31, 2018. Provision expense increased \$16.0 million, or 109.8%, to \$30.6 million in 2019 while classified assets declined \$42.4 million, or 32.2%, during the year. The elevated provision expense was mainly attributed to \$13.2 million of charge-offs related to a single franchise relationship.

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

NET INCOME

2019 vs. 2018. First Financial's net income increased \$25.5 million, or 14.8%, to \$198.1 million in 2019, compared to net income of \$172.6 million in 2018. The increase was primarily related to a \$35.0 million, or 7.8%, increase in net interest income, combined with a \$28.0 million, or 27.1%, increase in noninterest income. These increases were partially offset by an \$18.4 million, or 5.7%, increase in noninterest expenses and a \$3.2 million, or 7.6%, increase in income tax expense during 2019.

2018 vs. 2017. First Financial's net income increased \$75.8 million, or 78.3%, to \$172.6 million in 2018, compared to net

income of \$96.8 million in 2017. The increase was primarily related to a \$165.7 million, or 58.4%, increase in net interest income, combined with a \$27.2 million, or 35.8%, increase in noninterest income. These increases were partially offset by an \$83.9 million, or 35.0%, increase in noninterest expenses and a \$22.3 million, or 114.8%, increase in income tax expense during 2018.

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

NET INTEREST INCOME

First Financial's net interest income for the years 2015 through 2019 is shown in Table 1 – Financial Summary. First Financial's principal source of income is net interest income, which is the excess of interest received from earning assets, including loan-related fees and purchase accounting accretion, less interest paid on interest-bearing liabilities. The amount of net interest income is determined by the volume and mix of earning assets, the rates earned on such assets and the volume, mix and rates paid for the deposits and borrowed money that support the earning assets. Earning assets consist of interest-bearing loans to customers as well as marketable investment securities.

For analytical purposes, net interest income is also presented in Table 1 – Financial Summary on a tax equivalent basis assuming a 21.00% marginal tax rate for 2018 and 2019 and a 35.00% marginal tax rate for years 2015 through 2017. 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 it is a standard practice in the banking industry to present net interest margin and net interest income on a fully tax equivalent basis as these measures provide useful information to make peer comparisons. First Financial's tax equivalent net interest margin was 4.00%, 4.10% and 3.66% for 2019, 2018 and 2017, respectively.

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

Loan fees included in the interest income computation for 2019, 2018 and 2017 were \$15.9 million, \$16.5 million and \$13.9 million, respectively. Interest income also included purchase accounting accretion of \$26.8 million, \$25.5 million and \$0.7 million for 2019, 2018 and 2017, respectively.

2019 vs. 2018. Net interest income increased \$35.0 million, or 7.8%, from \$449.2 million in 2018 to \$484.3 million in 2019, primarily due to an increase in average earning assets and higher yields earned during 2019. Average earning assets increased from \$11.1 billion in 2018 to \$12.3 billion in 2019 primarily due to the full year impact of the MSFG merger and organic loan growth, while the tax equivalent yield on earning assets increased from 4.93% in 2018 to 5.00% in 2019.

Interest income was \$607.6 million in 2019, increasing \$67.2 million, or 12.4%, from 2018. The increase was primarily attributable to interest income from loans, which increased \$51.8 million, or 11.6%, from \$447.2 million in 2018 to \$499.0 million in 2019. The increase in interest income on loans resulted from a merger driven increase in average loan balances, including loans held for sale, of \$797.8 million, or 9.8%, the impact from purchase accounting accretion and higher loan yields. Additionally, interest income earned on investment securities increased \$15.3 million, or 16.5%, during the period. Similar to interest on loans, higher interest income on investment securities was driven by a \$391.7 million, or 13.5%, merger-related increase in average investment balances as well as higher yields earned during the period.

Interest expense was \$123.3 million in 2019, which was a \$32.2 million, or 35.3%, increase from 2018. Interest expense increased as the average balance of interest-bearing deposits increased \$478.5 million, or 6.7%, primarily due to the full year impact of the MSFG merger in 2019 in addition to increased customer demand. Additionally, higher interest rates during the twelve month period contributed to the cost of funds related to these deposits increasing to 1.04% for 2019 from 0.80% in 2018. Interest expense was also impacted in 2019 by a \$199.3 million, or 21.0%, increase in average Short-term borrowings and an \$83.8 million, or 19.1%, increase in average Long-term borrowings.

2018 vs. 2017. Net interest income increased \$165.7 million, or 58.4%, from \$283.5 million in 2017 to \$449.2 million in 2018, primarily due to an increase in average earning assets and higher yields earned during 2018. Average earning assets increased

Management's Discussion and Analysis of Financial Condition and Results of Operations

from \$7.9 billion in 2017 to \$11.1 billion in 2018, while the tax equivalent yield on earning assets increased from 4.29% in 2017 to 4.93% in 2018.

Interest income was \$540.4 million in 2018, a \$207.3 million, or 62.2%, increase from 2017. This increase was primarily attributable to interest income from loans, which increased \$167.1 million, or 59.6%, from \$280.1 million in 2017 to \$447.2 million in 2018 as well as a \$36.0 million, or 63.8%, increase in interest income earned on investment securities during 2018. The increase in interest income on loans resulted from a merger driven increase in average loan balances, including loans held for sale, of \$2.3 billion, or 39.4%, and the impact from purchase accounting accretion, in addition to higher loan yields resulting from rising interest rates. Similar to interest on loans, the increase in interest income on investment securities was driven by a \$895.8 million, or 44.8%, merger related increase in average investment balances as well as higher yields earned during the period due to rising interest rates.

Interest expense was \$91.1 million in 2018, which was a \$41.6 million, or 84.0%, increase from 2017. Interest expense increased as the average balance of interest-bearing deposits increased \$2.0 billion, or 39.4%, primarily due to the MSFG merger. Additionally, rising interest rates during the twelve month period contributed to the cost of these deposits increasing to 80 bps for 2018 from 69 bps in 2017. Interest expense was also impacted in 2018 by an increase in short-term borrowing rates from 99 bps in 2017 to 1.90% in 2018 as a result of rising interest rates.

Table 2 • Volume/Rate Analysis - Tax Equivalent Basis ⁽¹⁾

<i>(Dollars in thousands)</i>	2019 change from 2018 due to			2018 change from 2017 due to		
	Volume	Rate	Total	Volume	Rate	Total
Interest income						
Loans ⁽²⁾	\$ 44,638	\$ 7,257	\$ 51,895	\$ 126,901	\$ 39,681	\$ 166,582
Indemnification asset	0	0	0	0	3,871	3,871
Investment securities ⁽³⁾						
Taxable	7,846	3,246	11,092	21,278	7,230	28,508
Tax-exempt	5,831	(555)	5,276	9,004	(1,112)	7,892
Total investment securities interest ⁽³⁾	13,677	2,691	16,368	30,282	6,118	36,400
Interest-bearing deposits with other banks	84	30	114	25	319	344
Total	58,399	9,978	68,377	157,208	49,989	207,197
Interest expense						
Interest-bearing demand deposits	859	3,443	4,302	2,641	1,563	4,204
Savings deposits	261	3,072	3,333	3,488	(1,379)	2,109
Time deposits	5,750	8,685	14,435	11,766	3,701	15,467
Short-term borrowings	4,386	2,816	7,202	2,228	7,612	9,840
Long-term debt	3,056	(151)	2,905	11,703	(1,704)	9,999
Total	14,312	17,865	32,177	31,826	9,793	41,619
Net interest income	\$ 44,087	\$ (7,887)	\$ 36,200	\$ 125,382	\$ 40,196	\$ 165,578

⁽¹⁾ Tax equivalent basis was calculated using a 21.00% tax rate for 2019 and 2018 and a 35.00% tax rate for 2017.

⁽²⁾ Includes nonaccrual loans and loans held-for-sale.

⁽³⁾ Includes HTM securities, AFS securities and other investments.

NONINTEREST INCOME AND NONINTEREST EXPENSES

Noninterest income and noninterest expenses for 2019, 2018 and 2017 are shown in Table 3 – Noninterest Income and Noninterest Expenses.

NONINTEREST INCOME

2019 vs. 2018. Noninterest income increased \$28.0 million, or 27.1%, from \$103.4 million in 2018 to \$131.4 million in 2019. The increase was primarily related to an \$8.8 million, or 144.6%, increase in Gain on sale of loans, an \$8.0 million, or 103.9%,

increase in Client derivative fees and a \$7.7 million increase in Foreign exchange income. These increases were partially offset by a \$1.4 million, or 7.1% decrease in bankcard income.

Higher gain on sale of loans and client derivative fees were primarily driven by the full year impact of the MSFG merger and strong loan origination activity, while foreign exchange income was directly attributable to the BGF acquisition, which closed in August of 2019. The decline in bankcard income was due to the impact of the Durbin Amendment cap on interchange fees, which became applicable to First Financial in the third quarter of 2019.

2018 vs. 2017. Noninterest income increased \$27.2 million, or 35.8%, from \$76.1 million in 2017 to \$103.4 million in 2018. The increase was primarily related to a \$15.3 million, or 77.5%, increase in service charges on deposits, a \$6.9 million, or 52.2% increase in bankcard income, a \$3.6 million, or 22.8%, increase in other noninterest income, a \$1.3 million, or 19.7%, increase in client derivative fees, and a \$1.0 million, or 7.2%, increase in trust and wealth management fees. These increases were partially offset by \$1.8 million, or 109.8%, decrease in gains on sale of investment securities.

The increases in service charges on deposits, bankcard income, other noninterest income, derivative fees and wealth management fees were primarily driven by increased scale created by the MSFG merger.

Table 3 • Noninterest Income and Noninterest Expenses

<i>(Dollars in thousands)</i>	2019		2018		2017	
	Total	% Change	Total	% Change	Total	% Change
Noninterest income						
Service charges on deposit accounts	\$ 37,939	8.1 %	\$ 35,108	77.5 %	\$ 19,775	4.4 %
Trust and wealth management fees	15,644	3.7 %	15,082	7.2 %	14,073	6.6 %
Bankcard income	18,804	(7.1)%	20,245	52.2 %	13,298	9.6 %
Client derivative fees	15,662	103.9 %	7,682	19.7 %	6,418	40.4 %
Foreign exchange income	7,739	N/M	0	N/M	0	N/M
Net gains from sales of loans	14,851	144.6 %	6,071	17.5 %	5,169	(24.0)%
Other	21,140	9.2 %	19,355	22.8 %	15,760	14.8 %
Subtotal	131,779	27.3 %	103,543	39.0 %	74,493	7.4 %
Net gain (loss) on sales/transfers of investment securities	(406)	N/M	(161)	N/M	1,649	N/M
Total	\$ 131,373	27.1 %	\$ 103,382	35.8 %	\$ 76,142	9.4 %
Noninterest expenses						
Salaries and employee benefits	\$ 209,061	10.6 %	\$ 188,990	37.7 %	\$ 137,240	6.8 %
Net occupancy	24,069	(0.6)%	24,215	39.2 %	17,397	(5.1)%
Furniture and equipment	15,903	6.7 %	14,908	76.6 %	8,443	(2.5)%
Data processing	21,881	(22.1)%	28,077	100.2 %	14,022	22.9 %
Marketing	6,908	(9.1)%	7,598	137.4 %	3,201	(19.3)%
Communication	3,267	3.2 %	3,167	74.1 %	1,819	(3.7)%
Professional services	11,254	(8.3)%	12,272	(18.3)%	15,023	138.3 %
State intangible tax	5,829	40.4 %	4,152	56.4 %	2,655	30.5 %
FDIC assessments	1,973	(50.3)%	3,969	0.6 %	3,944	(8.1)%
Intangible assets amortization	9,671	31.4 %	7,359	466.9 %	1,298	(17.6)%
Other	32,351	11.2 %	29,103	(16.6)%	34,900	142.5 %
Total	\$ 342,167	5.7 %	\$ 323,810	35.0 %	\$ 239,942	19.1 %

NONINTEREST EXPENSES

2019 vs. 2018. Noninterest expenses increased \$18.4 million, or 5.7%, in 2019 compared to 2018, primarily due to a \$20.1 million, or 10.6%, increase in salaries and employee benefits, a \$3.2 million, or 11.2%, increase in other noninterest expenses, and a \$2.3 million, or 31.4%, increase in intangible assets amortization expense. These increases were partially offset by a \$6.2 million, or 22.1%, decrease in data processing expenses and a \$2.0 million, or 50.3%, decrease in FDIC assessments.

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Higher salaries and employee benefits in 2019 were attributed to merger related increases in staffing levels, higher performance-based compensation and annual compensation adjustments. Intangible assets recorded in conjunction with the purchase accounting for the MSFG and BFG business combinations resulted in higher intangible asset amortization during 2019, while the increase in other noninterest expense included a \$2.9 million historic tax credit investment write-down. Lower data processing expenses were primarily due to elevated merger-related expenses in 2018, while the reduction of FDIC assessments was attributed to the recognition of a \$3.4 million FDIC small bank assessment credit in the second half of 2019.

2018 vs. 2017. Noninterest expenses increased \$83.9 million, or 35.0%, in 2018 compared to 2017, primarily due to a \$51.8 million, or 37.7%, increase in salaries and employee benefits, a \$14.1 million, or 100.2%, increase in data processing expenses, a \$6.8 million, or 39.2%, increase in net occupancy expenses, a \$6.5 million, or 76.6%, increase in furniture and equipment expenses, a \$4.4 million, or 137.4%, increase in marketing expenses, and a \$0.5 million, or 1.5%, decrease in other noninterest expenses. These increases were partially offset by a \$2.8 million, or 18.3%, decrease in professional services.

Higher salaries and employee benefits in 2018 were attributed to merger related increases in staffing levels, higher severance and retention costs, higher performance-based compensation, increased health care costs and annual compensation adjustments. The increases in data processing, net occupancy, furniture and equipment and marketing expenses were largely attributable to merger related expenses combined with the larger scale of the Company subsequent to the MSFG merger. Lower professional services in 2018 were mainly due to elevated costs in 2017. Higher other noninterest expenses during 2017 were primarily driven by an \$11.3 million historic tax credit investment write-down, a \$5.1 million impairment charge resulting from the preliminary agreement to early terminate the Company's FDIC loss sharing agreements and a \$3.0 million charitable contribution to the First Financial Foundation.

INCOME TAXES

2019 vs. 2018. First Financial's income tax expense in 2019 totaled \$44.8 million compared to \$41.6 million in 2018, resulting in effective tax rates of 18.4% and 19.4% for 2019 and 2018, respectively. The lower effective tax rate in 2019 was related to the recognition of a historic tax credit investment, which reduced income tax expense by \$3.2 million and increased 2019 net income by \$0.4 million when netted against the investment write-down included in noninterest expense.

2018 vs. 2017. First Financial's income tax expense in 2018 totaled \$41.6 million compared to \$19.4 million in 2017, resulting in effective tax rates of 19.4% and 16.7% in 2018 and 2017, respectively. The higher effective tax rate in 2018 was related to the recognition of a significant historic tax credit investment in 2017, which was partially offset by the impact of tax reform. The historic tax credit investment reduced income tax expense by \$12.5 million in 2017, and resulted in a \$1.1 million increase to net income for the year when netted against the investment write-down included in noninterest expense.

For further information on income taxes, see Note 15 – Income Taxes in the Notes to Consolidated Financial Statements.

LENDING PRACTICES

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

First Financial's loan portfolio consists of commercial loan types, including C&I, lease financing (equipment leasing), construction real estate and commercial real estate, as well as consumer loan types, such as residential real estate, home equity, installment and credit card loans. First Financial's lending portfolios are managed to avoid the creation of inappropriate industry, geographic, franchise concept or borrower concentration risk.

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

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

First Financial remains optimistic that positive macroeconomic trends will result in C&I growth in future periods. While C&I growth is a strategic organizational priority, the Company will continue to monitor the size and composition of the franchise portfolio to ensure that it remains comprised of historically profitable concepts and financially responsible borrowers.

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

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

First Financial has pursued select real estate construction lending opportunities while actively monitoring industry and portfolio-specific credit trends and sector concentrations. In general, First Financial will seek to enter into typical construction lending arrangements only when the prospect of term financing is probable upon completion of the construction period.

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

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

The Company believes its current underwriting criteria, coupled with active credit monitoring, provides adequate oversight of the commercial real estate loan portfolio. In addition, management continually monitors CRE balances in relation to the rest of the loan portfolio to ensure that real estate concentration risk is properly mitigated.

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

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

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Home Equity – Home equity lending includes both home equity loans and revolving lines of credit secured by a first or second lien on the borrower's residence. Home equity lending underwriting considerations include the borrower's credit history as well as to debt-to-income and loan-to-value policy limits.

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

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

Credit Card – Credit card lending consists of secured and unsecured revolving lines of credit to consumer and business customers. Credit card lines are generally available for an indefinite period of time as long as the borrower's credit characteristics do not materially or adversely change, but lines are unconditionally cancellable by the Company at any time.

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

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

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

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

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

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

LOANS AND LEASES

2019 vs. 2018. First Financial experienced steady loan growth in 2019. Loans, excluding loans held for sale, totaled \$9.2 billion at December 31, 2019, increasing \$377.5 million, or 4.3%, compared to December 31, 2018. Commercial real estate loans increased \$440.0 million, or 11.7%, and residential real estate increased \$100.3 million, or 10.5%, while construction real

estate loans decreased \$55.8 million, or 10.2%, C&I loans decreased \$48.8 million, or 1.9%, home equity decreased \$45.4 million, or 5.6%, and installment loans decreased \$10.6 million, or 11.4%, during 2019. Average loan balances, including loans held for sale, were \$8.9 billion at December 31, 2019, an increase of \$797.8 million, or 9.8% compared to December 31, 2018.

Table 4 - Loan and Lease Portfolio details loan and lease balances by type as a percentage of the total portfolio as of December 31 for the last five years.

Table 4 • Loan and Lease Portfolio

<i>(Dollars in thousands)</i>	December 31,									
	2019		2018		2017		2016		2015	
	Loans	% of Loans to Total Loans	Loans	% of Loans to Total Loans	Loans	% of Loans to Total Loans	Loans	% of Loans to Total Loans	Loans	% of Loans to Total Loans
Commercial and industrial	\$ 2,465,877	26.8%	\$ 2,514,661	28.5%	\$ 1,912,743	31.8%	\$ 1,781,948	31.0%	\$ 1,663,102	30.8%
Lease financing	88,364	1.0%	93,415	1.1%	89,347	1.5%	93,108	1.6%	93,986	1.7%
Real estate – construction	493,182	5.3%	548,935	6.2%	467,730	7.8%	399,434	6.9%	311,712	5.8%
Real estate – commercial	4,194,651	45.6%	3,754,681	42.5%	2,490,091	41.4%	2,427,577	42.2%	2,258,297	41.9%
Real estate – residential	1,055,949	11.5%	955,646	10.8%	471,391	7.8%	500,980	8.7%	512,311	9.5%
Home equity	771,869	8.4%	817,282	9.3%	493,604	8.2%	460,388	8.0%	466,629	8.7%
Installment	82,589	0.9%	93,212	1.1%	41,586	0.7%	50,639	0.9%	41,506	0.8%
Credit card	49,184	0.5%	46,382	0.5%	46,691	0.8%	43,408	0.7%	41,217	0.8%
Total loans and leases	\$ 9,201,665	100%	\$ 8,824,214	100%	\$ 6,013,183	100%	\$ 5,757,482	100%	\$ 5,388,760	100%

Table 5 – Loan Maturity/Rate Sensitivity indicates the contractual maturity of C&I loans and construction real estate loans outstanding at December 31, 2019 as well as their sensitivity to changes in interest rates.

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

Table 5 • Loan Maturity/Rate Sensitivity

<i>(Dollars in thousands)</i>	December 31, 2019			
	Maturity			
	Within one year	After one but within five years	After five years	Total
Commercial and industrial	\$ 616,407	\$ 1,255,963	\$ 593,507	\$ 2,465,877
Construction real estate	198,053	166,755	128,374	493,182
Total	\$ 814,460	\$ 1,422,718	\$ 721,881	\$ 2,959,059

<i>(Dollars in thousands)</i>	December 31, 2019			
	Rate Sensitivity			
	Fixed rate	Variable rate	Total	Total
Fixed rate	\$ 131,396	\$ 309,651	\$ 77,716	\$ 518,763
Variable rate	683,064	1,113,067	644,165	2,440,296
Total	\$ 814,460	\$ 1,422,718	\$ 721,881	\$ 2,959,059

OFF-BALANCE SHEET ARRANGEMENTS

Off-balance sheet arrangements include commitments to extend credit and financial guarantees. Loan commitments are agreements to extend credit to a client absent any violation of any condition established in the commitment agreement. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. First Financial had commitments outstanding to extend credit, totaling \$3.3 billion and \$3.0 billion at December 31, 2019 and 2018, respectively. As of December 31, 2019, loan commitments with a fixed interest rate totaled \$123.7 million while commitments

with variable interest rates totaled \$3.2 billion. The fixed rate loan commitments have interest rates ranging from 0.00% to 21.00% for both December 31, 2019 and 2018. The fixed rate loan commitments have maturities ranging from 1 to 31.6 years at December 31, 2019 and 1 to 30 years at December 31, 2018.

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 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. First Financial has issued letters of credit aggregating \$33.4 million and \$32.7 million at December 31, 2019, and 2018, respectively. Management conducts regular reviews of these instruments on an individual client basis.

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 a 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.

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.

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

2019 vs. 2018. Total nonperforming assets declined \$26.6 million, or 30.1%, to \$61.6 million at December 31, 2019 from \$88.2 million at December 31, 2018. Nonaccrual loans declined \$22.5 million and accruing TDRs declined \$4.7 million, which was partially offset by a \$0.6 million increase in OREO.

First Financial's nonperforming assets as a percentage of total loans plus OREO declined to 0.67% at December 31, 2019 from 1.00% at December 31, 2018 as a result of lower nonperforming loan balances during the period. Additionally, classified asset balances declined \$42.4 million, or 32.2%, to \$89.3 million at December 31, 2019 from \$131.7 million at December 31, 2018.

The significant decreases in nonperforming and classified assets during 2019 were driven by focused resolution efforts during the period, which included significant paydowns/payoffs and a \$12.2 million problem loan sale, in addition to positive risk rating migration and elevated net charge-offs during the period. Management is optimistic that the Company's credit quality trends will remain strong in future periods given the diligent underwriting and monitoring processes in place as well as the sustained improvement in employment rates, the real estate markets, and business and consumer confidence levels.

Table 6 • Nonperforming Assets

<i>(Dollars in thousands)</i>	December 31,				
	2019	2018	2017	2016	2015
Nonaccrual loans ⁽¹⁾	\$ 48,165	\$ 70,700	\$ 24,082	\$ 17,730	\$ 27,997
Accruing troubled debt restructurings ⁽²⁾	11,435	16,109	17,545	30,240	28,876
Other real estate owned (OREO)	2,033	1,401	2,781	6,284	13,254
Total nonperforming assets	\$ 61,633	\$ 88,210	\$ 44,408	\$ 54,254	\$ 70,127
Nonperforming assets as a percent of total loans plus OREO	0.67%	1.00%	0.74%	0.94%	1.30%
Accruing loans past due 90 days or more	\$ 201	\$ 63	\$ 61	\$ 142	\$ 108
Classified assets	\$ 89,250	\$ 131,668	\$ 87,293	\$ 125,155	\$ 132,431

⁽¹⁾ Nonaccrual loans include nonaccrual TDRs of \$18.5 million, \$22.4 million, \$6.4 million, \$5.1 million and \$9.3 million, as of December 31, 2019, 2018, 2017, 2016 and 2015, respectively.

⁽²⁾ Accruing troubled debt restructurings include TDRs past due 90 days or more and still accruing of \$2.7 million as of December 31, 2016. There were no TDRs 90 days past due and still accruing as of December 31, 2019, 2018, 2017, 2016 and 2015, respectively.

INVESTMENTS

First Financial utilizes its investment portfolio as a source of liquidity and interest income, as well as a tool for managing the Company's interest rate risk profile. As such, the Company's primary investment strategy is to invest in debt securities with low credit risk, such as treasury and agency-backed residential MBSs. The investment portfolio is also managed with consideration to prepayment and extension/maturity risk. First Financial invests primarily in MBSs issued by U.S. government agencies and corporations, such as GNMA, FHLMC and FNMA, as these securities are considered to have a low credit risk and high liquidity profile due to government agency guarantees. Government and agency backed securities comprised 50.6% and 58.0% of First Financial's investment securities portfolio as of December 31, 2019 and 2018, respectively.

The Company also invests in certain securities that are not supported by government or agency guarantees and whose realization is dependent on future principal and interest repayments, thus carrying greater credit risk. First Financial performs a detailed collateral and structural analysis prior to any purchase of these securities and limits investments to asset classes in which the Company 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 would enhance the overall performance of the portfolio. Securities not supported by government or agency guarantees represented 49.4% and 42.0% of First Financial's investment securities portfolio as of December 31, 2019 and 2018, respectively.

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

Gains and losses on debt securities are generally due to fluctuations in current market yields relative to the yields of the debt securities at their amortized cost. All securities with unrealized losses are reviewed quarterly to determine if any impairment is considered other than temporary, requiring a write-down to fair value. First Financial considers the percentage loss on a security, duration of the loss, average life or duration of the security, credit rating of the security as well as payment performance and the Company's intent and ability to hold the security when determining whether any impairment is other than temporary. First Financial had no other than temporary impairment expense for the years ended December 31, 2019 and 2018.

2019 vs. 2018. First Financial's investment portfolio at December 31, 2019 totaled \$3.0 billion, and represented 20.6% of total assets at December 31, 2019. The \$213.6 million, or 6.7%, decline in the investment portfolio during 2019 was primarily related to Company's strategic redeployment of cash flows to support loan growth and to reduce borrowings.

First Financial classified \$2.9 billion, or 95.2%, and \$2.8 billion, or 86.6%, of investment securities as AFS at December 31, 2019 and 2018, respectively. First Financial classified \$142.9 million, or 4.8%, and \$429.3 million, or 13.4%, of investment securities as HTM at December 31, 2019 and 2018, respectively. In addition, First Financial reclassified \$268.7 million and

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\$372.1 of HTM securities to AFS upon adoption of ASU 2017-12 and subsequent to the MSFG merger to align with post-merger investment strategies, respectively.

First Financial recorded a \$41.3 million unrealized after-tax gain on the investment portfolio as a component of equity in AOCI resulting from changes in the fair value of AFS securities at December 31, 2019, which increased \$52.9 million from an \$11.6 million unrealized after-tax loss at December 31, 2018.

Debt securities issued by the U.S. government and U.S. government agencies and corporations, including the FHLB, FHLMC, FNMA and the U.S. Export/Import Bank represented 1.0% of the investment portfolio at December 31, 2018 but was not meaningful as a percentage of the portfolio at December 31, 2019.

Investments in MBS securities, which include CMOs, represented 61.0% and 65.2% of First Financial's portfolio at December 31, 2019 and 2018, respectively. MBSs are participations in pools of loans secured by mortgages under which payments of principal and interest are passed through to the security holders. These securities are subject to prepayment risk, particularly during periods of falling interest rates, and extension risk during periods of rising interest rates. Prepayments of the underlying residential real estate loans may shorten the lives of the securities, thereby affecting yields to maturity and market values.

Tax-exempt securities of states, municipalities and other political subdivisions totaled \$687.3 million as of December 31, 2019 and \$501.9 million as of December 31, 2018, comprising 22.9% and 15.6% of the investment portfolio at December 31, 2019 and 2018, respectively. The securities are diversified to include states as well as issuing authorities within states, thereby decreasing geographic portfolio risk. First Financial continuously monitors the risk associated with this investment type and reviews underlying ratings for possible downgrades. First Financial does not own any state or other political subdivision securities that are currently impaired.

Asset-backed securities were \$400.4 million, or 13.4% of the investment portfolio at December 31, 2019 and \$509.2 million, or 15.9% of the investment portfolio at December 31, 2018. First Financial considers these investment securities to have lower credit risk and a high liquidity profile as a result of explicit guarantees on the collateral.

Other securities, consisting primarily of taxable securities of states, municipalities and other political subdivisions and debt securities issued by corporations, were \$81.6 million, or 2.7% of the investment portfolio, at December 31, 2019 and \$73.2 million, or 2.3% of the investment portfolio, at December 31, 2018.

The overall duration of the investment portfolio increased to 3.4 years as of December 31, 2019 from 3.3 years as of December 31, 2018. First Financial has avoided adding to its portfolio any particular securities that would materially increase credit risk or geographic concentration risk and the Company continuously monitors and considers these risks in its evaluation of current market opportunities that would enhance the overall performance of the portfolio.

Table 7 • Investment Securities as of December 31

	2019		2018	
	Amount	Percent of Portfolio	Amount	Percent of Portfolio
<i>(Dollars in thousands)</i>				
U.S. Treasuries	\$ 100	0.0%	\$ 97	0.0%
Securities of U.S. government agencies and corporations	158	0.0%	31,919	1.0%
Mortgage-backed securities-residential	452,373	15.1%	584,164	18.2%
Mortgage-backed securities-commercial	577,785	19.3%	568,815	17.7%
Collateralized mortgage obligations	795,207	26.6%	939,287	29.3%
Obligations of state and other political subdivisions	687,267	22.9%	501,868	15.6%
Asset-backed securities	400,431	13.4%	509,231	15.9%
Other securities	81,625	2.7%	73,202	2.3%
Total	\$ 2,994,946	100.0%	\$ 3,208,583	100.0%

The estimated maturities and weighted-average yields of HTM and AFS investment securities as of December 31, 2019 are shown in Table 8 – Investment Securities. Tax-equivalent adjustments using a rate of 21.0% were included in calculating yields on tax-exempt obligations of state and other political subdivisions.

First Financial held cash on deposit with the Federal Reserve of \$56.9 million and \$37.7 million at December 31, 2019 and 2018, respectively. First Financial continually monitors its liquidity position as part of its ERM framework, specifically through its asset/liability management process.

First Financial will continue to monitor loan and deposit demand, balance sheet composition, capital sensitivity and the interest rate environment as it manages investment strategies in future periods. See Note 4 – Investment Securities in the Notes to Consolidated Financial Statements for additional information on the Company's investment portfolio and Note 22 – Fair Value Disclosures for additional information on how First Financial determines the fair value of investment securities.

Table 8 • Investment Securities as of December 31, 2019

<i>(Dollars in thousands)</i>	Maturity ⁽²⁾							
	Within one year		After one but within five years		After five but within ten years		After ten years	
	Amount	Yield ⁽¹⁾	Amount	Yield ⁽¹⁾	Amount	Yield ⁽¹⁾	Amount	Yield ⁽¹⁾
Held-to-Maturity								
Securities of other U.S. government agencies and corporations	\$ 0	0.00%	\$ 0	0.00%	\$ 0	0.00%	\$ 0	0.00%
Mortgage-backed securities-residential	0	0.00%	20,818	2.38%	0	0.00%	0	0.00%
Mortgage-backed securities-commercial	0	0.00%	83,736	2.36%	17,531	2.96%	0	0.00%
Collateralized mortgage obligations	0	0.00%	9,763	1.71%	0	0.00%	0	0.00%
Obligations of state and other political subdivisions	0	0.00%	0	0.00%	4,756	3.56%	6,258	2.39%
Total	\$ 0	0.00%	\$ 114,317	2.31%	\$ 22,287	3.09%	\$ 6,258	2.39%
Available-for-Sale								
U.S. treasuries	\$ 0	0.00%	\$ 100	1.97%	\$ 0	0.00%	\$ 0	0.00%
Securities of other U.S. government agencies and corporations	0	0.00%	158	1.77%	0	0.00%	0	0.00%
Mortgage-backed securities-residential	592	3.59%	297,995	3.07%	87,430	2.99%	45,538	2.86%
Mortgage-backed securities-commercial	85,143	3.78%	252,558	3.50%	98,199	2.95%	40,618	2.93%
Collateralized mortgage obligations	67,905	3.24%	554,295	3.15%	125,988	3.08%	37,256	2.93%
Obligations of state and other political subdivisions	34,597	3.12%	291,443	2.64%	278,281	3.19%	71,932	3.08%
Asset-backed securities	54,040	3.81%	210,250	3.63%	136,141	3.30%	0	0.00%
Other securities	2,558	4.09%	55,029	5.53%	24,038	3.47%	0	0.00%
Total	\$ 244,835	3.55%	\$ 1,661,828	3.24%	\$ 750,077	3.14%	\$ 195,344	2.97%

⁽¹⁾ Tax equivalent basis was calculated using a 21.0% tax rate and yields were based on amortized cost.

⁽²⁾ Maturity represents estimated life of investment securities.

DERIVATIVES

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

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

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

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

First Financial may enter into foreign exchange derivative contracts for the benefit of commercial customers to hedge their exposure to foreign currency fluctuations. Similar to the hedging of interest rate risk from interest rate derivative contracts, First Financial also enters into foreign exchange contracts with major financial institutions to economically hedge the exposure from client driven foreign exchange activity.

See Note 12 – Derivatives in the Notes to Consolidated Financial Statements for additional information regarding First Financial's use of derivative instruments.

DEPOSITS

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

2019 vs. 2018. First Financial's total deposits increased \$69.8 million, or 0.7%, from \$10.1 billion at December 31, 2018 to \$10.2 billion as of December 31, 2019. During the period, noninterest bearing deposits increased \$151.5 million, or 6.1%, interest-bearing checking deposits increased \$57.8 million, or 2.5%, and time deposits increased \$66.9 million, or 3.1%, while savings deposits decreased \$206.3 million, or 6.5%. Total non-time deposit balances were \$8.0 billion as of December 31, 2019 and December 31, 2018.

Total average deposits for 2019 increased \$785.2 million, or 8.4%, from 2018 primarily due to an increase in average time deposits of \$284.7 million, or 14.7%, an increase in average noninterest bearing deposits of \$306.7 million, or 13.8%, an increase in average interest-bearing demand deposits of \$156.8 million, or 7.2%, and an increase in average savings deposits \$37.0 million, or 1.2%. The year-over-year growth in average deposits was primarily attributable to the full year impact of the MSFG merger as well as increased customer demand.

Table 9 – Maturities of Time Deposits Greater Than or Equal to \$100,000 details the contractual maturity of these deposits. Time Deposits Greater Than or Equal to \$100,000 represent 14.2% of total deposits outstanding at December 31, 2019.

Table 9 • Maturities of Time Deposits Greater than or Equal to \$100,000

<i>(Dollars in thousands)</i>	December 31, 2019			
	CDs	IRAs	Brokered CDs	Total
Maturing in				
3 months or less	\$ 136,714	\$ 7,357	\$ 273,410	\$ 417,481
3 months to 6 months	120,670	8,935	316,253	445,858
6 months to 12 months	204,918	22,234	140,497	367,649
over 12 months	171,653	39,499	5,982	217,134
Total	<u>\$ 633,955</u>	<u>\$ 78,025</u>	<u>\$ 736,142</u>	<u>\$ 1,448,122</u>

BORROWINGS

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

2019 vs. 2018. Short-term borrowings increased \$275.5 million, or 26.5%, to \$1.3 billion at December 31, 2019, from \$1.0 billion at December 31, 2018.

First Financial utilizes short-term borrowings and longer-term advances from the FHLB as wholesale funding sources. First Financial had \$1.2 billion of short-term borrowings from the FHLB at December 31, 2019 compared to \$857.1 million at December 31, 2018. In addition to FHLB borrowings, short term borrowings included repurchase agreements of \$90.2 million and \$84.6 million at December 31, 2019 and 2018, respectively, and federal funds purchased of \$75.0 million and \$99.0 million as of December 31, 2019 and 2018, respectively.

Total long-term debt was \$414.4 million and \$570.7 million at December 31, 2019 and 2018, respectively. Long-term debt included FHLB long-term advances of \$242.4 million and \$400.6 million as of December 31, 2019 and 2018, respectively. First Financial's total remaining borrowing capacity from the FHLB was \$486.4 million at December 31, 2019. For ease of borrowing execution, First Financial utilizes a blanket collateral agreement with the FHLB. First Financial pledged \$6.2 billion of certain eligible residential, commercial and agricultural real estate loans, home equity lines of credit and certain agency CMOs, municipals and CMBS securities as collateral for borrowings from the FHLB as of December 31, 2019.

Long-term debt also included an interest free \$0.8 million capital loan outstanding with a municipality and subordinated debt of \$171.0 million and \$170.6 million as of December 31, 2019 and 2018, respectively. The subordinated debt is treated as Tier 2 capital for regulatory capital purposes. The subordinated debt also included unamortized valuation and debt issuance costs of \$7.9 million and \$8.5 million as of December 31, 2019 and 2018, respectively.

See Note 11 – Borrowings in the Notes to Consolidated Financial Statements for additional information on First Financial's borrowings.

LIQUIDITY

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

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

First Financial maintains a short-term credit facility with an unaffiliated bank for \$30.0 million that matures in September 2020. This facility can have a variable or fixed interest rate and provides First Financial additional liquidity, if needed, for various corporate activities, including the repurchase of First Financial shares and the payment of dividends to shareholders. As of December 31, 2019 and December 31, 2018, there was no outstanding balance. The credit agreement requires First Financial to maintain certain covenants related to asset quality and capital levels, and First Financial was in compliance with all covenants associated with this line of credit as of December 31, 2019 and December 31, 2018.

Both First Financial and the Bank received investment grade credit ratings from Kroll Bond Rating Agency, Inc., an independent rating agency. These credit ratings impact the cost and availability of financing to First Financial, and a downgrade to these credit ratings could affect First Financial's or the Bank's abilities to access the credit markets and potentially increase borrowing costs, which would negatively impact financial condition and liquidity. Key factors in maintaining high credit ratings include consistent and diverse earnings, strong credit quality and capital ratios, diverse funding sources and disciplined liquidity monitoring procedures. The ratings of First Financial and the Bank at December 31, 2019 were as follows:

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

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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 AFS totaled \$2.9 billion and \$2.8 billion at December 31, 2019 and 2018, respectively. HTM securities that are maturing within a short period of time can be an additional source of liquidity. As of December 31, 2019, the Company had no HTM securities maturing within one year. As of December 31, 2018, the Company had \$0.8 million of HTM securities maturing within one year.

Other sources of liquidity include cash and due from banks and interest-bearing deposits with other banks. At December 31, 2019, these balances totaled \$257.6 million, and First Financial had unused and available overnight wholesale funding sources of \$3.2 billion, or 21.9% of total assets, to fund loan and deposit activities in addition to general corporate requirements.

Certain restrictions exist regarding the Bank's ability to transfer funds to First Financial in the form of cash dividends, loans, other assets or advances and the approval of the Bank's primary federal regulator is required to pay dividends in excess of regulatory limitations. Dividends paid to the parent company from its subsidiaries totaled \$196.8 million, \$107.3 million and \$54.6 million for 2019, 2018 and 2017, respectively. As of December 31, 2019, First Financial's subsidiaries had retained earnings of \$660.7 million, of which \$155.7 million was available for distribution to First Financial without prior regulatory approval. Additionally, First Financial had \$55.9 million in cash at the parent company as of December 31, 2019.

Capital expenditures, such as banking center expansion, remodeling and technology investments, were \$20.9 million for 2019, \$18.2 million for 2018 and \$6.5 million for 2017. Material commitments for capital expenditures as of December 31, 2019, were \$27.2 million. Management believes that sufficient liquidity exists to fund its future capital expenditure commitments.

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

Management is not aware of any other events or regulatory requirements that, if implemented, are likely to have a material effect on First Financial's liquidity.

Table 10 • Contractual Obligations as of December 31, 2019

<i>(Dollars in thousands)</i>	Less than one year	One to three years	Three to five years	More than five years	Total
Contractual Obligations					
Long-term debt obligations (including interest)					
Federal Home Loan Bank borrowings	\$ 109,707	\$ 75,117	\$ 2,217	\$ 72,136	\$ 259,177
Subordinated debt	8,175	18,574	17,831	203,585	248,165
Capital loan with municipality	0	0	0	775	775
Operating lease obligations	7,200	13,806	13,168	50,504	84,678
Pension obligations	5,611	10,383	11,195	35,362	62,551
Time deposits	1,752,552	435,840	51,029	1,020	2,240,441
Total	<u>\$ 1,883,245</u>	<u>\$ 553,720</u>	<u>\$ 95,440</u>	<u>\$ 363,382</u>	<u>\$ 2,895,787</u>

CAPITAL

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

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

Basel III includes a minimum ratio of common equity tier 1 capital to risk-weighted assets of 7.0% at December 31, 2019 and 6.375% at December 31, 2018 and a phased-in capital conservation buffer of 2.5% of risk-weighted assets that began on January 1, 2016 at 0.625% until it was fully phased-in as of January 1, 2019. Further, the minimum ratio of tier 1 capital to risk-weighted assets increased to 8.5% at December 31, 2019 and all banks are subject to a 4.0% minimum leverage ratio. The required total risk-based capital ratio is 10.5%. 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 pay discretionary compensation to its employees. The capital requirements also provide strict eligibility criteria for regulatory capital instruments and change the method for calculating risk-weighted assets in an effort to better identify riskier assets, such as highly volatile commercial real estate and nonaccrual loans.

First Financial's tier 1 capital decreased to 11.69% at December 31, 2019 from 12.28% at December 31, 2018, while the total capital ratio decreased to 13.39% from 14.10% during the same period. The decline in these ratios was primarily attributed to higher shareholder dividends and share repurchases in 2019, as well as higher risk-weighted assets driven by an increase commercial real estate loan balances and a decline in lower risk securities. The leverage ratio decreased to 9.58% at December 31, 2019 compared to 9.71% as of December 31, 2018 while the Company's tangible common equity ratio increased to 9.07% at December 31, 2019 from 8.79% at December 31, 2018.

Management believes that, as of December 31, 2019, First Financial met all capital adequacy requirements to which it was subject. At December 31, 2019 and 2018, regulatory notifications categorized First Financial Bank as well-capitalized under the regulatory framework for prompt corrective action. There have been no conditions or events that management believes has changed the Company's capital categorization.

For further detail on First Financial's capital ratios at December 31, 2019, see Note 19 – Capital in the Notes to Consolidated Financial Statements.

Table 11 • Capital Adequacy

<i>(Dollars in thousands)</i>	December 31,	
	2019	2018
Consolidated capital calculations		
Common stock	\$ 1,640,771	\$ 1,633,256
Retained earnings	711,249	600,014
Accumulated other comprehensive loss	13,323	(44,408)
Treasury stock, at cost	(117,638)	(110,613)
Total shareholders' equity	2,247,705	2,078,249
Common equity tier 1 capital adjustments		
Goodwill and other intangibles	(1,024,622)	(931,030)
Total tangible equity	\$ 1,223,083	\$ 1,147,219
Total assets	\$14,511,625	\$13,986,660
Goodwill and other intangibles	(1,024,622)	(931,030)
Total tangible assets	\$13,487,003	\$13,055,630
Common tier 1 capital	\$ 1,245,746	\$ 1,215,613
Tier 1 capital	1,288,185	1,257,366
Total capital	1,475,813	1,444,146
Total risk-weighted assets	11,023,795	10,241,159
Average assets ⁽¹⁾	13,440,151	12,948,944
Regulatory capital		
Common tier 1 ratio	11.30%	11.87%
Tier 1 ratio	11.69%	12.28%
Total capital ratio	13.39%	14.10%
Leverage ratio	9.58%	9.71%
Other capital ratios		
Total shareholders' equity to ending assets	15.49%	14.86%
Total tangible shareholders' equity to ending tangible assets	9.07%	8.79%

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

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

Shareholder Dividends. First Financial's dividend payout ratio, or total dividends paid divided by net income available to common shareholders, was 44.8%, 40.0% and 43.3% for the years 2019, 2018 and 2017, respectively. The dividend payout ratio is continually reviewed by management and the board of directors for consistency with First Financial's overall capital planning activities and compliance with applicable regulatory limitations. In January 2020, the board of directors authorized a dividend of \$0.23 per common share, payable on March 16, 2020 to all shareholders of record as of March 2, 2020.

Share Repurchases. In January 2019, First Financial's board of directors approved a stock repurchase plan, replacing the plan approved in 2012. The 2019 plan authorizes the purchase of up to 5,000,000 shares of the Company's common stock and expires in January 2021. First Financial repurchased 2,753,272 shares at an average market price of \$24.05 under this plan during 2019. At December 31, 2019, 2,246,728 shares remained available for purchase under the 2019 share repurchase plan.

Shareholders' Equity. Total shareholders' equity at December 31, 2019 was \$2.2 billion, compared to total shareholders' equity at December 31, 2018 of \$2.1 billion. The increase in shareholders' equity is primarily related to the Company's 2019 earnings.

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

PENSION PLAN

First Financial sponsors a non-contributory defined-benefit pension plan covering substantially all employees. The significant assumptions used in the valuation and accounting for the pension plan include the discount rate, expected return on plan assets and the rate of employee compensation increase. The discount rate assumption was determined based on highly rated corporate bonds, weighted to adjust for their relative size, projected plan cash flows using the annuity substitution method as well as comparisons to external industry surveys. The expected return on plan assets was 7.25% for both 2019 and 2018, and was based on the composition of plan assets, actual returns, economic forecasts and economic trends. The assumed rate of compensation increase was 3.50% and was compared to historical increases for plan participants for reasonableness.

Presented below is the estimated impact on First Financial's projected benefit obligation and pension expense as of December 31, 2019, assuming shifts in the significant assumptions:

<i>(Dollars in thousands)</i>	Discount rate		Expected return on plan assets		Rate of compensation increase	
	-100 BP	+100 BP	-100 BP	+100 BP	-100 BP	+100 BP
Change in Projected Benefit Obligation	\$ 6,277	\$ (4,729)	N/A	N/A	\$ (327)	\$ 826
Change in Pension Expense	74	114	\$ 1,340	\$ (1,340)	(62)	218

Based upon the plan's current funding status and updated actuarial projections for 2019, First Financial recorded expense related to its pension plan of \$1.0 million for 2019 and \$0.9 million for 2018, while recording income of \$0.6 million for 2017 in the Consolidated Statements of Income. First Financial will make contributions to the plan if plan assets do not meet or exceed ERISA's minimum funding standards. Given the plan's over-funded status, First Financial made no cash contributions to fund the pension plan in 2019, 2018 or 2017 nor does it expect to make a cash contribution in 2020.

See Note 16 – Employee Benefit Plans in the Notes to Consolidated Financial Statements for additional information on First Financial's pension plan.

ENTERPRISE RISK MANAGEMENT

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

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

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

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

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

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

Specific enterprise-level objectives include:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Management's Discussion and Analysis of Financial Condition and Results of Operations

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

CREDIT RISK

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

Allowance for loan and lease losses. The ALLL is a reserve accumulated on the Consolidated Balance Sheets through the recognition of the provision for loan and lease losses. First Financial records the provision in the Consolidated Statements of Income to maintain the ALLL at a level considered sufficient to absorb probable incurred loan and lease losses inherent in the portfolio.

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

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

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

2019 vs. 2018. The ALLL at December 31, 2019 was \$57.7 million, or 0.63% of loans, which was a \$1.1 million, or 2.0%, increase from \$56.5 million, or 0.64% of loans at December 31, 2018. Provision expense increased \$16.0 million, or 109.8%, to \$30.6 million in 2019 from \$14.6 million in 2018.

Net charge-offs increased \$17.4 million, or 144.4%, to \$29.5 million for 2019 compared to \$12.1 million for 2018, while the ratio of net charge-offs as a percentage of average loans outstanding increased to 0.33% in 2019 from 0.15% in 2018. The increase in net charge-offs in 2019 was the primary driver of the elevated provision expense, and was mainly attributed to \$13.2 million of charge-offs related to a single franchise relationship.

The ALLL as a percentage of nonperforming loans, including accruing TDRs was 96.7% at December 31, 2019 compared with 65.1% at December 31, 2018. The improvement in this ratio largely is attributed to the reduction of nonperforming loans as a result of strong resolution efforts during the period.

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

Table 12 • Summary of the ALLL and Selected Statistics

<i>(Dollars in thousands)</i>	2019	2018	2017	2016	2015
Transactions in the allowance for loan and lease losses:					
Balance at January 1	\$ 56,542	\$ 54,021	\$ 57,961	\$ 53,398	\$ 52,858
Provision for loan and lease losses	30,598	14,586	3,582	10,140	9,641
Loans charged-off:					
Commercial and industrial	26,676	11,533	10,194	2,630	5,408
Lease financing	162	0	0	0	0
Real estate – construction	0	0	1	93	85
Real estate – commercial	3,689	4,835	1,038	4,983	10,083
Real estate – residential	677	422	435	387	1,531
Home equity	2,591	1,725	913	1,445	1,891
Installment	223	435	225	386	509
Credit card	1,547	1,720	857	1,190	1,049
Total loans charged-off	35,565	20,670	13,663	11,114	20,556
Recoveries of loans previously charged-off:					
Commercial and industrial	2,883	2,066	1,650	1,155	3,724
Lease financing	0	1	1	1	2
Real estate – construction	68	146	89	285	253
Real estate – commercial	1,113	4,106	2,719	2,502	5,214
Real estate – residential	273	211	215	236	558
Home equity	1,335	1,309	1,027	720	1,001
Installment	251	575	234	335	463
Credit card	152	191	206	303	240
Total recoveries	6,075	8,605	6,141	5,537	11,455
Net charge-offs	29,490	12,065	7,522	5,577	9,101
Balance at December 31	\$ 57,650	\$ 56,542	\$ 54,021	\$ 57,961	\$ 53,398
Net charge-offs to average loans and leases					
Commercial and industrial	0.95 %	0.38 %	0.47 %	0.08 %	0.12 %
Lease financing	0.17 %	0.00 %	0.00 %	0.00 %	0.00 %
Real estate-construction	(0.01)%	(0.03)%	(0.02)%	(0.05)%	(0.07)%
Real estate-commercial	0.07 %	0.02 %	(0.07)%	0.11 %	0.23 %
Real estate-residential	0.04 %	0.03 %	0.05 %	0.03 %	0.19 %
Home equity	0.16 %	0.06 %	(0.02)%	0.16 %	0.19 %
Installment	(0.03)%	(0.15)%	(0.02)%	0.11 %	0.11 %
Credit card	2.81 %	3.19 %	1.44 %	2.10 %	2.04 %
Total net charge-offs	0.33 %	0.15 %	0.13 %	0.10 %	0.18 %
Credit quality ratios:					
As a percent of year-end loans, net of unearned income:					
Allowance for loan and lease losses	0.63 %	0.64 %	0.90 %	1.01 %	0.99 %
Nonperforming loans ⁽¹⁾	0.65 %	0.98 %	0.69 %	0.83 %	1.06 %
Allowance for loan and lease losses to nonperforming loans ⁽¹⁾	96.73 %	65.13 %	129.77 %	120.83 %	93.89 %

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

Table 13 • Allocation of the ALLL

<i>(Dollars in thousands)</i>	December 31,									
	2019		2018		2017		2016		2015	
	Allowance	Percent of Loans to Total Loans	Allowance	Percent of Loans to Total Loans	Allowance	Percent of Loans to Total Loans	Allowance	Percent of Loans to Total Loans	Allowance	Percent of Loans to Total Loans
Balance at End of Period Applicable to:										
Commercial and industrial	\$ 18,584	26.8%	\$ 18,746	28.5%	\$ 17,598	31.8%	\$ 19,225	31.0%	\$ 16,995	30.9%
Lease financing	971	1.0%	1,130	1.1%	675	1.5%	716	1.6%	821	1.7%
Real estate – construction	2,381	5.4%	3,413	6.2%	3,577	7.8%	3,282	6.9%	1,810	5.8%
Real estate – commercial	23,579	45.5%	21,048	42.5%	20,930	41.4%	26,540	42.2%	23,656	41.9%
Real estate – residential	5,299	11.5%	4,964	10.8%	4,683	7.8%	3,208	8.7%	4,014	9.5%
Installment, home equity & credit card	6,836	9.8%	7,241	10.9%	6,558	9.7%	4,990	9.6%	6,102	10.2%
Total	<u>\$ 57,650</u>	<u>100.0%</u>	<u>\$ 56,542</u>	<u>100.0%</u>	<u>\$ 54,021</u>	<u>100.0%</u>	<u>\$ 57,961</u>	<u>100.0%</u>	<u>\$ 53,398</u>	<u>100.0%</u>

MARKET RISK

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

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

First Financial's interest rate risk models are based on the contractual and assumed cash flows and repricing characteristics for the Company's assets, liabilities and off-balance sheet exposure. A number of assumptions are 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 37% in its interest rate risk modeling as of December 31, 2019. First Financial also includes an assumption for the migration of non-maturity deposit balances into CDs for all upward rate scenarios beginning with the +100 BP scenario, thereby increasing deposit costs and reducing asset sensitivity.

Presented below is the estimated impact on First Financial’s NII and EVE as of December 31, 2019, assuming immediate, parallel shifts in interest rates:

	% Change from base case for immediate parallel changes in rates		
	-100 BP	+100 BP	+200 BP
NII - Year 1	(6.62)%	3.99%	7.01%
NII - Year 2	(9.02)%	5.33%	9.46%
EVE	(5.51)%	3.83%	6.34%

“*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 policy limits set for the disclosed interest rate scenarios as of December 31, 2019. The projected results for NII and EVE reflected an asset sensitive position, which was relatively in line with third quarter results, but has increased slightly over the back half of 2019 due to increased variable rate loan production. First Financial continues to manage its balance sheet with a bias toward neutrality or slight asset sensitivity while simultaneously balancing the potential earnings impact of this strategy.

First Financial continually evaluates the sensitivity of its interest rate risk position to modeling assumptions. The following table reflects First Financial’s estimated NII sensitivity profile as of December 31, 2019 assuming both a 25% increase and decrease to the beta assumption on managed rate deposit products:

	Beta sensitivity (% change from base)			
	+100 BP		+200 BP	
	Beta 25% lower	Beta 25% higher	Beta 25% lower	Beta 25% higher
NII-Year 1	4.93%	3.05%	7.92%	6.11%
NII-Year 2	6.27%	4.39%	10.36%	8.55%

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

Table 14 – Market Risk Disclosure projects the principal maturities and yields of First Financial’s interest-bearing financial instruments at December 31, 2019 for the next five years and thereafter, as well as the fair value of the instruments. For loans, securities and liabilities with contractual maturities, the table presents principal cash flows and related weighted-average interest rates by contractual maturities. For investment securities, including MBSs and CMOs, principal cash flows are based on estimated average lives. For loan instruments without contractual maturities, such as credit card loans, principal payments are allocated based on historical payment activity trends. Maturities for interest-bearing liability accounts with no contractual maturity dates are estimated according to historical experience of cash flows and current expectations of client behaviors when calculating fair value, but are included in the maturing in one year or less category as they can be withdrawn on demand.

Table 14 • Market Risk Disclosure

<i>(Dollars in thousands)</i>	Principal Amount Maturing In						Total	Fair Value
	2020	2021	2022	2023	2024	Thereafter		December 31, 2019
Rate sensitive assets								
Fixed interest rate loans ⁽¹⁾	\$ 390,678	\$ 332,995	\$ 264,535	\$ 275,995	\$ 177,186	\$ 725,114	\$2,166,503	\$ 2,227,168
Average interest rate	4.60%	4.48%	4.58%	4.50%	4.82%	4.29%	4.48%	
Variable interest rate loans ⁽¹⁾	1,046,607	742,251	693,245	568,836	796,736	3,143,517	6,991,192	6,920,727
Average interest rate	4.70%	4.64%	4.55%	4.64%	4.94%	4.69%	4.69%	
Fixed interest rate securities	191,525	350,046	454,086	449,592	313,114	842,935	2,601,298	2,601,257
Average interest rate	3.39%	3.28%	3.08%	2.90%	3.00%	3.09%	3.10%	
Variable interest rate securities	53,310	68,224	54,485	17,710	68,889	131,030	393,648	393,648
Average interest rate	4.15%	4.23%	4.12%	4.77%	3.70%	3.20%	3.80%	
Other earning assets	56,948	0	0	0	0	0	56,948	56,948
Average interest rate	1.75%	0.00%	0.00%	0.00%	0.00%	0.00%	1.75%	
Rate sensitive liabilities								
Noninterest-bearing checking ⁽²⁾	\$2,643,928	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$2,643,928	\$ 2,643,928
Savings and interest-bearing checking ⁽²⁾	5,325,860	0	0	0	0	0	5,325,860	5,325,860
Average interest rate	0.50%	0.00%	0.00%	0.00%	0.00%	0.00%	0.50%	
Time deposits	1,753,100	294,630	141,268	37,757	13,282	404	2,240,441	2,240,002
Average interest rate	2.01%	1.72%	1.95%	0.74%	1.23%	2.34%	1.94%	
Fixed interest rate borrowings	1,330,017	19,007	49,404	0	0	193,948	1,592,376	1,593,427
Average interest rate	1.84%	4.92%	2.67%	0.00%	0.00%	4.29%	2.20%	
Variable interest rate borrowings	90,181	0	0	0	0	48,000	138,181	137,691
Average interest rate	0.22%	0.00%	0.00%	0.00%	0.00%	4.51%	1.71%	

⁽¹⁾ Includes loans held for sale.

⁽²⁾ Deposits without a stated maturity are represented as maturing within one year due to the ability of the client to withdraw deposited amounts on demand.

OPERATIONAL RISK

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

COMPLIANCE RISK

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

STRATEGIC AND REPUTATION RISK

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

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

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

INFORMATION TECHNOLOGY RISK

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

CYBERSECURITY RISK

Cyber risk is differentiated from information technology risk by threat interactions that yield high impact consequences and ever-increasing probability. First Financial continues to be the target of various evolving and adaptive cyber attacks, including malware, phishing and distributed denial-of-service, in order to disrupt the operations of financial institutions, potentially test their cybersecurity capabilities, commit fraud, or obtain confidential, proprietary or other information. While standard security operations address most day to day incidents, cyber risk includes threats and attacks that often use advanced tools, techniques and processes to evade detection or inflict maximum damage to an organization's information assets. Cyber threats and attacks adapt and evolve rapidly, so First Financial works to continuously enhance controls and processes to protect its networks and applications from attack, damage or unauthorized access. Critical components to the Company's cyber risk control structure include corporate governance, threat intelligence, security awareness training and patch management programs. Cybersecurity risk mitigation includes effectively identifying, protecting against, detecting, responding to, and recovering from cyber threats.

LEGAL RISK

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

CRITICAL ACCOUNTING POLICIES

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

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

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

Management's Discussion and Analysis of Financial Condition and Results of Operations

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

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

The Company's goodwill is accounted for in a single reporting unit representing the consolidated entity. Fair value is estimated using the market capitalization of the Company, as of the annual impairment testing date. First Financial also utilizes additional information and analysis to corroborate the use of the Company's market capitalization as a proper indicator of fair value for purposes of the annual goodwill impairment test. The additional information and analysis uses the discounted cash flows of First Financial's assets and liabilities to determine an implied fair value of the Company, which is compared to the Company's book value.

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

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

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

FORWARD-LOOKING STATEMENTS

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

- management's ability to effectively execute its business plan;

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

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

These and other risk factors are more fully described in First Financial's Annual Report on Form 10-K for the year ended December 31, 2019 under the section entitled "Item 1A. Risk Factors" and from time to time, in other filings with the SEC. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this report. Actual results may differ materially from those expressed in or implied by any forward-looking statements. Except to the extent required by applicable law or regulation, First Financial undertakes no obligation to revise or update publicly any forward-looking statements for any reason.

Statistical Information

(Dollars in thousands)	2019			2018			2017		
	Average Balance	Interest	Average Yield	Average Balance	Interest	Average Yield	Average Balance	Interest	Average Yield
Earning assets									
Loans and leases ^{(1), (4)}									
Commercial and industrial ⁽²⁾	\$ 2,505,615	\$153,128	6.11%	\$ 2,518,333	\$150,113	5.96%	\$1,815,925	\$ 98,683	5.43 %
Lease financing ⁽²⁾	92,902	3,964	4.27%	91,476	3,911	4.28%	86,662	3,999	4.61 %
Construction-real estate	491,503	26,637	5.42%	540,014	28,761	5.33%	429,868	18,076	4.21 %
Commercial-real estate ⁽²⁾	3,906,992	216,757	5.55%	3,310,697	178,235	5.38%	2,448,570	110,586	4.52 %
Residential-real estate	1,025,394	47,635	4.65%	821,454	38,543	4.69%	499,397	19,588	3.92 %
Installment and other consumer	926,129	52,539	5.67%	868,724	49,202	5.66%	565,441	31,251	5.53 %
Total loans and leases	8,948,535	500,660	5.59%	8,150,698	448,765	5.51%	5,845,863	282,183	4.83 %
Indemnification asset	0	0	N/M	370	0	0.00%	9,535	(3,871)	(40.60)%
Investment securities ⁽³⁾									
Taxable	2,684,973	90,168	3.36%	2,451,352	79,076	3.23%	1,791,729	50,568	2.82 %
Tax-exempt ⁽²⁾	603,902	22,273	3.69%	445,815	16,997	3.81%	209,658	9,105	4.34 %
Total investment securities ⁽³⁾	3,288,875	112,441	3.42%	2,897,167	96,073	3.32%	2,001,387	59,673	2.98 %
Interest-bearing deposits with other banks	35,814	805	2.25%	32,090	691	2.15%	30,933	347	1.12 %
Total earning assets	12,273,224	613,906	5.00%	11,080,325	545,529	4.93%	7,887,718	338,332	4.29 %
Nonearning assets									
Allowance for loan and lease losses	(58,504)			(56,115)			(56,599)		
Cash and due from banks	191,864			188,971			116,409		
Accrued interest and other assets	1,804,135			1,398,257			663,875		
Total assets	\$14,210,719			\$12,611,438			\$8,611,403		
Interest-bearing liabilities									
Deposits									
Interest-bearing demand	\$ 2,326,193	\$ 12,748	0.55%	\$ 2,169,396	\$ 8,446	0.39%	\$1,491,114	\$ 4,242	0.28 %
Savings	3,027,725	21,383	0.71%	2,990,731	18,050	0.60%	2,412,788	15,941	0.66 %
Time	2,223,429	44,901	2.02%	1,938,709	30,466	1.57%	1,189,963	14,999	1.26 %
Total interest-bearing deposits	7,577,347	79,032	1.04%	7,098,836	56,962	0.80%	5,093,865	35,182	0.69 %
Borrowed funds									
Short-term borrowings	1,146,719	25,235	2.20%	947,427	18,033	1.90%	830,365	8,193	0.99 %
Long-term debt	522,340	19,057	3.65%	438,567	16,152	3.68%	120,794	6,153	5.09 %
Total borrowed funds	1,669,059	44,292	2.65%	1,385,994	34,185	2.47%	951,159	14,346	1.51 %
Total interest-bearing liabilities	9,246,406	123,324	1.33%	8,484,830	91,147	1.07%	6,045,024	49,528	0.82 %
Noninterest-bearing liabilities									
Noninterest-bearing demand deposits	2,524,011			2,217,349			1,540,384		
Other liabilities	265,623			156,998			128,564		
Shareholders' equity	2,174,679			1,752,261			897,431		
Total liabilities and shareholders' equity	\$14,210,719			\$12,611,438			\$8,611,403		
Net interest income and interest rate spread (fully tax equivalent)		\$490,582	3.67%		\$454,382	3.86%		\$288,804	3.47 %
Net interest margin (fully tax equivalent)			4.00%			4.10%			3.66 %
Interest income and yield		\$607,578	4.95%		\$540,382	4.88%		\$333,073	4.22 %
Interest expense and rate		123,324	1.33%		91,147	1.07%		49,528	0.82 %
Net interest income and spread		\$484,254	3.62%		\$449,235	3.81%		\$283,545	3.40 %
Net interest margin			3.95%			4.05%			3.59 %

⁽¹⁾ Nonaccrual loans are included in average loan balance and loan fees are included in interest income.

⁽²⁾ Interest income on tax-exempt investments and on certain tax-exempt loans and leases has been adjusted to a tax equivalent basis using a 21.00% tax rate for 2019 and 2018 and a 35.00% tax rate for 2017.

⁽³⁾ Includes HTM securities, AFS securities and other investments.

⁽⁴⁾ Includes loans held-for-sale.

N/M = not meaningful

Management's Report on Internal Control over Financial Reporting

First Financial's management is responsible for establishing and maintaining adequate internal control over financial reporting. First Financial's internal control over financial reporting is a process designed under the supervision of First Financial's chief executive officer and chief financial officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Any system of internal control, no matter how well designed, has inherent limitations, including the possibility that a control can be circumvented or overridden and misstatements due to error or fraud may occur and not be detected. Also, because of changes in conditions, internal control effectiveness may vary over time. Accordingly, even an effective system of internal control will provide only reasonable assurance with respect to financial statement preparation. As of December 31, 2019, First Financial's management, including the chief executive officer and the chief financial officer, evaluated the effectiveness of First Financial's internal controls over financial reporting, using as its framework for that evaluation the Internal Control – Integrated Framework published by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission (2013 framework). Based on the evaluation, we believe that, as of December 31, 2019, our internal control over financial reporting is effective based on those criteria.

Crowe LLP, the independent registered public accounting firm that audited the consolidated financial statements included in this Form 10-K, has issued an attestation report on First Financial's internal control over financial reporting as of December 31, 2019. The report, which expresses an unqualified opinion on First Financial's internal control over financial reporting as of December 31, 2019, is included in the information that follows under the heading "Report of Independent Registered Public Accounting Firm."

/s/ Archie M. Brown, Jr.

President and Chief Executive Officer

February 21, 2020

/s/ James M. Anderson

Executive Vice President and Chief Financial Officer

February 21, 2020

Report of Independent Registered Public Accounting Firm

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

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of First Financial Bancorp (the "Company") as of December 31, 2019 and 2018, the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes (collectively referred to as the "financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control - Integrated Framework: (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2019 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control - Integrated Framework: (2013) issued by COSO.

Basis for Opinions

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

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

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

Definition and Limitations of Internal Control Over Financial Reporting

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

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

Critical Audit Matter

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

Allowance for Loan Losses - Adjustments for other factors

As more fully described in Note 1 and Note 6 to the consolidated financial statements, the Company estimates and records an allowance for loan losses for loans collectively evaluated for impairment by developing a loss rate based on historical losses and other factors. Other factors are used to adjust historical loss rates considering relevant market factors such as composition of the portfolio; economic conditions; geographic footprint; the results of periodic internal and external evaluations of delinquent, nonaccrual and classified loans; and any other situations that may affect a specific borrower's ability to repay. The application of the adjustments for other factors to the historical loss rate calculation is subjective.

The principal considerations for our determination that auditing the adjustments to the historical loss rates is a critical audit matter is the high degree of management judgment in the determination of the adjustments, which involves evaluation of managements established floors, risk factors, and using a rating scale in concluding on the estimate. Our audit procedures included both control and substantive testing related to the adjustments for other factors. Procedures included, among others:

Control tests included:

- Management's review of the accuracy of data inputs used to adjust historical loss rates.
 - Management's review of the appropriateness of the adjustments to the historical loss rates
 - Management's review of the changes that occurred in the allowance for loans losses for loans collectively evaluated for impairment during the period by portfolio segment based on the system calculation analyzing changes due to rate (changes in the adjustment) and volume (changes in loan balance).
 - Approval of the conclusions reached over the allowance for loan losses for loans collectively evaluated for impairment.
- Substantive tests included:
 - Objective inputs were agreed to source documentation such as trial balances, unemployment statistics, loan performance and relevant indices
 - The adjustments for other factors were evaluated for reasonableness and appropriateness including both directional consistency and the magnitude of the adjustments for other factors.
 - Analytical procedures were performed to evaluate changes that occurred in the allowance for loan losses for loans collectively evaluated for impairment at December 31, 2018 as compared to December 31, 2019.

Crowe LLP

Crowe LLP

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

Indianapolis, Indiana

February 21, 2020

Consolidated Balance Sheets

<i>(Dollars in thousands)</i>	December 31,	
	2019	2018
Assets		
Cash and due from banks	\$ 200,691	\$ 236,221
Interest-bearing deposits with other banks	56,948	37,738
Investment securities available-for-sale, at fair value (amortized cost \$2,798,298 at December 31, 2019 and \$2,792,326 at December 31, 2018)	2,852,084	2,779,255
Investment securities held-to-maturity (fair value \$142,821 at December 31, 2019 and \$424,118 at December 31, 2018)	142,862	429,328
Other investments	125,020	115,660
Loans held for sale	13,680	4,372
Loans and leases		
Commercial & industrial	2,465,877	2,514,661
Lease financing	88,364	93,415
Construction real estate	493,182	548,935
Commercial real estate	4,194,651	3,754,681
Residential real estate	1,055,949	955,646
Home equity	771,869	817,282
Installment	82,589	93,212
Credit card	49,184	46,382
Total loans and leases	9,201,665	8,824,214
Less: Allowance for loan and lease losses	57,650	56,542
Net loans and leases	9,144,015	8,767,672
Premises and equipment	214,506	215,652
Goodwill	937,771	880,251
Other intangibles	76,201	40,805
Accrued interest and other assets	747,847	479,706
Total assets	\$ 14,511,625	\$ 13,986,660
Liabilities		
Deposits		
Interest-bearing demand	\$ 2,364,881	\$ 2,307,071
Savings	2,960,979	3,167,325
Time	2,240,441	2,173,564
Total interest-bearing deposits	7,566,301	7,647,960
Noninterest-bearing	2,643,928	2,492,434
Total deposits	10,210,229	10,140,394
Federal funds purchased and securities sold under agreements to repurchase	165,181	183,591
FHLB short-term borrowings	1,151,000	857,100
Total short-term borrowings	1,316,181	1,040,691
Long-term debt	414,376	570,739
Total borrowed funds	1,730,557	1,611,430
Accrued interest and other liabilities	323,134	156,587
Total liabilities	12,263,920	11,908,411
Shareholders' equity		
Common stock - no par value		
Authorized - 160,000,000 shares; Issued - 104,281,794 shares in 2019 and 104,281,794 shares in 2018	1,640,771	1,633,256
Retained earnings	711,249	600,014
Accumulated other comprehensive income (loss)	13,323	(44,408)
Treasury stock, at cost, 5,790,796 shares in 2019 and 6,387,508 shares in 2018	(117,638)	(110,613)
Total shareholders' equity	2,247,705	2,078,249
Total liabilities and shareholders' equity	\$ 14,511,625	\$ 13,986,660

See Notes to Consolidated Financial Statements.

Consolidated Statements of Income

<i>(Dollars in thousands except per share data)</i>	Years ended December 31,		
	2019	2018	2017
Interest income			
Loans and leases, including fees	\$ 499,009	\$ 447,187	\$ 280,111
Investment securities			
Taxable	90,168	79,076	50,568
Tax-exempt	17,596	13,428	5,918
Total interest on investment securities	107,764	92,504	56,486
Other earning assets	805	691	(3,524)
Total interest income	607,578	540,382	333,073
Interest expense			
Deposits	79,032	56,962	35,182
Short-term borrowings	25,235	18,033	8,193
Long-term borrowings	19,057	16,152	6,153
Total interest expense	123,324	91,147	49,528
Net interest income	484,254	449,235	283,545
Provision for loan and lease losses	30,598	14,586	3,582
Net interest income after provision for loan and lease losses	453,656	434,649	279,963
Noninterest income			
Service charges on deposit accounts	37,939	35,108	19,775
Trust and wealth management fees	15,644	15,082	14,073
Bankcard income	18,804	20,245	13,298
Client derivative fees	15,662	7,682	6,418
Foreign exchange income	7,739	0	0
Net gain from sales of loans	14,851	6,071	5,169
Net gain (loss) on sales/transfers of investment securities	(406)	(161)	1,649
Other	21,140	19,355	15,760
Total noninterest income	131,373	103,382	76,142
Noninterest expenses			
Salaries and employee benefits	209,061	188,990	137,240
Net occupancy	24,069	24,215	17,397
Furniture and equipment	15,903	14,908	8,443
Data processing	21,881	28,077	14,022
Marketing	6,908	7,598	3,201
Communication	3,267	3,167	1,819
Professional services	11,254	12,272	15,023
State intangible tax	5,829	4,152	2,655
FDIC assessments	1,973	3,969	3,944
Intangible assets amortization	9,671	7,359	1,298
Other	32,351	29,103	34,900
Total noninterest expenses	342,167	323,810	239,942
Income before income taxes	242,862	214,221	116,163
Income tax expense	44,787	41,626	19,376
Net income	\$ 198,075	\$ 172,595	\$ 96,787
Earnings per common share			
Basic	\$ 2.01	\$ 1.95	\$ 1.57
Diluted	\$ 2.00	\$ 1.93	\$ 1.56
Average common shares outstanding - basic	98,305,570	88,582,090	61,529,460
Average common shares outstanding - diluted	98,851,471	89,614,205	62,171,590

See Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

<i>(Dollars in thousands)</i>	Years ended December 31,		
	2019	2018	2017
Net income	\$ 198,075	\$ 172,595	\$ 96,787
Other comprehensive income (loss), net of tax:			
Unrealized gain (loss) on debt securities arising during the period	51,959	(11,229)	4,367
Change in retirement obligation	4,649	(8,180)	3,172
Unrealized gain (loss) on derivatives	217	484	514
Other comprehensive income (loss)	56,825	(18,925)	8,053
Comprehensive income	\$ 254,900	\$ 153,670	\$ 104,840

See Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Shareholders' Equity

<i>(Dollars in thousands, except share amounts)</i>	Common	Common	Retained	Accumulated	Treasury stock		Total
	stock	stock		other	Shares	Amount	
	shares	amount	earnings	comprehensive			
				income (loss)			
Balance at January 1, 2017	68,730,731	\$ 570,382	\$ 437,188	\$ (28,443)	(6,751,179)	\$ (113,903)	\$ 865,224
Net income			96,787				96,787
Other comprehensive income (loss)				8,053			8,053
Cash dividends declared:							
Common stock at \$0.68 per share			(42,128)				(42,128)
Warrant exercises		(99)			5,843	99	0
Exercise of stock options, net of shares purchased		(912)			58,212	987	75
Restricted stock awards, net of forfeitures		(1,708)			25,480	(1,085)	(2,793)
Share-based compensation expense		5,446					5,446
Balance at December 31, 2017, as previously reported	68,730,731	573,109	491,847	(20,390)	(6,661,644)	(113,902)	930,664
Impact of cumulative effect of adoption of new accounting principles			5,093	(5,093)			0
Net income			172,595				172,595
Other comprehensive income (loss)				(18,925)			(18,925)
Cash dividends declared:							
Common stock at \$0.78 per share			(69,521)				(69,521)
Common stock issued in connection with business combinations	35,551,063	1,043,424					1,043,424
Stock options and warrants acquired and converted in connection with business combinations		16,037					16,037
Warrant exercises		(1,120)			65,354	1,120	0
Exercise of stock options, net of shares purchased		(282)			32,941	566	284
Restricted stock awards, net of forfeitures		(4,131)			175,841	1,603	(2,528)
Share-based compensation expense		6,219					6,219
Balance at December 31, 2018	104,281,794	1,633,256	600,014	(44,408)	(6,387,508)	(110,613)	2,078,249
Impact of cumulative effect of adoption of new accounting principles			2,636	906			3,542
Net income			198,075				198,075
Other comprehensive income (loss)				56,825			56,825
Cash dividends declared:							
Common stock at \$0.90 per share			(89,476)				(89,476)
Purchase of common stock					(2,753,272)	(66,218)	(66,218)
Common stock issued in connection with business combinations		13,658			2,601,823	47,276	60,934
Warrant exercises		(7,830)			452,134	7,830	0
Exercise of stock options, net of shares purchased		(264)			20,424	354	90
Restricted stock awards, net of forfeitures		(6,018)			275,603	3,733	(2,285)
Share-based compensation expense		7,969					7,969
Balance at December 31, 2019	104,281,794	\$ 1,640,771	\$ 711,249	\$ 13,323	(5,790,796)	\$ (117,638)	\$ 2,247,705

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

<i>(Dollars in thousands)</i>	Year ended December 31,		
	2019	2018	2017
Operating activities			
Net income	\$ 198,075	\$ 172,595	\$ 96,787
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Provision for loan and lease losses	30,598	14,586	3,582
Depreciation and amortization	28,138	24,171	12,645
Stock-based compensation expense	7,969	6,219	5,446
Pension expense (income)	1,041	859	(628)
Net amortization (accretion) on investment securities	11,430	10,846	10,798
Net (gains) losses on sales of investments securities	406	161	(1,649)
Originations of loans held for sale	(390,578)	(157,771)	(157,796)
Net (gains) losses on sales of loans held for sale	(14,851)	(6,071)	(5,169)
Proceeds from sales of loans held for sale	396,121	167,374	163,300
Deferred income taxes	12,590	6,267	(4,488)
Amortization of operating leases	7,324	0	0
Payments for operating leases	(7,335)	0	0
Decrease (increase) cash surrender value of life insurance	(3,748)	(5,454)	(3,792)
Decrease (increase) in interest receivable	2,117	(3,808)	(5,707)
Decrease in indemnification asset	0	1,900	10,117
(Decrease) increase in interest payable	1,545	5,207	55
Decrease (increase) in other assets	(166,477)	34,360	(21,455)
(Decrease) increase in other liabilities	71,964	(10,043)	21,478
Net cash provided by (used in) operating activities	186,329	261,398	123,524
Investing activities			
Proceeds from sales of investment securities available-for-sale	519,136	290,745	189,962
Proceeds from calls, paydowns and maturities of securities available-for-sale	557,034	387,351	224,690
Purchases of securities available-for-sale	(834,743)	(852,131)	(723,131)
Proceeds from calls, paydowns and maturities of securities held-to-maturity	18,062	36,671	121,903
Purchases of securities held-to-maturity	0	(14,014)	(23,402)
Purchases of other investment securities	(12,120)	(31,385)	(2,353)
Net decrease (increase) in interest-bearing deposits with other banks	(19,210)	(3,764)	48,476
Net decrease (increase) in loans and leases	(409,557)	(28,577)	(266,043)
Proceeds from disposal of other real estate owned	1,453	3,797	6,983
Purchases of premises and equipment	(20,934)	(18,228)	(6,537)
Net cash acquired (paid) from business combinations	(51,663)	64,895	0
Net cash (paid) received for branch divestitures	118	(41,197)	0
Net cash provided by (used in) investing activities	(252,424)	(205,837)	(429,452)
Financing activities			
Net (decrease) increase in total deposits	69,953	(18,690)	369,258
Net (decrease) increase in short-term borrowings	275,490	30,531	6,653
Payments on long-term borrowings	(159,653)	(52,460)	(94)
Proceeds from FHLB borrowings	0	150,000	0
Cash dividends paid on common stock	(89,097)	(79,655)	(41,178)
Purchases of common stock	(66,218)	0	0
Proceeds from exercise of stock options	90	284	341
Net cash provided by (used in) financing activities	30,565	30,010	334,980
Cash and due from banks			
Net (decrease) increase in Cash and due from banks	(35,530)	85,571	29,052
Cash and due from banks at beginning of year	236,221	150,650	121,598
Cash and due from banks at end of year	\$ 200,691	\$ 236,221	\$ 150,650

Supplemental disclosures

Interest paid	\$ 121,779	\$ 84,125	\$ 49,474
Income taxes paid	\$ 27,497	\$ 16,004	\$ 38,329
Acquisition of other real estate owned through foreclosure	\$ 2,448	\$ 1,821	\$ 4,119
Issuance of restricted stock awards	\$ 10,488	\$ 8,797	\$ 6,416
Securities transferred from HTM to AFS	\$ 268,703	\$ 372,128	\$ 0
Common stock issued in acquisitions	\$ 60,934	\$ 1,043,424	\$ 0
Initial recognition of operating lease right of use asset	\$ 60,249	\$ 0	\$ 0
Initial recognition of operating lease liabilities	\$ 65,799	\$ 0	\$ 0

Supplemental schedule for investing activities**Business combinations**

Assets acquired, net of purchase consideration	\$ (39,140)	\$ 3,342,781	\$ 0
Liabilities assumed	18,380	4,018,948	0
Goodwill	\$ 57,520	\$ 676,167	\$ 0

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

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

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

Cash and due from banks. Cash and due from banks consist of currency, coin and cash items due from banks. Cash items due from banks include noninterest-bearing balances that are on deposit at other depository institutions.

Investment securities. First Financial classifies debt securities into three categories: HTM, trading and AFS. Management classifies investment securities into the appropriate category at the time of purchase and re-evaluates that classification as deemed appropriate.

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

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

Investment securities not classified as either HTM or trading are classified as AFS. AFS securities are recorded at fair value, with the unrealized gains and losses, net of tax, reported as a separate component of accumulated other comprehensive income (loss) in shareholders' equity.

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

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

Other investments. Other investments include holdings in FRB and FHLB stock, which are both carried at cost, in addition to equity securities which are carried at fair value. Changes in the fair value of equity securities are recorded in Other noninterest income in the Consolidated Statements of Income.

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

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

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

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

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

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

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

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 through payments from the borrower or the liquidation of collateral.

Management evaluates Commercial loan and lease relationships greater than \$250,000 that are considered impaired, or designated as a TDR to determine the need for a specific allowance. This evaluation is based on the borrower's overall financial condition, resources, payment record, guarantor support and the realizable value of any collateral.

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

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

An allowance for loan losses will be established for any subsequent credit deterioration or adverse changes in expected cash flows.

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

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

Bank-owned life insurance. First Financial purchases life insurance policies on the lives of certain employees and is the owner and beneficiary of the policies. The Bank invests in these policies to provide an efficient form of funding for long-term retirement and other employee benefits costs. The policies are included within Accrued interest and other assets in the Consolidated Balance Sheets at each policy's respective cash surrender value with changes recorded in Other noninterest income in the Consolidated Statements of Income.

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

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

Other intangible assets. Other intangible assets consist primarily of core deposit, customer list and other miscellaneous intangibles.

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

First Financial recorded a customer list intangible asset in conjunction with the Bannockburn merger to account for the obligation or advantage on the part of either the Company or the customer to continue the pre-existing relationship subsequent to the merger. The customer list intangible asset is amortized on a straight-line basis over its estimated useful life.

Other miscellaneous intangibles include purchase commissions, non-compete agreements and trade name intangibles. Other intangible assets are included in Other intangibles in the Consolidated Balance Sheets.

Other real estate owned. OREO consists of properties acquired by the Company primarily through the loan foreclosure or repossession process, or other resolution activity that results in partial or total satisfaction of problem loans. OREO properties are recorded at fair value, less estimated disposal costs (net realizable value). Losses arising at the time of acquisition of such properties are charged against the ALLL. Management performs periodic valuations to assess the adequacy of recorded OREO balances and subsequent changes in the carrying value of OREO properties are recorded in the Consolidated Statements of Income. Improvements to OREO properties may be capitalized if the improvements contribute to the overall value of the

property, but may not be capitalized in excess of the net realizable value of the property. When management disposes of an OREO property, any gains or losses realized at the time of disposal are reflected in the Consolidated Statements of Income.

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

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

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

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

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

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

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

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

First Financial may enter into foreign exchange derivative contracts for the benefit of commercial customers to hedge their exposure to foreign currency fluctuations. Similar to the hedging of interest rate risk from interest rate derivative contracts, First Financial also enters into foreign exchange contracts with major financial institutions to economically hedge a substantial

portion of the exposure from client driven foreign exchange activity. These derivatives are classified as free-standing instruments with the revaluation gain or loss recorded in Foreign exchange income in the Consolidated Statements of Income.

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

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

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

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

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

2. Accounting Standards Recently Adopted or Issued

Standards Adopted in 2019

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 where the Company is the lessee, except for short-term leases that are subject to an accounting policy election, were recorded on the balance sheet by establishing a lease liability and corresponding ROU asset. All entities are required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. As the Company elected the transition option provided in ASU No. 2018-11, the modified retrospective approach was applied on January 1, 2019 (as opposed to January 1, 2017). The Company also elected certain relief options offered in ASU 2016-02 including the package of practical expedients, the option not to separate lease and non-lease components and instead to account for them as a single lease component and the option not to recognize ROU assets and lease liabilities that arise from short-term leases. The Company did not elect the hindsight practical expedient, which allows entities to use hindsight when determining lease term and impairment of ROU assets. The guidance in this ASU became effective January 1, 2019 at which time the Company recorded on the Consolidated Balance Sheet an ROU asset of \$60.2 million and a lease liability of \$65.8 million. For further detail, see Note 7 – Leases.

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

Notes to Consolidated Financial Statements

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 became effective at the beginning of 2019 but did not have a material impact on the Consolidated Financial Statements.

In August 2017, the FASB issued an update (ASU 2017-12, Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities) to better align financial reporting for hedging activities with the economic objectives of those activities. This update aligns certain aspects of hedge documentation, effectiveness assessments, accounting and disclosures and expands permissible hedge strategies as of the date of adoption. The guidance in this ASU became effective January 1, 2019. Upon adoption, the Company reclassified \$268.7 million of HTM securities to AFS, resulting in a \$0.2 million loss in the Consolidated Statement of Income.

Standards Issued But Not Yet Adopted

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, commonly known as CECL, will replace the current incurred loss approach for estimating credit losses with an expected loss model for instruments measured at amortized cost, including loans and leases. Expected credit losses are required to be based on amortized cost and reflect losses expected over the remaining contractual life of the asset. Management is expected to consider any available information relevant to assessing the collectibility of contractual cash flows, such as information about past events, current conditions, voluntary prepayments and reasonable and supportable economic forecasts, when developing expected credit loss estimates. This update also expands the disclosure requirements regarding an entity's assumptions, models and methods for estimating the ACL, including the disclosure of the amortized cost balance for each class of financial asset by credit quality indicator, disaggregated by the year of origination.

In addition to the new framework for calculating the ACL, this update requires allowances for AFS 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.

The guidance in this ASU will become effective for interim and annual reporting periods beginning after December 15, 2019. As of January 1, 2020, First Financial expects to recognize a one-time cumulative effect adjustment to increase the ACL with an offsetting reduction to the retained earnings component of equity. In December 2018, the federal bank regulatory agencies approved a final rule that modifies their regulatory capital rules and provides institutions the option to phase in over a three-year period any day-one regulatory capital effects of this update. First Financial expects to adopt the regulatory phase-in over the permissible three-year period.

First Financial formed a cross-functional internal management committee and engaged a third party vendor to assist with the transition to the guidance set forth in this update. The new allowance model implemented by First Financial estimates credit losses over the expected life of the portfolio and includes a qualitative framework to account for the drivers of losses that are not captured by the quantitative model. Based upon preliminary modeling results, management estimates that the reserve will increase to between \$115.0 million and \$125.0 million upon adoption of this ASU. The expected increase in the ACL is significantly impacted by the number of previously acquired loans with credit discounts, the credit losses expected over the life of the portfolio and management's consideration of future economic conditions. The actual impact from adopting this guidance may be subject to change based upon refinement and finalization of the model and associated assumptions, the implementation and testing of certain internal controls ensuring model effectiveness and management's judgment. In addition, the adoption of this ASU may result in a more volatile provision for credit losses in future periods.

Management expects the ACL for unfunded commitments to increase to \$11.0 million to \$14.0 million upon adoption. First Financial does not expect a material allowance for credit losses on HTM securities as a result of guidance set forth in this update given the size and composition of the portfolio, which primarily includes government agency backed securities. In addition, the Company does not expect a material loss on AFS debt securities.

In August 2018, the FASB issued an update (ASU No. 2018-13, Disclosure Framework: Changes to the Disclosure Requirements for Fair Value Measurement) which eliminates, adds and modifies certain disclosure requirements for fair value

measurements. Under the changes, entities will no longer be required to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, but will be required to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. The update is effective for interim and annual reporting periods beginning after December 15, 2019, and early adoption is permitted. This update is not expected to have a material impact on the Company's Consolidated Financial Statements.

3. Restrictions on Cash and Dividends

First Financial is required by the FRB to hold cash in reserve against deposit liabilities when total reservable deposit liabilities exceed the regulatory exemption known as the reserve requirement. The reserve requirement is calculated based on a two-week average of daily net transaction account deposits as defined by the FRB and may be satisfied with average vault cash during the following two-week maintenance period. When vault cash is not sufficient to meet the reserve requirement, the remaining amount must be satisfied with average funds held at the FRB. First Financial's deposit at the FRB is recorded in Interest-bearing deposits with other banks on the Consolidated Balance Sheets. The average required reserve balances, based upon the average level of First Financial's transaction deposits were \$84.1 million and \$85.9 million for 2019 and 2018, respectively. Additionally, as of December 31, 2019, First Financial had \$15.8 million in cash restricted for withdrawal and usage due to the centrally cleared derivative initial margin requirement.

Dividends paid by First Financial to its shareholders are principally funded through dividends paid to the Company by its subsidiaries, however, certain restrictions exist regarding the ability of the Bank to transfer funds to First Financial in the form of cash dividends, loans or advances. The approval of the Federal Reserve Board and the ODFI is required for the Bank to pay dividends in excess of the regulatory limit, which is equal to the net income of the current year through the dividend date combined with the Bank's retained net income from the two preceding years. As of December 31, 2019, First Financial's subsidiaries had retained earnings of \$660.7 million, of which \$155.7 million was available for distribution to First Financial without prior regulatory approval.

4. Investment Securities

During the year ended December 31, 2019, proceeds on the sale of \$519.1 million of AFS securities resulted in gains of \$2.1 million and losses of \$2.1 million, with insignificant tax expense. During the year ended December 31, 2018, proceeds on the sale of \$290.7 million of AFS securities resulted in gains of \$0.5 million, losses of \$0.6 million and insignificant tax expense. During the year ended December 31, 2017, proceeds on the sale of \$190.0 million of AFS securities resulted in gains of \$1.8 million and losses of \$0.2 million in addition to tax expense of \$0.6 million. In addition to the sale of certain securities, First Financial reclassified \$268.7 million of HTM securities, in conjunction with the adoption of ASU 2017-12 in the first quarter of 2019, resulting in a \$0.2 million realized loss recorded in the Consolidated Statement of Income. To align with post-merger investment strategies, during the second quarter 2018 First Financial sold certain securities and reclassified \$372.1 million of HTM securities to AFS.

The carrying value of investment securities pledged as collateral to secure public deposits, repurchase agreements and for other purposes as required by law totaled \$1.1 billion at December 31, 2019 and \$1.2 billion at December 31, 2018.

Notes to Consolidated Financial Statements

The following is a summary of HTM and AFS investment securities as of December 31, 2019:

<i>(Dollars in thousands)</i>	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	\$ 99	\$ 1	\$ 0	\$ 100
Securities of U.S. government agencies and corporations	0	0	0	0	156	2	0	158
Mortgage-backed securities - residential	20,818	122	(174)	20,766	421,945	9,709	(99)	431,555
Mortgage-backed securities - commercial	101,267	571	(1,225)	100,613	474,174	4,988	(2,644)	476,518
Collateralized mortgage obligations	9,763	0	(108)	9,655	769,076	16,753	(385)	785,444
Obligations of state and other political subdivisions	11,014	804	(31)	11,787	652,986	23,729	(462)	676,253
Asset-backed securities	0	0	0	0	400,081	1,414	(1,064)	400,431
Other securities	0	0	0	0	79,781	1,959	(115)	81,625
Total	\$ 142,862	\$ 1,497	\$ (1,538)	\$ 142,821	\$ 2,798,298	\$ 58,555	\$ (4,769)	\$ 2,852,084

The following is a summary of HTM and AFS investment securities as of December 31, 2018:

<i>(Dollars in thousands)</i>	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	\$ 99	\$ 0	\$ (2)	\$ 97
Securities of U.S. government agencies and corporations	0	0	0	0	32,095	57	(233)	31,919
Mortgage-backed securities - residential	25,565	0	(1,045)	24,520	565,071	691	(7,163)	558,599
Mortgage-backed securities - commercial	147,780	258	(4,385)	143,653	423,797	819	(3,581)	421,035
Collateralized mortgage obligations	12,540	0	(633)	11,907	928,586	4,319	(6,158)	926,747
Obligations of state and other political subdivisions	243,443	1,954	(1,359)	244,038	257,300	2,554	(1,429)	258,425
Asset-backed securities	0	0	0	0	511,430	611	(2,810)	509,231
Other securities	0	0	0	0	73,948	358	(1,104)	73,202
Total	\$ 429,328	\$ 2,212	\$ (7,422)	\$ 424,118	\$ 2,792,326	\$ 9,409	\$ (22,480)	\$ 2,779,255

The following table provides a summary of investment securities by contractual maturity as of December 31, 2019, 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:

<i>(Dollars in thousands)</i>	Held-to-maturity		Available-for-sale	
	Amortized cost	Fair value	Amortized cost	Fair value
Due in one year or less	\$ 0	\$ 0	\$ 7,382	\$ 7,408
Due after one year through five years	0	0	52,075	53,189
Due after five years through ten years	4,756	5,417	144,626	149,961
Due after ten years	6,258	6,370	528,939	547,578
Mortgage-backed securities - residential	20,818	20,766	421,945	431,555
Mortgage-backed securities - commercial	101,267	100,613	474,174	476,518
Collateralized mortgage obligations	9,763	9,655	769,076	785,444
Asset-backed securities	0	0	400,081	400,431
Total	\$ 142,862	\$ 142,821	\$ 2,798,298	\$ 2,852,084

Unrealized gains and losses on debt securities are generally due to fluctuations in current market yields relative to the yields of the 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, in addition to the Company's intent and ability to hold the security to maturity, when determining whether any impairment is other than temporary. At this time First Financial does not intend to sell, and it is not more likely than not that the Company will be required to sell, debt securities temporarily impaired prior to maturity or recovery of the recorded value. First Financial had no other than temporary impairment related to its investment securities portfolio as of December 31, 2019, 2018 or 2017.

As of December 31, 2019, the Company's investment securities portfolio consisted of 1,273 securities, of which 140 securities were in an unrealized loss position. As of December 31, 2018, the Company's investment securities portfolio consisted of 1,417 securities, of which 504 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:

<i>(Dollars in thousands)</i>	December 31, 2019					
	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
U.S. Treasuries	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Securities of U.S. government agencies and corporations	0	0	0	0	0	0
Mortgage-backed securities - residential	40,190	(209)	11,063	(64)	51,253	(273)
Mortgage-backed securities - commercial	111,658	(298)	104,069	(3,571)	215,727	(3,869)
Collateralized mortgage obligations	85,248	(297)	30,628	(196)	115,876	(493)
Obligations of state and other political subdivisions	118,623	(457)	7,950	(36)	126,573	(493)
Asset-backed securities	125,889	(553)	54,963	(511)	180,852	(1,064)
Other securities	0	0	5,649	(115)	5,649	(115)
Total	\$ 481,608	\$ (1,814)	\$ 214,322	\$ (4,493)	\$ 695,930	\$ (6,307)

Notes to Consolidated Financial Statements

(Dollars in thousands)	December 31, 2018					
	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
U.S. Treasuries	\$ 0	\$ 0	\$ 97	\$ (2)	\$ 97	\$ (2)
Securities of U.S. Government agencies and corporations	0	0	16,777	(233)	16,777	(233)
Mortgage-backed securities - residential	186,029	(935)	264,795	(7,273)	450,824	(8,208)
Mortgage-backed securities - commercial	147,754	(369)	232,363	(7,597)	380,117	(7,966)
Collateralized mortgage obligations	194,795	(1,546)	240,514	(5,245)	435,309	(6,791)
Obligations of state and other political subdivisions	62,805	(299)	86,644	(2,489)	149,449	(2,788)
Asset-backed securities	336,437	(2,312)	37,105	(498)	373,542	(2,810)
Other securities	33,752	(884)	4,570	(220)	38,322	(1,104)
Total	\$ 961,572	\$ (6,345)	\$ 882,865	\$ (23,557)	\$ 1,844,437	\$ (29,902)

For further detail on the fair value of investment securities, see Note 22 – Fair Value Disclosures.

5. Loans and Leases

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

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

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

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

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

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

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

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

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

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

As of December 31, 2019					
<i>(Dollars in thousands)</i>	Real Estate				Total
	Commercial & industrial	Construction	Commercial	Lease financing	
Pass	\$ 2,324,021	\$ 493,182	\$ 4,108,752	\$ 85,262	\$ 7,011,217
Special Mention	100,954	0	59,383	488	160,825
Substandard	40,902	0	26,516	2,614	70,032
Doubtful	0	0	0	0	0
Total	\$ 2,465,877	\$ 493,182	\$ 4,194,651	\$ 88,364	\$ 7,242,074
	Residential real estate	Home equity	Installment	Credit card	Total
Performing	\$ 1,040,787	\$ 766,169	\$ 82,385	\$ 48,983	\$ 1,938,324
Nonperforming	15,162	5,700	204	201	21,267
Total	\$ 1,055,949	\$ 771,869	\$ 82,589	\$ 49,184	\$ 1,959,591
As of December 31, 2018					
<i>(Dollars in thousands)</i>	Real Estate				Total
	Commercial & industrial	Construction	Commercial	Lease financing	
Pass	\$ 2,432,834	\$ 548,323	\$ 3,664,434	\$ 90,902	\$ 6,736,493
Special Mention	24,594	603	38,653	0	63,850
Substandard	57,233	9	51,594	2,513	111,349
Doubtful	0	0	0	0	0
Total	\$ 2,514,661	\$ 548,935	\$ 3,754,681	\$ 93,415	\$ 6,911,692
	Residential real estate	Home equity	Installment	Credit card	Total
Performing	\$ 939,936	\$ 811,108	\$ 93,038	\$ 46,382	\$ 1,890,464
Nonperforming	15,710	6,174	174	0	22,058
Total	\$ 955,646	\$ 817,282	\$ 93,212	\$ 46,382	\$ 1,912,522

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

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Loan delinquency, including nonaccrual loans, was as follows:

As of December 31, 2019									
<i>(Dollars in thousands)</i>	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 & industrial	\$ 1,266	\$ 3,332	\$ 14,518	\$ 19,116	\$ 2,443,680	\$ 2,462,796	\$ 3,081	\$ 2,465,877	\$ 0
Lease financing	0	0	0	0	88,364	88,364	0	88,364	0
Construction real estate	0	0	0	0	493,167	493,167	15	493,182	0
Commercial real estate	776	857	5,613	7,246	4,151,513	4,158,759	35,892	4,194,651	0
Residential real estate	8,032	1,928	5,031	14,991	1,014,138	1,029,129	26,820	1,055,949	0
Home equity	2,530	1,083	2,795	6,408	762,863	769,271	2,598	771,869	0
Installment	111	50	148	309	82,022	82,331	258	82,589	0
Credit card	208	75	201	484	48,700	49,184	0	49,184	201
Total	\$ 12,923	\$ 7,325	\$ 28,306	\$ 48,554	\$ 9,084,447	\$ 9,133,001	\$ 68,664	\$ 9,201,665	\$ 201

As of December 31, 2018									
<i>(Dollars in thousands)</i>	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 & industrial	\$ 13,369	\$ 41	\$ 7,423	\$ 20,833	\$ 2,488,450	\$ 2,509,283	\$ 5,378	\$ 2,514,661	\$ 0
Lease financing	352	0	0	352	93,063	93,415	0	93,415	0
Construction real estate	0	0	0	0	548,687	548,687	248	548,935	0
Commercial real estate	6,279	1,158	12,644	20,081	3,682,455	3,702,536	52,145	3,754,681	0
Residential real estate	11,060	2,976	4,535	18,571	902,404	920,975	34,671	955,646	0
Home equity	5,245	1,228	2,578	9,051	804,835	813,886	3,396	817,282	0
Installment	420	37	145	602	92,128	92,730	482	93,212	0
Credit card	541	96	63	700	45,682	46,382	0	46,382	63
Total	\$ 37,266	\$ 5,536	\$ 27,388	\$ 70,190	\$ 8,657,704	\$ 8,727,894	\$ 96,320	\$ 8,824,214	\$ 63

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 none of the principal and interest is due and unpaid, and the Bank expects repayment of the remaining contractual principal and interest.

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

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

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

First Financial had 157 TDRs totaling \$30.0 million at December 31, 2019, including \$11.4 million of loans on accrual status and \$18.5 million of loans classified as nonaccrual. First Financial had \$2.5 million commitments outstanding to lend additional funds to borrowers whose loan terms had been modified through TDRs, and the ALLL included reserves of \$2.5 million related to TDRs as of December 31, 2019. For the years ended December 31, 2019, 2018 and 2017, First Financial charged off \$2.6 million, \$0.9 million and \$0.3 million, respectively, for the portion of TDRs determined to be uncollectible. Additionally, as of December 31, 2019, approximately \$4.7 million of the accruing TDRs have been performing in accordance with the restructured terms for more than one year.

First Financial had 196 TDRs totaling \$38.5 million at December 31, 2018, including \$16.1 million of loans on accrual status and \$22.4 million of loans classified as nonaccrual. First Financial had no commitments outstanding to lend additional funds to borrowers whose loan terms had been modified through TDRs. At December 31, 2018 the ALLL included reserves of \$1.5 million related to TDRs, and \$7.9 million of the accruing TDRs had been performing in accordance with the restructured terms for more than one year.

First Financial had 214 TDRs totaling \$23.9 million at December 31, 2017, including \$17.5 million of loans on accrual status and \$6.4 million of loans classified as nonaccrual. First Financial had an insignificant amount of commitments outstanding to lend additional funds to borrowers whose loan terms had been modified through TDRs. At December 31, 2017, the ALLL included reserves of \$1.3 million related to TDRs, and \$17.2 million of the accruing TDRs had been performing in accordance with the restructured terms for more than one year.

The following table provides information on loan modifications classified as TDRs during the years ended December 31, 2019, 2018 and 2017:

<i>(Dollars in thousands)</i>	Years ended December 31,								
	2019			2018			2017		
	Number of loans	Pre-modification loan balance	Period end balance	Number of loans	Pre-modification loan balance	Period end balance	Number of loans	Pre-modification loan balance	Period end balance
Commercial & industrial	8	\$ 25,009	\$ 25,071	17	\$ 23,943	\$ 23,890	7	\$ 5,724	\$ 5,661
Construction real estate	0	0	0	0	0	0	0	0	0
Commercial real estate	9	3,024	2,932	8	3,385	3,150	8	1,816	1,758
Residential real estate	30	3,415	3,062	13	1,148	1,073	6	416	315
Home equity	14	395	366	5	95	192	1	39	39
Installment	2	41	39	0	0	0	0	0	0
Total	63	\$ 31,884	\$ 31,470	43	\$ 28,571	\$ 28,305	22	\$ 7,995	\$ 7,773

The following table provides information on how TDRs were modified during the years ended December 31, 2019, 2018 and 2017:

<i>(Dollars in thousands)</i>	Years Ended December 31,		
	2019	2018	2017
Extended maturities	\$ 2,877	\$ 4,093	\$ 3,261
Adjusted interest rates	5,284	52	2,767
Combination of rate and maturity changes	516	0	489
Forbearance	20,320	23,175	1,181
Other ⁽¹⁾	2,473	985	75
Total	\$ 31,470	\$ 28,305	\$ 7,773

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

Notes to Consolidated Financial Statements

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, are considered to be in payment default of the terms of the TDR agreement.

For the twelve months ended December 31, 2019, there were three TDRs with a balance of \$7.0 million for which there was a payment default during the period that occurred within twelve months of the loan modification. For the twelve months ended December 31, 2018, there was one TDR with an insignificant balance for which there was a payment default during the period that occurred within twelve months of the loan modification. For the twelve months ended December 31, 2017, there was one TDR with a balance \$1.5 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, as of December 31:

<i>(Dollars in thousands)</i>	2019	2018	2017
Impaired loans			
Nonaccrual loans ⁽¹⁾			
Commercial & industrial	\$ 24,346	\$ 30,925	\$ 5,229
Lease financing	223	22	82
Construction real estate	0	9	29
Commercial real estate	7,295	20,500	10,616
Residential real estate	10,892	13,495	4,140
Home equity	5,242	5,580	3,743
Installment	167	169	243
Total nonaccrual loans	48,165	70,700	24,082
Accruing troubled debt restructurings	11,435	16,109	17,545
Total impaired loans	<u>\$ 59,600</u>	<u>\$ 86,809</u>	<u>\$ 41,627</u>
Interest income effect			
Gross amount of interest that would have been recorded under original terms	\$ 5,813	\$ 4,656	\$ 3,397
Interest included in income			
Nonaccrual loans	1,042	715	535
Troubled debt restructurings	801	642	710
Total interest included in income	1,843	1,357	1,245
Net impact on interest income	<u>\$ 3,970</u>	<u>\$ 3,299</u>	<u>\$ 2,152</u>
Commitments outstanding to borrowers with nonaccrual loans	<u>\$ 3</u>	<u>\$ 200</u>	<u>\$ 0</u>

⁽¹⁾ Nonaccrual loans include nonaccrual TDRs of \$18.5 million, \$22.4 million and \$6.4 million as of December 31, 2019, 2018 and 2017, respectively.

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

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

<i>(Dollars in thousands)</i>	December 31, 2019			December 31, 2018		
	Current balance	Contractual principal balance	Related allowance	Current balance	Contractual principal balance	Related allowance
Loans with no related allowance recorded						
Commercial & industrial	\$ 16,726	\$ 19,709	\$ 0	\$ 36,694	\$ 42,561	\$ 0
Lease financing	223	223	0	22	22	0
Construction real estate	0	0	0	9	26	0
Commercial real estate	10,160	17,897	0	23,513	31,375	0
Residential real estate	14,868	17,368	0	17,297	19,975	0
Home equity	5,700	6,462	0	6,351	7,461	0
Installment	204	341	0	174	563	0
Total	47,881	62,000	0	84,060	101,983	0
Loans with an allowance recorded						
Commercial & industrial	10,754	21,513	2,044	939	939	667
Lease financing	0	0	0	0	0	0
Construction real estate	0	0	0	0	0	0
Commercial real estate	671	675	113	1,509	1,509	461
Residential real estate	294	294	18	301	301	32
Home equity	0	0	0	0	0	0
Installment	0	0	0	0	0	0
Total	11,719	22,482	2,175	2,749	2,749	1,160
Total						
Commercial & industrial	27,480	41,222	2,044	37,633	43,500	667
Lease financing	223	223	0	22	22	0
Construction real estate	0	0	0	9	26	0
Commercial real estate	10,831	18,572	113	25,022	32,884	461
Residential real estate	15,162	17,662	18	17,598	20,276	32
Home equity	5,700	6,462	0	6,351	7,461	0
Installment	204	341	0	174	563	0
Total	\$ 59,600	\$ 84,482	\$ 2,175	\$ 86,809	\$ 104,732	\$ 1,160

Notes to Consolidated Financial Statements

	Years ended December 31,					
	2019		2018		2017	
	Average balance	Interest income recognized	Average balance	Interest income recognized	Average balance	Interest income recognized
<i>(Dollars in thousands)</i>						
Loans with no related allowance recorded						
Commercial & industrial	\$ 31,846	\$ 926	\$ 14,498	\$ 360	\$ 13,167	\$ 280
Lease financing	168	0	21	0	112	4
Construction real estate	6	0	20	2	601	1
Commercial real estate	18,757	357	24,738	490	20,935	563
Residential real estate	15,915	307	11,359	301	7,616	196
Home equity	5,893	121	5,541	114	4,032	99
Installment	170	2	274	2	332	4
Total	72,755	1,713	56,451	1,269	46,795	1,147
Loans with an allowance recorded						
Commercial & industrial	4,721	87	900	44	1,204	28
Lease financing	57	0	0	0	0	0
Construction real estate	0	0	0	0	0	0
Commercial real estate	1,339	31	1,402	18	2,634	40
Residential real estate	446	12	895	23	1,112	26
Home equity	0	0	80	3	101	4
Installment	0	0	0	0	0	0
Total	6,563	130	3,277	88	5,051	98
Total						
Commercial & industrial	36,567	1,013	15,398	404	14,371	308
Lease financing	225	0	21	0	112	4
Construction real estate	6	0	20	2	601	1
Commercial real estate	20,096	388	26,140	508	23,569	603
Residential real estate	16,361	319	12,254	324	8,728	222
Home equity	5,893	121	5,621	117	4,133	103
Installment	170	2	274	2	332	4
Total	\$ 79,318	\$ 1,843	\$ 59,728	\$ 1,357	\$ 51,846	\$ 1,245

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

Changes in OREO were as follows:

<i>(Dollars in thousands)</i>	Years ended December 31,		
	2019	2018	2017
Balance at beginning of year	\$ 1,401	\$ 2,781	\$ 6,284
Additions			
Commercial	415	1,269	1,732
Residential	2,033	1,913	2,387
Total additions	2,448	3,182	4,119
Disposals			
Commercial	(541)	(2,967)	(5,409)
Residential	(912)	(830)	(1,574)
Total disposals	(1,453)	(3,797)	(6,983)
Valuation adjustments			
Commercial	(112)	(355)	(439)
Residential	(251)	(410)	(200)
Total valuation adjustments	(363)	(765)	(639)
Balance at end of year	\$ 2,033	\$ 1,401	\$ 2,781

6. Allowance for Loan and Lease Losses

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

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

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

<i>(Dollars in thousands)</i>	2019								
	Commercial & industrial	Lease financing	Construction real estate	Commercial real estate	Residential real estate	Home equity	Installment	Credit card	Total
Allowance for loan and lease losses									
Balance at beginning of year	\$ 18,746	\$ 1,130	\$ 3,413	\$ 21,048	\$ 4,964	\$ 5,348	\$ 362	\$ 1,531	\$ 56,542
Provision for loan and lease losses	23,631	3	(1,100)	5,107	739	695	2	1,521	30,598
Gross charge-offs	(26,676)	(162)	0	(3,689)	(677)	(2,591)	(223)	(1,547)	(35,565)
Recoveries	2,883	0	68	1,113	273	1,335	251	152	6,075
Total net charge-offs	(23,793)	(162)	68	(2,576)	(404)	(1,256)	28	(1,395)	(29,490)
Ending allowance for loan and lease losses	\$ 18,584	\$ 971	\$ 2,381	\$ 23,579	\$ 5,299	\$ 4,787	\$ 392	\$ 1,657	\$ 57,650

Notes to Consolidated Financial Statements

2018

<i>(Dollars in thousands)</i>	Commercial & industrial	Lease financing	Construction real estate	Commercial real estate	Residential real estate	Home equity	Installment	Credit card	Total
Allowance for loan and lease losses									
Balance at beginning of year	\$ 17,598	\$ 675	\$ 3,577	\$ 20,930	\$ 4,683	\$ 4,935	\$ 307	\$ 1,316	\$ 54,021
Provision for loan and lease losses	10,615	454	(310)	847	492	829	(85)	1,744	14,586
Gross charge-offs	(11,533)	0	0	(4,835)	(422)	(1,725)	(435)	(1,720)	(20,670)
Recoveries	2,066	1	146	4,106	211	1,309	575	191	8,605
Total net charge-offs	(9,467)	1	146	(729)	(211)	(416)	140	(1,529)	(12,065)
Ending allowance for loan and lease losses	\$ 18,746	\$ 1,130	\$ 3,413	\$ 21,048	\$ 4,964	\$ 5,348	\$ 362	\$ 1,531	\$ 56,542

2017

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

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

December 31, 2019

<i>(Dollars in thousands)</i>	Commercial & industrial	Lease financing	Construction real estate	Commercial real estate	Residential real estate	Home equity	Installment	Credit card	Total
Ending allowance on loans individually evaluated for impairment	\$ 2,044	\$ 0	\$ 0	\$ 113	\$ 18	\$ 0	\$ 0	\$ 0	\$ 2,175
Ending allowance on loans collectively evaluated for impairment	16,540	971	2,381	23,466	5,281	4,787	392	1,657	55,475
Ending allowance for loan and lease losses	\$ 18,584	\$ 971	\$ 2,381	\$ 23,579	\$ 5,299	\$ 4,787	\$ 392	\$ 1,657	\$ 57,650
Loans and Leases									
Ending balance of loans individually evaluated for impairment	\$ 27,480	\$ 223	\$ 0	\$ 10,831	\$ 15,162	\$ 5,700	\$ 204	\$ 0	\$ 59,600
Ending balance of loans collectively evaluated for impairment	2,438,397	88,141	493,182	4,183,820	1,040,787	766,169	82,385	49,184	9,142,065
Total loans	\$ 2,465,877	\$ 88,364	\$ 493,182	\$ 4,194,651	\$ 1,055,949	\$ 771,869	\$ 82,589	\$ 49,184	\$ 9,201,665

December 31, 2018

<i>(Dollars in thousands)</i>	Commercial & industrial	Lease financing	Construction real estate	Commercial real estate	Residential real estate	Home equity	Installment	Credit card	Total
Ending allowance on loans individually evaluated for impairment	\$ 667	\$ 0	\$ 0	\$ 461	\$ 32	\$ 0	\$ 0	\$ 0	\$ 1,160
Ending allowance on loans collectively evaluated for impairment	18,079	1,130	3,413	20,587	4,932	5,348	362	1,531	55,382
Ending allowance for loan and lease losses	\$ 18,746	\$ 1,130	\$ 3,413	\$ 21,048	\$ 4,964	\$ 5,348	\$ 362	\$ 1,531	\$ 56,542
Loans and Leases									
Ending balance of loans individually evaluated for impairment	\$ 37,633	\$ 22	\$ 9	\$ 25,022	\$ 17,598	\$ 6,351	\$ 174	\$ 0	\$ 86,809
Ending balance of loans collectively evaluated for impairment	2,477,028	93,393	548,926	3,729,659	938,048	810,931	93,038	46,382	8,737,405
Total loans	\$ 2,514,661	\$ 93,415	\$ 548,935	\$ 3,754,681	\$ 955,646	\$ 817,282	\$ 93,212	\$ 46,382	\$ 8,824,214

7. Premises and Equipment

Premises and equipment at December 31 were as follows:

<i>(Dollars in thousands)</i>	2019	2018
Land and land improvements	\$ 54,958	\$ 57,701
Buildings	163,277	161,817
Furniture and fixtures	74,881	66,567
Leasehold improvements	31,728	29,086
Construction in progress	4,096	5,731
	<u>328,940</u>	<u>320,902</u>
Less: Accumulated depreciation and amortization	114,434	105,250
Total	\$ 214,506	\$ 215,652

Rental expense recorded under operating leases in 2019, 2018 and 2017 was \$11.2 million, \$9.1 million and \$7.1 million, respectively.

8. Leases

A lease is defined as a contract, or part of a contract, that conveys the right to control the use of identified property, plant or equipment for a period of time in exchange for consideration. First Financial is primarily the lessee in its leasing agreements, and substantially all of those agreements are for real estate property for branches, ATM locations and office space.

On January 1, 2019, the Company adopted Topic 842 and all subsequent modifications. For First Financial, this adoption primarily affected the accounting treatment for operating lease agreements in which the Company is the lessee. Substantially all of the Company's leases are classified as operating leases, and therefore, were previously not recognized on the Company's Consolidated Balance Sheets.

With the adoption of Topic 842, operating lease agreements were required to be recognized on the Consolidated Balance Sheets as an ROU asset and a corresponding lease liability. The Company's right to use an asset over the life of a lease is recorded as a "right of use" asset in Accrued interest and other assets on the Consolidated Balance Sheet and was \$58.6 million at December 31, 2019. Certain adjustments to the ROU asset may be required for items such as initial direct costs paid or incentives received. First Financial recorded a \$64.3 million lease liability in Accrued interest and other liabilities on the Consolidated Balance Sheet at December 31, 2019.

The calculated amount of the ROU assets and lease liabilities are impacted by the length of the lease term and the discount rate used to calculate the present value of minimum lease payments. Regarding the discount rate, Topic 842 requires the use of the

rate implicit in the lease whenever this rate is readily determinable. As this rate is rarely determinable, the Company utilizes its incremental borrowing rate at lease inception, on a collateralized basis, over a similar term. For operating leases existing prior to January 1, 2019, the rate was based upon the remaining lease term as of that date.

Leases with an initial term of 12 months or less are not recorded on the balance sheet and First Financial recognizes lease expense for these leases on a straight-line basis over the term of the lease. Most leases include one or more options to renew, with renewal terms that can extend the lease term from one to 20 years or more. The exercise of renewal options on operating leases is at the Company's sole discretion, and certain leases may include options to purchase the leased property. If at lease inception, the Company considers the exercising of a renewal option to be reasonably certain, the Company will include the extended term in the calculation of the ROU asset and lease liability. First Financial does not enter into lease agreements which contain material residual value guarantees or material restrictive covenants.

Certain leases provide for increases in future minimum annual rental payments as defined in the lease agreements and leases generally also include real estate taxes and common area maintenance charges in the annual rental payments.

The components of lease expense were as follows:

<i>(dollars in thousands)</i>	Year ended December 31, 2019
Operating lease cost	\$ 7,324
Short-term lease cost	55
Variable lease cost	2,553
Total operating lease cost	\$ 9,932

Future minimum commitments due under these lease agreements as of December 31, 2019 are as follows:

<i>(dollars in thousands)</i>	Operating leases
2020	\$ 7,200
2021	7,166
2022	6,640
2023	6,711
2024	6,457
Thereafter	50,504
Total lease payments	84,678
Less imputed interest	20,401
Total	\$ 64,277

The lease term and discount rate at December 31, 2019 were as follows:

Operating leases	
Weighted-average remaining lease term	15.6 years
Weighted-average discount rate	3.43%

Supplemental cash information at December 31, 2019 related to leases was as follows:

<i>(dollars in thousands)</i>	Year ended December 31, 2019
Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from operating leases	\$ 7,335
ROU assets obtained in exchange for lease obligations	
Operating leases	64,902

9. 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.

Changes in the carrying amount of goodwill for the years ended December 31, 2019, 2018 and 2017 are shown below.

<i>(Dollars in thousands)</i>	2019	2018	2017
Balance at beginning of year	\$880,251	\$204,084	\$204,084
Goodwill resulting from business combinations	57,520	676,167	0
Balance at end of year	\$937,771	\$880,251	\$204,084

During 2019, First Financial recorded \$58.0 million of additions to goodwill resulting from the Bannockburn acquisition. During 2018, First Financial recorded additions to goodwill of \$676.2 million resulting from the merger with MSFG, and First Financial recorded its final adjustments to goodwill related to the MSFG merger in the first quarter of 2019. For further detail on the merger with MSFG or the acquisition of Bannockburn, see Note 23 - Business Combinations.

Goodwill is evaluated for impairment on an annual basis as of October 1 of each year, or whenever events or changes in circumstances indicate that the fair value of a reporting unit may be below its carrying value. First Financial performed its annual impairment test of goodwill as of October 1, 2019 and no impairment was indicated. As of December 31, 2019, no events or changes in circumstances indicated that the fair value of a reporting unit was below its carrying value.

Other intangible assets. Other intangible assets consist primarily of core deposit, customer list and other miscellaneous intangibles.

Core deposit intangibles represent the estimated fair value of acquired customer deposit relationships on the date of acquisition and are amortized on an accelerated basis over their estimated useful lives. First Financial's core deposit intangibles have an estimated weighted average remaining life of 8.0 years.

First Financial recorded a \$39.4 million customer list intangible asset in conjunction with the Bannockburn merger to account for the obligation or advantage on the part of either the Company or the customer to continue the pre-existing relationship subsequent to the merger. The customer list intangible asset is amortized on a straight-line basis over its estimated useful life of 11 years.

Other miscellaneous intangibles include purchase commissions, non-compete agreements and trade name intangibles. Other intangible assets are included in Other intangibles in the Consolidated Balance Sheets.

The gross carrying amount and accumulated amortization of other intangible assets at December 31, 2019 and December 31, 2018 were as follows:

<i>(Dollars in thousands)</i>	December 31, 2019		December 31, 2018	
Amortized intangible assets				
Core deposit intangibles	\$ 51,031	\$ (21,149)	\$ 54,357	\$ (16,500)
Customer list	39,420	(1,195)	0	0
Other	10,093	(1,999)	3,763	(815)
Total	\$ 100,544	\$ (24,343)	\$ 58,120	\$ (17,315)

Amortization expense recognized on intangible assets for 2019, 2018 and 2017 was \$9.7 million, \$7.4 million and \$1.3 million, respectively. The estimated amortization expense of intangible assets for the next five years is as follows:

Notes to Consolidated Financial Statements

<i>(Dollars in thousands)</i>	Intangible amortization
2020	\$ 11,670
2021	10,263
2022	7,718
2023	6,739
2024	6,670

10. Deposits

Time deposits that meet or exceed the FDIC insurance limit of \$250,000 at December 31, 2019 and 2018 were \$285.0 million and \$284.9 million, respectively.

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

<i>(Dollars in thousands)</i>	Time deposits
2020	\$ 1,752,552
2021	294,579
2022	141,261
2023	37,757
2024	13,272
Thereafter	1,020
Total	<u>\$ 2,240,441</u>

11. 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 agreed to by the Bank and the client. To secure its liability to the client, the Bank is authorized to sell or repurchase U.S. Treasury, government agency and mortgage-backed securities.

The following shows the remaining contractual maturity of repurchase agreements by collateral pledged:

<i>(Dollars in thousands)</i>	Overnight and Continuous
Repurchase agreements	
Mortgage-backed securities	\$ 9,755
Collateralized mortgage obligations	80,426
Total	<u>\$ 90,181</u>

Securities sold under agreements to repurchase are secured by securities with a carrying amount of \$90.2 million and \$85.5 million, as of December 31, 2019 and 2018, respectively.

First Financial has a \$30.0 million short-term credit facility with an unaffiliated bank that matures in September, 2020. 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 December 31, 2019 and December 31, 2018, there was no outstanding balance. The credit agreement requires First Financial to comply with certain covenants including those related to asset quality and capital levels, and First Financial was in compliance with all covenants associated with this facility as of December 31, 2019 and December 31, 2018.

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

<i>(Dollars in thousands)</i>	2019		2018		2017	
	Amount	Rate	Amount	Rate	Amount	Rate
At December 31,						
Federal funds purchased and securities sold under agreements to repurchase	\$ 165,181	0.85%	\$ 183,591	1.65%	\$ 72,265	0.19%
FHLB borrowings	1,151,000	1.73%	857,100	2.48%	742,300	1.43%
Total	\$1,316,181	1.62%	\$1,040,691	2.33%	\$ 814,565	1.32%
Average for the year						
Federal funds purchased and securities sold under agreements to repurchase	\$ 155,859	1.15%	\$ 87,221	0.58%	\$ 69,766	0.19%
FHLB borrowings	990,860	2.37%	857,028	2.03%	760,558	1.05%
Other short-term borrowings	0	0.00%	3,178	4.36%	41	4.07%
Total	\$1,146,719	1.90%	\$ 947,427	1.90%	\$ 830,365	0.98%
Maximum month-end balances						
Federal funds purchased and securities sold under agreements to repurchase	\$ 260,621		\$ 183,591		\$ 130,633	
FHLB borrowings	1,171,400		1,170,800		957,700	
Other short-term borrowings	0		10,000		0	

In 2015, First Financial issued \$120.0 million of subordinated notes, which have a fixed interest rate of 5.13% payable semiannually and mature in August 2025. These notes are not redeemable by the Company or callable by the holders of the notes prior to maturity. In addition, First Financial acquired \$49.5 million of variable rate subordinated notes in the MSFG merger that were issued to previously formed trusts in exchange for the trust proceeds. Interest on the acquired subordinated notes is payable quarterly, in arrears, and the Company has the option to defer interest payments for a period not to exceed 20 consecutive quarters. The acquired subordinated notes mature 30 years after the date of original issuance and may be called at par following the 5 year anniversary of issuance. First Financial also acquired \$8.4 million of 7.40% fixed rate private placement subordinated debt in conjunction with the MSFG merger that was issued in 2015 and matures in 2025. These notes are redeemable by the Company at par following the 5 year anniversary of issuance. 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.

In addition to subordinated notes, long-term debt included \$242.4 million and \$400.6 million of fixed rate FHLB long-term advances as of December 31, 2019 and December 31, 2018, respectively. As of December 31, 2019, long-term FHLB advances had a weighted average interest rate of 1.94%. These instruments are primarily utilized to reduce overnight liquidity risk and to mitigate interest rate sensitivity on the Consolidated Balance Sheets.

FHLB advances, both short-term and long-term, must be collateralized with qualifying assets, typically certain commercial and residential real estate loans, as well as certain government and agency securities. For ease of borrowing execution, First Financial utilizes a blanket collateral agreement with the FHLB, and at December 31, 2019, had collateral pledged with a book value of \$6.2 billion.

Notes to Consolidated Financial Statements

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

<i>(Dollars in thousands)</i>	2019		2018	
	Amount	Average Rate	Amount	Average Rate
FHLB borrowings	\$ 242,428	1.94%	\$ 400,599	2.08%
Subordinated debt	170,967	4.97%	170,550	5.28%
Unamortized debt issuance costs	(1,007)	n/a	(1,185)	n/a
Capital lease liability	1,213	4.48%	0	0.00%
Capital loan with municipality	775	0.00%	775	0.00%
Total long-term debt	\$ 414,376	3.20%	\$ 570,739	3.04%

As of December 31, 2019, First Financial's long-term debt matures as follows:

<i>(Dollars in thousands)</i>	Long-term debt
2020	\$ 104,059
2021	19,052
2022	49,451
2023	49
2024	51
Thereafter	241,714
Total	\$ 414,376

12. Derivatives

First Financial uses certain derivative instruments, including rate caps, floors, swaps and foreign exchange contracts, to meet the operating needs of its clients while managing the interest and currency rate risk associated with certain transactions. 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 as 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 does not use derivatives for speculative purposes.

First Financial manages this market value credit risk through counterparty credit policies including a review of total derivative notional position to total assets, total credit exposure to total capital and counterparty credit exposure risk.

For discussion of First Financial's accounting for derivative instruments, see Note 1 – Summary of Significant Accounting Policies.

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.

At December 31, 2019, for interest rate derivatives, the Company had a total counterparty notional amount outstanding of \$1.9 billion, spread among eighteen counterparties, with an outstanding liability from these contracts of \$67.5 million. At December 31, 2018, the Company had interest rate derivatives with a total counterparty notional amount outstanding of \$1.4 billion, spread among thirteen counterparties, with an outstanding liability from these contracts of \$4.9 million.

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

In connection with its use of derivative instruments, First Financial and its counterparties may be required to post cash collateral to offset the market position of the derivative instruments. First Financial maintains the right to offset these derivative positions with the collateral posted against them by or with the relevant counterparties.

Foreign Exchange Contracts. First Financial may enter into foreign exchange derivative contracts for the benefit of commercial customers to hedge their exposure to foreign currency fluctuations. Similar to the hedging of interest rate risk from interest rate derivative contracts, First Financial also enters into foreign exchange contracts with major financial institutions to economically hedge a substantial portion of the exposure from client driven foreign exchange activity. These derivatives are classified as free-standing instruments with the revaluation gain or loss recorded in Foreign exchange income in the Consolidated Statements of Income. The Company has risk limits and internal controls in place to help ensure that it is not taking excessive risk when providing this service to customers. These controls include an independent determination of currency volatility and credit equivalent exposure on these contracts, counterparty credit approvals and country limits performed by independent risk management. At December 31, 2019, the Company had total counterparty notional amount outstanding of \$1.9 billion spread among six counterparties, with an estimated fair value of \$18.3 million at December 31, 2019 related to foreign exchange contracts, which is included in Accrued interest and other liabilities in the Consolidated Balance Sheets.

In connection with its use of foreign exchange contracts, First Financial and its counterparties may be required to post cash collateral to offset the market position of the derivative instruments. First Financial maintains the right to offset these derivative positions with the collateral posted against them by or with the relevant counterparties.

The following table details the location and amounts recognized in the Consolidated Balance Sheets for client derivatives:

<i>(Dollars in thousands)</i>	Balance Sheet Classification	December 31, 2019			December 31, 2018		
		Notional amount	Estimated fair value		Notional amount	Estimated fair value	
			Gain	Loss		Gain	Loss
Client derivatives-instruments associated with loans							
Matched interest rate swaps with borrower	Accrued interest and other assets and other liabilities	\$ 1,923,375	\$ 70,799	\$ (2,636)	\$ 1,359,990	\$ 17,402	\$ (11,787)
Matched interest rate swaps with counterparty	Accrued interest and other liabilities	1,923,375	2,636	(70,808)	1,359,990	11,787	(17,401)
Foreign exchange contracts							
Matched foreign exchange contracts with customers	Accrued interest and other assets	1,869,934	28,739	(10,433)	0	0	0
Match foreign exchange contracts with counterparty	Accrued interest and other liabilities	1,869,934	10,433	(28,739)	0	0	0
Total		<u>\$ 7,586,618</u>	<u>\$112,607</u>	<u>\$(112,616)</u>	<u>\$ 2,719,980</u>	<u>\$ 29,189</u>	<u>\$(29,188)</u>

Notes to Consolidated Financial Statements

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

	December 31, 2019			December 31, 2018		
	Gross amounts of recognized liabilities	Gross amounts offset in the Consolidated Balance Sheets	Net amounts of (assets)/liabilities presented in the Consolidated Balance Sheets	Gross amounts of recognized liabilities	Gross amounts offset in the Consolidated Balance Sheets	Net amounts of (assets)/liabilities presented in the Consolidated Balance Sheets
<i>(Dollars in thousands)</i>						
Client derivatives						
Matched interest rate swaps	\$ 73,444	\$ (147,193)	\$ (73,749)	\$ 29,189	\$ (14,577)	\$ 14,612
Foreign exchange contracts with counterparty	39,172	(41,202)	(2,030)	0	0	0
Total	<u>\$ 112,616</u>	<u>\$ (188,395)</u>	<u>\$ (75,779)</u>	<u>\$ 29,189</u>	<u>\$ (14,577)</u>	<u>\$ 14,612</u>

The following table details the derivative financial instruments, the average remaining maturities and the weighted-average interest rates being paid and received by First Financial at December 31, 2019:

	Notional amount	Average maturity (years)	Fair value
<i>(Dollars in thousands)</i>			
Client derivatives-interest rate contracts			
Receive fixed, matched interest rate swaps with borrower	\$ 1,923,375	6.0	\$ 68,163
Pay fixed, matched interest rate swaps with counterparty	1,923,375	6.0	(68,172)
Client derivatives-foreign exchange contracts			
Foreign exchange contracts - pay USD	1,869,934	0.6	18,306
Foreign exchange contracts - receive USD	1,869,934	0.6	(18,306)
Total client derivatives	<u>\$ 7,586,618</u>	<u>3.3</u>	<u>\$ (9)</u>

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 \$216.2 million as of December 31, 2019 and \$138.4 million as of December 31, 2018. The fair value of these agreements were recorded in Accrued interest and other liabilities on the Consolidated Balance Sheets was \$0.2 million at December 31, 2019 and \$0.1 million at December 31, 2018.

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 loans are 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 December 31, 2019, the notional amount of the IRLCs was \$33.4 million and the notional amount of forward commitments was \$37.8 million. As of December 31, 2018, the notional amount of IRLCs was \$20.8 million and the notional amount of forward commitments was \$12.3 million. The fair value of these agreements was \$0.9 million at December 31, 2019 and was insignificant at December 31, 2018 and was recorded in Accrued interest and other assets on the Consolidated Balance Sheets.

13. Commitments and Contingencies

First Financial offers a variety of financial instruments including 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 losses incurred in letters of credit and outstanding loan commitments and records the reserve within Accrued interest and other liabilities on the Consolidated Balance Sheets. First Financial had \$0.6 million and \$0.7 million of reserves for unfunded commitments recorded in Accrued interest and other liabilities on the Consolidated Balance Sheets as of December 31, 2019 and 2018, respectively.

Loan commitments. Loan commitments are agreements to extend credit to a client absent any violation of any condition established in the commitment agreement. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if deemed necessary by First Financial upon extension of credit, is based on management's credit evaluation of the client. The collateral held varies, but may include securities, real estate, inventory, plant or equipment. First Financial had commitments outstanding to extend credit, totaling \$3.3 billion and \$3.0 billion at December 31, 2019 and 2018, respectively. As of December 31, 2019, loan commitments with a fixed interest rate totaled \$123.7 million while commitments with variable interest rates totaled \$3.2 billion. At December 31, 2018, loan commitments with a fixed interest rate totaled \$174.0 million while commitments with variable interest rates totaled \$2.9 billion. The fixed rate loan commitments have interest rates ranging from 0.00% to 21.00% for both December 31, 2019 and 2018 and have maturities ranging from less than 1 year to 31.6 years for December 31, 2019 and between 1 and 30 years for December 31, 2018.

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 letters of credit consists primarily of performance assurances made on behalf of clients who have a contractual commitment to produce or deliver goods or services. The risk to First Financial arises from its obligation to make payment in the event of the client's contractual default to produce the contracted good or service to a third party. First Financial has issued letters of credit aggregating \$33.4 million and \$32.7 million at December 31, 2019, and 2018, respectively. Management conducts regular reviews of these instruments on an individual client basis.

Investments in affordable housing projects. 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 \$38.5 million and \$39.4 million as of December 31, 2019 and 2018, respectively. The Company recognized tax credits of \$6.2 million, \$4.9 million and \$3.2 million related to its investments in affordable housing projects for the years ended December 31, 2019, 2018 and 2017, respectively. The Company recognized amortization expense which was included in income tax expense of \$6.9 million, \$5.7 million and \$4.2 million for the years ended December 31, 2019, 2018 and 2017, respectively. First Financial had no affordable housing contingent commitments as of December 31, 2019 or December 31, 2018.

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 included in Accrued interest and other assets on the Consolidated Balance Sheets. The Company's recorded investment in these entities was approximately \$3.1 million at December 31, 2019, and \$3.9 million at December 31, 2018. The maximum exposure to loss related to these investments was \$5.1 million at December 31, 2019 and \$3.9 million at December 31, 2018, representing the

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Company's investment balance and its unfunded commitments to invest additional amounts. Investments in historic tax credits resulted in \$3.5 million, \$0.5 million and \$13.7 million of tax credits for the years ended December 31, 2019, 2018 and 2017, respectively.

Contingencies/Litigation. First Financial and its subsidiaries are engaged in various matters of litigation from time to time, and have a number of unresolved claims pending. Additionally, as part of the ordinary course of business, First Financial and its subsidiaries are parties to litigation involving claims to the ownership of funds in particular accounts, the collection of delinquent accounts, challenges to security interests in collateral and foreclosure interests, that is incidental to our regular business activities. While the ultimate liability with respect to these litigation matters and claims cannot be determined at this time, First Financial believes that damages, if any, and other amounts relating to pending matters are not probable or cannot be reasonably estimated as of December 31, 2019. Reserves are established for these various matters of litigation, when appropriate, under FASB ASC Topic 450, Contingencies, based in part upon the advice of legal counsel. First Financial had no reserves related to litigation matters as of December 31, 2019 or December 31, 2018.

14. Related Party Transactions

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

<i>(Dollars in thousands)</i>	2019
Beginning balance	\$ 2,732
Additions	4,348
Deductions	(1,791)
Ending balance	\$ 5,289
Loans 90 days or more past due	\$ 0

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

15. Income Taxes

Income tax expense consisted of the following components:

<i>(Dollars in thousands)</i>	2019	2018	2017
Current expense			
Federal	\$ 31,343	\$ 34,330	\$ 22,599
State	854	1,029	1,265
Total current expense	32,197	35,359	23,864
Deferred expense (benefit)			
Federal	10,946	4,675	(4,657)
State	1,644	1,592	169
Total deferred expense (benefit)	12,590	6,267	(4,488)
Income tax expense	\$ 44,787	\$ 41,626	\$ 19,376

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

<i>(Dollars in thousands)</i>	2019	2018	2017
Income taxes computed at federal statutory rate on income before income taxes (21% in 2019 and 2018; 35% in 2017)	\$ 51,001	\$ 44,986	\$ 40,657
Benefit from tax-exempt income	(5,964)	(4,499)	(3,427)
Tax credits	(10,075)	(5,439)	(16,806)
Tax rate reduction impact	0	0	(8,191)
Basis reduction on tax credit	738	0	4,599
Tax benefit of equity compensation	(140)	(565)	(1,449)
State income taxes, net of federal tax benefit	1,973	2,070	932
Affordable housing investments	5,825	4,725	2,798
Other	1,429	348	263
Income tax expense	\$ 44,787	\$ 41,626	\$ 19,376

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

Notes to Consolidated Financial Statements

The major components of the temporary differences that gave rise to deferred tax assets and liabilities at December 31, 2019, and 2018, were as follows:

<i>(Dollars in thousands)</i>	2019	2018
Deferred tax assets		
Allowance for loan and lease losses	\$ 13,011	\$ 12,782
Fair value adjustments on business combinations	6,470	11,199
Deferred compensation	228	392
Postretirement benefits other than pension liability	666	676
Accrued stock-based compensation	1,296	1,145
OREO write-downs	162	118
Interest on nonaccrual loans	548	1,160
Accrued expenses	4,708	5,808
Net unrealized losses on investment securities and derivatives	0	3,221
State net operating loss	2,792	3,119
Leasing liability	14,806	0
Federal tax credit carryforwards	0	873
Other	816	425
Total deferred tax assets	45,503	40,918
Deferred tax liabilities		
Tax depreciation in excess of book depreciation	(10,970)	(9,530)
FHLB and FRB stock	(4,043)	(4,044)
Mortgage-servicing rights	(2,435)	(2,285)
Leasing activities	(7,349)	(3,881)
Retirement obligation	(8,511)	(6,614)
Intangible assets	(11,647)	(12,310)
Deferred loan fees and costs	(1,100)	(131)
Prepaid expenses	(623)	(582)
Limited partnership investments	(2,249)	(2,367)
Net unrealized gains on investment securities	(11,359)	0
Foreign exchange deferred income	(2,845)	0
Right of use assets	(13,354)	0
Other	(2,048)	(1,867)
Total deferred tax liabilities	(78,533)	(43,611)
Total net deferred tax liability	\$ (33,030)	\$ (2,693)

In conjunction with the MSFG merger, First Financial acquired a state net operating loss. At December 31, 2019 and 2018, the state net operating loss carryforward was \$3.6 million and \$3.9 million, and begin to expire in 2024 and 2022, respectively. The Company expects to fully utilize this net operating loss and, therefore, a valuation allowance is not required at December 31, 2019 and 2018. The acquired MSFG state net operating loss is subject to IRC Section 382 and is limited annually.

The realization of the Company's deferred tax assets is dependent upon the Company's ability to generate taxable income in future periods and the reversal of deferred tax liabilities during the same period. The Company has evaluated the available evidence supporting the realization of its deferred tax assets and determined it is more likely than not that the assets will be realized and thus no valuation allowance was recorded at December 31, 2019 and 2018.

The Bank's retained earnings at December 31, 2019 and December 31, 2018 included base-year bad debt reserves of \$16.1 million as a result of the merger with MSFG. Base-year reserves are subject to recapture in the event the Bank redeems its stock, makes distributions in excess of current and accumulated earnings and profits (as calculated for federal income tax purposes), loses its "bank" status or liquidates. The Bank has no intention of meeting any of the criteria for recapture. Accordingly, a deferred income tax liability of \$3.4 million has not been recorded.

At both December 31, 2019 and 2018, First Financial had \$2.4 million and \$2.9 million of unrecognized tax benefits, as determined in FASB ASC Topic 740-10, Income Taxes, that, if recognized, would favorably affect the effective income tax rate in future periods. A progression of gross unrecognized tax benefits as of December 31, 2019 and 2018 is as follows:

<i>(Dollars in thousands)</i>	2019	2018
Balance at beginning of year	\$ 3,735	\$ 3,735
Settlements	(729)	0
Balance at end of year	<u>\$ 3,006</u>	<u>\$ 3,735</u>

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

First Financial recognizes interest accrued related to unrecognized tax benefits and penalties as income tax expense. At December 31, 2019 and 2018, 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 2016 have been closed and are no longer subject to U.S. federal income tax examinations. Tax years 2016 through 2019 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 2019 remain open to state and local examination by various other jurisdictions.

16. Employee Benefit Plans

Pension plan. First Financial sponsors a non-contributory defined benefit pension plan covering substantially all employees and uses a December 31 measurement date for the plan. Plan assets were primarily invested in fixed income and 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.

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

First Financial recorded expense related to its pension plan of \$1.0 million for 2019 and \$0.9 million for 2018. During 2017, First Financial recorded income of \$0.6 million. The components of net periodic benefit cost other than the service cost component are included in Other noninterest expense while service costs are recorded as a component Salaries and employee benefits in the Consolidated Statements of Income.

First Financial made no cash contributions to the pension plan in 2019, 2018 or 2017 and does not expect to make any contributions in 2020.

Notes to Consolidated Financial Statements

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

<i>(Dollars in thousands)</i>	December 31,	
	2019	2018
Change in benefit obligation		
Benefit obligation at beginning of year	\$ 68,286	\$ 71,154
Service cost	6,591	6,501
Interest cost	2,778	2,394
Actuarial (gain) loss	6,848	(4,032)
Benefits paid, excluding settlement	(9,459)	(7,731)
Benefit obligation at end of year	75,044	68,286
Change in plan assets		
Fair value of plan assets at beginning of year	130,078	144,349
Actual return on plan assets	21,197	(6,540)
Benefits paid, excluding settlement	(9,459)	(7,731)
Fair value of plan assets at end of year	141,816	130,078
Amounts recognized in the Consolidated Balance Sheets		
Assets	66,772	61,792
Liabilities	0	0
Net amount recognized	\$ 66,772	\$ 61,792
Amounts recognized in accumulated other comprehensive income (loss)		
Net actuarial loss	\$ 37,278	\$ 43,711
Net prior service cost	(1,095)	(1,508)
Deferred tax assets	(8,242)	(9,613)
Net amount recognized	\$ 27,941	\$ 32,590
Change in accumulated other comprehensive income (loss)	\$ (4,649)	\$ 12,959
Accumulated benefit obligation	\$ 74,424	\$ 66,320

The components of net periodic benefit cost are shown in the table that follows:

<i>(Dollars in thousands)</i>	December 31,		
	2019	2018	2017
Service cost	\$ 6,591	\$ 6,501	\$ 4,894
Interest cost	2,778	2,394	2,325
Expected return on assets	(9,718)	(9,811)	(9,358)
Amortization of prior service cost	(413)	(413)	(413)
Recognized net actuarial loss	1,803	2,188	1,924
Net periodic benefit (income) cost	1,041	859	(628)
Other changes recognized in accumulated other comprehensive income (loss)			
Net actuarial (gain) loss	(4,630)	12,319	(2,775)
Prior service cost	0	0	0
Amortization of prior service cost	413	413	413
Amortization of gain	(1,803)	(2,188)	(1,924)
Total recognized in accumulated other comprehensive income (loss)	(6,020)	10,544	(4,286)
Total recognized in net periodic benefit cost and accumulated other comprehensive income (loss)	\$ (4,979)	\$ 11,403	\$ (4,914)
Amount expected to be recognized in net periodic pension expense in the coming year			
Amortization of (gain) loss	\$ 2,079	\$ 1,867	\$ 2,090
Amortization of prior service credit	(413)	(413)	(413)

The pension plan assumptions are shown in the table that follows:

	December 31,		
	2019	2018	2017
Benefit obligations			
Discount rate	3.33%	4.31%	3.43%
Rate of compensation increase	3.50%	3.50%	3.50%
Net periodic benefit cost			
Discount rate	4.31%	3.43%	3.88%
Expected return on plan assets	7.25%	7.25%	7.25%
Rate of compensation increase	3.50%	3.50%	3.50%

The fair value of the plan assets as of December 31, 2019 by asset category is shown in the table that follows:

<i>(Dollars in thousands)</i>	Fair Value Measurements			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Asset Category				
Cash	\$ 195	\$ 195	\$ 0	\$ 0
U. S. Government agencies	5,357	0	5,357	0
Fixed income mutual funds	75,720	75,720	0	0
Equity mutual funds	60,544	60,544	0	0
Total	\$ 141,816	\$ 136,459	\$ 5,357	\$ 0

Notes to Consolidated Financial Statements

The fair value of the plan assets as of December 31, 2018 by asset category is shown in the table that follows:

<i>(Dollars in thousands)</i>	Fair Value Measurements			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Asset Category				
Cash	\$ 216	\$ 216	\$ 0	\$ 0
U. S. Government agencies	8,053	0	8,053	0
Fixed income mutual funds	74,453	74,453	0	0
Equity mutual funds	47,356	47,356	0	0
Total	<u>\$ 130,078</u>	<u>\$ 122,025</u>	<u>\$ 8,053</u>	<u>\$ 0</u>

The level within the fair value hierarchy is based on the lowest level of input that is significant in the fair value measurement. See Note 22 – Fair Value Disclosures for further information related to the framework for measuring fair value and the fair value hierarchy.

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

<i>(Dollars in thousands)</i>	Expected benefit payments
2020	\$ 5,611
2021	5,210
2022	5,173
2023	5,125
2024	6,070
Thereafter	35,362

401(k) plan. First Financial sponsors a defined contribution 401(k) plan which covers substantially all employees. Employees may contribute up to 50.0% of their earnings into the plan, not to exceed applicable limitations prescribed by the Internal Revenue Service. First Financial's contributions to the 401(k) plan are discretionary. The Company made no contributions to the 401(k) plan during the years ended December 31, 2019 and 2018. First Financial recorded \$1.9 million of expense related to the Company's contributions to the 401(k) plan during 2017.

17. Revenue Recognition

On January 1, 2018, the Company adopted ASU No. 2014-09, Revenue from Contracts with Customers using the modified retrospective method applied to all contracts not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under the guidance set forth in this update while prior period amounts continue to be reported in accordance with legacy GAAP. Adoption of this update did not result in a change to the accounting for any of the in-scope revenue streams. As such, no cumulative effect adjustment to retained earnings was recorded.

The majority of the Company's revenues come from interest income and other sources, including loans, leases, securities, derivatives and foreign exchange, that are outside the scope of ASU No. 2014-09, Revenue from Contracts with Customers. The Company's services that fall within the scope of ASU 2019-09 are presented within Noninterest income and are recognized as revenue when the Company satisfies its obligation to the customer. Services within the scope of this guidance include service charges on deposits, trust and wealth management fees, bankcard income, gain/loss on the sale of OREO and investment brokerage fees.

Service charges on deposit accounts. The Company earns fees from its deposit customers for transaction-based, account maintenance and overdraft. Transaction-based fees, which include services such as ATM use fees, stop payment charges, statement rendering and ACH fees, are recognized at the time the transaction is executed as that is the point in time the

Company fulfills the customer's request. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Company satisfies the performance obligation. Similarly, overdraft fees are recognized at the point in time that the overdraft occurs as this corresponds with the Company's performance obligation. Service charges on deposit accounts are withdrawn from the customer's account balance.

Trust and wealth management fees. Trust and wealth management fees are primarily asset-based, but can also include flat fees based upon a specific service rendered, such as tax preparation services. The Company's performance obligation is generally satisfied over time and the resulting fees are recognized monthly, based upon the month-end market value of the assets under management and the applicable fees. The Company does not earn performance-based incentives. Optional services such as real estate sales and tax return preparation services are also available to existing trust and wealth management customers. The Company's performance obligation for these transactional-based services is generally satisfied, and related revenue recognized, as incurred.

Bankcard income. The Company earns interchange fees from cardholder transactions conducted through the Visa payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized concurrent with the transaction processing services provided to the cardholder. Interchange income is presented on the Consolidated Statements of Income net of expenses. Gross interchange income for 2019 was \$30.4 million, and was partially offset by \$11.9 million of expenses within Noninterest income. Gross interchange income for 2018 was \$31.3 million, and was partially offset by \$11.0 million of expenses within Noninterest income.

Other. Other noninterest income consists of other recurring revenue streams such as transaction fees, safe deposit rental income, insurance commissions, merchant referral income, gain (loss) on sale of OREO and brokerage revenue. Transaction fees primarily include check printing sales commissions, collection fees and wire transfer fees which arise from in-branch transactions. Safe deposit rental income arises from fees charged to the customer on an annual basis and recognized upon receipt of payment. Insurance commissions are agent commissions earned by the Company and earned upon the effective date of the bound coverage. Merchant referral income is associated with a program whereby the Company receives a share of processing revenue that is generated from clients that were referred by First Financial to the service provider. Revenue is recognized at the point in time when the transaction occurs.

The Company records a gain or loss from the sale of OREO when control of the property transfers to the buyer, which generally occurs at the time of the executed deed. When the Company finances the sale of OREO to the buyer, the Company assesses whether the buyer is committed to perform their obligations under the contract and whether collectibility of the transaction price is probable. Once these criteria are met, the OREO asset is derecognized and the gain or loss on sale is recorded upon the transfer of control of the property to the buyer.

Brokerage revenue represents fees from investment brokerage services provided to customers by a third party provider. The Company receives commissions from the third-party service provider on a monthly basis based upon customer activity for the month. The fees are recognized monthly and a receivable is recorded until commissions are paid the following month. Because the Company (i) acts as an agent in arranging the relationship between the customer and the third-party service provider and (ii) does not control the services rendered to the customers, investment brokerage fees are presented net of related costs.

18. Accumulated Other Comprehensive Income (Loss)

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

December 31, 2019									
<i>(Dollars in thousands)</i>	Total other comprehensive income (loss)					Total accumulated other comprehensive income (loss)			
	Prior to reclass	Reclass from	Pre-tax	Tax effect	Net of tax	Beginning balance	Net activity	Cumulative effect of new standard	Ending balance
Unrealized gain (loss) on debt securities	\$ 65,858	\$ (370)	\$ 66,228	\$ (14,269)	\$ 51,959	\$ (11,601)	\$ 51,959	\$ 906	\$ 41,264
Unrealized gain (loss) on derivatives	281	0	281	(64)	217	(217)	217	0	0
Retirement obligation	4,630	(1,390)	6,020	(1,371)	4,649	(32,590)	4,649	0	(27,941)
Total	<u>\$ 70,769</u>	<u>\$ (1,760)</u>	<u>\$ 72,529</u>	<u>\$ (15,704)</u>	<u>\$ 56,825</u>	<u>\$ (44,408)</u>	<u>\$ 56,825</u>	<u>\$ 906</u>	<u>\$ 13,323</u>

December 31, 2018									
<i>(Dollars in thousands)</i>	Total other comprehensive income (loss)					Total accumulated other comprehensive income (loss)			
	Prior to reclass	Reclass from	Pre-tax	Tax-effect	Net of tax	Beginning Balance	Net Activity	Cumulative effect of new standard	Ending Balance
Unrealized gain (loss) on debt securities	\$ (14,461)	\$ (161)	\$ (14,300)	\$ 3,071	\$ (11,229)	\$ (182)	\$ (11,229)	\$ (190)	\$ (11,601)
Unrealized gain (loss) on derivatives	628	0	628	(144)	484	(577)	484	(124)	(217)
Retirement obligation	(12,319)	(1,775)	(10,544)	2,364	(8,180)	(19,631)	(8,180)	(4,779)	(32,590)
Total	<u>\$ (26,152)</u>	<u>\$ (1,936)</u>	<u>\$ (24,216)</u>	<u>\$ 5,291</u>	<u>\$ (18,925)</u>	<u>\$ (20,390)</u>	<u>\$ (18,925)</u>	<u>\$ (5,093)</u>	<u>\$ (44,408)</u>

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

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

<i>(Dollars in thousands)</i>	Amount Reclassified from Accumulated Other Comprehensive Income ⁽¹⁾			Affected Line Item in the Consolidated Statements of Income
	December 31,			
	2019	2018	2017	
Realized gains and losses on securities available-for-sale	\$ (370)	\$ (161)	\$ 1,649	Net gain (loss) on sales of investment securities
Defined benefit pension plan				
Amortization of prior service cost ⁽²⁾	413	413	413	Other noninterest expense
Recognized net actuarial loss ⁽²⁾	(1,803)	(2,188)	(1,924)	Other noninterest expense
Amortization and settlement charges of defined benefit pension items	(1,390)	(1,775)	(1,511)	
Total reclassifications for the period, before tax	\$ (1,760)	\$ (1,936)	\$ 138	

⁽¹⁾ Negative amounts are debits to profit/loss.

⁽²⁾ Included in the computation of net periodic pension cost (see Note 16 - Employee Benefit Plans for additional details).

19. Capital

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

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

Basel III includes a minimum ratio of Common equity tier 1 capital to risk-weighted assets of 7.00% at December 31, 2019 and 6.38% at December 31, 2018 and a phased-in capital conservation buffer of 2.5% of risk-weighted assets that began on January 1, 2016 at 0.625% until it was fully phased in as of January 1, 2019. Further, the minimum ratio of tier 1 capital to risk-weighted assets increased to 8.5% at December 31, 2019 and all banks are subject to a 4.0% minimum leverage ratio. The required Total risk-based capital ratio is 10.50%. 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 pay discretionary compensation to its employees. The capital requirements also provide strict eligibility criteria for regulatory capital instruments and change the method for calculating risk-weighted assets in an effort to better identify riskier assets, such as highly volatile commercial real estate and nonaccrual loans.

As of December 31, 2019, management believes 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 have changed the Company's categorization. Total regulatory capital exceeded the "minimum" requirement by \$318.3 million on a consolidated basis at December 31, 2019.

Notes to Consolidated Financial Statements

The following tables present the actual and required capital amounts and ratios as of December 31, 2019 and 2018 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 of the year presented. The 2018 table includes the minimum required capital levels as of January 1, 2019 when the Basel III Capital Rules had 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		PCA requirement to be considered well capitalized	
	Capital amount	Ratio	Capital amount	Ratio	Capital amount	Ratio
<i>(Dollars in thousands)</i>						
December 31, 2019						
Common equity tier 1 capital to risk-weighted assets						
Consolidated	\$1,245,746	11.30%	\$ 771,666	7.00%	N/A	N/A
First Financial Bank	1,333,978	12.11%	770,997	7.00%	\$ 715,926	6.50%
Tier 1 capital to risk-weighted assets						
Consolidated	1,288,185	11.69%	937,023	8.50%	N/A	N/A
First Financial Bank	1,334,082	12.11%	936,211	8.50%	\$ 881,140	8.00%
Total capital to risk-weighted assets						
Consolidated	1,475,813	13.39%	1,157,498	10.50%	N/A	N/A
First Financial Bank	1,399,817	12.71%	1,156,496	10.50%	1,101,425	10.00%
Leverage						
Consolidated	1,288,185	9.58%	537,606	4.00%	N/A	N/A
First Financial Bank	1,334,082	9.93%	537,299	4.00%	671,623	5.00%

	Actual		Minimum capital required - Basel III		PCA requirement to be considered well capitalized		Minimum capital required - Basel III fully phased-in	
	Capital amount	Ratio	Capital amount	Ratio	Capital amount	Ratio	Capital amount	Ratio
<i>(Dollars in thousands)</i>								
December 31, 2018								
Common equity tier 1 capital to risk-weighted assets								
Consolidated	\$1,215,613	11.87%	\$ 652,874	6.38%	N/A	N/A	\$ 716,881	7.00%
First Financial Bank	1,279,492	12.50%	652,590	6.38%	\$ 665,386	6.50%	716,570	7.00%
Tier 1 capital to risk-weighted assets								
Consolidated	1,257,366	12.28%	806,491	7.88%	N/A	N/A	870,499	8.50%
First Financial Bank	1,279,596	12.50%	806,141	7.88%	818,937	8.00%	870,120	8.50%
Total capital to risk-weighted assets								
Consolidated	1,444,146	14.10%	1,011,314	9.88%	N/A	N/A	1,075,322	10.50%
First Financial Bank	1,344,388	13.13%	1,010,875	9.88%	1,023,671	10.00%	1,074,855	10.50%
Leverage								
Consolidated	1,257,366	9.71%	517,958	4.00%	N/A	N/A	517,958	4.00%
First Financial Bank	1,279,596	9.89%	517,710	4.00%	647,138	5.00%	517,710	4.00%

Share repurchases. In January 2019, First Financial's board of directors approved a stock repurchase plan, replacing the plan approved in 2012. The 2019 plan authorizes the purchase of up to 5,000,000 shares of the Company's common stock. First Financial repurchased 2,753,272 shares at an average market price of \$24.05 under this plan during 2019. At December 31,

2019, 2,246,728 common shares remained available for repurchase under the 2019 plan. There were no share repurchases in 2018 or 2017.

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

20. Stock Options and Awards

First Financial follows the provisions of FASB ASC Topic 718, Compensation-Stock Compensation, which requires measurement of compensation cost for all stock-based awards at fair value on the date of grant and recognition of compensation expense over the service period for all awards expected to vest. First Financial recorded share-based compensation expense (within salaries and employee benefits on the Consolidated Statements of Income) of \$8.0 million, \$6.2 million and \$5.4 million for the years ended December 31, 2019, 2018 and 2017, respectively, related to stock options and restricted stock awards. Total unrecognized compensation cost related to non-vested share-based compensation was \$8.5 million at December 31, 2019 and is expected to be recognized over a weighted average period of 1.93 years.

As of December 31, 2019, First Financial had a single active stock-based compensation plan, the Amended and Restated 2012 Stock Plan, under which additional awards may be granted. At December 31, 2019, there were 1,513,826 shares available for issuance under the Amended and Restated 2012 Stock Plan.

In April 2018, in conjunction with the MSFG merger, First Financial assumed existing MSFG stock options, which were converted into 83,551 options to purchase First Financial common stock. The converted MSFG options remain subject to all of the terms and conditions of the plan and grant agreements under which the MSFG Stock Options were originally issued. The assumed options were exercisable at the time of the merger and remain outstanding for 10 years after the initial grant date with all options expiring at the end of the exercise period. At December 31, 2019, 37,856 options were outstanding under the Plan, all of which expire on or before February 3, 2024.

First Financial utilizes the Black-Scholes valuation model to determine the fair value of stock options granted. In addition to the stock option strike price, the Black-Scholes valuation model incorporates the following assumptions: the expected dividend yield based on historical dividend payouts; the expected stock price volatility based on the historical volatility of Company stock for a period approximating the expected life of the options; the risk-free rate based on the U.S. Treasury yield curve in effect at the time of grant for periods corresponding with the expected life of the option; and the expected option life represented by the period of time the options are expected to be outstanding, and is based on historical trends. No new options were granted in 2019, 2018 or 2017.

Stock option activity for the year ended December 31, 2019, is summarized as follows:

<i>(Dollars in thousands, except share and per share data)</i>	Number of shares	Weighted average exercise price	Weighted average remaining contractual life	Aggregate intrinsic value
Outstanding at beginning of year	62,410	\$ 9.08		
Granted	0	0.00		
Exercised	(24,554)	8.37		
Forfeited or expired	0	0.00		
Outstanding at end of year	37,856	\$ 9.54	3.12	\$ 602
Exercisable at end of year	37,856	\$ 9.54	3.12	\$ 602

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

	2019	2018	2017
Total intrinsic value of options exercised	\$ 462	\$ 734	\$ 1,533
Cash received from exercises	\$ 90	\$ 284	\$ 341
Tax benefit from exercises	\$ 1,844	\$ 1,439	\$ 1,991

Notes to Consolidated Financial Statements

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

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

	2019		2018		2017	
	Number of shares	Weighted average grant date fair value	Number of shares	Weighted average grant date fair value	Number of shares	Weighted average grant date fair value
Nonvested at beginning of year	462,446	\$ 26.39	468,372	\$ 21.63	648,817	\$ 17.82
Granted	395,023	26.55	303,930	28.94	234,529	27.36
Vested	(295,633)	24.94	(267,031)	20.94	(307,825)	18.12
Forfeited	(31,267)	28.63	(42,825)	26.38	(107,149)	21.18
Nonvested at end of year	530,569	\$ 27.19	462,446	\$ 26.39	468,372	\$ 21.63

The fair value of restricted stock is determined based on the number of shares granted and the quoted price of First Financial's common stock. The fair value of restricted stock vested during 2019, 2018 and 2017 was \$7.4 million, \$5.6 million and \$5.6 million, respectively.

21. Earnings per Common Share

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

<i>(Dollars in thousands, except share and per share data)</i>	2019	2018	2017
Numerator			
Net income	\$ 198,075	\$ 172,595	\$ 96,787
Denominator			
Basic earnings per common share - weighted average shares	98,305,570	88,582,090	61,529,460
Effect of dilutive securities			
Employee stock awards	545,901	514,680	581,329
Warrants	0	517,435	60,801
Diluted earnings per common share - adjusted weighted average shares	<u>98,851,471</u>	<u>89,614,205</u>	<u>62,171,590</u>
Earnings per share available to common shareholders			
Basic	<u>\$ 2.01</u>	<u>\$ 1.95</u>	<u>\$ 1.57</u>
Diluted	<u>\$ 2.00</u>	<u>\$ 1.93</u>	<u>\$ 1.56</u>

First Financial had no warrants outstanding to purchase the Company's common stock as of December 31, 2019. Warrants acquired in the MSFG merger were outstanding as of December 31, 2018 and represented the right to purchase 804,858 shares of First Financial's common stock at an exercise price of \$10.62 per share. These warrants were exercised in January 2019. At December 31, 2017, First Financial had warrants outstanding representing the right to purchase 104,200 shares of common stock at an exercise price of \$12.12. These warrants expired in December 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 period end price, there were no antidilutive options at December 31, 2019, 2018, or 2017.

As of December 31, 2019, 2018, and 2017, First Financial was authorized to issue 10,000,000 preferred shares, however no preferred shares were issued or outstanding.

22. Fair Value Disclosures

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 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:

<i>(Dollars in thousands)</i>	Carrying value	Estimated fair value			
		Total	Level 1	Level 2	Level 3
December 31, 2019					
Financial assets					
Cash and short-term investments	\$ 257,639	\$ 257,639	\$ 257,639	\$ 0	\$ 0
Investment securities held-to-maturity	142,862	142,821	0	142,821	0
Other investments	125,020	N/A	N/A	N/A	N/A
Loans held for sale	13,680	13,680	0	13,680	0
Loans and leases	9,144,015	9,134,215	0	0	9,134,215
Accrued interest receivable	39,591	39,591	0	12,743	26,848
Financial liabilities					
Deposits	10,210,229	10,209,790	0	10,209,790	0
Short-term borrowings	1,316,181	1,316,181	1,316,181	0	0
Long-term debt	414,376	414,937	0	414,937	0
Accrued interest payable	13,671	13,671	1,899	11,772	0

Notes to Consolidated Financial Statements

<i>(Dollars in thousands)</i>	Carrying Value	Estimated Fair Value			
		Total	Level 1	Level 2	Level 3
December 31, 2018					
Financial assets					
Cash and short-term investments	\$ 273,959	\$ 273,959	\$ 273,959	\$ 0	\$ 0
Investment securities held-to-maturity	429,328	424,118	0	424,118	0
Other investments	115,660	N/A	N/A	N/A	N/A
Loans held for sale	4,372	4,372	0	4,372	0
Loans and leases	8,767,672	8,662,868	0	0	8,662,868
Accrued interest receivable	41,816	41,816	0	13,819	27,997
Financial liabilities					
Deposits	10,140,394	10,113,475	0	10,113,475	0
Short-term borrowings	1,040,691	1,040,691	1,040,691	0	0
Long-term debt	570,739	557,933	0	557,933	0
Accrued interest payable	12,126	12,126	2,035	10,091	0

In accordance with our adoption of ASU 2016-01 in 2018, the methods utilized to measure the fair value of financial instruments at December 31, 2019 and December 31, 2018 represent an approximation of exit price, however, an actual exit price may differ.

The following methods, assumptions and valuation techniques were used by First Financial to measure different financial assets and liabilities at fair value on a recurring or nonrecurring basis.

Investment securities. Investment securities classified as 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 value 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.

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 and foreign exchange contracts at the reporting date, using primarily observable market inputs such as interest rate yield curves and currency exchange rates, 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.

Impaired loans. The fair value of impaired loans are specifically reviewed for purposes of determining the appropriate amount of impairment to be allocated to the ALLL. Fair value is generally measured based on the value of the collateral securing the loans. Collateral may be in the form of real estate or business assets including equipment, inventory and accounts receivable. The value of real estate collateral is determined utilizing an income or market valuation approach based on an appraisal

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

The financial assets and liabilities measured at fair value on a recurring basis in the consolidated financial statements were as follows:

<i>(Dollars in thousands)</i>	Fair Value Measurements Using			Assets/ Liabilities at Fair Value
	Level 1	Level 2	Level 3	
December 31, 2019				
Assets				
Investment securities available-for-sale	\$ 100	\$ 2,842,794	\$ 9,190	\$ 2,852,084
Interest rate derivative contracts	0	73,558	0	73,558
Foreign exchange derivative contracts	0	39,172	0	39,172
Total	<u>\$ 100</u>	<u>\$ 2,955,524</u>	<u>\$ 9,190</u>	<u>\$ 2,964,814</u>
Liabilities				
Interest rate derivative contracts	\$ 0	\$ 73,750	\$ 0	\$ 73,750
Foreign exchange derivative contracts	0	39,172	0	39,172
Total	<u>\$ 0</u>	<u>\$ 112,922</u>	<u>\$ 0</u>	<u>\$ 112,922</u>

<i>(Dollars in thousands)</i>	Fair Value Measurements Using			Assets/ Liabilities at Fair Value
	Level 1	Level 2	Level 3	
December 31, 2018				
Assets				
Investment securities available-for-sale	\$ 97	\$ 2,764,443	\$ 14,715	\$ 2,779,255
Derivatives	0	29,543	0	29,543
Total	<u>\$ 97</u>	<u>\$ 2,793,986</u>	<u>\$ 14,715</u>	<u>\$ 2,808,798</u>
Liabilities				
Derivatives	\$ 0	\$ 29,336	\$ 0	\$ 29,336

The following table presents a reconciliation for certain AFS securities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended December 31, 2019.

Notes to Consolidated Financial Statements

	Year ended December 31, 2019
<i>(dollars in thousands)</i>	
Beginning balance	\$ 14,715
Accretion (amortization)	(552)
Increase (decrease) in fair value	30
Settlements	(5,003)
Ending balance	<u>\$ 9,190</u>

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 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:

<i>(Dollars in thousands)</i>	Fair Value Measurements Using		
	Level 1	Level 2	Level 3
December 31, 2019			
Assets			
Impaired loans	\$ 0	\$ 0	\$ 9,268
OREO	0	0	1,088

<i>(Dollars in thousands)</i>	Fair Value Measurements Using		
	Level 1	Level 2	Level 3
December 31, 2018			
Assets			
Impaired loans	\$ 0	\$ 0	\$ 1,320
OREO	0	0	1,089

23. Business Combination

In August, 2019, the Company completed its acquisition of Bannockburn Global Forex, LLC. Pursuant to the acquisition agreement, First Financial agreed to acquire all of the issued and outstanding membership interests of BGF for aggregate consideration of approximately \$114.6 million consisting of \$53.7 million in cash and \$60.9 million of First Financial common stock. BGF was a privately held capital markets trading firm specializing in foreign currency advisory, hedge analytics and transaction processing for closely held enterprises. Upon completion of the transaction, Bannockburn became a division of the Bank, but continues to operate as Bannockburn Global Forex, taking advantage of its existing brand recognition within the foreign exchange industry.

The Bannockburn transaction was accounted for using the acquisition method of accounting and accordingly, assets acquired, liabilities assumed and consideration exchanged were recorded at estimated fair value on the acquisition date in accordance with FASB ASC Topic 805, Business Combinations. The fair value measurements of assets acquired and liabilities assumed were \$74.9 million and \$18.4 million, respectively, and are subject to refinement for up to one year after the closing date of the acquisition as additional information relative to closing date fair values became available. The measurement period ends in August 2020. Goodwill arising from the BGF acquisition was \$58.0 million and reflects the business's high growth potential and the expectation that the acquisition will provide additional revenue growth and diversification. The goodwill is deductible for income tax purposes as the transaction is considered a taxable exchange. For further detail, see Note 9 – Goodwill and Other Intangible Assets.

In April 2018, First Financial completed its acquisition of MainSource Financial Group, Inc. and its banking subsidiary, MainSource Bank. Under the terms of the merger agreement, shareholders of MSFG received 1.3875 common shares of First Financial common stock for each share of MSFG common stock, with cash paid in lieu of fractional shares. Including outstanding options and warrants to purchase MSFG common stock, the total purchase consideration was \$1.1 billion and resulted in goodwill of \$675.6 million. The goodwill arising from the acquisition largely reflected synergies and cost savings

resulting from combining the operations of the companies. First Financial incurred merger related expenses related to the MSFG acquisition of \$3.2 million and \$37.8 million during the years ended December 31, 2019 and 2018, respectively.

The MSFG acquisition provided additional revenue growth and diversification. The goodwill is not deductible for income tax purposes as the transaction was accounted for as a tax-free exchange. For further detail, see Note 9 – Goodwill and Other Intangible Assets.

The MainSource transaction was accounted for using the acquisition method of accounting and accordingly, assets acquired, liabilities assumed and consideration exchanged were recorded at estimated fair value on the acquisition date, in accordance with FASB ASC Topic 805, Business Combinations. The fair value measurements of assets acquired and liabilities assumed were subject to refinement for up to one year after the closing date of the acquisition as additional information relative to closing date fair values became available. The fair values of assets acquired and liabilities assumed were considered final as of March 31, 2019.

The following table provides the purchase price calculation as of the acquisition date, identifiable assets purchased and liabilities assumed at their estimated fair value for the MSFG merger. As a condition of the merger, certain acquired assets and liabilities held for sale were divested subsequent to the closing of the merger. There was no gain or loss recorded in the Consolidated Statement of Income in conjunction with this divestiture.

<i>(Dollars in thousands)</i>	MainSource
Purchase consideration	
Cash consideration	\$ 43
Stock consideration	1,043,424
Warrant consideration	14,460
Options consideration	1,577
Total purchase consideration	<u>1,059,504</u>
Assets acquired	
Cash	71,806
Investment securities available-for-sale	900,935
Investment securities held-to-maturity	171,423
Other investments	28,763
Loans	2,792,572
Premises and equipment	98,814
Intangible assets	42,887
Other assets	167,829
Assets held for sale	127,775
Total assets acquired	<u>4,402,804</u>
Liabilities assumed	
Deposits	3,263,920
Subordinated notes	49,027
FHLB advances	291,887
Other borrowings	205,620
Other liabilities	32,649
Liabilities held for sale	175,840
Total liabilities assumed	<u>4,018,943</u>
Net identifiable assets	383,861
Goodwill	<u><u>\$ 675,643</u></u>

The fair value of net assets acquired includes fair value adjustments to certain loans that were not considered impaired as of the acquisition date as the Company believes that all contractual cash flows will be collected. The fair value adjustments were determined using discounted cash flows. In conjunction with the MSFG merger, First Financial acquired non-impaired loans with a fair value and gross contractual amounts receivable of \$2.8 billion and \$2.9 billion, respectively.

The following table presents supplemental pro forma information as if the MSFG acquisition had occurred at the beginning of 2017. The pro forma information includes adjustments for interest income on acquired loans, amortization of intangible assets arising from the transaction, depreciation expense on property acquired, interest expense on deposits acquired, merger-related expenses incurred and the related income tax effects. The pro forma financial information is not necessarily indicative of the results of operations that would have occurred had the transactions been effected on the assumed date. The disclosures regarding the results of operations for MSFG subsequent to its acquisition date are omitted as this information is not practical to obtain.

	Twelve months ended	
	December 31,	
	2018	2017
<i>(Dollars in thousands, except per share data) (Unaudited)</i>		
Pro Forma Condensed Combined Income Statement Information		
Net interest income	\$ 484,915	\$ 454,579
Net income	\$ 221,122	\$ 130,402
Basic earnings per share	\$ 2.27	\$ 1.34
Diluted earnings per share	\$ 2.25	\$ 1.33

24. First Financial Bancorp. (Parent Company Only) Financial Information

Balance Sheets

	December 31,	
	2019	2018
<i>(Dollars in thousands)</i>		
Assets		
Cash	\$ 55,869	\$ 86,878
Investment securities	1,116	694
Subordinated notes from subsidiaries	7,500	7,500
Investment in subsidiaries		
Commercial bank	2,272,991	2,078,655
Non-banks	8,260	7,194
Total investment in subsidiaries	2,281,251	2,085,849
Premises and equipment	1,344	1,361
Other assets	77,572	71,817
Total assets	\$ 2,424,652	\$ 2,254,099
Liabilities		
Subordinated notes	\$ 171,983	\$ 171,416
Dividends payable	849	465
Other liabilities	4,115	3,969
Total liabilities	176,947	175,850
Shareholders' equity	2,247,705	2,078,249
Total liabilities and shareholders' equity	\$ 2,424,652	\$ 2,254,099

Statements of Income and Comprehensive Income

<i>(Dollars in thousands)</i>	Years Ended December 31,		
	2019	2018	2017
Income			
Interest income	\$ 30	\$ 23	\$ 6
Noninterest income	191	0	86
Dividends from subsidiaries	196,800	107,340	54,600
Total income	197,021	107,363	54,692
Expenses			
Interest expense	9,552	8,798	6,152
Salaries and employee benefits	8,169	6,413	5,519
Professional services	1,040	5,130	970
Other	6,599	5,648	4,819
Total expenses	25,360	25,989	17,460
Income before income taxes and equity in undistributed net earnings of subsidiaries	171,661	81,374	37,232
Income tax expense (benefit)	(5,975)	(6,687)	(7,080)
Equity in undistributed earnings (loss) of subsidiaries	20,439	84,534	52,475
Net income	\$ 198,075	\$ 172,595	\$ 96,787
Comprehensive income	\$ 254,900	\$ 153,670	\$ 104,840

Statements of Cash Flows

<i>(Dollars in thousands)</i>	Years Ended December 31,		
	2019	2018	2017
Operating activities			
Net income	\$ 198,075	\$ 172,595	\$ 96,787
Adjustments to reconcile net income to net cash provided by operating activities			
Equity in undistributed (earnings) loss of subsidiaries	(20,439)	(84,534)	(52,475)
Depreciation and amortization	584	194	193
Stock-based compensation expense	7,969	6,219	5,446
Deferred income taxes	1,255	739	(360)
(Decrease) increase in dividends payable	384	(10,500)	579
Increase (decrease) in other liabilities	(244)	9,979	(889)
Decrease (increase) in other assets	(7,187)	16,346	(6,951)
Net cash provided by (used in) operating activities	180,397	111,038	42,330
Investing activities			
Capital contributions to subsidiaries	0	(3,000)	0
Net cash acquired (paid) in business combinations	(53,660)	11,353	0
Proceeds from sales and maturities of investment securities	264	0	0
Purchases of investment securities	(500)	0	0
Net cash (used in) provided by investing activities	(53,896)	8,353	0
Financing activities			
(Decrease) increase in short-term borrowings	0	(8,333)	0
Cash dividends paid on common stock	(89,097)	(79,655)	(41,178)
Purchases of common stock	(66,218)	0	0
Proceeds from exercise of stock options, net of shares purchased	90	284	341
Other	(2,285)	(2,528)	(3,059)
Net cash (used in) provided by financing activities	(157,510)	(90,232)	(43,896)
Net increase (decrease) in cash	(31,009)	29,159	(1,566)
Cash at beginning of year	86,878	57,719	59,285
Cash at end of year	\$ 55,869	\$ 86,878	\$ 57,719

Quarterly Financial And Common Stock Data (Unaudited)

<i>(Dollars in thousands, except per share data)</i>	Three months ended			
	December 31	September 30	June 30	March 31
2019				
Interest income	\$ 147,651	\$ 153,645	\$ 154,523	\$ 151,759
Interest expense	28,749	32,110	32,221	30,244
Net interest income	118,902	121,535	122,302	121,515
Provision for loan and lease losses	4,629	5,228	6,658	14,083
Noninterest income	36,768	33,140	34,638	26,827
Noninterest expenses	93,064	86,226	84,378	78,499
Income before income taxes	57,977	63,221	65,904	55,760
Income tax expense	9,300	12,365	13,201	9,921
Net income	\$ 48,677	\$ 50,856	\$ 52,703	\$ 45,839
Earnings per common share:				
Basic	\$ 0.49	\$ 0.52	\$ 0.54	\$ 0.47
Diluted	\$ 0.49	\$ 0.51	\$ 0.53	\$ 0.47
Cash dividends paid per common share	\$ 0.23	\$ 0.23	\$ 0.22	\$ 0.22
Market price				
High	\$ 26.04	\$ 25.49	\$ 25.80	\$ 28.56
Low	\$ 23.24	\$ 22.37	\$ 22.16	\$ 23.02
2018				
Interest income	\$ 153,429	\$ 149,220	\$ 147,379	\$ 90,354
Interest expense	27,470	25,735	23,400	14,542
Net interest income	125,959	123,485	123,979	75,812
Provision for loan and lease losses	5,310	3,238	3,735	2,303
Noninterest income	29,504	28,684	28,256	16,938
Noninterest expenses	83,352	85,415	102,755	52,288
Income before income taxes	66,801	63,516	45,745	38,159
Income tax expense	11,787	12,859	9,327	7,653
Net income	\$ 55,014	\$ 50,657	\$ 36,418	\$ 30,506
Earnings per common share:				
Basic	\$ 0.56	\$ 0.52	\$ 0.37	\$ 0.49
Diluted	\$ 0.56	\$ 0.51	\$ 0.37	\$ 0.49
Cash dividends paid per common share	\$ 0.20	\$ 0.20	\$ 0.19	\$ 0.36
Market price				
High	\$ 29.58	\$ 32.35	\$ 33.55	\$ 29.35
Low	\$ 22.40	\$ 29.40	\$ 28.10	\$ 26.40

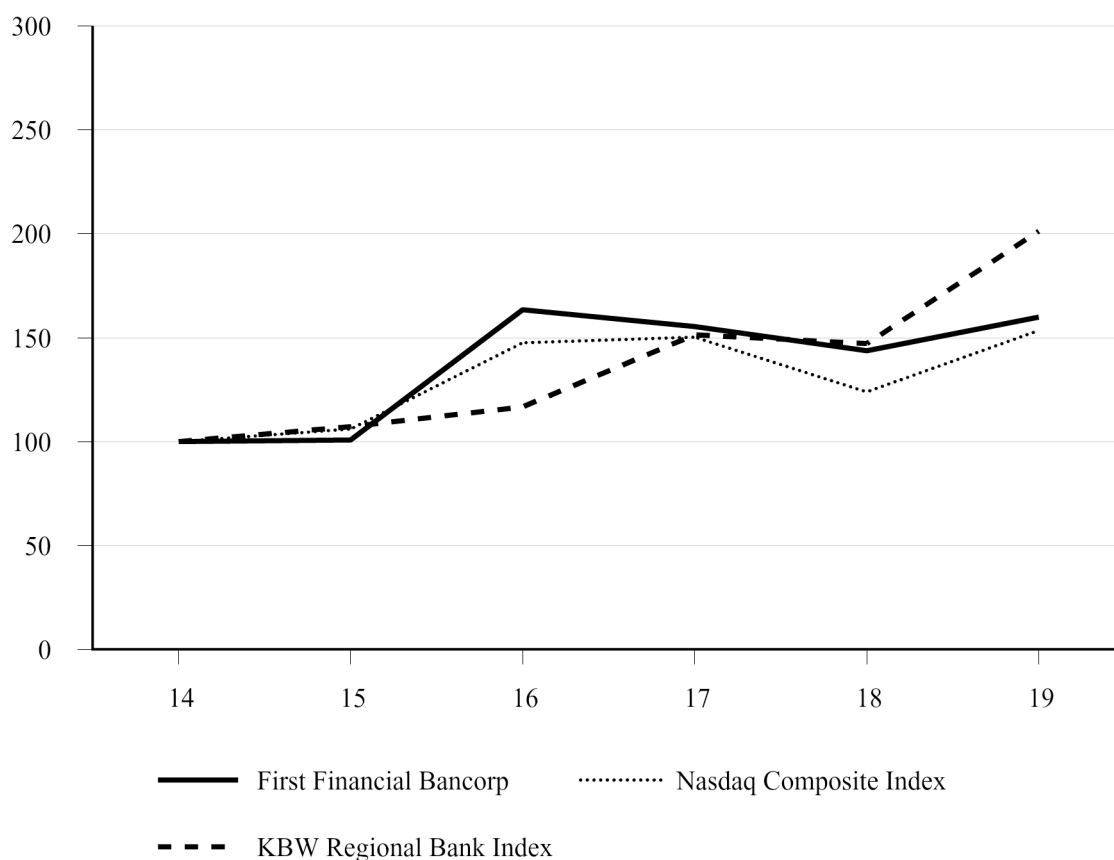
First Financial Bancorp common stock trades on the Nasdaq Stock Market under the symbol FFBC.

Total Return to Shareholders

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

The following table assumes \$100 invested on December 31, 2014 in First Financial Bancorp, the Nasdaq Composite Index and the KBW Regional Bank Index, and assumes that dividends are reinvested.

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



	2014	2015	2016	2017	2018	2019
First Financial Bancorp	100.00	100.68	163.47	155.39	143.64	159.86
Nasdaq Composite Index	100.00	106.00	147.46	150.13	123.87	153.44
KBW Regional Bank Index	100.00	107.11	116.71	151.40	147.15	201.21

Shareholder Information

Annual Meeting of Shareholders

The annual meeting of shareholders will be held on Tuesday, May 26, 2020, at 10:00 AM (EDT) via a virtual shareholder meeting.

Common Stock Listing

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



Registrar and Transfer Agent

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

Transfer Agent

Computershare Shareholder Services

P.O. Box 505000
Louisville, KY 40233
(800) 368-5948

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

Dividend Reinvestment and Stock Purchase Plan

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

Investor Relations

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

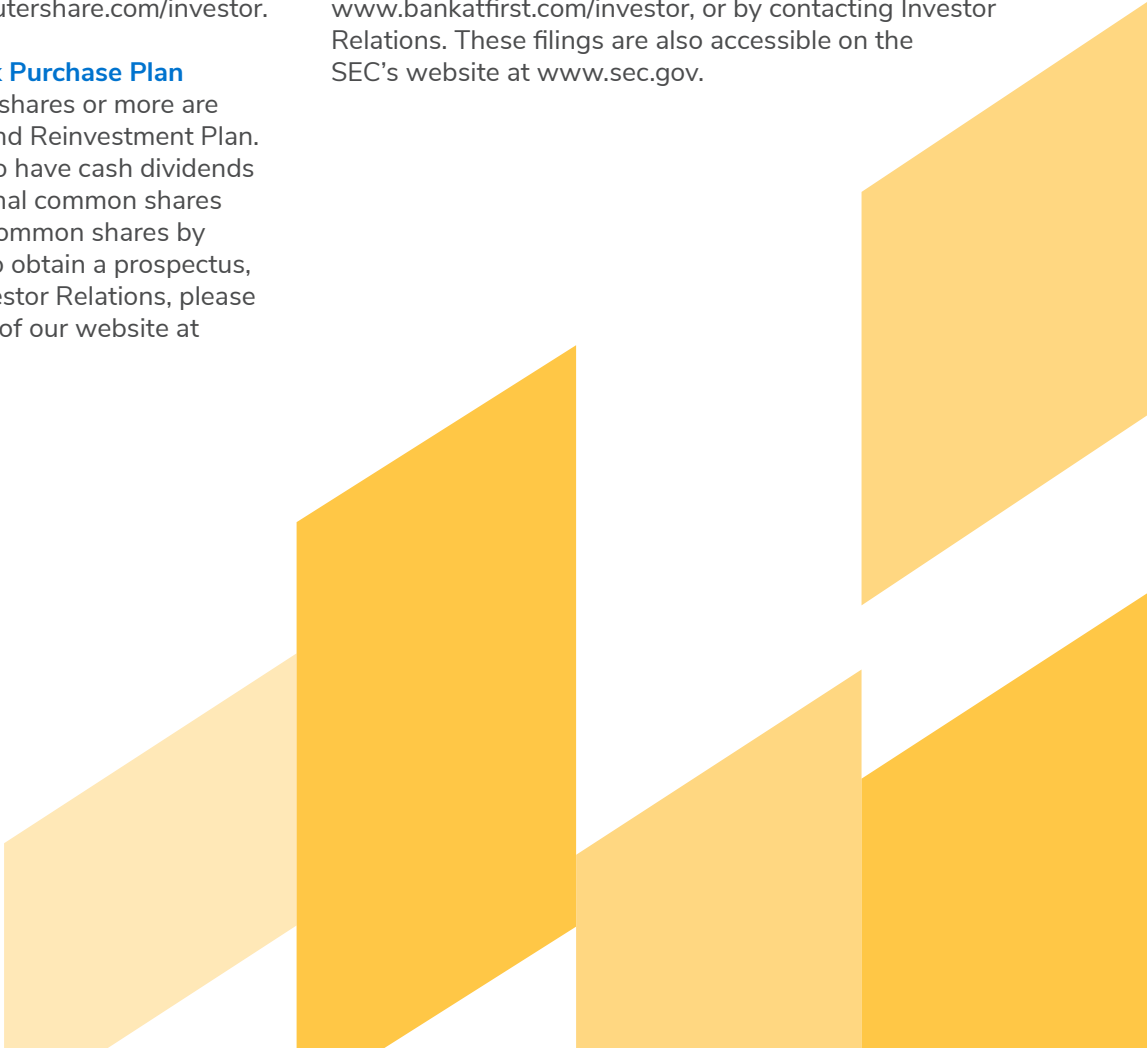
Shareholders, analysts and other investment professionals who would like corporate and financial information on First Financial Bancorp should contact:

Jamie Anderson

Chief Financial Officer
First Financial Bancorp
255 East Fifth Street, 29th Floor
Cincinnati, OH 45202
(513) 887-5400
Email: InvestorRelations@bankatfirst.com

Securities and Exchange Commission Filings

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





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first financial bancorp

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