

FIRST FINANCIAL BANCORP /OH/

Form 10-Q

August 08, 2018

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**FORM 10-Q**

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington D.C. 20549**

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

For the quarterly period ended June 30, 2018

**OR**

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

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

Commission file number 001-34762

**FIRST FINANCIAL BANCORP.**

(Exact name of registrant as specified in its charter)

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the

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preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

Emerging growth company

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

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

Yes  No

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

Class	Outstanding at 8/7/2018
Common stock, No par value	97,901,046

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**FIRST FINANCIAL BANCORP.**

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Table of Contents**Glossary of Abbreviations and Acronyms**

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

ALLL	Allowance for loan and lease losses	FASB	Financial Accounting Standards Board
AOCI	Accumulated other comprehensive income	FDIC	Federal Deposit Insurance Corporation
ASC	Accounting standards codification	FHLB	Federal Home Loan Bank
ASU	Accounting standards update	First Financial	First Financial Bancorp.
ATM	Automated teller machine	Form 10-K	First Financial Bancorp. Annual Report on Form 10-K
Bank	First Financial Bank	FRB	Federal Reserve Bank
Basel III	Basel Committee regulatory capital reforms, Third Basel Accord	GAAP	U.S. Generally Accepted Accounting Principles
Bp/bps	Basis point(s)	Insignificant	Less than \$0.1 million
CDs	Certificates of deposit	IRLC	Interest Rate Lock Commitment
C&I	Commercial & Industrial	MSFG	MainSource Financial Group, Inc.
CRE	Commercial Real Estate	N/A	Not applicable
Company	First Financial Bancorp.	NII	Net interest income
ERM	Enterprise Risk Management	OREO	Other real estate owned
EVE	Economic value of equity	SEC	United States Securities and Exchange Commission
Fair Value Topic	FASB ASC Topic 825, Financial Instruments	TDR	Troubled debt restructuring

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

	June 30, 2018 (Unaudited)	December 31, 2017
<b>Assets</b>		
Cash and due from banks	\$216,667	\$150,650
Interest-bearing deposits with other banks	37,915	33,974
Investment securities available-for-sale, at fair value (amortized cost \$2,677,257 at June 30, 2018 and \$1,348,227 at December 31, 2017)	2,654,909	1,349,408
Investment securities held-to-maturity (fair value \$435,785 at June 30, 2018 and \$653,101 at December 31, 2017)	443,957	654,008
Other investments	95,004	53,140
Loans held for sale	15,821	11,502
Loans and leases		
Commercial & industrial	2,440,596	1,912,743
Lease financing	96,198	89,347
Construction real estate	555,468	467,730
Commercial real estate	3,888,993	2,490,091
Residential real estate	918,904	471,391
Home equity	835,031	493,604
Installment	100,726	41,586
Credit card	48,665	46,691
<b>Total loans and leases</b>	8,884,581	6,013,183
Less: Allowance for loan and lease losses	54,076	54,021
<b>Net loans and leases</b>	8,830,505	5,959,162
Premises and equipment	223,950	125,036
Goodwill and other intangibles	934,656	209,379
Accrued interest and other assets	466,783	350,664
<b>Total assets</b>	\$13,920,167	\$8,896,923
<b>Liabilities</b>		
Deposits		
Interest-bearing demand	\$2,440,088	\$1,453,463
Savings	3,087,683	2,462,420
Time	2,104,044	1,317,105
<b>Total interest-bearing deposits</b>	7,631,815	5,232,988
Noninterest-bearing	2,471,932	1,662,058
<b>Total deposits</b>	10,103,747	6,895,046
Federal funds purchased and securities sold under agreements to repurchase	88,070	72,265
FHLB short-term borrowings	1,100,233	742,300
<b>Total short-term borrowings</b>	1,188,303	814,565
Long-term debt	469,423	119,654
<b>Total borrowed funds</b>	1,657,726	934,219
Accrued interest and other liabilities	145,757	136,994
<b>Total liabilities</b>	11,907,230	7,966,259
<b>Shareholders' equity</b>		

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Common stock - no par value		
Authorized - 160,000,000 shares; Issued - 104,281,794 shares in 2018 and 68,730,731 in 2017	1,632,572	573,109
Retained earnings	533,319	491,847
Accumulated other comprehensive loss	(43,008 )	(20,390 )
Treasury stock, at cost, 6,376,897 shares in 2018 and 6,661,644 shares in 2017	(109,946 )	(113,902 )
<b>Total shareholders' equity</b>	<b>2,012,937</b>	<b>930,664</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 13,920,167</b>	<b>\$ 8,896,923</b>

See Notes to Consolidated Financial Statements.

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

(Dollars in thousands, except per share data)

(Unaudited)

	Three months ended		Six months ended	
	June 30,	June 30,	June 30,	June 30,
	2018	2017	2018	2017
<b>Interest income</b>				
Loans and leases, including fees	\$ 122,290	\$ 67,748	\$ 197,210	\$ 134,616
Investment securities				
Taxable	20,844	12,598	34,514	24,206
Tax-exempt	4,068	1,457	5,725	2,810
Total interest on investment securities	24,912	14,055	40,239	27,016
Other earning assets	177	(1,014)	284	(2,015)
<b>Total interest income</b>	<b>147,379</b>	<b>80,789</b>	<b>237,733</b>	<b>159,617</b>
<b>Interest expense</b>				
Deposits	14,794	8,679	25,092	15,604
Short-term borrowings	4,132	2,051	6,795	3,483
Long-term borrowings	4,474	1,539	6,055	3,078
<b>Total interest expense</b>	<b>23,400</b>	<b>12,269</b>	<b>37,942</b>	<b>22,165</b>
<b>Net interest income</b>	<b>123,979</b>	<b>68,520</b>	<b>199,791</b>	<b>137,452</b>
Provision for loan and lease losses	3,735	467	6,038	834
<b>Net interest income after provision for loan and lease losses</b>	<b>120,244</b>	<b>68,053</b>	<b>193,753</b>	<b>136,618</b>
<b>Noninterest income</b>				
Service charges on deposit accounts	9,568	4,772	14,607	9,416
Trust and wealth management fees	3,697	3,405	7,651	7,152
Bankcard income	5,343	3,501	8,737	6,636
Client derivative fees	1,463	1,489	3,220	2,592
Net gain from sales of loans	2,316	1,327	2,904	2,543
Net gain (loss) on sales of investment securities	(30)	838	(30)	1,354
Other	5,899	2,122	8,105	5,125
<b>Total noninterest income</b>	<b>28,256</b>	<b>17,454</b>	<b>45,194</b>	<b>34,818</b>
<b>Noninterest expenses</b>				
Salaries and employee benefits	55,531	31,544	86,633	63,294
Net occupancy	6,631	4,302	11,128	8,817
Furniture and equipment	5,298	2,136	7,338	4,313
Data processing	14,304	3,501	17,976	6,799
Marketing	2,644	982	3,445	1,492
Communication	1,118	468	1,577	915
Professional services	5,659	1,469	7,857	3,227
State intangible tax	1,078	721	1,843	1,442
FDIC assessments	1,323	1,018	2,217	1,950
Loss (gain) - other real estate owned	(283)	162	(206)	186
Other	9,452	5,253	15,235	10,166
<b>Total noninterest expenses</b>	<b>102,755</b>	<b>51,556</b>	<b>155,043</b>	<b>102,601</b>
Income before income taxes	45,745	33,951	83,904	68,835
Income tax expense	9,327	11,215	16,980	21,685
<b>Net income</b>	<b>\$ 36,418</b>	<b>\$ 22,736</b>	<b>\$ 66,924</b>	<b>\$ 47,150</b>

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Net earnings per common share - basic	\$0.37	\$ 0.37	\$0.84	\$0.77
Net earnings per common share - diluted	\$0.37	\$ 0.37	\$0.83	\$0.76
Cash dividends declared per share	\$0.19	\$ 0.17	\$0.38	\$0.34
Average common shares outstanding - basic	97,347,533	61,543,478	79,599,709	61,471,347
Average common shares outstanding - diluted	98,432,072	62,234,022	80,629,495	62,187,473

See Notes to Consolidated Financial Statements.

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

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Net income	\$36,418	\$22,736	\$66,924	\$47,150
Other comprehensive income (loss), net of tax:				
Unrealized gain (loss) on investment securities arising during the period	(8,978 )	4,076	(18,808 )	5,563
Change in retirement obligation	494	213	817	402
Unrealized gain (loss) on derivatives	159	128	315	256
Other comprehensive income (loss)	(8,325 )	4,417	(17,676 )	6,221
<b>Comprehensive income</b>	<b>\$28,093</b>	<b>\$27,153</b>	<b>\$49,248</b>	<b>\$53,371</b>

See Notes to Consolidated Financial Statements.

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

	Common Stock	Common Stock	Retained	Accumulated other comprehensive	Treasury stock		Total
	Shares	Amount	Earnings	income (loss)	Shares	Amount	
Balance at January 1, 2017	68,730,731	\$ 570,382	\$ 437,188	\$ (28,443 )	(6,751,179 )	\$(113,903 )	\$ 865,224
Net income			47,150				47,150
Other comprehensive income (loss)				6,221			6,221
Cash dividends declared:							
Common stock at \$0.34 per share			(21,088 )				(21,088 )
Warrant exercises		(25 )			1,484	25	0
Exercise of stock options, net of shares purchased		(462 )			39,062	660	198
Restricted stock awards, net of forfeitures		(3,559 )			120,973	1,005	(2,554 )
Share-based compensation expense		2,966					2,966
Balance at June 30, 2017	68,730,731	\$ 569,302	\$ 463,250	\$ (22,222 )	(6,589,660 )	\$(112,213 )	\$ 898,117
Balance at January 1, 2018	68,730,731	\$ 573,109	\$ 491,847	\$ (20,390 )	(6,661,644 )	\$(113,902 )	\$ 930,664
Net income			66,924				66,924
Reclassification of certain tax effects from AOCI to retained earnings			4,942	(4,942 )			0
Other comprehensive income (loss)				(17,676 )			(17,676 )
Cash dividends declared:							
Common stock at \$0.38 per share			(30,394 )				(30,394 )
Common stock issued in connection with business combinations	35,551,063	1,045,876					1,045,876
Stock options and warrants acquired and converted in connection with business combinations		16,037					16,037
Warrant exercises		(922 )			53,907	922	0
Exercise of stock options, net of shares purchased		(275 )			31,554	542	267
Restricted stock awards, net of forfeitures		(4,699 )			199,286	2,492	(2,207 )
Share-based compensation expense		3,446					3,446
<b>Balance at June 30, 2018</b>	<b>104,281,794</b>	<b>\$ 1,632,572</b>	<b>\$ 533,319</b>	<b>\$ (43,008 )</b>	<b>(6,376,897 )</b>	<b>\$(109,946 )</b>	<b>\$ 2,012,937</b>

See Notes to Consolidated Financial Statements.

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

(Dollars in thousands)

(Unaudited)

	Six months ended	
	June 30,	
	2018	2017
<b>Operating activities</b>		
Net income	\$66,924	\$47,150
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	6,038	834
Depreciation and amortization	10,208	6,354
Stock-based compensation expense	3,446	2,966
Pension expense (income)	182	(637 )
Net amortization (accretion) on investment securities	5,178	4,998
Net (gains) losses on sales of investment securities	30	(1,354 )
Originations of loans held for sale	(54,041 )	(75,543 )
Net gains from sales of loans held for sale	(2,904 )	(2,543 )
Proceeds from sales of loans held for sale	50,004	78,771
Deferred income taxes	(12,104 )	3,987
Decrease (increase) cash surrender value of life insurance	398	(116 )
Decrease (increase) in interest receivable	(565 )	(1,397 )
Decrease (increase) in indemnification asset	1,900	2,418
(Decrease) increase in interest payable	2,596	148
Decrease (increase) in other assets	26,646	(18,472 )
(Decrease) increase in other liabilities	10,724	(5,571 )
Net cash provided by (used in) operating activities	114,660	41,993
<b>Investing activities</b>		
Proceeds from sales of securities available-for-sale	216,197	125,606
Proceeds from calls, paydowns and maturities of securities available-for-sale	161,733	102,893
Purchases of securities available-for-sale	(444,686 )	(464,543 )
Proceeds from calls, paydowns and maturities of securities held-to-maturity	26,834	72,078
Purchases of securities held-to-maturity	(14,014 )	(14,441 )
Net decrease (increase) in interest-bearing deposits with other banks	(3,941 )	52,611
Net decrease (increase) in loans and leases	(83,617 )	(121,944 )
Proceeds from disposal of other real estate owned	2,840	2,292
Purchases of premises and equipment	(13,662 )	(4,247 )
Net cash (paid) acquired from business combinations	64,887	0
Net cash paid for branch divestitures	(41,197 )	0
Net cash provided by (used in) investing activities	(128,626 )	(249,695 )
<b>Financing activities</b>		
Net (decrease) increase in total deposits	(55,757 )	(56,879 )
Net (decrease) increase in short-term borrowings	178,143	280,421
Payments on long-term debt	(51,985 )	0
Proceeds from FHLB borrowings	50,000	0
Cash dividends paid on common stock	(40,685 )	(20,243 )
Proceeds from exercise of stock options	267	283

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Net cash provided by (used in) financing activities	79,983	203,582
Cash and due from banks		
<b>Change in cash and due from banks</b>	66,017	(4,120 )
Cash and due from banks at beginning of period	150,650	121,598
<b>Cash and due from banks at end of period</b>	\$216,667	\$117,478

**Supplemental schedule for investing activities**

Business combinations

Assets acquired, net of purchase consideration	\$3,328,802	\$0
Liabilities assumed	4,007,743	0
Goodwill	\$678,941	\$0

See Notes to Consolidated Financial Statements.

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**FIRST FINANCIAL BANCORP. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2018**  
**(Unaudited)**

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

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

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

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

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

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

in the first quarter of 2018 and did not have a material impact on the Consolidated Financial Statements. In accordance with the guidance, the Company measured the fair value of its financial instruments as of June 30, 2018 using an exit price notion. For further detail, see Note 15 – Fair Value Disclosures.

In February 2016, the FASB issued an update (ASU 2016-02, Leases) which requires lessees to record most leases on their balance sheet and recognize leasing expenses in the income statement. Operating leases, except for short-term leases that are subject to an accounting policy election, will be recorded on the balance sheet for lessees by establishing a lease liability and corresponding right-of-use asset. The guidance in this ASU will become effective for interim and annual reporting periods beginning after December 15, 2018, with early adoption permitted. Given operating leases outstanding as of June 30, 2018, First Financial does not expect this ASU to have a material impact on the income statement, but does anticipate an increase in the Company's assets and liabilities. Decisions to repurchase, modify or renew leases prior to the implementation date will impact this level of materiality.

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

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

The guidance in this ASU will become effective for interim and annual reporting periods beginning after December 15, 2019. Early adoption is permitted for all entities for interim and annual reporting periods beginning after December 15, 2018. First Financial has formed an internal management committee and engaged a third party vendor to assist with the transition to the guidance set forth in this update. The committee is currently evaluating the impact of this update on First Financial's Consolidated Financial Statements.

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

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

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

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



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In May 2017, the FASB issued an update (ASU 2017-09, Compensation - Stock Compensation (Topic 718), Scope of Modification Accounting), which provides clarity and reduces the diversity in practice, cost and complexity when accounting for a change to the terms or conditions of a share-based payment award. The amendments in this update provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718 clarifying that an entity will not apply modification accounting to a share-based payment award if the award's fair value (or calculated value or intrinsic value), vesting conditions and classification as an equity or liability instrument are the same immediately before and after the change. The guidance in this ASU became effective in the first quarter of 2018 and did not have a material impact on the Consolidated Financial Statements.

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

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

**NOTE 3: INVESTMENTS**

For the three and six months ended June 30, 2018, proceeds on the sale of \$216.2 million of available-for-sale securities, and resulted in insignificant gross gains and losses. For the three months ended June 30, 2017, proceeds on the sale of \$103.4 million of available-for-sale securities resulted in gains of \$1.0 million and losses of \$0.1 million. For the six months ended June 30, 2017, proceeds on the sale of \$125.6 million of available-for-sale securities resulted in gains of \$1.5 million and losses of \$0.1 million.

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The following is a summary of held-to-maturity and available-for-sale investment securities as of June 30, 2018:

<i>(Dollars in thousands)</i>	Held-to-maturity				Available-for-sale			
	Amortized cost	Unrecognized gain	Unrecognized loss	Fair value	Amortized cost	Unrealized gain	Unrealized loss	Fair value
U.S. Treasuries	\$0	\$ 0	\$ 0	\$0	\$98	\$ 0	\$(3 )	\$95
Securities of U.S. government agencies and corporations	0	0	0	0	34,896	84	(452 )	34,528
Mortgage-backed securities - residential	31,857	0	(1,515 )	30,342	644,358	1,314	(10,152 )	635,520
Mortgage-backed securities - commercial	152,906	13	(5,503 )	147,416	290,930	106	(5,059 )	285,977
Collateralized mortgage obligations	13,982	0	(675 )	13,307	873,923	965	(10,313 )	864,575
Obligations of state and other political subdivisions	245,212	936	(1,428 )	244,720	250,993	2,214	(1,910 )	251,297
Asset-backed securities	0	0	0	0	492,702	879	(1,354 )	492,227
Other securities	0	0	0	0	89,357	1,938	(605 )	90,690
<b>Total</b>	<b>\$443,957</b>	<b>\$ 949</b>	<b>\$ (9,121 )</b>	<b>\$435,785</b>	<b>\$2,677,257</b>	<b>\$ 7,500</b>	<b>\$(29,848 )</b>	<b>\$2,654,909</b>

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

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

The following table provides a summary of investment securities by contractual maturity as of June 30, 2018, except for residential and commercial mortgage-backed securities, collateralized mortgage obligations and asset-backed securities, which are shown as single totals due to the unpredictability of the timing in principal repayments.

<i>(Dollars in thousands)</i>	Held-to-maturity		Available-for-sale	
	Amortized cost	Fair value	Amortized cost	Fair value
<b>By Contractual Maturity:</b>				
Due in one year or less	\$0	\$0	\$4,125	\$4,123
Due after one year through five years	275	279	70,801	70,802
Due after five years through ten years	15,799	15,778	140,577	142,222
Due after ten years	229,138	228,663	159,841	159,463
Mortgage-backed securities - residential	31,857	30,342	644,358	635,520
Mortgage-backed securities - commercial	152,906	147,416	290,930	285,977
Collateralized mortgage obligations	13,982	13,307	873,923	864,575
Asset-backed securities	0	0	492,702	492,227
<b>Total</b>	<b>\$443,957</b>	<b>\$435,785</b>	<b>\$2,677,257</b>	<b>\$2,654,909</b>



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Unrealized gains and losses on debt securities are generally due to fluctuations in current market yields relative to the yields of the debt securities at their amortized cost. All securities with unrealized losses are reviewed quarterly to determine if any impairment is considered other than temporary, requiring a write-down to fair value. First Financial considers the percentage loss on a security, duration of the loss, average life or duration of the security, credit rating of the security and payment performance, as well as the Company's intent and ability to hold the security to maturity, when determining whether any impairment is other than temporary. At this time First Financial does not intend to sell, and it is not more likely than not that the Company will be required to sell, debt securities temporarily impaired prior to maturity or recovery of the recorded value. First Financial had no other than temporary impairment related to its investment securities portfolio as of June 30, 2018 or December 31, 2017.

As of June 30, 2018, the Company's investment securities portfolio consisted of 1,385 securities, of which 656 were in an unrealized loss position. As of December 31, 2017, the Company's investment securities portfolio consisted of 775 securities, of which 237 were in an unrealized loss position.

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

	June 30, 2018					
	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
<i>(Dollars in thousands)</i>						
U.S. Treasuries	\$95	\$(3 )	\$0	\$0	\$95	\$(3 )
Securities of U.S. Government agencies and corporations	19,890	(311 )	5,379	(141 )	25,269	(452 )
Mortgage-backed securities - residential	488,725	(5,650 )	129,218	(6,017 )	617,943	(11,667 )
Mortgage-backed securities - commercial	278,366	(5,414 )	88,624	(5,148 )	366,990	(10,562 )
Collateralized mortgage obligations	628,667	(6,910 )	99,142	(4,078 )	727,809	(10,988 )
Obligations of state and other political subdivisions	186,269	(2,195 )	27,441	(1,143 )	213,710	(3,338 )
Asset-backed securities	219,064	(1,215 )	13,591	(139 )	232,655	(1,354 )
Other securities	17,299	(226 )	7,571	(379 )	24,870	(605 )
<b>Total</b>	<b>\$1,838,375</b>	<b>\$(21,924 )</b>	<b>\$370,966</b>	<b>\$(17,045 )</b>	<b>\$2,209,341</b>	<b>\$(38,969 )</b>

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



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

**NOTE 4: LOANS AND LEASES**

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

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

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

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

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

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

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

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

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

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

	As of June 30, 2018		
	Commercial	Real Estate	Lease
(Dollars in thousands)	Construction	Commercial	financing Total

	&					
	industrial					
Pass	\$2,367,649	\$543,479	\$3,794,902	\$94,763	\$6,800,793	
Special Mention	24,261	11,947	29,399	0	65,607	
Substandard	48,686	42	64,692	1,435	114,855	
Doubtful	0	0	0	0	0	
<b>Total</b>	<b>\$2,440,596</b>	<b>\$555,468</b>	<b>\$3,888,993</b>	<b>\$96,198</b>	<b>\$6,981,255</b>	

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<i>(Dollars in thousands)</i>	Residential real estate	Home equity	Installment	Credit card	Total
Performing	\$ 905,649	\$ 828,558	\$ 100,422	\$ 48,665	\$ 1,883,294
Nonperforming	13,255	6,473	304	0	20,032
<b>Total</b>	<b>\$ 918,904</b>	<b>\$ 835,031</b>	<b>\$ 100,726</b>	<b>\$ 48,665</b>	<b>\$ 1,903,326</b>

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

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

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



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

As of June 30, 2018

<i>(Dollars in thousands)</i>	30 – 59 days past due	60 – 89 days past due	> 90 days past due	Total past due	Current	Subtotal	Purchased impaired	Total	> 90 days past due and still accruing
<b>Loans</b>									
Commercial & industrial	\$ 1,885	\$ 389	\$ 2,814	\$ 5,088	\$ 2,429,204	\$ 2,434,292	\$ 6,304	\$ 2,440,596	\$ 0
Lease financing	0	0	0	0	96,198	96,198	0	96,198	0
Construction real estate	447	0	0	447	554,754	555,201	267	555,468	0
Commercial real estate	3,291	1,829	15,999	21,119	3,803,534	3,824,653	64,340	3,888,993	16
Residential real estate	1,962	601	2,945	5,508	872,404	877,912	40,992	918,904	0
Home equity	3,834	750	3,443	8,027	822,359	830,386	4,645	835,031	0
Installment	165	22	263	450	99,669	100,119	607	100,726	0
Credit card	427	216	311	954	47,711	48,665	0	48,665	311
<b>Total</b>	<b>\$ 12,011</b>	<b>\$ 3,807</b>	<b>\$ 25,775</b>	<b>\$ 41,593</b>	<b>\$ 8,725,833</b>	<b>\$ 8,767,426</b>	<b>\$ 117,155</b>	<b>\$ 8,884,581</b>	<b>\$ 327</b>

As of December 31, 2017

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

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

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

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

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

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

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First Financial had 205 TDRs totaling \$27.8 million at June 30, 2018, including \$21.8 million on accrual status and \$5.9 million classified as nonaccrual. First Financial had an insignificant amount of commitments outstanding to lend additional funds to borrowers whose loan terms have been modified through TDRs, and the ALLL included reserves of \$1.1 million related to TDRs at June 30, 2018. For each of the three and six month periods ended June 30, 2018 and 2017, the Company charged off \$0.1 million for the portion of TDRs determined to be uncollectible. Additionally, as of June 30, 2018, \$13.1 million of accruing TDRs have been performing in accordance with the restructured terms for more than one year.

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

The following tables provide information on loan modifications classified as TDRs during the three and six months ended June 30, 2018 and 2017:

	Three months ended			June 30, 2017		
	June 30, 2018	Period	June 30, 2017	Period	Period	
<i>(Dollars in thousands)</i>	Number of Pre-modification loans	end of loan balance	Number of Pre-modification loans	end of loan balance	end of loan balance	
Commercial & industrial	8	\$ 6,221	\$ 6,183	4	\$ 2,177	\$ 2,183
Construction real estate	0	0	0	0	0	0
Commercial real estate	4	2,047	2,016	6	1,506	1,449
Residential real estate	1	201	201	0	0	0
Home equity	0	0	0	0	0	0
Installment	0	0	0	0	0	0
<b>Total</b>	<b>13</b>	<b>\$ 8,469</b>	<b>\$ 8,400</b>	<b>10</b>	<b>\$ 3,683</b>	<b>\$ 3,632</b>

	Six months ended			June 30, 2017		
	June 30, 2018	Period	June 30, 2017	Period	Period	
<i>(Dollars in thousands)</i>	Number of Pre-modification loans	end of loan balance	Number of Pre-modification loans	end of loan balance	end of loan balance	
Commercial & industrial	12	\$ 7,149	\$ 7,096	6	\$ 5,679	\$ 5,624
Construction real estate	0	0	0	0	0	0
Commercial real estate	6	2,119	2,088	6	1,506	1,449
Residential real estate	3	294	294	0	0	0
Home equity	0	0	0	0	0	0
Installment	0	0	0	0	0	0
<b>Total</b>	<b>21</b>	<b>\$ 9,562</b>	<b>\$ 9,478</b>	<b>12</b>	<b>\$ 7,185</b>	<b>\$ 7,073</b>

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The following table provides information on how TDRs were modified during the three and six months ended June 30, 2018 and 2017:

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
<i>(Dollars in thousands)</i>				
Extended maturities	\$2,000	\$2,587	\$2,888	\$3,261
Adjusted interest rates	0	0	52	2,767
Combination of rate and maturity changes	0	180	0	180
Forbearance	6,199	827	6,199	827
Other <sup>(1)</sup>	201	38	339	38
<b>Total</b>	<b>\$8,400</b>	<b>\$3,632</b>	<b>\$9,478</b>	<b>\$7,073</b>

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

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

There was one TDR, insignificant in amount, for which there was a payment default during the period that occurred within twelve months of the loan modification for the three and six months ended June 30, 2018. There were no TDRs for which there was a payment default during the period that occurred within twelve months of the loan modification for the three or six month periods ended June 30, 2017.

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

	June 30, December 31,	
<i>(Dollars in thousands)</i>	2018	2017
<b>Impaired loans</b>		
Nonaccrual loans <sup>(1)</sup>		
Commercial & industrial	\$3,448	\$ 5,229
Lease financing	0	82
Construction real estate	24	29
Commercial real estate	21,593	10,616
Residential real estate	9,278	4,140
Home equity	5,820	3,743
Installment	299	243
Nonaccrual loans	40,462	24,082
Accruing troubled debt restructurings	21,839	17,545
<b>Total impaired loans</b>	<b>\$62,301</b>	<b>\$ 41,627</b>

<sup>(1)</sup> Nonaccrual loans include nonaccrual TDRs of \$5.9 million and \$6.4 million as of June 30, 2018 and December 31, 2017, respectively.

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	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
<i>(Dollars in thousands)</i>				
<b>Interest income effect on impaired loans</b>				
Gross amount of interest that would have been recorded under original terms	\$ 1,132	\$ 1,158	\$ 1,934	\$ 1,974
Interest included in income				
Nonaccrual loans	146	163	226	305
Troubled debt restructurings	189	169	313	395
Total interest included in income	335	332	539	700
<b>Net impact on interest income</b>	<b>\$797</b>	<b>\$826</b>	<b>\$1,395</b>	<b>\$1,274</b>

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

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

<i>(Dollars in thousands)</i>	As of June 30, 2018			As of December 31, 2017		
	Current balance	Contractual principal balance	Related allowance	Current balance	Contractual principal balance	Related allowance
<b>Loans with no related allowance recorded</b>						
Commercial & industrial	\$10,856	\$ 14,647	\$ 0	\$7,162	\$ 8,460	\$ 0
Lease financing	0	0	0	82	82	0
Construction real estate	24	57	0	29	60	0
Commercial real estate	30,655	36,421	0	18,423	20,837	0
Residential real estate	12,216	14,383	0	6,876	8,145	0
Home equity	6,372	7,311	0	4,356	5,399	0
Installment	304	603	0	255	422	0
Total	60,427	73,422	0	37,183	43,405	0
<b>Loans with an allowance recorded</b>						
Commercial & industrial	379	379	179	169	169	169
Lease financing	0	0	0	0	0	0
Construction real estate	0	0	0	0	0	0
Commercial real estate	356	356	25	3,119	3,120	448
Residential real estate	1,039	1,039	160	1,056	1,063	160
Home equity	100	100	2	100	100	2
Installment	0	0	0	0	0	0
Total	1,874	1,874	366	4,444	4,452	779
<b>Total</b>						
Commercial & industrial	11,235	15,026	179	7,331	8,629	169
Lease financing	0	0	0	82	82	0
Construction real estate	24	57				