

FIRST FINANCIAL BANCORP /OH/

Form 10-Q

November 06, 2012

Table of Contents

FORM 10-Q

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

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

For the quarterly period ended

September 30, 2012

OR

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

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

Commission file number 0-12379

FIRST FINANCIAL BANCORP.

(Exact name of registrant as specified in its charter)

Ohio

(State or other jurisdiction of  
incorporation or organization)

31-1042001

(I.R.S. Employer  
Identification No.)

255 East Fifth Street, Suite 700

Cincinnati, Ohio

(Address of principal executive offices)

45202

(Zip Code)

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Edgar Filing: FIRST FINANCIAL BANCORP /OH/ - Form 10-Q

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 November 2, 2012
Common stock, No par value	58,507,842

---

Table of Contents

FIRST FINANCIAL BANCORP.

INDEX

Page No.

Part I - FINANCIAL INFORMATION

Item 1 - Financial Statements

Consolidated Balance Sheets - September 30, 2012 (unaudited) and December 31, 2011 1

Consolidated Statements of Income - Three and Nine Months Ended September 30, 2012 and 2011 (unaudited) 2

Consolidated Statements of Comprehensive Income - Three and Nine Months Ended September 30, 2012 and 2011 (unaudited) 3

Consolidated Statements of Changes in Shareholders' Equity - Nine Months Ended September 30, 2012 and 2011 (unaudited) 4

Consolidated Statements of Cash Flows - Nine Months Ended September 30, 2012 and 2011 (unaudited) 5

Notes to Consolidated Financial Statements (unaudited) 6

Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations 37

Item 3 - Quantitative and Qualitative Disclosures about Market Risk 57

Item 4 - Controls and Procedures 58

Part II - OTHER INFORMATION

Item 1 - Legal Proceedings 59

Item 1A - Risk Factors 59

Item 2 - Unregistered Sales of Equity Securities and Use of Proceeds 60

Item 6 - Exhibits 61

Signatures 62

Table of Contents

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

	September 30, 2012 (Unaudited)	December 31, 2011
Assets		
Cash and due from banks	\$154,181	\$149,653
Interest-bearing deposits with other banks	21,495	375,398
Investment securities available-for-sale, at market value (cost \$672,824 at September 30, 2012 and \$1,421,490 at December 31, 2011)	689,680	1,441,846
Investment securities held-to-maturity (market value \$830,540 at September 30, 2012 and \$2,893 at December 31, 2011)	822,319	2,664
Other investments	71,492	71,492
Loans held for sale	23,530	24,834
Loans:		
Commercial	834,858	856,981
Real estate-construction	91,897	114,974
Real estate-commercial	1,338,636	1,233,067
Real estate-residential	299,654	287,980
Installment	59,191	67,543
Home equity	368,876	358,960
Credit card	31,604	31,631
Lease financing	41,343	17,311
Total loans, excluding covered loans	3,066,059	2,968,447
Less: Allowance for loan and lease losses - uncovered	49,192	52,576
Net loans - uncovered	3,016,867	2,915,871
Covered loans	825,515	1,053,244
Less: Allowance for loan and lease losses - covered	48,895	42,835
Net loans – covered	776,620	1,010,409
Net loans	3,793,487	3,926,280
Premises and equipment	146,603	138,096
Goodwill	95,050	95,050
Other intangibles	8,327	10,844
FDIC indemnification asset	130,476	173,009
Accrued interest and other assets	278,447	262,345
Total assets	\$6,235,087	\$6,671,511
Liabilities		
Deposits:		
Interest-bearing	\$1,112,843	\$1,317,339
Savings	1,568,818	1,724,659
Time	1,199,296	1,654,662
Total interest-bearing deposits	3,880,957	4,696,660
Noninterest-bearing	1,063,654	946,180
Total deposits	4,944,611	5,642,840

Edgar Filing: FIRST FINANCIAL BANCORP /OH/ - Form 10-Q

Federal funds purchased and securities sold under agreements to repurchase	88,190	99,431
Federal Home Loan Bank short-term borrowings	283,000	0
Total short-term borrowings	371,190	99,431
Long-term debt	75,521	76,544
Total borrowed funds	446,711	175,975
Accrued interest and other liabilities	127,799	140,475
Total liabilities	5,519,121	5,959,290
Shareholders' equity		
Common stock - no par value		
Authorized - 160,000,000 shares; Issued - 68,730,731 shares in 2012 and 2011	578,129	579,871
Retained earnings	330,014	331,351
Accumulated other comprehensive loss	(18,855	) (21,490 )
Treasury stock, at cost, 10,219,815 shares in 2012 and 10,463,677 shares in 2011	(173,322	) (177,511 )
Total shareholders' equity	715,966	712,221
Total liabilities and shareholders' equity	\$6,235,087	\$6,671,511

See Notes to Consolidated Financial Statements.

Table of ContentsFIRST FINANCIAL BANCORP. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands, except per share data)

(Unaudited)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Interest income				
Loans, including fees	\$59,536	\$70,086	\$189,362	\$216,031
Investment securities				
Taxable	8,358	7,411	29,254	21,294
Tax-exempt	111	176	366	566
Total interest on investment securities	8,469	7,587	29,620	21,860
Other earning assets	(1,700)	(1,721)	(5,657)	(4,059)
Total interest income	66,305	75,952	213,325	233,832
Interest expense				
Deposits	5,730	9,823	19,827	31,990
Short-term borrowings	54	44	103	138
Long-term borrowings	675	867	2,030	2,893
Subordinated debentures and capital securities	0	0	0	391
Total interest expense	6,459	10,734	21,960	35,412
Net interest income	59,846	65,218	191,365	198,420
Provision for loan and lease losses - uncovered	3,613	7,643	15,235	14,046
Provision for loan and lease losses - covered	6,622	7,260	25,620	57,171
Net interest income after provision for loan losses	49,611	50,315	150,510	127,203
Noninterest income				
Service charges on deposit accounts	5,499	4,793	15,784	14,286
Trust and wealth management fees	3,374	3,377	10,542	10,809
Bankcard income	2,387	2,318	7,502	6,801
Net gains from sales of loans	1,319	1,243	3,391	3,086
FDIC loss sharing income	8,496	8,377	29,592	53,455
Accelerated discount on covered loans	3,798	5,207	11,207	15,746
Gain on sale of investment securities	2,617	0	2,617	0
Other	3,340	2,800	15,665	8,708
Total noninterest income	30,830	28,115	96,300	112,891
Noninterest expenses				
Salaries and employee benefits	27,212	27,774	85,121	80,467
Net occupancy	5,153	4,164	15,560	15,517
Furniture and equipment	2,332	2,386	6,899	7,520
Data processing	2,334	1,466	6,311	4,157
Marketing	1,592	1,584	3,984	4,227
Communication	788	772	2,595	2,339
Professional services	1,304	2,062	5,602	7,384
State intangible tax	961	546	2,957	3,147
FDIC assessments	1,164	1,211	3,597	4,484
Loss (gain) - other real estate owned	1,372	(287)	2,681	3,198

Edgar Filing: FIRST FINANCIAL BANCORP /OH/ - Form 10-Q

(Gain) loss - covered other real estate owned	(25	) 2,707	2,500	8,440
Loss sharing expense	3,584	1,048	8,420	1,862
Other	7,515	7,709	22,296	20,687
Total noninterest expenses	55,286	53,142	168,523	163,429
Income before income taxes	25,155	25,288	78,287	76,665
Income tax expense	8,913	9,670	27,249	27,867
Net income	\$16,242	\$15,618	\$51,038	\$48,798
Net earnings per common share - basic	\$0.28	\$0.27	\$0.88	\$0.85
Net earnings per common share - diluted	\$0.28	\$0.27	\$0.87	\$0.83
Cash dividends declared per share	\$0.30	\$0.27	\$0.90	\$0.51
Average common shares outstanding - basic	57,976,943	57,735,811	57,902,102	57,674,250
Average common shares outstanding - diluted	58,940,179	58,654,099	58,930,570	58,699,952

See Notes to Consolidated Financial Statements.

Table of ContentsFIRST FINANCIAL BANCORP. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in thousands)

(Unaudited)

	Three months ended		Nine months ended		
	September 30,		September 30,		
	2012	2011	2012	2011	
Net income	\$16,242	\$15,618	\$51,038	\$48,798	
Other comprehensive income, net of tax:					
Unrealized (losses) gains on investment securities arising during the period	(934	) 5,157	1,662	8,070	
Change in retirement obligation	419	265	1,129	794	
Unrealized (loss) gain on derivatives	(182	) 0	(182	) 391	
Unrealized gain (loss) on foreign currency exchange	14	(908	) 26	(599	)
Other comprehensive (loss) income	(683	) 4,514	2,635	8,656	
Comprehensive income	\$15,559	\$20,132	\$53,673	\$57,454	

See Notes to Consolidated Financial Statements.



Table of Contents

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

	Common	Common	Retained	Accumulated	Treasury stock		Total
	Stock	Stock	Earnings	other	Shares	Amount	
	Shares	Amount		comprehensive			
				income (loss)			
Balances at January 1, 2011	68,730,731	\$580,097	\$310,271	\$ (12,044 )	(10,665,754)	\$(180,930)	\$697,394
Net income			48,798				48,798
Other comprehensive income				8,656			8,656
Cash dividends declared :							
Common stock at \$0.51 per share			(29,826 )				(29,826 )
Excess tax benefit on share-based compensation		167					167
Exercise of stock options, net of shares purchased		(228 )			12,808	217	(11 )
Restricted stock awards, net of forfeitures		(3,929 )			178,351	3,016	(913 )
Share-based compensation expense		2,867					2,867
Balances at September 30, 2011	68,730,731	\$578,974	\$329,243	\$ (3,388 )	(10,474,595)	\$(177,697)	\$727,132
Balances at January 1, 2012	68,730,731	\$579,871	\$331,351	\$ (21,490 )	(10,463,677)	\$(177,511)	\$712,221
Net income			51,038				51,038
Other comprehensive income				2,635			2,635
Cash dividends declared :							
Common stock at \$0.90 per share			(52,375 )				(52,375 )
Excess tax benefit on share-based compensation		417					417
Exercise of stock options, net of shares purchased		(1,193 )			71,391	1,211	18
Restricted stock awards, net of forfeitures		(4,053 )			172,471	2,978	(1,075 )
		3,087					3,087

Share-based  
compensation expense  
Balances at September  
30, 2012

68,730,731	\$578,129	\$330,014	\$ (18,855 )	(10,219,815)	\$(173,322)	\$715,966
------------	-----------	-----------	--------------	--------------	-------------	-----------

See Notes to Consolidated Financial Statements.

4

---

Table of ContentsFIRST FINANCIAL BANCORP. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

(Unaudited)

	Nine months ended September 30,	
	2012	2011
Operating activities		
Net income	\$51,038	\$48,798
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	40,855	71,217
Depreciation and amortization	11,812	8,703
Stock-based compensation expense	3,087	2,867
Pension income	(392)	(1,012)
Net amortization of premiums/accretion of discounts on investment securities	8,461	3,050
Gains on sales of investment securities	(2,617)	0
Originations of loans held for sale	(173,115)	(95,297)
Net gains from sales of loans held for sale	(3,391)	(3,086)
Proceeds from sales of loans held for sale	175,180	113,416
Deferred income taxes	(10,618)	(13,504)
Decrease (increase) in interest receivable	2,896	(691)
Decrease (increase) in cash surrender value of life insurance	1,845	(1,092)
Increase in prepaid expenses	2,758	4,193
Decrease in indemnification asset	42,533	44,834
Decrease in accrued expenses	(4,447)	(27,431)
Decrease in interest payable	(1,281)	(1,554)
Other	(26,858)	2,176
Net cash provided by operating activities	117,746	155,587
Investing activities		
Proceeds from sales of securities available-for-sale	86,959	0
Proceeds from calls, paydowns and maturities of securities available-for-sale	209,399	258,288
Purchases of securities available-for-sale	(465,303)	(449,440)
Proceeds from calls, paydowns and maturities of securities held-to-maturity	98,283	11,942
Net decrease (increase) in interest-bearing deposits with other banks	353,903	(192,178)
Net increase in loans and leases, excluding covered loans	(121,810)	(15,740)
Net decrease in covered assets	191,069	264,129
Proceeds from disposal of other real estate owned	30,017	34,186
Purchases of premises and equipment	(18,605)	(9,706)
Net cash proceeds from acquisition	0	190,711
Net cash provided by investing activities	363,912	92,192
Financing activities		
Net decrease in total deposits	(698,229)	(189,052)
Net increase in short-term borrowings	271,759	35,609
Payments on long-term borrowings	(1,002)	(51,984)
Redemption of other long-term debt	0	(20,620)
Cash dividends paid on common stock	(50,392)	(19,690)
Proceeds from exercise of stock options	317	63

Edgar Filing: FIRST FINANCIAL BANCORP /OH/ - Form 10-Q

Excess tax benefit on share-based compensation	417	167
Net cash used in financing activities	(477,130	) (245,507 )
Cash and due from banks:		
Net increase in cash and due from banks	4,528	2,272
Cash and due from banks at beginning of period	149,653	105,981
Cash and due from banks at end of period	\$154,181	\$108,253

See Notes to Consolidated Financial Statements.

Table of Contents

FIRST FINANCIAL BANCORP. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2012  
(Unaudited)

The consolidated financial statements for interim periods are unaudited; however, in the opinion of the management of First Financial Bancorp. (First Financial or the Company), all material adjustments (consisting of only normal recurring adjustments) necessary for a fair presentation have been included.

NOTE 1: BASIS OF PRESENTATION

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

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

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 First Financial Bancorp. Annual Report on Form 10-K (Form 10-K) for the year ended December 31, 2011. 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 accordingly should be read in conjunction with the financial information contained in 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, 2011, has been derived from the audited financial statements in the Company's 2011 Form 10-K.

NOTE 2: RECENTLY ADOPTED AND ISSUED ACCOUNTING STANDARDS

In April 2011, the Financial Accounting Standards Board (FASB) issued an update (ASU No. 2011-03, Reconsideration of Effective Control for Repurchase Agreements), which simplified the accounting for arrangements such as repurchase and securities lending agreements. The collateral maintenance requirement will be eliminated from the assessment of effective control, which could result in more transactions being accounted for as secured borrowings rather than sales. The assessment of effective control will focus on a transferor's contractual rights and obligations, not the amount of collateral obtained to repurchase or redeem the transferred financial asset. Under the amended guidance, a transferor maintains effective control over transferred financial assets, and thus accounts for the transfer as a secured borrowing, if there is an agreement that both entitles and obligates the transferor to repurchase the financial assets before maturity and all of the conditions already described in FASB ASC Topic 860, Transfers and Servicing, are met. The provisions of ASU 2011-03 became effective for First Financial for the interim reporting period ended March 31, 2012. This update did not have a material impact on the Consolidated Financial Statements.

In May 2011, the FASB issued an update (ASU No. 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs), which expands

the disclosure requirements around fair value measurements categorized in Level 3 of the fair value hierarchy and requires disclosure of the level in the fair value hierarchy of items that are not measured at fair value but whose fair value must be disclosed. It also clarifies and expands upon existing requirements for fair value measurements of financial assets and liabilities as well as instruments classified in shareholders' equity. The provisions of ASU 2011-04 became effective for First Financial for the interim reporting period ended March 31, 2012. For further detail see Note 14 – Fair Value Disclosures.

In June 2011, the FASB issued an update (ASU 2011-05, Presentation of Comprehensive Income), which revises the manner in which entities present comprehensive income in their financial statements. This update eliminates the option to present components of other comprehensive income (OCI) as part of the statement of changes in stockholders' equity. The amendments to the existing standard require that all non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. Under either method, adjustments must be displayed for items that are reclassified from OCI to net income, in both net income and OCI. The

Table of Contents

amendments to the existing standard do not change the current option for presenting components of OCI gross or net of the effect of income taxes, provided that such tax effects are presented in the statement in which OCI is presented or disclosed in the notes to the financial statements. Additionally, the standard does not affect the calculation or reporting of earnings per share. The provisions of ASU 2011-05 became effective for First Financial for the interim reporting period ended March 31, 2012. This update resulted in the inclusion of the Consolidated Statements of Comprehensive Income in the Consolidated Financial Statements.

In September 2011, the FASB issued an update (ASU 2011-08, Testing Goodwill for Impairment), to simplify the current two-step goodwill impairment test in FASB ASC Topic 350-20, Intangibles - Goodwill and Other: Goodwill. This update permits entities to first perform a qualitative assessment to determine whether it is more likely than not (a likelihood of more than 50 percent) that the fair value of a reporting unit is less than its carrying amount. If the entity determines that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, it would then perform the first step of the goodwill impairment test; otherwise, no further impairment test would be required. The provisions of ASU 2011-08 became effective for First Financial for the interim reporting period ended March 31, 2012. This update did not have a material impact on the Consolidated Financial Statements.

In December 2011, the FASB issued an update (ASU 2011-11, Disclosures About Offsetting Assets and Liabilities), which creates new disclosure requirements about the nature of an entity's rights of offset and related arrangements associated with its financial instruments and derivative instruments. New disclosure requirements will be required for recognized financial and derivative instruments that are offset in accordance with the guidance in FASB ASC Topic 210-20-45, Balance Sheet - Offsetting - Other Presentation Matters, FASB ASC Topic 815-10-45, Derivatives and Hedging - Other Presentation Matters, or are subject to an enforceable master netting arrangement or similar agreement. Recognized assets and liabilities within the scope of this update include financial instruments such as derivatives, repurchase agreements, reverse repurchase agreements and securities lending and borrowing arrangements subject to master netting arrangements. An entity will be required to disclose information to enable users of its financial statements to evaluate the effect or potential effect of netting arrangements on its financial position, including the effect or potential effect of rights of set-off associated with certain financial instruments and derivative instruments. This guidance is effective for fiscal years beginning on or after January 1, 2013, and interim periods within those annual periods. The guidance must be applied retrospectively for any period presented that begins before an entity's date of initial application. First Financial does not anticipate this update will have a material impact on its Consolidated Financial Statements.

In July 2012, the FASB issued an update (ASU 2012-02, Intangibles—Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment), which allows an entity testing an indefinite-lived intangible asset for impairment the option of performing a qualitative assessment before calculating the fair value of the asset, similar to the guidance set forth in ASU 2011-08. This update also addresses circumstances that an entity should consider in interim periods, but does not remove the requirement for testing of indefinite-lived intangible assets for impairment annually and between annual tests if there is a change in events and circumstances. The provisions of ASU 2012-02 become effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012 and First Financial does not anticipate this update will have a material impact on its Consolidated Financial Statements.

In October 2012, the FASB issued an update (ASU 2012-06, Business Combinations (Topic 805): Subsequent Accounting for an Indemnification Asset Recognized at the Acquisition Date as a Result of a Government-Assisted Acquisition of a Financial Institution), which clarifies the applicable guidance for subsequently measuring an indemnification asset recognized as a result of a government-assisted acquisition of a financial institution. When a reporting entity recognizes an indemnification asset (in accordance with Subtopic 805-20) as a result of a government-assisted acquisition of a financial institution and subsequently a change in the cash flows expected to be collected on the indemnification asset occurs (as a result of a change in cash flows expected to be collected on the

assets subject to indemnification), the reporting entity should subsequently account for the change in the measurement of the indemnification asset on the same basis as the change in the assets subject to indemnification. Any amortization of changes in value should be limited to the contractual term of the indemnification agreement (that is, the lesser of the term of the indemnification agreement and the remaining life of the indemnified assets). The provisions of ASU 2012-06 shall be effective for fiscal years, and interim periods within those years, beginning on or after December 15, 2012 and First Financial does not anticipate this update will have a material impact on its Consolidated Financial Statements.

**NOTE 3: BUSINESS COMBINATIONS**

On September 23, 2011, First Financial Bank completed the purchase of 16 Ohio-based retail banking centers from Liberty Savings Bank, FSB (Liberty) including \$126.5 million of performing loans and \$341.9 million of deposits at their estimated fair values. First Financial also acquired \$3.8 million of fixed assets at estimated fair value and paid Liberty a \$22.4 million net deposit premium. Assets acquired in this transaction are not subject to a loss share agreement. First Financial recorded \$17.1



Table of Contents

million of goodwill related to the Liberty banking center acquisition.

Loans acquired in conjunction with the Liberty banking center acquisition were evaluated for impairment in accordance with FASB ASC Topic 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality (FASB ASC Topic 310-30). First Financial determined that the acquired loans were not impaired and is accounting for them under FASB ASC Topic 310-20, Receivables-Nonrefundable Fees and Costs.

On December 2, 2011, First Financial Bank completed the purchase of 22 Indiana-based retail banking centers from Flagstar Bank, FSB (Flagstar) and assumed approximately \$464.7 million of deposits at their estimated fair value. First Financial also acquired \$6.6 million of fixed assets at estimated fair value and paid Flagstar a \$22.5 million net deposit premium. Assets acquired in this transaction are not subject to a loss share agreement. First Financial recorded \$26.1 million of goodwill related to the Flagstar banking center acquisition.

The Liberty and Flagstar banking center acquisitions were accounted for in accordance with FASB ASC Topic 805, Business Combinations. The fair values of assets and liabilities acquired in a business combination are subject to refinement for up to one year after the closing date of the acquisition (the measurement period) as information relative to closing date fair values becomes available.

**NOTE 4: GOODWILL AND OTHER INTANGIBLE ASSETS**

Goodwill. Assets and liabilities acquired in a business combination are recorded at their estimated fair values as of the acquisition date and are subject to refinement for up to one year as additional information relative to initial estimated fair value data becomes available. The excess cost of the acquisition over the fair value of net assets acquired is recorded as goodwill. First Financial recorded additions to goodwill in 2011 of \$17.1 million related to the Liberty banking center acquisition and \$26.1 million related to the Flagstar banking center acquisition. First Financial expects all the goodwill resulting from these acquisitions to be deductible for tax purposes.

Goodwill is not amortized, but is measured for impairment on an annual basis as of October 1 of each year or whenever events or changes in circumstances indicate that the fair value of a reporting unit may be below its carrying value. First Financial performed its annual impairment test as of October 1, 2011, and no impairment was indicated. As of September 30, 2012, no events or changes in circumstances indicated that the fair value of a reporting unit was below its carrying value.

Other intangible assets. Other intangible assets consist primarily of core deposit intangibles. Core deposit intangibles are recorded at their estimated fair value as of the acquisition date and are then amortized on an accelerated basis over their estimated useful lives. First Financial recorded \$4.0 million of core deposit intangibles associated with the Liberty banking center acquisition and \$3.0 million of core deposit intangibles associated with the Flagstar banking center acquisition during 2011, contributing to a total of \$9.9 million of core deposit intangibles as of December 31, 2011. As of September 30, 2012, core deposit intangibles were \$7.9 million. First Financial's core deposit intangibles have an estimated weighted average remaining life of 8.1 years.

**NOTE 5: COMMITMENTS AND CONTINGENCIES**

In the normal course of business, First Financial offers a variety of financial instruments with off-balance-sheet risk to its clients to assist them in meeting their requirements for liquidity and credit enhancement. These financial instruments include standby letters of credit and outstanding commitments to extend credit. GAAP does not require these financial instruments to be recorded in the Consolidated Balance Sheets, Consolidated Statements of Income, Consolidated Statements of Changes in Shareholders' Equity and Consolidated Statements of Cash Flows.

First Financial's exposure to credit loss, in the event of nonperformance by the other party to the financial instrument for standby letters of credit, and outstanding commitments to extend credit, is represented by the contractual amounts of those instruments. First Financial uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

Letters of credit. These transactions are conditional commitments issued by First Financial to guarantee the performance of a client to a third party. First Financial's portfolio of standby letters of credit consists primarily of performance assurances made on behalf of clients who have a contractual commitment to produce or deliver goods or services. The risk to First Financial arises from its obligation to make payment in the event of the client's contractual default to produce the contracted good or service to a third party. First Financial has issued letters of credit (including standby letters of credit) aggregating \$14.7 million and \$20.0 million at September 30, 2012, and December 31, 2011, respectively. Management conducts regular reviews of

Table of Contents

these instruments on an individual client basis.

Loan commitments. Commitments to extend credit are agreements to lend to a client as long as there is no violation of any condition established in the commitment. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. First Financial evaluates each client's creditworthiness on an individual basis. The amount of collateral obtained, if deemed necessary by First Financial upon extension of credit, is based on management's credit evaluation of the client. The collateral held varies, but may include securities, real estate, inventory, plant or equipment. First Financial had commitments outstanding to extend credit totaling \$1.2 billion at September 30, 2012, and \$1.2 billion at December 31, 2011.

First Financial utilizes the allowance for loan and lease losses methodology to maintain a reserve that it considers sufficient to absorb probable losses inherent in standby letters of credit and outstanding loan commitments.

Contingencies/Litigation. The Company and its subsidiaries are engaged in various matters of litigation, other assertions of improper or fraudulent loan practices or lending violations and other matters, and the Company has a number of unresolved claims pending. In addition, as part of the ordinary course of business, First Financial and its subsidiaries are parties to litigation involving claims to the ownership of funds in particular accounts, the collection of delinquent accounts, challenges to security interests in collateral and foreclosure interests, that is incidental to our regular business activities. While the ultimate liability with respect to these other litigation matters and claims cannot be determined at this time, the Company believes that damages, if any, and other amounts relating to pending matters are not likely to be material to its consolidated financial position or results of operations. Reserves are established for these various matters of litigation, when appropriate under FASB ASC Topic 450, Contingencies, based in part upon the advice of legal counsel.

## NOTE 6: INVESTMENTS

During the first quarter 2012, the Company also reclassified securities, primarily agency mortgage-backed securities, with a total book value of \$915.5 million as of March 31, 2012 from available-for-sale to held-to-maturity. The reclassification was executed to mitigate the impact of potential future price depreciation on other comprehensive income and the corresponding negative impact on shareholders' equity as held-to-maturity securities are carried at amortized cost. First Financial has the intent and ability to hold the transferred securities to maturity.

The following is a summary of held-to-maturity and available-for-sale investment securities as of September 30, 2012.

(Dollars in thousands)	Held-to-Maturity				Available-for-Sale			
	Amortized Cost	Unrealized Gain	Unrealized Loss	Market Value	Amortized Cost	Unrealized Gain	Unrealized Loss	Market Value
Securities of U.S. government agencies and corporations	\$20,844	\$488	\$0	\$21,332	\$25,772	\$391	\$0	\$26,163
Mortgage-backed securities	799,583	9,184	(1,735 )	807,032	615,367	15,331	(67 )	630,631
Obligations of state and other political subdivisions	1,892	284	0	2,176	6,332	146	0	6,478
Other securities	0	0	0	0	25,353	1,206	(151 )	26,408
Total	\$822,319	\$9,956	\$(1,735 )	\$830,540	\$672,824	\$17,074	\$(218 )	\$689,680



Table of Contents

The following is a summary of held-to-maturity and available-for-sale investment securities as of December 31, 2011.

(Dollars in thousands)	Held-to-Maturity				Available-for-Sale			
	Amortized Cost	Unrealized Gain	Unrealized Loss	Market Value	Amortized Cost	Unrealized Gain	Unrealized Loss	Market Value
Securities of U.S. government agencies and corporations	\$0	\$0	\$0	\$0	\$45,757	\$433	\$0	\$46,190
Mortgage-backed securities	90	2	0	92	1,344,015	21,394	(2,031)	1,363,378
Obligations of state and other political subdivisions	2,574	227	0	2,801	9,270	121	(5)	9,386
Other securities	0	0	0	0	22,448	530	(86)	22,892
<b>Total</b>	<b>\$2,664</b>	<b>\$229</b>	<b>\$0</b>	<b>\$2,893</b>	<b>\$1,421,490</b>	<b>\$22,478</b>	<b>\$(2,122)</b>	<b>\$1,441,846</b>

The following is a summary of investment securities by estimated maturity as of September 30, 2012.

(Dollars in thousands)	Held-to-Maturity		Available-for-Sale	
	Amortized Cost	Market Value	Amortized Cost	Market Value
Due in one year or less	\$488	\$496	\$22,855	\$23,264
Due after one year through five years	664,125	667,524	464,956	478,380
Due after five years through ten years	119,043	123,144	123,515	125,052
Due after ten years	38,663	39,376	61,498	62,984
<b>Total</b>	<b>\$822,319</b>	<b>\$830,540</b>	<b>\$672,824</b>	<b>\$689,680</b>

The following tables present the age of gross unrealized losses and associated fair value by investment category.

(Dollars in thousands)	September 30, 2012					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Mortgage-backed securities	\$264,090	\$(1,740)	\$4,896	\$(62)	\$268,986	\$(1,802)
Obligations of state and other political subdivisions	0	0	0	0	0	0
Other securities	4,685	(151)	17	0	4,702	(151)
<b>Total</b>	<b>\$268,775</b>	<b>\$(1,891)</b>	<b>\$4,913</b>	<b>\$(62)</b>	<b>\$273,688</b>	<b>\$(1,953)</b>

  

(Dollars in thousands)	December 31, 2011					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Mortgage-backed securities	\$343,883	\$(1,938)	\$29,562	\$(93)	\$373,445	\$(2,031)
Obligations of state and other political subdivisions	0	0	2,278	(5)	2,278	(5)
Other securities	9,133	(86)	17	0	9,150	(86)
<b>Total</b>	<b>\$353,016</b>	<b>\$(2,024)</b>	<b>\$31,857</b>	<b>\$(98)</b>	<b>\$384,873</b>	<b>\$(2,122)</b>

Unrealized losses on debt securities are generally due to higher 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 market value. First Financial considers the percentage loss on a security, duration of the loss,

Table of Contents

average life or duration of the security, credit rating of the security, as well as payment performance and the Company's intent and ability to hold the security 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 security issues temporarily impaired prior to maturity or recovery of book value.

For further detail on the fair value of investment securities, see Note 14 – Fair Value Disclosures.

## NOTE 7: DERIVATIVES

The use of derivative instruments allows First Financial to meet the needs of its clients while managing the interest-rate risk associated with certain transactions. First Financial's board of directors has authorized the use of certain derivative products, including interest rate caps, floors and swaps. First Financial does not use derivatives for speculative purposes and currently does not have any derivatives that are not designated as hedges.

The following table summarizes the derivative financial instruments utilized by First Financial by the nature of the underlying asset or liability:

(Dollars in thousands)	September 30, 2012	December 31, 2011
Fair value hedges		
Instruments associated with loans		
Total notional value	\$903,252	\$775,328
Cash flow hedges		
Instruments associated with deposits		
Total notional value	35,000	0
Total	\$938,252	\$775,328

While authorized to use a variety of derivative products, First Financial primarily utilizes interest rate swaps as a means to offer borrowers credit-based products that meet their needs and may from time to time utilize interest rate swaps to manage the macro interest rate risk profile of the Company. These agreements establish the notional amount, or basis on which interest rate payments are exchanged with counterparties.

As only interest rate payments are exchanged, cash requirements and credit risk are significantly less than the notional amount and the Company's credit risk exposure is limited to the market value of the instrument. First Financial manages this market value credit risk through borrower and counterparty credit policies. First Financial's counterparty credit policies require the Company to maintain a total derivative notional position of less than 35% of assets, total credit exposure of less than 3% of capital and no single counterparty credit risk exposure greater than \$20.0 million. The Company is currently well below all single counterparty and portfolio limits. At September 30, 2012, the Company had a total counterparty notional amount outstanding of approximately \$493.6 million, spread among eight counterparties, with an outstanding liability from these contracts of \$28.6 million. At December 31, 2011, the Company had a total counterparty notional amount outstanding of approximately \$396.4 million, spread among seven counterparties, with an outstanding liability from these contracts of \$27.3 million.

First Financial's exposure to credit loss, in the event of nonperformance by a borrower, is limited to the market value of the derivative instrument associated with that borrower. First Financial monitors its derivative credit exposure to borrowers by monitoring the creditworthiness of the related loan customers through the normal credit review processes the Company performs on all borrowers. Additionally, the Company monitors derivative credit risk exposure related to problem loans through the Company's allowance for loan and lease losses committee. First

Financial considers the market value of a derivative instrument to be part of the carrying value of the related loan for these purposes as the borrower is contractually obligated to pay First Financial this amount in the event the derivative contract is terminated.

In connection with its use of derivative instruments, First Financial from time to time is required to post cash collateral with its counterparties to offset its market position. Derivative collateral balances were \$25.4 million and \$24.4 million at September 30, 2012, and December 31, 2011, respectively. First Financial classifies the derivative cash collateral outstanding with its counterparties as an adjustment to the fair value of the derivative contracts within accrued interest and other liabilities in the Consolidated Balance Sheets.



Table of Contents

The following table summarizes the derivative financial instruments utilized by First Financial and their balances:

(Dollars in thousands)	Balance Sheet Classification	September 30, 2012			December 31, 2011		
		Notional amount	Estimated fair value		Notional amount	Estimated fair value	
			Gain	Loss		Gain	Loss
Fair value hedges							
Pay fixed interest rate swaps with counterparty	Accrued interest and other liabilities	\$13,850	\$0	\$(1,594 )	\$17,456	\$0	\$(2,263 )
Matched interest rate swaps with borrower	Accrued interest and other assets	444,701	26,198	0	378,936	24,566	0
Matched interest rate swaps with counterparty	Accrued interest and other liabilities	444,701	0	(27,430 )	378,936	0	(25,860 )
Cash flow hedges							
Pay fixed interest rate swaps with counterparty	Accrued interest and other liabilities	\$35,000	\$0	\$(292 )	0	0	0
Total		\$938,252	\$26,198	\$(29,316)	\$775,328	\$24,566	\$(28,123)

The following table details the derivative financial instruments, the average remaining maturities and the weighted-average interest rates being paid and received by First Financial at September 30, 2012:

(Dollars in thousands)	Notional amount	Average maturity (years)	Fair value	Weighted-average rate		
				Receive	Pay	
Asset conversion swaps						
Pay fixed interest rate swaps with counterparty	\$13,850	3.6	\$(1,594 )	2.35	% 6.81	%
Receive fixed, matched interest rate swaps with borrower	444,701	4.5	26,198	5.22	% 2.97	%
Pay fixed, matched interest rate swaps with counterparty	444,701	4.5	(27,430 )	2.97	% 5.22	%
Total asset conversion swaps	\$903,252	4.4	\$(2,826 )	4.07	% 4.13	%
Liability conversion swaps						
Pay fixed interest rate swaps with counterparty	\$35,000	6.8	\$(292 )	3.25	% 4.02	%
Total liability conversion swaps	\$35,000	6.8	\$(292 )	3.25	% 4.02	%
Total swap portfolio	\$938,252	4.5	\$(3,118 )	4.04	% 4.13	%

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

Fair Value Hedges. First Financial utilizes interest rate swaps as a means to offer commercial borrowers products that meet their needs, but are also designed to achieve First Financial's desired interest rate risk profile at the time. The fair value hedge agreements generally involve the net receipt by First Financial of floating-rate amounts in exchange for net payments by First Financial, through its loan clients, of fixed-rate amounts over the life of the agreements without an exchange of the underlying principal or notional amount. This results in First Financial's loan customers receiving fixed rate funding, while providing First Financial with a floating rate asset. The net interest receivable or payable on the interest rate swaps is accrued and recognized as an adjustment to the interest income or interest expense of the hedged item. The fair value of the interest rate swaps is included within accrued interest and other assets on the Consolidated Balance Sheets. The corresponding fair-value adjustment is also included on the Consolidated Balance Sheets in the carrying value of the hedged item. Derivative gains and losses not considered effective in hedging the change in fair value of the hedged item, if any, are recognized in income immediately.

Table of Contents

The following table details the location and amounts recognized for fair value hedges:

(Dollars in thousands)	Classification of change in fair value	Decrease to Interest income			
		Three months ended		Nine months ended	
Derivatives in fair value hedging relationships		September 30,		September 30,	
		2012	2011	2012	2011
Interest rate contracts					
Loans	Interest income - loans	\$(167 )	\$(221 )	\$(555 )	\$(692 )
Total		\$(167 )	\$(221 )	\$(555 )	\$(692 )

Cash Flow Hedges. First Financial utilizes interest rate swaps designated as cash flow hedges to manage the variability of cash flows, primarily net interest income, attributable to changes in interest rates. The net interest receivable or payable on an interest rate swap designated as a cash flow hedge is accrued and recognized as an adjustment to interest income or interest expense. The fair value of interest rate swaps is included within accrued interest and other liabilities on the Consolidated Balance Sheets. Changes in the fair value of interest rate swaps are included in accumulated comprehensive income (loss). Derivative gains and losses not considered effective in hedging the cash flows related to the hedged items, if any, are recognized in income immediately.

Effective July 2, 2012, First Financial executed a cash flow hedge utilizing an interest rate swap to hedge against interest rate volatility on \$35.0 million of floating rate interest-bearing deposits indexed to the U.S. Federal Funds Target Rate. This interest rate swap involves the receipt by First Financial of variable-rate interest amounts in exchange for fixed-rate interest payments by First Financial for a period of 7 years.

The following table details the location and amounts recognized for cash flow hedges:

(Dollars in thousands)	Amount of gain/(loss) recognized in OCI on derivatives (effective portion)			Amount of gain/(loss) reclassified from accumulated OCI into earnings (effective portion)		
	September 30, 2012		Classification of change in fair value	September 30, 2012		
Derivatives in cash flow hedging relationships	Three months ended	Nine months ended		Three months ended	Nine months ended	
Interest rate contracts						
Interest-bearing deposits	\$(182 )	\$(182 )	Interest income-interest-bearing deposits	\$(67 )	\$(67 )	
Total	\$(182 )	\$(182 )		\$(67 )	\$(67 )	

## NOTE 8: BORROWINGS

Short-term borrowings on the Consolidated Balance Sheets include overnight advances from the Federal Loan Home Bank (FHLB). First Financial had \$283.0 million in short-term borrowings with the FHLB at September 30, 2012 as a result of managing the Company's normal liquidity needs, on-going deposit rationalization strategies and recent investment securities purchases.

Long-term debt on the Consolidated Balance Sheets consists of FHLB long-term advances and repurchase agreements utilizing investment securities pledged as collateral, as well as a capital loan with a municipality. The FHLB advances and repurchase agreements are primarily utilized to reduce overnight liquidity risk and to mitigate interest rate

sensitivity on the balance sheet. First Financial has \$65.0 million in repurchase agreements which have remaining maturities of less than three years and a weighted average rate of 3.50%. Securities pledged as collateral in conjunction with the repurchase agreements are included within investment securities available-for-sale on the Consolidated Balance Sheets.

The Bank received a capital loan in the amount of \$0.8 million during the third quarter of 2012 as part of an economic development agreement with the City of Cincinnati, Ohio. The loan is noninterest-bearing with a term of 15 years and will be forgiven upon maturity if the Bank complies with certain employment metrics throughout the term of the agreement.

Table of Contents

The following is a summary of long-term debt:

(Dollars in thousands)	September 30, 2012		December 31, 2011		
	Amount	Average Rate	Amount	Average Rate	
Federal Home Loan Bank	\$9,747	3.78	% \$11,544	3.80	%
National Market Repurchase Agreement	65,000	3.50	% 65,000	3.50	%
Capital loan with municipality	774	0.00	% \$0	0.00	%
Total long-term debt	\$75,521	3.50	% \$76,544	3.55	%

Under Federal Reserve Board guidelines, a company can issue qualifying debentures up to 25% of qualifying Tier I capital. First Financial has the capacity to issue approximately \$162.4 million in additional qualifying debentures under these guidelines.

## NOTE 9: LOANS (excluding covered loans)

First Financial offers clients a variety of commercial and consumer loan and lease products with various interest rates and payment terms. Lending activities are primarily concentrated in Ohio, Indiana and Kentucky, states where the Bank currently operates banking centers. Additionally, First Financial provides equipment and leasehold improvement financing for franchisees in the quick service and casual dining restaurant sector throughout the United States.

**Credit Quality.** To facilitate the monitoring of credit quality for commercial loans, and for purposes of determining an appropriate allowance for loan and lease losses, 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, on the basis of currently existing facts, conditions and values, highly questionable and improbable. 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 described above, which are derived from standard regulatory rating definitions, are assigned upon initial approval of credit to borrowers and updated periodically thereafter.

First Financial considers repayment performance as the best indicator of credit quality for consumer loans. Consumer loans that have principal and interest payments that are past due by ninety days or more are generally classified as nonperforming. Additionally, consumer loans that have been modified in a TDR are classified as nonperforming

unless such loans have a sustained period of repayment performance of six months or greater and are reasonably assured of repayment in accordance with the restructured terms. All other consumer loans and leases are classified as performing.

Table of Contents

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

(Dollars in thousands)	As of September 30, 2012			
	Commercial	Real Estate Construction	Commercial	Total
Pass	\$794,471	\$81,033	\$1,230,599	\$2,106,103
Special Mention	21,174	167	32,001	53,342
Substandard	19,213	10,697	75,555	105,465
Doubtful	0	0	481	481
Total	\$834,858	\$91,897	\$1,338,636	\$2,265,391

(Dollars in thousands)	Real Estate Residential	Installment	Home Equity	Other	Total
Performing	\$292,584	\$58,907	\$366,379	\$72,947	\$790,817
Nonperforming	7,070	284	2,497	0	9,851
Total	\$299,654	\$59,191	\$368,876	\$72,947	\$800,668

(Dollars in thousands)	As of December 31, 2011			
	Commercial	Real Estate Construction	Commercial	Total
Pass	\$799,471	\$89,072	\$1,110,718	\$1,999,261
Special Mention	37,547	1,751	28,994	68,292
Substandard	19,435	24,151	93,355	136,941
Doubtful	528	0	0	528
Total	\$856,981	\$114,974	\$1,233,067	\$2,205,022

(Dollars in thousands)	Real Estate Residential	Installment	Home Equity	Other	Total
Performing	\$279,958	\$67,136	\$356,887	\$48,942	\$752,923
Nonperforming	8,022	407	2,073	0	10,502
Total	\$287,980	\$67,543	\$358,960	\$48,942	\$763,425

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.

Table of Contents

Loan delinquency, including nonaccrual loans, was as follows:

As of September 30, 2012							
(Dollars in thousands)	30 – 59 days past due	60 – 89 days past due	> 90 days past due	Total past due	Current	Total	> 90 days past due and accruing
Loans							
Commercial	\$948	\$1,461	\$4,468	\$6,877	\$827,981	\$834,858	\$0
Real estate - construction	51	0	2,172	2,223	89,674	91,897	0
Real estate - commercial	2,805	373	30,308	33,486	1,305,150	1,338,636	0
Real estate - residential	6,168	1,663	6,505	14,336	285,318	299,654	0
Installment	549	130	226	905	58,286	59,191	0
Home equity	1,438	349	2,211	3,998	364,878	368,876	0
All other	398	161	108	667	72,280	72,947	108
Total	\$12,357	\$4,137	\$45,998	\$62,492	\$3,003,567	\$3,066,059	\$108
As of December 31, 2011							
(Dollars in thousands)	30 - 59 days past due	60 - 89 days past due	> 90 days past due	Total past due	Current	Total	> 90 days past due and accruing
Loans							
Commercial	\$2,964	\$96	\$7,473	\$10,533	\$846,448	\$856,981	\$0
Real estate - construction	47	0	17,004	17,051	97,923	114,974	0
Real estate - commercial	4,940	2,102	16,654	23,696	1,209,371	1,233,067	0
Real estate - residential	8,602	236	7,012	15,850	272,130	287,980	0
Installment	437	53	355	845	66,698	67,543	0
Home equity	1,304	246	1,637	3,187	355,773	358,960	0
All other	495	231	191	917	48,025	48,942	191
Total	\$18,789	\$2,964	\$50,326	\$72,079	\$2,896,368	\$2,968,447	\$191

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 ninety days or more past due. Generally, loans are placed in nonaccrual status due to the continued failure to adhere to contractual payment terms by the borrower coupled with other pertinent factors, such as, insufficient collateral value. The accrual of interest income is discontinued and previously accrued, but unpaid interest is reversed when a loan is placed on nonaccrual status. Any payments received while a loan is on nonaccrual status are applied as a reduction to the carrying value of the loan. A loan may be placed back on accrual status if all contractual payments have been received and collection of future principal and interest payments is no longer doubtful.

Troubled Debt Restructurings. A loan modification is considered a troubled debt restructuring (TDR) when two conditions are met: 1) the borrower is experiencing financial difficulty and 2) 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 handled 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 terms of the loan modification.

Table of Contents

First Financial had 97 TDRs totaling \$24.6 million at September 30, 2012, including \$11.6 million on accrual status and \$13.0 million classified as nonaccrual. First Financial had \$3.0 million of commitments outstanding to lend additional funds to borrowers whose loan terms have been modified through TDRs. At September 30, 2012, the allowance for loan and lease losses included reserves of \$3.6 million related to TDRs. For the three and nine months ended September 30, 2012, First Financial charged off \$1.7 million and \$6.4 million for the portion of TDRs determined to be uncollectible. Additionally, at September 30, 2012, approximately \$2.5 million of the accruing TDRs have been performing in accordance with the restructured terms for more than one year.

First Financial had 78 TDRs totaling \$22.1 million at December 31, 2011, including \$4.0 million of loans on accrual status and \$18.1 million classified as nonaccrual. First Financial had no commitments outstanding to lend additional funds to borrowers whose loan terms have been modified through TDRs. At December 31, 2011, the allowance for loan and lease losses included reserves of \$4.3 million related to TDRs. At December 31, 2011, approximately \$1.3 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 nine months ended September 30, 2012 and 2011.

(Dollars in thousands)	Three months ended September 30, 2012			September 30, 2011		
	Total TDRs			Total TDRs		
	Number of loans	Pre-modification loan balance	Period end balance	Number of loans	Pre-modification loan balance	Period end balance
Commercial	6	\$ 3,787	\$ 4,027	1	\$ 44	\$ 44
Real estate - construction	0	0	0	0	0	0
Real estate - commercial	8	5,105	5,077	2	467	206
Real estate - residential	0	0	0	3	242	245
Installment	0	0	0	0	0	0
Home equity	0	0	0	0	0	0
Total	14	\$ 8,892	\$ 9,104	6	\$ 753	\$ 495

(Dollars in thousands)	Nine months ended September 30, 2012			September 30, 2011		
	Total TDRs			Total TDRs		
	Number of loans	Pre-modification loan balance	Period end balance	Number of loans	Pre-modification loan balance	Period end balance
Commercial	16	\$ 8,358	\$ 8,589	7	\$ 388	\$ 354
Real estate - construction	0	0	0	0	0	0
Real estate - commercial	22	9,854	9,795	10	1,431	1,016
Real estate - residential	2	164	166	13	1,295	1,301
Installment	0	0	0	2	114	111
Home equity	0	0	0	1	101	101
Total	40	\$ 18,376	\$ 18,550	33	\$ 3,329	\$ 2,883

Table of Contents

The following table provides information on how TDRs were modified during the three and nine months ended September 30, 2012 and 2011.

(Dollars in thousands)	Three months ended		Nine months ended	
	September 30, <sup>(2)</sup>		September 30, <sup>(2)</sup>	
	2012	2011	2012	2011
Extended maturities	\$6,144	\$249	\$13,404	\$1,445
Adjusted interest rates	0	114	166	271
Combination of rate and maturity changes	0	132	563	1,056
Forbearance	2,565	0	3,801	0
Other <sup>(1)</sup>	395	0	616	111
Total	\$9,104	\$495	\$18,550	\$2,883

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

(2) Balances are as of period end.

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

There were two commercial loan modifications classified as TDRs in the last twelve months, totaling \$1.1 million, that experienced a payment default during the nine months ended September 30, 2012.

There were four loan modifications classified as a TDR in the last twelve months, totaling \$1.3 million that experienced a payment default during the nine months ended September 30, 2011.

Impaired Loans. Loans placed in nonaccrual status and TDRs are considered impaired. The following table provides information on nonaccrual, TDRs and total impaired loans.

(Dollars in thousands)	September 30, 2012	December 31, 2011
Impaired loans		
Nonaccrual loans		
Commercial	\$4,563	\$7,809
Real estate-construction	2,536	10,005
Real estate-commercial	33,961	28,349
Real estate-residential	5,563	5,692
Installment	284	371
Home equity	2,497	2,073
Nonaccrual loans	49,404	54,299
Troubled debt restructurings		
Accruing	11,604	4,009
Nonaccrual	13,017	18,071
Total troubled debt restructurings	24,621	22,080
Total impaired loans	\$74,025	\$76,379

Table of Contents

(Dollars in thousands)	Three months ended		Nine months ended	
	September 30, 2012	2011	September 30, 2012	2011
Interest income effect on impaired loans				
Gross amount of interest that would have been recorded under original terms	\$1,145	\$1,390	\$3,734	\$4,103
Interest included in income				
Nonaccrual loans	54	108	403	358
Troubled debt restructurings	199	49	430	215
Total interest included in income	253	157	833	573
Net impact on interest income	\$892	\$1,233	\$2,901	\$3,530

First Financial individually reviews all impaired commercial loan relationships greater than \$250,000, as well as consumer loan TDRs greater than \$100,000, to determine if a specific allowance based on the borrower's overall financial condition, resources and payment record, support from guarantors and the realizable value of any collateral is necessary. Specific allowances are based on expected cash flows, discounted using the loan's initial effective interest rate or the fair value of the collateral for certain collateral dependent loans.

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

As of September 30, 2012

(Dollars in thousands)	Current Balance	Contractual Principal Balance	Related Allowance	Average Current Balance	YTD Interest Income Recognized	Quarterly Interest Income Recognized
Loans with no related allowance recorded						
Commercial	\$6,344	\$8,673	\$0	\$7,932	\$116	\$24
Real estate - construction	2,049	2,260	0	4,705	15	5
Real estate - commercial	16,508	25,173	0	15,498	195	93
Real estate - residential	8,486	9,925	0	8,274	52	17
Installment	397	427	0	452	2	1
Home equity	2,496	2,806	0	2,216	6	2
Loans with an allowance recorded						
Commercial	7,272	8,032	1,713	5,797	142	55
Real estate - construction	1,652	2,168	853	5,882	71	12
Real estate - commercial	26,710	28,807	8,816	25,870	204	34
Real estate - residential	2,010	2,013	290	2,358	29	9
Installment	0	0	0	0	0	0
Home equity	101	101	2	76	1	1
Total						
Commercial	13,616	16,705	1,713	13,729	258	79
Real estate - construction	3,701	4,428	853	10,587	86	17
Real estate - commercial	43,218	53,980	8,816	41,368	399	127
Real estate - residential	10,496	11,938	290	10,632	81	26
Installment	397	427	0	452	2	1
Home equity	2,597	2,907	2	2,292	7	3
Total	\$74,025	\$90,385	\$11,674	\$79,060	\$833	\$253



Table of Contents

(Dollars in thousands)	As of December 31, 2011				
	Current Balance	Contractual Principal Balance	Related Allowance	Average Current Balance	Interest Income Recognized
Loans with no related allowance recorded					
Commercial	\$6,351	\$8,387	\$0	\$7,337	\$62
Real estate - construction	6,289	11,129	0	5,657	2
Real estate - commercial	14,999	22,718	0	18,306	249
Real estate - residential	8,639	9,580	0	6,848	66
Installment	485	526	0	356	5
Home equity	2,073	2,206	0	2,337	10
Loans with an allowance recorded					
Commercial	4,131	4,267	3,205	3,683	15
Real estate - construction	11,098	13,905	2,578	13,731	92
Real estate - commercial	19,521	26,357	6,441	15,484	225
Real estate - residential	2,692	2,705	313	3,630	37
Installment	0	0	0	15	1
Home Equity	101	101	2	81	3
Total					
Commercial	10,482	12,654	3,205	11,020	77
Real estate - construction	17,387	25,034	2,578	19,388	94
Real estate - commercial	34,520	49,075	6,441	33,790	474
Real estate - residential	11,331	12,285	313	10,478	103
Installment	485	526	0	371	6
Home equity	2,174	2,307	2	2,418	13
Total	\$76,379	\$101,881	\$12,539	\$77,465	\$767

OREO. Other real estate owned (OREO) is comprised of properties acquired by the Company through the loan foreclosure or repossession process, or other resolution activity that results in partial or total satisfaction of problem loans. The acquired properties are recorded at the lower of cost or fair value less estimated costs of disposal (net realizable value), upon acquisition. Losses arising at the time of acquisition of such properties are charged against the allowance for loan and lease losses. Subsequent write-downs in the carrying value of OREO properties are expensed as incurred. Improvements to the properties may be capitalized if the improvements contribute to the overall value of the property, but may not be capitalized in excess of the net realizable value of the property.

Table of Contents

Changes in OREO were as follows:

(Dollars in thousands)	Three months ended		Nine months ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Balance at beginning of period	\$15,688	\$16,313	\$11,317	\$17,907
Additions				
Commercial	539	241	5,888	1,328
Residential	406	416	2,320	2,609
Total additions	945	657	8,208	3,937
Disposals				
Commercial	1,209	3,605	2,221	3,909
Residential	413	1,293	1,025	2,345
Total disposals	1,622	4,898	3,246	6,254
Write-downs				
Commercial	1,041	0	2,181	3,341
Residential	58	69	186	246
Total write-downs	1,099	69	2,367	3,587
Balance at end of period	\$13,912	\$12,003	\$13,912	\$12,003

## NOTE 10: COVERED LOANS

Loans acquired in Federal Deposit Insurance Corporation (FDIC)-assisted transactions are initially covered under loss sharing agreements whereby the FDIC will reimburse First Financial for the majority of any losses incurred and are referred to as covered loans.

First Financial evaluates purchased loans for impairment in accordance with the provisions of FASB ASC Topic 310-30. The cash flows expected to be collected on purchased loans are estimated based upon the expected remaining life of the underlying loans, which includes the effects of estimated prepayments. Purchased loans are considered impaired if there is evidence of credit deterioration since origination and if it is probable that not all contractually required payments will be collected. First Financial is accounting for the majority of its covered loans under FASB ASC Topic 310-30 except for loans with revolving privileges, which are outside the scope of this guidance, and loans for which cash flows could not be estimated, which are accounted for under the cost recovery method. For purposes of applying the guidance under FASB ASC Topic 310-30, First Financial grouped acquired loans into pools based on common risk characteristics.

Purchased impaired loans are not classified as nonperforming assets as the loans are considered to be performing under FASB ASC Topic 310-30. Therefore, interest income, through accretion of the difference between the carrying value of the loans and the expected cash flows is being recognized on all purchased loans accounted for under FASB ASC Topic 310-30.

Table of Contents

The following table reflects the carrying value of all purchased impaired and nonimpaired covered loans:

(Dollars in thousands)	September 30, 2012			December 31, 2011		
	Loans accounted for under FASB ASC Topic 310-30	Loans excluded from FASB ASC Topic 310-30 <sup>(1)</sup>	Total purchased loans	Loans accounted for under FASB ASC Topic 310-30	Loans Excluded From FASB ASC Topic 310-30 <sup>(1)</sup>	Total purchased loans
Commercial	\$114,574	\$7,171	\$121,745	\$182,625	\$13,267	\$195,892
Real estate - construction	12,898	0	12,898	17,120	0	17,120
Real estate - commercial	504,453	7,867	512,320	627,257	9,787	637,044
Real estate - residential	105,113	0	105,113	121,117	0	121,117
Installment	9,108	784	9,892	12,123	1,053	13,176
Home equity	2,679	57,823	60,502	4,146	60,832	64,978
Other covered loans	0	3,045	3,045	0	3,917	3,917
Total covered loans	\$748,825	\$76,690	\$825,515	\$964,388	\$88,856	\$1,053,244

(1) Includes loans with revolving privileges which are scoped out of FASB ASC Topic 310-30 and certain loans which First Financial elected to treat under the cost recovery method of accounting.

The outstanding balance of all loans accounted for under FASB ASC Topic 310-30, including contractual principal, interest, fees and penalties, was \$1.2 billion and \$1.6 billion as of September 30, 2012 and December 31, 2011, respectively.

Changes in the carrying amount of accretible yield for loans accounted for under FASB ASC Topic 310-30 were as follows:

(Dollars in thousands)	Three Months Ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Balance at beginning of period <sup>(1)</sup>	\$283,296	\$421,781	\$344,410	\$509,945
Reclassification from nonaccretable difference	2,338	17,311	25,780	50,517
Accretion	(21,730 )	(31,168 )	(71,674 )	(97,447 )
Other net activity <sup>(2)</sup>	(11,749 )	(4,878 )	(46,361 )	(59,969 )
Balance at end of period	\$252,155	\$403,046	\$252,155	\$403,046

(1) Excludes loans with revolving privileges which are scoped out of FASB Topic 310-30 and certain loans which First Financial elected to treat under the cost recovery method of accounting

(2) Includes the impact of loan repayments and charge-offs

Credit Quality. For further discussion of First Financial's monitoring of credit quality for commercial and consumer loans, including discussion of the risk attributes noted below, please see Note 9 - Loans.

Covered commercial and consumer credit exposure by risk attribute was as follows:

(Dollars in thousands)	As of September 30, 2012			
	Commercial	Real Estate Construction	Commercial	Total



Edgar Filing: FIRST FINANCIAL BANCORP /OH/ - Form 10-Q

Pass	\$60,033	\$2,309	\$249,139	\$311,481
Special Mention	15,289	3,290	65,766	84,345
Substandard	43,628	7,299	197,234	248,161
Doubtful	2,795	0	181	2,976
Total	\$121,745	\$12,898	\$512,320	\$646,963

22

---

Table of Contents

(Dollars in thousands)	Real estate residential	Installment	Home equity	Other	Total
Performing	\$105,113	\$9,892	\$58,639	\$3,039	\$176,683
Nonperforming	0	0	1,863	6	1,869
Total	\$105,113	\$9,892	\$60,502	\$3,045	\$178,552

December 31, 2011

(Dollars in thousands)	Commercial	Real Estate Construction	Commercial	Total
Pass	\$113,201	\$2,506	\$340,889	\$456,596
Special Mention	22,468	3,597	63,880	89,945
Substandard	52,103	11,017	230,870	293,990
Doubtful	8,120	0	1,405	9,525
Total	\$195,892	\$17,120	\$637,044	\$850,056

(Dollars in thousands)	Real estate residential	Installment	Home equity	Other	Total
Performing	\$121,117	\$13,176	\$63,231	\$3,899	\$201,423
Nonperforming	0	0	1,747	18	1,765
Total	\$121,117	\$13,176	\$64,978	\$3,917	\$203,188

First Financial reviews its forecast of expected cash flows for loans accounted for under FASB ASC Topic 310-30 on a quarterly basis. The Company experienced changes in both the timing and amount of expected cash flows on certain loan pools related to payment activities and loan resolution strategies resulting in a \$2.3 million reclassification from nonaccretable to accretable difference during the third quarter of 2012. Similarly, the Company reclassified \$17.3 million from nonaccretable to accretable difference during the third quarter of 2011, and \$25.8 million and \$50.5 million for the nine months ended September 30, 2012, and 2011, respectively.

Generally, net increases in expected cash flows for a pool of loans results in a yield adjustments on the loan pool on a prospective basis. Net declines in expected cash flows for a pool of loans are considered impairment and recorded as provision expense, and a related allowance for loan and lease losses on covered loans, on a discounted basis during the period. Improved cash flow expectations for loan pools that were impaired during prior periods is recorded first as a reversal of previously recorded impairment and then as an increase in prospective yield when all previously recorded impairment has been recaptured. For further detail on impairment and provision expense related to loans accounted for under FASB ASC Topic 310-30, see "Covered Loans" under Note 11 - Allowance for Loan and Lease Losses.

Covered loans accounted for under FASB ASC Topic 310-30 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 covered loan loss provision or prospective yield adjustments.

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

Table of Contents

Covered loan delinquency, excluding loans accounted for under FASB ASC Topic 310-30, was as follows:

(Dollars in thousands)	As of September 30, 2012				Current	Total	> 90 days past due and accruing
	30 - 59 days past due	60 - 89 days past due	> 90 days past due	Total past due			
Loans							
Commercial	\$10	\$316	\$1,960	\$2,286	\$4,885	\$7,171	\$0
Real estate - commercial	0	0	941	941	6,926	7,867	0
Installment	0	0	0	0	784	784	0
Home equity	332	1,135	1,855	3,322	54,501	57,823	0
All other	139	7	13	159	2,886	3,045	7
Total	\$481	\$1,458	\$4,769	\$6,708	\$69,982	\$76,690	\$7

(Dollars in thousands)	As of December 31, 2011				Current	Total	> 90 days past due and accruing
	30 - 59 days past due	60 - 89 days past due	> 90 days past due	Total past due			
Loans							
Commercial	\$73	\$294	\$6,490	\$6,857	\$6,410	\$13,267	\$0
Real estate - commercial	184	0	1,870	2,054	7,733	9,787	0
Installment	0	0	0	0	1,053	1,053	0
Home equity	1,344	11	1,679	3,034	57,798	60,832	0
All other	10	6	125	141	3,776	3,917	107
Total	\$1,611	\$311	\$10,164	\$12,086	\$76,770	\$88,856	\$107

Nonaccrual. Similar to uncovered loans, covered loans accounted for outside FASB ASC Topic 310-30 are classified as nonaccrual when, in the opinion of management, collection of principal or interest is doubtful or when principal or interest payments are ninety days or more past due. Generally, these loans are placed on nonaccrual status due to the continued failure to adhere to contractual payment terms by the borrower coupled with other pertinent factors, such as insufficient collateral value. The accrual of interest income is discontinued and previously accrued, but unpaid interest is reversed when a loan is placed in nonaccrual status. Any payments received while a loan is in nonaccrual status are applied as a reduction to the carrying value of the loan. A loan may be returned to accrual status if all contractual payments have been received and collection of future principal and interest payments is no longer doubtful.

Information on covered nonaccrual loans, excluding loans accounted for under FASB ASC Topic 310-30, was as follows:

(Dollars in thousands)	September 30, 2012	December 31, 2011
Nonaccrual loans		
Commercial	\$2,448	\$7,203
Real estate-commercial	1,589	2,192
Home equity	1,863	1,747
All other	6	18
Total	\$5,906	\$11,160



Table of Contents

(Dollars in thousands)	Three months ended		Nine months ended	
	September 30, 2012	2011	September 30, 2012	2011
Interest income effect on impaired loans				
Gross amount of interest that would have been recorded under original terms	\$ 146	\$ 268	\$ 504	\$ 769
Interest included in income	9	8	70	49
Net impact on interest income	\$ 137	\$ 260	\$ 434	\$ 720

Impaired Loans. Covered loans placed in nonaccrual status, excluding loans accounted for under FASB ASC Topic 310-30, are considered impaired. First Financial's investment in covered impaired loans, excluding loans accounted for under FASB ASC Topic 310-30, was as follows:

(Dollars in thousands)	As of September 30, 2012					
	Current Balance	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	YTD Interest Income Recognized	Quarterly Interest Income Recognized
Loans with no related allowance recorded:						
Commercial	\$2,448	\$4,731	\$0	\$4,533	\$55	\$4
Real estate - commercial	1,589	3,188	0	1,945	14	5
Home equity	1,863	2,885	0	1,451	1	0
All other	6	6	0	14	0	0
Total	\$5,906	\$10,810	\$0	\$7,943	\$70	\$9

(Dollars in thousands)	As of December 31, 2011					
	Current Balance	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	
Loans with no related allowance recorded:						
Commercial	\$7,203	\$10,152	\$0	\$9,873	\$47	
Real estate - commercial	2,192	4,002	0	2,504	5	
Installment	1,747	2,878	0	1,559	6	
Home equity	18	18	0	9	0	
Total	\$11,160	\$17,050	\$0	\$13,945	\$58	

Covered OREO. Covered OREO is comprised of properties acquired by the Company through the loan foreclosure or repossession process, or other resolution activities that result in partial or total satisfaction of problem covered loans. These properties remain subject to loss share agreements whereby the FDIC reimburses First Financial for the majority of any losses incurred. The acquired properties are recorded at the lower of cost or fair value upon acquisition. Losses arising at the time of acquisition of such properties are charged against the allowance for loan and lease losses. Subsequent write-downs in the carrying value of covered OREO properties are expensed as incurred. Improvements to the properties may be capitalized if the improvements contribute to the overall value of the property, but may not be capitalized in excess of the net realizable value of the property.

Table of Contents

Changes in covered OREO were as follows:

(Dollars in thousands)	Three months ended		Nine months ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Balance at beginning of period	\$25,408	\$36,687	\$44,818	\$35,257
Additions				
Commercial	8,578	16,699	13,677	38,431
Residential	737	490	3,423	2,315
Total additions	9,315	17,189	17,100	40,746
Disposals				
Commercial	5,858	9,440	24,417	20,940
Residential	0	901	2,354	6,992
Total disposals	5,858	10,341	26,771	27,932
Write-downs				
Commercial	249	614	5,665	4,138
Residential	0	83	866	1,095
Total write-downs	249	697	6,531	5,233
Balance at end of period	\$28,616	\$42,838	\$28,616	\$42,838

## NOTE 11: ALLOWANCE FOR LOAN AND LEASE LOSSES

Loans (excluding covered loans). For each reporting period, management maintains the allowance for loan and lease losses at a level that it considers sufficient to absorb probable loan and lease losses inherent in the portfolio. Management determines the adequacy of the allowance based on historical loss experience as well as other significant factors such as composition of the portfolio, economic conditions, geographic footprint, the results of periodic internal and external evaluations of delinquent, nonaccrual and classified loans and any other adverse situations that may affect a specific borrower's ability to repay (including the timing of future payments). This evaluation is inherently subjective as it requires utilizing material estimates that may be susceptible to significant change.

In the commercial portfolio, which includes time and demand notes, tax-exempt loans and commercial real estate loans, non-homogeneous loan relationships greater than \$250,000 that are considered impaired or designated as a TDR are evaluated to determine the need for a specific allowance based on the borrower's overall financial condition, resources and payment record, support from guarantors and the realizable value of any collateral.

The allowance for non-impaired commercial loans and impaired commercial loan relationships less than \$250,000 includes a process of estimating the probable losses inherent in the portfolio by category, based on First Financial's internal system of credit risk ratings and historical loss data. These estimates may also be adjusted for management's estimate of probable losses on specific loan types dependent upon trends in the values of the underlying collateral, delinquent and nonaccrual loans, prevailing economic conditions, changes in lending strategies and other influencing factors.

With the exception of loans modified as TDRs, consumer loans are evaluated as an asset type within a category (i.e., residential real estate, installment, etc.), as these loans exhibit homogeneous characteristics. The allowance for consumer loans which includes residential real estate, installment, home equity, credit card loans and overdrafts, is established by estimating losses inherent in each particular category of consumer loans. The estimate of losses is primarily based on historical loss rates for each category, as well as trends in delinquent and nonaccrual loans, prevailing economic conditions and other significant influencing factors. Consumer loan relationships modified as TDRs greater than \$100,000 are individually reviewed to determine if a specific allowance is necessary.

There were no material changes to First Financial's accounting policies or methodology related to the allowance for loan and lease losses during the first nine months of 2012, however certain modifications were made to the estimation process in the third quarter of 2012 to place greater emphasis on quantitative factors such as historical loan losses and less emphasis on qualitative factors. This resulted in a shift in the allocation of the allowance between certain consumer and commercial loan types but had no significant impact on the total allowance for loan and lease losses at September 30, 2012.

Table of Contents

First Financial's policy is to charge-off all or a portion of a commercial loan when, in management's opinion, it is unlikely to collect the principal amount owed in full either through payments from the borrower or from the liquidation of collateral.

Changes in the allowance for loan and lease losses for the previous five quarters and year-to-date are presented in the table that follows:

(Dollars in thousands)	Three Months Ended 2012			2011		Nine months ended September 30,		
	Sep. 30,	June 30,	Mar. 31,	Dec. 31,	Sep. 30,	2012	2011	
Balance at beginning of period	\$50,952	\$49,437	\$52,576	\$54,537	\$53,671	\$52,576	\$57,235	
Provision for loan losses	3,613	8,364	3,258	5,164	7,643	15,235	14,046	
Loans charged off	(5,804 )	(7,138 )	(6,822 )	(7,791 )	(7,174 )	(19,764 )	(18,007 )	
Recoveries	431	289	425	666	397	1,145	1,263	
Balance at end of period	\$49,192	\$50,952	\$49,437	\$52,576	\$54,537	\$49,192	\$54,537	
Allowance for loan and lease losses to total ending loans	1.60	% 1.69	% 1.67	% 1.77	% 1.86	% 1.60	% 1.86	%

Year-to-date changes in the allowance for loan and lease losses by loan category were as follows:

(Dollars in thousands)	Nine Months Ended September 30, 2012							Total
	Real Estate							
	Commercial	Construction	Commercial Residential	Installment	Home Equity	Other		
Allowance for loan and lease losses:								
Balance at beginning of period	\$10,289	\$4,424	\$18,228	\$4,994	\$1,659	\$10,751	\$2,231	\$52,576
Provision for loan and lease losses	1,645	2,322	15,324	(360 )	(1,050 )	(3,934 )	1,288	15,235
Gross charge-offs	3,655	2,684	8,791	1,360	310	1,939	1,025	19,764
Recoveries	322	0	219	70	270	83	181	1,145
Total net charge-offs	3,333	2,684	8,572	1,290	40	1,856	844	18,619
Ending allowance for loan and lease losses	\$8,601	\$4,062	\$24,980	\$3,344	\$569	\$4,961	\$2,675	\$49,192
Ending allowance on loans individually evaluated for impairment	\$1,713	\$853	\$8,816	\$290	\$0	\$2	\$0	\$11,674
Ending allowance on loans collectively evaluated for impairment	6,888	3,209	16,164	3,054	569	4,959	2,675	37,518
Ending allowance for loan and lease losses	\$8,601	\$4,062	\$24,980	\$3,344	\$569	\$4,961	\$2,675	\$49,192
Loans, excluding covered loans								



Ending balance of loans individually evaluated for impairment	\$11,940	\$3,701	\$38,972	\$2,664	\$0	\$101	\$0	\$57,378
Ending balance of loans collectively evaluated for impairment	822,918	88,196	1,299,664	296,990	59,191	368,775	72,947	3,008,681
Total loans, excluding covered loans	\$834,858	\$91,897	\$1,338,636	\$299,654	\$59,191	\$368,876	\$72,947	\$3,066,059

Table of Contents

Twelve Months Ended December 31, 2011

## Real Estate

(Dollars in thousands)	Commercial	Construction	Commercial	Residential	Installment	Home Equity	Other	Total
Allowance for loan and lease losses:								
Balance at beginning of period	\$10,138	\$8,326	\$14,917	\$8,907	\$1,981	\$10,939	\$2,027	\$57,235
Provision for loan and lease losses	2,825	2,345	13,384	(2,407)	(159)	1,878	1,344	19,210
Gross charge-offs	3,436	6,279	10,382	1,551	526	2,183	1,441	25,798
Recoveries	762	32	309	45	363	117	301	1,929
Total net charge-offs	2,674	6,247	10,073	1,506	163	2,066	1,140	23,869
Ending allowance for loan and lease losses	\$10,289	\$4,424	\$18,228	\$4,994	\$1,659	\$10,751	\$2,231	\$52,576
Ending allowance on loans individually evaluated for impairment	\$3,205	\$2,578	\$6,441	\$313	\$0	\$2	\$0	\$12,539
Ending allowance on loans collectively evaluated for impairment	7,084	1,846	11,787	4,681	1,659	10,749	2,231	40,037
Ending allowance for loan and lease losses	\$10,289	\$4,424	\$18,228	\$4,994	\$1,659	\$10,751	\$2,231	\$52,576
Loans, excluding covered loans								
Ending balance of loans individually evaluated for impairment	\$8,351	\$17,387	\$30,708	\$3,730	\$0	\$101	\$0	\$60,277
Ending balance of loans collectively evaluated for impairment	848,630	97,587	1,202,359	284,250	67,543	358,859	48,942	2,908,170
Total loans, excluding covered loans	\$856,981	\$114,974	\$1,233,067	\$287,980	\$67,543	\$358,960	\$48,942	\$2,968,447

Covered Loans. In accordance with the accounting guidance for business combinations, there was no allowance brought forward on covered loans as any credit deterioration evident in the loans at the time of acquisition was included in the determination of the fair value of the loans at the acquisition date.

The majority of covered loans are accounted for under FASB ASC Topic 310-30, whereby First Financial is required to periodically re-estimate the expected cash flows on the loans. Generally, a decline in expected cash flows for a pool of loans is referred to as impairment and recorded as provision expense and a related allowance for loan and lease losses on covered loans, on a discounted basis during the period. Estimated reimbursements due from the FDIC under loss share agreements related to any declines in expected cash flows for a pool of loans are recorded as noninterest income and an increase to the FDIC indemnification asset in the same period. Improvement in expected cash flows for

a pool of loans, once any previously recorded impairment is recaptured, is recognized prospectively as an adjustment to the yield on the loans in the pool and a related adjustment to the yield on the FDIC indemnification asset.

First Financial performs periodic valuation procedures to re-estimate the expected cash flows on covered loans accounted for under FASB ASC Topic 310-30 and compare the present value of expected cash flows to the carrying value of the loans at the pool level. In order to estimate expected cash flows, First Financial specifically reviews a sample of these covered loans each period to assist in the determination of appropriate probability of default and loss given default assumptions to be applied to the remainder of the portfolio. The estimate of expected cash flows may also be adjusted for management's estimate of probable losses on specific loan types dependent upon trends in observable market and industry data, such as prepayment speeds and collateral values. These cash flow evaluations are inherently subjective as they require material estimates, all of which may be susceptible to significant change.

First Financial updated the valuation related to covered loans during the third quarter of 2012, and as a result of impairment in certain loan pools, recognized total provision expense of \$6.6 million and realized net charge-offs of \$6.1 million during the quarter, resulting in an allowance for covered loan losses of \$48.9 million as of September 30, 2012. First Financial recognized provision expense on covered loans of \$25.6 million and realized net charge-offs of \$19.6 million for the first nine months of 2012. Additionally, the Company recognized loss share expenses of \$3.6 million for the third quarter of 2012 and \$10.9 million for the nine months ended September 30, 2012 primarily related to attorney fees and losses on covered OREO during the period. The receivable due from the FDIC under loss share agreements related to the covered provision expense and losses on covered OREO of \$8.5 million for the third quarter of 2012 and \$29.6 million for the first nine months of 2012 was recognized as FDIC loss sharing income and a corresponding increase to the FDIC indemnification asset.

For the third quarter of 2011, First Financial recognized provision expense on covered loans of \$7.3 million related to net charge-offs of \$10.2 million during the period. First Financial recognized provision expense on covered loans of \$57.2 million and realized net charge-offs of \$25.6 million for the first nine months of 2011. The related receivable due from the FDIC under loss share agreements related to these loans of \$8.4 million for the third quarter of 2011 and \$53.5 million for the first nine

Table of Contents

months of 2011, was recognized as FDIC loss sharing income and a corresponding increase to the FDIC indemnification asset.

The allowance for loan and lease losses on covered loans is presented in the tables below:

(Dollars in thousands)	September 30, 2012				
	Commercial	Real Estate Commercial	Residential	Installment	Total
Ending allowance on loans acquired with deteriorated credit quality (ASC 310-30)	\$ 19,268	\$ 25,919	\$ 3,079	\$ 629	\$ 48,895
Ending allowance on acquired loans outside the scope of ASC 310-30	0	0	0	0	0
Ending allowance on covered loans	\$ 19,268	\$ 25,919	\$ 3,079	\$ 629	\$ 48,895

(Dollars in thousands)	December 31, 2011				
	Commercial	Real Estate Commercial	Residential	Installment	Total
Ending allowance on loans acquired with deteriorated credit quality (ASC 310-30)	\$ 19,160	\$ 21,930	\$ 1,396	\$ 349	\$ 42,835
Ending allowance on acquired loans outside the scope of ASC 310-30	0	0	0	0	0
Ending allowance on covered loans	\$ 19,160	\$ 21,930	\$ 1,396	\$ 349	\$ 42,835

Changes in the allowance for loan and lease losses on covered loans for the previous five quarters and year-to-date were as follows:

(Dollars in thousands)	Three Months Ended				Nine months ended		
	2012		2011		September 30,		
	Sep. 30,	June 30,	Mar. 31,	Dec. 31,	Sep. 30,	2012	2011
Balance at beginning of period	\$ 48,327	\$ 46,156	\$ 42,835	\$ 48,112	\$ 51,044	\$ 42,835	\$ 16,493
Provision for loan and lease losses	6,622	6,047	12,951	6,910	7,260	25,620	57,171
Loans charged-off	(9,058 )	(5,163 )	(10,118 )	(13,513 )	(10,609 )	(24,339 )	(32,091 )
Recoveries	3,004	1,287	488	1,326	417	4,779	6,539
Balance at end of period	\$ 48,895	\$ 48,327	\$ 46,156	\$ 42,835	\$ 48,112	\$ 48,895	\$ 48,112

## NOTE 12: INCOME TAXES

First Financial's effective tax rate for the third quarter of 2012 was 35.4% compared to 38.2% for the third quarter of 2011. The year-to-date effective tax rate through September 30, 2012 was 34.8% compared to 36.3% for the comparable period in 2011. The decrease in the effective tax rate during the third quarter 2012 as compared to the same period in 2011 was primarily due to an unfavorable provision to return adjustment recorded in the third quarter of 2011 related to the completion of the 2010 federal and state tax returns. First Financial recorded a favorable provision to return adjustment in the second quarter 2012 related to the completion of 2011 state tax returns. Provision to return adjustments of this nature are typical during the second or third quarters as federal and state tax returns are finalized.

At September 30, 2012, and December 31, 2011, First Financial had no FASB ASC Topic 740-10 unrecognized tax benefits recorded. First Financial does not expect the total amount of unrecognized tax benefits to significantly

increase within the next twelve months.

First Financial recognizes interest and penalties on income tax assessments or income tax refunds in the Consolidated Financial Statements as a component of noninterest expense.

First Financial and its subsidiaries are subject to U.S. federal income tax as well as state and local income tax in several

29

---

Table of Contents

jurisdictions. Tax years prior to 2010 have been closed and are no longer subject to U.S. federal income tax examinations. The 2009 tax year had been under examination by the federal taxing authority and was closed during the second quarter of 2012 with no material impact to the Company's financial position and results of operations as a result of this examination.

First Financial is no longer subject to state and local income tax examinations for years prior to 2008. Tax years 2008 through 2011 remain open to state and local examination in various jurisdictions.

## NOTE 13: EMPLOYEE BENEFIT PLANS

First Financial sponsors a non-contributory defined benefit pension plan covering substantially all employees and uses a December 31 measurement date for its defined benefit pension plan.

First Financial made no cash contributions to fund the pension plan in 2011 and does not expect to make cash contributions to its pension plan in 2012. As a result of the plan's funding status and related actuarial projections for 2012, First Financial recorded income related to its pension plan in the first nine months of 2012 of \$0.4 million, compared to \$1.0 million for the same period in 2011. Likewise, First Financial recorded income related to its pension plan of \$0.1 million and \$0.3 million in the third quarter of 2012 and 2011, respectively.

The following table sets forth information concerning amounts recognized in First Financial's Consolidated Balance Sheets and Consolidated Statements of Income:

(Dollars in thousands)	Three months ended		Nine months ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Service cost	\$894	\$825	\$2,559	\$2,475
Interest cost	606	675	1,986	2,025
Expected return on assets	(2,281	) (2,237	) (6,751	) (6,787
Amortization of prior service cost	(106	) (100	) (316	) (300
Net actuarial loss	780	525	2,130	1,575
Net periodic benefit income	\$(107	) \$(312	) \$(392	) \$(1,012

Amounts recognized in accumulated other comprehensive income (loss):

(Dollars in thousands)	Three months ended		Nine months ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Net actuarial loss	\$780	\$525	\$2,130	\$1,575
Amortization of prior service cost	(106	) (100	) (316	) (300
Deferred tax liabilities	(255	) (160	) (685	) (481
Net amount recognized in accumulated other comprehensive income (loss)	\$419	\$265	\$1,129	\$794

First Financial also sponsors a defined contribution 401(k) thrift plan which covers substantially all employees. Participants may contribute up to 50.0% of their earnings into the plan, not to exceed applicable limitations prescribed by the Internal Revenue Service. Employer contributions to the Plan are equal to 100.0% of the participant's contribution up to 3.0% of the participant's eligible salary on a before-tax basis, and 50.0% of the participant's contribution on the next 2.0% of the participant's eligible salary on a before-tax basis, up to a maximum employer contribution of 4.0%. All First Financial matching contributions vest immediately. First Financial contributions to the

401(k) plan are at the discretion of the board of directors.

NOTE 14: FAIR VALUE DISCLOSURES

Fair Value Measurement

30

---

## Table of Contents

The fair value framework as disclosed in the Fair Value Measurements and Disclosure Topic of FASB ASC Topic 825, Financial Instruments (Fair Value Topic) includes a hierarchy which focuses on prioritizing the inputs used in valuation techniques. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1), a lower priority to observable inputs other than quoted prices in active markets for identical assets and liabilities (Level 2) and the lowest priority to unobservable inputs (Level 3). When determining the fair value measurements for assets and liabilities, First Financial looks to active markets to price identical assets or liabilities whenever possible and classifies such items in Level 1. When identical assets and liabilities are not traded in active markets, First Financial looks to observable market data for similar assets and liabilities and classifies such items as Level 2. Certain assets and liabilities are not actively traded in observable markets and First Financial must use alternative techniques, based on unobservable inputs, to determine the fair value and classifies such items as Level 3. The level within the fair value hierarchy is based on the lowest level of input that is significant in the fair value measurement.

The following methods, assumptions and valuation techniques were used by First Financial to measure different financial assets and liabilities at fair value and in estimating its fair value disclosures for financial instruments.

**Cash and short-term investments.** The carrying amounts reported in the Consolidated Balance Sheets for cash and short-term investments, such as federal funds sold, approximated the fair value of those instruments. The Company classifies cash and short-term investments in Level 1 of the fair value hierarchy.

**Investment securities.** Investment securities classified as trading and available-for-sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted market prices, when available (Level 1). If quoted market prices are not available, fair values are measured utilizing independent valuation techniques of identical or similar investment securities. First Financial compiles prices from various sources who may apply such techniques as matrix pricing to determine the value of identical or similar investment securities (Level 2). Matrix pricing is a mathematical technique widely used in the banking industry to value investment securities without relying exclusively on quoted prices for the specific investment securities but rather relying on the investment securities' relationship to other benchmark quoted investment securities. Any investment securities not valued based upon the methods above are considered Level 3.

First Financial utilizes information provided by a third-party investment securities portfolio manager in analyzing the investment securities portfolio in accordance with the fair value hierarchy of the Fair Value Topic. The portfolio manager's evaluation of investment security portfolio pricing is performed using a combination of prices and data from other sources, along with internally developed matrix pricing models and assistance from the provider's internal fixed income analysts and trading desk. The portfolio manager's month-end pricing process includes a series of quality assurance activities where prices are compared to recent market conditions, previous evaluation prices and between the various pricing services. These processes produce a series of quality assurance reports on which price exceptions are identified, reviewed and where appropriate, securities are repriced. In the event of a materially different price, the portfolio manager will report the variance as a "price challenge" and review the pricing methodology in detail. The results of the quality assurance process are incorporated into the selection of pricing providers by the portfolio manager.

First Financial reviews the pricing methodologies utilized by the portfolio manager to ensure the fair value determination is consistent with the applicable accounting guidance and that the investments are properly classified in the fair value hierarchy. Further, the Company validates the fair values for a sample of securities in the portfolio by comparing the fair values provided by the portfolio manager to prices from other independent sources for the same or similar securities. First Financial analyzes unusual or significant variances and conducts additional research with the portfolio manager, if necessary, and takes appropriate action based on its findings.



Loans held for sale. Loans held for sale are carried at the lower of cost or fair value. These loans currently consist of one-to-four family residential real estate loans originated for sale to qualified third parties. Fair value is based on the contractual price to be received from these third parties, which is not materially different than cost due to the short duration between origination and sale (Level 2). As such, First Financial records any fair value adjustments on a nonrecurring basis. Gains and losses on the sale of loans are recorded as net gains from sales of loans within noninterest income in the Consolidated Statements of Income.

Loans (excluding covered loans). The fair value of commercial, commercial real estate, residential real estate and consumer loans were estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities or repricing frequency. The Company classifies the estimated fair value of uncovered loans as Level 3 in the fair value hierarchy.

Loans are designated as impaired when, in the judgment of management based on current information and events, it is probable that all amounts due according to the contractual terms of the loan agreement will not be collected. Impaired loans are valued

## Table of Contents

at the lower of cost or fair value for purposes of determining the appropriate amount of impairment to be allocated to the allowance for loan and lease losses. Fair value is generally measured based on the value of the collateral securing the loans. Collateral may be in the form of real estate or business assets including equipment, inventory and accounts receivable. The vast majority of the collateral is real estate. The value of real estate collateral is determined utilizing an income or market valuation approach based on an appraisal conducted by an independent, licensed third party appraiser (Level 3). The value of business equipment is based upon an outside appraisal if deemed significant, or the net book value on the applicable borrower financial statements if not considered significant. Likewise, values for inventory and accounts receivable collateral are based on borrower financial statement balances or aging reports on a discounted basis as appropriate (Level 3). Impaired loans allocated to the allowance for loan and lease losses are measured at fair value on a nonrecurring basis. Any fair value adjustments are recorded in the period incurred as provision for loan and lease losses on the Consolidated Statements of Income.

Covered loans. Fair values for covered loans accounted for under FASB ASC Topic 310-30 are based on a discounted cash flow methodology that considered factors including the type of loan and related collateral, classification status, fixed or variable interest rate, term of the loan and whether or not the loan was amortizing and a discount rate reflecting the Company's assessment of risk inherent in the cash flow estimates. These covered loans are grouped together according to similar characteristics and are treated in the aggregate when applying various valuation techniques. First Financial estimated the cash flows expected to be collected on these loans based upon the expected remaining life of the underlying loans, which includes the effects of estimated prepayments.

Fair values for covered loans accounted for outside of FASB ASC Topic 310-30 were estimated by discounting the estimated future cash flows using current interest rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities or repricing frequency. The carrying amount of accrued interest approximates its fair value.

These cash flow evaluations are inherently subjective as they require material estimates, all of which may be susceptible to significant change. The Company classifies the estimated fair value of covered loans as Level 3 in the fair value hierarchy.

FDIC indemnification asset. The accounting for FDIC indemnification assets is closely related to the accounting for the underlying, indemnified assets. Fair value of the FDIC indemnification asset is estimated using projected cash flows related to the loss sharing agreements based on the expected reimbursements for losses and the applicable loss sharing percentages. First Financial re-estimates the expected indemnification asset cash flows in conjunction with the periodic re-estimation of cash flows on covered loans accounted for under FASB ASC Topic 310-30. Improvements in cash flow expectations on covered loans generally result in a related decline in the expected indemnification cash flows while declines in cash flow expectations on covered loans generally result in an increase in expected indemnification cash flows.

The expected cash flows are discounted to reflect the uncertainty of the timing and receipt of the loss sharing reimbursement from the FDIC. These cash flow evaluations are inherently subjective as they require material estimates, all of which may be susceptible to significant change. The Company classifies the estimated fair value of the indemnification asset as Level 3 in the fair value hierarchy.

Deposit liabilities. The fair value of demand deposits, savings accounts and certain money-market deposits is the amount payable on demand at the reporting date. The carrying amounts for variable-rate certificates of deposit approximated their fair values at the reporting date. The fair value of fixed-rate certificates of deposit is estimated using a discounted cash flow calculation which applies the interest rates currently offered for deposits of similar remaining maturities. The carrying amount of accrued interest approximates its fair value. The Company classifies the estimated fair value of deposit liabilities as Level 2 in the fair value hierarchy.

Borrowings. The carrying amounts of federal funds purchased and securities sold under agreements to repurchase and other short-term borrowings approximated their fair values. The Company classifies the estimated fair value of short-term borrowings as Level 1 of the fair value hierarchy.

The fair value of long-term debt is estimated using a discounted cash flow calculation which utilizes the interest rates currently offered for borrowings of similar remaining maturities. Third-party valuations are used for long-term debt with embedded options, such as call features. The Company classifies the estimated fair value of long-term debt as Level 2 in the fair value hierarchy.

Commitments to extend credit and standby letters of credit. Pricing of these financial instruments is based on the credit quality and relationship, fees, interest rates, probability of funding and compensating balance and other covenants or requirements. Loan commitments generally have fixed expiration dates, are variable rate and contain termination and other

Table of Contents

clauses which provide for relief from funding in the event that there is a significant deterioration in the credit quality of the client. Many loan commitments are expected to expire without being drawn upon. The rates and terms of the commitments to extend credit and the standby letters of credit are competitive with those in First Financial's market area. The carrying amounts are reasonable estimates of the fair value of these financial instruments. Carrying amounts, which are comprised of the unamortized fee income and, where necessary, reserves for any expected credit losses from these financial instruments, are immaterial.

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

Table of Contents

The estimated fair values of First Financial's financial instruments not measured at fair value on a recurring or nonrecurring basis in the consolidated financial statements were as follows:

(Dollars in thousands)	Carrying value	Estimated Fair Value Total	Level 1	Level 2	Level 3
September 30, 2012					
Financial assets					
Cash and short-term investments	\$175,676	\$175,676	\$175,676	\$0	\$0
Investment securities held-to-maturity	822,319	830,540	0	830,540	0
Other investments	71,492	71,492	0	71,492	0
Loans held for sale	23,530	23,530	0	23,530	0
Loans, excluding covered loans	3,016,867	3,020,686	0	0	3,020,686
Covered loans	776,620	790,207	0	0	790,207
FDIC indemnification asset	130,476	116,051	0	0	116,051
Financial liabilities					
Deposits					
Noninterest-bearing	\$1,063,654	\$1,063,654	\$0	\$1,063,654	\$0
Interest-bearing demand	1,112,843	1,112,843	0	1,112,843	0
Savings	1,568,818	1,568,818	0	1,568,818	0
Time	1,199,296	1,206,006	0	1,206,006	0
Total deposits	4,944,611	4,951,321	0	4,951,321	0
Short-term borrowings	371,190	371,190	371,190	0	0
Long-term debt	75,521	79,921	0	79,921	0
December 31, 2011					
Financial assets					
Cash and short-term investments	\$525,051	\$525,051	\$525,051	\$0	\$0
Investment securities held-to-maturity	2,664	2,893	0	2,893	0
Other investments	71,492	71,492	0	71,492	0
Loans held for sale	24,834	24,834	0	24,834	0
Loans, excluding covered loans	2,915,871	2,910,825	0	0	2,910,825
Covered loans	1,010,409	1,042,752	0	0	1,042,752
FDIC indemnification asset	173,009	151,114	0	0	151,114
Financial liabilities					
Deposits					
Noninterest-bearing	\$946,180	\$946,180	\$0	\$946,180	\$0
Interest-bearing demand	1,317,339	1,317,339	0	1,317,339	0
Savings	1,724,659	1,724,659	0	1,724,659	0
Time	1,654,662	1,664,457	0	1,664,457	0
Total deposits	5,642,840	5,652,635	0	5,652,635	0
Short-term borrowings	99,431	99,431	99,431	0	0
Long-term debt	76,544	81,168	0	81,168	0



Table of Contents

The following table summarizes financial assets and liabilities measured at fair value on a recurring basis in the consolidated financial statements at September 30, 2012:

(Dollars in thousands)	Fair Value Measurements Using			Netting Adjustments <sup>(1)</sup>	Assets/Liabilities at Fair Value
	Level 1	Level 2	Level 3		
<b>Assets</b>					
Derivatives	\$0	\$26,198	\$0	\$(26,198	) \$ 0
Available-for-sale investment securities	134	689,546	0	0	689,680
Total	\$134	\$715,744	\$0	\$(26,198	) \$ 689,680
<b>Liabilities</b>					
Derivatives	\$0	\$29,316	\$0	\$(26,198	) \$ 3,118

(1) Amounts represent the impact of legally enforceable master netting arrangements that allow First Financial to settle positive and negative positions and also cash collateral held with the same counterparties.

Certain financial assets and liabilities are measured at fair value on a nonrecurring basis. Adjustments to the fair market value of these assets usually result from the application of lower of cost or fair value accounting or write-downs of individual assets. The following table summarizes financial assets and liabilities measured at fair value on a nonrecurring basis in the consolidated financial statements at September 30, 2012:

(Dollars in thousands)	Fair Value Measurements Using		
	Level 1	Level 2	Level 3
<b>Assets</b>			
Impaired loans <sup>(1)</sup>	\$0	\$0	\$24,260
OREO	0	0	8,694
Covered OREO	0	0	15,167

(1) Amounts represent the fair value of collateral for impaired loans allocated to the allowance for loan and lease losses. Fair values are determined using actual market prices (Level 1), independent third party valuations and borrower records, discounted as appropriate (Level 3).

**NOTE 15: ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)**

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

(Dollars in thousands)	Nine months ended September 30, 2012			Balances net of tax as of September 30, 2012
	Pre-tax	Tax-effect	Net of tax	
Unrealized gains on investment securities	\$2,671	\$(1,009	) \$1,662	\$14,331
Unrealized loss on derivatives	(292	) 110	(182	) (182
Retirement obligation	1,814	(685	) 1,129	(33,007
Foreign currency translation	26	0	26	3
Total	\$4,219	\$(1,584	) \$2,635	\$(18,855





Table of Contents

(Dollars in thousands)	Nine months ended September 30, 2011			Balances net of tax as of September 30, 2011
	Pre-tax	Tax-effect	Net of tax	
Unrealized gains on investment securities	\$ 12,966	\$(4,896	) \$8,070	\$ 17,134
Unrealized gain on derivatives	628	(237	) 391	0
Retirement obligation	1,275	(481	) 794	(20,488 )
Foreign currency translation	(599	) 0	(599	) (34 )
Total	\$ 14,270	\$(5,614	) \$8,656	\$(3,388 )

## NOTE 16: EARNINGS PER COMMON SHARE

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

(Dollars in thousands, except per share data)	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Numerator for basic and diluted earnings per share - income available to common shareholders:				
Net income	\$ 16,242	\$ 15,618	\$ 51,038	\$ 48,798
Dividends on preferred stock	0	0	0	0
Income available to common shareholders	\$ 16,242	\$ 15,618	\$ 51,038	\$ 48,798
Denominator for basic earnings per share - weighted average shares	57,976,943	57,735,811	57,902,102	57,674,250
Effect of dilutive securities —				
Employee stock awards	842,833	841,604	905,210	930,461
Warrants	120,403	76,684	123,258	95,241
Denominator for diluted earnings per share - adjusted weighted average shares	58,940,179	58,654,099	58,930,570	58,699,952
Earnings per share available to common shareholders				
Basic	\$ 0.28	\$ 0.27	\$ 0.88	\$ 0.85
Diluted	\$ 0.28	\$ 0.27	\$ 0.87	\$ 0.83

Stock options and warrants, where the exercise price was greater than the average market price of the common shares, were not included in the computation of net income per diluted share as they would have been antidilutive. These out-of-the-money options were 354,876 and 1,267,705 at September 30, 2012 and 2011, respectively.

Warrants to purchase 465,117 shares of the Company's common stock were outstanding as of September 30, 2012 and 2011. These warrants, each representing the right to purchase one share of common stock, no par value per share, have an exercise price of \$12.44 and expire on December 23, 2018.

Table of Contents

ITEM 2-MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS (MD&A)  
FIRST FINANCIAL BANCORP. AND SUBSIDIARIES  
(Unaudited)

SUMMARY

First Financial Bancorp. (First Financial or the Company) is a \$6.2 billion bank holding company headquartered in Cincinnati, Ohio. As of September 30, 2012 First Financial, through its subsidiaries, operated in Ohio, Indiana and Kentucky. These subsidiaries include a commercial bank, First Financial Bank, N.A. (First Financial Bank or the Bank) with 122 banking centers and 141 ATMs. First Financial conducts three primary activities through its bank subsidiary: commercial banking, retail banking and wealth management. First Financial Bank provides credit-based products, deposit accounts, corporate cash management support and other services to commercial and retail clients. Additionally, the Bank conducts franchise lending by providing equipment and leasehold improvement financing for select franchisees and concepts in the quick service and casual dining restaurant sector throughout the United States. First Financial Wealth Management provides wealth planning, portfolio management, trust and estate, brokerage and retirement plan services.

First Financial acquired the banking operations of Peoples Community Bank (Peoples), and Irwin Union Bank and Trust Company and Irwin Union Bank, F.S.B. (collectively, Irwin), through Federal Deposit Insurance Corporation (FDIC)-assisted transactions in 2009. The acquisitions of the Peoples and Irwin franchises significantly expanded the First Financial footprint, opened new markets and strengthened the Company through the generation of additional capital.

In connection with the Peoples and Irwin FDIC-assisted transactions, First Financial entered into loss sharing agreements with the FDIC. Under the terms of these agreements the FDIC reimburses First Financial for a percentage of losses with respect to certain loans (covered loans) and other real estate owned (covered OREO) (collectively, covered assets). These agreements provide for loss protection on single-family, residential loans for a period of ten years and First Financial is required to share any recoveries of previously charged-off amounts for the same time period, on the same pro-rata basis with the FDIC. All other loans are provided loss protection for a period of five years and recoveries of previously charged-off loans must be shared with the FDIC for a period of eight years, again on the same pro-rata basis. The FDIC's obligation to reimburse First Financial for losses with respect to covered assets for all three assisted transactions began with the first dollar of loss incurred.

First Financial must follow specific servicing and resolution procedures, as outlined in the loss sharing agreements, in order to receive reimbursement from the FDIC for losses on covered assets. The Company has established separate and dedicated teams of legal, finance, credit and technology staff to execute and monitor all activity related to each agreement, including the required periodic reporting to the FDIC. First Financial services all covered assets with the same resolution practices and diligence as it does for assets that are not subject to a loss sharing agreement.

Covered loans represent approximately 21% of First Financial's loans at September 30, 2012.

MARKET STRATEGY

First Financial serves a combination of metropolitan and non-metropolitan markets in Ohio, Indiana and Kentucky through its full-service banking centers, while providing franchise lending services to borrowers throughout the United States. First Financial's market selection process includes a number of factors, but markets are primarily chosen for their potential for growth and long-term profitability. First Financial's goal is to develop a competitive advantage utilizing a local market focus, building long-term relationships with clients, helping them reach greater levels of

success in their financial life and providing a superior level of service. First Financial intends to continue to concentrate future growth plans and capital investments in its metropolitan markets. Smaller markets have historically provided stable, low-cost funding sources to First Financial and remain an important part of its funding base. First Financial believes its historical strength in these markets should enable it to retain or improve its market share.

As part of the on-going evaluation of its banking center network, First Financial consolidated nine banking centers located in Ohio and Indiana and exited one Indiana market during the second quarter 2012. First Financial consolidated two additional Indiana-based banking centers and closed four other Indiana-based banking centers where the Company has a limited presence during the third quarter 2012. These banking center actions will allow the Company to focus additional resources in the Cincinnati, Dayton and Indianapolis metropolitan markets. Customer relationships related to the consolidated banking centers will be transferred to the nearest First Financial location where those customers will continue to receive the same high level of service.

## Table of Contents

### BUSINESS COMBINATIONS

On September 23, 2011, First Financial Bank, completed the purchase of 16 Ohio-based retail banking centers from Liberty Savings Bank, FSB (Liberty) including \$126.5 million of performing loans and \$341.9 million of deposits at their estimated fair values. First Financial also acquired \$3.8 million of fixed assets at estimated fair value and paid Liberty a \$22.4 million net deposit premium. Assets acquired in this transaction are not subject to a loss sharing agreement. First Financial recorded \$17.1 million of goodwill related to the Liberty banking center acquisition.

On December 2, 2011, First Financial Bank completed the purchase of 22 Indiana-based retail banking centers from Flagstar Bank, FSB (Flagstar) and assumed approximately \$464.7 million of deposits at their estimated fair value. First Financial also acquired \$6.6 million of fixed assets at estimated fair value and paid Flagstar a \$22.5 million net deposit premium. Assets acquired in this transaction are not subject to a loss sharing agreement. First Financial recorded \$26.1 million of goodwill related to the Flagstar banking center acquisition.

The Liberty and Flagstar banking center acquisitions were accounted for in accordance with FASB ASC Topic 805, Business

Combinations. The fair values of assets and liabilities acquired in a business combination are subject to refinement for up to one year after the closing date of the acquisition (the measurement period) as information relative to closing date fair values becomes available.

### OVERVIEW OF OPERATIONS

Reclassifications of prior period amounts, if applicable, have been made to conform to the current period's presentation and had no effect on previously reported net income amounts or financial condition.

Third quarter 2012 net income was \$16.2 million, and earnings per diluted share were \$0.28. This compares with third quarter 2011 net income of \$15.6 million and earnings per diluted share of \$0.27.

For the nine months ended September 30, 2012, net income was \$51.0 million and earnings per diluted share were \$0.87. This compares to net income of \$48.8 million and earnings per diluted share of \$0.83 for the same period in 2011.

Return on average assets for the third quarter of 2012 was 1.05% compared to 1.01% for the comparable period in 2011. Return on average shareholders' equity for the third quarter of 2012 was 9.01% compared to 8.54% for the comparable period in 2011.

Return on average assets for the first nine months of 2012 was 1.08% compared to 1.05% for the same period in 2011. Return on average shareholders' equity was 9.56% and 9.19% for the same periods in 2012 and 2011, respectively.

A discussion of the first nine months and third quarter of 2012 results of operations follows.

### NET INTEREST INCOME

Net interest income, First Financial's principal source of income, is the excess of interest received from earning assets over interest paid on interest-bearing liabilities. For analytical purposes, net interest income is also presented in the table that follows, adjusted to a tax equivalent basis assuming a 35% marginal tax rate for interest earned on tax-exempt assets such as municipal loans and investments. This is to recognize the income tax savings that facilitates a comparison between taxable and tax-exempt assets. Management believes that it is a standard practice in the banking industry to present net interest margin and net interest income on a fully tax equivalent basis. Therefore,

management believes these measures provide useful information to make peer comparisons.

The majority of First Financial's covered loans are accounted for under FASB ASC Topic 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality (FASB ASC Topic 310-30). As such, the Company is required to periodically update its forecast of expected cash flows from these loans. Impairment, as a result of a decrease in expected cash flows, is recognized in the period it is measured as provision expense and has no impact on net interest income or net interest margin. Improvements in expected cash flows are recognized on a prospective basis through an upward adjustment to the yield earned on the portfolio. Impairment and improvement are both partially offset by the impact of changes in the value of the FDIC indemnification asset. Impairment is partially offset by an increase to the FDIC indemnification asset as a result of FDIC loss sharing income and has no impact on net interest income or net interest margin. Improvement, which is reflected as a higher yield on the loans, is partially offset by a lower yield earned on the FDIC indemnification asset until the next periodic valuation of the loans and the indemnification asset. The weighted average yield of the acquired loan portfolio can also be subject to

Table of Contents

change as loans with higher yields pay down more quickly or slowly than loans with lower yields.

(Dollars in thousands)	Three Months Ended		Nine months ended		
	September 30,		September 30,		
	2012	2011	2012	2011	
Net interest income	\$59,846	\$65,218	\$191,365	\$198,420	
Tax equivalent adjustment	255	236	689	714	
Net interest income - tax equivalent	\$60,101	\$65,454	\$192,054	\$199,134	
Average earning assets	\$5,658,059	\$5,687,036	\$5,806,615	\$5,730,642	
Net interest margin *	4.21	% 4.55	% 4.40	% 4.63	%
Net interest margin (fully tax equivalent) *	4.23	% 4.57	% 4.42	% 4.65	%

\* Margins are calculated using annualized net interest income divided by average earning assets.

Net interest income for the third quarter 2012 was \$59.8 million, declining \$5.4 million or 8.2% from third quarter 2011 net interest income of \$65.2 million. Net interest income on a fully tax-equivalent basis for the third quarter 2012 was \$60.1 million as compared to \$65.5 million for the third quarter 2011. Net interest margin was 4.21% for the third quarter 2012 as compared to 4.55% for the third quarter 2011. The declines in net interest income and net interest margin were primarily related to changes in the composition of the Company's earning assets as well as the current low interest rate environment for loans and investment securities.

The decline in net interest income in the third quarter 2012 as compared to the third quarter 2011 was the result of a \$9.6 million or 12.7% decline in total interest income partially offset by a \$4.3 million or 39.8% decline in total interest expense. The decline in total interest income resulted from a decline in interest income and fees earned on loans, primarily as a result of continued amortization and paydowns in the Company's high-yielding covered loan portfolio, partially offset by higher interest income earned on the investment portfolio.

Contributing to the lower interest income earned on loans, and a related decline in net interest margin, was a \$329.8 million or 27.6% decline in the average balance of the Company's high-yielding covered loan portfolio as compared to the third quarter 2011. Declines in covered loan balances are a result of payments received, including full payoffs, charge-offs and other loan resolution activities. The decline in covered loan balances was offset by growth in lower yielding assets as uncovered loan balances increased \$220.7 million or 7.9%, while the investment securities portfolio increased \$406.8 million or 33.9%, from the third quarter of 2011. Interest-bearing deposits with other banks also declined \$295.6 million or 96.3% from the third quarter of 2011.

Elevated prepayment activity related to higher yielding mortgage-backed securities (MBSs) in the investment portfolio impacted both the average balances and portfolio yield during the third quarter 2012. This prepayment activity also resulted in accelerated premium amortization, negatively affecting interest income and contributing to the decline in net interest margin. A significant portion of the Company's higher-yielding investment grade single-issuer trust preferred securities were redeemed by the issuers' early in the third quarter 2012, impacting interest income and net interest margin as well.

While average uncovered loan balances increased from the third quarter 2011 as a result of strong new loan origination activity in recent periods, payoff activity was also elevated. As a result of the low interest rate environment and heightened competition, recent loan originations have been recorded at yields significantly lower than the yields on loans that paid off during the same period, muting the impact of increased balances on interest income earned and net interest margin. Interest income and net interest margin were also negatively impacted, to a lesser extent, by a

decline in loan fees.

Interest expense and net interest margin continued to benefit from the impact of deposit pricing and rationalization strategies as the average balance of interest-bearing deposits declined \$353.7 million or 8.1% and the cost of funds related to these deposits decreased 32 basis points to 57 basis points for the third quarter 2012 compared to 89 basis points for the comparable quarter in 2011.

For the nine month period ended September 30, 2012, net interest income was \$191.4 million, a decline of \$7.1 million or

39

---

Table of Contents

3.6%, from \$198.4 million for the comparable period in 2011. Net interest income on a fully tax-equivalent basis for the nine month period ended September 30, 2012, was \$192.1 million as compared to \$199.1 million for the comparable period in 2011. Similar to the quarterly year-over-year items discussed above, these declines were primarily related to lower covered loan balances as well as a reduced yield on the FDIC indemnification asset, partially offset by higher interest income from investments and lower funding costs.

Net interest margin for the nine month period ended September 30, 2012 declined 23 bps to 4.40% from 4.63% for the comparable period in 2011.

The Consolidated Average Balance Sheets and Net Interest Income Analysis that follows are presented on a GAAP basis.



Table of Contents

## QUARTERLY CONSOLIDATED AVERAGE BALANCE SHEETS AND NET INTEREST INCOME ANALYSIS

(Dollars in thousands)	September 30, 2012		June 30, 2012			September 30, 2011			
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Earning assets									
Investments:									
Interest-bearing deposits with other banks	\$ 11,390	\$ 13	0.45 %	\$ 4,454	\$ 2	0.18 %	\$ 306,969	\$ 208	0.27 %
Investment securities	1,606,313	8,469	2.09 %	1,713,503	10,500	2.46 %	1,199,473	7,587	2.51 %
Gross loans including covered loans and indemnification asset <sup>(1)</sup>	4,040,356	57,823	5.68 %	4,095,310	61,421	6.02 %	4,180,594	68,157	6.47 %
Total earning assets	5,658,059	66,305	4.65 %	5,813,267	71,923	4.96 %	5,687,036	75,952	5.30 %
Nonearning assets									
Cash and due from banks	118,642			121,114			110,336		
Allowance for loan and lease losses	(102,636 )			(98,317 )			(107,101 )		
Premises and equipment	145,214			143,261			116,070		
Other assets	347,388			355,648			330,474		
Total assets	\$ 6,166,667			\$ 6,334,973			\$ 6,136,815		
Interest-bearing liabilities									
Deposits:									
Interest-bearing	\$ 1,164,111	\$ 384	0.13 %	\$ 1,192,868	316	0.11 %	\$ 1,153,178	690	0.24 %
Savings	1,588,708	476	0.12 %	1,610,411	464	0.12 %	1,659,152	1,412	0.34 %
Time	1,260,329	4,870	1.53 %	1,406,800	5,601	1.60 %	1,554,497	7,721	1.97 %
Short-term borrowings	181,905	54	0.12 %	159,681	37	0.09 %	100,990	44	0.17 %
Long-term borrowings	75,435	675	3.55 %	75,314	675	3.59 %	94,150	867	3.65 %
Total interest-bearing liabilities	4,270,488	6,459	0.60 %	4,445,074	7,093	0.64 %	4,561,967	10,734	0.93 %
Noninterest-bearing liabilities and shareholders' equity									
Noninterest-bearing demand	1,052,421			1,044,405			735,621		
Other liabilities	126,961			128,383			113,418		
Shareholders' equity	716,797			717,111			725,809		
Total liabilities and shareholders' equity	\$ 6,166,667			\$ 6,334,973			\$ 6,136,815		
Net interest income		\$ 59,846			\$ 64,830			\$ 65,218	
Net interest spread			4.05 %			4.32 %			4.37 %
			0.16 %			0.17 %			0.18 %

Contribution of  
noninterest-bearing  
sources of funds

Net interest margin <sup>(2)</sup>	4.21 %	4.49 %	4.55 %
------------------------------------	--------	--------	--------

(1) Nonaccrual loans and loans held for sale are included in average balances.

(2) Because noninterest-bearing funding sources, demand deposits, other liabilities and shareholders' equity also support earning assets, the net interest margin exceeds the interest spread.

41

---

Table of Contents

## RATE/VOLUME ANALYSIS

The impact of changes in the volume of interest-earning assets and interest-bearing liabilities and interest rates on net interest income is illustrated in the following tables.

(Dollars in thousands)	Changes for the Three Months Ended September 30, 2012					
	Linked Qtr. Income Variance			Comparable Qtr. Income Variance		
	Rate	Volume	Total	Rate	Volume	Total
Earning assets						
Investment securities	\$(1,564 )	\$(467 )	\$(2,031 )	\$(1,263 )	\$2,145	\$882
Other earning assets	3	8	11	142	(337 )	(195 )
Gross loans <sup>(1)</sup>	(3,449 )	(149 )	(3,598 )	(8,327 )	(2,007 )	(10,334 )
Total earning assets	(5,010 )	(608 )	(5,618 )	(9,448 )	(199 )	(9,647 )
Interest-bearing liabilities						
Total interest-bearing deposits	\$(435 )	\$(216 )	\$(651 )	\$(3,588 )	\$(505 )	\$(4,093 )
Borrowed funds						
Short-term borrowings	10	7	17	(14 )	24	10
Federal Home Loan Bank long-term debt	(8 )	8	0	(25 )	(167 )	(192 )
Other long-term debt	0	0	0	0	0	0
Total borrowed funds	2	15	17	(39 )	(143 )	(182 )
Total interest-bearing liabilities	(433 )	(201 )	(634 )	(3,627 )	(648 )	(4,275 )
Net interest income	\$(4,577 )	\$(407 )	\$(4,984 )	\$(5,821 )	\$449	\$(5,372 )

(1) Loans held for sale, nonaccrual loans, covered loans and indemnification asset are included in gross loans.

(Dollars in thousands)	Changes for the Nine Months Ended September 30, 2012		
	Year-to-Date Income Variance		
	Rate	Volume	Total
Earning assets			
Investment securities	\$(2,008 )	\$9,768	\$7,760
Other earning assets	(114 )	(600 )	(714 )
Gross loans <sup>(1)</sup>	(18,625 )	(8,928 )	(27,553 )
Total earning assets	(20,747 )	240	(20,507 )
Interest-bearing liabilities			
Total interest-bearing deposits	\$(11,489 )	\$(674 )	\$(12,163 )
Borrowed funds			
Short-term borrowings	(69 )	34	(35 )
Federal Home Loan Bank long-term debt	(61 )	(802 )	(863 )
Other long-term debt	0	(391 )	(391 )
Total borrowed funds	(130 )	(1,159 )	(1,289 )
Total interest-bearing liabilities	(11,619 )	(1,833 )	(13,452 )
Net interest income	\$(9,128 )	\$2,073	\$(7,055 )

(1) Loans held for sale, nonaccrual loans, covered loans and indemnification asset are included in gross loans.

## NONINTEREST INCOME

Third quarter 2012 noninterest income was \$30.8 million, a \$2.7 million or 9.7% increase from noninterest income of \$28.1 million in the third quarter 2011. The increase in noninterest income from the comparable quarter in 2011 was due primarily to \$2.6 million of gains recorded on the sale of investment securities, a \$0.7 million increase in service charges on deposits related to the Liberty and Flagstar acquisitions, as well as an increase of other noninterest income of \$0.5 million. This increase was partially offset by \$1.4 million decline in accelerated discount on covered loans.

Table of Contents

While no material sales of covered loans occurred during the third quarter of 2012, covered loan activity continued to impact noninterest income due to prepayments. Accelerated discount is recognized when acquired loans, which are recorded on the Company's balance sheet at an amount less than the unpaid principal balance, prepay at an amount greater than their recorded book value. Prepayments can occur either through customer driven payments before the maturity date or loan sales. The amount of discount attributable to the credit loss component of each loan varies and the recognized amount is offset by a related reduction in the FDIC indemnification asset. First Financial recognized accelerated discount on covered loans of \$3.8 million for the third quarter of 2012 and \$5.2 million for the third quarter of 2011.

When losses are incurred on covered loans, the Company recognizes those credit losses as provision expense, while losses incurred on covered OREO are recognized as noninterest expense. Reimbursements due from the FDIC under loss sharing agreements related to these credit losses, referred to as loss sharing income, are recorded as noninterest income and were \$8.5 million for the third quarter of 2012 and \$8.4 million for the third quarter of 2011. The impact on earnings of this offsetting activity is the net effect of the credit losses and FDIC reimbursement, representing the Company's proportionate share of the credit losses realized on covered assets.

For the nine months ended September 30, 2012, noninterest income totaled \$96.3 million compared to \$112.9 million for the comparable year-over-year period. The \$16.6 million or 14.7% decline in noninterest income from the comparable period in 2011 was primarily attributable to a \$23.9 million decrease in FDIC loss sharing income and a \$4.5 million decrease in accelerated discount on covered loans, offset by the \$2.6 million gain on the sale of investment securities as well as the \$5.0 million of other noninterest income associated with the settlement of litigation related to a subsidiary in the second quarter of 2012 and increases of \$1.5 million and \$0.7 million in service charges on deposit accounts and bankcard income, respectively.

#### NONINTEREST EXPENSE

Third quarter 2012 noninterest expense was \$55.3 million compared with \$53.1 million in the third quarter of 2011. The \$2.1 million or 4.0% increase from the comparable quarter in 2011 was primarily attributable to a \$2.5 million increase in loss sharing expense, a \$1.0 million increase in net occupancy expenses related to the Liberty and Flagstar acquisitions as well as relocation of the Company's headquarters to downtown Cincinnati, an increase of \$0.9 million in data processing expenses related to the implementation and maintenance of software utilized by the Bank and a \$1.7 million increase in loss on OREO properties, offset by lower professional services expense and nominal gains recognized on covered OREO in 2012, compared to \$2.7 million of losses incurred in the third quarter of 2011. Losses on OREO are generally the result of declines in fair value, and losses on final disposition, of OREO properties during the period. Loss sharing expense represents costs incurred to resolve problem covered assets. Losses on covered OREO and loss sharing expenses are partially reimbursed by the FDIC. The decline in professional services expense was primarily due to a \$0.2 million decrease in legal fees, including litigation related expenses, as well as \$0.3 million in reduced costs related to consulting services.

For the nine months ended September 30, 2012, noninterest expense totaled \$168.5 million compared to \$163.4 million for the comparable year-over-year period. The increase of \$5.1 million or 3.1% is primarily attributable to a \$4.7 million increase in salaries and employee benefits expense related to the Liberty and Flagstar acquisitions, a \$2.2 million increase in data processing expense related to the implementation and maintenance of software utilized by the Bank, a \$6.6 million increase in loss sharing expense and a \$1.6 million increase in other noninterest expense. The increase in other noninterest expense primarily related to a \$1.4 million increase in the amortization of intangibles and an increase in loss on the disposal of fixed assets of \$0.6 million, specifically related to the core deposit intangibles and branches consolidated during 2012 as well as an increase of \$0.7 million in collection expenses. Also affecting other noninterest expense was an increase in the reserve for unfunded commitments due to an increase in an available

credit line after a large paydown on a criticized loan. These increases were partially offset by a combined \$6.5 million decrease in losses related to covered and uncovered OREO, a \$1.8 million decrease in professional services expense primarily due to lower legal and consulting costs, a \$0.8 million decrease in amortization related to trust preferred securities redeemed in 2011 and a \$1.7 million decrease in acquisition related costs related to the Liberty and Flagstar branch acquisitions in 2011.

During the third quarter 2012, First Financial completed a comprehensive efficiency study across all business lines and support functions. As a result, the Company identified approximately \$17.1 million of annualized cost savings impacting several expense categories, inclusive of the estimated \$3.0 million of net operating expenses associated with 2012 banking center consolidations. Realization of the identified cost savings is anticipated to begin during the fourth quarter 2012, however the Company does not expect to recognize net savings during 2012 as one-time costs associated with implementing the efficiency plan are expected to offset estimated savings. Ultimately, the achievement of these cost savings will be contingent upon management's ability to successfully implement the efficiency plan while managing external factors, such as regulatory changes and a dynamic business environment, without impacting service levels throughout the Company and to our customers.

## Table of Contents

### INCOME TAXES

Income tax expense was \$8.9 million and \$9.7 million for the third quarters of 2012 and 2011, respectively. The effective tax rates for the third quarters of 2012 and 2011 were 35.4% and 38.2%, respectively. The decrease in the effective tax rate during the third quarter 2012 as compared to the same period in 2011 was primarily due to an unfavorable provision to return adjustment recorded in the third quarter of 2011 related to the completion of the 2010 federal and state tax returns. First Financial recorded a favorable provision to return adjustment in the second quarter 2012 related to the completion of 2011 state tax returns. Provision to return adjustments of this nature are typical during the second or third quarters as federal and state tax returns are finalized.

Income tax expense for the nine months ended September 30, 2012 and 2011 was \$27.2 million and \$27.9 million, respectively. The year-to-date effective tax rate through September 30, 2012 was 34.8% compared to 36.3% for the comparable period in 2011. The decline in the year-to-date effective tax rate through September 30, 2012 is primarily related to tax planning strategies that reduced state taxes in 2012.

### LOANS - EXCLUDING COVERED LOANS

Loans, excluding covered loans and loans held for sale, increased \$97.6 million or 3.3% to \$3.1 billion at September 30, 2012 compared to December 31, 2011. The increase in loan balances from December 31, 2011 was primarily related to a \$105.6 million increase in commercial real estate loans and a \$24.0 million increase in equipment lease financing balances, partially offset by a \$45.2 million decline in commercial and construction real estate loan balances during the period. Loan demand remains a challenge in the Company's strategic operating markets as a result of competition from other institutions as well as continued uncertainty in the economic environment.

Third quarter 2012 average loans, excluding covered loans and loans held for sale, increased \$220.7 million or 7.9% from the third quarter of 2011. The increase in average loans, excluding covered loans and loans held for sale, was primarily the result of the \$126.5 million of performing loans acquired in connection with the Liberty branch acquisition late in the third quarter of 2011. Similarly, year-to-date average loans, excluding covered loans and loans held for sale, increased \$192.3 million through September 30, 2012 from the comparable period in 2011.

### LOANS - COVERED

Covered loans continued to decline during the quarter, totaling \$825.5 million at September 30, 2012, a \$227.7 million or 21.6% decline compared to December 31, 2011. Declines in covered loan balances were expected as there were no acquisitions of loans subject to loss sharing agreements during the period. The covered loan portfolio will continue to decline through payoffs, loan sales, charge-offs and termination or expiration of loss share coverage unless First Financial acquires additional loans subject to loss sharing agreements in the future. Loans with coverage terminated, or removed, generally represent loans to primarily high quality borrowers involving a change in loan terms which caused the respective loans to no longer qualify for reimbursement from the FDIC in the event of credit losses.

As required under the loss-sharing agreements, First Financial must file monthly certifications with the FDIC on single-family residential loans and quarterly certifications on all other loans. To date, all certifications have been filed in a timely manner and without significant issues.

### INVESTMENTS

First Financial's investment portfolio totaled \$1.6 billion or 25.4% of total assets at September 30, 2012, compared with \$1.5 billion or 22.7% of total assets at December 31, 2011. Securities available-for-sale at September 30, 2012, totaled \$689.7 million, compared with \$1.4 billion at December 31, 2011, while held-to-maturity securities totaled \$822.3 million at September 30, 2012 compared to \$2.7 million at December 31, 2011.

First Financial reclassified securities, primarily agency MBSs, with a total book value of \$915.5 million as of March 31, 2012 from available-for-sale to held-to-maturity during the first quarter 2012. While market expectations are that the current, low interest rate environment will continue for the next several years, the increase in the Company's portfolio duration in recent periods had caused the price sensitivity of the portfolio to increase in rising interest rate scenarios. Further, declines in market values for available-for-sale securities could negatively impact shareholders' equity as these securities are carried at fair value with unrealized holding gains and losses recorded as other comprehensive income. The reclassification was executed to mitigate the impact of potential future price depreciation on other comprehensive income and the corresponding negative



## Table of Contents

impact on shareholders' equity as held-to-maturity securities are carried at amortized cost. First Financial has the intent and ability to hold the transferred securities to maturity and does not expect this reclassification to affect its liquidity needs in future periods.

The investment portfolio increased \$67.5 million, or 4.5%, during the first nine months of 2012 as \$465.3 million of purchases were partially offset by amortizations and paydowns in the portfolio, as well as the sale of \$84.3 million of agency MBSs classified as available-for-sale during the third quarter 2012. The increase in the investment portfolio was primarily related to the deployment of cash received in the Liberty and Flagstar banking center acquisitions late in 2011, as well as amortization and paydowns of both uncovered and covered loans as loan demand remains muted. First Financial purchased agency MBSs and, to a lesser extent, investment grade single issuer trust preferred securities, utilizing the same discipline and portfolio management philosophy as with past investment purchases including, but not limited to, avoidance of material credit risk and geographic concentration risk within the MBSs. A significant portion of the Company's higher-yielding trust preferred securities were redeemed by the issuers early in the third quarter 2012.

As a result of elevated prepayment activity on MBSs during the third quarter 2012, First Financial began repositioning the investment portfolio to reduce the future risk of prepayment by selling the previously mentioned \$84.3 million of agency MBSs and purchasing \$133.8 million of securities. The Company sold lower-yielding agency MBSs classified as available-for-sale in order to reduce liquidity, interest rate cap and prepayment risks, recognizing a pre-tax gain of \$2.6 million on the sale. The Company purchased an additional \$256.9 million of securities early in the fourth quarter 2012. These purchases consist primarily of fixed rate agency collateralized mortgage obligations (CMOs) and tax-exempt pass-through securities and, to a lesser extent, variable rate agency CMOs. To mitigate prepayment and premium risk, the majority of these purchases consisted of securities with lower premiums. Additionally, a large percentage of these purchases were collateralized by higher loan-to-value (LTV) loans originated under the Home Affordable Refinance Program (HARP) as well as lower balance mortgages which together should exhibit more favorable prepayment protection in a low interest rate environment.

The Company's current investment strategy consists of a "barbelled" approach under which both short and long duration securities are targeted to provide a weighted average duration and yield profile approximating an intermediate duration security. This strategy should provide current income from the longer duration securities, which benefit from the steepness of the yield curve, while also mitigating interest rate risk with shorter duration variable rate securities which will reset when interest rates return to a rising environment.

The overall duration of the investment portfolio decreased to 1.8 years as of September 30, 2012 from 2.4 years as of December 31, 2011 due to increased prepayment speeds resulting from the continued decline in interest rates. The Company has partially mitigated the refinancing and premium risk associated with higher prepayment speeds by capping the premium at which it has purchased securities and by selectively purchasing agency MBSs collateralized by assets less subject to refinancing in this interest rate environment.

First Financial has recorded, as a component of equity in accumulated other comprehensive income, an unrealized after-tax gain on the investment portfolio of approximately \$14.3 million at September 30, 2012, compared with \$12.7 million at December 31, 2011.

## DEPOSITS AND FUNDING

Total deposits as of September 30, 2012 were \$4.9 billion, a decrease of \$698.2 million or 12.4% compared to December 31, 2011. The decrease in total deposits at September 30, 2012 as compared to December 31, 2011 was primarily related to a \$455.4 million or 27.5% decline in total time deposit balances and a \$242.9 million or 6.1% decline in non-time deposit balances. The decline in non-time deposit balances was driven by a \$204.5 million

decrease in interest-bearing demand deposits and a \$155.8 million decrease in savings deposits. The declines in both time deposit and non-time deposit balances from December 31, 2011 to September 30, 2012 were a result of the Company's continued focus on reducing non-core relationship deposits in connection with its deposit rationalization strategies, the repricing of certain deposits acquired in the Flagstar banking center acquisition and deposit attrition resulting from the Company's recent banking center consolidation activities. Partially offsetting this activity was an increase of \$117.5 million or 12.4% in core noninterest-bearing accounts during the first nine months of 2012.

Average deposits declined to \$5.1 billion at September 30, 2012 from \$5.5 billion at December 31, 2011 primarily due to decreases in average interest-bearing demand deposits of \$224.8 million and average time deposits of \$363.6 million, partially offset by an increase in noninterest-bearing deposits of \$191.6 million.

Borrowed funds increased to \$446.7 million at September 30, 2012 from \$176.0 million at December 31, 2011, due to a \$283.0

## Table of Contents

million increase in First Financial's short-term borrowings with the Federal Home Loan Bank (FHLB) as a result of deposit attrition during the period from the Company's deposit reationalization strategies as well as recent purchase activity related to the Company's investment securities portfolio.

For further discussion of First Financial's borrowing capacity and liquidity management, see the Liquidity section of Management's Discussion and Analysis.

## RISK MANAGEMENT

First Financial manages risk through a structured enterprise risk management (ERM) approach that routinely assesses the overall level of risk, identifies specific risks and evaluates the steps being taken to mitigate those risks. First Financial continues to enhance its risk management capabilities and the development of risk awareness as a component of the culture of the Company and the operating policies of its business lines. First Financial has identified nine types of risk that it monitors in its ERM framework. These risks include information technology, market, legal, strategic, reputation, credit, regulatory (compliance), operational and external/environmental.

For further discussion of these risks, see the Risk Management section of the Management's Discussion and Analysis of First Financial's 2011 Annual Report and the information below.

## CREDIT RISK

Credit risk represents the risk of loss due to failure of a customer or counterparty to meet its financial obligations in accordance with contractual terms. First Financial manages credit risk through its underwriting process and periodically reviewing and approving its credit exposures using credit policies and guidelines approved by its board of directors. Due to the significant differences in the accounting for covered loans and the loss sharing agreements with the FDIC, management believes that asset quality measures excluding covered loans are generally more meaningful. Therefore, management has included asset quality measures that exclude covered loans in the table in this section.

Allowance for loan and lease losses (excluding covered loans). Management maintains the allowance for loan and lease losses at a level that it considers sufficient to absorb probable loan and lease losses inherent in the portfolio. Management determines the adequacy of the allowance based on historical loss experience as well as other significant factors such as composition of the portfolio; economic conditions; geographic footprint; the results of periodic internal and external evaluations of delinquent, nonaccrual and classified loans; and any other adverse situations that may affect a specific borrower's ability to repay (including the timing of future payments). This evaluation is inherently subjective as it requires utilizing material estimates that may be susceptible to significant change. The evaluation of these factors is the responsibility of the Allowance for Loan and Lease Losses Committee, which is comprised of senior officers from the risk management, credit administration, finance and lending areas.

The allowance for uncovered loan and lease losses was \$49.2 million as of September 30, 2012 compared to \$52.6 million as of December 31, 2011. As a percentage of period-end loans, the allowance for loan and lease losses was 1.60% as of September 30, 2012 compared to 1.77% as of December 31, 2011. The allowance for uncovered loan and lease losses is the result of the Company's modeling efforts to estimate losses inherent in the portfolio and is influenced by migration trends within First Financial's loan rating classification scheme, the levels of nonperforming loans and the nature and timing of resolution strategies related to nonperforming loans, among other factors. The decline in the allowance for uncovered loan and lease losses from December 31, 2011 was primarily the result of continued positive migration trends in classified assets as well as the finalization of resolution strategies related to certain nonperforming loans during 2012.

Third quarter 2012 net charge-offs were \$5.4 million or 0.71% of average loans and leases on an annualized basis, compared with \$6.8 million or 0.96% of average loans and leases on an annualized basis for the comparable quarter in 2011. Net charge-offs during the third quarter 2012 included \$0.8 million related to the disposition of a single commercial loan and \$2.3 million related to valuation adjustments of three commercial real estate credits.

For the nine months ended September 30, 2012, net charge-offs were \$18.6 million, or 0.83% of average loans and leases on an annualized basis, as compared to \$16.7 million, or 0.80% of average loans and leases on an annualized basis for the nine months ended September 30, 2011. Net charge-offs for the nine months ended September 30, 2012 include the third quarter 2012 charge-offs discussed above in addition to \$2.0 million related to the dispositions of a commercial real estate credit and a construction and land development credit and \$1.2 million related to valuation adjustments on two commercial real estate credits during the second quarter 2012, as well as a \$1.7 million charge-off related to a commercial construction and land development credit, \$1.1 million related to a hotel real estate loan and three commercial credits totaling \$0.9 million in the

Table of Contents

aggregate during the first quarter 2012.

Provision expense related to uncovered loans and leases is a product of the Company's allowance for loan and lease losses model as well as net charge-off activity during the period. Third quarter 2012 provision expense related to uncovered loans and leases was \$3.6 million as compared to \$7.6 million during the comparable quarter in 2011. Similar to the allowance, the decline in provision expense was driven primarily by the continued positive migration trends in classified assets as well as the finalization of resolution strategies on certain loans during the quarter. Provision expense related to uncovered loans and leases was \$15.2 million and \$14.0 million for the nine months ended September 30, 2012 and 2011, respectively. Provision expense for the nine months ended September 30, 2012 was impacted by the establishment of or addition to specific reserves totaling \$6.1 million in the aggregate on three separate commercial and commercial real estate credits in the second quarter, partially offset by the continued migration trends in classified assets as well as the finalization of resolution strategies on certain loans during the year.

Table of Contents

The table that follows indicates the activity in the allowance for loan losses, excluding covered loans, for the quarterly periods presented.

(Dollars in thousands)	Three months ended			2011		Nine months ended	
	2012 Sep. 30,	June 30,	Mar. 31,	Dec. 31,	Sep. 30,	September 30, 2012	2011
Allowance for loan and lease loss activity							
Balance at beginning of period	\$50,952	\$49,437	\$52,576	\$54,537	\$53,671	\$52,576	\$57,235
Provision for loan losses	3,613	8,364	3,258	5,164	7,643	15,235	14,046
Gross charge-offs							
Commercial	1,340	1,129	1,186	1,742	879	3,655	1,694
Real estate-construction	180	717	1,787	2,105	1,771	2,684	4,174
Real estate-commercial	2,736	3,811	2,244	2,505	2,997	8,791	7,877
Real estate-residential	565	191	604	473	564	1,360	1,078
Installment	134	116	60	115	162	310	411
Home equity	380	915	644	488	510	1,939	1,695
All other	469	259	297	363	291	1,025	1,078
Total gross charge-offs	5,804	7,138	6,822	7,791	7,174	19,764	18,007
Recoveries							
Commercial	202	48	72	348	92	322	414
Real estate-construction	0	0	0	5	0	0	27
Real estate-commercial	38	68	113	68	168	219	241
Real estate-residential	33	9	28	3	4	70	42
Installment	72	75	123	96	87	270	267
Home equity	31	28	24	71	9	83	46
All other	55	61	65	75	37	181	226
Total recoveries	431	289	425	666	397	1,145	1,263
Total net charge-offs	5,373	6,849	6,397	7,125	6,777	18,619	16,744
Ending allowance for loan and lease losses	\$49,192	\$50,952	\$49,437	\$52,576	\$54,537	\$49,192	\$54,537

## Net charge-offs to average loans and leases (annualized)

Commercial	0.56	% 0.53	% 0.53	% 0.65	% 0.39	% 0.54	% 0.21	%
Real estate-construction	0.78	% 2.91	% 6.36	% 6.13	% 4.96	% 3.54	% 3.79	%
Real estate-commercial	0.81	% 1.18	% 0.69	% 0.80	% 0.98	% 0.89	% 0.90	%
Real estate-residential	0.72	% 0.25	% 0.81	% 0.64	% 0.86	% 0.59	% 0.53	%
Installment	0.41	% 0.26	% (0.39)	)% 0.11	% 0.47	% 0.08	% 0.29	%
Home equity	0.38	% 0.99	% 0.70	% 0.46	% 0.57	% 0.69	% 0.64	%
All other	2.51	% 1.46	% 1.88	% 2.47	% 2.46	% 1.99	% 3.03	%
Total net charge-offs	0.71	% 0.93	% 0.87	% 0.95	% 0.96	% 0.83	% 0.80	%

Allowance for loan and lease losses (covered loans). The majority of covered loans are accounted for under FASB ASC Topic 310-30, whereby First Financial is required to periodically re-estimate the expected cash flows on the loans. For purposes of applying the guidance under FASB ASC Topic 310-30, First Financial grouped acquired loans into pools based on common risk characteristics. A decline in expected cash flows for a pool of loans is referred to as impairment and recorded as provision expense, and a related allowance for loan and lease losses on covered loans, on a discounted basis during the period. Estimated reimbursements due from the FDIC under loss sharing agreements related to any declines in expected loan cash flows are recorded as noninterest income and an increase to the FDIC indemnification asset in the same period. Improvement in expected cash flows for a pool of loans, once any

previously recorded impairment is recaptured, is recognized prospectively as an adjustment to the yield on the loans in the pool and a related adjustment to the yield on the FDIC indemnification asset. These cash flow evaluations are inherently subjective as they require material estimates, all of which may be susceptible to significant change.

Table of Contents

The allowance for covered loan and lease losses was \$48.9 million as of September 30, 2012 compared to \$42.8 million as of December 31, 2011 as a result of changes in expected cash flows on loans accounted for under FASB ASC Topic 310-30, as well as portfolio activity during the period, including payments received and charge-offs.

First Financial recognized total provision expense related to covered loans of \$6.6 million and realized net charge-offs related to covered loans of \$6.1 million for the three months ended September 30, 2012. The Company recognized total provision expense related to covered loans of \$7.3 million and net charge-offs of \$10.2 million for the three months ended September 30, 2011. For the nine months ended September 30, 2012, First Financial recognized total provision expense related to covered loans of \$25.6 million and net charge-offs of \$19.6 million. The Company recognized total provision expense related to covered loans of \$57.2 million and net charge-offs of \$25.6 million for the nine months ended September 30, 2011.

The Company also recognized loss sharing expenses of \$3.6 million and modest net gains on covered OREO during the third quarter of 2012. Loss sharing expenses and losses on covered OREO were \$1.0 million and \$2.7 million, respectively, in the third quarter of 2011. Loss sharing expenses include attorney fees, taxes, insurance and other collection expenses related to the resolution of covered assets. First Financial recognized loss sharing expenses of \$8.4 million and \$1.9 million, and losses on covered OREO of \$2.5 million and \$8.4 million, for the nine months ended September 30, 2012 and 2011, respectively.

The receivable due from the FDIC under loss sharing agreements related to covered provision expense, loss sharing expense and losses on covered OREO of \$8.5 million and \$8.4 million for the three months ended September 30, 2012 and 2011, respectively, was recognized as FDIC loss sharing income and corresponding increases to the FDIC indemnification asset in those periods. The receivable due from the FDIC under loss sharing agreements related to covered provision expense, loss sharing expense and losses on covered OREO of \$29.6 million and \$53.5 million for the nine months ended September 30, 2012 and 2011, respectively, was recognized as FDIC loss sharing income and corresponding increases to the FDIC indemnification asset in those periods.

(Dollars in thousands)	Three months ended			2011		Nine months ended	
	Sep. 30,	June 30,	Mar. 31,	Dec. 31,	Sep. 30,	September 30,	2011
Balance at beginning of period	\$48,327	\$46,156	\$42,835	\$48,112	\$51,044	\$42,835	\$16,493
Provision for loan and lease losses	6,622	6,047	12,951	6,910	7,260	25,620	57,171
Loans charged-off	(9,058 )	(5,163 )	(10,118 )	(13,513 )	(10,609 )	(24,339 )	(32,091 )
Recoveries	3,004	1,287	488	1,326	417	4,779	6,539
Ending allowance for covered loan losses	\$48,895	\$48,327	\$46,156	\$42,835	\$48,112	\$48,895	\$48,112

Nonperforming/Underperforming Assets (excluding covered assets). Nonperforming loans totaled \$74.0 million and nonperforming assets totaled \$87.9 million as of September 30, 2012 compared with \$76.4 million and \$87.7 million, respectively, at December 31, 2011. Nonaccrual loans, including troubled debt restructurings (TDRs) classified as nonaccrual, totaled \$62.4 million as of September 30, 2012 compared to \$72.4 million as of December 31, 2011, representing a \$9.9 million, or 13.7% decrease primarily driven by the finalization of resolution strategies, including transfers to OREO, dispositions and net charge-offs, related to credits in the commercial and construction and land development portfolios.

The third quarter 2012 allowance for loan and lease losses as a percentage of nonaccrual loans was 99.6% compared with 96.8% at December 31, 2011, while the allowance for loan and lease losses as a percentage of nonperforming



loans was 66.5% at September 30, 2012, compared with 68.8% at December 31, 2011.

Total classified assets as of September 30, 2012 totaled \$133.4 million compared to \$162.4 million at December 31, 2011. Classified assets, which have declined for eight consecutive quarters, are defined by the Company as nonperforming assets plus performing loans internally rated substandard or worse.

Troubled Debt Restructurings (excluding covered loans). TDRs totaled \$24.6 million at September 30, 2012, a \$2.5 million increase from December 31, 2011. Accruing TDRs increased \$7.6 million from December 31, 2011, generally as a result of renewals and term extensions of performing, substandard-rated loans that are experiencing operating cash flow stress but have strong underlying collateral and guarantor support. TDRs classified as nonaccrual declined \$5.1 million from December 31, 2011 as a result of the \$4.4 million construction and land development credit that was sold during the second quarter 2012, as well as other transfers to OREO and charge-offs during 2012.

Table of Contents

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 terms of the loan modification.

Delinquent Loans (excluding covered loans). At September 30, 2012, loans 30-to-89 days past due decreased to \$17.0 million, or 0.55% of period end loans, as compared to \$20.4 million, or 0.69%, at December 31, 2011. The decrease in delinquent loans compared to December 31, 2011 primarily resulted from lower delinquencies in commercial real estate loans.

Other Real Estate Owned. At September 30, 2012, First Financial had OREO properties originating from uncovered loans totaling \$13.9 million, compared with \$11.3 million at December 31, 2011. OREO increased \$2.6 million from December 31, 2011 to September 30, 2012 as additions of \$8.2 million exceeded dispositions and valuation adjustments of \$5.6 million during the period. Additions during the period primarily related to three land development relationships totaling \$3.4 million in the aggregate which transferred to OREO in the first quarter 2012. During the third quarter 2012, there were no individually significant activity.

OREO originating from covered loans was \$28.6 million at September 30, 2012, compared with \$44.8 million at December 31, 2011. Covered OREO declined \$16.2 million from December 31, 2011 to September 30, 2012 as additions of \$17.1 million were offset by dispositions and valuation adjustments of \$33.3 million during the period.

The table that follows shows the categories that are included in nonperforming and underperforming assets, excluding covered assets, as of September 30, 2012, and the four previous quarters, as well as related credit quality ratios.

Table of Contents

(Dollars in thousands)	Quarter ended			2011		Sep. 30,
	Sep. 30,	June 30,	Mar. 31,	Dec. 31,		
Nonperforming loans, nonperforming assets, and underperforming assets						
Nonaccrual loans						
Commercial	\$4,563	\$12,065	\$5,936	\$7,809		\$10,792
Real estate - construction	2,536	7,243	7,005	10,005		13,844
Real estate - commercial	33,961	36,116	35,581	28,349		26,408
Real estate - residential	5,563	5,069	5,131	5,692		5,507
Installment	284	319	377	371		322
Home equity	2,497	2,281	1,915	2,073		2,277
Nonaccrual loans	49,404	63,093	55,945	54,299		59,150
Troubled debt restructurings (TDRs)						
Accruing	11,604	9,909	9,495	4,009		4,712
Nonaccrual	13,017	10,185	17,205	18,071		12,571
Total TDRs	24,621	20,094	26,700	22,080		17,283
Total nonperforming loans	74,025	83,187	82,645	76,379		76,433
Other real estate owned (OREO)	13,912	15,688	15,036	11,317		12,003
Total nonperforming assets	87,937	98,875	97,681	87,696		88,436
Accruing loans past due 90 days or more	108	143	203	191		235
Total underperforming assets	\$88,045	\$99,018	\$97,884	\$87,887		\$88,671
Total classified assets	\$133,382	\$145,621	\$154,684	\$162,372		\$172,581
Credit quality ratios (excluding covered assets)						
Allowance for loan and lease losses to						
Nonaccrual loans	99.57	% 80.76	% 88.37	% 96.83	% 92.20	%
Nonaccrual loans plus nonaccrual TDRs	78.81	% 69.53	% 67.58	% 72.65	% 76.04	%
Nonperforming loans	66.45	% 61.25	% 59.82	% 68.84	% 71.35	%
Total ending loans	1.60	% 1.69	% 1.67	% 1.77	% 1.86	%
Nonperforming loans to total loans	2.41	% 2.76	% 2.79	% 2.57	% 2.60	%
Nonperforming assets to						
Ending loans, plus OREO	2.86	% 3.27	% 3.28	% 2.94	% 3.00	%
Total assets, including covered assets	1.41	% 1.57	% 1.52	% 1.31	% 1.40	%
Nonperforming assets, excluding accruing TDRs to						
Ending loans, plus OREO	2.48	% 2.94	% 2.96	% 2.81	% 2.84	%
Total assets, including covered assets	1.22	% 1.42	% 1.37	% 1.25	% 1.32	%

**MARKET RISK**

Market risk is the risk of loss arising from adverse changes in the fair value of financial instruments due to changes in interest rates, foreign exchange rates and equity prices. The primary source of market risk for First Financial is interest rate risk. Interest rate risk is the risk to earnings and the value of equity arising from changes in market interest rates and arises in the normal course of business to the extent that there is a divergence between the amount of First Financial's interest-earning assets and the amount of interest-bearing liabilities that are prepaid/withdrawn, re-price or mature in specified periods. First Financial seeks to achieve consistent growth in net interest income and equity while managing volatility arising from shifts in market interest rates. First Financial's board of directors establishes policy limits with respect to interest rate risk and changes in the economic value of equity. First Financial's Asset and Liability Committee (ALCO) oversees market risk management, monitoring risk measures, limits and policy

guidelines for managing the amount of interest rate risk and its effect on net interest income and capital.

Interest rate risk management is an active process that encompasses monitoring loan and deposit flows complemented by investment and funding activities. Effective interest rate risk management begins with understanding the dynamic

51

---

## Table of Contents

characteristics of assets and liabilities and determining the appropriate interest rate risk position given business activities, management objectives, market expectations and ALCO policy limits and guidelines.

## LIQUIDITY

Liquidity management is the process by which First Financial manages the continuing flow of funds necessary to meet its financial commitments on a timely basis and at a reasonable cost. These funding commitments include withdrawals by depositors, credit commitments to borrowers, shareholder dividends, expenses of its operations and capital expenditures. Liquidity is monitored and closely managed by ALCO, a group of senior officers from the deposit gathering, finance, risk management and treasury areas. It is ALCO's responsibility to ensure First Financial has the necessary level of funds available for normal operations as well as to maintain a contingency funding policy to ensure that liquidity stress events are quickly identified, and management plans to respond are in place. This is accomplished through the use of policies which establish limits and require measurements to monitor liquidity trends, including modeling and management reporting that identifies the amounts and costs of all available funding sources. These sources are periodically tested for funding availability.

Liquidity is derived primarily from deposit growth, principal and interest payments on loans and investment securities, maturing loans and investment securities, access to wholesale funding sources and collateralized borrowings. First Financial's most stable source of liability-funded liquidity for both long and short-term needs is deposit growth and retention of the core deposit base. The deposit base is diversified among individuals, partnerships, corporations, public entities and geographic markets. This diversification helps First Financial minimize dependence on large concentrations of funding sources.

Capital expenditures, such as banking center expansions and technology investments were \$18.6 million and \$9.7 million for the first nine months of 2012 and 2011, respectively. Management believes that First Financial has sufficient liquidity to fund its future capital expenditure commitments.

As of September 30, 2012, First Financial had pledged certain eligible residential and farm real estate loans, home equity lines of credit and government and agency securities, totaling \$1.5 billion as collateral for borrowings from the Federal Home Loan Bank (FHLB). For ease of borrowing execution, First Financial utilizes a blanket collateral agreement with the FHLB.

First Financial utilizes its short-term line of credit and longer-term advances from the FHLB as funding sources. At September 30, 2012, the Company had \$283.0 million in short-term borrowings from the FHLB. At December 31, 2011, the Company had no short-term borrowings from the FHLB. The increase in short-term borrowings at September 30, 2012 was related to deposit attrition during the period resulting from the Company's deposit rationalization strategies as well as recent purchase activity related to the Company's investment securities portfolio. At September 30, 2012, and December 31, 2011, total long-term borrowings from the FHLB were \$9.7 million and \$11.5 million, respectively. First Financial's total remaining borrowing capacity from the FHLB was \$310.2 million at September 30, 2012.

The principal source of asset-funded liquidity is marketable investment securities, particularly those of shorter maturities. The market value of investment securities classified as available-for-sale totaled \$689.7 million at September 30, 2012. Securities classified as held-to-maturity that are maturing within a short period of time are also a source of liquidity and totaled \$0.5 million at September 30, 2012. In addition, other types of assets such as cash and due from banks, federal funds sold and securities purchased under agreements to resell, as well as loans maturing within one year, are sources of liquidity.

At September 30, 2012, in addition to liquidity on hand of \$175.7 million, First Financial had unused and available overnight wholesale funding of \$2.3 billion or 36.2% of total assets to fund new loans, any deposit runoff that may occur as a result of the Company's deposit rationalization efforts and from markets that the Company is exiting, or for general corporate requirements.

Certain restrictions exist regarding the ability of First Financial's subsidiaries to transfer funds to First Financial in the form of cash dividends, loans, other assets or advances. The approval of the subsidiaries' respective primary federal regulators is required for First Financial's subsidiaries to pay dividends in excess of regulatory limitations. Dividends paid to First Financial from its subsidiaries totaled \$55.6 million for the first nine months of 2012. As of September 30, 2012, First Financial's subsidiaries had retained earnings of \$350.6 million of which \$29.4 million was available for distribution to First Financial without prior regulatory approval. Additionally, First Financial had \$110.7 million in cash as of September 30, 2012, which is approximately three times the Company's annual regular shareholder dividend (currently \$0.60 per share) and operating expenses. Management is not aware of any other events or regulatory requirements that, if implemented, are likely to have a material effect on First Financial's liquidity.

Until its prepayment during the second quarter 2011, First Financial made quarterly interest payments on its junior subordinated debenture owed to its unconsolidated subsidiary trust. The trust preferred securities were redeemed on June 30, 2011, and

Table of Contents

therefore, there was no interest expense associated with the junior subordinated debentures for the last six months of 2011 or during 2012. First Financial had no interest expense related to this other long-term debt for the three months ended September 30, 2011 and \$0.4 million of interest expense related to this debt for the nine months ended September 30, 2011.

**CAPITAL**

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

Quantitative measures established by regulation to ensure capital adequacy require First Financial to maintain minimum amounts and ratios as defined by the regulations of Total and Tier 1 capital to risk-weighted assets and to average assets. Management believes, as of September 30, 2012, that First Financial met all capital adequacy requirements to which it was subject. At September 30, 2012, and December 31, 2011, regulatory notifications categorized First Financial as well-capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized, First Financial must maintain minimum Total risk-based capital, Tier 1 risk-based capital, and Tier 1 leverage ratios as set forth in the table below. There have been no conditions or events since those notifications that management believes has changed the Company's category.

First Financial's Tier I capital is comprised of total shareholders' equity less unrealized gains and losses on investment securities available-for-sale accounted for under FASB ASC Topic 320, Investments-Debt and Equity Securities, and any amounts resulting from the application of FASB ASC Topic 715, Compensation-Retirement Benefits, that is recorded within accumulated other comprehensive income (loss), intangible assets and any valuation related to mortgage servicing rights. Total risk-based capital consists of Tier I capital plus qualifying allowance for loan and lease losses and gross unrealized gains on equity securities.

For purposes of calculating the leverage ratio, average assets represents quarterly average assets less assets not qualifying for total risk-based capital including intangible assets and non-qualifying mortgage servicing rights and allowance for loan and lease losses.

Consolidated regulatory capital ratios at September 30, 2012, included the leverage ratio of 10.54%, Tier 1 capital ratio of 16.93%, and total capital ratio of 18.21%. All regulatory capital ratios exceeded the amounts necessary to be classified as "well capitalized," and total regulatory capital exceeded the "minimum" requirement by \$387.1 million, on a consolidated basis. First Financial's tangible common equity ratio increased to 9.99% at September 30, 2012 as compared to 9.23% at December 31, 2011.

Table of Contents

The following table illustrates the actual and required capital amounts and ratios as of September 30, 2012 and December 31, 2011.

(Dollars in thousands)	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions			
	Amount	Ratio	Amount	Ratio	Amount	Ratio		
September 30, 2012								
Total capital to risk-weighted assets								
Consolidated	\$690,312	18.21	% \$303,197	8.00	% N/A	N/A		
First Financial Bank	583,930	15.45	% 302,320	8.00	% \$377,899	10.00	%	
Tier 1 capital to risk-weighted assets								
Consolidated	641,828	16.93	% 151,598	4.00	% N/A	N/A		
First Financial Bank	528,412	13.98	% 151,160	4.00	% 226,740	6.00	%	
Tier 1 capital to average assets								
Consolidated	641,828	10.54	% 244,267	4.00	% N/A	N/A		
First Financial Bank	528,412	8.69	% 243,229	4.00	% 304,037	5.00	%	
December 31, 2011								
Total capital to risk-weighted assets								
Consolidated	\$683,255	18.74	% \$291,632	8.00	% N/A	N/A		
First Financial Bank	578,042	15.89	% 290,992	8.00	% \$363,740	10.00	%	
Tier 1 capital to risk-weighted assets								
Consolidated	636,836	17.47	% 145,816	4.00	% N/A	N/A		
First Financial Bank	524,363	14.42	% 145,496	4.00	% 218,244	6.00	%	
Tier 1 capital to average assets								
Consolidated	636,836	9.87	% 258,122	4.00	% N/A	N/A		
First Financial Bank	524,363	8.13	% 258,035	4.00	% 322,543	5.00	%	

Shelf Registrations. On April 28, 2011, First Financial filed a shelf registration on Form S-3 with the Securities and Exchange Commission. This shelf registration allows First Financial to raise capital from time to time through the sale of various types of securities, subject to approval by the Company's board of directors.

Shareholder Dividends. In April 2012, First Financial announced that it would increase the regular cash dividend to common shareholders. The regular quarterly dividend was increased to \$0.15 per common share from the previous \$0.12 per common share. Further, the Company announced that future dividend payments are expected to consist of the higher regular dividend and continuation of the previously announced variable dividend through the dividend to be paid in the fourth quarter of 2013. This combined dividend represents a 100% payout of quarterly earnings. Dividend decisions are evaluated quarterly by the Company's board of directors in the context of numerous factors, and the



board will evaluate the regular dividend for increase only when such an increase is sustainable.

## Table of Contents

Share Repurchases. First Financial had no share repurchase activity under publicly announced plans in 2011 or through the nine months ended September 30, 2012.

In October 2012, First Financial's board of directors approved a share repurchase plan under which the Company has the ability to repurchase up to 5,000,000 shares. Under the plan, the Company expects to repurchase approximately 1,000,000 shares annually beginning in the fourth quarter 2012. This annual target will be subject to market conditions and quarterly evaluation by the board as well as balance sheet composition and growth. The Company expects to disclose a summary of total shares repurchased on a quarterly basis in future periods. The share repurchase plan is not expected to impact the variable dividend and as a result the return of capital to shareholders is expected to exceed 100% of earnings through 2013. Subsequent to the expiration of the variable dividend, the Company expects to return to shareholders a target range of 60% - 80% of earnings through a combination of its regular dividend and share repurchases while still maintaining capital ratios that exceed internal target thresholds, current regulatory capital requirements and proposed capital requirements under the Basel Committee on Banking Supervision's final framework for strengthening international capital and liquidity regulation released in December 2010 (Basel III).

## CRITICAL ACCOUNTING POLICIES

First Financial's Consolidated Financial Statements are prepared based on the application of accounting policies. These policies require the reliance on estimates and assumptions. Changes in underlying factors, assumptions or estimates in any of these areas could have a material impact on First Financial's future financial condition and results of operations. In management's opinion, some of these areas have a more significant impact than others on First Financial's financial reporting. For First Financial, these areas currently include accounting for the allowance for loan and lease losses (excluding covered loans), covered loans, the allowance for loan and lease losses - covered loans, the FDIC indemnification asset, goodwill, pension and income taxes. These accounting policies are discussed in detail in the Critical Accounting Policies section of Management's Discussion and Analysis in First Financial's 2011 Annual Report. There were no material changes to these accounting policies during the nine months ended September 30, 2012.

## ACCOUNTING AND REGULATORY MATTERS

Note 2 to the Consolidated Financial Statements discusses new accounting standards adopted by First Financial during 2012 and the expected impact of accounting standards recently issued but not yet required to be adopted. To the extent the adoption of new accounting standards materially affects financial condition, results of operations or liquidity, the impacts are discussed in the applicable section(s) of Management's Discussion and Analysis and the Notes to the Consolidated Financial Statements.

## FORWARD-LOOKING INFORMATION

Certain statements contained in this news release which are not statements of historical fact constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act (the Act). In addition, certain statements in future filings by First Financial with the SEC, in press releases, and in oral and written statements made by or with the approval of First Financial which are not statements of historical fact constitute forward-looking statements within the meaning of the Act. Examples of forward-looking statements include, but are not limited to, projections of revenues, income or loss, earnings or loss per share, the payment or non-payment of dividends, capital structure and other financial items, statements of plans and objectives of First Financial or its management or board of directors and statements of future economic performances and statements of assumptions underlying such statements. Words such as "believes," "anticipates," "likely," "expected," "intends," and other similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements. Management's

analysis contains forward-looking statements that are provided to assist in the understanding of anticipated future financial performance. However, such performance involves risks and uncertainties that may cause actual results to differ materially. Factors that could cause actual results to differ from those discussed in the forward-looking statements include, but are not limited to:

management's ability to effectively execute its business plan;

the risk that the strength of the United States economy in general and the strength of the local economies in which we conduct operations may continue to deteriorate resulting in, among other things, a further deterioration in credit quality or a reduced demand for credit, including the resultant effect on our loan portfolio, allowance for loan and lease losses and overall financial performance;

U.S. fiscal debt and budget matters;

the ability of financial institutions to access sources of liquidity at a reasonable cost;

the impact of recent upheaval in the financial markets and the effectiveness of domestic and international

Table of Contents

governmental actions taken in response, and the effect of such governmental actions on us, our competitors and counterparties, financial markets generally and availability of credit specifically, and the U.S. and international economies, including potentially higher FDIC premiums arising from increased payments from FDIC insurance funds as a result of depository institution failures;

the effect of and changes in policies and laws or regulatory agencies (notably the recently enacted Dodd-Frank Wall Street Reform and Consumer Protection Act);

the effect of the current low interest rate environment or changes in interest rates on our net interest margin and our loan originations and securities holdings;

our ability to keep up with technological changes;

failure or breach of our operational or security systems or infrastructure, or those of our third party vendors or other service providers;

our ability to comply with the terms of loss sharing agreements with the FDIC;

mergers and acquisitions, including costs or difficulties related to the integration of acquired companies and the wind-down of non-strategic operations that may be greater than expected, such as the risks and uncertainties associated with the Irwin Mortgage Corporation bankruptcy proceedings and other acquired subsidiaries;

the risk that exploring merger and acquisition opportunities may detract from management's time and ability to successfully manage our Company;

expected cost savings in connection with the consolidation of recent acquisitions may not be fully realized or realized within the expected time frames, and deposit attrition, customer loss and revenue loss following completed acquisitions may be greater than expected;

our ability to increase market share and control expenses;

the effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies as well as the Financial Accounting Standards Board and the SEC;

adverse changes in the securities, debt and/or derivatives markets;

our success in recruiting and retaining the necessary personnel to support business growth and expansion and maintain sufficient expertise to support increasingly complex products and services;

monetary and fiscal policies of the Board of Governors of the Federal Reserve System (Federal Reserve) and the U.S. government and other governmental initiatives affecting the financial services industry;

our ability to manage loan delinquency and charge-off rates and changes in estimation of the adequacy of the allowance for loan and lease losses; and

the costs and effects of litigation and of unexpected or adverse outcomes in such litigation.

In addition, please refer to our Annual Report on Form 10-K for the year ended December 31, 2011, as well as our other filings with the SEC, for a more detailed discussion of these risks and uncertainties and other factors. Such forward-looking statements are meaningful only on the date when such statements are made, and First Financial undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such a statement is made to reflect the occurrence of unanticipated events.

Table of Contents

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the risk of loss arising from adverse changes in the fair value of financial instruments due to changes in interest rates, foreign exchange rates and equity prices. The primary source of market risk for First Financial is interest rate risk. Interest rate risk is the risk to earnings and the value of equity arising from changes in market interest rates and arises in the normal course of business to the extent that there is a divergence between the amount of First Financial's interest-earning assets and the amount of interest-bearing liabilities that are prepaid/withdrawn, re-price or mature in specified periods. First Financial seeks to achieve consistent growth in net interest income and equity while managing volatility arising from shifts in market interest rates. First Financial's board of directors establishes policy limits with respect to interest rate risk. First Financial's Asset and Liability Committee (ALCO) oversees market risk management, monitoring risk measures, limits and policy guidelines for managing the amount of interest rate risk and its effect on net interest income and capital.

Interest rate risk for First Financial's Consolidated Balance Sheets consists of repricing, option and basis risks. Repricing risk results from differences in the maturity, or repricing, of interest-bearing assets and liabilities. Option risk in financial instruments arises from embedded options such as loan prepayments, early withdrawal of certificates of deposits and calls on investments and debt instruments that are primarily driven by third party or client behavior. Basis risk refers to the potential for changes in the underlying relationship between market rates or indices, which subsequently result in a narrowing of the net interest margin. Basis risk is also present in managed rate liabilities, such as interest-bearing checking accounts and savings accounts, where historical pricing relationships to market rates may change due to the level or directional change in market interest rates or competitive pressures.

The interest rate risk position is measured and monitored using income simulation models and economic value of equity (EVE) sensitivity analysis that capture both short-term and long-term interest rate risk exposure. Income simulation involves forecasting net interest income (NII) under a variety of interest rate scenarios including instantaneous shocks. First Financial uses EVE sensitivity analysis to understand the impact of changes in interest rates on long-term cash flows, income and capital. EVE is calculated by discounting the cash flows for all balance sheet instruments under different interest-rate scenarios.

Presented below is the estimated impact on First Financial's NII and EVE position as of September 30, 2012, assuming immediate, parallel shifts in interest rates:

	% Change from Base Case for Immediate Parallel Changes in Rates			
	-100 BP <sup>(1)</sup>	+100 BP	+200 BP	
NII-Year 1	(6.88	)% (0.52	)% 0.60	%
NII-Year 2	(8.89	)% 3.45	% 6.31	%
EVE *	(18.46	)% 3.80	% 11.15	%

\* Does not include securities purchased subsequent to September 30, 2012.

(1) Because certain current interest rates are at or below 1.00%, the 100 basis point downward shock assumes that certain corresponding interest rates approach an implied floor that, in effect, reflects a decrease of less than the full 100 basis point downward shock.

Modeling the sensitivity of NII and EVE to changes in market interest rates is highly dependent on the assumptions incorporated into the modeling process. These assumptions are periodically reviewed in the context of balance sheet changes, product offerings, external economic factors and anticipated client behavior. First Financial modified its net interest income base-case scenario by assuming a static balance sheet utilizing market expectations of interest rates in

forward periods during the first quarter 2012, whereas previously the Company's base-case scenario incorporated balance sheet growth while utilizing static interest rates. In addition, the Company internally evaluates the impact of yield curve twist scenarios (i.e. flattening, steepening and inversions of the yield curve) on NII and EVE. First Financial's projected results for earnings at risk and long-term EVE indicate the Company remains in a modestly asset-sensitive position, which is consistent with prior results. First Financial is managing its balance sheet with a bias toward asset sensitivity given the outlook for future interest rates.

The interest rate risk analysis provides a framework as to what First Financial's overall sensitivity is as of the Company's most recent reported position. Management strategies may impact future reporting periods, as our actual results may differ from simulated results due to the timing, magnitude and frequency of interest rate changes, the difference between actual experience, and the characteristics assumed, as well as changes in portfolio composition and market conditions. Market based prepayment speeds are factored into the analysis for loan and securities portfolios. Deposit premiums and rate sensitivity for transactional

Table of Contents

deposit accounts are modeled based on both historical experience and external industry studies. Due to the current low interest rate environment, funding rates on deposit and wholesale funding instruments were not reduced below 0.0% in the down 100 basis points scenario. First Financial continues to refine the assumptions used in its interest rate risk modeling.

See also “Item 2-Management’s Discussion and Analysis of Financial Condition and Results of Operations—Net Interest Income.”

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Management is responsible for establishing and maintaining effective disclosure controls and procedures, as defined under Rule 13a-15 of the Securities Exchange Act of 1934, that are designed to cause the material information required to be disclosed by First Financial in the reports it files or submits under the Securities Exchange Act of 1934 to be recorded, processed, summarized, and reported to the extent applicable within the time periods required by the Securities and Exchange Commission’s rules and forms. In designing and evaluating the disclosure controls and procedures, management recognized that a control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

As of the end of the period covered by this report, First Financial performed an evaluation under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of its disclosure controls and procedures pursuant to Rule 13a-15 of the Securities Exchange Act of 1934. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

No changes were made to the Corporation’s internal control over financial reporting (as defined in Rule 13a-15 under the Securities Exchange Act of 1934) during the last fiscal quarter that materially affected, or are reasonably likely to materially affect, the Corporation’s internal control over financial reporting.

Table of Contents

PART II-OTHER INFORMATION

Item 1. Legal Proceedings.

Except as set forth below, there have been no material changes to the disclosure in response to "Part I - Item 3. Legal Proceedings" in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

With respect to the matter titled The Western and Southern Life Insurance Company, et al., vs. DLJ Mortgage Capital, Inc., et. al, Hamilton County, Ohio, Court of Common Pleas, Case No. A1105352, on April 10, 2012, plaintiffs voluntarily dismissed, without prejudice, the claims against IHE Funding Corporation II, a former Irwin Union Bank-related entity acquired by First Financial Bank from the FDIC as receiver for Irwin Union Bank and Trust Company. Plaintiffs did not dismiss claims against any other defendants. Because the claims were dismissed without prejudice, the plaintiffs are free to re-file an action at a later date.

Item 1A. Risk Factors.

There are a number of factors that may adversely affect the Company's business, financial results, or stock price. See "Risk Factors" as disclosed in response to "Item 1A. to Part I - Risk Factors" of Form 10-K for the year ended December 31, 2011.



Table of Contents

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(c) The following table shows the total number of shares repurchased in the third quarter of 2012.

## Issuer Purchases of Equity Securities

Period	(a) Total Number Of Shares Purchased <sup>(1)</sup>	(b) Average Price Paid Per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans <sup>(2)</sup>	(d) Maximum Number of Shares that may yet be purchased Under the Plans
July 1 to July 31, 2012				
Share repurchase program	0	\$0.00	0	4,969,105
Director Fee Stock Plan	2,603	16.35	NA	NA
Stock Plans	19,503	16.51	NA	NA
August 1 to August 31, 2012				
Share repurchase program	0	\$0.00	0	4,969,105
Director Fee Stock Plan	0	0.00	0	NA
Stock Plans	36,149	16.22	NA	NA
September 1 to September 30, 2012				
Share repurchase program	0	\$0.00	0	4,969,105
Director Fee Stock Plan	0	0.00	0	NA
Stock Plans	10,001	17.37	0	NA
Total				
Share repurchase program	0	\$0.00	0	
Director Fee Stock Plan	2,603	\$16.35	NA	
Stock Plans	65,653	\$16.48	NA	

The number of shares purchased in column (a) and the average price paid per share in column (b) include the purchase of shares other than through publicly announced plans. The shares purchased other than through publicly announced plans were purchased pursuant to First Financial's Director Fee Stock Plan, 1999 Stock Option Plan for Non-Employee Directors, 1999 Stock Incentive Plan for Officers and Employees, 2009 Employee Stock Plan, (1) 2009 Non-Employee Director Stock Plan and First Financial Bancorp. 2012 Stock Plan (the last five plans are referred to hereafter as the Stock Plans). The table shows the number of shares purchased pursuant to those plans and the average price paid per share. The purchases for the Director Fee Stock Plan were made in open-market transactions. Under the Stock Plans, shares were purchased from plan participants at the then current market value in satisfaction of stock option exercise prices.

First Financial has one remaining previously announced stock repurchase plan under which it is authorized to purchase shares of its common stock as of September 30, 2012. The plan has no expiration date. The table that (2) follows provides additional information regarding this plan. No shares were repurchased under this plan as of September 30, 2012.

Announcement Date	Total Shares Approved for Repurchase	Total Shares Repurchased Under the Plan	Expiration Date
1/25/2000	7,507,500	2,538,395	None



Table of Contents

Item 6. Exhibits

(a) Exhibits:

Exhibit  
Number

- 10.1 First Financial Bancorp Code of Conduct (filed as Exhibit 10.1 to the Form 8-K filed on October 29, 2012 and incorporated herein by reference).
- 10.2 The Code of Ethics for the CEO and Senior Financial Officers (filed as Exhibit 10.2 to the Form 8-K filed on October 29, 2012 and incorporated herein by reference).
- 31.1 Certification by Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 filed herewith.
- 31.2 Certification by Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 filed herewith.
- 32.1 Certification of Periodic Financial Report by Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 furnished herewith.
- 32.2 Certification of Periodic Financial Report by Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 furnished herewith.
- 101.1 Financial statements from the Quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 2012, formatted in XBRL (eXtensible Business Reporting Language) pursuant to Rule 405 of Regulation S-T: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statements of Changes in Shareholders' Equity, (v) Consolidated Statements of Cash Flows and (vi) Notes to Consolidated Financial Statements, as blocks of text and in detail\*.

First Financial will furnish, without charge, to a security holder upon request a copy of the documents and will furnish any other Exhibit upon payment of reproduction costs. Unless as otherwise noted, documents incorporated by reference involve File No. 000-12379.

As provided in Rule 406T of Regulation S-T, this information shall not be deemed "filed" for purposes of Section 11 \*and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934 or otherwise subject to liability under those sections.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

FIRST FINANCIAL BANCORP.  
(Registrant)

/s/ J. Franklin Hall  
J. Franklin Hall  
Executive Vice President, Chief Financial Officer  
and Chief Operating Officer

/s/ John M. Gavigan  
John M. Gavigan  
First Vice President and Corporate Controller  
(Principal Accounting Officer)

Date 11/6/2012

Date 11/6/2012