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first financial bancorp

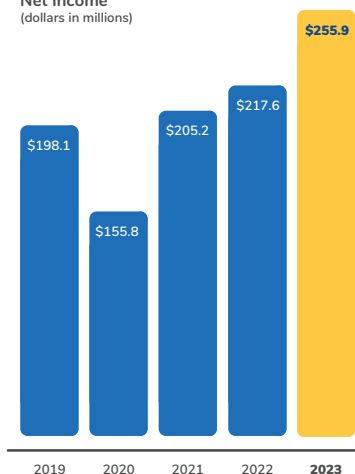
annual report 2023



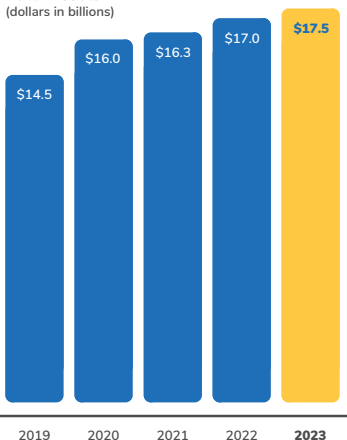
133 CONSECUTIVE
QUARTERS OF
PROFITABILITY

YEARS OF
STRENGTH &
STABILITY **160**

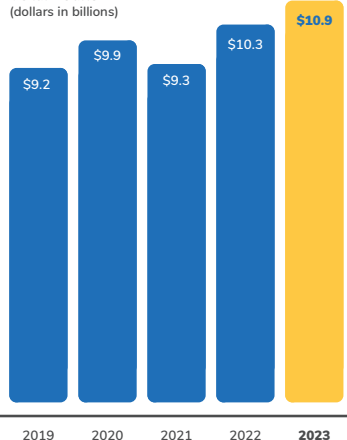
Net Income
(dollars in millions)



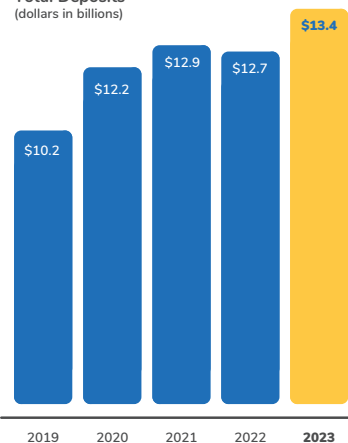
Total Assets
(dollars in billions)



Total Loans
(dollars in billions)



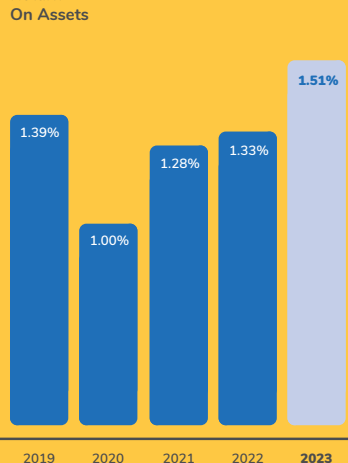
Total Deposits
(dollars in billions)



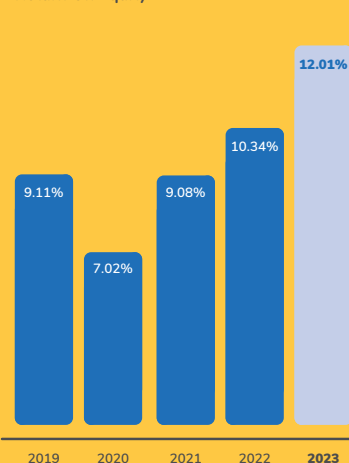
Diluted Earnings
Per Share



Return
On Assets



Return On Equity



dear fellow shareholders,

It is with tremendous pride that I share with you First Financial Bancorp's 2023 annual report.

We came into the year with a sense of confidence in our First Financial team, a group of dedicated professionals who have endured consecutive years of daunting challenges, only to deliver outstanding results time and time again. We looked forward to celebrating First Financial's 160th anniversary in August, a testament to our company's strength, stability, and legacy of serving our clients and communities with integrity and a commitment to excellence.

Our enthusiasm entering 2023 was tempered by the continuing challenges of a shifting economy, fluctuating business conditions, and changing world dynamics. In March, several high-profile bank failures raised questions about the overall stability of the banking industry. While the failures had more to do with the structure of the affected banks, the entire industry was challenged to maintain consumer confidence as these events played out. I am proud that our First Financial team successfully maintained the well-earned confidence of clients, investors, and analysts due to our sound business practices, investments, and consistent focus on customer care.

In the end, 2023 was another year of record-setting earnings and profitability. We delivered record adjusted earnings per share of \$2.77, a net interest margin of 4.40%, adjusted return on assets of 1.55%, adjusted return on average tangible common equity of 25%, loan growth of \$634 million, and \$213 million in adjusted non-interest income, representing more than 25% of our revenue.



Archie M. Brown

President &
Chief Executive
Officer

Driving this production was a bank-wide commitment to our top corporate priorities – core client growth, putting clients first, simplifying processes and generating greater efficiencies throughout the business, and an emphasis on improving associate engagement. Like our balance sheet, the results were impressive.

Our three core banking lines of business – Consumer Banking, Commercial Banking, and Wealth Management – moved to regional sales and service models, aligning our physical and associate resources within our communities. These regional models align decision-making to a local level, enabling us to meet our clients' needs more efficiently and offering more immediate access to our experienced financial advisors. Additionally, our lines of business are able to collaborate more effectively, sharing market-specific insights into the needs of individual clients and our communities, which leads to more comprehensive, total-bank financial solutions.

“

We delivered record adjusted earnings per share of \$2.77, a net interest margin of 4.40%, adjusted return on assets of 1.55%, adjusted return on average tangible common equity of 25%, loan growth of \$634 million, and \$213 million in adjusted non-interest income, representing more than 25% of our revenue.



One of First Financial's most significant competitive differentiators is our specialty business strategy, adding niche financial services to our core banking capabilities. This strategy creates extensive areas of expertise to support businesses and their owners, helping us deepen existing relationships and take advantage of growth opportunities in new markets.

Led by our Consumer Banking team, we launched our new and improved online banking platform and mobile app in June. The impact was positive and immediate, with increases in credit card applications through the mobile app, e-statement enrollments, new bill pay enrollments, and online banking enrollments.

Our Commercial Banking presence in the Chicago, Cleveland, and Evansville, IN markets is progressing well. We now have permanent office space in downtown Cleveland and in Chicago's Fulton Market community, with established banking teams in all three markets strengthening existing client relationships and uncovering new opportunities.

One of First Financial's most significant competitive differentiators is our specialty business strategy, adding niche financial services to our core banking capabilities. This strategy creates extensive areas of expertise to support businesses and their owners, helping us deepen existing relationships and take advantage of growth opportunities in new markets. Our past successes include the acquisition of Summit Funding

Group, Bannockburn Global Forex and Oak Street Funding. We made a number of advancements in our specialty strategy during the past year.

In January, we acquired Brady Ware Capital, a merger and acquisition advisory service. The Brady Ware team joined Yellow Cardinal Business Succession Services, which is a part of the Yellow Cardinal Advisory Group. This team acts as a conduit between our Commercial Banking and Wealth Management lines of business, offering businesses and their owners a deeper set of niche business succession planning and M&A services than is available with many of our competitors.

The Yellow Cardinal team also added a dedicated group of highly experienced and seasoned financial professionals to work exclusively with our ultra-high net worth clients. This team focuses on delivering a full spectrum of personal finance and wealth management services for business owners and individuals with substantial assets. We are truly excited about the expertise these individuals bring to Yellow Cardinal and we look forward to expanding our reach to this important market segment.



In January of 2024, we announced the acquisition of Lincolnshire, IL-based Agile Premium Finance, a national insurance premium finance business that extends credit to small businesses to facilitate the purchase of property and casualty insurance products. We are excited to add all of these specialized capabilities to the First Financial team.

What truly sets us apart is First Financial's ongoing commitment to the communities in which we live and work. In 2023, we completed a five-year community benefits agreement (CBA) with the National Community Reinvestment Coalition, establishing goals for lending and investments to low- and moderate-income (LMI) clients and census tracts. The CBA included commitments in mortgage lending, small business lending, community development lending and investments, philanthropy, marketing, and access to financial centers located in LMI communities. I am proud to report that we achieved 192% of the agreement's \$1.75 billion goal. Earlier this year, we further demonstrated our community commitment by entering a new five-year, \$2.4 billion CBA.

Finally, I want to call specific attention to our team of 2,100 First Financial associates. As I mentioned, their professionalism and dedication have helped the Bank deliver exceptional financial results and client care in the face of generational challenges. In 2023, our associates helped us achieve the Bank's most successful United Way giving campaign, with more than \$875,000 in pledges. And they made a direct impact in our communities by completing nearly 15,000 hours of volunteer service. The accomplishments listed here would never have been realized without their commitment to our company and our mission – to be a positive influence to help our clients and communities thrive.

I am grateful for the opportunity to lead this outstanding team, and to present you with this report of our 2023 efforts. It is a privilege to serve our clients, communities, and shareholders.

Archie M. Brown
President & Chief Executive Officer

leadership

Executive Management

Archie M. Brown
President and Chief
Executive Officer

James M. Anderson
Chief Financial Officer and
Chief Operating Officer

Richard S. Dennen
Chief Corporate Banking Officer

Gregory A. Harris
President, Yellow Cardinal Advisory
Services and Affluent Banking

William R. Harrod
Chief Credit Officer

Amanda N. Neeley
Chief Consumer Banking and
Strategy Officer

Matthew D. Reckman
Chief Commercial Banking Officer

James R. Shank
Chief Internal Auditor

Karen B. Woods
General Counsel and
Chief Administrative Officer

Board of Directors

Claude E. Davis
Board Chair, First Financial Bancorp
Co-Managing Partner, Brixey and Meyer Capital

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

Vincent A. Berta
Lead Independent Director
Board of Directors of First Financial Bancorp
President and Managing Director
Covington Capital, LLC

Cynthia O. Booth
President and Chief Executive Officer
Emerge Manufacturing

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

Susan L. Knust
Owner, Managing Partner or President
K.P. Properties of Ohio, K.P. Properties of Colorado,
K.P. Properties of Florida

William J. Kramer
Vice President of Finance and
Chief Financial Officer
Valco Industries, Inc.

Dawn C. Morris
Founder and CEO
Growth Partners Group

Thomas M. O'Brien
Founder
Simpactful Consulting

Andre T. Porter
Senior Vice President, General Counsel &
Chief Strategy Officer
Midcontinent Independent System Operator, Inc.

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

Gary W. Warzala
Executive Partner
Gartner, Inc.

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 backed loans	GAAP	U.S. Generally Accepted Accounting Principles
ACL or Allowance	Allowance for credit losses	GNMA	Government National Mortgage Association
AFS	Available-for-sale	HTC	Historic tax credit
AOCI	Accumulated other comprehensive income	HTM	Held-to-maturity
ASC	Accounting standards codification	Insignificant	Less than \$0.1 million
ASU	Accounting standards update	IRLC	Interest Rate Lock Commitment
ATM	Automated teller machine	LGD	Loss given default
Bank	First Financial Bank	LIHTC	Low income housing tax credit
Basel III	Basel Committee regulatory capital reforms, Third Basel Accord	LTV	Loan to value
Bp/bps	Basis point(s)	MBSs	Mortgage-backed securities
BOLI	Bank owned life insurance	MD&A	Management's Discussion and Analysis of Financial Condition and Results of Operations
CDs	Certificates of deposit	MSFG	MainSource Financial Group, Inc.
C&I	Commercial & industrial	N/A	Not applicable
CMOs	Collateralized mortgage obligations	NII	Net interest income
CRE	Commercial real estate	NMTC	New markets tax credit
Company	First Financial Bancorp.	N/M	Not meaningful
DDA	Demand deposit account	ODFI	Ohio Department of Financial Institutions
Dodd-Frank	Dodd-Frank Wall Street Reform and Consumer Protection Act	OREO	Other real estate owned
EAD	Exposure at Default	PCA	Prompt corrective action
ERISA	Employee Retirement Income Security Act	PCD	Purchase credit deteriorated
ERM	Enterprise Risk Management	PCI	Purchase credit impaired
EVE	Economic value of equity	PD	Probability of default
Fair Value Topic	FASB ASC Topic 825, Financial Instruments	PPP	Paycheck Protection Program
FASB	Financial Accounting Standards Board	R&S	Reasonable and supportable
FDIC	Federal Deposit Insurance Corporation	ROU	Right-of-use
FDM	Financial Difficulty Modification	SEC	United States Securities and Exchange Commission
FHLB	Federal Home Loan Bank	SFG or Summit	Summit Funding Group, Inc
FHLMC	Federal Home Loan Mortgage Corporation	SOFR	Secured Overnight Financing Rate
First Financial	First Financial Bancorp.	Topic 842	FASB ASC Topic 842, Leasing
FNMA	Federal National Mortgage Association	TDR	Troubled debt restructuring
Form 10-K	First Financial Bancorp. Annual Report on Form 10-K	TTC	Through the cycle
FRB	Federal Reserve Bank	USD	United States dollars

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

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 condition, cash flows, changes in financial condition 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 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 \$17.5 billion financial holding company headquartered in Cincinnati, Ohio. The Company primarily operates through First Financial Bank, an Ohio-chartered commercial bank with 130 full service banking centers. 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. The Commercial Finance business lends to targeted industry verticals on a nationwide basis. Operating under the brand of Yellow Cardinal Advisory Group, Wealth Management had \$3.5 billion in assets under management as of December 31, 2023 and provides the following services: financial planning, investment management, trust administration, estate settlement, business succession planning, brokerage services and retirement planning.

Additional information about First Financial, including its products, services and banking locations, is available on the Company's website at www.bankatfirst.com.

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

MARKET STRATEGY

First Financial develops 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. First Financial also has certain lending platforms that extend beyond the geographic banking center footprint to provide financing to franchise owners and clients within the financial services industry as well as equipment lease financing to commercial businesses. First Financial's investment in community markets is an important part of the Bank's core funding base and has historically provided stable, low-cost funding sources.

First Financial's market selection process includes multiple factors, but markets are primarily chosen for their potential for long-term profitability and growth. First Financial intends to concentrate plans for future growth and capital investment within its current 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 seek strategic acquisitions that provide product line extensions or additional industry verticals that complement its existing business and diversify its product suite and revenue streams.

BUSINESS COMBINATIONS

In the first quarter of 2023, First Financial purchased the assets of Brady Ware Capital, LLC (Brady Ware). Located in Miamisburg, Ohio, Brady Ware was an advisory firm for mergers and acquisitions, focusing primarily on business succession planning. First Financial acquired all of the assets of Brady Ware for aggregate consideration of approximately \$4.3 million, consisting of \$3.4 million in cash and a \$0.9 million earn-out payment. Pursuant to the purchase agreement, the earn-out payment is payable in installments for each of the five years following the closing of the acquisition, contingent upon the results of Brady Ware's operations.

The 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. Goodwill arising from the Brady Ware acquisition was \$4.2 million and reflects the business's growth potential and the expectation that the acquisition will provide additional revenue growth with the expansion of the Bank's advisory business. In May 2023, First Financial also acquired Brady Ware Corporate Finance, a broker-dealer and member of FINRA. First Financial recorded \$0.1 million of goodwill in connection with the acquisition of Brady Ware Corporate Finance. The fair value measurements of Brady Ware assets and liabilities 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 become available, and the measurement period ends in the first quarter of 2024 for Brady Ware. The measurement period for recording adjustments to the fair value of assets and liabilities ends in the second quarter of 2024 for Brady Ware Corporate Finance.

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

Table 1 • Financial Summary

	December 31,		
	2023	2022	2021
<i>(Dollars in thousands, except per share data)</i>			
Summary of operations			
Interest income	\$ 903,004	\$ 585,006	\$ 483,217
Tax equivalent adjustment ⁽¹⁾	6,356	6,357	6,091
Interest income tax – equivalent ⁽¹⁾	909,360	591,363	489,308
Interest expense	275,234	65,863	31,099
Net interest income tax – equivalent ⁽¹⁾	\$ 634,126	\$ 525,500	\$ 458,209
Interest income	\$ 903,004	\$ 585,006	\$ 483,217
Interest expense	275,234	65,863	31,099
Net interest income	627,770	519,143	452,118
Provision for credit losses	43,107	11,713	(18,121)
Noninterest income	212,422	189,641	171,506
Noninterest expenses	478,489	455,349	400,812
Income before income taxes	318,596	241,722	240,933
Income tax expense	62,733	24,110	35,773
Net income	\$ 255,863	\$ 217,612	\$ 205,160
Per share data			
Earnings per common share			
Basic	\$ 2.72	\$ 2.33	\$ 2.16
Diluted	\$ 2.69	\$ 2.30	\$ 2.14
Cash dividends declared per common share	\$ 0.92	\$ 0.92	\$ 0.92
Average common shares outstanding–basic (in thousands)	93,939	93,529	95,035
Average common shares outstanding–diluted (in thousands)	95,096	94,587	95,897
Selected year-end balances			
Total assets	\$ 17,532,900	\$ 17,003,316	\$ 16,329,141
Earning assets	14,966,741	14,331,900	13,941,829
Investment securities	3,231,392	3,636,829	4,409,237
Total loans and leases	10,933,176	10,298,971	9,288,299
Interest-bearing demand deposits	2,993,219	3,037,153	3,198,745
Savings deposits	4,331,228	3,828,139	4,157,374
Time deposits	2,718,390	1,700,705	1,330,263
Noninterest-bearing demand deposits	3,317,960	4,135,180	4,185,572
Total deposits	13,360,797	12,701,177	12,871,954
Short-term borrowings	937,814	1,287,156	296,203
Long-term debt	344,115	346,672	409,832
Shareholders' equity	2,267,974	2,041,373	2,258,942
Select Financial Ratios			
Average loans to average deposits ⁽²⁾	82.04 %	76.11 %	76.15 %
Net charge-offs to average loans and leases	0.33 %	0.06 %	0.26 %
Average shareholders' equity to average total assets	12.53 %	12.85 %	14.06 %
Average tangible shareholders' equity to average tangible assets	6.51 %	6.59 %	8.29 %
Return on average assets	1.51 %	1.33 %	1.28 %
Return on average equity	12.01 %	10.34 %	9.08 %
Return on average tangible shareholders' equity	24.72 %	21.62 %	16.43 %
Net interest margin	4.36 %	3.73 %	3.27 %
Net interest margin (tax equivalent basis) ⁽¹⁾	4.40 %	3.77 %	3.31 %
Dividend payout	33.82 %	39.48 %	42.59 %
Tangible book value per share	\$ 12.38	\$ 9.97	\$ 12.26

⁽¹⁾ Tax equivalent basis calculated using a 21% tax rate

⁽²⁾ Includes loans held for sale

OVERVIEW OF OPERATIONS

Net income for the year ended December 31, 2023 was \$255.9 million, resulting in earnings per diluted common share of \$2.69. This compares to net income of \$217.6 million and earnings per diluted common share of \$2.30 in 2022. Return on average assets was 1.51% and 1.33% for 2023 and 2022, respectively. First Financial's return on average tangible shareholders' equity for 2023 was 24.72%, compared to 21.62% for 2022.

Net interest income in 2023 increased \$108.6 million, or 20.9%, from 2022, to \$627.8 million, primarily driven by higher yields earned on the loan and investment portfolios resulting as a result of higher interest rates offsetting higher funding costs. The net interest margin on a fully tax equivalent basis was 4.40% for 2023 compared to 3.77% in 2022.

Noninterest income increased \$22.8 million, or 12.0%, to \$212.4 million during 2023 from \$189.6 million in 2022. The increase in 2023 was primarily driven by increases in leasing business income, other noninterest income and wealth management fees, which were partially offset by lower mortgage banking income.

Noninterest expense increased \$23.1 million, or 5.1%, from \$455.3 million in 2022 to \$478.5 million in 2023. This increase was largely driven by higher salaries and incentives, data processing expenses, FDIC assessments and leasing business expenses. These increases were partially offset by a decline in other noninterest expenses.

Income tax expense increased \$38.6 million, or 160.2%, to \$62.7 million in 2023 from \$24.1 million in 2022, with the effective tax rate increasing to 19.7% in 2023 from 10.0% in 2022. The increase in the effective tax rate in 2023 was primarily related to the recognition of fewer tax credit investments in 2023 compared to 2022.

Total loans increased \$634.2 million, or 6.2%, to \$10.9 billion at December 31, 2023 from \$10.3 billion at December 31, 2022, primarily driven by growth in residential real estate loans, lease financing and C&I loans. Total deposits increased \$659.6 million, or 5.2%, to \$13.4 billion as of December 31, 2023 from \$12.7 billion at December 31, 2022 due to increases in time and savings deposits, which offset declines in noninterest bearing deposits.

The ACL on loans and leases was \$141.4 million, or 1.29% of total loans at December 31, 2023, compared to \$133.0 million, and 1.29% of total loans at December 31, 2022. First Financial recorded \$43.1 million in provision expense during 2023, compared to \$6.7 million in provision expense during 2022.

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.

NON-GAAP FINANCIAL MEASURES

The Company utilizes certain non-GAAP financial measures, which it believes provide useful insight to the reader of the Consolidated Financial Statements. These non-GAAP measures should be supplemental to primary GAAP measures and should not be read in isolation or relied upon as a substitute for the primary GAAP measures.

For analytical purposes, net interest income is presented in the following table adjusted to a tax equivalent basis assuming a 21% marginal tax rate. Net interest income is disclosed 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.

Table 2 • Non-GAAP - Net Interest Income

(Dollars in thousands)	Year ended December 31,		
	2023	2022	2021
Net interest income	\$ 627,770	\$ 519,143	\$ 452,118
Tax equivalent adjustment	6,356	6,357	6,091
Net interest income - tax equivalent	\$ 634,126	\$ 525,500	\$ 458,209
Average earning assets	\$ 14,404,909	\$ 13,921,563	\$ 13,826,645
Net interest margin ⁽¹⁾	4.36 %	3.73 %	3.27 %
Net interest margin (FTE) ⁽¹⁾	4.40 %	3.77 %	3.31 %

⁽¹⁾ Calculated using net interest income divided by average earning assets

In addition to capital ratios defined by the U.S. banking agencies, First Financial considers various other measures when evaluating capital utilization and adequacy, including the return on average tangible shareholders' equity and the tangible shareholders' equity ratio. These calculations are intended to complement the capital ratios defined by the U.S. banking agencies for both absolute and comparative purposes. As GAAP does not include capital ratio measures, the Company believes there are no comparable GAAP financial measures to these ratios. These ratios are not formally defined by GAAP or codified in the federal banking regulations and, therefore, are considered to be non-GAAP financial measures.

First Financial believes return on average tangible shareholders' equity is an important measure for comparative purposes with other financial institutions, but it is not defined under GAAP, and therefore is considered a non-GAAP financial measure. This measure is useful for evaluating the performance of a business as it calculates the return available to common shareholders without the impact of intangible assets and their related amortization.

First Financial encourages readers to consider its Consolidated Financial Statements in their entirety and not to rely on any single financial measure.

The following table reconciles non-GAAP capital ratios to GAAP:

Table 3 • Non-GAAP - Capital Ratios

(Dollars in thousands)	Year ended December 31,		
	2023	2022	2021
Net income (a)	\$ 255,863	\$ 217,612	\$ 205,160
Average total shareholders' equity	2,129,751	2,105,339	2,259,807
Less:			
Average goodwill	(1,005,805)	(999,611)	(937,943)
Average other intangibles	(88,724)	(99,081)	(73,496)
Average tangible equity (b)	1,035,222	1,006,647	1,248,368
Total shareholders' equity	2,267,974	2,041,373	2,258,942
Less:			
Goodwill	(1,005,868)	(1,001,507)	(1,000,749)
Other intangibles	(83,949)	(93,919)	(104,367)
Ending tangible equity (c)	1,178,157	945,947	1,153,826
Total assets	17,532,900	17,003,316	16,329,141

Table 3 • Non-GAAP - Capital Ratios

	Year ended December 31,		
	2023	2022	2021
Less:			
Goodwill	(1,005,868)	(1,001,507)	(1,000,749)
Other intangibles	(83,949)	(93,919)	(104,367)
Ending tangible assets (d)	16,443,083	15,907,890	15,224,025
Risk-weighted assets (e)	13,374,177	12,923,233	11,642,201
Total average assets	16,997,223	16,382,730	16,072,360
Less:			
Average goodwill	(1,005,805)	(999,611)	(937,943)
Average other intangibles	(88,724)	(99,081)	(73,496)
Average tangible assets (f)	15,902,694	15,284,038	15,060,921
Ending common shares outstanding (g)	95,141,244	94,891,099	94,149,240
Ratios			
Return on average tangible shareholders' equity (a)/(b)	24.72 %	21.62 %	16.43 %
Ending tangible shareholders' equity as a percent of:			
Ending tangible assets (c)/(d)	7.17 %	5.95 %	7.58 %
Risk-weighted assets (c)/(e)	8.81 %	7.32 %	9.91 %
Average tangible shareholders' equity to average tangible assets (b)/(f)	6.51 %	6.59 %	8.29 %
Tangible book value per share (c)/(g)	\$ 12.38	\$ 9.97	\$ 12.26

NET INCOME

2023 vs. 2022. First Financial's net income increased \$38.3 million, or 17.6%, to \$255.9 million in 2023, compared to net income of \$217.6 million in 2022. The increase in 2023 was primarily related to a \$108.6 million, or 20.9%, increase in net interest income and a \$22.8 million, or 12.0%, increase in noninterest income, partially offset by a \$23.1 million, or 5.1%, increase in noninterest expenses, a \$36.3 million, or 539.9%, increase in provision expense and a \$38.6 million, or 160.2%, increase in income tax expense.

2022 vs. 2021. First Financial's net income increased \$12.5 million, or 6.1%, to \$217.6 million in 2022, compared to net income of \$205.2 million in 2021. The increase in 2022 was primarily related to a \$67.0 million, or 14.8%, increase in net interest income, a \$18.1 million, or 10.6%, increase in noninterest income and a \$11.7 million, or 32.6%, decrease in income tax expense, partially offset by a \$54.5 million, or 13.6%, increase in noninterest expenses and a \$25.8 million, or 135.4%, increase in provision expense.

For more detail, refer to the Net interest income, Noninterest income, Noninterest expenses, Income taxes, and Asset quality and allowance for credit losses sections that follow.

NET INTEREST INCOME

First Financial's net interest income for the years 2021 through 2023 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

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

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. First Financial's tax equivalent net interest margin was 4.40%, 3.77% and 3.31% for 2023, 2022 and 2021, respectively.

Table 5 – 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 5 – Volume/Rate Analysis - Tax Equivalent Basis, which should be read in conjunction with Table 4 – Statistical Information.

Loan fees included in the interest income computation for 2023, 2022 and 2021 were \$19.0 million, \$19.2 million and \$46.8 million, respectively, with the 2021 fees being heavily influenced by PPP activity. Interest income also included purchase accounting accretion of \$4.2 million, \$8.8 million and \$12.3 million for 2023, 2022 and 2021, respectively.

2023 vs. 2022. Net interest income increased \$108.6 million, or 20.9%, to \$627.8 million in 2023 from \$519.1 million in 2022, as interest rates rose during 2023. This increase was due to higher asset yields and higher earning asset balances more than offsetting an increase in interest bearing liabilities and rates paid on those liabilities during the period.

Net interest margin on a fully tax equivalent basis increased 63 bps to 4.40% for 2023 compared to 3.77% in 2022 as the Company's asset sensitive balance sheet responded to further Fed rate hikes. This resulted in a 206 bp increase in asset yields, which more than offset an increase in interest-bearing liabilities and a 190 bp increase in funding costs during the period.

Interest income grew \$318.0 million, or 54.4%, in 2023 when compared to the prior year as the yield on earning assets rose to 6.31% from 4.25%. Additionally, average earning assets increased to \$14.4 billion as of December 31, 2023 from \$13.9 billion in 2022, primarily due to a \$1.0 billion increase in average loan balances.

Total interest expense increased due to a 184 bp increase in the cost of interest-bearing deposits coupled with a \$878.3 million increase in those deposit balances, a 218 bp increase in the cost of average borrowings and a \$183.4 million increase in those borrowings. The increasing rate environment resulted in a shift in deposit mix as customers migrated from noninterest bearing accounts to higher cost deposit products. Additionally, higher interest rates drove the increase in the cost of interest-bearing deposits, which was 2.18% in 2023 compared to 34 bps for the same period in the prior year. Average borrowed funds increased \$183.4 million in 2023, while the cost of these borrowed funds increased to 5.38% in 2023 from 3.20% during 2022.

2022 vs. 2021. Net interest income increased \$67.0 million, or 14.8%, from \$452.1 million in 2021 to \$519.1 million in 2022, as interest rates rose during 2022. This increase was due to higher asset yields and higher earning asset balances more than offsetting an increase in interest-bearing liabilities and rates paid on those liabilities during the period.

Net interest margin on a fully tax equivalent basis increased 46 bps to 3.77% for 2022 compared to 3.31% in 2021 as the Company's asset sensitive balance sheet responded to multiple Fed rate hikes. This resulted in a 71 bp increase in asset yields, which more than offset an increase in interest-bearing liabilities and a 36 bp increase in funding costs during the period.

Interest income grew \$101.8 million, or 21.1%, in 2022 when compared to the prior year as the yield on earning assets rose to 4.25% from 3.54%. Additionally, average earning assets increased to \$13.9 billion as of December 31, 2022 from \$13.8 billion in 2021.

Total interest expense increased due to a 17 bp increase in the cost of interest-bearing deposits, an increase in average borrowings and a 63 bp increase in the average rate on those borrowings. The increasing rate environment drove the rise in the cost of interest-bearing deposits, which was 34 bps in 2022 compared to 17 bps for the same period in the prior year. Average borrowed funds increased \$529.8 million in 2022, while the cost of these borrowed funds increased to 3.20% in 2022 from 2.57% during 2021.

Table 4 • Statistical Information

	2023			2022			2021		
(Dollars in thousands)	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⁾	\$ 3,447,984	\$263,632	7.65 %	\$ 2,979,273	\$154,152	5.17 %	\$ 2,790,733	\$137,841	4.94 %
Lease financing ⁽²⁾	342,243	25,063	7.32 %	153,380	11,785	7.68 %	67,822	2,739	4.04 %
Construction-real estate	535,715	41,302	7.71 %	476,597	23,036	4.83 %	575,883	18,743	3.25 %
Commercial-real estate ⁽²⁾	4,038,457	293,353	7.26 %	4,040,365	185,017	4.58 %	4,379,325	152,251	3.48 %
Residential-real estate	1,231,507	54,065	4.39 %	989,743	40,083	4.05 %	971,692	40,275	4.14 %
Installment and other consumer	970,681	69,016	7.11 %	935,607	46,118	4.93 %	854,780	34,906	4.08 %
Total loans and leases	10,566,587	746,431	7.06 %	9,574,965	460,191	4.81 %	9,640,235	386,755	4.01 %
Investment securities ⁽³⁾									
Taxable	2,952,767	125,520	4.25 %	3,293,010	102,314	3.11 %	3,271,601	79,213	2.42 %
Tax-exempt ⁽²⁾	489,466	17,596	3.59 %	739,036	23,374	3.16 %	841,639	23,193	2.76 %
Total investment securities ⁽³⁾	3,442,233	143,116	4.16 %	4,032,046	125,688	3.12 %	4,113,240	102,406	2.49 %
Interest-bearing deposits with other banks	396,089	19,813	5.00 %	314,552	5,484	1.74 %	73,170	147	0.20 %
Total earning assets	14,404,909	909,360	6.31 %	13,921,563	591,363	4.25 %	13,826,645	489,308	3.54 %
Nonearning assets									
Allowance for credit losses	(145,472)			(125,001)			(162,477)		
Cash and due from banks	216,625			233,925			242,201		
Accrued interest and other assets	2,521,161			2,352,243			2,165,991		
Total assets	\$16,997,223			\$16,382,730			\$16,072,360		
Interest-bearing liabilities									
Deposits									
Interest-bearing demand	\$ 2,932,477	\$ 42,388	1.45 %	\$ 3,158,560	\$ 8,933	0.28 %	\$ 2,988,359	\$ 1,930	0.06 %
Savings	3,932,100	68,168	1.73 %	4,049,883	8,871	0.22 %	4,065,654	4,122	0.10 %
Time	2,397,289	91,454	3.81 %	1,175,086	10,336	0.88 %	1,601,295	8,383	0.52 %
Total interest-bearing deposits	9,261,866	202,010	2.18 %	8,383,529	28,140	0.34 %	8,655,308	14,435	0.17 %
Borrowed funds									
Short-term borrowings	1,019,470	53,378	5.24 %	817,495	19,132	2.34 %	204,503	198	0.10 %
Long-term debt	340,950	19,846	5.82 %	359,518	18,591	5.17 %	442,720	16,466	3.72 %
Total borrowed funds	1,360,420	73,224	5.38 %	1,177,013	37,723	3.20 %	647,223	16,664	2.57 %
Total interest-bearing liabilities	10,622,286	275,234	2.59 %	9,560,542	65,863	0.69 %	9,302,531	31,099	0.33 %
Noninterest-bearing liabilities									
Noninterest-bearing demand deposits	3,617,961			4,196,735			4,005,034		
Other liabilities	627,225			520,114			504,988		
Shareholders' equity	2,129,751			2,105,339			2,259,807		
Total liabilities and shareholders' equity	\$16,997,223			\$16,382,730			\$16,072,360		
Net interest income and interest rate spread (fully tax equivalent)		\$634,126	3.72 %		\$525,500	3.56 %		\$458,209	3.21 %
Net interest margin (fully tax equivalent)			4.40 %			3.77 %			3.31 %
Interest income and yield		\$903,004	6.27 %		\$585,006	4.20 %		\$483,217	3.49 %
Interest expense and rate		275,234	2.59 %		65,863	0.69 %		31,099	0.33 %
Net interest income and spread		\$627,770	3.68 %		\$519,143	3.51 %		\$452,118	3.16 %
Net interest margin			4.36 %			3.73 %			3.27 %

⁽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% tax rate.

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

⁽⁴⁾ Includes loans held-for-sale

Table 5 • Volume/Rate Analysis - Tax Equivalent Basis ⁽¹⁾

(Dollars in thousands)	2023 change from 2022 due to			2022 change from 2021 due to		
	Volume	Rate	Total	Volume	Rate	Total
Interest income						
Loans ⁽²⁾	\$ 70,049	\$ 216,191	\$ 286,240	\$ (3,137)	\$ 76,573	\$ 73,436
Investment securities ⁽³⁾						
Taxable	(14,463)	37,669	23,206	665	22,436	23,101
Tax-exempt	(8,972)	3,194	(5,778)	(3,245)	3,426	181
Total investment securities interest ⁽³⁾	(23,435)	40,863	17,428	(2,580)	25,862	23,282
Interest-bearing deposits with other banks	4,079	10,250	14,329	4,208	1,129	5,337
Total	50,693	267,304	317,997	(1,509)	103,564	102,055
Interest expense						
Interest-bearing demand deposits	(3,268)	36,723	33,455	481	6,522	7,003
Savings deposits	(2,042)	61,339	59,297	(35)	4,784	4,749
Time deposits	46,626	34,492	81,118	(3,749)	5,702	1,953
Short-term borrowings	10,575	23,671	34,246	14,346	4,588	18,934
Long-term debt	(1,081)	2,336	1,255	(4,302)	6,427	2,125
Total	50,810	158,561	209,371	6,741	28,023	34,764
Net interest income	<u>\$ (117)</u>	<u>\$ 108,743</u>	<u>\$ 108,626</u>	<u>\$ (8,250)</u>	<u>\$ 75,541</u>	<u>\$ 67,291</u>

⁽¹⁾ Tax equivalent basis calculated using a 21% tax rate

⁽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 2023, 2022 and 2021 are shown in Table 6 – Noninterest Income and Noninterest Expenses.

NONINTEREST INCOME

2023 vs. 2022. Noninterest income increased \$22.8 million, or 12.0%, to \$212.4 million in 2023 from \$189.6 million in 2022. The increase was primarily attributed to a \$19.7 million, or 62.5%, increase in leasing business income, a \$4.4 million, or 24.9%, increase in other noninterest income and a \$2.6 million, or 11.0% increase in wealth management fees. These increases were partially offset by an \$1.8 million, or 12.2%, decrease in gain on sale of loans, a \$0.9 million, or 1.7%, decrease in foreign exchange income, and a \$0.8 million, or 2.8%, decrease in service charges on deposit accounts.

The growth in leasing business income in 2023, reflected continued growth from Summit Funding Group during the year. The increase in other noninterest income was driven by BOLI gains as well as higher loan syndication fees, while wealth management fees were boosted by an increase in managed assets.

Partially offsetting these increases, gains on sales of retail mortgage loans declined in 2023 as loan demand slowed due to a significant increase in interest rates. Foreign exchange income declined slightly following record high levels in 2022, and service charge income declined due to a full-year impact of the Company's changes to its service charge and overdraft programs in 2022.

2022 vs. 2021. Noninterest income increased \$18.1 million, or 10.6%, to \$189.6 million in 2022 from \$171.5 million in 2021. The increase was attributed to \$31.6 million of leasing business income, a \$10.2 million, or 22.7%, increase in foreign exchange income and a \$2.0 million, or 12.6%, increase in other noninterest income. These increases were partially offset by an \$18.0 million, or 54.4%, decrease in gain on sale of loans, a \$3.8 million, or 12.0%, decrease in service charges on deposit accounts, a \$2.5 million, or 31.4%, decrease in client derivative fees and a \$1.3 million, or 191.0%, decrease in unrealized gain (loss) on equity securities.

Noninterest income in 2022 was bolstered by leasing business income, which reflected new activity acquired as part of the

Summit Funding Group acquisition at the end of 2021. In addition, foreign exchange income increased during the year due to record demand for currency transactions in 2022. The increase in other noninterest income was driven by higher income earned on limited partnership investments during the year.

Partially offsetting those increases, gains on sales of retail mortgage loans declined from the prior year as loan demand slowed due to a significant increase in interest rates. Service charge income declined during the year as a result of the Company's changes to its service charge and overdraft programs, and client derivative fees declined as a result of lower product demand. The unrealized loss on equity securities in 2022 was related to a decline in the value of the Company's Class B Visa shares.

Table 6 • Noninterest Income and Noninterest Expenses

<i>(Dollars in thousands)</i>	2023		2022		2021	
	Total	% Change	Total	% Change	Total	% Change
Noninterest income						
Service charges on deposit accounts	\$ 27,289	(2.8)%	\$ 28,062	(12.0)%	\$ 31,876	8.3 %
Wealth management fees	26,081	11.0 %	23,506	(1.2)%	23,780	11.7 %
Bankcard income	14,039	(2.4)%	14,380	0.6 %	14,300	22.0 %
Client derivative fees	5,155	(5.3)%	5,441	(31.4)%	7,927	(23.1)%
Foreign exchange income	54,051	(1.7)%	54,965	22.7 %	44,793	13.8 %
Leasing business income	51,322	62.5 %	31,574	N/M	0	N/M
Net gains from sales of loans	13,217	(12.2)%	15,048	(54.4)%	33,021	(35.5)%
Net gain (loss) on equity securities	206	(132.2)%	(639)	(191.0)%	702	(92.2)%
Other	22,320	24.9 %	17,873	12.6 %	15,866	30.1 %
Subtotal	213,680	12.3 %	190,210	10.4 %	172,265	(6.7)%
Net gain (loss) on sales/transfers of investment securities	(1,258)	121.1 %	(569)	(25.0)%	(759)	(116.6)%
Total	\$ 212,422	12.0 %	\$ 189,641	10.6 %	\$ 171,506	(9.3)%
Noninterest expenses						
Salaries and employee benefits	\$ 292,731	8.7 %	\$ 269,368	9.5 %	\$ 245,924	3.9 %
Net occupancy	22,990	3.5 %	22,208	0.3 %	22,142	(4.8)%
Furniture and equipment	13,543	2.4 %	13,224	(4.3)%	13,819	(7.7)%
Data processing	35,852	6.5 %	33,662	7.3 %	31,363	14.0 %
Marketing	9,647	10.3 %	8,744	9.5 %	7,983	24.5 %
Communication	2,729	1.7 %	2,683	(8.4)%	2,930	(16.1)%
Professional services	9,926	2.0 %	9,734	(16.6)%	11,676	17.2 %
State intangible tax	3,914	(8.7)%	4,285	0.7 %	4,256	(29.7)%
FDIC assessments	11,948	66.1 %	7,194	27.8 %	5,630	10.2 %
Intangible assets amortization	10,402	(7.0)%	11,185	13.7 %	9,839	(11.6)%
Leasing business expense	32,500	59.6 %	20,363	N/M	0	N/M
Other	32,307	(38.7)%	52,699	16.5 %	45,250	16.9 %
Total	\$ 478,489	5.1 %	\$ 455,349	13.6 %	\$ 400,812	2.6 %

NONINTEREST EXPENSES

2023 vs. 2022. Noninterest expenses increased \$23.1 million, or 5.1%, to \$478.5 million in 2023 compared to \$455.3 million in 2022, primarily due to a \$23.4 million, or 8.7%, increase in salaries and employee benefits, a \$12.1 million, or 59.6% increase in leasing business expenses, a \$4.8 million, or 66.1%, increase in FDIC assessments, and a \$2.2 million, or 6.5%, increase in data processing expenses. Partially offsetting these increases was a \$20.4 million, or 38.7%, decrease in other noninterest expenses.

Salaries and employee benefits in 2023 were driven higher by annual compensation adjustments, incentive compensation tied to fee income, and performance related incentives tied to the Company's financial results. Leasing business expense reflected continued growth from Summit Funding Group during the year. FDIC assessment expense increased during 2023 due to higher assessment rates coupled with a one-time special assessment of \$0.9 million, while data processing expenses increased as the Company continued to make strategic investments in technology, including its online banking platform. Partially offsetting these increases, other noninterest expense declined in 2023 due to elevated tax credit investment write-downs in 2022 that did not recur in the current year.

2022 vs. 2021. Noninterest expenses increased \$54.5 million, or 13.6%, in 2022 compared to 2021, primarily due to a \$23.4 million, or 9.5%, increase in salaries and employee benefits, \$20.4 million of leasing business expense, a \$7.4 million, or 16.5%, increase in other noninterest expenses, a \$2.3 million, or 7.3%, increase in data processing expenses, a \$1.6 million, or 27.8%, increase in FDIC assessments and a \$1.3 million, or 13.7%, increase in intangible asset amortization expense. These increases were partially offset by a \$1.9 million, or 16.6%, decrease in professional services.

Salaries and employee benefits in 2022 were driven higher by annual compensation adjustments, incentive compensation tied to fee income, and performance related incentives tied to the Company's financial results. Leasing business expense reflected new activity acquired as part of the Summit Funding Group transaction. The increase in other noninterest expense was largely attributed to higher write-downs of tax credit investments in 2022, while data processing expenses increased as the Company continued to make strategic investments in technology. FDIC assessment expense increased during the year due to higher assessment rates while intangible amortization expenses increased following the acquisition of Summit. Professional services declined in 2022 due to acquisition and loan sale related expenses in 2021 that did not recur in 2022.

INCOME TAXES

2023 vs. 2022. First Financial's income tax expense in 2023 totaled \$62.7 million compared to \$24.1 million in 2022, resulting in effective tax rates of 19.7% and 10.0% for 2023 and 2022, respectively. The higher effective tax rate in 2023 was primarily related to higher pre-tax income during the year as well as tax credit activity during 2022 that did not recur in 2023.

2022 vs. 2021. First Financial's income tax expense in 2022 totaled \$24.1 million compared to \$35.8 million in 2021, resulting in effective tax rates of 10.0% and 14.8% for 2022 and 2021, respectively. The lower effective tax rate in 2022 was primarily related to an increase in tax credit activity during the year, partially offset by higher pre-tax income.

For further information on income taxes, see Note 16 – Income Taxes in the Notes to Consolidated Financial Statements.

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 MBS. The investment portfolio is also managed with consideration to prepayment, extension and maturity risk. First Financial invests primarily in MBS 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 51.0% and 47.4% of First Financial's investment securities portfolio as of December 31, 2023 and 2022, 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. Prior to purchase, First Financial performs a detailed collateral and structural analysis on these securities and strategically invests in asset classes in which First Financial has expertise and experience, as well as a senior position in the capital structure. First Financial continuously monitors credit risk and geographic concentration risk in its evaluation of market opportunities that would enhance the overall performance of the

portfolio. Securities not supported by government or agency guarantees represented 49.0% and 52.6% of First Financial's investment securities portfolio as of December 31, 2023 and 2022, respectively.

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

2023 vs. 2022. First Financial's investment portfolio at December 31, 2023 totaled \$3.1 billion, compared to \$3.5 billion at December 31, 2022, and represented 17.7% of total assets at December 31, 2023. The \$392.2 million, or 11.2%, decline in the investment portfolio during 2023 was primarily related to the Company's strategic redeployment of balance sheet liquidity to fund loan growth during the year.

First Financial classified \$3.0 billion, or 97.4%, and \$3.4 billion, or 97.6%, of investment securities as AFS at December 31, 2023 and 2022, respectively. First Financial classified \$80.3 million, or 2.6%, and \$84.0 million, or 2.4%, of investment securities as HTM at December 31, 2023 and 2022, respectively.

First Financial recorded a \$282.0 million unrealized after-tax loss on the investment portfolio as a component of equity in AOCI resulting from changes in the fair value of AFS securities at December 31, 2023 due to rising interest rates. This unrealized loss position improved \$44.0 million in 2023 from a \$325.9 million unrealized after-tax loss at December 31, 2022. The overall duration of the investment portfolio was 4.6 years as of both December 31, 2023 and December 31, 2022. 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.

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, were not meaningful as a percentage of the portfolio at either December 31, 2023 or December 31, 2022.

Investments in MBS securities, which include CMOs, represented 52.5% and 51.6% of First Financial's total investment portfolio at December 31, 2023 and 2022, respectively. MBS 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 \$660.7 million as of December 31, 2023 and \$716.6 million as of December 31, 2022, comprising 21.3% and 20.5% of the investment portfolio at December 31, 2023 and 2022, 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 \$560.2 million, or 18.1% of the investment portfolio at December 31, 2023 and \$711.3 million, or 20.4% of the investment portfolio at December 31, 2022. 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, in addition to debt securities issued by corporations, were \$151.7 million, or 4.9% of the investment portfolio, at December 31, 2023 and \$164.6 million, or 4.7% of the investment portfolio, at December 31, 2022.

Table 7 • Investment Securities as of December 31

	2023		2022	
	Amount	Percent of Portfolio	Amount	Percent of Portfolio
<i>(Dollars in thousands)</i>				
U.S. Treasuries	\$ 31,243	1.0 %	\$ 32,696	0.9 %
Securities of U.S. government agencies and corporations	69,780	2.2 %	66,468	1.9 %
Mortgage-backed securities-residential	661,048	21.3 %	650,063	18.6 %
Mortgage-backed securities-commercial	540,156	17.4 %	664,925	19.0 %
Collateralized mortgage obligations	426,618	13.8 %	486,992	14.0 %
Obligations of state and other political subdivisions	660,692	21.3 %	716,591	20.5 %
Asset-backed securities	560,248	18.1 %	711,325	20.4 %
Other securities	151,662	4.9 %	164,609	4.7 %
Total	\$ 3,101,447	100.0 %	\$ 3,493,669	100.0 %

The estimated maturities and weighted-average yields of HTM and AFS investment securities as of December 31, 2023 are shown in Table 8 – Investment Securities. Tax-equivalent adjustments using a rate of 21% were included in calculating yields on tax-exempt obligations of state and other political subdivisions.

First Financial held \$793.0 million and \$388.2 million of cash on deposit with the Federal Reserve at December 31, 2023 and 2022, respectively. First Financial continually monitors its liquidity position as part of its ERM framework, specifically through its asset/liability management process.

The Company had a \$0.2 million unrealized gain on equity securities recorded in noninterest income for the twelve months ended December 31, 2023 compared to a \$0.6 million unrealized loss for the same period of 2022.

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 23 – 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, 2023

(Dollars in thousands)	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 %	0	0.00 %	0	0.00 %	0	0.00 %
Mortgage-backed securities-commercial	0	0.00 %	485	3.00 %	32,441	2.35 %	0	0.00 %
Collateralized mortgage obligations	0	0.00 %	3,917	2.45 %	4,053	1.64 %	0	0.00 %
Obligations of state and other political subdivisions	0	0.00 %	4,595	3.46 %	1,880	3.67 %	1,700	2.25 %
Other securities	0	0.00 %	0	0.00 %	31,250	5.13 %	0	0.00 %
Total	<u>\$ 0</u>	<u>0.00 %</u>	<u>\$ 8,997</u>	<u>3.00 %</u>	<u>\$ 69,624</u>	<u>3.60 %</u>	<u>\$ 1,700</u>	<u>2.25 %</u>
Available-for-Sale								
U.S. treasuries	\$ 0	0.00 %	\$ 31,243	1.32 %	\$ 0	0.00 %	\$ 0	0.00 %
Securities of other U.S. government agencies and corporations	0	0.00 %	0	0.00 %	69,780	1.74 %	0	0.00 %
Mortgage-backed securities-residential	83	3.50 %	69,690	3.30 %	250,719	2.31 %	340,556	2.35 %
Mortgage-backed securities-commercial	222,460	7.72 %	214,156	4.63 %	61,378	1.87 %	9,236	2.90 %
Collateralized mortgage obligations	11,228	6.07 %	165,141	2.78 %	136,299	2.29 %	105,980	2.25 %
Obligations of state and other political subdivisions	33,156	3.46 %	131,334	2.97 %	274,178	2.49 %	213,849	2.39 %
Asset-backed securities	283,977	6.26 %	209,987	3.17 %	55,169	2.68 %	11,115	3.40 %
Other securities	0	0.00 %	72,720	7.23 %	44,778	4.75 %	2,914	4.08 %
Total	<u>\$ 550,904</u>	<u>6.66 %</u>	<u>\$ 894,271</u>	<u>3.69 %</u>	<u>\$ 892,301</u>	<u>2.43 %</u>	<u>\$ 683,650</u>	<u>2.39 %</u>

⁽¹⁾ Tax equivalent basis was calculated using a 21% tax rate and yields were based on amortized cost.

⁽²⁾ Maturity represents estimated life of investment securities

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 and leasing lines of business serve 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.

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 ACL. 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 and/or classified based on individual borrower performance or industry and environmental factors. Criticized and classified loans are subject to more frequent internal reviews to assess the borrower's credit status and develop appropriate action plans.

Management considers classified loans to be the leading indicator of credit losses, and these loans 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

2023 vs. 2022. Loans, excluding loans held for sale, totaled \$10.9 billion at December 31, 2023, increasing \$634.2 million, or 6.2%, compared to December 31, 2022.

Residential real estate loans increased \$241.4 million, or 22.1%, as rising interest rates led to more adjustable rate and nonconforming jumbo mortgage originations, which the Company retains on its balance sheet. Finance lease balances increased \$238.7 million, or 101.1%, due to new production from Summit Funding Group. C&I loans increased \$90.9 million, or 2.7%, largely due to the Company's strong origination efforts over the course of 2023. Additionally, construction real estate loans increased \$52.8 million, or 10.3%; commercial real estate loans increased \$28.2 million, or 0.7%; home equity loans increased \$24.9 million, or 3.4%; and credit card balances increased \$8.1 million, or 15.7%. Partially offsetting these increases was a decline in installment loans, which decreased \$50.8 million, or 24.2%, during 2023.

Average loan balances, including loans held for sale, were \$10.6 billion for 2023, an increase of \$1.0 billion, or 10.4%, compared to 2022.

Table 9 – Loan Maturity/Rate Sensitivity indicates the contractual maturity of all loans outstanding at December 31, 2023 as well as their sensitivity to changes in interest rates.

For discussion of risks associated with the loan portfolio and First Financial's ACL, see the Asset Quality and Allowance for Credit Losses section included in Management's Discussion and Analysis.

Table 9 • Loan Maturity/Rate Sensitivity

December 31, 2023					
Maturity					
(Dollars in thousands)	Within one year	After one but within five years	After five but within fifteen years	After fifteen years	Total
Commercial & industrial	\$ 698,171	\$ 2,224,560	\$ 575,751	\$ 2,739	\$ 3,501,221
Lease financing	104,116	339,677	31,024	0	474,817
Construction real estate	133,294	281,196	39,807	110,535	564,832
Commercial real estate	782,812	2,110,544	1,141,385	46,198	4,080,939
Residential real estate	38,361	146,207	425,495	723,611	1,333,674
Home equity	22,183	95,139	132,907	508,447	758,676
Installment	37,289	93,600	26,700	1,489	159,078
Credit card	0	0	0	59,939	59,939
Total	\$ 1,816,226	\$ 5,290,923	\$ 2,373,069	\$ 1,452,958	\$ 10,933,176

(Dollars in thousands)	Within one year	After one but within five years	After five but within fifteen years	After fifteen years	Total
Fixed rate					
Commercial & industrial	\$ 151,861	\$ 419,545	\$ 150,981	\$ 1,186	\$ 723,573
Lease financing	91,277	292,047	22,545	0	405,869
Construction real estate	742	725	1,516	64,111	67,094
Commercial real estate	77,087	283,952	175,099	4,025	540,163
Residential real estate	30,209	109,009	317,841	540,091	997,150
Home equity	13,056	42,081	69,868	34,816	159,821
Installment	33,352	87,017	23,751	1,438	145,558
Credit card	0	0	0	490	490
Total	\$ 397,584	\$ 1,234,376	\$ 761,601	\$ 646,157	\$ 3,039,718
Variable rate					
Commercial & industrial	\$ 546,310	\$ 1,805,015	\$ 424,770	\$ 1,553	\$ 2,777,648
Lease financing	12,839	47,630	8,479	0	68,948
Construction real estate	132,552	280,471	38,291	46,424	497,738
Commercial real estate	705,725	1,826,592	966,286	42,173	3,540,776
Residential real estate	8,152	37,198	107,654	183,520	336,524
Home equity	9,127	53,058	63,039	473,631	598,855
Installment	3,937	6,583	2,949	51	13,520
Credit card	0	0	0	59,449	59,449
Total	\$ 1,418,642	\$ 4,056,547	\$ 1,611,468	\$ 806,801	\$ 7,893,458

In an effort to mitigate credit risk, First Financial routinely reviews its loan portfolio for various concentrations. These reviews consider the Bank's collateral position as well as exposure to a given industry sector. First Financial believes that the loan portfolio is sufficiently diversified to provide protection from deterioration in any particular industry or devaluation of a specific collateral type. Table 10 - C&I and Owner Occupied Loans by Sector and Table 11 - Investor CRE Loans by Property Type provide additional detail behind the Company's C&I and CRE loan portfolios as of December 31, 2023.

Table 10 • C&I and Owner Occupied CRE Loans by Sector ⁽¹⁾

<i>(Dollars in thousands)</i>	December 31, 2023	% of Total Loans
NAICS Sector		
Finance and Insurance	\$ 834,614	18.8 %
Real Estate and Rental and Leasing	774,814	7.1 %
Manufacturing	557,859	5.1 %
Accommodation and Food Services	308,219	2.8 %
Health Care and Social Assistance	260,386	2.4 %
Construction	254,909	2.3 %
Professional, Scientific, and Technical Services	221,985	2.0 %
Retail Trade	187,222	1.7 %
Transportation and Warehousing	168,515	1.5 %
Other Services (except Public Administration)	167,080	1.5 %
Agriculture, Forestry, Fishing and Hunting	157,287	1.4 %
Wholesale Trade	149,576	1.4 %
Administrative and Support and Waste Management	96,949	0.9 %
Arts, Entertainment, and Recreation	83,413	0.8 %
Public Administration	57,569	0.5 %
Other	170,791	1.6 %
Total	\$ 4,451,188	40.7 %

⁽¹⁾ Excludes loan marks and loans in process

Table 11 • Investor CRE Loans by Property Type ⁽¹⁾

<i>(Dollars in thousands)</i>	December 31, 2023	% of Total Loans
Property Type		
Residential Multi Family 5+	\$ 891,488	8.2 %
Retail Property	742,293	6.8 %
Office	441,339	4.0 %
Industrial	327,939	3.0 %
Hospital/Nursing Home	253,434	2.3 %
Hotel	204,104	1.9 %
Land	92,037	0.8 %
Residential 1-4 Family	77,975	0.7 %
Industrial	57,777	0.5 %
Other	57,696	0.5 %
Total	\$ 3,146,082	28.8 %

⁽¹⁾ Excludes loan marks and loans in process

Additionally, given the potential for stress related to commercial office space, First Financial performed a targeted review of its exposure to this sector during 2023. As of December 31, 2023, First Financial had \$462.4 million of loans collateralized by non-owner occupied office space, which represents 4.2% of the total loan portfolio. The overall LTV of the portfolio at origination is strong, and 67.9% of the portfolio is located in suburban locations. Additionally, the majority of the portfolio is secured by Class A and Class B assets with recourse to the sponsor. As of December 31, 2023, 91.0% of the office portfolio was pass rated, and there were two relationships totaling \$22.6 million on nonaccrual status.

COMMITMENTS AND CONTINGENCIES

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 \$4.5 billion and \$4.4 billion at December 31, 2023 and 2022, respectively. This increase in commitments was driven by the Company's strong origination efforts during the year.

As of December 31, 2023, loan commitments with variable interest rates totaled \$4.4 billion, while commitments with a fixed interest rate totaled \$108.2 million. At December 31, 2022, commitments with variable interest rates totaled \$4.2 billion, while loan commitments with a fixed interest rate totaled \$126.3 million. The fixed rate loan commitments have interest rates ranging from 0% to 21% for both December 31, 2023 and 2022 and have maturities ranging from less than 1 year to 31.6 years at both December 31, 2023 and December 31, 2022.

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 issued letters of credit aggregating \$34.9 million and \$31.5 million at December 31, 2023, and 2022, respectively. Management conducts regular reviews of these instruments on an individual client basis.

First Financial is a party in risk participation transactions of interest rate swaps, which had total notional amounts of \$341.7 million and \$379.3 million at December 31, 2023, and 2022, respectively.

First Financial is a limited partner in several tax-advantaged limited partnerships whose purpose is to invest in approved qualified affordable housing, renewable energy, or other renovation or community revitalization projects. These investments are included in Accrued interest and other assets in the Consolidated Balance Sheets, with any unfunded commitments included in Accrued interest and other liabilities in the Consolidated Balance Sheets. As of December 31, 2023, First Financial expects to recover its remaining investments through the use of the tax credits that are generated by the investments. First Financial had unfunded commitments related to tax credit investments of \$96.4 million and \$84.3 million at December 31, 2023 and 2022, respectively.

In the ordinary course of business, First Financial and its subsidiaries are parties to litigation, including claims to the ownership of funds in particular accounts, the collection of delinquent accounts, challenges to security interests in collateral, foreclosure interests that are incidental to our regular business activities and other matters. 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, 2023. 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, 2023 or December 31, 2022.

ASSET QUALITY AND ALLOWANCE FOR CREDIT LOSSES

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.

As detailed in Note 2, the Company prospectively adopted ASU 2022-02 effective as of January 1, 2023. The new rule eliminated the accounting for TDRs while establishing a new standard for the treatment of modifications made to borrowers experiencing financial difficulties, defined by First Financial as FDMs. Effective with the adoption of the standard, the

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

Company prospectively will not include FDMs in the calculation of nonperforming loans, nonperforming assets or classified assets. Prior period data, which included TDRs, has not been adjusted.

See Table 12 – Summary of the ACL and Selected Statistics for a summary of First Financial's nonaccrual loans and OREO, which collectively comprise nonperforming assets.

2023 vs. 2022. Nonaccrual loans as of December 31, 2023 were \$65.8 million, or 60 bps of total loans. This represents a \$37.1 million, or 129.7%, increase from \$28.6 million as of December 31, 2022. The increase in nonaccrual loans was primarily attributed to two large CRE credits that were downgraded during 2023. Total nonperforming assets increased \$26.1 million, or 65.6%, to \$65.9 million at December 31, 2023 from \$39.8 million at December 31, 2022. The increase in nonperforming assets was driven by the increase in nonaccrual loans, partially offset by the impact from adopting ASU 2022-02, which eliminated consideration of \$11.0 million of accruing TDRs from nonperforming assets.

Classified asset balances increased \$12.9 million, or 10.0%, to \$141.0 million at December 31, 2023 from \$128.1 million at December 31, 2022. The increase was largely attributed to two CRE loans downgraded to nonaccrual, partially offset by the payoff of one large healthcare credit.

Allowance for credit losses. The ACL is a reserve accumulated on the Consolidated Balance Sheets through the recognition of the provision for loan and lease losses. First Financial records provision expense in the Consolidated Statements of Income to maintain the ACL at a level considered sufficient to absorb expected credit losses for financial assets in the portfolio over their expected remaining lives with consideration given to current and forward-looking information.

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 ACL. Any subsequent recovery of a previously charged-off loan is credited back to the ACL.

Management estimates the allowance using relevant available information from both internal and external sources, relating to past events, current conditions and reasonable and supportable forecasts. Historical credit loss experience paired with economic forecasts provide the basis for the quantitatively modeled estimation of expected credit losses. First Financial adjusts its quantitative model, as necessary, to reflect conditions not already considered therein. These adjustments are commonly known as the Qualitative Framework. The evaluation of these factors is the responsibility of the ACL Committee, which is comprised of senior officers from the risk management, credit administration, finance and lending areas.

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

2023 vs. 2022. The total ACL, which includes both funded and unfunded reserves, was \$159.9 million at December 31, 2023, which combined with 33 bps of net charge-offs to result in \$43.1 million in total provision expense for the year. This compared to a total allowance of \$151.4 million as of December 31, 2022 and \$11.7 million of provision expense in 2022.

The Company utilized the Moody's December baseline forecast as its R&S forecast in the quantitative model at December 31, 2023. For reasonableness, the Company also considered the impact to the model from alternative, more adverse economic forecasts and slower prepayment speeds. These alternative analyses were utilized to inform the Company's qualitative adjustments. Additionally, First Financial considered its credit exposure to certain industries believed to be at risk for future credit stress, such as franchise, hotel and investor commercial real estate lending, when making qualitative adjustments to the ACL model.

ACL - Loans and Leases. The ACL on loans and leases at December 31, 2023 was \$141.4 million, which was an \$8.5 million, or 6.4%, increase from \$133.0 million at December 31, 2022. The ACL was 1.29% as a percentage of total loans as of both December 31, 2023 and December 31, 2022. Provision expense increased \$36.3 million, or 539.9%, to \$43.1 million in 2023 from \$6.7 million of provision expense in 2022. Modest ACL growth in 2023 was driven by loan growth and slower prepayments speeds during the period.

Net charge-offs increased \$28.9 million, or 502.5%, to \$34.6 million for 2023 compared to \$5.7 million for 2022, while the ratio of net charge-offs as a percentage of average loans outstanding increased to 33 bps in 2023 from 6 bps in 2022. The increase in 2023 was largely attributed to two large relationships, which totaled \$16.1 million. Additionally, \$6.1 million of losses were incurred on loan sales during 2023 intended to minimize concentration risks.

The ACL as a percentage of nonaccrual loans was 215.1% at December 31, 2023 and 464.6% at December 31, 2022. The decrease in this ratio was attributed to the increase in nonaccrual loans during the period outpacing the increase in the ACL.

Provision expense is a product of the Company's ACL model combined with net charge-off activity during the period. Provision expense increased \$36.3 million during 2023 as the Company recorded \$43.1 million of provision expense during the period compared to \$6.7 million in 2022. The increase in provision expense was driven by loan growth and the increase in net charge-offs during the period.

ACL - Unfunded Commitments. The ACL on unfunded commitments was \$18.4 million as of both December 31, 2023 and December 31, 2022. First Financial recorded insignificant provision expense on unfunded commitments for the year ended December 31, 2023 compared to \$5.0 million for the same period of 2022.

For further discussion of First Financial's ACL, see Note 6 – Allowance for Credit Losses in the Notes to Consolidated Financial Statements.

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Table 12 • Summary of the ACL and Selected Statistics

<i>(Dollars in thousands)</i>	2023	2022	2021	2020	2019
Transactions in the allowance for credit losses:					
Balance at January 1	\$ 132,977	\$ 131,992	\$ 175,679	\$ 57,650	\$ 56,542
Day one adoption impact of ASC 326	0	0	0	61,505	0
Purchase accounting ACL for PCD	0	0	17	0	0
Provision for credit losses	43,074	6,731	(19,024)	70,796	30,598
Loans charged-off:					
Commercial & industrial	19,175	5,899	15,620	5,345	26,676
Lease financing	4,423	152	0	852	162
Construction real estate	0	0	1,498	0	0
Commercial real estate	8,723	3,667	13,471	12,100	3,689
Real estate-residential	39	224	127	488	677
Home equity	340	160	1,073	1,541	2,591
Installment	6,442	1,549	334	148	223
Credit card	1,173	907	780	885	1,547
Total loans charged-off	40,315	12,558	32,903	21,359	35,565
Recoveries of loans previously charged-off:					
Commercial & industrial	1,534	939	1,612	2,907	2,883
Lease financing	55	49	0	0	0
Construction real estate	0	0	3	17	68
Commercial real estate	2,523	4,304	4,785	2,262	1,113
Real estate-residential	247	174	228	381	273
Home equity	615	898	1,223	1,132	1,335
Installment	441	165	151	158	251
Credit card	282	283	221	230	152
Total recoveries	5,697	6,812	8,223	7,087	6,075
Net charge-offs	34,618	5,746	24,680	14,272	29,490
Balance at December 31	\$ 141,433	\$ 132,977	\$ 131,992	\$ 175,679	\$ 57,650
Net charge-offs to average loans and leases					
Commercial & industrial	0.51 %	0.17 %	0.50 %	0.08 %	0.95 %
Lease financing	1.28 %	0.07 %	0.00 %	1.07 %	0.17 %
Construction real estate	0.00 %	0.00 %	0.26 %	0.00 %	(0.01)%
Commercial real estate	0.15 %	(0.02)%	0.20 %	0.23 %	0.07 %
Real estate-residential	(0.02)%	0.01 %	(0.01)%	0.01 %	0.04 %
Home equity	(0.04)%	(0.10)%	(0.02)%	0.05 %	0.16 %
Installment	3.42 %	0.87 %	0.20 %	(0.01)%	(0.03)%
Credit card	1.49 %	1.14 %	1.13 %	1.39 %	2.81 %
Total net charge-offs	0.33 %	0.06 %	0.26 %	0.14 %	0.33 %
Nonperforming assets					
Nonaccrual loans ⁽¹⁾	\$ 65,753	\$ 28,623	\$ 48,392	\$ 80,752	\$ 48,165
Accruing troubled debt restructurings ⁽²⁾	N/A	10,960	11,616	7,099	11,435
Total nonperforming loans ⁽²⁾	65,753	39,583	60,008	87,851	59,600
Other real estate owned (OREO)	106	191	98	1,287	2,033
Total nonperforming assets ⁽²⁾	65,859	39,774	60,106	89,138	61,633
Accruing loans past due 90 days or more	2,028	857	137	169	201
Total underperforming assets ⁽²⁾	\$ 67,887	\$ 40,631	\$ 60,243	\$ 89,307	\$ 61,834
Total classified assets ⁽²⁾	\$ 140,995	\$ 128,137	\$ 104,815	\$ 142,021	\$ 89,250
Credit quality ratios:					
As a percent of year-end loans, net of unearned income:					
Allowance for credit losses	1.29 %	1.29 %	1.42 %	1.77 %	0.63 %
Nonaccrual loans	0.60 %	0.28 %	0.52 %	0.82 %	0.52 %
Nonperforming loans ⁽²⁾	0.60 %	0.38 %	0.65 %	0.89 %	0.65 %
Allowance for credit losses to nonaccrual loans	215.10 %	464.58 %	272.76 %	217.55 %	119.69 %
Allowance for credit losses to nonperforming loans	215.10 %	335.94 %	219.96 %	199.97 %	96.73 %

⁽¹⁾Nonaccrual loans include nonaccrual TDRs of \$10.0 million, \$16.0 million, \$14.7 million, and \$18.5 million, as of December 31, 2022, 2021, 2020, and 2019, respectively.

⁽²⁾ Upon adoption of ASU 2022-02 as of January 1, 2023, the TDR model was eliminated. Prospectively, disclosures will include modifications of loans to borrower experiencing financial difficulty (FDM). FDMs are excluded from nonperforming, underperforming and classified assets.

Table 13 • Allocation of the ACL

(Dollars in thousands)	December 31,									
	2023		2022		2021		2020		2019	
	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	\$ 44,319	32.0 %	\$ 42,313	33.1 %	\$ 44,052	29.3 %	\$ 51,454	30.4 %	\$ 18,584	32.6 %
Lease financing	12,365	4.4 %	3,571	2.3 %	1,633	1.2 %	995	0.8 %	971	0.8 %
Real estate – construction	11,003	5.2 %	13,527	5.0 %	11,874	4.9 %	21,736	6.4 %	2,381	5.0 %
Real estate – commercial	34,903	37.3 %	41,106	39.3 %	53,420	45.5 %	76,795	43.5 %	23,579	42.6 %
Real estate – residential	18,088	12.2 %	12,684	10.6 %	6,225	9.6 %	8,560	10.1 %	5,299	10.3 %
Installment, home equity & credit card	20,755	8.9 %	19,776	9.7 %	14,788	9.5 %	16,139	8.8 %	6,836	8.7 %
Total	<u>\$ 141,433</u>	<u>100.0 %</u>	<u>\$ 132,977</u>	<u>100.0 %</u>	<u>\$ 131,992</u>	<u>100.0 %</u>	<u>\$ 175,679</u>	<u>100.0 %</u>	<u>\$ 57,650</u>	<u>100.0 %</u>

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, which generally involve the receipt by First Financial of floating rate amounts from swap counterparties in exchange for payments to these counterparties by First Financial of fixed rate amounts received from borrowers. This results in the Company's loan customers receiving fixed rate funding while providing First Financial with a floating rate asset.

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

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

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. The Company has risk limits and internal controls in place to help ensure excessive risk is not being taken in providing this service to customers.

First Financial may enter into interest rate collars and floors, which are designated as cash flow hedges. These cash flow hedges are utilized to mitigate interest rate risk on variable-rate commercial loan pools. Changes in the fair value of cash flow hedges included in the assessment of hedge effectiveness are recorded in AOCI and reclassified from AOCI to current period earnings when the hedged item affects earnings.

The structure of the interest rate collars is such that First Financial pays the counterparty an incremental amount if the collar index exceeds the cap rate. Conversely, First Financial receives an incremental amount if the index is below the floor rate. No payments are required if the collar index is between the cap and floor rates.

The structure of First Financial's interest rate floors is such that First Financial receives an incremental amount if the index falls below the floor strike rate. No payments are required if the index remains above the floor strike rate.

As of December 31, 2023, the notional value of the Company's cash flow hedges was \$1.0 billion, with the \$3.8 million change in the fair value recorded in AOCI in the Consolidated Balance Sheet. There were no cash flow hedges outstanding at December 31, 2022. As of December 31, 2023, the maximum length of time over which the Company is hedging its exposure

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to the variability in future cash flows is 60 months. It is estimated that \$0.7 million will be reclassified from OCI to interest income during the next 12 months.

See Note 13 – 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.

2023 vs. 2022. First Financial's total deposits increased \$659.6 million, or 5.2%, to \$13.4 billion as of December 31, 2023 from \$12.7 billion at December 31, 2022. This change was driven by a \$1.0 billion, or 59.8%, increase in time deposits and a \$503.1 million, or 13.1%, increase in savings deposits. These changes were partially offset by an \$817.2 million, or 19.8%, decrease in noninterest bearing deposits and a \$43.9 million, or 1.4%, decrease in interest-bearing checking deposits. Total non-time deposit balances were \$10.6 billion as of December 31, 2023 and \$11.0 billion as of December 31, 2022. The increase in total deposits was largely driven by the Company's utilization of brokered deposits as a source of funding. While core deposit balances were relatively flat year over year, the mix continued to shift to higher cost products such as retail CDs and money market savings as a result of higher interest rates.

Total average deposits for 2023 increased \$299.6 million, or 2.4%, from 2022, primarily due to a \$1.2 billion, or 104.0%, increase in average time deposits as the Company increased its reliance upon brokered deposits as a source of funding and customers migrated to higher yielding deposit products. These increases were partially offset by a \$578.8 million, or 13.8%, decrease in average noninterest bearing deposits, a \$226.1 million, or 7.2%, decrease in average interest-bearing demand deposits and a \$117.8 million, or 2.9%, decrease in average savings deposits.

Uninsured deposit balances were \$5.6 billion, or 42.1% of total deposits, as of December 31, 2023. The Company reviews uninsured deposits for concentration risk, and typically evaluates this risk by excluding public funds and intercompany deposits to arrive at an adjusted uninsured deposit amount. As such, excluding public funds and intercompany accounts, adjusted uninsured deposits were \$3.2 billion, or 23.8% of total deposits, at December 31, 2023.

Table 14 – Uninsured Deposits-Maturities of Time Deposits Greater Than or Equal to \$250,000 details the contractual maturity of certain deposits that are not FDIC insured. Time Deposits Greater Than or Equal to \$250,000 represented 2.2% of total deposits outstanding at December 31, 2023 and 1.3% at December 31, 2022.

Table 14 • Uninsured Deposits-Maturities of Time Deposits Greater than or Equal to \$250,000

<i>(Dollars in thousands)</i>	CDs	IRAs	Total
December 31, 2023			
Maturing in			
3 months or less	\$ 53,542	\$ 969	\$ 54,511
3 months to 6 months	85,206	2,971	88,177
6 months to 12 months	94,412	4,071	98,483
over 12 months	55,965	2,924	58,889
Total	\$ 289,125	\$ 10,935	\$ 300,060
December 31, 2022			
Maturing in			
3 months or less	38,264	1,382	\$ 39,646
3 months to 6 months	21,380	610	21,990
6 months to 12 months	46,710	2,385	49,095
over 12 months	49,806	4,602	54,408
Total	\$ 156,160	\$ 8,979	\$ 165,139

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, FRB borrowings, FHLB long-term advances, repurchase agreements utilizing investment securities pledged as collateral and a capital loan from a municipality.

2023 vs. 2022. First Financial utilizes both short-term borrowings and long-term advances from the FHLB as wholesale funding sources. Borrowed funds were \$1.3 billion as of December 31, 2023 compared to \$1.6 billion as of December 31, 2022. Borrowings decreased during the period largely as a result of the Company utilizing brokered CDs in lieu of borrowings to satisfy its funding needs.

Short-term borrowings decreased \$349.3 million, or 27.1%, to \$937.8 million at December 31, 2023, from \$1.3 billion at December 31, 2022. First Financial had \$800.0 million of short-term borrowings from the FHLB at December 31, 2023 compared to \$1.1 billion at December 31, 2022. Short-term borrowings included no repurchase agreements as of December 31, 2023 or 2022. Additionally, Company had no federal funds purchased as of December 31, 2023 or 2022.

Total long-term debt was \$344.1 million and \$346.7 million at December 31, 2023 and 2022, respectively. Outstanding subordinated debt totaled \$314.2 million and \$313.7 million as of December 31, 2023 and 2022, respectively. The subordinated debt is treated as Tier 2 capital for regulatory capital purposes and also included unamortized valuation and debt issuance costs of \$6.9 million and \$7.8 million as of December 31, 2023 and 2022, respectively.

The Company had no FHLB long-term advances as of December 31, 2023 or 2022. First Financial's total remaining borrowing capacity from the FHLB was \$611.3 million at December 31, 2023. 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, 2023.

See Note 12 – 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 other short and long-term funding sources, which include subordinated notes, longer-term advances from the FRB and FHLB and its short-term line of credit. For further information regarding the company's liability-funded liquidity, see Note 11 - Deposits and Note 12 - Borrowings.

Both First Financial and the Bank received investment grade credit ratings from Kroll Bond Rating Agency, Inc., an independent rating agency. These credit ratings impact the cost and availability of financing to First Financial, and a downgrade to these credit ratings could affect First Financial's or the Bank's abilities to access the credit markets and potentially increase borrowing costs, negatively impacting financial condition and liquidity. Key factors in maintaining high credit ratings include consistent and diverse earnings, strong credit quality and capital ratios, diverse funding sources and disciplined liquidity monitoring procedures. The ratings of First Financial and the Bank at December 31, 2023 were as follows:

Table 15 • Credit Ratings

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

First Financial's principal source of asset-funded liquidity is marketable investment securities, particularly those of shorter maturities. AFS securities were 97.4% and 97.6% of the total investment portfolio as of December 31, 2023 and 2022, respectively. The market value of investment securities classified as AFS totaled \$3.0 billion and \$3.4 billion at December 31, 2023 and 2022, respectively. As of December 31, 2023, \$1.4 billion of AFS securities were unpledged and there were \$358.0 million of securities available to be sold at breakeven. Additionally, \$533.3 million of AFS securities have floating rates and could be sold with minimal losses at December 31, 2023.

HTM securities that are maturing within a short period of time can be an additional source of liquidity. As of December 31, 2023 and 2022, the Company had no HTM securities maturing within one year.

In total, First Financial expects \$622.9 million of cash flows from its investment portfolio in the next 12 months.

Other sources of liquidity include cash and due from banks and interest-bearing deposits with other banks. At December 31, 2023, these balances totaled \$1.0 billion, and First Financial had unused and available overnight wholesale funding sources of \$5.1 billion, or 29.0% of total assets, to fund loan and deposit activities in addition to general corporate requirements.

First Financial has a \$40.0 million short-term credit facility with an unaffiliated bank that matures in December 2024. This facility has a variable 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 both December 31, 2023 and 2022, First Financial had 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, 2023 and 2022. This credit facility also required First Financial to pledge as collateral the Bank's common stock where the lender is granted a security interest in this collateral.

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 First Financial from the Bank totaled \$160.0 million, \$170.0 million and \$200.0 million for 2023, 2022 and 2021, respectively. As of December 31, 2023, the Bank had retained earnings of \$918.9 million, of which \$248.7 million was available for distribution to First Financial without prior regulatory approval. As an additional source of liquidity, First Financial had \$134.7 million in cash at the parent company as of December 31, 2023.

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

Capital expenditures were \$24.1 million for 2023, \$13.8 million for 2022 and \$15.3 million for 2021. Material commitments for capital expenditures as of December 31, 2023, were \$40.4 million. Management believes that sufficient liquidity exists to fund its future capital expenditure commitments.

Management is not aware of any other trends, events or regulatory requirements that, if implemented, are likely to have a material effect on First Financial's liquidity. For a discussion of liquidity risk management, please see the Market Risk section that follows.

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% and includes a fully phased-in capital conservation buffer of 2.5% of risk-weighted assets. Further, the minimum ratio of Tier 1 capital to risk-weighted assets is 8.5% and all banks are subject to a 4.0% minimum leverage ratio, while the minimum required Total risk-based capital ratio is 10.5%. Failure to maintain the required Common equity Tier 1 capital 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 increased to 12.06% at December 31, 2023 compared to 11.17% at December 31, 2022, while the total capital ratio increased to 13.61% from 13.09% during the same period. The leverage ratio increased to 9.70% at December 31, 2023, compared to 8.89% at December 31, 2022. Likewise, the Company's tangible common equity ratio increased to 7.17% at December 31, 2023 from 5.95% at December 31, 2022. The increase in the tangible common equity ratio was primarily driven by the Company's strong earnings as well as the increase in accumulated other comprehensive income during the period, which was primarily due to improvement in the investment portfolio during the year.

As of December 31, 2023, First Financial met all capital adequacy requirements to which it was subject. At December 31, 2023 and 2022, 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, 2023, see Note 20 – Capital in the Notes to Consolidated Financial Statements.

Table 16 • Capital Adequacy

	December 31,	
(Dollars in thousands)	2023	2022
Consolidated capital calculations		
Common stock	\$ 1,638,972	\$ 1,634,605
Retained earnings	1,136,718	968,237
Accumulated other comprehensive loss	(309,819)	(358,663)
Treasury stock, at cost	(197,897)	(202,806)
Total shareholders' equity	2,267,974	2,041,373
Common equity tier 1 capital adjustments		
Goodwill and other intangibles	(1,089,817)	(1,095,426)
Total tangible equity	\$ 1,178,157	\$ 945,947
Total assets	\$17,532,900	\$17,003,316
Goodwill and other intangibles	(1,089,817)	(1,095,426)
Total tangible assets	\$16,443,083	\$15,907,890
Common tier 1 capital	\$ 1,568,815	\$ 1,399,420
Tier 1 capital	1,613,480	1,443,698
Total capital	1,820,285	1,691,255
Total risk-weighted assets	13,374,177	12,923,233
Average assets ⁽¹⁾	16,628,122	16,240,905
Regulatory capital		
Common tier 1 ratio	11.73 %	10.83 %
Tier 1 ratio	12.06 %	11.17 %
Total capital ratio	13.61 %	13.09 %
Leverage ratio	9.70 %	8.89 %
Other capital ratios		
Total shareholders' equity to ending assets	12.94 %	12.01 %
Total tangible shareholders' equity to ending tangible assets	7.17 %	5.95 %
Total tangible shareholders' equity to risk-weighted assets	8.81 %	7.32 %

⁽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 33.8%, 39.5% and 42.6% for the years 2023, 2022 and 2021, 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 2024, the board of directors authorized a dividend of \$0.23 per common share, payable on March 15, 2024 to all shareholders of record as of March 1, 2024.

Share Repurchases. First Financial did not purchase any shares under the 2022 Repurchase Plan during 2023 or 2022.

Effective January 2024, First Financial's board of directors approved a new stock repurchase plan (the 2024 Repurchase Plan), replacing the 2022 Repurchase Plan which expired in December of 2023. The 2024 Repurchase Plan continues for two years and authorizes the purchase of up to 5,000,000 shares of the Company's common stock and will expire in December 2025.

Shareholders' Equity. Total shareholders' equity at December 31, 2023 and December 31, 2022 was \$2.3 billion and \$2.0 billion, respectively. The increase in total equity compared to the prior year was primarily due to an increase in retained earnings during the year, which was the result of the Company's strong 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 2023 and 2022, 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, 2023, assuming shifts in the significant assumptions:

Table 17 • Rate Change Impact on Pension Parameters

<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	\$ 3,351	\$ (2,580)	N/A	N/A	\$ (291)	\$ 635
Change in Pension Expense	(366)	471	\$ 1,490	\$ (1,490)	(23)	125

Based upon the plan's current funding status and updated actuarial projections for 2023, First Financial recorded expense related to its pension plan of \$3.5 million for 2023, \$2.0 million for 2022 and \$3.4 million for 2021. 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 2023, 2022 or 2021 nor does it expect to make a cash contribution in 2024.

See Note 17 – 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 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 (composed of interest rate, liquidity, capital, foreign exchange and financial risk), operational, compliance, strategic, reputation, information technology, cybersecurity 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.

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

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

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

Specific enterprise-level objectives include:

- creating a holistic view of risk in which risk is comprehensively considered, consistently communicated and documented in decision making;
- centralizing the oversight of risk management activities;
- defining the risks that will be addressed by the enterprise and each functional area or business unit to create an awareness of risks affecting the Company;
- establishing and maintaining systems and mechanisms to identify, assess, monitor and measure risks that may impact First Financial's ability to achieve its business objectives;
- creating a process which ensures that, for all new lines of business and new product decisions, management evaluates the expertise needed and assesses the risks involved;
- establishing and maintaining systems and mechanisms to monitor risk responses;
- developing risk occurrence information systems to provide early warning of events or situations that create risk for the Company;
- maintaining a compliance culture and framework that ensures adherence to laws, rules and regulations, fair treatment and privacy of customers and prevention of money laundering and terrorist financing;
- implementing and reviewing risk measurement techniques that management may use to establish the Company's risk tolerance, assess risk likelihood and impact, main effective controls and analyze risk and control 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 and where the particular business or business unit risk exists; how the business unit's management of its risks affects the Company's strategy, earnings, reputation and other key success factors; whether the line of business objectives are aligned with enterprise objectives; how effective internal procedures are integral to successful business operations; and whether internal controls and their maintenance are reliable.

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. The Board's oversight responsibilities 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
- confirming 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 governance assigned specifically to them.

Risk Committees. The ERM program utilizes multiple cross-functional management committees as its primary assessment and communication mechanism for identified risks. These committees include:

- Board Enterprise Risk & Compliance
- Enterprise Risk Management
- Credit
- Compliance
- CRA & Fair Banking
- Human Resources
- Vendor Management
- Operational Risk
- Cybersecurity
- Information Technology
- Balance Sheet Strategy / ALCO
- Allowance for Credit Loss
- Sarbanes Oxley

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.

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 is responsible for identifying which processes and activities are critical to achieving the Company's business objectives within tolerance levels. Management then delegates 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. Management analyzes and monitors risk management performance with key risk indicator and key performance indicator dashboards.

Chief Administrative Officer. The Chief Administrative Officer (CAO) provides executive leadership to various critical administrative functions. The CAO's responsibilities include oversight of the Risk Management, Compliance, Legal, Human Resources, Information Security, and Community Development departments. The CAO is responsible for ensuring regulatory compliance, implementing robust internal controls, and fostering a culture of adherence to policies and procedures. Additionally, the CAO works with senior executives to develop strategic initiatives aimed at enhancing risk mitigation strategies, helping our communities thrive, corporate responsibility and promoting the bank's overall stability and growth.

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 and assurance. 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.

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 and control 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, are designed to accomplish the following:

- identify risks and their respective owners;
- link identified risks and their mitigation to the Company's strategic objectives;
- utilize risk and control assessments that evaluate both inherent risks and their associated likelihood of occurrence and consequences, as well as the associated controls employed and their effectiveness in reducing risk; the risks and their associated likelihood of occurrence and consequences;
- encourage employees in all units to develop a working understanding of upstream and downstream activities;
- 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 residual 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/mitigation efforts.

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

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

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

CREDIT RISK

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

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 sources of market risk for First Financial are interest rate risk and liquidity risk.

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, while operating within acceptable limits established for interest rate risk and maintaining adequate levels of funding and liquidity.

Potential cash flows, sales, or replacement value of many of our assets and liabilities, especially those that earn or pay interest, are sensitive to changes in the general level of interest rates. This interest rate risk arises primarily from our normal business activities of gathering deposits and extending loans. Many factors affect our exposure to changes in interest rates, such as general economic and financial conditions, client preferences, historical pricing relationships, and re-pricing characteristics of

financial instruments. Our earnings can also be affected by the monetary and fiscal policies of the U.S. Government and its agencies, particularly the Federal Reserve.

In managing interest rate risk, the Company establishes guidelines and strategies for asset and liability management, including measurement of short and long-term sensitivities to changes in interest rates, through our internal Balance Sheet Strategies and Asset Liability Committee, which is comprised of senior officers from the treasury, risk management, credit administration, finance and lending areas. These guidelines and strategies are also reviewed with the Capital Markets Committee of our Board of Directors.

First Financial monitors its 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 42% in its interest rate risk modeling as of December 31, 2023. 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, 2023, assuming immediate, parallel shifts in interest rates:

Table 18 • Rate Change Impact on NII and EVE

	% Change from base case for immediate parallel changes in rates		
	-100 BP	+100 BP	+200 BP
NII - Year 1	(6.45)%	3.12%	4.78%
NII - Year 2	(6.10)%	2.49%	3.39%
EVE	(2.09)%	1.20%	2.39%

“*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.

The projected results for NII and EVE reflect an asset sensitive position, due to a strong funding mix of low cost transactional deposits supporting loans priced primarily off the short end of the rate curve. The difference in sensitivity between the down and up rate scenarios is driven by an assumed compositional shift in funding makeup. First Financial continues to manage its balance sheet with a bias toward asset sensitivity while simultaneously balancing the potential earnings impact of this strategy.

First Financial continually evaluates the sensitivity of its interest rate risk position to modeling assumptions. The following table reflects First Financial's estimated NII sensitivity profile as of December 31, 2023 assuming both a 25% increase and decrease to the beta assumption on managed rate deposit products:

Table 19 • Estimated Interest Sensitivity on NII

	Beta sensitivity (% change from base)			
	+100 BP		+200 BP	
	Beta 25% lower	Beta 25% higher	Beta 25% lower	Beta 25% higher
NII-Year 1	4.19 %	2.05 %	5.81 %	3.75 %
NII-Year 2	3.58 %	1.40 %	4.44 %	2.34 %

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

Table 20 – Market Risk Disclosure projects the principal maturities and yields of First Financial's interest-bearing financial instruments at December 31, 2023 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 MBS and CMO, 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 20 • Market Risk Disclosure

(Dollars in thousands)	Principal Amount Maturing In							Fair Value
	2024	2025	2026	2027	2028	Thereafter	Total	December 31, 2023
Rate sensitive assets								
Fixed interest rate loans ⁽¹⁾	\$ 399,097	\$ 370,474	\$333,634	\$ 301,693	\$228,346	\$1,372,007	\$3,005,251	\$ 2,802,503
Average interest rate	5.54 %	5.64 %	5.65 %	5.58 %	5.73 %	4.39 %	5.05 %	
Variable interest rate loans ⁽¹⁾	1,418,191	1,182,445	1,148,670	904,150	880,726	2,261,523	7,795,705	7,674,854
Average interest rate	8.02 %	7.86 %	7.79 %	7.72 %	8.47 %	7.36 %	7.78 %	
Fixed interest rate securities	144,200	132,320	141,926	226,054	282,932	1,566,562	2,493,994	2,488,741
Average interest rate	3.99 %	3.30 %	3.31 %	3.17 %	2.52 %	2.28 %	2.59 %	
Variable interest rate securities	406,703	74,737	23,950	17,350	4,000	80,713	607,453	604,073
Average interest rate	7.67 %	8.41 %	7.90 %	8.54 %	9.43 %	4.88 %	7.41 %	
Other earning assets	792,960	0	0	0	0	0	792,960	792,960
Average interest rate	5.40 %	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %	5.40 %	
Rate sensitive liabilities								
Noninterest-bearing checking ⁽²⁾	\$3,317,960	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$3,317,960	\$ 3,317,960
Savings and interest-bearing checking ⁽²⁾	7,324,447	0	0	0	0	0	7,324,447	7,324,447
Average interest rate	2.36 %	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %	2.36 %	
Time deposits	2,441,829	225,140	33,439	12,370	5,612	0	2,718,390	2,704,912
Average interest rate	4.46 %	4.15 %	0.69 %	0.59 %	0.85 %	0.00 %	4.37 %	
Fixed interest rate borrowings	942,591	121,996	5,679	6,365	7,130	150,168	1,233,929	1,240,372
Average interest rate	5.51 %	5.52 %	11.50 %	11.43 %	11.37 %	5.36 %	5.58 %	
Variable interest rate borrowings	0	0	0	0	0	48,000	48,000	47,868
Average interest rate	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %	8.14 %	8.14 %	

⁽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.

Liquidity risk. Liquidity risk is the potential that an entity will be unable to meet its obligations as they come due because of an inability to liquidate assets, or obtain funding or that it cannot easily unwind or offset exposures without significantly lowering market prices because of inadequate market depth or market disruptions. Management focuses on maintaining and

enhancing liquidity by maximizing collateral-based liquidity availability. First Financial manages liquidity in relation to the trend and stability of deposits; degree and reliance on short-term, volatile sources of funds, including any undue reliance on borrowings or brokered deposits to fund longer-term assets. Management identifies, measures, monitors and manages liquidity while seeking to maintain diversification of funding sources, both on- and off-balance-sheet.

Management, including the Balance Sheet Strategies and Asset Liability Committee, monitors liquidity through a regular review of asset and liability maturities, funding sources, and loan and deposit forecasts. The Company continually refines and updates its liquidity risk management processes, such as refining the contingency funding plan, meeting frequently, and securing additional contingent borrowing capacity. We maintain strategic and contingency liquidity plans to ensure sufficient available funding to satisfy requirements for balance sheet growth, properly manage capital market funding sources and to address unexpected liquidity requirements.

Management closely monitors the usage of excess business deposits, the balance of personal deposits and the broader macroeconomic environment. This monitoring includes consideration of various metrics and establishment of internal thresholds related to balance sheet composition, borrowing composition, and liquidity composition. Balance sheet composition metrics reviewed include the loan to deposit, loans to total assets and core deposits to total assets ratios among others. Borrowing composition monitoring includes, but is not limited to, consideration of borrowing capacity as a percentage of total assets, brokered CDs as a percentage of total assets and Fed funds lines to total assets. Liquidity composition ratios include remaining liquidity to total assets, and tier 1 liquidity sources as a percentage of both 30 and 90 day maturing liabilities, among others. As of December 31, 2023, all metrics reviewed were within the Company's policy limits.

The Company utilizes its contingency funding plan to assess the ability of the Company to successfully navigate significant liquidity events. The contingency funding plan considers various sources of liquidity, including loan and deposit growth rates, decreasing access to secured and unsecured wholesale funding sources and declining financial performance, to determine First Financial's ability to meet liquidity requirements over certain time horizons and in certain stress scenarios. The contingency funding plan also includes the process for creating a Contingency Funding Task Force (CFTF). During a liquidity crisis, the CFTF, via the Balance Sheet Strategies and Asset Liability Committee, would assess and identify key mitigation strategies needed for addressing a liquidity crisis. These mitigation strategies would be assigned to appropriate personnel for implementation with established targets and reporting requirements. Typical mitigation strategies would include, but not be limited to, curtailing loan originations, pricing options for stabilizing/growing deposits, options for expanding wholesale funding sources, and asset liquidation options.

For further discussion of the Company's liquidity, please see the Liquidity section within Management's Discussion and Analysis.

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 ongoing management 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, inability to effectively manage human capital risk factors such as satisfaction, engagement, attrition, retention, and diversity, equity and, inclusion (DEI) 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. First Financial also seeks to build social responsibility into its brand and has formed a corporate responsibility working group to develop an initial corporate social responsibility (CSR) report, which will highlight First Financial's efforts, goals, and plans to help the environment and our communities.

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 and client feedback response and mitigation routines that analyze and share feedback data with business lines for client experience and process improvements.

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

Cybersecurity (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. Cyber 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.

FOURTH QUARTER REVIEW

For the three months ended December 31, 2023, the Company reported net income of \$56.7 million, or \$0.60 per diluted common share. These results compare to net income of \$63.1 million, or \$0.66 per diluted common share, for the third quarter of 2023. Return on average assets for the fourth quarter of 2023 was 1.31% compared to a return on assets of 1.48% in the third quarter of 2023.

Loan balances increased \$286.4 million from the third quarter of 2023, an increase of 10.7% on an annualized basis. The increase was attributed to strong origination volumes across much of the portfolio and included a \$109.8 million increase in finance leases from Summit Funding Group. Average deposit balances increased \$415.7 million compared to the linked quarter, primarily due to a \$284.4 million increase in money market accounts, a \$123.1 million increase in public funds, and a \$157.6 million increase in combined retail and brokered CD's. These increases offset a decline in noninterest bearing deposits and savings accounts. This mix shift reflects the higher interest rates increasing customer demand for higher cost deposit products.

Net interest margin for the fourth quarter of 2023 was 4.21%, or 4.26% on a fully tax-equivalent basis. This was a 7 bp decline from the third quarter of 2023. This decrease was driven by higher funding costs, which included a 31 bp increase in the cost of deposits, outpacing increases in asset yields. Higher deposit costs were partially offset by a favorable shift in funding mix and a 14 bp increase in asset yields resulting from higher rates and a more profitable mix of earning asset balances during the period.

Noninterest income for the fourth quarter of 2023 was \$47.0 million, a decrease of \$9.6 million, or 17.0%, from the prior quarter. Foreign exchange income declined \$4.7 million, or 34.8%, from the third quarter to \$8.7 million, due to a \$4.6 million loss on a trade. Additionally, leasing business income declined \$1.7 million during the quarter; however, this was primarily a function of product mix as Summit originated a larger volume of finance leases during the period. Mortgage banking income declined \$1.1 million, or 27.6%, during the quarter as demand softened due to higher interest rates.

Noninterest expense for the fourth quarter of 2023 was \$119.1 million, a decrease of \$2.9 million, or 2.4%, from the linked quarter. This decline from the linked quarter was due to lower employee costs and marketing expenses. These declines were partially offset by a \$0.9 million FDIC special assessment expense incurred during the period.

The ACL, including both funded and unfunded reserves, was \$159.9 million at December 31, 2023, and the Company recorded \$10.2 million in total provision expense during the fourth quarter. The provision expense was driven by loan growth and net charge-offs during the period. The Company recorded 46 bps of net chargeoffs annualized as a percentage of loan balances during the quarter, which was a 15 bp decline from 61 bps in the third quarter. Total classified asset balances were relatively flat at the end of the fourth quarter when compared to the third quarter.

CRITICAL ACCOUNTING ESTIMATES

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 ACL - loans and leases, goodwill, pension and income taxes. The estimates and assumptions made are based upon historical experience, future forecasts, or other factors that management believes to be reasonable under the circumstances. Because of the nature of the judgment and assumptions, actual results could differ from estimates, which could have a material effect on our financial condition and results of operations.

Allowance for credit losses - loans and leases

- **Overview.** The allowance for credit losses on loans and leases represents management's estimate of all expected credit losses over the expected contractual life of the Company's loan and lease portfolio. Determining the appropriateness of the allowance is complex and requires judgment by management about the effect of matters that are inherently uncertain. Subsequent evaluations of the then-existing loan and lease portfolio, in light of the factors then prevailing, may result in significant changes in the allowance for credit losses in those future periods.

The allowance for credit losses on loans and leases, as reported in our Consolidated Balance Sheets, is adjusted by provision expense, which is recognized in earnings, and reduced by the charge-off of loan amounts, net of recoveries.

- **Judgments and Uncertainties.** Management estimates the allowance using relevant available information from both internal and external sources, relating to past events, current conditions and reasonable and supportable forecasts. Historical credit loss experience paired with economic forecasts provide the basis for the quantitatively modeled estimation of expected credit losses. First Financial adjusts its quantitative model, as necessary, to reflect conditions not already considered therein. These adjustments are commonly known as the Qualitative Framework.

First Financial quantitatively models expected credit loss using PD, LGD and EAD over the R&S forecast period, reversion and post-reversion periods.

Utilizing third-party software, First Financial forecasts PD by using a parameterized transition matrix approach. Average transition matrices are calculated over the TTC period, which was defined as the period from December 2007 to December 2022. TTC transition matrices are adjusted under forward-looking macroeconomic expectations to obtain R&S forecasts.

First Financial is not required to develop forecasts over the full contractual term of the financial asset or group of financial assets. Rather, for periods beyond which the entity is able to make or obtain R&S forecasts of expected credit losses, the Company reverts in a straight line manner over a one year period to an average TTC loss level that is

reflective of the prepayment adjusted contractual term of the financial asset or group of financial assets. First Financial elected a two year R&S period which is forecasted using econometric data sourced from Moody's, an industry-leading independent third party.

FFB utilizes a non-parametric loss curve approach embedded within a third-party software for estimating LGD. The PD multiplied by LGD produces an expected loss rate that, when calculating the ACL, is applied to contractual loan cash flows, adjusted for expected future rates of principal prepayments.

The Company adjusts its quantitative model for certain qualitative factors to reflect the extent to which management expects current conditions and R&S forecasts to differ from the conditions that existed for the period over which historical information was evaluated. The Qualitative Framework reflects changes related to relevant data, such as changes in asset quality trends, portfolio growth and composition, national and local economic factors, credit policy and administration and other factors not considered in the base quantitative model.

- **Effect if Actual Results Differ From Assumptions.** The allowance represents management's best estimate, but significant downturns in circumstances relating to loan quality and economic conditions could result in a requirement for additional allowance. Likewise, an upturn in loan quality and improved economic conditions may allow a reduction in the required allowance. In either instance, unanticipated changes could have a significant impact on results of operations.

One of the most significant judgments used in determining the allowance for credit losses is the macroeconomic forecast provided by a third party. The economic indices sourced from the macroeconomic forecast and used in projecting loss rates include the forecasted manufacturing overtime, business bankruptcies, rental vacancy rates, housing price indices, national unemployment rate, changes in commercial real estate prices, changes in home values, S&P 500 performance, housing sales, among other variable. Each reporting period, several macroeconomic forecast scenarios are considered by management. Management selects the macroeconomic forecast that is most reflective of expectations at that point in time. Changes in the macroeconomic forecast, could significantly impact the calculated estimated credit losses.

Another variable utilized in the calculation of the allowance to which the calculation may be sensitive is the prepayment rate. The model incorporates a prepayment rate calculated using a trailing twelve month average by portfolio. Changes in prepayment speeds that vary from though the cycle actual prepayment activity may have a significant impact on the expected duration of the various loan portfolios, and could result in inaccurate estimate of default.

The provision for credit loss recorded through earnings is the amount necessary to maintain the allowance for credit losses at the amount of expected credit losses. The amount of expense and the corresponding level of allowance for credit losses on loans are based on our evaluation of the collectability of the loan portfolio based on historical loss experience, reasonable and supportable forecasts, and other significant qualitative and quantitative factors.

Goodwill

- **Overview.** 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's goodwill is accounted for in a single reporting unit representing the consolidated entity. 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.

In testing goodwill for impairment, U.S. GAAP permits First Financial to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. In this qualitative assessment, First Financial evaluates events and circumstances which may include, but are not limited to, the general economic environment, banking industry and market conditions, the Company's overall financial performance, the performance of the Company's common stock, the key financial performance metrics of the Bancorp's reporting units and events affecting the reporting unit to determine if it is not more likely than not that the fair value of a reporting unit is less than its carrying amount. If the quantitative impairment test is required or the decision to bypass the qualitative assessment is elected, First Financial performs the goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount, including goodwill.

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. These annual tests indicated that the Company's goodwill was not impaired as of October 1, 2023 and 2022.

- **Judgments and Uncertainties.** The determination of fair values is based on valuations using management's assumptions of future growth rates, future attrition, discount rates, multiples of earnings or other relevant factors. In addition, we engage third party specialists to assist in the development of fair values. Preliminary estimates of fair values may be adjusted for up to one year subsequent to the merger or acquisition date if new information is obtained about facts and circumstances that existed as of the merger or acquisition date that, if known, would have affected the measurement of the amounts recognized as of that date. Adjustments recorded during this period are recognized in the current reporting period. Management uses various valuation methodologies to estimate the fair value of these assets and liabilities, and often involves a significant degree of judgment, particularly when liquid markets do not exist for the particular item being valued. Examples of such items include loans, deposits, identifiable intangible assets, and certain other assets and liabilities.
- **Effect if Actual Results Differ From Assumptions.** Changes in these factors, as well as downturns in economic or business conditions, could have a significant adverse impact on the carrying value of assets, including goodwill and liabilities, which could result in impairment losses affecting our financial statements as a whole and our banking subsidiary in which the goodwill resides.

Pension

- **Overview.** 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.
- **Judgments and Uncertainties.** The determination of the plan obligation is based on valuations using management's assumptions of discount rates, mortality rates, interest crediting rates, expected return on plan assets, rate of compensation increases and lump sum payment expectations. First Financial engages a third party actuary to calculate the balance sheet position of the plan, cash flow, plan asset information, amortization amounts and participant information. 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 and economic forecasts, 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.
- **Effect if Actual Results Differ From Assumptions.** Although management believes that the judgments and estimates used are reasonable, actual results could differ. Actual future pension costs/credits and funding levels will depend on future investment performance, changes in discount rates, market conditions, funding levels relative to the projected benefit obligation and accumulated benefit obligation and various other factors related to the populations participating in the pension plans. Please see the Pension Plan section of this MD&A for the estimated impact on pension expense and projected benefit obligations assuming shifts in certain plan assumptions.

Income taxes

- **Overview.** The Company is subject to the income tax laws of the U.S., its states, and the municipalities in which we operate. These tax laws are complex and subject to different interpretations by the taxpayer and the relevant government taxing authorities. We review income tax expense and the carrying value of deferred tax assets quarterly; and as new information becomes available, the balances are adjusted as appropriate. FASB ASC 740-10 (FIN 48) prescribes a recognition threshold of more-likely-than-not, and a measurement attribute for all tax positions taken or expected to be taken on a tax return, in order for those tax positions to be recognized in the financial statements. See Note 16 Income Taxes to the consolidated financial statements for a further description of our provision and related income tax assets and liabilities.
- **Judgments and Uncertainties.** In establishing a provision for income tax expense, the Company must make judgments and interpretations about the application of these inherently complex tax laws. It must also make estimates about when in the future certain items will affect taxable income in the various tax jurisdictions. Disputes over interpretations of the tax laws may be subject to review/adjudication by the court systems of the various tax jurisdictions or may be settled with the taxing authority upon examination or audit.
- **Effect if Actual Results Differ From Assumptions.** Although management believes that the judgments and estimates used are reasonable, actual results could differ and we may be exposed to losses or gains that could be material. To the extent we prevail in matters for which reserves have been established or are required to pay amounts

in excess of our reserves, our effective income tax rate in a given financial statement period could be materially affected. An unfavorable tax settlement would result in an increase in our effective income tax rate in the period of resolution. A favorable tax settlement would result in a reduction in our effective income tax rate in the period of resolution.

Management has discussed the development and selection of these critical accounting estimates with the Audit Committee and the Audit Committee has reviewed our disclosure relating to it in this "Management's Discussion and Analysis of Financial Condition and Results of Operations."

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 of 1995. Words such as "believes," "anticipates," "likely," "expected," "estimated," "intends" and other similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements. Examples of forward-looking statements include, but are not limited to, statements we make about (i) our future operating or financial performance, including revenues, income or loss and earnings or loss per share, (ii) future common stock dividends, (iii) our capital structure, including future capital levels, (iv) our plans, objectives and strategies, and (v) the assumptions that underlie our forward-looking statements.

As with any forecast or projection, forward-looking statements are subject to inherent uncertainties, risks and changes in circumstances that may cause actual results to differ materially from those set forth in the forward-looking statements. Forward-looking statements are not historical facts but instead express only management's beliefs regarding future results or events, many of which, by their nature, are inherently uncertain and outside of management's control. It is possible that actual results and outcomes may differ, possibly materially, from the anticipated results or outcomes indicated in these forward-looking statements. Important factors that could cause actual results to differ materially from those in our forward-looking statements include the following, without limitation:

- economic, market, liquidity, credit, interest rate, operational and technological risks associated with the Company's business;
- future credit quality and performance, including our expectations regarding future loan losses and our allowance for credit losses
- the effect of and changes in policies and laws or regulatory agencies, including the Dodd-Frank Wall Street Reform and Consumer Protection Act and other legislation and regulation relating to the banking industry;
- Management's ability to effectively execute its business plans;
- mergers and acquisitions, including costs or difficulties related to the integration of acquired companies;
- the possibility that any of the anticipated benefits of the Company's acquisitions will not be realized or will not be realized within the expected time period;
- the effect of changes in accounting policies and practices;
- changes in consumer spending, borrowing and saving and changes in unemployment;
- changes in customers' performance and creditworthiness;
- the costs and effects of litigation and of unexpected or adverse outcomes in such litigation;
- current and future economic and market conditions, including the effects of changes in housing prices, fluctuations in unemployment rates, U.S. fiscal debt, budget and tax matters, geopolitical matters, and any slowdown in global economic growth;
- the adverse impact on the U.S. economy, including the markets in which we operate, of the novel coronavirus, which causes the Coronavirus disease 2019 ("COVID-19"), global pandemic, and the impact on the performance of our loan and lease portfolio, the market value of our investment securities, the availability of sources of funding and the demand for our products;

- our capital and liquidity requirements (including under regulatory capital standards, such as the Basel III capital standards) and our ability to generate capital internally or raise capital on favorable terms;
- financial services reform and other current, pending or future legislation or regulation that could have a negative effect on our revenue and businesses, including the Dodd-Frank Act and other legislation and regulation relating to bank products and services;
- the effect of the current interest rate environment or changes in interest rates or in the level or composition of our assets or liabilities on our net interest income, net interest margin and our mortgage originations, mortgage servicing rights and mortgage loans held for sale;
- the effect of a fall in stock market prices on our brokerage, asset and wealth management businesses;
- a failure in or breach of our operational or security systems or infrastructure, or those of our third-party vendors or other service providers, including as a result of cyber attacks;
- the effect of changes in the level of checking or savings account deposits on our funding costs and net interest margin; and
- our ability to develop and execute effective business plans and strategies.

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, 2023 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.

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, 2023, 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, 2023, 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, 2023. The report, which expresses an unqualified opinion on First Financial's internal control over financial reporting as of December 31, 2023, is included in the information that follows under the heading "Report of Independent Registered Public Accounting Firm."

/s/ Archie M. Brown

President and Chief Executive Officer

February 22, 2024

/s/ James M. Anderson

Executive Vice President, Chief Financial
Officer and Chief Operating Officer

February 22, 2024



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, 2023 and 2022, the related consolidated statements of income, comprehensive income (loss), changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2023, 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, 2023, 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, 2023 and 2022, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2023 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, 2023, 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 financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the 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 Credit Losses for Loans Qualitative Factors - Refer to Notes 1 and 6 to the financial statements

The allowance for credit losses (the "ACL") is an accounting estimate of expected credit losses over the estimated life of financial assets carried at amortized cost and off-balance-sheet credit exposures in accordance with ASC 326. The standard requires a financial asset (or a group of financial assets), including the Company's loan portfolio, measured at amortized cost, to be presented at the net amount expected to be collected. Estimates of expected credit losses for loans are based on historical experience, current conditions and reasonable and supportable forecasts over the estimated life of the loans. In order to estimate the expected credit losses, the Company utilizes a loss estimation model.

Management quantitatively models expected credit loss using Probability of Default ("PD"), Loss Given Default ("LGD"), and Exposure at Default ("EAD") over the Reasonable and Supportable ("R&S") forecast, reversion and post-reversion periods. Utilizing third-party software, the Company forecasts PD by using transition matrices to evaluate when events are more or less likely to occur based on previous events. The transition matrices are adjusted under forward-looking macroeconomic expectations to obtain R&S forecasts. Management utilizes third-party software for estimating LGD. The PD multiplied by LGD produces an expected loss rate that, when calculating the ACL, is applied to contractual loan cash flows, adjusted for expected future rates of principal prepayments. The Company adjusts its quantitative model for certain qualitative factors to reflect the extent to which management expects current conditions and R&S forecasts to differ from the conditions that existed for the period over which historical information was evaluated. The qualitative framework reflects changes related to relevant data, such as changes in asset quality trends, portfolio growth and composition, national and local economic factors, credit policy and administration and other factors not considered in the base model. The ACL is measured on a collective (pool) basis when similar risk characteristics exist. The ACL is influenced by loan volumes, risk rating migration, delinquency status and other conditions influencing loss expectations, such as reasonable and supportable forecasts of economic conditions.

The Allowance for Credit Losses for Loans was identified by us as a critical audit matter because of the extent of auditor judgment applied and significant audit effort to evaluate the significant subjective and complex judgments made by management. The principal considerations resulting in our determination included the following:

- Significant auditor judgment and effort were used in evaluating the qualitative factors used in the calculation.
- Significant audit effort related to the completeness and accuracy of the high volume of data used in the model computation.

The primary procedures performed to address the critical audit matter included:

- Testing the effectiveness of management's internal controls over the preparation and evaluation of the ACL calculation, significant model assumptions, development and reasonableness of qualitative factors, completeness and accuracy of data used in the calculation, systems used in the development of the estimate, and the appropriateness of the overall calculation as well as control over the independent model validation.
- Substantively testing management's process for developing qualitative factors and assessing relevance and reliability of data used to develop factors, including evaluating management's judgments and assumptions for reasonableness.
- Substantively testing the mathematical accuracy of the EAD model including the completeness and accuracy of loan data used in the model to estimate ACL.



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.

Louisville, Kentucky

February 22, 2024

Consolidated Balance Sheets

(Dollars in thousands)	December 31,	
	2023	2022
Assets		
Cash and due from banks	\$ 213,059	\$ 207,501
Interest-bearing deposits with other banks	792,960	388,182
Investment securities available-for-sale, at fair value (amortized cost \$3,382,604 at December 31, 2023 and \$3,827,418 at December 31, 2022)	3,021,126	3,409,648
Investment securities held-to-maturity (fair value \$71,688 at December 31, 2023 and \$76,485 at December 31, 2022)	80,321	84,021
Other investments, at fair value	129,945	143,160
Loans held for sale, at fair value	9,213	7,918
Loans and leases		
Commercial & industrial	3,501,221	3,410,272
Lease financing	474,817	236,124
Construction real estate	564,832	512,050
Commercial real estate	4,080,939	4,052,759
Residential real estate	1,333,674	1,092,265
Home equity	758,676	733,791
Installment	159,078	209,895
Credit card	59,939	51,815
Total loans and leases	10,933,176	10,298,971
Less: Allowance for credit losses	(141,433)	(132,977)
Net loans and leases	10,791,743	10,165,994
Premises and equipment	194,740	189,080
Operating leases	153,214	91,738
Goodwill	1,005,868	1,001,507
Other intangibles	83,949	93,919
Accrued interest and other assets	1,056,762	1,220,648
Total assets	\$ 17,532,900	\$ 17,003,316
Liabilities		
Deposits		
Interest-bearing demand	\$ 2,993,219	\$ 3,037,153
Savings	4,331,228	3,828,139
Time	2,718,390	1,700,705
Total interest-bearing deposits	10,042,837	8,565,997
Noninterest-bearing	3,317,960	4,135,180
Total deposits	13,360,797	12,701,177
FHLB short-term borrowings	800,000	1,130,000
Other short-term borrowings	137,814	157,156
Total short-term borrowings	937,814	1,287,156
Long-term debt	344,115	346,672
Total borrowed funds	1,281,929	1,633,828
Accrued interest and other liabilities	622,200	626,938
Total liabilities	15,264,926	14,961,943
Shareholders' equity		
Common stock - no par value		
Authorized - 160,000,000 shares; Issued - 104,281,794 shares in 2023 and in 2022	1,638,972	1,634,605
Retained earnings	1,136,718	968,237
Accumulated other comprehensive income (loss)	(309,819)	(358,663)
Treasury stock, at cost, 9,140,550 shares in 2023 and 9,390,695 shares in 2022	(197,897)	(202,806)
Total shareholders' equity	2,267,974	2,041,373
Total liabilities and shareholders' equity	\$ 17,532,900	\$ 17,003,316

See Notes to Consolidated Financial Statements

Consolidated Statements of Income

	Years ended December 31,		
(Dollars in thousands except per share data)	2023	2022	2021
Interest income			
Loans and leases, including fees	\$ 743,770	\$ 458,742	\$ 385,535
Investment securities			
Taxable	125,520	102,314	79,212
Tax-exempt	13,901	18,466	18,323
Total interest on investment securities	139,421	120,780	97,535
Other earning assets	19,813	5,484	147
Total interest income	903,004	585,006	483,217
Interest expense			
Deposits	202,010	28,140	14,435
Short-term borrowings	53,378	19,132	198
Long-term borrowings	19,846	18,591	16,466
Total interest expense	275,234	65,863	31,099
Net interest income	627,770	519,143	452,118
Provision for credit losses - loan and lease losses	43,074	6,731	(19,024)
Provision for credit losses - unfunded commitments	33	4,982	903
Net interest income after provision for credit losses	584,663	507,430	470,239
Noninterest income			
Service charges on deposit accounts	27,289	28,062	31,876
Wealth management fees	26,081	23,506	23,780
Bankcard income	14,039	14,380	14,300
Client derivative fees	5,155	5,441	7,927
Foreign exchange income	54,051	54,965	44,793
Leasing business income	51,322	31,574	0
Net gain from sales of loans	13,217	15,048	33,021
Net gain (loss) on sales/transfers of investment securities	(1,258)	(569)	(759)
Net gain (loss) on equity securities	206	(639)	702
Other	22,320	17,873	15,866
Total noninterest income	212,422	189,641	171,506
Noninterest expenses			
Salaries and employee benefits	292,731	269,368	245,924
Net occupancy	22,990	22,208	22,142
Furniture and equipment	13,543	13,224	13,819
Data processing	35,852	33,662	31,363
Marketing	9,647	8,744	7,983
Communication	2,729	2,683	2,930
Professional services	9,926	9,734	11,676
State intangible tax	3,914	4,285	4,256
FDIC assessments	11,948	7,194	5,630
Intangible assets amortization	10,402	11,185	9,839
Leasing business expense	32,500	20,363	0
Other	32,307	52,699	45,250
Total noninterest expenses	478,489	455,349	400,812
Income before income taxes	318,596	241,722	240,933
Income tax expense	62,733	24,110	35,773
Net income	\$ 255,863	\$ 217,612	\$ 205,160
Earnings per common share			
Basic	\$ 2.72	\$ 2.33	\$ 2.16
Diluted	\$ 2.69	\$ 2.30	\$ 2.14
Average common shares outstanding - basic	93,938,772	93,528,712	95,034,690
Average common shares outstanding - diluted	95,096,067	94,586,851	95,897,385

See Notes to Consolidated Financial Statements

Consolidated Statements of Comprehensive Income (Loss)

<i>(Dollars in thousands)</i>	Years ended December 31,		
	2023	2022	2021
Net income	\$ 255,863	\$ 217,612	\$ 205,160
Other comprehensive income (loss), net of tax:			
Unrealized gain (loss) on debt securities arising during the period	43,967	(346,963)	(52,538)
Change in retirement obligation	906	(11,177)	4,066
Unrealized gain (loss) on derivatives	3,755	0	0
Unrealized gain (loss) on foreign currency exchange	216	(90)	(625)
Other comprehensive income (loss)	48,844	(358,230)	(49,097)
Comprehensive income (loss)	\$ 304,707	\$ (140,618)	\$ 156,063

See Notes to Consolidated Financial Statements

Consolidated Statements of Changes in Shareholders' Equity

(Dollars in thousands, except share amounts)	Common stock shares	Common stock amount	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock		Total
					Shares	Amount	
Balance at January 1, 2021	104,281,794	\$ 1,638,947	\$ 720,429	\$ 48,664	(6,259,865)	\$ (125,970)	\$ 2,282,070
Net income			205,160				205,160
Other comprehensive income (loss)				(49,097)			(49,097)
Cash dividends declared:							
Common stock at \$0.92 per share			(88,116)				(88,116)
Purchase of common stock					(4,633,355)	(108,077)	(108,077)
Common stock issued in connection with business combinations		1,251			405,805	8,749	10,000
Exercise of stock options, net of shares purchased		(81)			6,936	145	64
Restricted stock awards, net of forfeitures		(9,394)			347,925	6,697	(2,697)
Share-based compensation expense		9,635					9,635
Balance at December 31, 2021	104,281,794	1,640,358	837,473	(433)	(10,132,554)	(218,456)	2,258,942
Net income			217,612				217,612
Other comprehensive income (loss)				(358,230)			(358,230)
Cash dividends declared:							
Common stock at \$0.92 per share			(86,848)				(86,848)
Exercise of stock options, net of shares purchased		(160)			15,660	337	177
Restricted stock awards, net of forfeitures		(18,972)			726,199	15,313	(3,659)
Share-based compensation expense		13,379					13,379
Balance at December 31, 2022	104,281,794	1,634,605	968,237	(358,663)	(9,390,695)	(202,806)	2,041,373
Net income			255,863				255,863
Other comprehensive income (loss)				48,844			48,844
Cash dividends declared:							
Common stock at \$0.92 per share			(87,382)				(87,382)
Exercise of stock options, net of shares purchased		(57)			4,855	105	48
Restricted stock awards, net of forfeitures		(10,474)			245,290	4,804	(5,670)
Share-based compensation expense		14,898					14,898
Balance at December 31, 2023	<u>104,281,794</u>	<u>\$ 1,638,972</u>	<u>\$ 1,136,718</u>	<u>\$ (309,819)</u>	<u>(9,140,550)</u>	<u>\$ (197,897)</u>	<u>\$ 2,267,974</u>

See Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows

(Dollars in thousands)	Year ended December 31,		
	2023	2022	2021
Operating activities			
Net income	\$ 255,863	\$ 217,612	\$ 205,160
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Provision for credit losses	43,107	11,713	(18,121)
Depreciation and amortization	30,026	31,181	32,136
Stock-based compensation expense	14,898	13,379	9,635
Pension expense (income)	3,515	2,002	3,365
Net amortization (accretion) on investment securities	7,190	12,819	28,987
Net (gain) loss on sales/transfers of investments securities	1,258	569	759
Net (gain) loss on equity securities	(206)	639	(702)
Originations of loans held for sale	(294,037)	(368,574)	(794,524)
Net (gains) losses on sales of loans held for sale	(13,217)	(15,048)	(33,021)
Proceeds from sales of loans held for sale	302,609	375,122	825,102
Deferred income taxes	13,365	(3,505)	12,087
Amortization of operating leases	7,773	7,626	7,425
Payment of operating lease liability	(7,819)	(7,824)	(6,860)
Bank owned life insurance income	(5,033)	(2,287)	(1,833)
Decrease (increase) in interest receivable	(9,567)	(19,134)	6,463
(Decrease) increase in interest payable	40,305	6,652	(1,889)
Decrease (increase) in other assets	159,446	(226,398)	138,225
(Decrease) increase in other liabilities	(62,507)	164,302	(24,237)
Net cash provided by (used in) operating activities	486,969	200,846	388,157
Investing activities			
Proceeds from sales of investment securities available-for-sale	92,187	277,082	375,276
Proceeds from calls, paydowns and maturities of securities available-for-sale	440,815	704,304	1,139,498
Purchases of securities available-for-sale	(96,745)	(641,643)	(2,418,290)
Proceeds from calls, paydowns and maturities of securities held-to-maturity	3,902	14,640	34,563
Purchases of securities held-to-maturity	0	0	(1,000)
Proceeds from calls, paydowns and maturities of other securities	29,713	8	42,403
Purchases of other investment securities	(16,292)	(40,836)	(11,474)
Net decrease (increase) in interest-bearing deposits with other banks	(404,778)	(173,371)	(194,506)
Proceeds from sales of loans and leases held for investment	0	0	141,072
Net decrease (increase) in loans and leases	(665,861)	(987,088)	503,203
Proceeds from disposal of other real estate owned	288	192	1,278
Purchases of premises and equipment	(24,135)	(13,778)	(15,333)
Net change in operating leases	(61,476)	(29,475)	0
Life insurance death benefits	4,652	6,860	2,305
Net cash acquired (paid) from business combinations	(3,535)	0	(109,024)
Net cash provided by (used in) investing activities	(701,265)	(883,105)	(510,029)
Financing activities			
Net (decrease) increase in total deposits	659,620	(170,777)	639,951
Net (decrease) increase in short-term borrowings	(349,342)	990,953	129,609
Payments on long-term borrowings	(3,313)	(64,018)	(463,382)
Cash dividends paid on common stock	(87,159)	(86,606)	(87,316)
Purchases of common stock	0	0	(108,077)
Proceeds from exercise of stock options	48	177	64
Net cash provided by (used in) financing activities	219,854	669,729	110,849
Cash and due from banks			
Net (decrease) increase in Cash and due from banks	5,558	(12,530)	(11,023)
Cash and due from banks at beginning of year	207,501	220,031	231,054
Cash and due from banks at end of year	\$ 213,059	\$ 207,501	\$ 220,031

(continued on next page)

(Dollars in thousands)	Year ended December 31,		
	2023	2022	2021
Supplemental disclosures			
Interest paid	\$ 234,929	\$ 59,512	\$ 32,841
Income taxes paid	\$ 10,076	\$ 5,696	\$ 17,689
Acquisition of other real estate owned through foreclosure	\$ 387	\$ 327	\$ 98
Issuance of restricted stock awards	\$ 12,503	\$ 22,280	\$ 12,231
Common stock issued in acquisitions	\$ 0	\$ 0	\$ 10,000
Supplemental schedule for investing activities			
Business combinations			
Assets acquired, net of purchase consideration	\$ (3,420)	\$ 64	\$ 62,916
Liabilities assumed	941	822	125,894
Goodwill	\$ 4,361	\$ 758	\$ 62,978

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 on purchased callable debt securities is adjusted for amortization of premiums to the earliest call date if the call feature meets certain criteria. Otherwise, premiums are amortized to maturity similar to discounts on callable debt securities, 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.

Other investments. Other investments include holdings in FRB and FHLB stock, which are both carried at cost as well as equity securities, including class B Visa shares which do not have a readily determinable fair value and are therefore monitored for impairment. Changes in the fair value of equity securities with readily determinable fair values are recorded in Net gain (loss) on equity securities 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.

Allowance for credit losses - held-to-maturity securities. Management measures expected credit losses on held-to-maturity debt securities on a collective basis by security type. The estimate of expected credit losses considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts. Management classifies the held-to-maturity portfolio into the following major security types: Mortgage-backed, CMOs, Obligations of state and other political subdivisions and Other.

Nearly all of the HTM securities held by the Company are issued by U.S. government entities and agencies. These securities are either explicitly or implicitly guaranteed by the U.S. government, are highly rated by major rating agencies and have a long history of no credit losses. The remainder of the Company's HTM securities are non-agency collateralized mortgage obligations and obligations of state and other political subdivisions which currently carry ratings no lower than A+. Accrued interest receivable on held-to maturity debt securities, which totaled \$0.4 million as of both December 31, 2023 and 2022, is excluded by policy election from the estimate of credit losses.

Allowance for credit losses - available-for-sale securities. For AFS debt securities in an unrealized loss position, the Company first assesses whether it intends to sell, or it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For debt securities available-for-sale that do not meet the aforementioned criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security.

If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit loss is recognized in other comprehensive income (loss). Changes in the allowance for credit losses are recorded as provision for credit loss expense. Losses are charged against the allowance when management believes the uncollectibility of an AFS security is confirmed or when either of the criteria regarding intent or requirement to sell is met. Accrued interest receivable on AFS debt securities, which totaled \$15.3 million and \$15.9 million as of December 31, 2023 and 2022, respectively, is excluded from the estimate of credit losses.

Allowance for credit losses - loans and leases. The allowance for credit losses is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. Management's determination of the adequacy of the ACL is based on an assessment of the expected credit losses on loan and leases over their expected life. The ACL is 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 a guarantor or from the liquidation of collateral is unlikely. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off. Any interest that is accrued but not collected is reversed against interest income when a loan is placed on nonaccrual status, which typically occurs prior to charging off all, or a portion, of a loan. The Company made the policy election to exclude accrued interest receivable on loans and leases from the estimate of credit losses.

Management estimates the allowance using relevant available information from both internal and external sources, relating to past events, current conditions and reasonable and supportable forecasts. Historical credit loss experience paired with economic forecasts provide the basis for the quantitatively modeled estimation of expected credit losses. First Financial adjusts its quantitative model, as necessary, to reflect conditions not already considered therein. These adjustments are commonly known as the Qualitative Framework.

First Financial quantitatively models expected credit loss using PD, LGD and EAD over the R&S forecast period, reversion and post-reversion periods.

Utilizing third-party software, First Financial forecasts PD by using a parameterized transition matrix approach. Average transition matrices are calculated over the TTC period, which was defined as the period from December 2007 to December 2022. TTC transition matrices are adjusted under forward-looking macroeconomic expectations to obtain R&S forecasts.

First Financial is not required to develop forecasts over the full contractual term of the financial asset or group of financial assets. Rather, for periods beyond which the entity is able to make or obtain R&S forecasts of expected credit losses, the Company reverts in a straight line manner over a one year period to an average TTC loss level that is reflective of the prepayment adjusted contractual term of the financial asset or group of financial assets. First Financial elected a two year R&S period which is forecasted using econometric data sourced from Moody's, an industry-leading independent third party.

FFB utilizes a non-parametric loss curve approach embedded within a third-party software for estimating LGD. The PD multiplied by LGD produces an expected loss rate that, when calculating the ACL, is applied to contractual loan cash flows, adjusted for expected future rates of principal prepayments.

The Company adjusts its quantitative model for certain qualitative factors to reflect the extent to which management expects current conditions and R&S forecasts to differ from the conditions that existed for the period over which historical information was evaluated. The Qualitative Framework reflects changes related to relevant data, such as changes in asset quality trends, portfolio growth and composition, national and local economic factors, credit policy and administration and other factors not considered in the base quantitative model.

Loans that do not share risk characteristics are evaluated on an individual basis. First Financial will typically evaluate on an individual basis any nonaccrual loans greater than \$250,000. When management determines that foreclosure is probable or when repayment is expected to be provided substantially through the operation or sale of underlying collateral, expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for selling costs, as applicable. For loans evaluated on an individual basis that are not determined to be collateral dependent, a discounted cash flow analysis is performed to determine expected credit losses.

Expected credit losses are estimated over the contractual term of the loans, adjusted for expected prepayments when appropriate. The contractual term excludes expected extensions, renewals and modifications unless either of the following applies: management has a reasonable expectation at the reporting date that a restructuring will be executed with an individual borrower or the extension or renewal options are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the Company.

Credit card receivables do not have stated maturities. In determining the estimated life of a credit card receivable, management first estimates the future cash flows expected to be received and then applies those expected future cash flows to the credit card balance.

Significant downturns in circumstances relating to loan quality and economic conditions could result in a requirement for additional allowance. Likewise, an upturn in loan quality and improved economic conditions may allow a reduction in the required allowance. In either instance, unanticipated changes could have a significant impact on results of operations.

Allowance for credit losses - unfunded commitments. First Financial estimates expected credit losses over the contractual period in which the Company is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Company. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life consistent with the Company's ACL methodology for loans and leases. Adjustments to the reserve for unfunded commitments are recorded in Provision for credit losses - unfunded commitments in the Consolidated Statements of Income. The reserve for unfunded commitments is included in Accrued interest and other liabilities on the Consolidated Balance Sheets.

Legal Contingencies. First Financial and its subsidiaries may be parties to numerous claims and lawsuits as well as threatened or potential actions or claims concerning matters arising from the conduct of its business activities. The outcome of claims or litigation, and the timing of ultimate resolution are inherently difficult to predict and significant judgment may be required in the determination of both the probability of loss and whether the amount of the loss is reasonably estimable. First Financial's estimates are subjective and are based on the status of legal and regulatory proceedings, the merit of the Company's defenses and consultation with internal and external legal counsel. An accrual for a potential litigation loss is established when information related to the loss contingency indicates both that a loss is probable and that the amount of loss can be reasonably estimated. This accrual, when required, is included in other liabilities in the Consolidated Balance Sheets and is adjusted from time to time as appropriate to reflect changes in circumstances. Legal expenses are recorded in Professional services 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.

Operating Leases. First Financial provides financing for various types of equipment through a variety of leasing arrangements. Operating leases are carried at the aggregate of lease payments plus estimated residual value of the leased equipment, less unearned income. The Company recognizes income over the term of the lease using the constant effective yield method. Lease residual values are reviewed for impairment at least annually. Depreciation expense related to operating lease equipment is recorded in Leasing business expense on the Consolidated Statements of Income.

Bank-owned life insurance. First Financial purchases and is the owner and beneficiary of life insurance policies on the lives of certain employees. 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. Changes in the cash surrender value of these policies are recorded in Other noninterest income in the Consolidated Statements of Income.

Goodwill. When 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. In testing goodwill for impairment, U.S. GAAP permits First Financial to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. In this qualitative assessment, First Financial evaluates events and circumstances which may include, but are not limited to, the general economic environment, banking industry and market conditions, the Company's overall financial performance, the performance of the Company's common stock, the key financial performance metrics of the Bancorp's reporting units and events affecting the reporting unit to determine if it is not more likely than not that the fair value of a reporting unit is less than its carrying amount. If the quantitative impairment test is required or the decision to bypass the qualitative assessment is elected, the Bancorp performs the goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount, including goodwill.

When required, management's quantitative impairment analysis includes both an income and a market approach. The income approach utilizes a discounted cash flow model and the market approach utilizes a market multiple methodology and as well as a comparable transaction methodology. These valuation methodologies utilize key assumptions that include forecasts of revenues and expenses derived from internal management projections, changes in working capital estimates, company specific discount rate derived from a rate build up approach, externally sourced bank peer group market multiples and externally sourced bank peer group change in control premium, all of which are highly subjective and require significant judgment.

Changes in these key assumptions, as well as downturns in economic or business conditions, could materially affect our estimate of the reporting unit fair value and could affect our conclusion regarding the existence of potential impairment. In 2023, management evaluated goodwill for impairment using a qualitative analysis.

Other intangible assets. Other intangible assets consist primarily of core deposit intangibles, customer list, MSR 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 amortized on an accelerated basis over their estimated useful lives.

First Financial recorded a customer list intangible asset in conjunction with the Bannockburn and Summit mergers to account for the obligation or advantage on the part of either the Company or the customer to continue pre-existing relationships subsequent to the mergers. Customer list intangible assets are amortized on a straight-line basis over their estimated useful lives.

Mortgage servicing rights are servicing fees First Financial receives from selling fixed and adjustable-rate residential mortgage loans where it obtains servicing responsibilities. In those sales, the First Financial obtained servicing responsibilities and provided certain standard representations and warranties; however, the investors have no recourse to the Company's other assets for failure of debtors to pay when due. First Financial receives servicing fees based on a percentage of the outstanding balance.

Mortgage servicing rights are measured at fair value with changes in fair value reported in Other noninterest income in the Consolidated Statements of Income.

The fair value of the mortgage servicing rights is estimated by calculating the present value of estimated future net servicing cash flows, taking into consideration actual and expected mortgage loan prepayment rates, discount rates, servicing costs, and other economic factors, which are determined based on current market conditions. The expected and actual rates of mortgage loan prepayments are the most significant factors driving the value of mortgage servicing rights. Increases in mortgage loan prepayments reduce estimated future net servicing cash flows because the life of the underlying loan is reduced. In determining the market value of the mortgage servicing rights, mortgage interest rates, which are used to determine prepayment rates and discount rates, are held constant over the estimated life of the portfolio. Mortgage servicing rights are reported in other assets and are amortized against noninterest income offsetting the actual servicing income of the underlying mortgage loans.

Mortgage servicing rights are regularly evaluated for impairment based on the estimated fair value of those rights. The mortgage servicing rights are stratified by certain risk characteristics, primarily loan term and note rate. If impairment exists, a valuation allowance is established through a charge to income equal to the amount by which the carrying value exceeds the fair value.

Other miscellaneous intangible assets also include purchase commissions, non-compete agreements and trade name intangibles.

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) establishing a new cost basis. Physical possession of residential real estate property collateralizing a consumer mortgage loan occurs when legal title is obtained upon completion of foreclosure or when the borrower conveys all interest in the property to satisfy the loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Losses arising at the time of acquisition of such properties are charged against the ACL. 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 while any unfunded commitment is recorded with Accrued interest and other liabilities. These investments 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 that finance the rehabilitation and re-use of historic buildings. These unconsolidated 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 the Company's recorded investment in these entities is carried in Accrued interest and other assets on the Consolidated Balance Sheets with any unfunded commitment recorded in Accrued interest and other liabilities. Impairment of these investments is recorded in Other noninterest expense, while the tax credits and other net tax benefits received are recognized as a component of income tax expense in the Consolidated Statements of Income.

Investments in renewable energy credits. First Financial has investments in renewable energy projects where it has noncontrolling interest which is not consolidated. This investment 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 renewable energy 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 with any unfunded commitment recorded in Accrued interest and other liabilities. Impairment of these investments is recorded in Other noninterest expense, while the tax credits and other net tax benefits received are recognized as a component of income tax expense in the Consolidated Statements of Income.

Deposits - Deposits generally include the unpaid balance of cash or its equivalent received or held by the Bank for its commercial and consumer customers. Deposits include both interest-bearing and noninterest-bearing balances. Interest expense incurred on interest-bearing deposits is recognized in accordance with applicable guidance in U.S. GAAP for these liabilities and is included in Interest 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.

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.

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.

In establishing a provision for income tax expense, we must make judgments and interpretations about the application of complex tax laws as well as make estimates about when in the future certain items will affect taxable income. 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.

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 and economic forecasts, 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.

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.

Interest rate 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.

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.

Cash flow hedges - First Financial may enter into interest rate collars and floors, which are designated as cash flow hedges. These cash flow hedges are utilized to mitigate interest rate risk on variable-rate commercial loan pools. Changes in the fair value of cash flow hedges included in the assessment of hedge effectiveness are recorded in AOCI and reclassified from AOCI to current period earnings when the hedged item affects earnings. Reclassified gains and losses on interest rate contracts related to commercial and industrial loans are recorded within interest 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. Restricted stock award 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 2023

In March, 2022, the FASB issued ASU 2022-02 - *Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*. This standard eliminates the accounting guidance on TDRs for creditors in ASC 310-40 and amends the guidance on “vintage disclosures” to require disclosure of current period gross write-offs by year of origination. The ASU also updates the requirements related to accounting for credit losses under ASC 326 and adds enhanced disclosures for creditors with respect to loan refinancings and restructurings for borrowers experiencing financial difficulty. The amendments in this update are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years, for any entities that have adopted ASU 2016-13 - *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The adoption of this standard resulted in amended disclosures in the Company's Consolidated Financial Statements, but did not materially impact the Company's results of operations.

Standards Adopted in 2022

During the first quarter of 2022, the SEC issued SAB No. 121. This bulletin adds interpretive guidance on the accounting and disclosure of obligations to safeguard crypto assets held for platform users. This guidance was applicable no later than the financial statements covering the first interim or annual period ending after June 15, 2022. Management reviewed its business activities and determined SAB 121 was not impactful to the Company's Consolidated Financial Statements as the Company did not safeguard crypto assets at the time of adoption or as of December 31, 2023.

Standards Issued But Not Yet Adopted

In March, 2023, the FASB issued ASU No. 2023-02, *Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method*, that is intended to improve the accounting and disclosures for investments in tax credit structures. The ASU is a ratification of the FASB's EITF consensus that was issued in December, 2022. The ASU allows reporting entities to elect to account for qualifying tax equity investments using the proportional amortization method, regardless of the program giving rise to the related income tax credits. The amendments are effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years, and early adoption is permitted.

In October 2023, the FASB issued ASU 2023-06, *Disclosure Improvements -- Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative*, which amends the disclosure or presentation requirements related to various subtopics in the FASB Accounting Standards Codification. The ASU was issued in response to the SEC's August 2018 final rule that updated and simplified disclosure requirements that the SEC believed were redundant, duplicative, overlapping, outdated, or superseded. The new guidance is intended to align U.S. GAAP requirements with those of the SEC and to facilitate the application of U.S. GAAP for all entities. The effective date of ASU 2023-06 for each amendment will be the date on which the SEC's removal of that related disclosure requirement from Regulation S-X or Regulation S-K becomes effective, with early adoption prohibited. Entities would apply the amendments in ASU 2023-06 prospectively after the effective dates.

In November 2023, the FASB issued ASU 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures*. The amendments improve reportable segment disclosure requirements, primarily through enhanced disclosures about significant segment expenses. In addition, the amendments enhance interim disclosure requirements, clarify circumstances in which an entity can disclose multiple segment measures of profit or loss, provide new segment disclosure requirements for entities with a single reportable segment, and contain other disclosure requirements. The purpose of the amendments is to enable investors to better understand an entity's overall performance and assess “potential future cash flows. The ASU applies to all public entities that are required to report segment information in accordance with ASC 280. The amendments in ASU 2023-07 are effective for all public entities for fiscal years beginning after December 15, 2023 and interim periods within fiscal years beginning after December 15, 2024.

In December 2023, the FASB issued ASU 2023-09, *Improvements to Income Tax Disclosures*, which requires consistent categories and greater disaggregation of information in the rate reconciliation and income taxes paid disaggregated by jurisdiction. The amendments are intended to address investors' requests for income tax disclosures that provide more information to help them better understand an entity's exposure to potential changes in tax laws and the ensuing risks and opportunities and to assess income tax information that affects cash flow forecasts and capital allocation decisions. The

Notes to Consolidated Financial Statements

guidance also eliminates certain existing requirements related to uncertain tax positions and unrecognized deferred tax. The guidance is effective for annual periods beginning after December 15, 2024.

All of the new standards issued but not adopted are expected to result in amended disclosures in the Company's Consolidated Financial Statements; however, none are expected to materially impact the Company's results of operations.

3. Restrictions on Cash and Dividends

As of December 31, 2023 and 2022, First Financial had \$21.6 million and \$25.0 million, respectively, in cash restricted for withdrawal and usage due to the centrally cleared derivative initial margin requirement included in Cash and due from banks on the Consolidated Balance Sheets. Additionally, First Financial had no required reserves with the FRB as of December 31, 2023 and 2022.

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, 2023, First Financial's subsidiaries had retained earnings of \$923.0 million, of which \$248.7 million was available for distribution to First Financial without prior regulatory approval.

4. Investment Securities

During the year ended December 31, 2023, proceeds on the sale of \$92.2 million of AFS securities resulted in losses of \$1.3 million and insignificant gains. During the year ended December 31, 2022, proceeds on the sale of \$277.1 million of AFS securities resulted in gains of \$1.0 million and losses of \$1.6 million. During the year ended December 31, 2021, proceeds on the sale of \$375.3 million of AFS securities resulted in gains of \$6.8 million and losses of \$7.6 million. The impact to income tax expense from these sales was insignificant in all three years.

In 2023 and 2022, there were no reclassifications of HTM securities to AFS securities.

The carrying value of investment securities pledged as collateral to secure public deposits, repurchase agreements and for other purposes as required by law totaled \$1.6 billion at December 31, 2023 and \$1.5 billion at December 31, 2022.

The following is table a summary of HTM and AFS investment securities as of December 31, 2023:

(Dollars in thousands)	Held-to-maturity				Available-for-sale			
	Amortized cost	Unrecognized gain	Unrecognized loss	Fair value	Amortized cost	Unrealized gain	Unrealized loss	Fair value
U.S. Treasuries	\$ 0	\$ 0	\$ 0	\$ 0	\$ 34,904	\$ 0	\$ (3,661)	\$ 31,243
Securities of U.S. government agencies and corporations	0	0	0	0	81,790	0	(12,010)	69,780
Mortgage-backed securities - residential	0	0	0	0	744,546	2,034	(85,532)	661,048
Mortgage-backed securities - commercial	32,926	0	(4,628)	28,298	543,134	7	(35,911)	507,230
Collateralized mortgage obligations	7,970	0	(539)	7,431	478,744	181	(60,277)	418,648
Obligations of state and other political subdivisions	8,175	130	(215)	8,090	765,223	1,614	(114,320)	652,517
Asset-backed securities	0	0	0	0	600,055	6	(39,813)	560,248
Other securities	31,250	0	(3,381)	27,869	134,208	0	(13,796)	120,412
Total	\$ 80,321	\$ 130	\$ (8,763)	\$ 71,688	\$ 3,382,604	\$ 3,842	\$ (365,320)	\$ 3,021,126

The following is a summary of HTM and AFS investment securities as of December 31, 2022:

(Dollars in thousands)	Held-to-maturity				Available-for-sale			
	Amortized cost	Unrecognized gain	Unrecognized loss	Fair value	Amortized cost	Unrealized gain	Unrealized loss	Fair value
U.S. Treasuries	\$ 0	\$ 0	\$ 0	\$ 0	\$ 37,312	\$ 0	\$ (4,616)	\$ 32,696
Securities of U.S. government agencies and corporations	0	0	0	0	80,382	0	(13,914)	66,468
Mortgage-backed securities - residential	0	0	0	0	747,478	47	(97,462)	650,063
Mortgage-backed securities - commercial	35,363	0	(4,114)	31,249	676,934	2	(47,374)	629,562
Collateralized mortgage obligations	9,280	0	(827)	8,453	538,970	181	(61,439)	477,712
Obligations of state and other political subdivisions	8,128	105	(201)	8,032	832,066	565	(124,168)	708,463
Asset-backed securities	0	0	0	0	772,261	39	(60,975)	711,325
Other securities	31,250	0	(2,499)	28,751	142,015	0	(8,656)	133,359
Total	\$ 84,021	\$ 105	\$ (7,641)	\$ 76,485	\$ 3,827,418	\$ 834	\$ (418,604)	\$ 3,409,648

The following table provides a summary of investment securities by contractual maturity as of December 31, 2023, except for residential and commercial mortgage-backed securities, collateralized mortgage obligations and asset-backed securities, which are shown as single totals, due to the unpredictability of the timing in principal repayments:

(Dollars in thousands)	Held-to-maturity		Available-for-sale	
	Amortized cost	Fair value	Amortized cost	Fair value
Due in one year or less	\$ 0	\$ 0	\$ 4,729	\$ 4,721
Due after one year through five years	4,595	4,690	161,803	148,088
Due after five years through ten years	33,130	29,781	225,993	195,230
Due after ten years	1,700	1,488	623,600	525,913
Mortgage-backed securities - residential	0	0	744,546	661,048
Mortgage-backed securities - commercial	32,926	28,298	543,134	507,230
Collateralized mortgage obligations	7,970	7,431	478,744	418,648
Asset-backed securities	0	0	600,055	560,248
Total	\$ 80,321	\$ 71,688	\$ 3,382,604	\$ 3,021,126

Unrealized gains and losses on debt securities available-for-sale are generally due to fluctuations in current market yields relative to the yields of the securities at their amortized cost. All AFS securities with unrealized losses are reviewed quarterly to determine if any impairment exists, requiring a write-down to fair value. For AFS securities in an unrealized loss position, the Company first assesses whether it intends to sell or it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For debt securities available-for-sale in an unrealized loss position that do not meet the aforementioned criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis for the security, a credit loss exists and an allowance for credit losses is recorded, limited to the amount that the fair value of the security is less than its amortized cost basis.

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 prior to maturity or recovery of the recorded value. Additionally, based on the Company's credit assessment of AFS securities in an unrealized loss position, the Company recorded no reserves on investment securities for the twelve months ended December 31, 2023 or 2022.

Notes to Consolidated Financial Statements

As of December 31, 2023, the Company's investment securities portfolio consisted of 1,018 securities, of which 783 were in an unrealized loss position. As of December 31, 2022, the Company's investment securities portfolio consisted of 1,251 securities, of which 891 were in an unrealized loss position.

Primarily all of First Financial's HTM debt securities are issued by U.S. government-sponsored enterprises. These securities carry the explicit and/or implicit guarantee of the U.S. government, are widely recognized as "risk free," and have a long history of zero credit loss. The remainder of the Company's HTM securities are non-agency collateralized mortgage obligations and obligations of state and other political subdivisions which currently carry ratings no lower than A+. There were no HTM securities on nonaccrual status or past due as of December 31, 2023, or 2022.

Management measures expected credit losses on HTM debt securities on a collective basis by security type. The estimate of expected credit losses considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts. The Company did not record an ACL for these securities as of December 31, 2023 or 2022.

The following tables provide the fair value and gross unrealized losses on AFS investment securities in an unrealized loss position for which an allowance for credit losses was not recorded, aggregated by investment category and the length of time the individual securities have been in a continuous loss position:

	December 31, 2023					
	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	\$ 0	\$ 0	\$ 31,243	\$ (3,661)	\$ 31,243	\$ (3,661)
Securities of U.S. government agencies and corporations	0	0	69,780	(12,010)	69,780	(12,010)
Mortgage-backed securities - residential	31,892	(483)	538,863	(85,049)	570,755	(85,532)
Mortgage-backed securities - commercial	1,772	(11)	495,451	(35,900)	497,223	(35,911)
Collateralized mortgage obligations	10,699	(157)	393,884	(60,120)	404,583	(60,277)
Obligations of state and other political subdivisions	15,155	(132)	562,740	(114,188)	577,895	(114,320)
Asset-backed securities	6,853	(15)	542,029	(39,798)	548,882	(39,813)
Other securities	14,605	(396)	105,807	(13,400)	120,412	(13,796)
Total	\$ 80,976	\$ (1,194)	\$ 2,739,797	\$ (364,126)	\$ 2,820,773	\$ (365,320)

	December 31, 2022					
	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	\$ 2,383	\$ (46)	\$ 30,313	\$ (4,570)	\$ 32,696	\$ (4,616)
Securities of U.S. Government agencies and corporations	0	0	66,468	(13,914)	66,468	(13,914)
Mortgage-backed securities - residential	195,972	(10,413)	443,415	(87,049)	639,387	(97,462)
Mortgage-backed securities - commercial	440,207	(18,823)	175,530	(28,551)	615,737	(47,374)
Collateralized mortgage obligations	199,138	(12,453)	269,242	(48,986)	468,380	(61,439)
Obligations of state and other political subdivisions	295,913	(31,196)	368,673	(92,972)	664,586	(124,168)
Asset-backed securities	250,946	(9,410)	422,090	(51,565)	673,036	(60,975)
Other securities	118,262	(6,865)	9,959	(1,791)	128,221	(8,656)
Total	\$ 1,502,821	\$ (89,206)	\$ 1,785,690	\$ (329,398)	\$ 3,288,511	\$ (418,604)

The following tables provide the fair value and gross unrealized losses on HTM investment securities in an unrealized loss position for which an allowance for credit losses was not recorded, aggregated by investment category and the length of time the individual securities have been in a continuous loss position:

	December 31, 2023					
	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	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Securities of U.S. government agencies and corporations	0	0	0	0	0	0
Mortgage-backed securities - residential	0	0	0	0	0	0
Mortgage-backed securities - commercial	0	0	28,298	(4,628)	28,298	(4,628)
Collateralized mortgage obligations	0	0	7,431	(539)	7,431	(539)
Obligations of state and other political subdivisions	1,128	(3)	1,488	(212)	2,616	(215)
Asset-backed securities	0	0	0	0	0	0
Other securities	0	0	27,869	(3,381)	27,869	(3,381)
Total	<u>\$ 1,128</u>	<u>\$ (3)</u>	<u>\$ 65,086</u>	<u>\$ (8,760)</u>	<u>\$ 66,214</u>	<u>\$ (8,763)</u>

	December 31, 2022					
	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	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Securities of U.S. government agencies and corporations	0	0	0	0	0	0
Mortgage-backed securities - residential	0	0	0	0	0	0
Mortgage-backed securities - commercial	17,656	(2,197)	13,593	(1,917)	31,249	(4,114)
Collateralized mortgage obligations	6,317	(606)	2,136	(221)	8,453	(827)
Obligations of state and other political subdivisions	5,160	(201)	0	0	5,160	(201)
Asset-backed securities	0	0	0	0	0	0
Other securities	7,081	(418)	21,670	(2,081)	28,751	(2,499)
Total	<u>\$ 36,214</u>	<u>\$ (3,422)</u>	<u>\$ 37,399</u>	<u>\$ (4,219)</u>	<u>\$ 73,613</u>	<u>\$ (7,641)</u>

For further detail on the fair value of investment securities, see Note 23 – 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 that are secured by commissions and cash collateral accounts to insurance agents and brokers.

Credit quality. To facilitate the monitoring of credit quality for commercial loans, 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 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. In 2022 and all years prior that are presented below, consumer loans that have been modified in a TDR are classified as nonperforming.

The following table sets forth the Company's loan portfolio at December 31, 2023 by risk attribute and origination date as well as detailing current period chargeoffs by year of origination:

<i>(Dollars in thousands)</i>	2023	2022	2021	2020	2019	Prior	Term Total	Revolving	Total
Commercial & industrial									
Pass	\$ 848,448	\$ 736,213	\$ 414,460	\$ 265,143	\$ 113,296	\$ 226,970	\$2,604,530	\$ 774,080	\$ 3,378,610
Special mention	0	13,373	4,970	882	19,560	1,328	40,113	8,882	48,995
Substandard	3,133	21,505	11,483	1,205	1,023	9,990	48,339	25,277	73,616
Doubtful	0	0	0	0	0	0	0	0	0
Total	\$ 851,581	\$ 771,091	\$ 430,913	\$ 267,230	\$ 133,879	\$ 238,288	\$2,692,982	\$ 808,239	\$ 3,501,221
YTD Gross chargeoffs	\$ 10	\$ 2,978	\$ 7,267	\$ 7,055	\$ 936	\$ 929	\$ 19,175	\$ 0	\$ 19,175
Lease financing									
Pass	\$ 261,064	\$ 186,997	\$ 6,404	\$ 1,189	\$ 2,222	\$ 523	\$ 458,399	\$ 0	\$ 458,399
Special mention	4,761	8,047	0	0	0	0	12,808	0	12,808
Substandard	1,407	1,961	97	0	145	0	3,610	0	3,610
Doubtful	0	0	0	0	0	0	0	0	0
Total	\$ 267,232	\$ 197,005	\$ 6,501	\$ 1,189	\$ 2,367	\$ 523	\$ 474,817	\$ 0	\$ 474,817
YTD Gross chargeoffs	\$ 0	\$ 0	\$ 4,423	\$ 0	\$ 0	\$ 0	\$ 4,423	\$ 0	\$ 4,423
Construction real estate									
Pass	\$ 170,259	\$ 208,446	\$ 108,886	\$ 27,686	\$ 7,784	\$ 6,165	\$ 529,226	\$ 19,275	\$ 548,501
Special mention	0	0	0	16,331	0	0	16,331	0	16,331
Substandard	0	0	0	0	0	0	0	0	0
Doubtful	0	0	0	0	0	0	0	0	0
Total	\$ 170,259	\$ 208,446	\$ 108,886	\$ 44,017	\$ 7,784	\$ 6,165	\$ 545,557	\$ 19,275	\$ 564,832
YTD Gross chargeoffs	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Commercial real estate - investor									
Pass	\$ 468,579	\$ 595,423	\$ 473,325	\$ 261,794	\$ 554,893	\$ 636,598	\$2,990,612	\$ 39,668	\$ 3,030,280
Special mention	7,894	9,345	12,134	110	32,756	14,204	76,443	0	76,443
Substandard	0	0	0	6,238	0	25,668	31,906	0	31,906
Doubtful	0	0	0	0	0	0	0	0	0
Total	\$ 476,473	\$ 604,768	\$ 485,459	\$ 268,142	\$ 587,649	\$ 676,470	\$3,098,961	\$ 39,668	\$ 3,138,629
YTD Gross chargeoffs	\$ 0	\$ 0	\$ 859	\$ 2,030	\$ 0	\$ 3,119	\$ 6,008	\$ 0	\$ 6,008
Commercial real estate - owner									
Pass	\$ 138,932	\$ 175,336	\$ 130,240	\$ 138,919	\$ 86,182	\$ 215,458	\$ 885,067	\$ 22,639	\$ 907,706
Special mention	396	45	179	2,403	462	19,807	23,292	0	23,292
Substandard	0	0	3,919	835	1,324	5,234	11,312	0	11,312
Doubtful	0	0	0	0	0	0	0	0	0
Total	\$ 139,328	\$ 175,381	\$ 134,338	\$ 142,157	\$ 87,968	\$ 240,499	\$ 919,671	\$ 22,639	\$ 942,310
YTD Gross chargeoffs	\$ 0	\$ 0	\$ 0	\$ 2,643	\$ 1	\$ 71	\$ 2,715	\$ 0	\$ 2,715
Residential real estate									
Performing	\$ 325,304	\$ 234,583	\$ 255,964	\$ 188,212	\$ 101,663	\$ 210,583	\$1,316,309	\$ 0	\$ 1,316,309
Nonperforming	243	917	2,584	3,496	2,160	7,965	17,365	0	17,365
Total	\$ 325,547	\$ 235,500	\$ 258,548	\$ 191,708	\$ 103,823	\$ 218,548	\$1,333,674	\$ 0	\$ 1,333,674
YTD Gross chargeoffs	\$ 0	\$ 0	\$ 8	\$ 1	\$ 27	\$ 3	\$ 39	\$ 0	\$ 39
Home equity									
Performing	\$ 28,979	\$ 23,175	\$ 29,084	\$ 32,917	\$ 9,883	\$ 22,419	\$ 146,457	\$ 606,183	\$ 752,640
Nonperforming	20	69	258	162	138	317	964	5,072	6,036
Total	\$ 28,999	\$ 23,244	\$ 29,342	\$ 33,079	\$ 10,021	\$ 22,736	\$ 147,421	\$ 611,255	\$ 758,676
YTD Gross chargeoffs	\$ 0	\$ 0	\$ 7	\$ 0	\$ 174	\$ 159	\$ 340	\$ 0	\$ 340
Installment									
Performing	\$ 16,026	\$ 39,212	\$ 22,961	\$ 3,923	\$ 1,691	\$ 3,768	\$ 87,581	\$ 68,673	\$ 156,254
Nonperforming	196	1,142	742	12	12	30	2,134	690	2,824
Total	\$ 16,222	\$ 40,354	\$ 23,703	\$ 3,935	\$ 1,703	\$ 3,798	\$ 89,715	\$ 69,363	\$ 159,078
YTD Gross chargeoffs	\$ 168	\$ 3,189	\$ 2,903	\$ 154	\$ 5	\$ 23	\$ 6,442	\$ 0	\$ 6,442

Notes to Consolidated Financial Statements

Credit cards

Performing	\$	0	\$	0	\$	0	\$	0	\$	0	\$	0	\$	59,438	\$	59,438
Nonperforming		0		0		0		0		0		0		501		501
Total	\$	0	\$	0	\$	0	\$	0	\$	0	\$	0	\$	59,939	\$	59,939
YTD Gross chargeoffs	\$	0	\$	0	\$	0	\$	0	\$	0	\$	0	\$	1,173	\$	1,173
Grand Total Loans	\$2,275,641	\$2,255,789	\$1,477,690	\$ 951,457	\$ 935,194	\$1,407,027	\$9,302,798	\$ 1,630,378	\$ 10,933,176							
Grand Total YTD Gross Chargeoffs	\$	178	\$	6,167	\$	15,467	\$	11,883	\$	1,143	\$	4,304	\$	39,142	\$	40,315

The following table sets forth the Company's loan portfolio at December 31, 2022 by risk attribute and origination date:

<i>(Dollars in thousands)</i>	2022	2021	2020	2019	2018	Prior	Term Total	Revolving	Total
Commercial & industrial									
Pass	\$ 879,836	\$ 561,890	\$ 348,123	\$ 209,758	\$ 112,282	\$ 206,656	\$2,318,545	\$ 971,080	\$3,289,625
Special mention	2,740	13,821	4,125	14,047	8,523	5,544	48,800	18,055	66,855
Substandard	2,335	5,176	11,886	8,016	3,331	13,812	44,556	9,236	53,792
Doubtful	0	0	0	0	0	0	0	0	0
Total	\$ 884,911	\$ 580,887	\$ 364,134	\$ 231,821	\$ 124,136	\$ 226,012	\$2,411,901	\$ 998,371	\$3,410,272
Lease financing									
Pass	\$ 167,035	\$ 25,638	\$ 13,705	\$ 12,797	\$ 9,402	\$ 2,930	\$ 231,507	\$ 0	\$ 231,507
Special mention	0	0	70	0	0	0	70	0	70
Substandard	4,363	0	0	164	11	9	4,547	0	4,547
Doubtful	0	0	0	0	0	0	0	0	0
Total	\$ 171,398	\$ 25,638	\$ 13,775	\$ 12,961	\$ 9,413	\$ 2,939	\$ 236,124	\$ 0	\$ 236,124
Construction real estate									
Pass	\$ 89,116	\$ 276,639	\$ 96,823	\$ 4,902	\$ 390	\$ 353	\$ 468,223	\$ 23,266	\$ 491,489
Special mention	0	14,395	0	0	6,166	0	20,561	0	20,561
Substandard	0	0	0	0	0	0	0	0	0
Doubtful	0	0	0	0	0	0	0	0	0
Total	\$ 89,116	\$ 291,034	\$ 96,823	\$ 4,902	\$ 6,556	\$ 353	\$ 488,784	\$ 23,266	\$ 512,050
Commercial real estate - investor									
Pass	\$ 643,174	\$ 470,085	\$ 301,510	\$ 719,699	\$ 300,772	\$ 508,639	\$2,943,879	\$ 26,153	\$2,970,032
Special mention	0	13,090	23,111	9,297	26,079	13,804	85,381	861	86,242
Substandard	0	6,950	6	4,025	17,178	9,631	37,790	0	37,790
Doubtful	0	0	0	0	0	0	0	0	0
Total	\$ 643,174	\$ 490,125	\$ 324,627	\$ 733,021	\$ 344,029	\$ 532,074	\$3,067,050	\$ 27,014	\$3,094,064
Commercial real estate - owner									
Pass	\$ 165,411	\$ 155,041	\$ 170,587	\$ 101,137	\$ 112,063	\$ 211,377	\$ 915,616	\$ 11,125	\$ 926,741
Special mention	0	0	0	1,479	0	14,040	15,519	0	15,519
Substandard	0	525	844	5,114	3,501	6,451	16,435	0	16,435
Doubtful	0	0	0	0	0	0	0	0	0
Total	\$ 165,411	\$ 155,566	\$ 171,431	\$ 107,730	\$ 115,564	\$ 231,868	\$ 947,570	\$ 11,125	\$ 958,695
Residential real estate									
Performing	\$ 320,676	\$ 274,816	\$ 205,948	\$ 110,745	\$ 51,583	\$ 114,642	\$1,078,410	\$ 0	\$1,078,410
Nonperforming	414	1,615	1,286	2,554	1,755	6,231	13,855	0	13,855
Total	\$ 321,090	\$ 276,431	\$ 207,234	\$ 113,299	\$ 53,338	\$ 120,873	\$1,092,265	\$ 0	\$1,092,265
Home equity									
Performing	\$ 26,411	\$ 33,414	\$ 38,226	\$ 11,733	\$ 8,051	\$ 24,985	\$ 142,820	\$ 585,712	\$ 728,532
Nonperforming	5	136	298	78	104	430	1,051	4,208	5,259
Total	\$ 26,416	\$ 33,550	\$ 38,524	\$ 11,811	\$ 8,155	\$ 25,415	\$ 143,871	\$ 589,920	\$ 733,791
Installment									
Performing	\$ 100,256	\$ 38,694	\$ 7,244	\$ 3,915	\$ 2,861	\$ 3,242	\$ 156,212	\$ 51,854	\$ 208,066
Nonperforming	650	794	18	6	20	42	1,530	299	1,829
Total	\$ 100,906	\$ 39,488	\$ 7,262	\$ 3,921	\$ 2,881	\$ 3,284	\$ 157,742	\$ 52,153	\$ 209,895
Credit cards									
Performing	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 51,287	\$ 51,287
Nonperforming	0	0	0	0	0	0	0	528	528
Total	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 51,815	\$ 51,815
Grand Total	\$2,402,422	\$1,892,719	\$1,223,810	\$1,219,466	\$ 664,072	\$1,142,818	\$8,545,307	\$1,753,664	\$10,298,971

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, 2023							
(Dollars in thousands)	30 – 59 days past due	60 – 89 days past due	> 90 days past due	Total past due	Current	Total	> 90 days past due and still accruing
Loans							
Commercial & industrial	\$ 1,717	\$ 733	\$ 4,822	\$ 7,272	\$ 3,493,949	\$ 3,501,221	\$ 376
Lease financing	790	1,028	4,224	6,042	468,775	474,817	1,151
Construction real estate	0	0	0	0	564,832	564,832	0
Commercial real estate-investor	19	16,455	6,238	22,712	3,115,917	3,138,629	0
Commercial real estate-owner	269	205	5,290	5,764	936,546	942,310	0
Residential real estate	4,786	1,929	3,744	10,459	1,323,215	1,333,674	0
Home equity	1,998	1,082	1,919	4,999	753,677	758,676	0
Installment	1,157	864	669	2,690	156,388	159,078	0
Credit card	320	211	501	1,032	58,907	59,939	501
Total	\$ 11,056	\$ 22,507	\$ 27,407	\$ 60,970	\$10,872,206	\$10,933,176	\$ 2,028

As of December 31, 2022							
(Dollars in thousands)	30 - 59 days past due	60 - 89 days past due	> 90 days past due	Total past due	Current	Total	> 90 days past due and still accruing
Loans							
Commercial & industrial	\$ 5,375	\$ 72	\$ 501	\$ 5,948	\$ 3,404,324	\$ 3,410,272	\$ 0
Lease financing	5,212	1,052	843	7,107	229,017	236,124	742
Construction real estate	0	0	0	0	512,050	512,050	0
Commercial real estate-investor	0	0	0	0	3,094,064	3,094,064	0
Commercial real estate-owner	26	5,216	44	5,286	953,409	958,695	0
Residential real estate	4,254	2,074	3,260	9,588	1,082,677	1,092,265	0
Home equity	1,725	729	1,209	3,663	730,128	733,791	0
Installment	874	490	414	1,778	208,117	209,895	0
Credit card	261	150	116	527	51,288	51,815	115
Total	\$ 17,727	\$ 9,783	\$ 6,387	\$ 33,897	\$10,265,074	\$10,298,971	\$ 857

Financial Difficulty Modifications. Effective January 1, 2023, First Financial prospectively adopted ASU 2022-02 which eliminated the accounting for TDRs while establishing a new standard for the treatment of modifications made to borrowers experiencing financial difficulties, defined by First Financial as FDMs. As such, effective with the adoption of the standard, the Company prospectively will not include FDMs in the calculation of nonperforming loans, nonperforming assets or classified assets. Prior period data, which included TDRs, has not been adjusted.

FDM might result when a borrower is in financial distress, and may be in the form of principal forgiveness, an interest rate reduction, a term extension or an other-than-insignificant payment delay. In some cases, the Company might provide multiple types of modifications for a single loan. One type of modification, such as payment delay, may be granted initially, however, if the borrower continues to experience financial difficulty, another modification, such as term extension and/or interest rate reduction might be granted. Loans included in the "combination" column in the table that follows have more than one modification made to the same loan within the current reporting period. Additionally, modifications with a term extension or interest rate reduction are intended to reduce the borrower's monthly payment, while modifications with a payment delay, which typically allow borrowers to make monthly payments, interest only payments for a period of time, are structured to cure the payment defaults by making delinquent payments due at maturity. Payment deferrals may be up to one year and have minimal financial impact since the deferred payments are paid at maturity.

The following table provides the amortized cost basis of FDM that had a payment default during the year ended December 31, 2023 and were modified in the twelve months prior to that default to borrowers experiencing financial difficulty during the year by class and type of modification:

(Dollars in thousands)	Year ended December 31, 2023						Percent of total class of loans
	Principal forgiveness	Payment delay	Term extension	Interest rate reduction	Combination: Term extension and interest rate reduction	Total	
Commercial & industrial	\$ 0	\$ 1,181	\$ 3,329	\$ 0	\$ 0	\$ 4,510	0.13 %
Residential real estate	0	1,889	96	0	55	2,040	0.15 %
Home equity	0	181	0	0	0	181	0.02 %
Total	<u>\$ 0</u>	<u>\$ 3,251</u>	<u>\$ 3,425</u>	<u>\$ 0</u>	<u>\$ 55</u>	<u>\$ 6,731</u>	<u>0.06 %</u>

The following table provides the financial effect of FDM during the year ended December 31, 2023 by class of loans:

(Dollars in thousands)	Year ended December 31, 2023		
	Principal forgiveness	Weighted average interest rate reduction	Weighted average term extension
Commercial & industrial	\$ 0	0.00 %	0.2 years
Residential real estate	0	2.00 %	11.4 years
Total	<u>\$ 0</u>	<u>2.00 %</u>	<u>0.7 years</u>

The Company has committed to lend no additional amounts to the borrowers who have been classified as FDM. Additionally, there were 18 FDMs with a balance of \$4.4 million that defaulted during the year ended December 31, 2023.

The Company closely monitors the performance of FDMs to understand the effectiveness of its modification efforts. The following table provides the performance of loans that have been modified since the January 1, 2023 adoption date of ASU 2022-02:

(Dollars in thousands)	Payment status as of December 31, 2023				
	Current	30 – 59 days past due	60 – 89 days past due	> 89 days past due	Total
Commercial & industrial	\$ 1,181	\$ 821	\$ 0	\$ 2,508	\$ 4,510
Residential real estate	1,021	500	240	279	2,040
Home equity	111	70	0	0	181
Total	<u>\$ 2,313</u>	<u>\$ 1,391</u>	<u>\$ 240</u>	<u>\$ 2,787</u>	<u>\$ 6,731</u>

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.

Nonperforming loans. Effective January 1, 2023, loans classified as nonaccrual are considered nonperforming. Prior to the adoption of ASU 2022-02, nonperforming loans included nonaccrual loans as well as TDRs.

First Financial individually reviews all nonperforming loan relationships greater than \$250,000 to determine if a specific reserve is required based on the borrower's overall financial condition, resources and payment record, support from guarantors

Notes to Consolidated Financial Statements

and the realizable value of any collateral. Specific reserves 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.

The following table provides information on nonperforming loans as of December 31:

(Dollars in thousands)	2023			2022			2021		
	Nonaccrual loans with a related ACL	Nonaccrual loans with no related ACL	Total nonaccrual	Nonaccrual loans with a related ACL	Nonaccrual loans with no related ACL	Total nonaccrual	Nonaccrual loans with a related ACL	Nonaccrual loans with no related ACL	Total nonaccrual
Nonaccrual loans ⁽¹⁾									
Commercial & industrial	\$ 3,329	\$ 12,417	\$ 15,746	\$ 6,692	\$ 1,550	\$ 8,242	\$ 11,077	\$ 6,285	\$ 17,362
Lease financing	1,505	2,105	3,610	0	178	178	0	203	203
Construction real estate	0	0	0	0	0	0	0	0	0
Commercial real estate	16,356	11,628	27,984	5,216	570	5,786	17,716	1,796	19,512
Residential real estate	0	14,067	14,067	0	10,691	10,691	0	8,305	8,305
Home equity	0	3,476	3,476	0	3,123	3,123	0	2,922	2,922
Installment	0	870	870	0	603	603	0	88	88
Total nonaccrual loans	<u>\$ 21,190</u>	<u>\$ 44,563</u>	<u>\$ 65,753</u>	<u>\$ 11,908</u>	<u>\$ 16,715</u>	<u>\$ 28,623</u>	<u>\$ 28,793</u>	<u>\$ 19,599</u>	<u>\$ 48,392</u>
Interest income effect							2023	2022	2021
Gross amount of interest that would have been recorded under original terms							\$ 5,694	\$ 3,247	\$ 5,132
Interest included in income									
Nonaccrual loans							1,673	1,134	1,618
Troubled debt restructurings							0	424	314
Total interest included in income							1,673	1,558	1,932
Net impact on interest income							<u>\$ 4,021</u>	<u>\$ 1,689</u>	<u>\$ 3,200</u>
Commitments outstanding to borrowers with nonaccrual loans							<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

⁽¹⁾ Nonaccrual loans include nonaccrual TDRs of \$10.0 million and \$16.0 million as of December 31, 2022 and 2021, respectively.

A loan is considered to be collateral dependent when the borrower is experiencing financial difficulty and the repayment is expected to be provided substantially through the operation or sale of collateral. The following table presents the amortized cost basis of collateral dependent loans by class of loan.

(Dollar in thousands)	December 31, 2023						
	Type of Collateral						
	Business assets	Commercial real estate	Equipment	Land	Residential real estate	Other	Total
Class of loan							
Commercial & industrial	\$ 10,952	\$ 0	\$ 3,869	\$ 0	\$ 0	\$ 925	\$ 15,746
Lease financing	0	0	3,610	0	0	0	3,610
Commercial real estate-investor	0	22,694	0	0	0	0	22,694
Commercial real estate-owner	0	3,397	1,893	0	0	0	5,290
Residential real estate	0	0	0	0	14,067	0	14,067
Home equity	0	0	0	0	3,476	0	3,476
Installment	0	0	0	0	0	870	870
Total	\$ 10,952	\$ 26,091	\$ 9,372	\$ 0	\$ 17,543	\$ 1,795	\$ 65,753

(Dollar in thousands)	December 31, 2022						
	Type of Collateral						
	Business assets	Commercial real estate	Equipment	Land	Residential real estate	Other	Total
Class of loan							
Commercial & industrial	\$ 8,205	\$ 0	\$ 0	\$ 0	\$ 0	\$ 37	\$ 8,242
Lease financing	0	0	178	0	0	0	178
Commercial real estate-investor	0	353	0	0	22	0	375
Commercial real estate-owner	0	3,399	1,893	119	0	0	5,411
Residential real estate	0	0	0	0	10,691	0	10,691
Home equity	0	0	0	0	3,123	0	3,123
Installment	0	0	0	0	0	603	603
Total	\$ 8,205	\$ 3,752	\$ 2,071	\$ 119	\$ 13,836	\$ 640	\$ 28,623

Lease financing - Lessor. First Financial originates both sales-type and direct financing leases, and the Company manages and reviews lease residuals in accordance with its credit policies. Payments are generally fixed, however, in some agreements, lease payments may be indexed. Sales-type lease contracts contain the ability to purchase the underlying equipment at lease maturity and profit or loss is recognized at lease commencement. Direct financing leases are generally three to five years in length and may be extended at maturity, however, early cancellation may result in a fee to the borrower. For direct financing leases, the net unearned income is deferred and amortized over the life of the lease.

The components of the Company's net investments in direct financing and sales-type leases, which are included in Lease financing on the Consolidated Balance Sheets are as follows:

(Dollar in thousands)	December 31, 2023	December 31, 2022
Direct financing leases		
Lease receivables	\$ 16,272	\$ 35,081
Unguaranteed residual values	11,402	16,058
Sales-type leases		
Lease receivables	444,144	184,985
Unguaranteed residual values	2,999	0
Total net investment in direct financing and sales-type leases	\$ 474,817	\$ 236,124

Notes to Consolidated Financial Statements

Interest income for direct financing and sales-type leases was \$25.2 million, \$11.8 million and \$2.7 million for the years ended December 31, 2023, 2022 and 2021, respectively.

The remaining maturities of lease receivables were as follows:

<i>(Dollars in thousands)</i>	Direct financing and Sales-type
2024	\$ 139,108
2025	129,796
2026	109,181
2027	82,552
2028	38,694
Thereafter	30,422
Total lease payments	529,753
Less: unearned interest income	(69,337)
Net lease receivables	\$ 460,416

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,		
	2023	2022	2021
Balance at beginning of year	\$ 191	\$ 98	\$ 1,287
Additions			
Commercial real estate	0	0	98
Residential real estate	387	327	0
Total additions	387	327	98
Disposals			
Commercial real estate	0	(98)	(947)
Residential real estate	(288)	(94)	(331)
Total disposals	(288)	(192)	(1,278)
Valuation adjustments			
Commercial real estate	0	0	(9)
Residential real estate	(184)	(42)	0
Total valuation adjustments	(184)	(42)	(9)
Balance at end of year	\$ 106	\$ 191	\$ 98

6. Allowance for Credit Losses

Allowance for credit losses - loans and leases. The ACL is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. The ACL 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 a guarantor or from the liquidation of collateral. Cumulative recovery payments credited to the ACL for any loan do not exceed the amount charged-off. Accrued interest receivable on loans and leases, which totaled \$56.9 million and \$47.5 million as of December 31, 2023 and December 31, 2022, respectively, is excluded from the estimate of credit losses.

Management estimates the allowance using relevant available information from both internal and external sources, relating to past events, current conditions and reasonable and supportable forecasts. Historical credit loss experience paired with economic

forecasts provide the basis for the quantitatively modeled estimation of expected credit losses. First Financial adjusts its quantitative model, as necessary, to reflect conditions not already considered by the quantitative model. These adjustments are commonly known as the Qualitative Framework.

The ACL is measured on a collective (pool) basis when similar risk characteristics exist. The Company has identified the following portfolio segments and measures the ACL using the following methods:

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. Expected default activity in the C&I portfolio is based on forecasted manufacturing overtime hours and business bankruptcies. Changes in forecasted expectations for these economic variables could result in volatility in the Company's ACL in future periods.

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.

The ACL model for leases sources expected default rates from the C&I portfolio model. Therefore, changes in forecasted expectations for manufacturing overtime hours and business bankruptcies could result in volatility in the Company's ACL as it pertains to finance leases in future periods.

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.

The construction ACL model is adjusted for forecasted changes in rental vacancy rates in the Bank's geographic footprint and the housing price index. Changes in forecasted expectations for these economic variables could result in volatility in the Company's ACL in future periods.

Commercial real estate - owner & investor – 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.

First Financial models owner-occupied and investor CRE separately when determining the ACL. For owner occupied CRE, the model is adjusted for forecasted changes in S&P 500 performance, CRE prices, and business bankruptcies. The investor CRE loans model is adjusted by forecasted S&P 500 performance, the return on rental property (NCREIF Property Index) and business bankruptcies. Changes in forecasted expectations for these economic variables could result in volatility in the Company's ACL in future periods.

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 or 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.

The residential real estate ACL model is adjusted for forecasted changes in household price index, housing starts, mortgage debt service ratio, home sales, and disposable income. Changes in forecasted expectations for these economic variables could result in volatility in the Company's ACL in future periods.

Home equity – Home equity lending includes both term 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 debt-to-income and loan-to-value policy limits.

The home equity ACL model is adjusted for forecasted changes in personal bankruptcies and outstanding consumer credit. Changes in forecasted expectations for these economic variables could result in volatility in the Company's ACL in future periods.

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

The installment ACL model is adjusted for forecasted changes in household consumer debt service ratio, outstanding consumer credit and CPI. Changes in forecasted expectations for these economic variables could result in volatility in the Company's ACL in future periods.

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.

The credit card ACL model is adjusted for forecasted changes in prime rate, outstanding consumer credit and household mortgage debt service ratio. Changes in forecasted expectations for these economic variables could result in volatility in the Company's ACL in future periods.

The Company utilized the Moody's December baseline forecast as its R&S forecast in the quantitative model. For reasonableness, the Company also considered the impact to the model from alternative, more adverse economic forecasts, and slower prepayment speeds. These alternative analyses were utilized to inform the Company's qualitative adjustments. Additionally, First Financial considered its credit exposure to certain industries believed to be at risk for future credit stress, such as franchise, office, hotel and investor commercial real estate lending when making qualitative adjustments to the ACL model.

First Financial's ACL is influenced by loan volumes, risk rating migration or delinquency status, and other conditions impacting loss expectations, such as reasonable and supportable forecasts of economic conditions. For the twelve months ended December 31, 2023, the ACL increased slightly as the impact from slower prepayment speeds and loan growth were partially offset by improvements in economic forecasts and credit quality. For the twelve months ended, December 31, 2022, the ACL was relatively stable as strong loan growth and slower prepayment speeds offset the impact from stable credit quality.

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

2023									
(Dollars in thousands)	Commercial & industrial	Lease financing	Construction real estate	Commercial real estate	Residential real estate	Home equity	Installment	Credit card	Total
Allowance for credit losses									
Balance at beginning of year	\$ 42,313	\$ 3,571	\$ 13,527	\$ 41,106	\$ 12,684	\$ 12,447	\$ 4,945	\$ 2,384	\$ 132,977
Provision for credit losses	19,647	13,162	(2,524)	(3)	5,196	600	5,944	1,052	43,074
Gross charge-offs	(19,175)	(4,423)	0	(8,723)	(39)	(340)	(6,442)	(1,173)	(40,315)
Recoveries	1,534	55	0	2,523	247	615	441	282	5,697
Total net charge-offs	(17,641)	(4,368)	0	(6,200)	208	275	(6,001)	(891)	(34,618)
Ending allowance for credit losses	\$ 44,319	\$ 12,365	\$ 11,003	\$ 34,903	\$ 18,088	\$ 13,322	\$ 4,888	\$ 2,545	\$ 141,433
2022									
(Dollars in thousands)	Commercial & industrial	Lease financing	Construction real estate	Commercial real estate	Residential real estate	Home equity	Installment	Credit card	Total
Allowance for credit losses									
Balance at beginning of year	\$ 44,052	\$ 1,633	\$ 11,874	\$ 53,420	\$ 6,225	\$ 9,643	\$ 1,097	\$ 4,048	\$ 131,992
Provision for credit losses	3,221	2,041	1,653	(12,951)	6,509	2,066	5,232	(1,040)	6,731
Gross charge-offs	(5,899)	(152)	0	(3,667)	(224)	(160)	(1,549)	(907)	(12,558)
Recoveries	939	49	0	4,304	174	898	165	283	6,812
Total net charge-offs	(4,960)	(103)	0	637	(50)	738	(1,384)	(624)	(5,746)
Ending allowance for credit losses	\$ 42,313	\$ 3,571	\$ 13,527	\$ 41,106	\$ 12,684	\$ 12,447	\$ 4,945	\$ 2,384	\$ 132,977
2021									
(Dollars in thousands)	Commercial & industrial	Lease financing	Construction real estate	Commercial real estate	Residential real estate	Home equity	Installment	Credit card	Total
Allowance for credit losses									
Beginning balance, prior to adoption of ASC 326	\$ 51,454	\$ 995	\$ 21,736	\$ 76,795	\$ 8,560	\$ 11,869	\$ 1,215	\$ 3,055	\$ 175,679
Purchase accounting ACL for PCD	0	17	0	0	0	0	0	0	17
Provision for credit losses	6,606	621	(8,367)	(14,689)	(2,436)	(2,376)	65	1,552	(19,024)
Gross charge-offs	(15,620)	0	(1,498)	(13,471)	(127)	(1,073)	(334)	(780)	(32,903)
Recoveries	1,612	0	3	4,785	228	1,223	151	221	8,223
Total net charge-offs	(14,008)	0	(1,495)	(8,686)	101	150	(183)	(559)	(24,680)
Ending allowance for credit losses	\$ 44,052	\$ 1,633	\$ 11,874	\$ 53,420	\$ 6,225	\$ 9,643	\$ 1,097	\$ 4,048	\$ 131,992

Allowance for credit losses - unfunded commitments. First Financial estimates expected credit losses over the contractual period in which the Company is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Company. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life consistent with the Company's ACL methodology for loans and leases.

First Financial determined the adequacy of this reserve based upon an evaluation of the unfunded credit facilities, which included consideration of historical commitment utilization experience, credit risk ratings and historical loss rates, consistent with the Company's ACL methodology at the time.

The ACL on unfunded commitments was \$18.4 million as of December 31, 2023 and December 31, 2022. First Financial recorded immaterial provision expense related to the ACL on unfunded commitments for the twelve months ended December 31, 2023 but recorded \$5.0 million and \$0.9 million of provision expense related to the ACL on unfunded commitments for the twelve months ended December 31, 2022, and 2021, respectively.

7. Premises and Equipment

Premises and equipment at December 31 were as follows:

<i>(Dollars in thousands)</i>	2023	2022
Land and land improvements	\$ 48,575	\$ 49,016
Buildings	162,423	157,620
Furniture and fixtures	72,580	69,855
Leasehold improvements	32,060	32,515
Construction in progress	8,413	5,644
	<u>324,051</u>	<u>314,650</u>
Less: Accumulated depreciation and amortization	129,311	125,570
Total	<u><u>\$ 194,740</u></u>	<u><u>\$ 189,080</u></u>

Depreciation expense recorded on premises and equipment in 2023, 2022 and 2021 was \$13.3 million, \$12.9 million and \$14.1 million, respectively.

8. Leases - Lessee

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. For contracts where First Financial is a lessee, the recipient of the right to control, substantially all of those agreements are for real estate property for branches, ATM locations and office space.

Substantially all of the Company's leases are classified as operating leases. Under Accounting Topic 842, operating lease agreements are required to be recognized on the Consolidated Balance Sheets as a 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 ROU asset in Accrued interest and other assets on the Consolidated Balance Sheet and was \$54.2 million and \$54.3 million at December 31, 2023 and 2022, respectively. Certain adjustments to the ROU asset may be required for items such as initial direct costs paid or incentives received. First Financial recorded a \$64.5 million and \$64.5 million lease liability in Accrued interest and other liabilities on the Consolidated Balance Sheet at December 31, 2023 and 2022, respectively.

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.

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 for the years ended December 31, 2023, 2022 and 2021 were as follows:

<i>(Dollars in thousands)</i>	December 31, 2023	December 31, 2022	December 31, 2021
Operating lease cost	\$ 7,773	\$ 7,626	\$ 7,425
Short-term lease cost	0	8	108
Variable lease cost	3,107	2,827	2,621
Total operating lease cost	\$ 10,880	\$ 10,461	\$ 10,154

Future minimum commitments due under these lease agreements as of December 31, 2023 are as follows:

<i>(Dollars in thousands)</i>	Operating leases
2024	\$ 7,962
2025	7,701
2026	7,509
2027	7,181
2028	7,117
Thereafter	43,793
Total lease payments	81,263
Less: imputed interest	(16,779)
Total	\$ 64,484

The weighted average lease term and discount rate for the Company's operating leases were as follows:

	December 31, 2023	December 31, 2022	December 31, 2021
Operating leases			
Weighted-average remaining lease term	12.3 years	13.1 years	13.9 years
Weighted-average discount rate	3.43 %	3.29 %	3.25 %

Supplemental cash information at year end related to leases was as follows:

<i>(Dollars in thousands)</i>	December 31, 2023	December 31, 2022	December 31, 2021
Cash paid for amounts included in the measurement of lease liabilities			
Operating cash flows from operating leases	\$ 7,819	\$ 7,824	\$ 6,860
ROU assets obtained in exchange for lease obligations			
Operating leases	6,585	4,730	6,076

9. Operating Leases - Lessor

First Financial provides financing for various types of equipment through a operating leasing arrangements. Operating leases are carried at cost less accumulated depreciation in the Consolidated Balance Sheets. Operating leases were \$153.2 million and \$91.7 million at December 31, 2023 and December 31, 2022, respectively, net of accumulated depreciation of \$62.1 million and \$35.0 million at December 31, 2023 and December 31, 2022, respectively. The Company recorded lease income of \$39.8 million and \$24.5 million related to lease payments for operating leases in leasing business income in the Consolidated Statements of Income for the years ended December 31, 2023 and 2022, respectively. Depreciation expense related to operating lease equipment was \$32.5 million and \$20.4 million for the years ended December 31, 2023 and 2022, respectively.

First Financial performs assessments of the recoverability of long-lived assets when events or changes in circumstances indicate that their carrying values may not be recoverable. First Financial recognized no impairment losses associated with operating lease assets for the twelve months ended December 31, 2023 or 2022. Recognized impairment losses, if any, would be recorded in Leasing business income in the Consolidated Statements of Income.

The future lease payments receivable from operating leases as of December 31, 2023 are as follows:

<i>(Dollars in thousands)</i>	Undiscounted cash flows
2024	\$ 44,105
2025	35,091
2026	24,871
2027	12,718
2028	5,682
Thereafter	2,863
Total operating lease payments	\$ 125,330

10. 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 of the purchase price 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, 2023, 2022 and 2021 are shown below.

<i>(Dollars in thousands)</i>	2023	2022	2021
Balance at beginning of year	\$ 1,001,507	\$ 1,000,749	\$ 937,771
Goodwill resulting from business combinations	4,361	758	62,978
Balance at end of year	\$ 1,005,868	\$ 1,001,507	\$ 1,000,749

In the first quarter of 2023, First Financial recorded \$4.2 million of goodwill related to the acquisition of the assets of Brady Ware Capital. Brady Ware Capital specializes in buy-side and sell-side consulting services for mid-sized businesses. This acquisition is consistent with First Financial's approach of adding niche financial services to core banking capabilities and further expands its broad service offerings. In May 2023, First Financial also acquired Brady Ware Corporate Finance, a broker-dealer and member of FINRA. First Financial recorded \$0.1 million of goodwill in connection with the acquisition of Brady Ware Corporate Finance. The fair value measurements of Brady Ware assets and liabilities 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 become available, and the measurement period ends in January 2024 for Brady Ware Capital. The measurement period for recording adjustments to the fair value of assets and liabilities ends in May 2024 for Brady Ware Corporate Finance.

In December 2021, First Financial recorded \$63.0 million of goodwill resulting from the acquisition of Summit Funding Group, Inc. During 2022, First Financial recorded adjustments of \$0.8 million to goodwill from the Summit merger. First Financial recorded its final adjustments to goodwill related to the Summit merger in the fourth quarter of 2022.

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 most recent annual qualitative impairment test as of October 1, 2023 and no impairment was indicated. As of December 31, 2023, no events or changes in circumstances indicated that the fair value of the reporting unit was below its carrying value.

Other intangible assets. Other intangible assets consist primarily of core deposit intangibles, customer list, mortgage servicing rights and other miscellaneous intangibles, such as purchase commissions, non-compete agreements and trade name 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 4.3 years.

First Financial recorded a customer list intangible asset in conjunction with the Summit acquisition 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 Summit customer list intangible asset is being amortized on a straight-line basis over its estimated useful life of 12 years and was \$25.1 million and \$27.6 million at December 31, 2023 and December 31, 2022, respectively. Additionally, First

Financial recorded a customer list intangible asset in conjunction with the Bannockburn acquisition which is being amortized on a straight-line basis over its estimated useful life of 11 years and was \$23.9 million and \$27.5 million at December 31, 2023 and December 31, 2022, respectively.

Mortgage servicing rights represent the value of servicing fees First Financial expects to receive from the servicing responsibilities it retained when selling fixed and adjustable-rate residential mortgage loans. In those sales, First Financial retained servicing responsibilities and provided certain standard representations and warranties; however, the investors have no recourse to the Company's other assets for failure of debtors to pay when due. First Financial receives servicing fees based on a percentage of the outstanding balance. When First Financial sells mortgage loans with servicing rights retained, these servicing rights are initially recorded at fair value. First Financial has selected the "amortization method" as permissible within U.S. GAAP, whereby the servicing rights capitalized are amortized in proportion to and over the period of estimated future servicing income with respect to the underlying loan. At the end of each reporting period, the carrying value of MSRs is assessed for impairment with a comparison to fair value. MSRs are carried at the lower of their amortized cost or fair value. The amortization of MSRs is included within other noninterest income in the Consolidated Statements of Income.

Amortization expense recognized on intangible assets for 2023, 2022 and 2021 was \$13.4 million, \$14.3 million and \$14.1 million, respectively, which includes MSR amortization of \$3.0 million, \$3.1 million and \$4.3 million, respectively.

The gross carrying amount and accumulated amortization of other intangible assets were as follows:

<i>(Dollars in thousands)</i>	December 31, 2023		December 31, 2022	
	Gross carrying amount	Accumulated amortization	Gross carrying amount	Accumulated amortization
Amortized intangible assets				
Core deposit intangibles	\$ 41,750	\$ (29,395)	\$ 41,750	\$ (26,488)
Customer list	69,563	(20,553)	69,563	(14,457)
Other	10,960	(5,477)	14,079	(7,064)
Mortgage servicing rights	23,791	(6,690)	21,347	(4,811)
Total	<u>\$ 146,064</u>	<u>\$ (62,115)</u>	<u>\$ 146,739</u>	<u>\$ (52,820)</u>

The estimated amortization expense of intangible assets for the next five years is as follows:

<i>(Dollars in thousands)</i>	Intangible amortization
2024	\$ 9,193
2025	9,145
2026	9,092
2027	9,051
2028	6,842

11. Deposits

Time deposits that meet or exceed the FDIC insurance limit of \$250,000 at December 31, 2023 and 2022 were \$300.1 million and \$165.1 million, respectively.

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

<i>(Dollars in thousands)</i>	Time deposits
2024	\$ 2,441,560
2025	225,140
2026	33,439
2027	12,371
2028	5,612
Thereafter	268
Total	\$ 2,718,390

12. Borrowings

Short-term borrowings, or borrowings that mature in less than one year, on the Consolidated Balance Sheets include repurchase agreements utilized for corporate sweep accounts with cash management account agreements in place, federal funds purchased, overnight advances from the FHLB and a short-term line of credit.

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

<i>(Dollars in thousands)</i>	2023		2022		2021	
	Amount	Rate	Amount	Rate	Amount	Rate
At December 31,						
Federal funds purchased and securities sold under agreements to repurchase	\$ 0	0.00 %	\$ 0	0.00 %	\$ 51,203	0.01 %
FHLB borrowings	800,000	5.47 %	1,130,000	4.58 %	225,000	0.18 %
Other short-term borrowings	137,814	5.33 %	157,156	4.33 %	20,000	1.90 %
Total	\$ 937,814	5.45 %	\$ 1,287,156	4.55 %	\$ 296,203	0.27 %
Average for the year						
Federal funds purchased and securities sold under agreements to repurchase	\$ 15,583	5.25 %	\$ 29,526	1.42 %	\$ 160,967	0.07 %
FHLB borrowings	845,666	5.25 %	672,928	2.37 %	43,371	0.20 %
Other short-term borrowings	158,221	5.18 %	115,041	2.38 %	165	1.92 %
Total	\$ 1,019,470	5.24 %	\$ 817,495	2.34 %	\$ 204,503	0.10 %

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. As of both December 31, 2023 and 2022, the Bank had no securities sold under agreements to repurchase.

First Financial had outstanding FHLB advances included in short-term borrowings of \$800.0 million as of December 31, 2023 and \$1.1 billion outstanding short-term FHLB advances as of December 31, 2022. Additionally, at December 31, 2023 and 2022, other short-term borrowings included \$137.8 million and \$157.2 million, respectively, of collateral owed to counterparty banks by First Financial.

First Financial also has a \$40.0 million short-term credit facility with an unaffiliated bank that matures in December, 2024, which is included in short-term borrowings. This facility has a variable 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 both December 31, 2023 and December 31, 2022, First Financial had 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 both December 31, 2023 and December 31, 2022. This credit facility also required First Financial to pledge as collateral the Bank's common stock where the lender is granted a security interest in this collateral.

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

<i>(Dollars in thousands)</i>	2023		2022	
	Amount	Average Rate	Amount	Average Rate
Subordinated debt	\$ 314,163	5.60 %	\$ 313,705	5.48 %
Unamortized debt issuance costs	(1,613)	n/a	(1,998)	n/a
Notes issued in conjunction with acquisition of property and equipment	29,179	4.40 %	32,492	4.44 %
Capital lease liability	1,611	3.84 %	1,698	3.82 %
Capital loan with municipality	775	0.00 %	775	0.00 %
Total long-term debt	\$ 344,115	5.51 %	\$ 346,672	5.40 %

As of December 31, 2023, First Financial's long-term debt matures as follows:

<i>(Dollars in thousands)</i>	Long-term debt
2024	\$ 6,773
2025	2,988
2026	5,355
2027	6,579
2028	2,620
Thereafter	319,800
Total	\$ 344,115

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. Subordinated notes are included in Long-term debt on the Consolidated Balance Sheets and treated as Tier 2 capital for regulatory capital purposes, subject certain limitations. When subordinated notes are within five years of maturity, the tier 2 capital eligibility reduces by 20% each year. This subordinated debt issued is eligible to be treated as Tier 2 capital for 20% of its original issuance amount at December 31, 2023 for regulatory capital purposes.

In April 2020, First Financial issued \$150.0 million of fixed to floating rate subordinated notes. The subordinated notes have an initial fixed interest rate of 5.25% to, but excluding, May 15, 2025, payable semi-annually in arrears. From, and including, May 15, 2025, the interest rate on the subordinated notes will reset quarterly to a floating rate per annum equal to a benchmark rate, which is expected to be the then-current three-month term SOFR, plus 509 basis points, payable quarterly in arrears. The subordinated notes mature on May 15, 2030. These notes are redeemable by the Company in whole or in part beginning with the interest payment date of May 15, 2025. This subordinated debt issued in April 2020 that matures in May 2030, is eligible to be treated as Tier 2 capital for 100% of its original issuance amount at December 31, 2023 for regulatory capital purpose.

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. These notes were recorded at fair value at the date of the MSFG merger and the Consolidated Balance Sheets include \$44.2 million and \$43.7 million for these notes at December 31, 2023 and December 31, 2022, respectively. 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. These 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. These variable rate subordinated notes are treated as Tier 1 capital for regulatory capital purposes.

Additionally, long-term borrowings also included \$29.2 million and \$32.5 million of term notes, both with and without recourse, with an average interest rate of 4.40% and 4.44% at December 31, 2023 and 2022, respectively. These term notes were used to finance Summit's equity investment in the purchase of equipment to be leased to customers.

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, 2023, had collateral pledged with a book value of \$6.2 billion.

13. Derivatives

First Financial maintains an overall risk management strategy that incorporates the use of derivative instruments to reduce certain risks related to interest rate, prepayment and foreign currency volatility. Additionally, First Financial holds derivative instruments for the benefit of its commercial customers and for other business purposes. The Company does not enter into unhedged speculative derivative positions. The Company's interest rate risk management strategy involves modifying the repricing characteristics of certain financial instruments so that changes in interest rates do not adversely affect First Financial's net interest margin and cash flows. Derivative instruments that the Company may use as part of its interest rate risk management strategy include interest rate caps, floors, swaps, and foreign exchange contracts, to meet the 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. These derivatives are reported within Accumulated other comprehensive income (loss).

Interest rate payments are exchanged with counterparties based on the notional amount established in the interest rate agreement. As only interest rate payments are exchanged, the cash requirements and credit risk associated with interest rate swaps are significantly less than the notional amount and the Company's credit risk exposure is limited to the market value of the instruments. First Financial 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.

Interest rate 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. These derivatives are classified as free-standing instruments with the revaluation gain or loss recorded in Client derivative fees in the Consolidated Statements of Income. While these derivatives represent economic hedges, they do not qualify as hedges for accounting purposes.

At December 31, 2023, for interest rate derivatives, the Company had a total counterparty notional amount outstanding of \$2.2 billion, spread among six counterparties, with an estimated fair value of \$95.7 million. At December 31, 2022, the Company had interest rate derivatives with a total counterparty notional amount outstanding of \$2.2 billion, spread among six counterparties, with an estimated fair value of \$145.8 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 monitors derivative credit risk exposure related to problem loans through the its ACL 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 excessive risk is not being taken when providing this service to customers. These controls include a determination of currency volatility and credit equivalent exposure on these contracts. At December 31, 2023, the Company had total counterparty notional amount outstanding of \$7.0 billion spread among five counterparties, with an estimated fair value of \$23.9 million related to foreign exchange contracts, which is included in Accrued interest and other liabilities in the Consolidated Balance Sheets. At December 31, 2022, the Company had total counterparty notional amounts outstanding of \$7.7 billion spread among five counterparties, with an estimated fair value of \$17.3 million.

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.

Cash Flow Hedges. In 2023, First Financial entered into interest rate collars and floors, which are designated as cash flow hedges. These cash flow hedges are utilized to mitigate interest rate risk on variable-rate commercial loan pools. As of December 31, 2023, the hedges were determined to be effective during the period and are expected to remain effective during the remaining terms. Changes in the fair value of cash flow hedges included in the assessment of hedge effectiveness are recorded in AOCI and reclassified from AOCI to current period earnings when the hedged item affects earnings. Reclassified gains and losses on interest rate contracts related to commercial and industrial loans are recorded within interest income in the Consolidated Statements of Income.

The structure of the interest rate collars is such that First Financial pays the counterparty an incremental amount if the collar index exceeds the cap rate. Conversely, First Financial receives an incremental amount if the index is below the floor rate. No payments are required if the collar index is between the cap and floor rates.

The structure of First Financial's interest rate floors is such that First Financial receives an incremental amount if the index falls below the floor strike rate. No payments are required if the index remains above the floor strike rate.

The notional value of the Company's cash flow hedges was \$1.0 billion as of December 31, 2023, with the \$3.8 million change in the fair value recorded in AOCI in the Consolidated Balance Sheet. There were no cash flow hedges outstanding at December 31, 2022. As of December 31, 2023, the maximum length of time over which the Company is hedging its exposure to the variability in future cash flows is 60 months. It is estimated that \$0.7 million will be reclassified from OCI to interest income during the next 12 months.

The effect of derivative instruments in cash flow hedging relationships on the Consolidated Statements of Income were as follows:

(Dollars in thousands)		Twelve months ended December 31, 2023	
		Gain (loss) recognized in AOCI on Derivatives	Gain (loss) reclassified in AOCI on Derivatives
Derivatives in Cash Flow Hedging Relationship	Location of Gain or (Loss) Reclassified from AOCI into income		
Interest rate contracts	Interest income/(expense)	\$ (3,755)	\$ 237

The following table details the classification and amounts of interest rate derivatives, foreign exchange contracts and cash flow hedges recognized in the Consolidated Balance Sheets:

Notes to Consolidated Financial Statements

	December 31, 2023			December 31, 2022		
		Estimated fair value			Estimated fair value	
	Notional amount	Gain ⁽¹⁾	Loss ⁽²⁾	Notional amount	Gain ⁽¹⁾	Loss ⁽²⁾
<i>(Dollars in thousands)</i>						
Derivatives not designated as qualifying hedging instruments						
Client derivatives-instruments associated with loans ⁽³⁾						
Matched interest rate swaps with borrower	\$ 2,172,714	\$ 13,232	\$ (104,343)	\$ 2,206,351	\$ 5,057	\$ (147,759)
Matched interest rate swaps with counterparty	2,172,714	104,092	(13,232)	2,206,351	147,759	(5,057)
Foreign exchange contracts ⁽⁴⁾						
Matched foreign exchange contracts with customers	7,021,569	84,731	(60,825)	7,734,395	111,078	(93,804)
Matched foreign exchange contracts with counterparty	6,972,870	60,825	(84,731)	7,681,006	93,804	(111,078)
Derivatives not designated as qualifying hedging instruments	18,339,867	262,880	(263,131)	19,828,103	357,698	(357,698)
Derivatives designated as qualifying hedging instruments						
Cash flow hedges ⁽⁵⁾						
Interest rate collars and floors on loan pools	1,000,000	0	(6,896)	0	0	0
Total derivatives designated as qualifying hedging instruments	1,000,000	0	(6,896)	0	0	0
Total	\$19,339,867	\$ 262,880	\$ (270,027)	\$19,828,103	\$ 357,698	\$ (357,698)

⁽¹⁾ Derivative assets are included in Accrued interest and other assets in the Consolidated Balance Sheets.

⁽²⁾ Derivative liabilities are included in Accrued interest and other liabilities in the Consolidated Balance Sheets.

⁽³⁾ Changes in fair value are included in Client derivative fees in the Consolidated Statements of Income.

⁽⁴⁾ Changes in fair value are included in Foreign exchange income in the Consolidated Statements of Income.

⁽⁵⁾ Changes in fair value are included in Accumulated comprehensive income in the Consolidated Balance sheets.

The following table discloses the gross and net amounts of client derivatives and foreign exchange contracts recognized in the Consolidated Balance Sheets:

	December 31, 2023			December 31, 2022		
	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
(Dollars in thousands)						
Client derivatives						
Matched interest rate swaps	\$ 117,324	\$ (270,678)	\$ (153,354)	\$ 152,816	\$ (314,048)	\$ (161,232)
Foreign exchange contracts with counterparty	145,556	(55,959)	89,597	204,882	(101,945)	102,937
Cash flow hedges	(6,896)	4,886	(2,010)	0	0	0
Total	\$ 255,984	\$ (321,751)	\$ (65,767)	\$ 357,698	\$ (415,993)	\$ (58,295)

The following table details the derivative financial instruments and the average remaining maturities at December 31, 2023:

<i>(Dollars in thousands)</i>	Notional amount	Average maturity (years)	Fair value
Interest rate contracts			
Receive fixed, matched interest rate swaps with borrower	\$ 2,172,714	4.7	\$ (91,111)
Pay fixed, matched interest rate swaps with counterparty	2,172,714	4.7	90,860
Foreign exchange contracts			
Foreign exchange contracts - pay USD	7,021,569	0.6	23,906
Foreign exchange contracts - receive USD	6,972,870	0.6	(23,906)
Total client derivatives	18,339,867	1.6	(251)
Cash flow hedges			
Interest rate collars and floors on loan pools	1,000,000	3.5	(6,896)
Total cash flow hedges	1,000,000	3.5	(6,896)
Total client derivatives	\$ 19,339,867	1.7	\$ (7,147)

At December 31, 2023, derivative collateral owed by the Company to counterparty banks was \$116.2 million with \$21.6 million restricted within cash and due from banks on the Company's Consolidated Balance Sheets and \$137.8 million recorded in short-term borrowings. Derivative collateral owed by the Company to counterparty banks at December 31, 2022 was \$132.2 million with \$25.0 million restricted within cash and due from banks and \$157.2 million recorded in short-term borrowings.

Credit derivatives. In conjunction with participating interests in commercial loans, First Financial periodically enters into risk participation agreements with counterparties whereby First Financial assumes or sells 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 either make a payment or receive a payment from the counterparty if the loan customer defaults on its obligation to perform under the interest rate swap contract. The total notional value of the purchased risk agreements totaled \$232.5 million as of December 31, 2023 and \$246.8 million as of December 31, 2022. The total notional value of the sold risk agreements totaled \$109.2 million as of December 31, 2023 and \$132.5 million as of December 31, 2022. The net fair value of these agreements is recorded in Accrued interest and other liabilities on the Consolidated Balance Sheets and was \$0.1 million at December 31, 2023 and insignificant at December 31, 2022.

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, 2023, the notional amount of the IRLCs was \$25.2 million and the notional amount of forward commitments was \$25.5 million. As of December 31, 2022, the notional amount of IRLCs was \$12.0 million and the notional amount of forward commitments was \$15.3 million. The fair value of these agreements was \$0.3 million at December 31, 2023 and \$0.1 million at December 31, 2022 and was recorded in Accrued interest and other assets on the Consolidated Balance Sheets. The impact of these derivatives on Net gain on sale of loans in the Consolidated Statements of Income was a \$0.7 million and \$4.3 million gain for the years ended December 31, 2023 and 2022, respectively and a \$3.3 million loss for the year ended December 31, 2021.

14. 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 estimates

credit losses over the contractual period in which the Company is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Company in accordance with ASC 326. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated useful life consistent with the Company's ACL methodology for loans and leases. Adjustments to the reserve for unfunded commitments are recorded in Provision for credit losses - unfunded commitments in the Consolidated Statements of Income. First Financial had \$18.4 million of reserves for unfunded commitments recorded in Accrued interest and other liabilities on the Consolidated Balance Sheets as of both December 31, 2023 and 2022.

Loan commitments. Loan commitments are agreements to extend credit to a client absent any violation of conditions established in the commitment agreement. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if deemed necessary by First Financial upon extension of credit, is based on management's credit evaluation of the client. The collateral held varies, but may include securities, real estate, inventory, plant or equipment. First Financial had commitments outstanding to extend credit, totaling \$4.5 billion and \$4.4 billion at December 31, 2023 and 2022, respectively. As of December 31, 2023, loan commitments with a fixed interest rate totaled \$108.2 million while commitments with variable interest rates totaled \$4.4 billion. At December 31, 2022, loan commitments with a fixed interest rate totaled \$126.3 million while commitments with variable interest rates totaled \$4.2 billion. The fixed rate loan commitments have interest rates ranging from 0.00% to 21.00% and maturities ranging from less than 1 year to 31.6 years for both December 31, 2023 and 2022.

The following table presents by type First Financial's loan balances and contractual obligations to extend credit:

<i>(dollars in thousands)</i>	December 31, 2023		December 31, 2022	
	Unfunded commitment	Loan balance	Unfunded commitment	Loan balance
Commercial & industrial	\$ 1,942,868	\$ 3,501,221	\$ 1,833,977	\$ 3,410,272
Lease financing	0	474,817	6,842	236,124
Construction real estate	565,009	564,832	689,015	512,050
Commercial real estate-investor	101,689	3,138,629	107,205	3,094,064
Commercial real estate-owner	40,346	942,310	48,208	958,695
Residential real estate	98,686	1,333,674	74,089	1,092,265
Home equity	972,474	758,676	903,459	733,791
Installment	25,841	159,078	16,073	209,895
Credit card	235,686	59,939	225,864	51,815
Total	\$ 3,982,599	\$ 10,933,176	\$ 3,904,732	\$ 10,298,971

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 letters of credit consist 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 \$34.9 million and \$31.5 million at December 31, 2023, and 2022, respectively. Management conducts regular reviews of these instruments on an individual client basis.

Risk participation agreements. First Financial is a party in risk participation transactions of interest rate swaps, which had total notional amount of \$341.7 million and \$379.3 million at December 31, 2023 and 2022, respectively.

Affordable housing projects and other tax credit investments. First Financial is a limited partner in several tax-advantaged limited partnerships whose purpose is to invest in approved qualified affordable housing, renewable energy, or other renovation or community revitalization projects. These investments are included in Accrued interest and other assets in the Consolidated Balance Sheets, with any unfunded commitments included in Accrued interest and other liabilities in the Consolidated Balance Sheets. As of December 31, 2023, First Financial expects to recover its remaining investments through the use of the tax credits that are generated by the investments.

The following table summarizes First Financial's investments in affordable housing projects and other tax credit investments.

(Dollars in thousands)		December 31, 2023		December 31, 2022	
Investment	Accounting Method	Investment	Unfunded commitment	Investment	Unfunded commitment
LIHTC	Proportional amortization	\$ 142,933	\$ 80,465	\$ 126,537	\$ 70,690
HTC	Equity	19,798	14,043	17,108	11,955
NMTC	Equity	1,938	0	2,944	0
Renewable energy	Equity	23,981	1,857	11,851	1,689
Total		\$ 188,650	\$ 96,365	\$ 158,440	\$ 84,334

The following tables summarize First Financial's amortization expense and tax benefit recognized in affordable housing projects and other tax credit investments.

		Twelve months ended					
		December 31, 2023		December 31, 2022		December 31, 2021	
(Dollars in thousands)		Amortization expense ⁽¹⁾	Tax expense (benefit) recognized ⁽²⁾	Amortization expense ⁽¹⁾	Tax expense (benefit) recognized ⁽²⁾	Amortization expense ⁽¹⁾	Tax expense (benefit) recognized ⁽²⁾
LIHTC	\$	14,545	\$ (14,563)	\$ 11,929	\$ (11,088)	\$ 8,894	\$ (8,581)
HTC		0	(319)	0	(319)	1,116	(263)
NMTC		415	(210)	415	(210)	210	(210)
Renewable energy		0	0	23,411	(25,473)	11,467	(12,216)
Total	\$	14,960	\$ (15,092)	\$ 35,755	\$ (37,090)	\$ 21,687	\$ (21,270)

⁽¹⁾ The amortization expense for the LIHTC investments is included in income tax expense. The amortization expense for the HTC, NMTC, and Renewable energy tax credits is included in other noninterest expense.

⁽²⁾ All of the tax benefits recognized are included in Income tax expense. The tax benefit recognized for the HTC, NMTC, and Renewable energy investments primarily reflects the tax credits generated from the investments and excludes the net tax expense (benefit) and deferred tax liability of the investments' income (loss).

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.

Like many banks, First Financial has been the subject of lawsuits relating to overdraft fees. This type of litigation is time consuming and expensive in large part due to the amount of data to be sorted and disclosed, in some cases going back multiple years. During the second and fourth quarters of 2021, First Financial determined that it was in its best interest to settle lawsuits in the states of Indiana and Ohio and had signed settlement agreements that were presented to the court for approval. As such, First Financial recorded legal settlement expenses of \$7.1 million, which were recorded in Other noninterest expenses in the Consolidated Statements of Income during 2021. For years ended December 31, 2022 and 2021, legal settlement expenses of \$3.3 million and \$3.8 million were paid. No legal settlement expenses were accrued or paid in the year ended December 31, 2023.

Additionally, as part of the ordinary course of business, First Financial and its subsidiaries are parties to other litigation, including claims to the ownership of funds in particular accounts, the collection of delinquent accounts, challenges to security interests in collateral, foreclosure interests that are incidental to our regular business activities and other matters. 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, 2023. 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, 2023 or December 31, 2022.

15. 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>	2023
Beginning balance	\$ 5,618
Additions	810
Deductions	(3,175)
Ending balance	\$ 3,253
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.

16. Income Taxes

Income tax expense consisted of the following components:

<i>(Dollars in thousands)</i>	2023	2022	2021
Current expense			
Federal	\$ 46,800	\$ 24,307	\$ 21,397
State	2,568	3,308	2,289
Total current expense	49,368	27,615	23,686
Deferred expense (benefit)			
Federal	11,769	(4,399)	10,944
State	1,596	894	1,143
Total deferred expense (benefit)	13,365	(3,505)	12,087
Income tax expense	\$ 62,733	\$ 24,110	\$ 35,773

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>	2023	2022	2021
Income taxes computed at federal statutory rate (21%) on income before income taxes	\$ 66,905	\$ 50,762	\$ 50,596
Benefit from tax-exempt income	(6,165)	(5,743)	(5,613)
Tax credits	(15,271)	(37,331)	(21,561)
Basis reduction on tax credit	87	2,761	1,346
Tax expense (benefit) of equity compensation	(418)	(154)	(243)
State income taxes, net of federal tax benefit	3,290	3,320	2,711
Affordable housing investments	12,097	9,341	7,194
Other	2,208	1,154	1,343
Income tax expense	\$ 62,733	\$ 24,110	\$ 35,773

The major components of the temporary differences that gave rise to deferred tax assets and liabilities at December 31, 2023, and 2022, were as follows:

<i>(Dollars in thousands)</i>	2023	2022
Deferred tax assets		
Allowance for credit losses	\$ 32,453	\$ 30,464
Deferred compensation	326	346
Postretirement benefits other than pension liability	537	636
Accrued stock-based compensation	2,317	2,216
Interest on nonaccrual loans	336	406
Accrued expenses	7,822	7,454
Net unrealized losses on investment securities	79,652	92,072
State net operating loss	960	1,152
Leasing liability	15,290	15,308
Reserve for unfunded commitments	4,261	4,254
Section 174 capitalized expense	656	0
Other	13,400	516
Total deferred tax assets	158,010	154,824
Deferred tax liabilities		
Tax depreciation in excess of book depreciation	(7,568)	(7,172)
FHLB and FRB stock	(3,911)	(3,912)
Mortgage-servicing rights	(3,956)	(3,825)
Leasing activities	(36,940)	(12,829)
Retirement obligation	(9,811)	(10,197)
Intangible assets	(20,789)	(18,462)
Deferred loan fees and costs	(2,408)	(1,638)
Prepaid expenses	(353)	(645)
Limited partnership investments	(3,062)	(312)
Fair value adjustments on business combinations	(5,788)	(6,736)
Net unrealized gains on derivatives	(1,130)	0
ASU 2016-01 unrealized gain/loss-equity securities	(2,401)	(2,237)
Right of use assets	(12,868)	(12,911)
Other	(3,918)	(3,653)
Total deferred tax liabilities	(114,903)	(84,529)
Total net deferred tax asset (liability)	\$ 43,107	\$ 70,295

At December 31, 2023 and 2022, the Company had a state net operating loss carryforward from MSFG of \$1.7 million and \$1.5 million, respectively. This carryforward begins to expire in 2026. The Company expects to fully utilize this net operating loss and, therefore, a valuation allowance was not required at December 31, 2023 and 2022. 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, 2023 and 2022.

The Bank's retained earnings at December 31, 2023 and 2022 included base-year bad debt reserves of \$16.1 million. 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 December 31, 2023, First Financial had no unrecognized tax benefits compared to \$1.9 million at both December 31, 2022 and 2021. As defined by FASB ASC Topic 740-10, Income Taxes, an unrecognized tax benefit is a position that if recognized would favorably impact the effective income tax rate in future periods. The unrecognized tax benefits in 2022 and 2021 were related to state income tax exposures where the Company believed it was likely that, upon examination, a state may have taken a position contrary to the position taken by First Financial. A resolution regarding the Company's uncertain tax position resulted in partial recognition of the benefit in the second quarter of 2023. First Financial recognizes interest accrued related to unrecognized tax benefits and penalties as income tax expense. At December 31, 2023, 2022 and 2021, the Company had no interest or penalties recorded.

At December 31, 2023, First Financial had no 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. As of both December 31, 2022 and 2021, First Financial had \$1.9 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, 2023, 2022 and 2021 is as follows:

<i>(Dollars in thousands)</i>	2023	2022	2021
Balance at beginning of year	\$ 2,386	\$ 2,386	\$ 2,386
Reductions for tax positions of prior years	(1,909)	0	0
Settlements	(477)	0	0
Balance at end of year	<u>\$ 0</u>	<u>\$ 2,386</u>	<u>\$ 2,386</u>

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 2020 have been closed and are no longer subject to U.S. federal income tax examinations. Tax years 2020 through 2023 remain open to examination by the federal taxing authority. With limited exception, First Financial is no longer subject to state and local income tax examinations for years prior to 2019.

17. 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 long-term asset class return estimates developed by the Plan advisor, as well as a consensus of estimates from similarly managed portfolios of expected future returns.

First Financial recorded expense related to its pension plan of \$3.5 million for 2023, \$2.0 million for 2022 and \$3.4 million for 2021. 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 2023, 2022 or 2021 and does not expect to make any contributions in 2024.

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,	
	2023	2022
Change in benefit obligation		
Benefit obligation at beginning of year	\$ 80,006	\$ 93,271
Service cost	9,291	9,065
Interest cost	4,279	2,585
Actuarial (gain) loss	6,687	(16,655)
Benefits paid, excluding settlement	(6,830)	(8,260)
Benefit obligation at end of year	93,433	80,006
Change in plan assets		
Fair value of plan assets at beginning of year	133,449	163,382
Actual return on plan assets	17,921	(21,673)
Benefits paid, excluding settlement	(6,830)	(8,260)
Fair value of plan assets at end of year	144,540	133,449
Amounts recognized in the Consolidated Balance Sheets		
Assets	51,106	53,443
Liabilities	0	0
Net amount recognized	\$ 51,106	\$ 53,443
Amounts recognized in accumulated other comprehensive income (loss)		
Net actuarial loss	\$ 40,459	\$ 41,628
Net prior service cost	22	32
Deferred tax assets	(9,364)	(9,637)
Net amount recognized	\$ 31,117	\$ 32,023
Change in accumulated other comprehensive income (loss)	\$ (906)	\$ 11,177
Accumulated benefit obligation	\$ 92,953	\$ 79,236

The change in the defined benefit obligations for the period was a result of the liabilities generating gains due to a large negative change in the interest crediting rate as well as an increase in the discount rate.

Notes to Consolidated Financial Statements

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

(Dollars in thousands)	December 31,		
	2023	2022	2021
Service cost	\$ 9,291	\$ 9,065	\$ 9,128
Interest cost	4,279	2,585	2,157
Expected return on assets	(10,802)	(10,982)	(10,118)
Amortization of prior service cost (credit)	10	(302)	(413)
Recognized net actuarial loss	737	1,636	2,611
Net periodic benefit (income) cost	3,515	2,002	3,365
Other changes recognized in accumulated other comprehensive income (loss)			
Net actuarial (gain) loss	(432)	16,001	(3,068)
Prior service cost	0	0	0
Amortization of prior service cost	(10)	302	413
Amortization of gain	(737)	(1,636)	(2,611)
Total recognized in accumulated other comprehensive income (loss)	(1,179)	14,667	(5,266)
Total recognized in net periodic benefit cost and accumulated other comprehensive income (loss)	\$ 2,336	\$ 16,669	\$ (1,901)

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

	December 31,		
	2023	2022	2021
Benefit obligations			
Discount rate	5.18 %	5.50 %	2.89 %
Rate of compensation increase	3.50 %	3.50 %	3.50 %
Weighted average interest crediting rate	4.93 %	5.20 %	2.58 %
Net periodic benefit cost			
Discount rate	5.50 %	2.89 %	2.55 %
Expected return on plan assets	7.25 %	7.25 %	7.25 %
Rate of compensation increase	3.50 %	3.50 %	3.50 %
Weighted average interest crediting rate	5.20 %	2.58 %	2.14 %

The fair value of the plan assets as of December 31, 2023 by asset category is shown in the table that follows:

(Dollars in thousands)	Fair Value Measurements			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Asset Category				
Cash	\$ 193	\$ 193	\$ 0	\$ 0
U. S. Government agencies	2,751	0	2,751	0
Fixed income mutual funds	53,022	53,022	0	0
Equity mutual funds	74,301	74,301	0	0
Total assets in fair value hierarchy	130,267	127,516	2,751	0
Collective trusts	14,273	0	0	0
Investments at fair value	\$ 144,540	\$ 127,516	\$ 2,751	\$ 0

The fair value of the plan assets as of December 31, 2022 by asset category is shown in the table that follows:

(Dollars in thousands)	Fair Value Measurements			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Asset Category				
Cash	\$ 158	\$ 158	\$ 0	\$ 0
U. S. Government agencies	4,602	0	4,602	0
Fixed income mutual funds	47,234	47,234	0	0
Equity mutual funds	67,316	67,316	0	0
Total assets in fair value hierarchy	119,310	114,708	4,602	0
Collective trusts	14,139	0	0	0
Investments at fair value	<u>\$ 133,449</u>	<u>\$ 114,708</u>	<u>\$ 4,602</u>	<u>\$ 0</u>

The pension plan utilizes values provided by third-party pricing vendors to price investment securities 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.

The level within the fair value hierarchy is based on the lowest level of input that is significant in the fair value measurement. The following methods, assumptions and valuation techniques were used by First Financial to measure the financial assets in the Company's pension plan.

U.S. Government and Government Agency Securities. These securities are valued using matrix pricing models developed by a third party and consider standard input factors such as observable market data, benchmark yields, interest rate volatilities, broker/dealer quotes, credit spreads and new issue data. Matrix pricing is widely used to value securities without solely relying on quoted market prices for specific securities (Level 2).

Mutual funds. Mutual funds held by the pension plan are open-end mutual funds that are registered with the U.S. Securities and Exchange Commission and are valued at the daily closing price as reported by the fund. These funds are required to publish their daily net asset value and to transact at that price. The mutual funds held by the Plan are deemed to be actively traded (Level 1).

Collective trusts. The collective trusts are alternative investments valued at the net asset value of units of the collective trusts. The net asset value is used as a practical expedient to estimate fair value and is priced quarterly on a month lag. This practical expedient would not be used if it is determined to be probable that the fund will sell the investment for an amount different from the reported net asset value. Participant transactions (purchases and sales) may occur daily. If the plan initiates a full redemption of the collective trusts, the issuer reserves the right to require 12 months notification in order to ensure that securities liquidations will be carried out in an orderly business manner.

Investments measured at fair value using net asset value per share (or its equivalent) as a practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in the hierarchy tables for such investments are intended to permit reconciliation to the fair value of plan assets at the end of the year.

See Note 23 – 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
2024	\$ 6,184
2025	6,994
2026	6,772
2027	8,137
2028	7,645
Thereafter	49,048

401(k) plan. First Financial sponsors a defined contribution 401(k) plan which covers substantially all employees. Employees may contribute up to 50% 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, 2023, 2022 or 2021.

18. Revenue Recognition

The majority of the Company's revenues come from sources that are outside of the scope of ASU 2014-09, Revenue from Contracts with Customers. Income sources that are outside of this standard include income earned on loans, leases, securities, derivatives and foreign exchange, excluding spot transactions. The Company's services that fall within the scope of ASU 2014-09 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, foreign exchange spot income, gain/loss on the sale of OREO and investment brokerage fees.

Service charges on deposit accounts. The Company earns revenues from its deposit customers for transaction-based fees, account maintenance fees and overdraft fees. 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 deposit account.

Wealth management fees. 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.

Wealth management fees also includes brokerage revenue. 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.

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 2023 was \$29.7 million, and was partially offset by \$15.7 million of expenses within Noninterest income. Gross interchange income for 2022 was \$29.5 million, and was partially offset by \$15.1 million of expenses within Noninterest income, while gross interchange income for 2021 was \$27.9 million, and was partially offset by \$13.6 million of expenses within Noninterest income.

Foreign exchange income. Foreign exchange income includes both spot and forward income in First Financial's Consolidated Statements of Income. Forward income is excluded from the scope of ASU 2019-04, however, spot income is within the scope of the guidance. A foreign exchange spot trade is a trade made for immediate exchange and delivery of the currency, thus satisfying the performance obligation. Income from foreign exchange spot trades was \$9.8 million, \$7.3 million and \$6.5 million for 2023, 2022 and 2021, respectively.

Other. Other noninterest income includes other recurring revenue streams such as transaction fees, safe deposit rental income, insurance commissions, merchant referral income and gain (loss) on sale of OREO. 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 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 removed and the gain or loss on sale is recorded upon the transfer of control of the property to the buyer.

19. 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, 2023								
	Total other comprehensive income (loss)					Total accumulated other comprehensive income (loss)			
(Dollars in thousands)	Prior to reclass	Reclass from	Pre-tax	Tax effect	Net of tax	Beginning balance	Net activity	Ending balance	
Unrealized gain (loss) on debt securities	\$ 55,129	\$ (1,258)	\$ 56,387	\$ (12,420)	\$ 43,967	\$ (325,925)	\$ 43,967	\$ (281,958)	
Unrealized gain (loss) on derivatives	4,648	(237)	4,885	(1,130)	3,755	0	3,755	3,755	
Retirement obligation	432	(747)	1,179	(273)	906	(32,023)	906	(31,117)	
Foreign currency translation	216	0	216	0	216	(715)	216	(499)	
Total	\$ 60,425	\$ (2,242)	\$ 62,667	\$ (13,823)	\$ 48,844	\$ (358,663)	\$ 48,844	\$ (309,819)	

	December 31, 2022								
	Total other comprehensive income (loss)					Total accumulated other comprehensive income (loss)			
(Dollars in thousands)	Prior to reclass	Reclass from	Pre-tax	Tax-effect	Net of tax	Beginning Balance	Net Activity	Ending Balance	
Unrealized gain (loss) on debt securities	\$ (444,257)	\$ 569	\$ (444,826)	\$ 97,863	\$ (346,963)	\$ 21,038	\$ (346,963)	\$ (325,925)	
Retirement obligation	(16,000)	(1,334)	(14,666)	3,489	(11,177)	(20,846)	(11,177)	(32,023)	
Foreign currency translation	(90)	0	(90)	0	(90)	(625)	(90)	(715)	
Total	\$ (460,347)	\$ (765)	\$ (459,582)	\$ 101,352	\$ (358,230)	\$ (433)	\$ (358,230)	\$ (358,663)	

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(Dollars in thousands)	December 31, 2021							
	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	\$ (67,759)	\$ (759)	\$ (67,000)	\$ 14,462	\$ (52,538)	\$ 73,576	\$ (52,538)	\$ 21,038
Retirement obligation	3,068	(2,198)	5,266	(1,200)	4,066	(24,912)	4,066	(20,846)
Foreign currency translation	(625)	0	(625)	0	(625)	0	(625)	(625)
Total	<u>\$ (65,316)</u>	<u>\$ (2,957)</u>	<u>\$ (62,359)</u>	<u>\$ 13,262</u>	<u>\$ (49,097)</u>	<u>\$ 48,664</u>	<u>\$ (49,097)</u>	<u>\$ (433)</u>

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

	Amount Reclassified from Accumulated Other Comprehensive Income ⁽¹⁾			Affected Line Item in the Consolidated Statements of Income
	December 31,			
(Dollars in thousands)	2023	2022	2021	
Gain and loss on cash flow hedges				
Interest rate contracts	\$ (237)	\$ 0	\$ 0	Interest expense - deposits
Realized gains and losses on securities available-for-sale	(1,258)	569	(759)	Net gain (loss) on sales/transfers of investment securities
Defined benefit pension plan				
Amortization of prior service cost ⁽²⁾	(10)	302	413	Other noninterest expense
Recognized net actuarial loss ⁽²⁾	(737)	(1,636)	(2,611)	Other noninterest expense
Amortization and settlement charges of defined benefit pension items	(747)	(1,334)	(2,198)	
Total reclassifications for the period, before tax	\$ (2,242)	\$ (765)	\$ (2,957)	

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

⁽²⁾ Included in the computation of net periodic pension cost (see Note 17 - Employee Benefit Plans for additional details)

20. 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 7.0% and a fully phased-in capital conservation buffer of 2.5% of risk-weighted assets. Further, the minimum ratio of Tier 1 capital to risk-weighted assets is 8.5% and all banks are subject to a 4.0% minimum leverage ratio, while the required Total risk-based capital ratio is 10.50%. Failure to maintain the required Common equity Tier 1 capital 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, 2023, 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 \$416.0 million on a consolidated basis at December 31, 2023.

The following tables present the actual and required capital amounts and ratios as of December 31, 2023 and 2022 under the Basel III Capital Rules. Capital levels required to be considered "well capitalized" are based upon prompt corrective action regulations, as reflected in 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, 2023						
Common equity tier 1 capital to risk-weighted assets						
Consolidated	\$1,568,815	11.73 %	\$ 936,192	7.00 %	N/A	N/A
First Financial Bank	1,701,338	12.73 %	935,746	7.00 %	\$ 868,907	6.50 %
Tier 1 capital to risk-weighted assets						
Consolidated	1,613,480	12.06 %	1,136,805	8.50 %	N/A	N/A
First Financial Bank	1,701,840	12.73 %	1,136,263	8.50 %	1,069,424	8.00 %
Total capital to risk-weighted assets						
Consolidated	1,820,285	13.61 %	1,404,289	10.50 %	N/A	N/A
First Financial Bank	1,743,521	13.04 %	1,403,619	10.50 %	1,336,780	10.00 %
Leverage						
Consolidated	1,613,480	9.70 %	665,125	4.00 %	N/A	N/A
First Financial Bank	1,701,840	10.24 %	664,781	4.00 %	830,976	5.00 %

	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, 2022						
Common equity tier 1 capital to risk-weighted assets						
Consolidated	\$1,399,420	10.83 %	\$ 904,626	7.00 %	N/A	N/A
First Financial Bank	1,581,328	12.26 %	903,244	7.00 %	\$ 838,726	6.50 %
Tier 1 capital to risk-weighted assets						
Consolidated	1,443,698	11.17 %	1,098,475	8.50 %	N/A	N/A
First Financial Bank	1,581,900	12.26 %	1,096,796	8.50 %	1,032,278	8.00 %
Total capital to risk-weighted assets						
Consolidated	1,691,255	13.09 %	1,356,939	10.50 %	N/A	N/A
First Financial Bank	1,640,671	12.71 %	1,354,865	10.50 %	1,290,348	10.00 %
Leverage						
Consolidated	1,443,698	8.89 %	649,636	4.00 %	N/A	N/A
First Financial Bank	1,581,900	9.76 %	648,607	4.00 %	810,759	5.00 %

Share repurchases. The 2022 Repurchase Plan replaced the plan that expired on December 31, 2022 (the 2020 Repurchase Plan). Under the 2022 Repurchase Plan, First Financial did not repurchase any shares during 2023 or 2022. Under the 2020 Repurchase Plan, First Financial repurchased 4,633,355 shares at an average market price of \$23.33 during 2021.

Effective January 2024, First Financial's board of directors approved a stock repurchase plan (the 2024 Repurchase Plan), replacing the 2022 Repurchase Plan which became effective in January 2022. The 2024 Repurchase Plan continues for two years and authorizes the purchase of up to 5,000,000 shares of the Company's common stock and will expire in December 2025.

21. Stock Options and Awards

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 \$14.9 million, \$13.4 million and \$9.6 million for the years ended December 31, 2023, 2022 and 2021, respectively, related to stock options and restricted stock awards. Total unrecognized compensation cost related to non-vested share-based compensation was \$12.7 million at December 31, 2023 and is expected to be recognized over a weighted average period of 1.89 years.

As of December 31, 2023, First Financial had one active stock-based compensation plans, the 2020 Stock Plan, and there were 2,400,802 shares available for issuance.

In April 2018, in conjunction with the MSFG merger, First Financial assumed existing MSFG stock options, which were converted into options to purchase 83,551 shares of 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 remained outstanding for 10 years after the initial grant date with all options expiring at the end of the exercise period. All options were exercised prior to their expiration date of April 10, 2023. Therefore, as of December 31, 2023, no options were outstanding under the Plan.

First Financial utilizes the Black-Scholes valuation model to determine the fair value of stock options granted. In addition to the stock option strike price, the Black-Scholes valuation model incorporates the following assumptions: the expected dividend yield based on historical dividend payouts; the expected stock price volatility based on the historical volatility of Company stock for a period approximating the expected life of the options; the risk-free rate based on the U.S. Treasury yield curve in effect at the time of grant for periods corresponding with the expected life of the option; and the expected option life represented by the period of time the options are expected to be outstanding, and is based on historical trends. No new options were granted in 2023, 2022 or 2021.

Stock option activity for the year ended December 31, 2023, 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	4,855	\$ 9.86		
Granted	0	0.00		
Exercised	(4,855)	9.86		
Forfeited or expired	0	0.00		
Outstanding at end of year	0	\$ 0	0.00 years	\$ 0
Exercisable at end of year	0	\$ 0	0.00 years	\$ 0

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.

	2023	2022	2021
Total intrinsic value of options exercised	\$ 71	\$ 208	\$ 114
Cash received from exercises	\$ 48	\$ 177	\$ 64
Tax benefit from exercises	\$ 3,446	\$ 3,095	\$ 2,229

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:

	2023		2022		2021	
	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	1,229,346	\$ 21.28	839,733	\$ 22.30	763,283	\$ 22.04
Granted	623,742	20.05	945,193	23.57	539,020	22.69
Vested	(728,126)	18.87	(407,386)	28.05	(386,848)	22.24
Forfeited	(52,931)	25.68	(148,194)	18.40	(75,722)	22.86
Nonvested at end of year	1,072,031	\$ 21.75	1,229,346	\$ 21.28	839,733	\$ 22.30

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 2023, 2022 and 2021 was \$13.7 million, \$11.4 million and \$8.6 million, respectively.

22. 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>	2023	2022	2021
Numerator			
Net income	\$ 255,863	\$ 217,612	\$ 205,160
Denominator			
Basic earnings per common share - weighted average shares	93,938,772	93,528,712	95,034,690
Effect of dilutive securities			
Employee stock awards	1,157,295	1,058,139	862,695
Diluted earnings per common share - adjusted weighted average shares	<u>95,096,067</u>	<u>94,586,851</u>	<u>95,897,385</u>
Earnings per share available to common shareholders			
Basic	<u>\$ 2.72</u>	<u>\$ 2.33</u>	<u>\$ 2.16</u>
Diluted	<u>\$ 2.69</u>	<u>\$ 2.30</u>	<u>\$ 2.14</u>

Stock options and warrants with exercise prices greater than the average market price of the common shares are excluded from the computation of net income per diluted share, as they would be antidilutive. Using the end of period price of the Company's common shares, there were no antidilutive options at December 31, 2023, 2022, or 2021.

As of December 31, 2023, 2022, and 2021, First Financial was authorized to issue 10,000,000 preferred shares; however, no preferred shares were issued or outstanding.

23. 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

Notes to Consolidated Financial Statements

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:

	Carrying	Estimated fair value			
(Dollars in thousands)	value	Total	Level 1	Level 2	Level 3
December 31, 2023					
Financial assets					
Cash and short-term investments	\$ 1,006,019	\$ 1,006,019	\$ 1,006,019	\$ 0	\$ 0
Investment securities held-to-maturity	80,321	71,688	0	71,688	0
Other investments ⁽¹⁾	20,554	20,554	1,194	10,040	9,320
Loans and leases	10,791,743	10,468,144	0	0	10,468,144
Accrued interest receivable	72,620	72,620	0	15,697	56,923
Financial liabilities					
Deposits	13,360,797	13,347,319	0	13,347,319	0
Short-term borrowings	937,814	937,814	937,814	0	0
Long-term debt	344,115	350,426	0	350,426	0
Accrued interest payable	51,454	51,454	15,494	35,960	0

	Carrying	Estimated Fair Value			
(Dollars in thousands)	Value	Total	Level 1	Level 2	Level 3
December 31, 2022					
Financial assets					
Cash and short-term investments	\$ 595,683	\$ 595,683	\$ 595,683	\$ 0	\$ 0
Investment securities held-to-maturity	84,021	76,485	0	76,485	0
Other investments ⁽¹⁾	20,347	20,347	1,171	10,040	9,136
Loans and leases	10,165,994	9,916,353	0	0	9,916,353
Accrued interest receivable	63,721	63,721	0	16,233	47,488
Financial liabilities					
Deposits	12,701,177	12,670,747	0	12,670,747	0
Short-term borrowings	1,287,156	1,287,156	1,287,156	0	0
Long-term debt	346,672	348,041	0	348,041	0
Accrued interest payable	11,150	11,150	3,835	7,315	0

⁽¹⁾ FHLB stock and FRB stock of \$109.4 million and \$122.8 million as of December 31, 2023 and 2022, respectively, are excluded from the numbers above.

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.

Loans held for sale. The fair value of the Company's residential mortgage loans held for sale is determined on a recurring basis based on quoted prices for similar loans in active markets, and therefore, is classified as Level 2 in the fair value hierarchy.

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

Collateral dependent loans. Collateral dependent loans are defined as loans for which the repayment is expected to be provided substantially through the operation or sale of the collateral when the borrowers are experiencing financial difficulty. Collateral dependent loans are carried at fair value when the value of the operation or collateral less any costs to sell is not sufficient to cover the remaining balance. In these instances, the loans will either be partially charged-off or receive specific allocations of the allowance for credit losses. For collateral dependent loans, fair value is generally based on real estate appraisals, a calculation of enterprise value or a valuation of business assets including equipment, inventory and accounts receivable. These loans had a principal amount of \$19.7 million and \$11.9 million at December 31, 2023 and December 31, 2022, respectively, with a valuation allowance of \$4.4 million and \$3.7 million at December 31, 2023 and December 31, 2022, respectively.

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). These appraisals may utilize a single valuation approach or a combination of approaches including the comparable sales approach and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Collateral is then adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and the client's business, resulting in a Level 3 fair value classification. Collateral dependent loans are evaluated on a quarterly basis for additional write-downs and are adjusted accordingly.

Enterprise value is defined as imputed value for the entire underlying business. To determine an appropriate range of enterprise value, FFB relies on a standardized set of valuation methodologies that take into account future projected cash flows, market based multiples as well as asset values. Valuations involve both quantitative and qualitative considerations and professional judgments concerning differences in financial and operating characteristics in addition to other factors that may impact values over time (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).

The fair value of collateral dependent loans is measured at fair value on a nonrecurring basis. Any fair value adjustments are recorded in the period incurred as provision for credit losses on the Consolidated Statements of Income.

Mortgage servicing rights. Mortgage servicing rights are evaluated for impairment based upon the fair value of the rights as compared to the carrying amount. If the carrying amount of the servicing asset exceeds fair value, impairment is recorded so that the servicing asset is carried at fair value. Fair value is determined based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model utilizes a discount rate of 11.50% and 12.20% for 2023 and 2022, respectively, weighted average prepayment speed of 5.92% and 3.43% for 2023 and 2022, respectively, and other economic factors that market participants would use in estimating future net servicing income and that can be validated against available market data.

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 establishing a new cost basis. Subsequent changes 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.

Operating leases. First Financial performs assessments of the recoverability of long-lived assets when events or changes in circumstances indicate that their carrying values may not be recoverable and therefore, the carrying value of Operating leases is re-measured at fair value on a nonrecurring basis. When evaluating whether an individual asset is impaired, First Financial considers the current fair value of the asset, the changes in overall market demand for the asset and the rate of change in advancements associated with technological improvements that impact the demand for the specific asset under review. First Financial determines whether the carrying values of certain operating leases are not recoverable and as a result, records an impairment loss equal to the amount by which the carrying value of the assets exceeds the fair value. The fair value amounts are generally based on appraised values of the assets, resulting in a classification within Level 3 of the valuation hierarchy.

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

(Dollars in thousands)	Fair Value Measurements Using			Assets/ Liabilities at Fair Value
	Level 1	Level 2	Level 3	
December 31, 2023				
Assets				
Investment securities available-for-sale	\$ 31,243	\$ 2,956,938	\$ 32,945	\$ 3,021,126
Loans held for sale	0	9,213	0	9,213
Interest rate derivative contracts	0	117,344	0	117,344
Foreign exchange derivative contracts	0	145,556	0	145,556
Interest rate floors	0	6,896	0	6,896
Total	\$ 31,243	\$ 3,235,947	\$ 32,945	\$ 3,300,135
Liabilities				
Interest rate derivative contracts	\$ 0	\$ 118,105	\$ 0	\$ 118,105
Foreign exchange derivative contracts	0	145,556	0	145,556
Total	\$ 0	\$ 263,661	\$ 0	\$ 263,661

	Fair Value Measurements Using			Assets/ Liabilities
(Dollars in thousands)	Level 1	Level 2	Level 3	at Fair Value
December 31, 2022				
Assets				
Investment securities available-for-sale	\$ 32,696	\$ 3,341,095	\$ 35,857	\$ 3,409,648
Loans held for sale	0	7,918	0	7,918
Interest rate derivative contracts	0	152,846	0	152,846
Foreign exchange derivative contracts	0	204,882	0	204,882
Total	\$ 32,696	\$ 3,706,741	\$ 35,857	\$ 3,775,294
Liabilities				
Interest rate derivative contracts	\$ 0	\$ 153,119	\$ 0	\$ 153,119
Foreign exchange derivative contracts	0	204,882	0	204,882
Total	\$ 0	\$ 358,001	\$ 0	\$ 358,001

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 years ended December 31, 2023, 2022 and 2021.

(dollars in thousands)	December 31, 2023	December 31, 2022	December 31, 2021
Beginning balance	\$ 35,857	\$ 38,181	\$ 40,575
Accretion (amortization)	(104)	(56)	(38)
Increase (decrease) in fair value	(99)	45	44
Purchases (settlements)	(2,709)	(2,313)	(2,400)
Ending balance	<u>\$ 32,945</u>	<u>\$ 35,857</u>	<u>\$ 38,181</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:

(Dollars in thousands)	Fair Value Measurements Using		
	Level 1	Level 2	Level 3
December 31, 2023			
Assets			
Collateral dependent loans			
Commercial	\$ 0	\$ 0	\$ 1,795
Commercial real estate	0	0	13,538
OREO	0	0	106
Operating leases	0	0	0

(Dollars in thousands)	Fair Value Measurements Using		
	Level 1	Level 2	Level 3
December 31, 2022			
Assets			
Collateral dependent loans			
Commercial	\$ 0	\$ 0	\$ 4,240
Commercial real estate	0	0	4,015
OREO	0	0	0
Operating leases	0	0	0

Fair value option. First Financial may elect to report most financial instruments and certain other items at fair value on an instrument-by instrument basis with changes in fair value reported in net income. After the initial adoption, the election is made at the acquisition of an eligible financial asset, financial liability, or firm commitment or when certain specified reconsideration events occur. The fair value election may not be revoked once an election is made.

The Company elected the fair value option for residential mortgage loans held for sale. This election allows for a more effective offset of the changes in fair values of the loans held for sale and the derivative financial instruments used to financially hedge them without having to apply complex hedge accounting requirements. The fair value of the Company's residential mortgage loans held for sale was determined based on quoted prices for similar loans in active markets.

The aggregate fair value of the Company's residential mortgage loans held for sale as of December 31, 2023 and 2022 was \$9.2 million and \$7.9 million, respectively. The aggregate unpaid principal balance of the Company's residential mortgage loans held for sale as of December 31, 2023 and 2022 was \$8.5 million and \$7.5 million, respectively. The resulting difference between the aggregate fair value and the aggregate remaining principal balance for loans for which the fair value option has been elected was \$0.7 million and \$0.4 million as of December 31, 2023 and 2022, respectively.

Changes in the estimated fair value of residential mortgage loans held for sale are reported as a component of Net gain from sales of loans in the Company's Consolidated Statements of Income. For the years ended December 31, 2023 and 2022, the change in fair value of the Company's residential mortgage loans held for sale was a net gain of \$0.3 million and a net loss of \$1.9 million, respectively.

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

Balance Sheets

	December 31,	
<i>(Dollars in thousands)</i>	2023	2022
Assets		
Cash	\$ 134,745	\$ 91,013
Investment securities	1,134	1,681
Subordinated notes from subsidiaries	7,500	7,500
Investment in subsidiaries		
Commercial bank	2,334,411	2,161,338
Non-banks	8,915	11,246
Total investment in subsidiaries	2,343,326	2,172,584
Premises and equipment	274	283
Other assets	101,001	86,355
Total assets	\$ 2,587,980	\$ 2,359,416
Liabilities		
Subordinated notes	\$ 312,550	\$ 311,707
Dividends payable	1,440	1,271
Other liabilities	6,016	5,065
Total liabilities	320,006	318,043
Shareholders' equity	2,267,974	2,041,373
Total liabilities and shareholders' equity	\$ 2,587,980	\$ 2,359,416

Statements of Income and Comprehensive Income (Loss)

(Dollars in thousands)	Years Ended December 31,		
	2023	2022	2021
Income			
Interest income	\$ 42	\$ 37	\$ 34
Noninterest income	1,230	13	215
Net gain (loss) on equity securities	(546)	(156)	448
Dividends from subsidiaries	164,974	171,900	202,000
Total income	165,700	171,794	202,697
Expenses			
Interest expense	18,305	16,624	15,900
Salaries and employee benefits	16,351	13,547	9,784
Professional services	1,510	256	2,343
Other	5,281	5,581	5,186
Total expenses	41,447	36,008	33,213
Income before income taxes and equity in undistributed net earnings of subsidiaries	124,253	135,786	169,484
Income tax expense (benefit)	(9,879)	(8,523)	(7,787)
Equity in undistributed earnings (loss) of subsidiaries	121,731	73,303	27,889
Net income	\$ 255,863	\$ 217,612	\$ 205,160
Comprehensive income (loss)	\$ 304,707	\$ (140,618)	\$ 156,063

Statements of Cash Flows

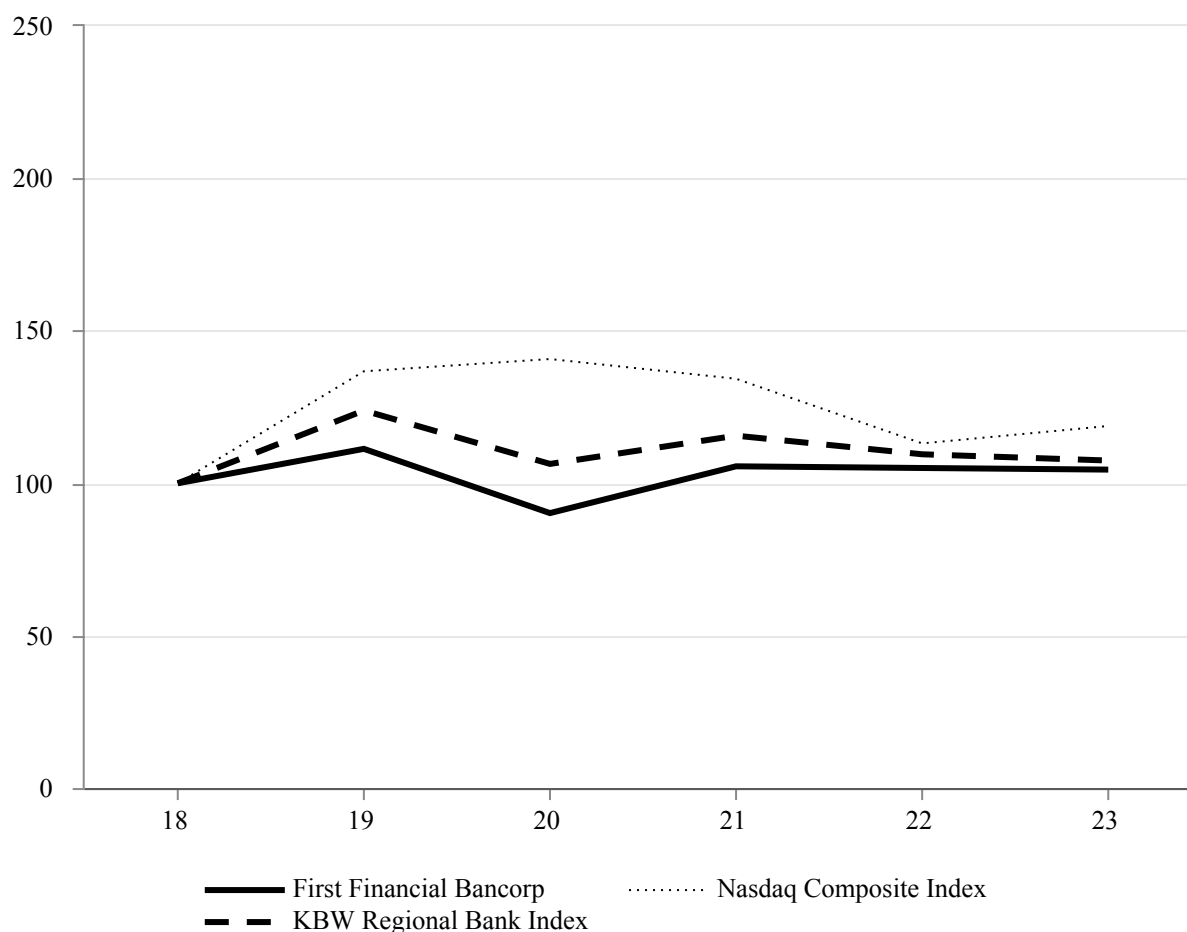
(Dollars in thousands)	Years Ended December 31,		
	2023	2022	2021
Operating activities			
Net income	\$ 255,863	\$ 217,612	\$ 205,160
Adjustments to reconcile net income to net cash provided by operating activities			
Equity in undistributed (earnings) loss of subsidiaries	(121,731)	(73,303)	(27,889)
Depreciation and amortization	975	860	859
Stock-based compensation expense	14,898	13,379	9,635
Unrealized (gain) loss on equity securities	546	156	(448)
Deferred income taxes	(285)	(475)	(224)
(Decrease) increase in dividends payable	169	229	368
(Decrease) increase in other liabilities	(213)	634	(751)
Decrease (increase) in other assets	(10,129)	(8,748)	(8,096)
Net cash provided by (used in) operating activities	140,093	150,344	178,614
Investing activities			
Capital contributions to subsidiaries	(167)	0	(113,152)
Net cash acquired (paid) in business combinations	(3,400)	0	0
Purchases of premises and equipment	(13)	0	0
Other	0	1,011	0
Net cash (used in) provided by investing activities	(3,580)	1,011	(113,152)
Financing activities			
(Decrease) increase in short-term borrowings	0	(20,000)	20,000
Proceeds from long-term borrowings	0	0	(10,592)
Cash dividends paid on common stock	(87,159)	(86,606)	(87,316)
Purchases of common stock	0	0	(108,077)
Proceeds from exercise of stock options, net of shares purchased	48	177	64
Other	(5,670)	(3,659)	(2,697)
Net cash provided by (used in) financing activities	(92,781)	(110,088)	(188,618)
Net increase (decrease) in cash	43,732	41,267	(123,156)
Cash at beginning of year	91,013	49,746	172,902
Cash at end of year	\$ 134,745	\$ 91,013	\$ 49,746

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, 2018 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**



	2018	2019	2020	2021	2022	2023
First Financial Bancorp	100.00	111.29	90.21	105.56	105.01	104.48
Nasdaq Composite Index	100.00	136.73	140.76	134.29	113.08	118.79
KBW Regional Bank Index	100.00	123.87	106.35	115.61	109.51	107.46

shareholder information

Annual Meeting of Shareholders

The virtual annual meeting of shareholders will be held on Tuesday, May 28, 2024, at 10 a.m. (EDT).

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 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.

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

James M. Anderson

Chief Financial Officer and Chief Operating 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, 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

First Financial Bank

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