

FIRST FINANCIAL BANCORP /OH/

Form 10-Q

May 07, 2018

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**FORM 10-Q**

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington D.C. 20549**

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

For the quarterly period ended March 31, 2018

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 001-34762

**FIRST FINANCIAL BANCORP.**

(Exact name of registrant as specified in its charter)

Ohio 31-1042001  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

255 East Fifth Street, Suite 700 45202  
Cincinnati, Ohio  
(Address of principal executive offices) (Zip Code)

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

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

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

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

Emerging growth company

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of Exchange Act).

Yes  No

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

Class	Outstanding at 5/4/2018
Common stock, No par value	97,810,841



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**FIRST FINANCIAL BANCORP.**

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

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

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

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	March 31, 2018 (Unaudited)	December 31, 2017
<b>Assets</b>		
Cash and due from banks	\$ 116,581	\$ 150,650
Interest-bearing deposits with other banks	10,200	33,974
Investment securities available-for-sale, at fair value (amortized cost \$1,370,844 at March 31, 2018 and \$1,348,227 at December 31, 2017)	1,359,381	1,349,408
Investment securities held-to-maturity (fair value \$623,967 at March 31, 2018 and \$653,101 at December 31, 2017)	633,722	654,008
Other investments	53,070	53,140
Loans held for sale	8,048	11,502
Loans and leases		
Commercial & industrial	1,943,741	1,912,743
Lease financing	81,617	89,347
Construction real estate	494,665	467,730
Commercial real estate	2,544,051	2,490,091
Residential real estate	468,584	471,391
Home equity	483,643	493,604
Installment	39,248	41,586
Credit card	46,472	46,691
<b>Total loans and leases</b>	<b>6,102,021</b>	<b>6,013,183</b>
Less: Allowance for loan and lease losses	54,380	54,021
<b>Net loans and leases</b>	<b>6,047,641</b>	<b>5,959,162</b>
Premises and equipment	127,046	125,036
Goodwill and other intangibles	209,053	209,379
Accrued interest and other assets	333,687	350,664
<b>Total assets</b>	<b>\$ 8,898,429</b>	<b>\$ 8,896,923</b>
<b>Liabilities</b>		
Deposits		
Interest-bearing demand	\$ 1,442,399	\$ 1,453,463
Savings	2,450,196	2,462,420
Time	1,545,273	1,317,105
<b>Total interest-bearing deposits</b>	<b>5,437,868</b>	<b>5,232,988</b>
Noninterest-bearing	1,572,636	1,662,058
<b>Total deposits</b>	<b>7,010,504</b>	<b>6,895,046</b>
Federal funds purchased and securities sold under agreements to repurchase	56,732	72,265
Federal Home Loan Bank short-term borrowings	601,600	742,300
<b>Total short-term borrowings</b>	<b>658,332</b>	<b>814,565</b>
Long-term debt	169,695	119,654
<b>Total borrowed funds</b>	<b>828,027</b>	<b>934,219</b>
Accrued interest and other liabilities	119,913	136,994
<b>Total liabilities</b>	<b>7,958,444</b>	<b>7,966,259</b>
<b>Shareholders' equity</b>		
Common stock - no par value		
Authorized - 160,000,000 shares; Issued - 68,730,731 shares in 2018 and 2017	571,457	573,109
Retained earnings	515,498	491,847
Accumulated other comprehensive loss	(34,683)	(20,390)

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Treasury stock, at cost, 6,516,908 shares in 2018 and 6,661,644 shares in 2017	(112,287 )	(113,902 )
<b>Total shareholders' equity</b>	939,985	930,664
<b>Total liabilities and shareholders' equity</b>	\$ 8,898,429	\$ 8,896,923

See Notes to Consolidated Financial Statements.

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Table of Contents**FIRST FINANCIAL BANCORP. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME**

(Dollars in thousands, except per share data)

(Unaudited)

	Three months ended	
	March 31,	
	2018	2017
<b>Interest income</b>		
Loans, including fees	\$ 74,920	\$ 66,868
Investment securities		
Taxable	13,670	11,608
Tax-exempt	1,657	1,353
Total interest on investment securities	15,327	12,961
Other earning assets	107	(1,001 )
<b>Total interest income</b>	<b>90,354</b>	<b>78,828</b>
<b>Interest expense</b>		
Deposits	10,298	6,925
Short-term borrowings	2,663	1,432
Long-term borrowings	1,581	1,539
<b>Total interest expense</b>	<b>14,542</b>	<b>9,896</b>
<b>Net interest income</b>	<b>75,812</b>	<b>68,932</b>
Provision for loan and lease losses	2,303	367
<b>Net interest income after provision for loan and lease losses</b>	<b>73,509</b>	<b>68,565</b>
<b>Noninterest income</b>		
Service charges on deposit accounts	5,039	4,644
Trust and wealth management fees	3,954	3,747
Bankcard income	3,394	3,135
Client derivative fees	1,757	1,103
Net gains from sales of loans	588	1,216
Net gains (losses) on sales of investment securities	0	516
Other	2,206	3,003
<b>Total noninterest income</b>	<b>16,938</b>	<b>17,364</b>
<b>Noninterest expenses</b>		
Salaries and employee benefits	31,102	31,750
Net occupancy	4,497	4,515
Furniture and equipment	2,040	2,177
Data processing	3,672	3,298
Marketing	801	510
Communication	459	447
Professional services	2,198	1,758
State intangible tax	765	721
FDIC assessments	894	932
Loss (gain) - other real estate owned	77	24
Other	5,783	4,913
<b>Total noninterest expenses</b>	<b>52,288</b>	<b>51,045</b>
Income before income taxes	38,159	34,884
Income tax expense	7,653	10,470
<b>Net income</b>	<b>\$ 30,506</b>	<b>\$ 24,414</b>

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Net earnings per common share - basic	\$0.49	\$ 0.40
Net earnings per common share - diluted	\$0.49	\$ 0.39
Cash dividends declared per share	\$0.19	\$ 0.17
Average common shares outstanding - basic	61,654,686	61,398,414
Average common shares outstanding - diluted	62,180,740	62,140,384

See Notes to Consolidated Financial Statements.

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

	Three months ended March 31,	
	2018	2017
Net income	\$30,506	\$24,414
Other comprehensive income (loss), net of tax:		
Unrealized gains (losses) on investment securities arising during the period	(9,830 )	1,487
Change in retirement obligation	323	189
Unrealized gain (loss) on derivatives	156	128
Other comprehensive income (loss)	(9,351 )	1,804
<b>Comprehensive income</b>	<b>\$21,155</b>	<b>\$26,218</b>

See Notes to Consolidated Financial Statements.



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

	Common Stock	Common Stock	Retained Earnings	Accumulated other comprehensive income (loss)	Treasury stock		Total
	Shares	Amount			Shares	Amount	
Balance at January 1, 2017	68,730,731	\$ 570,382	\$ 437,188	\$ (28,443 )	(6,751,179 )	\$(113,903 )	\$ 865,224
Net income			24,414				24,414
Other comprehensive income (loss)				1,804			1,804
Cash dividends declared:							
Common stock at \$0.17 per share			(10,529 )				(10,529 )
Warrant exercises		(25 )			1,484	25	0
Exercise of stock options, net of shares purchased		(377 )			34,037	574	197
Restricted stock awards, net of forfeitures		(3,556 )			119,212	1,024	(2,532 )
Share-based compensation expense		1,487					1,487
Balance at March 31, 2017	68,730,731	\$ 567,911	\$ 451,073	\$ (26,639 )	(6,596,446 )	\$(112,280 )	\$ 880,065
Balance at January 1, 2018	68,730,731	\$ 573,109	\$ 491,847	\$ (20,390 )	(6,661,644 )	\$(113,902 )	\$ 930,664
Net income			30,506				30,506
Reclassification of certain tax effects from AOCI to retained earnings			4,942	(4,942 )			0
Other comprehensive income (loss)				(9,351 )			(9,351 )
Cash dividends declared:							
Common stock at \$0.19 per share			(11,797 )				(11,797 )
Warrant Exercises		(24 )			1,428	24	0
Exercise of stock options, net of shares purchased		(65 )			11,800	202	137
Restricted stock awards, net of forfeitures		(3,517 )			131,508	1,389	(2,128 )
Share-based compensation expense		1,954					1,954
<b>Balance at March 31, 2018</b>	<b>68,730,731</b>	<b>\$ 571,457</b>	<b>\$ 515,498</b>	<b>\$ (34,683 )</b>	<b>(6,516,908 )</b>	<b>\$(112,287 )</b>	<b>\$ 939,985</b>

See Notes to Consolidated Financial Statements.

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

	Three months ended	
	March 31,	
	2018	2017
<b>Operating activities</b>		
Net income	\$ 30,506	\$ 24,414
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	2,303	367
Depreciation and amortization	3,076	3,260
Stock-based compensation expense	1,954	1,487
Pension expense (income)	(156 )	(319 )
Net amortization (accretion) on investment securities	2,801	2,176
Net (gains) losses on sales of investment securities	0	(516 )
Originations of loans held for sale	(22,383 )	(32,085 )
Net gains from sales of loans held for sale	(588 )	(1,216 )
Proceeds from sales of loans held for sale	24,542	38,633
Deferred income taxes	(1,736 )	75
Decrease (increase) cash surrender value of life insurance	786	(448 )
Decrease (increase) in interest receivable	(1,687 )	(1,735 )
Decrease (increase) in indemnification asset	1,900	1,244
(Decrease) increase in interest payable	(1,013 )	(1,424 )
Decrease (increase) in other assets	15,414	957
(Decrease) increase in other liabilities	(3,391 )	(3,082 )
Net cash provided by (used in) operating activities	52,328	31,788
<b>Investing activities</b>		
Proceeds from sales of securities available-for-sale	0	22,239
Proceeds from calls, paydowns and maturities of securities available-for-sale	52,252	49,418
Purchases of securities available-for-sale	(77,037 )	(219,761 )
Proceeds from calls, paydowns and maturities of securities held-to-maturity	19,718	38,497
Purchases of securities held-to-maturity	0	(14,441 )
Net decrease (increase) in interest-bearing deposits with other banks	23,774	43,392
Net decrease (increase) in loans and leases	(89,526 )	1,257
Proceeds from disposal of other real estate owned	2,222	1,162
Purchases of premises and equipment	(4,979 )	(3,066 )
Net cash provided by (used in) investing activities	(73,576 )	(81,303 )
<b>Financing activities</b>		
Net (decrease) increase in total deposits	115,458	4,088
Net (decrease) increase in short-term borrowings	(156,233 )	51,272
Proceeds from FHLB borrowings	50,000	0
Cash dividends paid on common stock	(22,183 )	(9,811 )
Proceeds from exercise of stock options	137	282
Net cash provided by (used in) financing activities	(12,821 )	45,831
Cash and due from banks		

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<b>Change in cash and due from banks</b>	(34,069 )	(3,684 )
Cash and due from banks at beginning of period	150,650	121,598
<b>Cash and due from banks at end of period</b>	<b>\$116,581</b>	<b>\$117,914</b>

See Notes to Consolidated Financial Statements.

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**FIRST FINANCIAL BANCORP. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2018**  
**(Unaudited)**

**NOTE 1: BASIS OF PRESENTATION**

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

The preparation of financial statements in conformity with GAAP requires management to make estimates, assumptions and judgments that affect the amounts reported in the Consolidated Financial Statements and accompanying Notes. These estimates, assumptions and judgments are inherently subjective and may be susceptible to significant change. Actual realized amounts could differ materially from these estimates.

These interim financial statements have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X, and serve to update the Form 10-K for the year ended December 31, 2017. These interim financial statements may not include all information and notes necessary to constitute a complete set of financial statements under GAAP applicable to annual periods and it is suggested that these interim statements be read in conjunction with the Form 10-K. Management believes these unaudited consolidated financial statements reflect all adjustments of a normal recurring nature which are necessary for a fair presentation of the results for the interim periods presented. The results of operations for the interim periods are not necessarily indicative of the results that may be expected for the full year or any other interim period. The Consolidated Balance Sheet as of December 31, 2017 has been derived from the audited financial statements in the Company's 2017 Form 10-K.

**NOTE 2: RECENTLY ADOPTED AND ISSUED ACCOUNTING STANDARDS**

In May 2014, the FASB issued an update (ASU 2014-09, Revenue from Contracts with Customers) which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. Under the revised standard, an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU applies to all contracts with customers except those that are within the scope of other topics in the FASB Accounting Standards Codification. Certain of the ASU's provisions also apply to transfers of nonfinancial assets, including in-substance nonfinancial assets that are not an output of an entity's ordinary activities, such as sales of property, plant, and equipment; real estate; or intangible assets. The ASU also requires significantly expanded disclosures about revenue recognition. For further detail, see Note 13 – Revenue Recognition.

In January 2016, the FASB issued an update (ASU 2016-01, Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities) which requires entities to measure many equity investments at fair value and recognize changes in fair value in net income. This update does not apply to equity investments that result in consolidation, those accounted for under the equity method and certain others, and will eliminate use of the available for sale classification for equity securities while providing a new measurement alternative for equity investments that do not have readily determinable fair values and do not qualify for the net asset value practical expedient. This update also requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. The guidance in this ASU became effective

in the first quarter of 2018 and did not have a material impact on the Consolidated Financial Statements. In accordance with the guidance, the Company measured the fair value of its financial instruments as of March 31, 2018 using an exit price notion. For further detail, see Note 15 – Fair Value Disclosures.

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

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

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

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

In August 2016, the FASB issued an update (ASU 2016-15 Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments) which may change how an entity classifies certain cash receipts and cash payments on its statement of cash flows to reduce diversity in practice. The update also provides guidance on when an entity should separate cash flows and classify them into more than one class and when an entity should classify the aggregate of those cash flows into a single class based on the predominance principle. The guidance in this ASU became effective in the first quarter of 2018 and did not have a material impact on the Consolidated Financial Statements.

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

In March 2017, the FASB issued an update (ASU 2017-07, Compensation - Retirement Benefits (Topic 715), Improving the Presentation of the Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost) which requires disaggregation of the service cost component from the other components of net benefit cost. This update also provides explicit guidance on how to present the service cost component and the other components of net benefit cost in the income statement and allows only the service cost component of net benefit cost to be eligible for capitalization. The guidance in this ASU became effective in the first quarter of 2018 and did not have a material impact on the Consolidated Financial Statements.

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

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In May 2017, the FASB issued an update (ASU 2017-09, Compensation - Stock Compensation (Topic 718), Scope of Modification Accounting), which provides clarity and reduces the diversity in practice, cost and complexity when accounting for a change to the terms or conditions of a share-based payment award. The amendments in this update provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718 clarifying that an entity will not apply modification accounting to a share-based payment award if the award's fair value (or calculated value or intrinsic value), vesting conditions and classification as an equity or liability instrument are the same immediately before and after the change. The guidance in this ASU became effective in the first quarter of 2018 and 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 will become effective for reporting periods beginning after December 15, 2018, with early adoption permitted, and will require a modified retrospective transition method with recognition of the cumulative effect of the change on the opening balance of each affected component of equity. Amended disclosures will be required prospectively. First Financial is currently evaluating the impact of this update on its Consolidated Financial Statements.

In February 2018, the FASB issued an update (ASU 2018-02, Income statement-Reporting Comprehensive Income: Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income), which allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. Consequently, the amendments eliminated the stranded tax effects resulting from the Tax Cuts and Jobs Act and will improve the usefulness of information reported to financial statement users. The amendments only relate to the reclassification of the income tax effects of the Tax Cuts and Jobs Act, and the underlying guidance that requires that the effect of a change in tax laws or rates be included in income from continuing operations is not effected. The amendments in this update also require certain disclosures about stranded tax effects. The guidance in this ASU will become effective for reporting periods beginning after December 15, 2018, with early adoption permitted, and will be applied either in the period of adoption or retrospectively to each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act is recognized. First Financial early adopted the provisions set forth in this update in the first quarter of 2018, and as a result, reclassified \$4.9 million from accumulated other comprehensive income to retained earnings. There were no other income tax effects related to the Act that were reclassified as a result of the adoption of the accounting standard.

**NOTE 3: INVESTMENTS**

For the three months ended March 31, 2018, there were no sales of available-for-sale securities. For the three months ended March 31, 2017, proceeds on the sale of \$22.2 million of available-for-sale securities resulted in gains of \$0.5 million.

The following is a summary of held-to-maturity and available-for-sale investment securities as of March 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	\$98	\$ 0	\$(2)	\$96
Securities of U.S. government agencies and corporations	10,627	0	(188)	10,439	25,689	244	(193)	25,740
Mortgage-backed securities - residential	155,208	1,225	(2,817)	153,616	288,757	375	(6,689)	282,443
Mortgage-backed securities - commercial	251,253	228	(5,348)	246,133	153,770	47	(2,875)	150,942
Collateralized mortgage obligations	135,143	86	(2,798)	132,431	305,496	558	(4,791)	301,263
Obligations of state and other political subdivisions	81,491	829	(972)	81,348	121,813	1,307	(1,696)	121,424
Asset-backed securities	0	0	0	0	391,943	1,351	(782)	392,512



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Other securities	0	0	0	0	83,278	2,027	(344	)	84,961
<b>Total</b>	\$633,722	\$ 2,368	\$ (12,123	)	\$623,967	\$1,370,844	\$ 5,909	\$ (17,372	) \$1,359,381

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

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

The following table provides a summary of investment securities by contractual maturity as of March 31, 2018, 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
<b>By Contractual Maturity:</b>				
Due in one year or less	\$165	\$165	\$2,296	\$2,292
Due after one year through five years	4,277	4,279	37,023	36,960
Due after five years through ten years	2,499	2,632	82,431	83,521
Due after ten years	85,177	84,711	109,128	109,448
Mortgage-backed securities - residential	155,208	153,616	288,757	282,443
Mortgage-backed securities - commercial	251,253	246,133	153,770	150,942
Collateralized mortgage obligations	135,143	132,431	305,496	301,263
Asset-backed securities	0	0	391,943	392,512
<b>Total</b>	<b>\$633,722</b>	<b>\$623,967</b>	<b>\$1,370,844</b>	<b>\$1,359,381</b>

Gains and losses on debt securities are generally due to fluctuations in current market yields relative to the yields of the debt securities at their amortized cost. All securities with unrealized losses are reviewed quarterly to determine if any impairment is considered other than temporary, requiring a write-down to fair value. First Financial considers the percentage loss on a security, duration of the loss, average life or duration of the security, credit rating of the security and payment performance, as well as the Company's intent and ability to hold the security to maturity, when determining whether any impairment is other than temporary. At this time First Financial does not intend to sell, and it is not more likely than not that the Company will be required to sell, debt securities temporarily impaired prior to maturity or recovery of the recorded value. First Financial had no other than temporary impairment related to its investment securities portfolio as of March 31, 2018 or December 31, 2017.

As of March 31, 2018, the Company's investment securities portfolio consisted of 774 securities, of which 359 were in an unrealized loss position. As of December 31, 2017, the Company's investment securities portfolio consisted of 775 securities, of which 237 were in an unrealized loss position.

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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:

	March 31, 2018					
	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
<i>(Dollars in thousands)</i>						
U.S. Treasuries	\$96	\$(2 )	\$0	\$0	\$96	\$(2 )
Securities of U.S. Government agencies and corporations	26,347	(381 )	0	0	26,347	(381 )
Mortgage-backed securities - residential	252,396	(3,712 )	123,671	(5,794 )	376,067	(9,506 )
Mortgage-backed securities - commercial	233,201	(4,185 )	75,822	(4,038 )	309,023	(8,223 )
Collateralized mortgage obligations	274,159	(3,915 )	96,641	(3,674 )	370,800	(7,589 )
Obligations of state and other political subdivisions	98,207	(1,879 )	21,420	(789 )	119,627	(2,668 )
Asset-backed securities	89,530	(613 )	23,113	(169 )	112,643	(782 )
Other securities	4,616	(29 )	7,100	(315 )	11,716	(344 )
<b>Total</b>	<b>\$978,552</b>	<b>\$(14,716 )</b>	<b>\$347,767</b>	<b>\$(14,779 )</b>	<b>\$1,326,319</b>	<b>\$(29,495 )</b>

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

For further detail on the fair value of investment securities, see Note 15 – Fair Value Disclosures.

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**NOTE 4: LOANS AND LEASES**

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

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

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

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

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

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

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

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

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

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

	As of March 31, 2018		
	Commercial	Real Estate	Lease
(Dollars in thousands)	Construction	Commercial	financing Total

	&					
	industrial					
Pass	\$1,911,912	\$482,679	\$2,502,882	\$80,489	\$4,977,962	
Special Mention	5,228	11,947	6,422	0	23,597	
Substandard	26,601	39	34,747	1,128	62,515	
Doubtful	0	0	0	0	0	
<b>Total</b>	<b>\$1,943,741</b>	<b>\$494,665</b>	<b>\$2,544,051</b>	<b>\$81,617</b>	<b>\$5,064,074</b>	

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<i>(Dollars in thousands)</i>	Residential real estate	Home equity	Installment	Credit card	Total
Performing	\$ 461,409	\$ 479,470	\$ 38,942	\$ 46,472	\$ 1,026,293
Nonperforming	7,175	4,173	306	0	11,654
<b>Total</b>	<b>\$ 468,584</b>	<b>\$ 483,643</b>	<b>\$ 39,248</b>	<b>\$ 46,472</b>	<b>\$ 1,037,947</b>

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

<i>(Dollars in thousands)</i>	Residential real estate	Home equity	Installment	Credit card	Total
Performing	\$ 463,459	\$ 489,148	\$ 41,331	\$ 46,691	\$ 1,040,629
Nonperforming	7,932	4,456	255	0	12,643
<b>Total</b>	<b>\$ 471,391</b>	<b>\$ 493,604</b>	<b>\$ 41,586</b>	<b>\$ 46,691</b>	<b>\$ 1,053,272</b>

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

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

As of March 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
<b>Loans</b>									
Commercial & industrial	\$ 1,399	\$ 4,857	\$ 1,323	\$ 7,579	\$ 1,933,461	\$ 1,941,040	\$ 2,701	\$ 1,943,741	\$ 0
Lease financing	943	0	0	943	80,674	81,617	0	81,617	0
Construction real estate	0	0	0	0	494,389	494,389	276	494,665	0
Commercial real estate	236	3,317	12,255	15,808	2,475,106	2,490,914	53,137	2,544,051	0
Residential real estate	497	341	1,359	2,197	427,689	429,886	38,698	468,584	0
Home equity	1,395	508	2,000	3,903	476,446	480,349	3,294	483,643	0
Installment	284	74	271	629	38,018	38,647	601	39,248	0
Credit card	459	228	529	1,216	45,256	46,472	0	46,472	529
<b>Total</b>	<b>\$ 5,213</b>	<b>\$ 9,325</b>	<b>\$ 17,737</b>	<b>\$ 32,275</b>	<b>\$ 5,971,039</b>	<b>\$ 6,003,314</b>	<b>\$ 98,707</b>	<b>\$ 6,102,021</b>	<b>\$ 529</b>

As of December 31, 2017

<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
<b>Loans</b>									
Commercial & industrial	\$ 755	\$ 1,657	\$ 5,078	\$ 7,490	\$ 1,901,821	\$ 1,909,311	\$ 3,432	\$ 1,912,743	\$ 0
Lease financing	485	0	0	485	88,862	89,347	0	89,347	0
Construction real estate	234	0	0	234	467,216	467,450	280	467,730	0
Commercial real estate	1,716	201	8,777	10,694	2,419,969	2,430,663	59,428	2,490,091	0
Residential real estate	526	811	1,992	3,329	430,500	433,829	37,562	471,391	0
Home equity	2,716	394	1,753	4,863	485,127	489,990	3,614	493,604	0
Installment	179	29	205	413	40,529	40,942	644	41,586	0
Credit card	285	87	62	434	46,257	46,691	0	46,691	62
<b>Total</b>	<b>\$ 6,896</b>	<b>\$ 3,179</b>	<b>\$ 17,867</b>	<b>\$ 27,942</b>	<b>\$ 5,880,281</b>	<b>\$ 5,908,223</b>	<b>\$ 104,960</b>	<b>\$ 6,013,183</b>	<b>\$ 62</b>

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

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

**Troubled Debt Restructurings.** A loan modification is considered a TDR when the borrower is experiencing financial difficulty and concessions are made by the Company that would not otherwise be considered for a borrower with similar credit characteristics. The most common types of modifications include interest rate reductions, maturity extensions and modifications to principal amortization, including interest-only structures. Modified terms are

dependent upon the financial position and needs of the individual borrower. If the modification agreement is violated, the loan is managed by the Company's credit administration group for resolution, which may result in foreclosure in the case of real estate.

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



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First Financial had 204 TDRs totaling \$21.0 million at March 31, 2018, including \$14.9 million on accrual status and \$6.0 million classified as nonaccrual. First Financial had an insignificant amount of commitments outstanding to lend additional funds to borrowers whose loan terms have been modified through TDRs, and the ALLL included reserves of \$2.0 million related to TDRs at March 31, 2018. For the three months ended March 31, 2018, First Financial charged off \$0.1 million for the portion of TDRs determined to be uncollectible. Additionally, as of March 31, 2018, approximately \$13.3 million of accruing TDRs have 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 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 tables provide information on loan modifications classified as TDRs during the three months ended March 31, 2018 and 2017:

	Three months ended		March 31, 2017	
	March 31, 2018	Period end	March 31, 2017	Period end
<i>(Dollars in thousands)</i>	Number of loans	Pre-modification loan balance	Number of loans	Pre-modification loan balance
Commercial & industrial	4	\$ 928	2	\$ 3,441
Construction real estate	0	0	0	0
Commercial real estate	2	72	0	0
Residential real estate	2	93	0	0
Home equity	0	0	0	0
Installment	0	0	0	0
<b>Total</b>	<b>8</b>	<b>\$ 1,093</b>	<b>2</b>	<b>\$ 3,502</b>

The following table provides information on how TDRs were modified during the three months ended March 31, 2018 and 2017:

	Three months ended	
	March 31, 2018	March 31, 2017
<i>(Dollars in thousands)</i>		
Extended maturities	\$888	\$674
Adjusted interest rates	52	2,767
Combination of rate and maturity changes	0	0
Forbearance	0	0
Other <sup>(1)</sup>	138	0
<b>Total</b>	<b>\$1,078</b>	<b>\$3,441</b>

<sup>(1)</sup> Includes covenant modifications and other concessions, or combination of concessions, that do not consist of interest rate adjustments, forbearance and maturity extensions

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



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There were no TDRs for which there was a payment default during the period that occurred within twelve months of the loan modification for the three months ended March 31, 2018 or March 31, 2017.

**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:

<i>(Dollars in thousands)</i>	March 31, December 31,	
	2018	2017
<b>Impaired loans</b>		
Nonaccrual loans <sup>(1)</sup>		
Commercial & industrial	\$ 6,275	\$ 5,229
Lease financing	0	82
Construction real estate	26	29
Commercial real estate	16,878	10,616
Residential real estate	3,324	4,140
Home equity	3,484	3,743
Installment	296	243
Nonaccrual loans	30,283	24,082
Accruing troubled debt restructurings	14,943	17,545
<b>Total impaired loans</b>	<b>\$ 45,226</b>	<b>\$ 41,627</b>

<sup>(1)</sup> Nonaccrual loans include nonaccrual TDRs of \$6.0 million and \$6.4 million as of March 31, 2018 and December 31, 2017, respectively.

<i>(Dollars in thousands)</i>	Three months ended March 31, 2018 2017	
<b>Interest income effect on impaired loans</b>		
Gross amount of interest that would have been recorded under original terms	\$ 802	\$ 816
Interest included in income		
Nonaccrual loans	80	142
Troubled debt restructurings	124	226
Total interest included in income	204	368
<b>Net impact on interest income</b>	<b>\$ 598</b>	<b>\$ 448</b>

First Financial individually reviews all impaired commercial loan relationships, 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, 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.

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

<i>(Dollars in thousands)</i>	As of March 31, 2018			As of December 31, 2017		
	Current balance	Contractual principal balance	Related allowance	Current balance	Contractual principal balance	Related allowance
<b>Loans with no related allowance recorded</b>						
Commercial & industrial	\$8,571	\$ 8,777	\$ 0	\$7,162	\$ 8,460	\$ 0
Lease financing	0	0	0	82	82	0
Construction real estate	26	58	0	29	60	0
Commercial real estate	24,377	28,871	0	18,423	20,837	0
Residential real estate	6,130	7,282	0	6,876	8,145	0
Home equity	4,072	4,884	0	4,356	5,399	0
Installment	306	469	0	255	422	0
Total	43,482	50,341	0	37,183	43,405	0
<b>Loans with an allowance recorded</b>						
Commercial & industrial	239	317	100	169	169	169
Lease financing	0	0	0	0	0	0
Construction real estate	0	0	0	0	0	0
Commercial real estate	359	359	26	3,119	3,120	448
Residential real estate	1,045	1,045	160	1,056	1,063	160
Home equity	101	101	2	100	100	2
Installment	0	0	0	0	0	0
Total	1,744	1,822	288	4,444	4,452	779
<b>Total</b>						
Commercial & industrial	8,810	9,094	100	7,331	8,629	169
Lease financing	0	0	0	82	82	0
Construction real estate	26	58	0	29	60	0
Commercial real estate	24,736	29,230	26	21,542	23,957	448