Risk Factors Comparison 2024-02-22 to 2023-02-24 Form: 10-K

Legend: New Text ~~Removed Text~~ Unchanged Text Moved Text Section

The risks listed here are not the only risks we face. Additional risks that are not presently known, or that we presently deem to be immaterial, also could have a material effect on our financial condition, results of operations, business and prospects. (See also " Item 7. Management' s Discussion and Analysis of Financial Condition and Results of Operations " for certain forward looking statements.) Risks Related to Economic and Market Conditions Weakness in the economy and in the real estate market, including specific weakness within our geographic footprint, may affect us, including requiring us to record additional loan loss provision or to charge off loans. First Financial' s success depends, in part, on economic and political conditions, local and national, as well as governmental fiscal and monetary policies. Conditions such as inflation, recession, unemployment, changes in interest rates, fiscal and monetary policy and other factors beyond First Financial' s control may affect its deposit levels and composition, demand for loans, the ability of borrowers to repay their loans and the value of the collateral securing the loans it makes. Economic turmoil in different regions of the world **, as well as military conflicts such as those currently ongoing in Ukraine and the Middle East,** affect the economy and stock prices in the United States, which can affect First Financial' s earnings and capital and the ability of its customers to repay loans. ~~For example, on February 24, 2022, Russian military forces invaded Ukraine, and sustained conflict and disruption in the region have occurred and remain likely. Although the length, impact, and outcome of the ongoing war in Ukraine is highly unpredictable, this conflict has resulted, and could continue to result, in market and other disruptions, including significant volatility in commodity prices and supply of energy resources, instability in financial markets, supply chain interruptions, political and social instability, changes in consumer or purchaser preferences, as well as increases in cyberattacks and espionage. The extent and duration of the military action, sanctions and resulting market disruptions could be significant and could potentially have substantial impact on the global economy and our business for an unknown period of time. Due to First Financial' s volume of real estate loans, declining real estate values, especially in light of rising interest rates, could affect the value of property used as collateral as well as First Financial' s ability to sell the collateral upon foreclosure.~~ If the strength of the United States economy in general and the strength of the local economies in which we conduct operations decline, this could result in, among other things, a deterioration of credit quality or a reduced demand for credit, including a resultant effect on our loan portfolio and allowance for credit losses. ~~These~~ **While the Federal Reserve slowed the pace of interest rate hikes earlier in 2023, it may remain open to increasing rates further should inflation dynamics remain unfavorable. This scenario of higher short- term interest rates for a longer period than currently anticipated by market participants (" higher for longer "), along with other** factors **,** could also result in higher delinquencies and greater charge- offs in future periods, which could materially affect our financial condition and results of operations. There is no assurance that our non- impaired loans will not become impaired or that our impaired loans will not suffer further deterioration in value. **A slowing labor market, declining savings, higher interest rates, and sticky inflation could cause financial stress to consumers and slacken consumption.** The fluctuations in national, regional and local economic conditions, including those related to local residential, commercial real estate and construction markets, may result in increased charge- offs and, consequently, reduce our net income. These fluctuations are not predictable, cannot be controlled and may have a material impact on our operations and financial condition even if other favorable events occur. ~~Weakness .~~ Changes in market interest rates or capital markets could affect our revenues and expenses,the value of assets and obligations,and the availability and cost of capital or liquidity.Given the nature of our business,and the fact that most of our assets and liabilities are financial in nature,we tend to be sensitive to market interest rate movements and the performance of the financial markets.Our primary source of income is net interest income,which is the difference between the interest income generated by our interest- earning assets (consisting primarily of loans and,to a lesser extent,securities) and the interest expense generated by our interest- bearing liabilities.Prevailing economic conditions,fiscal and monetary policies and the policies of various regulatory agencies all affect market rates of interest and the availability and cost of credit,which,in turn,significantly affect financial institutions' net interest income.If the interest we pay on deposits and other borrowings increases at a faster rate than increases in the interest we receive on loans and investments,net interest income,and,therefore,our earnings,could be affected.Earnings and capital levels could also be affected if the interest we receive on loans and other investments falls more quickly than the interest we pay on deposits and other borrowings.In addition to the general impact of the economy,changes in interest rates or in valuations in the debt ~~or~~ **,** equity **,or currency** markets could directly impact us in one or more of the following ways:• the yield on earning assets and rates paid on interest bearing liabilities may change in disproportionate ways;• the value of certain balance sheet and off- balance sheet financial instruments or the value of equity investments that we hold could decline;• the value of assets for which we provide processing services could decline **;• the bank' s profitability may decline due to negative impacts of increased market volatility;• insured and / or uninsured depositors may seek alternative investments,making the bank more reliant on alternative,more expensive funding sources** ;• the demand for loans and refinancings may decline,which could negatively impact income related to loan originations;or • to the extent we access capital markets to raise funds to support our business,such changes could affect the cost of such funds or the ability to raise such funds.Although we have implemented procedures we believe will reduce the potential effects of changes in interest rates on our results of operations,these procedures may not always be successful.In addition,any substantial or prolonged change in market interest rates could affect our financial condition,results of operations and liquidity.During ~~2022~~ **2023** ,the target fed funds rate increased by ~~425~~ **100** basis points.Because the First Financial balance sheet is asset sensitive,these interest rate increases resulted in $ ~~67~~ **108** . ~~0~~ **6** million of incremental net income in ~~2022~~ **2023** . ~~Additional increases~~ **Our loan portfolio**

consists of a significant number of loans secured by real estate and other assets,the value of which can be affected by market conditions.We offer a variety of secured loans,including commercial lines of credit,commercial term loans,real estate,construction,home equity,consumer and other loans.Many of our loans are **secured** ~~projected for 2023,although it is not clear how much longer,or~~ by **real estate** ~~how much,rates will rise.We may be impacted by the transition from LIBOR as a reference rate.The London Interbank Offered Rate~~ (~~LIBOR~~ **both residential and commercial**) **within our market** ~~has been used extensively in the United States and globally as a benchmark for various commercial and financial contracts,including adjustable rate mortgages,corporate debt,interest rate swaps and other derivative financial instruments.LIBOR is set based on interest rate information reported by certain banks,which are~~ **area** ~~set to stop reporting such information after June 30,2023~~ . **A major change** ~~In the United States,the Alternative Reference Rate Committee (ARRC) has endorsed the~~ in the real estate market, ~~including real estate market,~~ such as deterioration in the value of collateral,or in the local or national economy,could affect our customers' ability to pay these loans,which in turn could impact our results of operations and financial condition.Additionally,increases in unemployment also may affect the ability of certain clients to repay loans and the financial results of commercial clients in localities with higher unemployment,may result in loan defaults and foreclosures and may impair the value of our collateral.This is especially relevant in light of the sustained inflation and rising interest rates experienced in ~~2022~~ **2023** .Loan defaults and foreclosures are unavoidable in the banking industry,and we try to limit our exposure to this risk by monitoring carefully our extensions of credit.Additionally,a concentration of natural disasters or a significant disruption in the insurance market could impact the risk relating to our insurance lending business.We cannot fully eliminate credit risk,and as a result,credit losses may increase in the **future.Weakness in** the secondary market for residential mortgage loans ~~,~~ could affect us. Disruptions in the secondary market for residential mortgage loans limit the market for and liquidity of many mortgage loans. The effects of mortgage market challenges, combined with reductions in residential real estate market prices and reduced levels of home sales, could affect the value of collateral securing mortgage loans that we hold, mortgage loan originations and profits on sales of mortgage loans. Such conditions could result in higher losses or charge- offs in our mortgage loan portfolio and other lines of business. Declines in real estate values, home sale volumes, financial stress on borrowers as a result of job losses, interest rate resets on adjustable rate mortgage loans or other factors could have further effects on borrowers that could result in higher delinquencies and greater charge- offs in future periods, which would affect our financial condition or results of operations ~~. Additionally, declines in real estate values might affect the creditworthiness of state and local governments, resulting in decreased profitability or credit losses from loans made to such governments~~ . A decline in home values or overall economic weakness could also have an impact upon the value of real estate or other assets which we own upon foreclosing a loan and our ability to realize value on such assets . Changes in market interest rates or...... credit losses may increase in the future . Our financial instruments carried at fair value expose us to certain market risks. We maintain an available- for- sale investment securities portfolio, which includes assets with various types of instruments and maturities. At times, we also maintain certain assets that are classified and accounted for as trading assets. The changes in fair value of available- for- sale securities are recognized in shareholders' equity as a component of other comprehensive income. The changes in fair value of financial instruments classified as trading assets are carried at fair value with changes in fair value recognized in earnings. The fair value of financial instruments carried at fair value is exposed to market risks related to changes in interest rates and market liquidity. We manage the market risks associated with these instruments through broad asset / liability management strategies. Changes in the market values of these financial instruments could have a material impact on our financial condition or results of operations. We may classify additional financial assets or financial liabilities at fair value in the future. ~~The economic impact of COVID- 19 or any other pandemic could adversely affect our business, financial condition, liquidity, and results of operations. COVID- 19 has negatively impacted global, national and local economies, disrupted global supply chains, created significant volatility and disruption in financial markets. The extent to which COVID- 19 will continue to impact our business, results of operations, and financial condition, as well as our regulatory capital and liquidity ratios, will depend on future developments, which are highly uncertain and cannot be predicted. As of December 31, 2022, we hold and service PPP loans. In the event there was a deficiency in the manner in which we originated, funded or serviced PPP loans, the SBA may deny its liability under the guaranty for the PPP Loans, reduce the amount of the guaranty, or, if the SBA has already paid under the guaranty, seek recovery of any loss related to the deficiency.~~ Risks Related to Our Business When we loan money, commit to loan money or enter into a letter of credit or other contract with a counterparty, we incur credit risk, or the risk of loss if our borrowers do not repay their loans or our counterparties fail to perform according to the terms of their contracts. Since lending is one of our primary business activities, the credit quality of our portfolio can have a significant impact on our earnings. We estimate and establish reserves for credit risks we reasonably expect to occur over the expected life of our loan portfolio. This process, which is critical to our financial results and condition, requires difficult, subjective and complex judgments, including reviews of economic conditions and how these economic conditions might impair the ability of our borrowers to repay their loans. As is the case with any such assessments, there is always the chance that we will fail to identify the proper factors or that we will fail to accurately estimate the impacts of factors that we identify. In addition, large loans, letters of credit and contracts with individual counterparties in our portfolio magnify the credit risk that we face, as the impact of large borrowers and counterparties not repaying their loans or performing according to the terms of their contracts has a disproportionately significant impact on our credit losses and reserves. The information that we use in managing our credit risk may be inaccurate or incomplete, which may result in an increased risk of default and otherwise have an effect on our business, results of operations and financial condition. In deciding whether to extend credit or enter into other transactions with clients and counterparties, we may rely on information furnished by or on behalf of clients and counterparties, including financial statements and other financial information. We also may rely on representations of clients and counterparties as to the accuracy and completeness of that information and, with respect to financial statements, on reports of independent auditors **. Nonetheless, in the near- term, high interest rates along with rising costs, particularly robust wage growth, are expected to weigh on**

firms' profit margins. Likewise, the resumption of federal student loan payments in October 2023 and the discontinuation of other government support programs pose uncertainty regarding the potential impacts on some borrowers' ability to pay . Although we regularly review our credit exposure to specific clients and counterparties and to specific industries that we believe may present credit concerns, default risk may arise from events or circumstances that are difficult to detect, such as fraud. Moreover, such circumstances, including fraud, may become more likely to occur or be detected in periods of general economic uncertainty. We may also fail to receive full information with respect to the risks of a counterparty. In addition, in cases where we have extended credit against collateral, we may find that we are under- secured, for example, as a result of sudden declines in market values that reduce the value of collateral or due to fraud with respect to such collateral. If such events or circumstances were to occur, it could result in a potential loss of revenue and have an effect on our business, results of operations and financial condition. Our allowance for credit losses may prove to be insufficient to absorb losses in our loan portfolio. We maintain an allowance for credit losses that we believe is a reasonable estimate of the expected losses over the expected life of the loan portfolio based on a CECL model. We believe that our allowance for credit losses is maintained at a level adequate to absorb expected losses over the life of the loans in the loan portfolio as of the corresponding balance sheet date. However, our allowance for credit losses may not be sufficient to cover actual credit losses, and future provision for credit losses could materially affect our operating results. The accounting measurements related to the allowance for credit losses require significant estimates which are subject to uncertainty and change related to new information and changing circumstances. 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 such model. Our estimates of the risk of loss and amount of loss on any loan are complicated by the significant uncertainties surrounding our borrowers' abilities to successfully execute their business models through changing economic environments, competitive challenges and other factors. Because of the degree of uncertainty and susceptibility of these factors to change, our actual losses may vary from our current estimates. In addition, bank regulators periodically review our allowance for credit losses and may require us to increase our provision for credit losses or recognize further loan charge- offs. ~~Moreover, the Financial Accounting Standards Board (FASB) has changed its requirements for establishing the allowance for credit losses.~~ The ~~new~~ accounting guidance requires banks to record, at the time of origination, credit losses expected throughout the life of the asset on loans, leases and held- to- maturity debt securities, as opposed to the previous practice of recording losses when it was probable that a loss event had occurred. Under the CECL model, we are required to use historical information, current conditions and reasonable and supportable forecasts to estimate the expected credit losses. If the methodologies and assumptions we use in the CECL model prove to be incorrect, or inadequate, the allowance for credit losses may not be sufficient, resulting in the need for additional allowance for credit losses to be established, which could have a material adverse impact on our financial condition and results of operations. We adopted the CECL accounting guidance in 2020 and recognized a one- time cumulative effect adjustment to our allowance for credit losses and retained earnings as of January 1, 2020. Concurrent with the enactment of the CARES Act, federal bank regulatory agencies issued an interim final rule that ~~delays~~ **delayed** the estimated impact on regulatory capital resulting from the adoption of CECL. The interim final rule provided banking organizations that implemented CECL prior to the end of 2020 the option to delay for two years the estimated impact of CECL on regulatory capital relative to regulatory capital determined under the prior incurred loss methodology, followed by a three- year transition period to phase out the aggregate amount of capital benefit provided during the initial two- year delay. We adopted CECL in the first quarter of 2020, including the regulatory phase- in. ~~CECL implementation poses operational risk, including the failure to properly transition internal processes or systems, which could lead to errors, financial misstatements or operational losses.~~ As a result of CECL, our financial results may be negatively affected as soon as weak or deteriorating economic conditions are forecasted and alter our expectations for credit losses. In 2021, we were able to ~~reverse~~ **recapture** previous provision expense of $ 19. 0 million as the credit conditions related to COVID- 19 were not as significant as originally anticipated. In 2022, we recorded $ 6. 7 million of provision expense as our loan portfolio grew and the overall duration of the portfolio extended due to rising interest rates. **In 2023, we recorded $ 43. 1 million of provision expense as our loan portfolio grew, net charge- offs increased and the overall duration of the portfolio extended due to rising interest rates and slower loan prepayments.** Depending upon future ~~COVID- 19 variants and~~ circumstances, as well as broader macroeconomic shifts, we may incur significant provision expense for credit losses in future periods. Projections for new business initiatives and strategies......- compliance with laws and regulations. Our foreign exchange business **plays a crucial role in facilitating various financial transactions, including foreign exchange, interest rate, and soon commodity hedging for our commercial clients and** is largely dependent upon a small number of large clients and market volatility **that could adversely affect our financial condition, results of operations, and reputation** . In August 2019, First Financial acquired Bannockburn, which ~~is engaged~~ **engages** in various **capital markets activities as part of its matched book business encompassing** foreign exchange ~~market activities~~ **, interest rate, and, coming in 2024, commodity hedging transactions** . **• Concentration risk:** Bannockburn' s business model relies, to some extent, upon a small number of large clients ~~engaged in foreign currency transactions~~ . The loss of one or more of these large clients would adversely affect the revenue derived from Bannockburn. ~~Additionally~~ **• Market risk: Foreign currency transactions expose us to market risk** , **including fluctuations in** foreign **exchange rates, interest rates, and commodity prices. These fluctuations could result in financial losses or decreased revenues if we fail to accurately predict or manage these risks. Foreign** currency transactions historically increase as market volatility increases. Sustained periods of stability in global financial markets could **also** adversely affect Bannockburn' s revenue. **• Credit risk: We are exposed to credit risk through our dealings with counterparties in derivative transactions. While we have risk management policies and procedures in place to mitigate credit risk, the failure of counterparties to fulfill** ~~Other~~ - **their obligations could lead to financial losses or**

damage to our reputation. • Liquidity risk: The nature of our capital markets operations requires us to maintain sufficient liquidity to meet our obligations, including margin calls and settlement requirements. A sudden or unexpected increase in liquidity needs could strain our resources and negatively impact our financial position. • Regulatory risk: Our capital markets activities are subject to extensive regulatory oversight and compliance requirements. Changes in regulations or regulatory enforcement actions could increase our compliance costs, restrict our ability to operate certain businesses, or result in fines or penalties. • Operational Risk: We face operational risks ~~and uncertainties related to~~ **, including systems failures, errors,** ~~our~~ **or** ~~foreign exchange business include the~~ **disruptions, that could disrupt our capital markets activities and result in financial losses or harm to our reputation. • Legal** risk ~~that foreign exchange rates may move in~~ **: Our capital markets operations are subject to legal risks, including litigation, regulatory investigations,** ~~an~~ **and** ~~unfavorable direction, leading to~~ **disputes with clients or counterparties. Adverse legal outcomes could result in financial** losses **, reputational damage,** ~~for~~ **or** ~~the bank; the~~ **regulatory sanctions. • Political** risk **:** ~~that a client may default on its payment obligations, resulting in losses for the bank; the risk that our systems for managing foreign exchange market activities could be inadequate or fail as a result of processes, systems or human error; and the risk of regulatory penalties or restrictions due to non- compliance with laws and regulations related to foreign exchange transactions.~~ Our foreign exchange business is also susceptible to the risk that political events or changes in government policies could negatively impact the bank' s matched book business. Negative public opinion could damage our reputation...... in the unsecured wholesale debt markets. We rely on other companies to provide key components of our business infrastructure, creating risks of failures by such companies and cybersecurity incidents involving our customers' information **. Digitalization and technological innovation continue to advance the trend of banks outsourcing technology operations and banks entering partnerships or other arrangements with third parties** . Third parties provide key components of our business infrastructure, such as processing and Internet connections and network access. These vendors also provide services that support our operations, including the storage and processing of sensitive consumer and business customer data, as well as our sales efforts. Any disruption in such services provided by these third parties or any failure of these third parties to handle current or higher volumes could affect our ability to deliver products and services to clients and to efficiently and effectively conduct our business. Technological or financial difficulties of a third- party service provider could affect our business to the extent such difficulties result in the interruption or discontinuation of services provided by that party. A cybersecurity breach of a vendor' s system may result in theft of our data or disruption of business processes. A material breach of customer data security at a service provider' s site may negatively impact our business reputation and cause a loss of customers, result in increased expense to contain the event and / or require that we provide credit monitoring services for affected customers, result in regulatory fines and sanctions, and may result in litigation. We may experience liability to our customers for losses arising from a breach of a vendor' s data security system. We rely on our outsourced service providers to implement and maintain prudent cybersecurity controls. Furthermore, we may not be insured against all types of losses as a result of third- party failures, and our insurance coverage may be inadequate to cover all losses resulting from system failures or other disruptions. Failures in our business infrastructure could interrupt the operations or increase the costs of doing business. **Unauthorized** We rely on our systems, employees...... and processing operations. Our inability to use or access these information systems at critical points...... and harm to our reputation. Unauthorized disclosure of sensitive or confidential client or customer information, whether through a breach of our computer systems or otherwise, or other breaches in the security of our systems could harm our business. As part of our business, we collect, process, and retain sensitive and confidential client and customer information on behalf of our subsidiaries and other third parties. Despite the security measures we have in place, our facilities and systems, and those of our third- party service providers, may be vulnerable to security breaches, acts of **fraud, acts of** vandalism, computer viruses, malware, ransomware, theft of information, misplaced or lost data, programming and / or human errors, or other similar events **. Ransomware actors continue to affect the sector by targeting banks and their third parties. These attacks have the potential to affect banks and market operations by rendering critical data inaccessible as well as by threatening the confidentiality of customer data through data leaks** . If information security is breached, information can be lost or misappropriated, resulting in financial loss or costs to us or damages to others. Our systems can be rendered inoperable, resulting in our inability to provide service to our customers. Any security breach involving the misappropriation, loss, destruction or unauthorized disclosure of confidential customer information, whether by us or by our vendors, could severely damage our reputation, expose us to the risk of litigation and liability, disrupt our operations and have a material effect on our business. Cybersecurity risk management programs are expensive to maintain and will not protect us from all risks associated with maintaining the security of customer data and our proprietary data from external and internal intrusions, disaster recovery and failures in the controls used by our vendors. Employee error or misconduct may result in failure to implement policies and procedures designed to avoid risks. Moreover, as technology and cyberattacks change over time, we must continually monitor and change systems to guard against new threats. We may not know of and be able to guard against a new threat until after an attack has occurred. Congress and the legislatures of states in which we operate regularly consider legislation that would impose more stringent data privacy requirements. Any of these occurrences could result in our diminished ability to operate one or more of our businesses, potential liability to clients, reputational damage and regulatory intervention in the form of requirements, restrictions and penalties, which could affect us our business and results of operations. We **rely on our systems,employees and certain counterparties,and certain failures could affect our operations.We are exposed to many types of operational risk,including the risk of fraud by employees and outsiders,clerical and record- keeping errors,and computer / telecommunications systems malfunctions.Our business is dependent on our ability to process a large number of increasingly complex transactions.If any of our financial,accounting or other data processing systems fail or have other significant shortcomings,we could be affected.We depend on internal systems and outsourced technology to support these data storage and processing operations.Our inability to use or** access these information systems at critical points in time could unfavorably impact the timeliness and efficiency of our business operations.In recent years,some banks have experienced denial of service attacks in which individuals or organizations flood the bank' s website with extraordinarily high volumes of traffic,with the goal and effect of disrupting the ability of the bank to process transactions.Additionally,we could be affected if one of our employees or a third- party service provider causes a significant operational break- down or failure,either as a result of human error or where an individual purposefully sabotages or fraudulently manipulates our operations or systems.We are also at risk of an impact on our systems and operations from natural disasters,terrorism,and international hostilities.Such events can also impact power or communications systems operated by others on which we rely.Misconduct by employees could include fraudulent,improper,or unauthorized activities on behalf of clients or improper use of confidential information.We ~~may not be able to prevent employee or third- party errors or misconduct,and the precautions we take to detect this type of activity might not be effective in all cases.Employee errors or misconduct could subject us to civil claims for negligence or regulatory enforcement actions,including fines and restrictions on our business.In addition,there have been instances where financial institutions have been victims of fraudulent activity in which criminals pose as customers to initiate wire and automated clearinghouse transactions out of customer accounts.Although we have policies and procedures in place to verify the authenticity of our customers,we cannot assure that such policies~~ may not **be able to prevent employee or third-** ~~pay~~ **party** ~~dividends~~ **errors or misconduct, and the precautions we take to detect this type of activity might not be effective in all cases. Employee errors or misconduct could subject us to civil claims for negligence or regulatory enforcement actions, including fines and restrictions** on our **business** ~~common shares~~ . ~~Holders~~ **In addition, continuing cyberattacks and current geopolitical tensions highlight the importance** of ~~our common shares are only entitled to receive such dividends~~ **heightened threat monitoring and safeguarding against disruptive attacks targeting the financial sector. There have been instances where financial institutions have been victims of fraudulent activity in which criminals pose** as ~~our Board of Directors may declare~~ **customers to initiate wire and automated clearinghouse transactions** out of **customer accounts** ~~funds legally available for such payments~~ . Although we have ~~historically declared cash dividends on~~ **policies and procedures in place to verify the authenticity of** our **customers** ~~common shares~~ , we **cannot assure that such policies** ~~are not required to do so~~ and ~~may reduce~~ **procedures will prevent all fraudulent transfers. Such activity can result in financial liability and harm to** ~~or~~ **our reputation** ~~eliminate our common share dividend in the future. Additionally, our funds to pay dividends on common shares are dependent upon dividends paid to us by the Bank, which are subject to regulatory restrictions. A reduction in our dividend rate could affect the market price of our common shares~~ . Our liquidity is dependent upon our ability to receive dividends from our subsidiaries, which accounts for most of our revenue and could affect our ability to pay dividends, and we may be unable to provide liquidity from other sources. We are a separate and distinct legal entity from our subsidiaries, notably the Bank. We receive substantially all of our revenue from dividends from our subsidiaries. These dividends are the principal source of funds to pay dividends on our common shares and interest and principal on outstanding debt. Various federal and / or state laws and regulations limit or restrict the amount of dividends that the Bank and certain of our non- bank subsidiaries may pay us. Additionally, if our subsidiaries’ earnings are not sufficient to make dividend payments to us while maintaining adequate capital levels, we may not be able to make dividend payments to our common shareholders. As of December 31, ~~2022~~ **2023** , the Bank had $ ~~219~~ **248** . ~~3~~ **7** million available to pay dividends to First Financial without prior regulatory approval. To enhance liquidity, we may borrow under credit facilities or from other sources. Turbulence in the capital and credit markets may cause many lenders and institutional investors to reduce or cease to provide funding to borrowers and, as a result, we may not be able to further increase liquidity through additional borrowings. Limitations on our ability to receive dividends from our subsidiaries or an inability to increase liquidity through additional borrowings, or inability to maintain, renew or replace existing credit facilities, could have a material effect on our liquidity and on our ability to pay dividends on our common shares and interest and principal on our debt. As of December 31, ~~2022~~ **2023** , we had indebtedness of $ 1. ~~6~~ **3** billion **. Clients could pursue alternatives to bank deposits, causing us to lose a relatively inexpensive source of funding. Checking and savings account balances and other forms of client deposits, including uninsured deposits, could decrease if clients perceive alternative investments as providing superior expected returns. We regularly perform liquidity tress testing and sensitivity analyses of deposit assumptions. Both remain critical given recent trends in deposit balance and interest rate movements, as well as uncertainty regarding depositor behavior moving forward. Consumers may move money out of bank deposits in favor of other investments, including digital or cryptocurrency. When clients move money out of bank deposits in favor of alternative investments, we can lose a relatively inexpensive source of funds, increasing our funding costs. Sound liquidity risk management, including processes that ensure sufficient committed capacity to meet contingent liquidity needs, remains critical. Our financial condition, results of operations, and stock price may be negatively impacted by unrelated bank failures and negative depositor confidence in depository institutions. The recent bank failures of Silicon Valley Bank in California, Signature Bank in New York, and First Republic Bank in California, and the decision of Silvergate Bank in California to voluntarily liquidate its assets and wind down operations, each of which occurred during the first and second quarters of 2023, have caused uncertainty in the investor community and negative confidence among bank customers generally. While we do not believe that the circumstances of these banks' failures and liquidations are indicators of broader issues with the banking system, the failures may reduce customer confidence, affect sources of funding and liquidity, increase regulatory requirements and costs, adverselyaffect financial markets and / or have a negative reputational ramification for the financial services industry, including us. These bank failures led to volatility and declines in the market for bank stocks and questions about depositor confidence in depository institutions, which in turn led to a greater focus by institutions, investors, and regulators on the on- balance sheet liquidity of and funding sources for financial institutions and the composition of its deposits. Notwithstanding, our efforts to promote deposit insurance coverage with our customers and otherwise effectively manage our liquidity, deposit portfolio retention, and other related matters, our financial condition, results of operation, and stock price may be adversely affected by future**

negative events within the banking sector and adverse customer or investor responses to such events . Disruptions in our ability to access capital markets on desirable terms may affect our capital resources, liquidity and business. We depend on wholesale capital markets to provide us with sufficient capital resources and liquidity to meet our commitments and business needs, and to accommodate the transaction and cash management needs of our clients. Other sources of funding available to us, and upon which we rely as regular components of our liquidity risk management strategy, include inter- bank borrowings, repurchase agreements, and borrowings from the Federal Home Loan Bank system. Any occurrence that may limit our access to these sources on acceptable or desirable terms, such as a decline in the confidence of debt purchasers, a downgrade in our credit rating, or a downgrade in the credit rating of our depositors or counterparties participating in the capital markets, may affect our capital costs and our ability to raise capital and, in turn, our liquidity. In addition, prior debt offerings could potentially have important consequences to us and our debt and equity investors, including: • requiring a substantial portion of our cash flow from operations to make interest payments; • making it more difficult to satisfy debt service and other obligations; • increasing the risk of a future credit ratings downgrade of our debt, which could increase future debt costs and limit the future availability of debt financing; • increasing our vulnerability to general adverse economic and industry conditions; • reducing the cash flow available to fund capital expenditures and other corporate purposes and to grow our business; • limiting our flexibility in planning for, or reacting to, changes in our business and the industry; • placing us at a competitive disadvantage relative to our competitors that may not be as highly leveraged with debt; and • limiting our ability to borrow additional funds as needed or take advantage of business opportunities as they arise, pay cash dividends or repurchase securities. We continue to evaluate these risks on an ongoing basis Negative public opinion could damage our reputation and impact business operations and revenues.As a financial institution,our earnings and capital are subject to risks associated with negative public opinion.Negative public opinion could result from our actual or alleged conduct in any number of activities,including lending practices,the failure of any of our products or services to meet our clients' expectations or applicable regulatory requirements,corporate governance and acquisitions,social media and other marketing activities,and the implementation of environmental,social and governance practices or actions taken by government regulators and community organizations in response to any of the foregoing.Negative public opinion could affect our ability to attract and / or retain clients,could expose us to litigation and regulatory action,and could have a material adverse effect on our stock price or result in heightened volatility.Negative public opinion could also affect our ability to borrow funds in the unsecured wholesale debt markets. . Significant or sustained declines in our current market capitalization could impact the carrying value of our goodwill. Numerous facts and circumstances are considered when evaluating the carrying value of our goodwill. One of those considerations is our market capitalization, which is evaluated over a reasonable period of time and compared to the aggregate estimated fair value of the reporting unit. While this comparison provides some relative market information regarding the estimated fair value of our reporting unit, it is not determinative and needs to be evaluated in the context of the current economic and political environment. However, significant and / or sustained declines in First Financial' s market capitalization, especially in relation to First Financial' s book value, could be an indication of potential impairment of goodwill. Other considerations include forecasts of revenues and expenses derived from internal management projections for a period of five years, 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 management judgment. Changes in these key assumptions could materially affect our estimate of the reporting unit fair value and could affect our conclusion regarding the existence of potential impairment. A reduction in our credit rating could affect us or the holders of our securities. The credit rating agencies assessing our creditworthiness regularly evaluate the Company, and credit ratings are based on a number of factors, including our financial strength and ability to generate earnings, as well as factors not entirely within our control, including changes in rating methodologies and conditions affecting the financial services industry and the economy. There can be no assurance that we will maintain our current credit rating. A downgrade of the credit rating of the Company could affect our access to liquidity and capital, and could significantly increase our cost of funds, trigger additional collateral or funding requirements and decrease the number of investors and counterparties willing to lend to us or purchase our securities. This could affect our growth, profitability and financial condition, including liquidity. Potential acquisitions may disrupt our business and dilute shareholder value, and we may not be able to successfully consummate or integrate such acquisitions. We may acquire other financial institutions, or branches or assets of other financial institutions, in the future. We may also open new branches and enter into new lines of business or offer new products or services. Any such expansion of our business will involve a number of expenses and risks, which may include: • the time and expense associated with identifying and evaluating potential expansions; • the potential inaccuracy of estimates and judgments used to evaluate credit, operations, management and market risk with respect to the target company; • potential exposure to unknown or contingent liabilities of the target company; • exposure to potential asset quality issues of the target company; • difficulty and expense of integrating the operations and personnel of the target company; • difficulty or added costs in the wind- down of non- strategic operations; • potential disruption to our business; • potential diversion of our management' s time and attention; • the possible loss of key employees and customers of the target company; • difficulty in estimating the value (including goodwill) of the target company; • difficulty in receiving appropriate regulatory approval for any proposed transaction; and • potential changes in banking, or tax laws or regulations or accounting rules that may affect the target company. We regularly evaluate merger and acquisition opportunities and conduct due diligence activities related to possible transactions with other financial institutions and financial services companies. Acquisitions could involve the payment of a premium over book and market values, and, therefore, dilution of our tangible book value and net income per common share may occur in connection with any such transaction. Furthermore, any difficulty integrating businesses acquired as a result of a merger or acquisition and the failure to realize the expected revenue increases, cost savings, increases in geographic or product presence, and / or other projected benefits from an acquisition could have an impact on our liquidity, results of operations and financial condition and any such integration could divert management' s time and attention from managing our company in an effective manner. Any merger or acquisition opportunity that we decide to pursue will ultimately be subject to regulatory approval or other closing conditions. We may expend substantial time and resources pursuing potential acquisitions which may not be consummated because regulatory approval or other closing requirements are not satisfied. Additionally, the banking regulators and applicable laws and regulations may restrict our ability to engage in acquisitions under certain circumstances. Our accounting policies and processes are critical to how we report our financial condition and results of operations. They require management to make estimates about matters that are uncertain. Accounting policies and processes are fundamental to how we record and report our financial condition and results of operations. Management must exercise judgment in selecting and applying many of these accounting policies and processes so they comply with **U. S.** GAAP ~~in the United States~~. Management has identified certain accounting policies as being critical because they require management' s judgment to ascertain the valuations of assets, liabilities, commitments and contingencies. A variety of factors could affect the ultimate valuation that is made when recording income, recognizing an expense, recovering an asset, valuing an asset or liability, or reducing a liability. We have established detailed policies and control procedures that are intended to ensure these critical accounting estimates and judgments are well controlled and applied consistently. In addition, our policies and procedures are intended to ensure that the process for changing methodologies occurs in an appropriate manner. Because of the uncertainty surrounding our judgments and the estimates pertaining to these matters, we cannot guarantee that we will not be required to adjust accounting policies or re- state prior period financial statements. See the " Critical Accounting Estimates " in the Management' s Discussion and Analysis of Financial Condition and Results of Operations and Note 1- Summary of Significant Accounting Policies in the Notes to Consolidated Financial Statements, in our ~~2022~~ **2023** Annual Report to Shareholders (included within Exhibit 13 to this Form 10- K) for more information. Changes in our accounting policies or in accounting standards could materially affect how we report our financial results and condition. From time to time, the FASB, SEC and other regulatory agencies change the financial accounting and reporting guidance that governs the preparation of our financial statements. These changes can be hard to predict and can materially impact how we record and report our financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retroactively, resulting in us restating prior period financial statements ~~. In June 2016, FASB issued CECL. CECL was expected to result in earlier recognition of credit losses and required consideration of not only past and current events but also reasonable and supportable forecasts that affect collectability. The Bank became subject to the new standard in the first quarter of 2020. Concurrent with the enactment of the CARES Act, federal banking agencies issued an interim final rule that delays the estimated impact on regulatory capital resulting from the adoption of CECL. The interim final rule provided banking organizations that implemented CECL prior to the end of 2020 the option to delay for two years the estimated impact of CECL on regulatory capital relative to regulatory capital determined under the prior incurred loss methodology, followed by a three- year transition period to phase out the aggregate amount of capital benefit provided during the initial two- year delay. The CECL standard requires financial institutions to determine periodic estimates of lifetime expected credit losses on loans and recognize the expected credit losses as allowances for credit losses. See Note 2- Accounting Standards Recently Adopted or Issued and Note 6- Allowance for Credit Losses in the Company' s Form 10- K for further information regarding the Company' s adoption of CECL and the corresponding allowance for credit losses~~. Our disclosure controls and procedures may not prevent or detect all errors or acts of fraud. Our disclosure controls and procedures are designed to reasonably assure that information required to be disclosed by us in reports we file or submit under the Securities Exchange Act of 1934 (Exchange Act) is accurately accumulated and communicated to management, and recorded, processed, summarized, and reported within the time periods specified in the SEC' s rules and forms. We believe that any disclosure controls and procedures or internal controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of management' s system of controls are met. These inherent limitations include the realities that judgments in decision making can be faulty, that alternative reasoned judgments can be drawn, or that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by an unauthorized override of the controls. Accordingly, because of the inherent limitations in management' s system of controls, misstatements due to error or fraud may occur and not be detected. Our revenues derived from investment securities may be volatile and subject to a variety of risks. We generally maintain investment securities and trading positions in the fixed income markets. Unrealized gains and losses associated with our investment portfolio and mark to market gains and losses associated with our investment portfolio are affected by many factors, including our credit position, interest rate volatility and volatility in capital markets, among other economic factors. Our return on such investments could experience volatility, and such volatility may affect our financial condition and results of operations. Additionally, accounting regulations may require us to record a charge prior to the actual realization of a loss when market valuations of such securities are impaired and such impairment is considered to be other than temporary. Risks Related to the Legal and Regulatory Environment Regulatory actions could impact our ability to compete for new business, constrain our ability to fund our liquidity needs and increase the cost of our services. First Financial and its subsidiaries are subject to the supervision and regulation of various state and federal regulators, including the Federal Reserve Board, the FDIC, the SEC, the CFPB, the Financial Industry Regulatory Authority, and the ODFI. As such, we are subject to a wide variety of laws and regulations. As part of their supervisory process, which includes periodic examinations and continuous monitoring, the regulators have the authority to impose restrictions or conditions on our activities and the manner in which we operate our business. These actions could impact the Company and the Bank in a variety of ways, including subjecting us to fines, restricting our ability to pay dividends, precluding mergers or acquisitions, limiting our ability to offer certain products or services, or imposing additional capital, operating, or oversight requirements. Additionally, actions by regulatory agencies against us could cause us to devote significant time and resources to defending our business and may lead to penalties that materially affect us and our shareholders. Even the reduction of regulatory restrictions could have an adverse effect on us and our shareholders if such lessening of restrictions increases competition within our industry or our market area. Increasing scrutiny and evolving expectations from customers, regulators, investors, and other stakeholders with respect to our environmental, social and governance practices may impose additional costs on us or expose us to new or additional risks. Financial institutions are facing increasing scrutiny from customers, regulators, investors, and other stakeholders related to their environmental, social and governance (ESG) practices and disclosure. Investor advocacy groups, investment funds and influential investors are also increasingly focused on these practices, especially as they relate to the environment, health and safety, diversity, labor conditions and human rights. Increased ESG- related compliance costs for us as well as among our third- party suppliers, vendors and various other parties within our supply chain could result in increases to our overall operational costs. Failure to adapt to or comply with regulatory requirements or investor or stakeholder expectations and standards could negatively impact our reputation, ability to do business with certain partners, access to capital, and the price of our common shares. General Risk Factors Weaknesses of other financial institutions could affect us. Our ability to engage in routine funding transactions could be affected by the actions and lack of commercial soundness of other financial institutions. Financial services institutions are interrelated as a result of trading, clearing, and counterparty relationships, among others. As a result, defaults by, or even rumors or questions about, one or more financial services institutions, or the financial services industry in general, have led to market- wide liquidity problems and could lead to losses or defaults by us or by other institutions in the future. A default, or threatened default, of a large institution could negatively impact the entire financial system, and could expose us to credit risk in the event of default of our counterparty or client. In addition, our credit risk may be exacerbated when the collateral held by us cannot be realized upon or is liquidated at prices not sufficient to recover the full amount of the financial instrument exposure due us. There is no assurance that any such losses would not affect our financial condition or results of operations. Maintaining or increasing market share depends on market acceptance and regulatory approval of new products and services. Our success depends, in part, on our ability to adapt products and services to evolving industry standards. There is increasing pressure to provide products and services at lower prices, which can reduce net interest income and noninterest income from fee- based products and services. In addition, the widespread adoption of new technologies, including digital or cryptocurrencies, blockchain, and other “ fintech ” technologies, could require us to make substantial capital expenditures to modify or adapt existing products and services or develop new products and services. We may not be successful in introducing new products and services in response to industry trends or developments in technology or those new products may not achieve market acceptance. As a result, we could lose business, be forced to price products and services on less advantageous terms to retain or attract clients or be subject to increased costs. The fiscal and monetary policies of the United States government and its agencies could have an effect on our earnings. The Federal Reserve Board regulates the supply of money and credit in the United States. Its policies determine in large part the cost of funds for lending and investing and the returns earned on those loans and investments, both of which affect the net interest margin. The resultant changes in interest rates can also materially affect the value of certain financial assets we hold, such as debt securities. For example, in ~~2022~~ **2023** , the Federal Reserve Open Markets Committee increased the target fed funds rate by ~~425~~ **100** basis points resulting in the Bank' s net interest margin on a fully tax equivalent basis increasing from 3. ~~31 % to 3.~~ 77 % **to 4. 40 %** comprised of a ~~71~~ **206** basis point increase in earning asset yields and a ~~36~~ **190** basis point increase in total cost of interest- bearing liabilities. At the same time, accumulated other comprehensive loss ~~increased~~ **decreased** from $ ~~0. 4 million in 2021 to $~~ 358. 7 million in 2022 **to $ 309. 8 million in 2023** , driven by ~~a decline~~ **an increase** in the valuation of available **-** for **-** sale securities. The policies of the Federal Reserve Board can adversely affect borrowers, and increase default risk on their loans. Changes in Federal Reserve Board policies are beyond our control and difficult to predict; consequently, the impact of these changes on our activities and results of operations is difficult to predict. Changes in tax laws could affect our performance. We are subject to extensive federal, state and local taxes, including income, excise, sales / use, payroll, property, franchise, withholding and ad valorem taxes. Changes to our tax liability could have a material effect on our results of operations. In addition, our customers are subject to a wide variety of federal, state and local taxes. Changes in taxes paid by our customers may affect their ability to purchase homes or consumer products, which could affect their demand for our loans and deposit products. In addition, such negative effects on our customers could result in defaults on the loans we have made and decrease the value of mortgage- backed securities in which we have invested.