

FIRST FINANCIAL BANCORP /OH/
Form 10-Q
November 08, 2011

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, 2011

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

201 East Fourth Street, Suite 1900 45202
Cincinnati, Ohio (Zip Code)
(Address of principal executive offices)

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 4, 2011
Common stock, No par value	58,265,092

FIRST FINANCIAL BANCORP.

INDEX

	Page No.
Part I-FINANCIAL INFORMATION	
Item 1-Financial Statements	
Consolidated Balance Sheets - September 30, 2011 (unaudited) and December 31, 2010	<u>1</u>
Consolidated Statements of Income - Three and Nine Months Ended September 30, 2011 and 2010 (unaudited)	<u>1</u>
Consolidated Statements of Cash Flows - Nine Months Ended September 30, 2011 and 2010 (unaudited)	<u>1</u>
Consolidated Statements of Changes in Shareholders' Equity - Nine Months Ended September 30, 2011 and 2010 (unaudited)	<u>1</u>
Notes to Consolidated Financial Statements (unaudited)	<u>2</u>
Item 2-Management's Discussion and Analysis of Financial Condition and Results of Operations	<u>21</u>
Item 3-Quantitative and Qualitative Disclosures about Market Risk	<u>39</u>
Item 4-Controls and Procedures	<u>40</u>
Part II-OTHER INFORMATION	
Item 1-Legal Proceedings	<u>41</u>
Item 1A-Risk Factors	<u>41</u>
Item 2-Unregistered Sales of Equity Securities and Use of Proceeds	<u>42</u>
Item 6-Exhibits	<u>43</u>
Signatures	<u>44</u>

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

	September 30, 2011 (Unaudited)	December 31, 2010
ASSETS		
Cash and due from banks	\$108,253	\$105,981
Interest-bearing deposits with other banks	369,130	176,952
Investment securities available-for-sale, at market value (cost \$1,092,648 at September 30, 2011 and \$904,546 at December 31, 2010)	1,120,179	919,110
Investment securities held-to-maturity (market value \$2,953 at September 30, 2011 and \$18,066 at December 31, 2010)	2,724	17,406
Other investments	71,492	78,689
Loans held for sale	14,259	29,292
Loans:		
Commercial	822,552	800,253
Real estate-construction	136,651	163,543
Real estate-commercial	1,202,035	1,139,931
Real estate-residential	300,165	269,173
Installment	70,034	69,711
Home equity	362,919	341,310
Credit card	30,435	29,563
Lease financing	12,870	2,609
Total loans, excluding covered loans	2,937,661	2,816,093
Less: Allowance for loan losses	54,537	57,235
Net loans - uncovered	2,883,124	2,758,858
Covered loans	1,151,066	1,481,493
Less: Allowance for loan losses	48,112	16,493
Net loans – covered	1,102,954	1,465,000
Net loans	3,986,078	4,223,858
Premises and equipment	120,325	118,477
Goodwill	68,922	51,820
Other intangibles	8,436	5,604
FDIC indemnification asset	177,814	222,648
Accrued interest and other assets	290,117	300,388
TOTAL ASSETS	\$6,337,729	\$6,250,225
LIABILITIES		
Deposits:		
Interest-bearing	\$1,288,721	\$1,111,877
Savings	1,537,420	1,534,045
Time	1,658,031	1,794,843
Total interest-bearing deposits	4,484,172	4,440,765
Noninterest-bearing	814,928	705,484
Total deposits	5,299,100	5,146,249

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

Federal funds purchased and securities sold under agreements to repurchase	95,451	59,842
Long-term debt	76,875	128,880
Other long-term debt	0	20,620
Total borrowed funds	172,326	209,342
Accrued interest and other liabilities	139,171	197,240
TOTAL LIABILITIES	5,610,597	5,552,831

SHAREHOLDERS' EQUITY

Common stock - no par value		
Authorized - 160,000,000 shares Issued - 68,730,731 shares in 2011 and 2010	578,974	580,097
Retained earnings	329,243	310,271
Accumulated other comprehensive loss	(3,388)	) (12,044)
Treasury stock, at cost, 10,474,595 shares in 2011 and 10,665,754 shares in 2010	(177,697)	) (180,930)
TOTAL SHAREHOLDERS' EQUITY	727,132	697,394
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$6,337,729	\$6,250,225

See notes to consolidated financial statements.

FIRST FINANCIAL BANCORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands, except per share data)

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Interest income				
Loans, including fees	\$70,086	\$75,957	\$216,031	\$230,239
Investment securities				
Taxable	7,411	5,386	21,294	16,226
Tax-exempt	176	240	566	720
Total investment securities interest	7,587	5,626	21,860	16,946
Other earning assets	(1,721)	) 3,101	(4,059)	) 13,996
Total interest income	75,952	84,684	233,832	261,181
Interest expense				
Deposits	9,823	14,457	31,990	45,413
Short-term borrowings	44	25	138	61
Long-term borrowings	867	2,034	2,893	7,147
Subordinated debentures and capital securities	0	322	391	956
Total interest expense	10,734	16,838	35,412	53,577
Net interest income	65,218	67,846	198,420	207,604
Provision for loan and lease losses - uncovered	7,643	6,287	14,046	23,823
Provision for loan and lease losses - covered	7,260	20,725	57,171	49,147
Net interest income after provision for loan losses	50,315	40,834	127,203	134,634
Noninterest income				
Service charges on deposit accounts	4,793	5,632	14,286	17,098
Trust and wealth management fees	3,377	3,366	10,809	10,579
Bankcard income	2,318	2,193	6,801	6,263
Net gains from sales of loans	1,243	2,749	3,086	3,391

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

FDIC loss sharing income	8,377	17,800	53,455	40,538
Accelerated discount on covered loans	5,207	9,448	15,746	22,954
Loss on preferred securities	0	0	0	(30
Other	2,800	3,707	8,708	11,504
Total noninterest income	28,115	44,895	112,891	112,297
Noninterest expenses				
Salaries and employee benefits	27,774	28,790	80,467	88,544
Net occupancy	4,164	4,663	15,517	18,125
Furniture and equipment	2,386	2,490	7,520	7,277
Data processing	1,466	1,191	4,157	3,559
Marketing	1,584	1,230	4,227	3,904
Communication	772	986	2,339	3,016
Professional services	2,062	2,117	7,384	6,306
Debt extinguishment	0	8,029	0	8,029
State intangible tax	546	724	3,147	3,481
FDIC expense	1,211	2,123	4,484	6,040
Loss (gain)-Other real estate owned	(287	) (152	) 3,198	456
Loss-Covered other real estate owned	2,707	696	8,440	766
Other	8,757	8,423	22,549	27,887
Total noninterest expenses	53,142	61,310	163,429	177,390
Income before income taxes	25,288	24,419	76,665	69,541
Income tax expense	9,670	8,840	27,867	24,590
Net income	15,618	15,579	48,798	44,951
Dividends on preferred stock	0	0	0	1,865
Net income available to common shareholders	\$ 15,618	\$ 15,579	\$ 48,798	\$ 43,086
Net earnings per common share - basic:				
	\$0.27	\$0.27	\$0.85	\$0.76
Net earnings per common share - diluted:				
	\$0.27	\$0.27	\$0.83	\$0.75
Cash dividends declared per share				
	\$0.27	\$0.10	\$0.51	\$0.30
Average basic shares outstanding				
	57,735,811	57,570,709	57,674,250	56,765,933
Average diluted shares outstanding				
	58,654,099	58,531,505	58,699,952	57,758,906

See notes to consolidated financial statements.

FIRST FINANCIAL BANCORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, dollars in thousands)

	Nine months ended September 30,	
	2011	2010
Operating activities		
Net income	\$48,798	\$44,951
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	71,217	72,970
Provision for depreciation and amortization	8,703	8,130
Stock-based compensation expense	2,867	2,155
Pension (income) expense	(1,012	) 1,508
Net amortization of premiums/accretion of discounts on investment securities	3,050	729
Income on trading securities	0	30
Originations of loans held for sale	(95,297	) (93,113
Net gains from sales of loans held for sale	(3,086	) (3,391
Proceeds from sales of loans held for sale	113,416	81,785

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

Deferred income taxes	(13,504	) 17,607	
(Increase) decrease in interest receivable	(691	) 7,745	
Increase in cash surrender value of life insurance	(1,092	) (3,491)
Decrease in prepaid expenses	4,193	1,687	
Decrease in indemnification asset	44,834	49,698	
Decrease in accrued expenses	(27,431	) (32,005)
(Decrease) increase in interest payable	(1,554	) 1,960	
Other	2,176	(11,905)
Net cash provided by operating activities	155,587	147,050	
Investing activities			
Proceeds from calls, paydowns and maturities of securities available-for-sale	258,288	112,055	
Purchases of securities available-for-sale	(449,440	) (254,734)
Proceeds from calls, paydowns and maturities of securities held-to-maturity	11,942	852	
Purchases of securities held-to-maturity	0	(577)
Net decrease in interest-bearing deposits with other banks	(192,178	) (18,440)
Net (increase) decrease in loans and leases, excluding covered loans	(15,740	) 86,106	
Net decrease in covered assets	264,129	279,900	
Proceeds from disposal of other real estate owned	34,186	3,769	
Purchases of premises and equipment	(9,706	) (16,961)
Net cash proceeds from acquisition	190,711	0	
Net cash provided by investing activities	92,192	191,970	
Financing activities			
Net decrease in total deposits	(189,052	) (299,377)
Net increase in short-term borrowings	35,609	21,317	
Payments on long-term borrowings	(51,984	) (255,149)
Redemption of other long-term debt	(20,620	) 0	
Cash dividends paid on common stock	(19,690	) (16,708)
Cash dividends paid on preferred stock	0	(1,100)
Redemption of preferred stock	0	(80,000)
Issuance of common stock, net of issuance costs	0	91,224	
Proceeds from exercise of stock options	63	206	
Excess tax benefit on share-based compensation	167	518	
Net cash used in financing activities	(245,507	) (539,069)
Cash and cash equivalents:			
Net decrease in cash and cash equivalents	2,272	(200,049)
Cash and cash equivalents at beginning of period	105,981	344,150	
Cash and cash equivalents at end of period	\$ 108,253	\$ 144,101	

See notes to consolidated financial statements.

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

Preferred Stock	Preferred Stock	Common Stock	Common Stock	Retained	Accumulated other comprehensive	Treasury stock
-----------------	-----------------	--------------	--------------	----------	---------------------------------	----------------

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

	Shares	Amount	Shares	Amount	earnings	income (loss)	Shares	Amount	Total
Balances at January 1, 2010	80,000	\$79,195	62,358,614	\$490,532	\$276,119	\$(10,487)	(10,924,793)	\$(185,401)	\$649,958
Net income					44,951				44,951
Unrealized holding gains on securities available-for-sale arising during the period						1,894			1,894
Change in retirement obligation						1,064			1,064
Unrealized loss on derivatives-Prime Swap market value adj.						(295)			(295)
Unrealized loss on derivatives-Trust Preferred Swap market value adj.						(1,470)			(1,470)
Foreign Currency Exchange						188			188
Total comprehensive income									46,332
Issuance of common stock			6,372,117	91,224					91,224
Preferred stock-CPP payoff	(80,000)	(79,235)							(79,235)
Cash dividends declared :									
Common stock at \$0.30 per share					(17,388)				(17,388)
Preferred stock					(1,100)				(1,100)
Discount on preferred stock	40				(805)				(765)
Excess tax benefit on share-based compensation				518					518
Exercise of stock options, net of shares purchased				(1,534)			81,615	1,384	(150)
Restricted stock awards, net of forfeitures				(3,586)			170,381	2,968	(618)
Share-based compensation expense				2,155					2,155
	0	\$0	68,730,731	\$579,309	\$301,777	\$(9,106)	(10,672,797)	\$(181,049)	\$690,931

Balances at September 30, 2010										
Balances at January 1, 2011	0	\$0	68,730,731	\$580,097	\$310,271	\$(12,044)	(10,665,754)	\$(180,930)	\$697,394	
Net income					48,798				48,798	
Unrealized holding gains on securities available-for-sale arising during the period						8,070			8,070	
Change in retirement obligation						794			794	
Unrealized loss on derivatives-Trust Preferred Swap						391			391	
Foreign Currency Exchange						(599	)		(599
Total comprehensive income									57,454	
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	0	\$0	68,730,731	\$578,974	\$329,243	\$(3,388)	(10,474,595)	\$(177,697)	\$727,132

See Notes to Consolidated Financial Statements.

FIRST FINANCIAL BANCORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2011
(Unaudited)

The consolidated financial statements for interim periods are unaudited; however, in the opinion of the management of First Financial Bancorp. (First Financial), 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, include the accounts of First Financial and its wholly-owned subsidiary – First Financial Bank, N.A. All intercompany transactions and accounts have been eliminated in consolidation. Certain reclassifications of prior periods' amounts have been made to conform to current period's presentation and had no effect on previously reported net income amounts or financial condition.

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 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, 2010. These 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, 2010, has been derived from the audited financial statements in the company's 2010 Form 10-K.

NOTE 2: RECENTLY ADOPTED AND ISSUED ACCOUNTING STANDARDS

In April 2011, the FASB issued an update (ASU No. 2011-02, A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring) clarifying the requirements of FASB ASC Topic 310-40, Troubled Debt Restructurings by Creditors. This update provides additional guidance related to determining whether a creditor has granted a concession, including factors and examples for creditors to consider in evaluating whether a restructuring results in a delay in payment that is insignificant, prohibits creditors from using the borrower's effective rate test to evaluate whether a concession has been granted to the borrower, and adds factors for creditors to use in determining whether a borrower is experiencing financial difficulties. This update also ends the FASB's deferral of the additional disclosure requirements around troubled debt restructurings included in ASU No. 2010-20, Disclosure about the Credit Quality of Financing Receivables and the Allowance for Credit Losses. The provisions of ASU No. 2011-02, as well as the additional disclosure requirements around troubled debt restructurings, became effective for First Financial for the interim reporting period ended September 30, 2011. For further detail on troubled debt restructurings, see Note 10 – Loans (Excluding Covered Loans).

In April 2011, the 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. This revised guidance is applicable to new transactions and transactions that are modified on or after the first interim or annual period beginning after December 15, 2011. First Financial does not anticipate this update will have a material impact on its 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 guidance is effective for interim and annual financial periods beginning after December 15, 2011. First Financial does not anticipate this update will have a material impact on its consolidated financial statements.

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 nonowner 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 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. This guidance is effective for interim and annual financial periods beginning after December 15, 2011 and is to be applied retrospectively, with early adoption permitted. First Financial does not anticipate this update will have a material impact on its 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. This guidance is effective for interim and annual goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. 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 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. The Liberty banking center acquisition was accounted for in accordance with FASB ASC Topic 805, Business Combinations. Fair values are preliminary and 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. First

Financial recorded \$17.1 million of goodwill during the quarter related to the 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. 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.

In August 2011, First Financial signed a purchase and assumption agreement to acquire 22 Indiana-based retail banking branches from Flagstar Bank, FSB (Flagstar) and assume approximately \$530 million of deposits associated with these branches. The Flagstar transaction is expected to close during the fourth quarter 2011. While both companies have received regulatory approval, the transaction remains subject to other customary closing conditions.

On July 31, 2009, First Financial Bank, N.A. (First Financial Bank), a wholly owned subsidiary of First Financial Bancorp, entered into a purchase and assumption agreement (Peoples Agreement) with the Federal Deposit Insurance Corporation (FDIC), as receiver, pursuant to which First Financial acquired certain assets and assumed substantially all of the deposits and certain liabilities of Peoples Community Bank (Peoples).

On September 18, 2009, First Financial Bank entered into separate purchase and assumption agreements (Irwin Agreements) with the FDIC, as receiver, pursuant to which First Financial acquired certain assets and assumed substantially all of the deposits and certain liabilities of Irwin Union Bank and Trust Company (Irwin Union Bank) and Irwin Union Bank, F.S.B. (Irwin FSB). Irwin Union Bank and Irwin FSB are collectively referred to herein as Irwin.

In connection with both the Peoples and Irwin acquisitions, First Financial Bank entered into loss sharing agreements with the FDIC that covers single family residential mortgage loans, commercial real estate and commercial and industrial loans, and other real estate acquired through foreclosure (OREO), all of which are referred to collectively as covered assets.

NOTE 4: GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

Assets and liabilities of acquired entities are recorded at their estimated fair values as of the acquisition date. First Financial recorded \$17.1 million of goodwill during the third quarter of 2011 related to the Liberty banking center acquisition.

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, 2010, and no impairment was indicated. As of September 30, 2011, 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 of mortgage servicing rights and core deposit intangibles. Mortgage servicing rights are carried at their estimated fair value.

Core deposit intangibles are recorded at their estimated fair value as of acquisition 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 during the third quarter of 2011. Core deposit intangibles have an estimated weighted average remaining life of 8.67 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 aid them in meeting their requirements for liquidity and credit enhancement. These financial instruments include standby letters of credit and outstanding commitments to extend credit. U.S. generally accepted accounting principles do 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. Following is a discussion of these transactions.

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 clients' 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 \$22.1 million and \$17.6 million at September 30, 2011, and December 31, 2010, respectively. Management conducts regular reviews of 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 counterparty. 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, 2011, and \$1.0 billion at December 31, 2010.

Contingencies/Litigation – We and our subsidiaries are from time to time engaged in various matters of litigation, other assertions of improper or fraudulent loan practices or lending violations, and other matters, and we have a number of unresolved claims pending. In addition, as part of the ordinary course of business, we and our 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, we believe that damages, if any, and other amounts relating to pending matters are not likely to be material to our 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

The following is a summary of held-to-maturity and available-for-sale investment securities as of September 30, 2011.

(Dollars in thousands)	Held-to-Maturity				Available-for-Sale			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value
Securities of U.S. government agencies	\$0	\$0	\$0	\$0	\$5,027	\$85	\$0	\$5,112

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

and corporations								
Mortgage-backed securities	95	3	0	98	1,065,948	27,503	(267)	1,093,184
Obligations of state and other political subdivisions	2,629	226	0	2,855	11,509	154	(26)	11,637
Other securities	0	0	0	0	10,164	307	(225)	10,246
Total	\$2,724	\$229	\$0	\$2,953	\$1,092,648	\$28,049	\$(518)	\$1,120,179

The following is a summary of held-to-maturity and available-for-sale investment securities as of December 31, 2010.

(Dollars in thousands)	Held-to-Maturity				Available-for-Sale			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value
U.S. Treasuries	\$13,959	\$390	\$(18)	\$14,331	\$0	\$0	\$0	\$0
Securities of U.S. government agencies and corporations	0	0	0	0	105,028	957	0	105,985
Mortgage-backed securities	118	4	0	122	775,867	15,513	(2,630)	788,750
Obligations of state and other political subdivisions	3,329	284	0	3,613	13,708	207	(91)	13,824
Other securities	0	0	0	0	9,943	614	(6)	10,551
Total	\$17,406	\$678	\$(18)	\$18,066	\$904,546	\$17,291	\$(2,727)	\$919,110

The following is a summary of investment securities by estimated maturity as of September 30, 2011.

	Held-to-Maturity		Available-for-Sale	
	Amortized Cost	Market Value	Amortized Cost	Market Value
Due in one year or less	\$292	\$296	\$24,616	\$24,889
Due after one year through five years	1,370	1,442	933,066	955,663
Due after five years through ten years	211	245	82,340	85,706
Due after ten years	851	970	52,626	53,921
Total	\$2,724	\$2,953	\$1,092,648	\$1,120,179

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

(Dollars in thousands)	September 30, 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	\$114,524	\$(204)	\$1,340	\$(63)	\$115,864	\$(267)
Obligations of state and other political subdivisions	0	0	2,257	(26)	2,257	(26)
Other securities	0	0	2,146	(225)	2,146	(225)
Total	\$114,524	\$(204)	\$5,743	\$(314)	\$120,267	\$(518)

December 31, 2010			
	Less than 12 Months	12 Months or More	Total

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

(Dollars in thousands)	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Treasuries	\$2,334	\$(18)	\$0	\$0	\$2,334	\$(18)
Mortgage-backed securities	280,445	(2,538)	1,336	(92)	281,781	(2,630)
Obligations of state and other political subdivisions	0	0	2,194	(91)	2,194	(91)
Other securities	2,217	(6)	17	0	2,234	(6)
Total	\$284,996	\$(2,562)	\$3,547	\$(183)	\$288,543	\$(2,745)

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. Unrealized losses due to credit risk associated with the underlying collateral of the debt security, if any, are not material. 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, 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. First Financial had no other than temporary impairment charges for the nine months ended September 30, 2011.

For further detail on the fair value of investment securities, see Note 15 – 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)	Fair Value Hedges September 30, 2011	December 31, 2010
Instruments associated with loans:		
Total notional value	\$737,922	\$578,959

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 basis on which interest rate payments are exchanged with counterparties and are referred to as the notional amount. 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 counterparty credit policies. These 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, 2011, the Company had a total counterparty notional amount outstanding of approximately \$377.8 million, spread among seven counterparties, with an outstanding liability from these contracts of \$27.7 million.

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

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 \$25.1 million, and \$12.5 million at September 30, 2011, and December 31, 2010, 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.

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

(Dollars in thousands)	Balance Sheet Location	September 30, 2011			December 31, 2010		
		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	\$17,688	\$0	\$(2,407)	\$21,301	\$0	\$(2,302)
Matched interest rate swaps with borrower	Accrued interest and other assets	360,117	24,733	0	278,829	14,843	(131)
Matched interest rate swaps with counterparty	Accrued interest and other liabilities	360,117	0	(26,086)	278,829	131	(15,502)
Total		\$737,922	\$24,733	\$(28,493)	\$578,959	\$14,974	\$(17,935)

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, 2011:

(Dollars in thousands)	Notional Value	Average Maturity (years)	Fair Value	Weighted-Average Rate		
				Receive	Pay	
Asset conversion swaps						
Pay fixed interest rate swaps with counterparty	\$17,688	4.6	\$(2,407)	2.18	% 6.73	%
Receive fixed, matched interest rate swaps with borrower	360,117	4.4	24,733	5.74	% 2.99	%
Pay fixed, matched interest rate swaps with counterparty	360,117	4.4	(26,086)	2.99	% 5.74	%
Total asset conversion swaps	\$737,922	4.4	\$(3,760)	4.31	% 4.42	%
Total swap portfolio	\$737,922	4.4	\$(3,760)	4.31	% 4.42	%

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 are recognized immediately in income.

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

(Dollars in thousands)		Increase (decrease) to Interest Income			
		Three Months Ended		Nine Months Ended	
Derivatives in fair value hedging relationships	Location of change in fair value derivative	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Interest Rate Contracts					
Loans	Interest Income - Loans	\$(221)	\$(249)	\$(692)	\$(759)
Total		\$(221)	\$(249)	\$(692)	\$(759)

Cash Flow Hedges – First Financial may utilize 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 the interest rate swaps is included within accrued interest and other assets on the Consolidated Balance Sheets. Changes in the fair value of the 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 underlying loans, if any, would be recognized immediately in income.

Effective March 30, 2009, First Financial executed a cash flow hedge utilizing an interest rate swap to hedge against interest rate volatility on \$20.0 million of floating rate trust preferred securities based on the London Inter-Bank Offered Rate (LIBOR). The interest rate swap involved the receipt by First Financial of variable-rate interest amounts in exchange for fixed-rate interest payments by First Financial for a period of 10 years. This interest rate swap effectively fixed the rate of interest on the floating rate trust preferred securities at 6.20% for the 10 year life of the swap.

First Financial terminated the \$20.0 million trust preferred interest rate swap during the fourth quarter of 2010 in the course of its normal interest rate risk and balance sheet management activities. Terminating the trust preferred interest rate swap resulted in a \$0.6 million pre-tax loss that was included in accumulated comprehensive income (loss) on the Consolidated Balance Sheets. Due to the early redemption of the trust preferred securities, the remaining balance of the unrecognized loss of \$0.6 million was recognized in noninterest expense in the second quarter of 2011. First Financial has no derivative instruments designated as cash flow hedges at September 30, 2011.

(Dollars in thousands)	Amount of gain or (loss) recognized in OCI on derivatives (effective portion)		Location of gain or (loss) reclassified from accumulated OCI into earnings (effective portion)	Amount of gain or (loss) reclassified from accumulated OCI into earnings (effective portion)	
	3 months ended	9 months ended		3 months ended	9 months ended
Derivatives in cash flow hedging relationships	September 30, 2010			September 30, 2010	
Interest Rate Contracts					
Other long-term debt	\$ (471)	\$ (1,470)		\$ (131)	\$ (417)

			Interest Expense - Other long-term debt			
Total	\$ (471	)	\$ (1,470	)	Total	\$ (131
						) \$ (417
)

NOTE 8: LONG-TERM DEBT

Long-term debt on the Consolidated Balance Sheets consists of FHLB long-term advances and repurchase agreements utilizing investment securities pledged as collateral. These instruments 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 between one and four 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. First Financial assumed additional FHLB long-term advances in the Peoples and Irwin acquisitions of \$63.5 million and \$216.3 million, respectively. During the third quarter of 2010, approximately \$232.0 million of these advances were prepaid. As of September 30, 2011, the remaining FHLB long-term advances assumed in the two transactions totaled \$1.8 million, had remaining maturities of less than eight years and a weighted average effective yield of 3.80%.

The following is a summary of long-term debt:

(Dollars in thousands)	September 30, 2011		
	Amount	Average Rate	
Federal Home Loan Bank	\$11,875	3.80	%
National Market Repurchase Agreement	65,000	3.50	%
Total long-term debt	\$76,875	3.55	%

NOTE 9: OTHER LONG-TERM DEBT

Other long-term debt on the Consolidated Balance Sheets previously consisted of junior subordinated debentures owed to unconsolidated subsidiary trusts. Capital securities were issued in the third quarter of 2003 by a statutory business trust, First Financial (OH) Statutory Trust II (Trust II). These debentures were first eligible for early redemption by First Financial in September of 2008 and were fully redeemed on June 30, 2011.

The debentures qualified as Tier I capital under Federal Reserve Board guidelines, but had been limited to 25% of qualifying Tier I capital. After the early redemption, the Company has the capacity to issue approximately \$167.3 million in additional qualifying debentures under these guidelines.

NOTE 10: LOANS (excluding covered loans)

Commercial loans are made to all types of businesses for a variety of purposes. First Financial works with businesses to meet their shorter term working capital needs while also providing long-term financing for their business plans. Credit risk is managed through standardized loan policies, established and authorized credit limits, centralized portfolio management and the diversification of market area and industries. The overall strength of the borrower is evaluated through the credit underwriting process and includes a variety of analytical activities including the review of historical and projected cash flows, historical financial performance, financial strength of the principals and guarantors, and collateral values, where applicable. First Financial also offers lease and equipment financing through a wholly-owned subsidiary of First Financial Bank, First Financial Equipment Finance LLC (First Equipment Finance), primarily in its principal markets. First Equipment Finance delivers financing solutions to small and mid-size companies in various industries with significant diversity in the types of underlying equipment.

Additionally, First Financial's commercial lending activities include equipment and leasehold improvement financing for franchisees, principally quick service and casual dining restaurants, through its wholly-owned subsidiary First Franchise Capital Corporation (First Franchise). The underwriting of these loans incorporates basic credit proficiencies combined with knowledge of select franchise concepts to measure the creditworthiness of proposed multi-unit borrowers. The focus is on a limited number of concepts that have sound economics, low closure rates, and brand awareness within specified local, regional, or national markets. Loan terms for equipment are generally up to 84 months fully amortizing and up to 180 months on real estate.

Commercial real estate loans are secured by a mortgage lien on the real property. The credit underwriting for both owner-occupied and investor income producing real estate loans includes detailed market analysis, historical and projected cash flow analysis, appropriate equity margins, assessment of lessees and lessors, type of real estate and other analysis. Risk of loss is managed by adherence to standard loan policies that establish certain levels of

performance prior to the extension of a loan to the borrower. Market diversification within First Financial's service area, as well as a diversification by industry, are other means by which the risk of loss is managed by First Financial.

The majority of residential real estate loans originated by the Bank conforms to secondary market underwriting standards and is sold within a short timeframe to unaffiliated third parties, including the future servicing rights to the loans. The credit underwriting standards adhere to a certain level of documentation, verifications, valuation, and overall credit performance of the borrower.

Consumer loans are primarily loans made to individuals. Types of loans include new and used vehicle loans, second mortgages on residential real estate, and unsecured loans. Risk elements in the consumer loan portfolio are primarily focused on the borrower's cash flow and credit history, key indicators of the ability to repay. A certain level of security is provided through liens on automobile titles and second mortgage liens, where applicable. Economic conditions that affect consumers in First Financial's markets have a direct impact on the credit quality of these loans. Higher levels of unemployment, lower levels of income growth and weaker economic growth are factors that may adversely impact consumer loan credit quality.

Home equity lines of credit consist mainly of revolving lines of credit secured by residential real estate. Home equity lines of credit are generally governed by the same lending policies and subject to the same credit risk as described previously for residential real estate loans.

Delinquency

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

Loan delinquency, including nonaccrual loans, was as follows:

	As of September 30, 2011						
	30 – 59 Days past due	60 – 89 Days past due	> 90 days past due	Total Past due	Current	Total	> 90 days past due and still accruing
Loans							
Commercial	\$2,019	\$852	\$10,436	\$13,307	\$809,245	\$822,552	\$0
Real estate - construction	4,000	6,254	12,197	22,451	114,200	136,651	0
Real estate - commercial	4,316	1,569	15,731	21,616	1,180,419	1,202,035	0
Real estate - residential	7,827	1,362	6,757	15,946	284,219	300,165	0
Installment	275	86	207	568	69,466	70,034	0
Home equity	1,112	258	1,765	3,135	359,784	362,919	0
All other	265	163	235	663	42,642	43,305	235
Total	\$19,814	\$10,544	\$47,328	\$77,686	\$2,859,975	\$2,937,661	\$235

	As of December 31, 2010						
	30 - 59 days past due	60 - 89 days past due	> 90 days past due	Total past due	Current	Total	> 90 days past due and still accruing
Loans							
Commercial	\$2,241	\$1,573	\$11,684	\$15,498	\$784,755	\$800,253	\$0
Real estate - construction	1,754	3,782	8,973	14,509	149,034	163,543	0
Real estate - commercial	3,202	3,979	16,435	23,616	1,116,315	1,139,931	0
Real estate - residential	7,671	1,930	5,127	14,728	254,445	269,173	0
Installment	456	48	120	624	69,087	69,711	0
Home equity	1,260	392	2,166	3,818	337,492	341,310	0

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

All other	366	176	370	912	31,260	32,172	370
Total	\$16,950	\$11,880	\$44,875	\$73,705	\$2,742,388	\$2,816,093	\$370

Nonaccrual

Loans are classified as nonaccrual when, in the opinion of management, collection of principal or interest is doubtful or when principal or interest payments are 90 days or more past due. Generally, loans are 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 in nonaccrual status. Any payments received while a loan is in nonaccrual status are applied as a

4

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), also referred to as a restructured loan, 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.

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

First Financial had 79 restructured loans totaling approximately \$17.3 million at September 30, 2011. \$4.7 million of restructured loans were on accrual status and \$12.6 million were classified as nonaccrual at September 30, 2011. At September 30, 2011, the allowance for loan and lease losses included reserves of \$1.7 million related to TDRs. For the three and nine months ended September 30, 2011, First Financial charged off \$1.5 million, and \$1.7 million, respectively, for the portion of restructured loans determined to be uncollectible.

At September 30, 2011, approximately \$1.6 million of the accruing TDRs have been performing in accordance with the restructured terms for more than one year.

The following table provides information on loans restructured during the three and nine months ended September 30, 2011.

(Dollars in thousands)	September 30, 2011 Three Months Ended			September 30, 2011 Nine Months Ended		
	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	1	\$44	\$44	7	\$388	\$354
Real estate - construction	0	0	0	0	0	0
Real estate - commercial	2	467	206	10	1,431	1,016
Real estate - residential	3	242	245	13	1,295	1,301
Installment	0	0	0	2	114	111
Home equity	0	0	0	1	101	101
Total	6	\$753	\$495	33	\$3,329	\$2,883

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

(Dollars in thousands)	September 30, 2011 ⁽²⁾	
	Three Months Ended	Nine Months Ended
Extended Maturities	\$249	\$1,445
Adjusted Interest Rates	114	271

Combination of Rate and Maturity Changes	132	1,056
Other ⁽¹⁾	0	111
Total	\$495	\$2,883

(1) Other includes covenant modifications, forbearance and other concessions or combination of concessions that do not consist

of interest rate adjustments 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. First Financial considers a borrower that is 90 days or more past due on any principal or interest payments for a restructured loan, or who prematurely terminates a restructured loan agreement without paying off the contractual principal balance (for example, in a deed-in-lieu arrangement), to be in payment default of the terms of the restructured loan.

The following tables provide information on restructured loans for which there was a payment default during the period that occurred within twelve months of the loan modification.

(Dollars in thousands)	September 30, 2011 Three Months Ended		Nine Months Ended	
	Number of Loans	Period End Balance	Number of Loans	Period End Balance
Commercial	0	\$0	0	\$0
Real estate - construction	0	0	0	0
Real estate - commercial	1	112	2	1,031
Real estate - residential	2	255	2	255
Installment	0	0	0	0
Home equity	0	0	0	0
Total	3	\$367	4	\$1,286

First Financial individually reviews all restructured commercial loan relationships greater than \$250,000, and all restructured consumer loan relationships 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 discounted cash flows using the loan's initial effective interest rate or the fair value of the collateral for certain collateral dependent loans.

Impaired Loans

Loans placed in nonaccrual status and restructured loans are considered impaired. The following table provides information on nonaccrual, restructured, and impaired loans:

(Dollars in thousands)	September 30, 2011	December 31, 2010
Principal balance		
Nonaccrual loans		
Commercial	\$10,792	\$13,729
Real estate-construction	13,844	12,921
Real estate-commercial	26,408	28,342
Real estate-residential	5,507	4,607
Installment	322	150
Home equity	2,277	2,553
Total nonaccrual loans	59,150	62,302
Restructured loans		
Accruing	4,712	3,508
Nonaccrual	12,571	14,105
Total restructured loans	17,283	17,613

Total impaired loans	\$76,433	\$79,915
----------------------	----------	----------

6

(Dollars in thousands)	September 30, 2011	
	Three Months Ended	Nine months ended
Interest income effect		
Gross amount of interest that would have been recorded under original terms	\$1,390	\$4,103
Interest included in income		
Nonaccrual loans	108	358
Restructured loans	49	215
Total interest included in income	157	573
Net impact on interest income	\$1,233	\$3,530

In the commercial portfolio, management reviews all impaired loan relationships in excess of \$250,000 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 discounted cash flows using the loan's initial effective interest rate or the fair value of the collateral for certain collateral dependent loans. Interest income for impaired loans is recorded on a cash basis during the period the loan is considered impaired after recovery of principal is reasonably assured.

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

(Dollars in thousands)	As of September 30, 2011				YTD Interest Income Recognized	Quarterly Interest Income Recognized
	Current Balance	Contractual Principal Balance	Related Allowance	Average Current Balance		
Loans with no related allowance recorded:						
Commercial	\$6,758	\$8,197	\$0	\$7,583	\$44	\$17
Real estate - construction	5,515	8,130	0	5,500	2	1
Real estate - commercial	19,268	25,985	0	19,133	205	73
Real estate - residential	8,464	9,152	0	6,401	51	14
Installment	433	468	0	323	4	2
Home equity	2,277	2,372	0	2,403	7	3
Loans with an allowance recorded:						
Commercial	4,388	6,148	2,820	3,571	0	0
Real estate - construction	14,576	18,110	4,615	14,389	88	0
Real estate - commercial	12,288	18,371	3,809	14,475	143	38
Real estate - residential	2,365	2,371	270	3,864	26	9
Installment	0	0	0	19	1	0
Home equity	101	101	2	76	2	0
Total:						
Commercial	11,146	14,345	2,820	11,154	44	17
Real estate - construction	20,091	26,240	4,615	19,889	90	1
Real estate - commercial	31,556	44,356	3,809	33,608	348	111
Real estate - residential	10,829	11,523	270	10,265	77	23
Installment	433	468	0	342	5	2
Home equity	2,378	2,473	2	2,479	9	3
Total	\$76,433	\$99,405	\$11,516	\$77,737	\$573	\$157

(Dollars in thousands)	As of December 31, 2010				
	Current Balance	Contractual Principal Balance	Related Allowance	Average Current Balance	Interest Income Recognized
Loans with no related allowance recorded:					
Commercial	\$9,375	\$12,008	\$0	\$7,432	\$228
Real estate - construction	4,925	8,458	0	9,935	98
Real estate - commercial	17,431	21,660	0	14,113	804
Real estate - residential	5,854	6,447	0	6,611	84
Installment	150	179	0	336	6
Home equity	2,553	3,345	0	2,188	74
Loans with an allowance recorded:					
Commercial	4,354	6,090	2,017	10,423	77
Real estate - construction	14,407	18,261	3,716	11,063	378
Real estate - commercial	16,693	19,799	4,347	13,391	392
Real estate - residential	4,173	4,264	336	2,727	152
Total:					
Commercial	13,729	18,098	2,017	17,855	305
Real estate - construction	19,332	26,719	3,716	20,998	476
Real estate - commercial	34,124	41,459	4,347	27,504	1,196
Real estate - residential	10,027	10,711	336	9,338	236
Installment	150	179	0	336	6
Home equity	2,553	3,345	0	2,188	74
Total	\$79,915	\$100,511	\$10,416	\$78,219	\$2,293

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 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.

9

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 troubled debt restructuring are classified as nonperforming unless such loans have a sustained 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.

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

(Dollars in thousands)	As of September 30, 2011		
	Commercial	Real Estate Construction	Commercial
Pass	\$763,262	\$107,475	\$1,062,751
Special Mention	33,836	1,698	45,032
Substandard	25,263	27,478	94,252
Doubtful	191	0	0
Total	\$822,552	\$136,651	\$1,202,035

(Dollars in thousands)	Real Estate Residential	Installment	Home Equity	Other
Performing	\$292,695	\$69,601	\$360,642	\$43,305
Nonperforming	7,470	433	2,277	0
Total	\$300,165	\$70,034	\$362,919	\$43,305

(Dollars in thousands)	As of December 31, 2010		
	Commercial	Real Estate Construction	Commercial
Pass	\$731,932	\$115,988	\$979,023
Special Mention	36,453	4,829	63,618
Substandard	31,557	42,726	97,290
Doubtful	311	0	0
Total	\$800,253	\$163,543	\$1,139,931

(Dollars in thousands)	Real Estate Residential	Installment	Home Equity	Other
Performing	\$262,654	\$69,561	\$338,757	\$32,172
Nonperforming	6,519	150	2,553	0
Total	\$269,173	\$69,711	\$341,310	\$32,172

Other real estate owned is comprised of properties acquired by the Bank through the loan foreclosure or repossession process, or any 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.

During the first three months of 2011, First Financial recognized a reduction in the estimated value of vacant land obtained from a commercial real estate developer of \$3.1 million. This property was subsequently sold during the third quarter of 2011

10

at a \$0.3 million gain. Changes in other real estate owned were as follows:

(Dollars in thousands)	Nine Months Ended September 30, 2011	Full Year December 31, 2010
Balance at beginning of period	\$ 17,907	\$ 4,145
Additions		
Commercial	1,328	17,520
Residential	2,609	1,130
Total additions	3,937	18,650
Disposals		
Commercial	3,909	2,315
Residential	2,345	1,674
Total disposals	6,254	3,989
Write-downs		
Commercial	3,341	727
Residential	246	172
Total write-downs	3,587	899
Balance at end of period	\$ 12,003	\$ 17,907

NOTE 11: LOANS (covered)

All loans acquired in the Peoples and Irwin acquisitions were covered by loss sharing agreements with the FDIC, whereby the FDIC reimburses First Financial for the majority of the losses incurred. Additionally, these loans were recorded at their estimated fair value as of the acquisition date. Generally the determination of the fair value of the loans resulted in a significant write-down in the value of the loans, which was assigned to an accretable or nonaccretable difference, with the accretable difference to be recognized as interest income over the expected remaining term of the loan.

First Financial evaluates purchased loans for impairment in accordance with the provisions of FASB ASC Topic 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality. 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 purchased loans under FASB ASC Topic 310-30 except 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. Purchased impaired loans were not classified as nonperforming assets at September 30, 2011 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 being accounted for under FASB ASC Topic 310-30.

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

(Dollars in thousands)	September 30, 2011			December 31, 2010		
	Loans	Loans	Total	Loans	Loans	Total
	Accounted	excluded		Accounted	Excluded	
	For Under	from FASB	Purchased	For Under	From FASB	Purchased
FASB ASC	ASC Topic	Loans	FASB ASC	ASC Topic	Loans	
Topic 310-30	310-30 ⁽¹⁾		Topic 310-30	310-30 ⁽¹⁾		
Commercial	\$209,163	\$14,719	\$223,882	\$295,600	\$38,439	\$334,039
Real estate - construction	25,893	0	25,893	42,743	0	42,743
Real estate - commercial	674,973	12,419	687,392	837,942	17,783	855,725
Real estate - residential	127,753	0	127,753	147,052	0	147,052
Installment	13,022	1,156	14,178	19,560	1,511	21,071
Home equity	4,764	63,133	67,897	7,241	66,454	73,695
Other covered loans	0	4,071	4,071	0	7,168	7,168
Total covered loans	\$1,055,568	\$95,498	\$1,151,066	\$1,350,138	\$131,355	\$1,481,493

(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 \$1.7 billion and \$2.2 billion as of September 30, 2011 and December 31, 2010, respectively.

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

(Dollars in thousands)	Three Months Ended		Nine months ended	
	September 30,	September 30,	September 30,	September 30,
	2011	2010	2011	2010
Balance at beginning of period ⁽¹⁾	\$421,781	\$514,436	\$509,945	\$623,669
Reclassification from non-accretable difference	17,311	81,067	50,517	81,067
Accretion	(31,168)	(34,891)	(97,447)	(104,096)
Other net activity ⁽²⁾	(4,878)	(11,904)	(59,969)	(51,932)
Balance at end of period	\$403,046	\$548,708	\$403,046	\$548,708

(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.

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

First Financial reviewed its forecast of expected cash flows for loans accounted for under FASB ASC Topic 310-30 during the third quarter of 2011. The Company recognized improvement in the cash flow expectations related to certain loan pools resulting in the reclassification from nonaccretable to accretable difference during the third quarter of 2011 and 2010 of \$17.3 million and \$81.1 million, respectively and \$50.5 million and \$81.1 million for the nine months ended September 30, 2011 and 2010, respectively. These reclassifications resulted in yield adjustments on these loan pools on a prospective basis. The Company also recognized declines in the cash flow expectations of certain loan pools. Any decline in expected cash flows for a pool of loans is considered impairment and recorded as

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

provision expense, and a related allowance for loan and lease losses on covered loans, on a discounted basis during the period. There were also loan pools that were impaired in prior periods but improved during the third quarter. This improvement was recorded as a recapture of prior period impairment which partially offset impairment recorded in the third quarter. 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 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.

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

	As of September 30, 2011				Current	Total	> 90 days past due and still accruing
	30 - 59 days past due	60 - 89 days past due	> 90 days past due	Total past due			
Loans							
Commercial	\$266	\$251	\$7,347	\$7,864	\$6,855	\$14,719	\$0
Real estate - commercial	579	0	3,754	4,333	8,086	12,419	0
Installment	0	0	0	0	1,156	1,156	0
Home equity	499	163	2,032	2,694	60,439	63,133	0
All other	42	10	77	129	3,942	4,071	68
Total	\$1,386	\$424	\$13,210	\$15,020	\$80,478	\$95,498	\$68

	As of December 31, 2010				Current	Total	> 90 days past due and still accruing
	30 - 59 days past due	60 - 89 days past due	> 90 days past due	Total past due			
Loans							
Commercial	\$880	\$419	\$13,764	\$15,063	\$23,376	\$38,439	\$0
Real estate - commercial	225	62	1,896	2,183	15,600	17,783	0
Installment	0	0	0	0	1,511	1,511	0
Home equity	656	443	1,424	2,523	63,931	66,454	0
All other	87	10	9	106	7,062	7,168	9
Total	\$1,848	\$934	\$17,093	\$19,875	\$111,480	\$131,355	\$9

Nonaccrual

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.

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. Generally, these 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 when a loan is placed in nonaccrual status and any payments received reduce 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.

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

Information as to covered nonaccrual loans was as follows:

(Dollars in thousands)	September 30, 2011	December 31, 2010
Principal balance		
Nonaccrual loans		
Commercial	\$8,378	\$16,190
Real estate-commercial	3,782	2,074
Home equity	2,114	1,491
All other	9	0
Total	\$14,283	\$19,755

(Dollars in thousands)	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2011
Interest income effect		
Gross amount of interest that would have been recorded under original terms	\$268	\$769
Interest included in income	8	49
Net impact on interest income	\$260	\$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, 2011					
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	YTD Interest Income Recognized	Quarterly Interest Income Recognized
Loans with no related allowance recorded:						
Commercial	\$8,378	\$10,559	\$0	\$10,541	\$43	\$7
Real estate - commercial	3,782	4,547	0	2,583	1	0
Home equity	2,114	3,642	0	1,512	5	1
All other	9	21	0	7	0	0
Total	\$14,283	\$18,769	\$0	\$14,643	\$49	\$8

(Dollars in thousands)	As of December 31, 2010					
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	YTD Interest Income Recognized	YTD Interest Income Recognized
Loans with no related allowance recorded:						
Commercial	\$16,190	\$18,346	\$0	\$12,324	\$316	\$316
Real estate - commercial	2,074	5,412	0	3,910	14	14
Installment	0	0	0	255	0	0
Home equity	1,491	3,137	0	1,597	68	68
Total	\$19,755	\$26,895	\$0	\$18,086	\$398	\$398

Credit Quality

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

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 10 - Loans.

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

(Dollars in thousands)	As of September 30, 2011		
	Commercial	Real Estate Construction	Commercial
Pass	\$133,799	\$6,116	\$370,605
Special Mention	25,480	4,966	77,308
Substandard	55,429	14,811	235,316
Doubtful	9,174	0	4,163
Total	\$223,882	\$25,893	\$687,392

(Dollars in thousands)	Real Estate Residential	Installment	Home Equity	Other
	Performing	\$127,753	\$14,178	\$65,783	$4,071
Nonperforming	0	0	2,114	0
Total	\$127,753	\$14,178	\$67,897	\$4,071

(Dollars in thousands)	As of December 31, 2010		
	Commercial	Real Estate Construction	Commercial
Pass	\$225,088	\$14,021	\$476,140
Special Mention	35,768	5,743	106,057
Substandard	60,090	22,979	268,651
Doubtful	13,093	0	4,877
Total	\$334,039	\$42,743	\$855,725

(Dollars in thousands)	Real Estate Residential	Installment	Home Equity	Other
	Performing	\$147,052	\$21,071	\$72,204	$7,168
Nonperforming	0	0	1,491	0
Total	\$147,052	\$21,071	\$73,695	\$7,168

Covered other real estate owned is comprised of properties acquired by the Bank through the loan foreclosure or, repossession process, or any other resolution activity that results 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 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 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.

Changes in covered other real estate owned were as follows:

(Dollars in thousands)	Nine months ended September 30, 2011	Full Year December 31, 2010
Balance at beginning of period	\$35,257	\$12,916
Additions		

Commercial	38,431	22,237
Residential	2,315	9,827
Total additions	40,746	32,064
Disposals		
Commercial	20,940	4,744
Residential	6,992	4,536
Total disposals	27,932	9,280
Write-downs		
Commercial	4,138	414
Residential	1,095	29
Total write-downs	5,233	443
Balance at end of period	\$42,838	\$35,257

NOTE 12: ALLOWANCE FOR LOAN AND LEASE LOSSES

Uncovered Loans

For each reporting period, management maintains the allowance at a level that it considers sufficient to absorb inherent risks in the loan portfolio. Management's evaluation in establishing the adequacy of the allowance includes evaluation of the loan and lease portfolios, actual past loan and lease loss experience, known and inherent risks in the portfolio, adverse situations that may affect a specific borrower's ability to repay (including the timing of future payments), the estimated value of any underlying collateral, composition of the loan portfolio, economic conditions, and other pertinent factors, such as periodic internal and external evaluations of delinquent, nonaccrual, and classified loans. The evaluation is inherently subjective as it requires utilizing material estimates, including the amounts and timing of future cash flows expected to be received on impaired loans. 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 commercial loans, including time and demand notes, tax-exempt loans, and commercial real estate loans begins with a process of estimating the probable losses inherent in the portfolio. The loss estimates for these commercial loans are established by category and based on First Financial's internal system of credit risk ratings and historical loss data.

The estimate of losses inherent in the commercial portfolio may be adjusted for management's estimate of probable losses on specific exposures dependent upon the values of the underlying collateral and/or the present value of expected future cash flows, as well as trends in delinquent and nonaccrual loans, prevailing economic conditions, changes in lending strategies, and other influencing factors.

In the commercial portfolio, certain loans, typically larger-balance non-homogeneous exposures, may have a specific allowance established 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 consumer loans which includes residential real estate, installment, home equity, credit card loans, and overdrafts, is established for each of the categories by estimating losses inherent in that particular category of consumer loans. The estimate of losses is primarily based on historical loss rates for the category, as well as trends in delinquent and nonaccrual loans, prevailing economic conditions, and other influencing factors. Consumer loans are evaluated as an asset type within a category (i.e., residential real estate, installment, etc.), as these loans are smaller with more homogeneous characteristics.

There were no material changes to First Financial's accounting policies or methodology related to the allowance for loan and lease losses during the third quarter of 2011.

First Financial's policy is to charge-off loans when, in management's opinion, full collectibility of principal and interest based upon the contractual terms of the loan is unlikely.

12

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

(Dollars in thousands)	Three Months Ended			2010		Nine months ended		
	2011 Sep. 30,	June 30,	Mar. 31,	Dec. 31,	Sep. 30,	2011 September 30,	2010	
Balance at beginning of period	\$53,671	\$53,645	\$57,235	\$57,249	\$57,811	\$57,235	\$59,311	
Provision for loan losses	7,643	5,756	647	9,741	6,287	14,046	23,823	
Loans charged off	(7,174)	(6,232)	(4,601)	(10,285)	(8,124)	(18,007)	(28,066)	
Recoveries	397	502	364	530	1,275	1,263	2,181	
Balance at end of period	\$54,537	\$53,671	\$53,645	\$57,235	\$57,249	\$54,537	\$57,249	
Allowance for loan and lease losses to total ending loans	1.86 %	1.92 %	1.93 %	2.03 %	2.07 %	1.86 %	2.07 %	%

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, 2011							Total
	Real Estate							
	Commercial	Construction	Commercial	Residential	Installment	Home Equity	Other	
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	2,309	2,978	8,875	(2,928)	40	1,732	1,040	14,046
Gross charge-offs	1,694	4,174	7,877	1,078	411	1,695	1,078	18,007
Recoveries	414	27	241	42	267	46	226	1,263
Total net charge-offs	1,280	4,147	7,636	1,036	144	1,649	852	16,744
Ending allowance for loan and lease losses	\$11,167	\$7,157	\$16,156	\$4,943	\$1,877	\$11,022	\$2,215	\$54,537
Ending allowance on loans individually evaluated for impairment	\$2,820	\$4,615	\$3,809	\$270	\$0	\$2	\$0	\$11,516
Ending allowance on loans collectively evaluated for impairment	8,347	2,542	12,347	4,673	1,877	11,020	2,215	43,021
Ending allowance for loan and lease losses	\$11,167	\$7,157	\$16,156	\$4,943	\$1,877	\$11,022	\$2,215	\$54,537
Loans and Leases:								
Ending balance of loans individually evaluated for impairment	\$8,626	\$19,936	\$26,251	\$3,483	\$0	\$101	\$0	\$58,397

Ending balance of loans collectively evaluated for impairment	813,926	116,715	1,175,784	296,682	70,034	362,818	43,305	2,879,264
Total loans, excluding covered loans	\$822,552	\$136,651	\$1,202,035	\$300,165	\$70,034	\$362,919	\$43,305	\$2,937,661

Twelve Months Ended December 31, 2010

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	\$18,590	\$8,143	\$15,190	\$5,308	\$2,159	\$8,063	\$1,858	\$59,311
Provision for loan and lease losses	4,252	8,778	6,836	5,268	457	6,183	1,790	33,564
Gross charge-offs	13,324	8,619	8,191	1,693	1,154	3,499	1,871	38,351
Recoveries	620	24	1,082	24	519	192	250	2,711
Total net charge-offs	12,704	8,595	7,109	1,669	635	3,307	1,621	35,640
Ending allowance for loan and lease losses	\$10,138	\$8,326	\$14,917	\$8,907	\$1,981	\$10,939	\$2,027	\$57,235
Ending allowance on loans individually evaluated for impairment	\$2,017	\$3,716	\$4,347	\$336	\$0	\$0	\$0	\$10,416
Ending allowance on loans collectively evaluated for impairment	8,121	4,610	10,570	8,571	1,981	10,939	2,027	46,819
Ending allowance for loan and lease losses	\$10,138	\$8,326	\$14,917	\$8,907	\$1,981	\$10,939	\$2,027	\$57,235
Loans and Leases:								
Ending balance of loans individually evaluated for impairment	\$12,175	\$19,294	\$31,260	\$5,420	\$0	\$0	\$0	\$68,149
Ending balance of loans collectively evaluated for impairment	788,078	144,249	1,108,671	263,753	69,711	341,310	32,172	2,747,944
Total loans, excluding covered loans	\$800,253	\$163,543	\$1,139,931	\$269,173	\$69,711	\$341,310	\$32,172	\$2,816,093

Covered Loans

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

First Financial established an allowance for loan losses associated with covered loans during 2010 based on its valuation procedures performed during the period. The Company continued to update its valuations related to loans covered under loss share agreements during the third quarter of 2011 and, as a result of impairment in certain loan pools, recognized total provision expense of \$7.3 million and realized net charge-offs of \$10.2 million during the quarter, resulting in an allowance for covered loan losses of \$48.1 million as of September 30, 2011. For the first nine months of 2011, the Company recognized total provision expense of \$57.2 million and realized net charge-offs of

\$25.6 million. Additionally, the Company recognized loss share expenses of \$10.3 million for the first nine months of 2011 and \$3.8 million for the third quarter of 2011 primarily related to 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 \$53.5 million for the first nine months of 2011 and \$8.4 million for the third quarter of 2011 was recognized as FDIC loss sharing income and a corresponding increase to the FDIC indemnification asset.

For the third quarter of 2010, First Financial recognized provision expense on covered loans of \$20.7 million related to net charge-offs of \$10.4 million during the period. For the first nine months of 2010, the Company recognized provision expense of \$49.1 million related to net charge-offs of \$37.6 million. The related receivable due from the FDIC under loss share agreements related to these loans of \$17.8 million and \$40.5 million for the third quarter and first nine months of 2010, respectively, was recognized as FDIC loss sharing income and a corresponding increase to the FDIC indemnification asset.

Under the applicable accounting guidance, the allowance for loan losses related to covered loans as a result of impairment to loan pools arising from on-going valuation procedures is generally recognized in the current period as provision expense. Improvement in the credit outlook, however, is not recognized immediately but instead is reflected as an adjustment to the yield earned on the related loan pools on a prospective basis once any previously recorded impairment has been recaptured. The timing inherent in this accounting treatment may result in earnings volatility in future periods.

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

	September 30, 2011				
	Commercial	Real Estate Commercial	Residential	Installment	Total
(Dollars in thousands)					
Ending allowance on loans acquired with deteriorated credit quality (ASC 310-30)	\$17,850	\$27,301	\$2,694	\$267	\$48,112
Ending allowance on acquired loans outside the scope of ASC 310-30	0	0	0	0	0
Ending allowance on covered loans	\$17,850	\$27,301	\$2,694	\$267	\$48,112
	December 31, 2010				
	Commercial	Real Estate Commercial	Residential	Installment	Total
(Dollars in thousands)					
Ending allowance on loans acquired with deteriorated credit quality (ASC 310-30)	\$8,787	\$7,213	\$232	\$261	\$16,493
Ending allowance on acquired loans outside the scope of ASC 310-30	0	0	0	0	0
Ending allowance on covered loans	\$8,787	\$7,213	\$232	\$261	\$16,493

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

	Three Months Ended				Nine Months Ended		
	2011 Sep. 30,	June 30,	Mar. 31,	2010 Dec. 31,	Sep. 30,	2011 September 30,	2010
(Dollars in thousands)							
Balance at beginning of period	\$51,044	\$31,555	\$16,493	\$11,583	\$1,273	\$16,493	\$0
Provision for loan and lease losses	7,260	23,895	26,016	13,997	20,725	57,171	49,147
Loans charged-off	(10,609)	(7,456)	(14,026)	(9,351)	(10,492)	(32,091)	(37,641)
Recoveries	417	3,050	3,072	264	77	6,539	77
Balance at end of period	\$48,112	\$51,044	\$31,555	\$16,493	\$11,583	\$48,112	\$11,583

NOTE 13: INCOME TAXES

First Financial's effective tax rate for the third quarter of 2011 was 38.2% compared to 36.2% for the third quarter of 2010. The 2011 year-to-date effective tax rate was 36.3% compared to 35.4% for 2010. The increase in the effective tax rate during the third quarter 2011 was primarily driven by the completion of the 2010 federal and state tax returns and adjustments of this nature are typical for this calendar quarter.

At September 30, 2011, and December 31, 2010, First Financial had no unrecognized tax benefits recorded under FASB ASC Topic 740-10, Income Taxes. 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 jurisdictions. Tax years prior to 2008 have been closed and are no longer subject to U.S. federal income tax examinations.

First Financial is no longer subject to state and local income tax examinations for years prior to 2007. The Company's 2007 state examination by the state of Indiana has closed with no material impact to the Company's financial position as a result of the examinations. Tax years 2007 through 2010 remain open to state and local examination in various jurisdictions.

First Financial was notified in the second quarter of 2011 that the Internal Revenue Service will commence a routine

examination of its income tax return for the calendar year 2009. At this time, the Company cannot make an assessment of the outcome of this examination.

NOTE 14: 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 cash contributions totaling \$60.0 million to fund the pension plan in 2010. First Financial does not expect to make a cash contribution to its pension plan in 2011. As a result of the plan's funding status and related actuarial projections for 2011, First Financial recorded income in the first nine months of 2011 of \$1.0 million, compared to expense of \$1.5 million for the first nine months of 2010. Likewise, First Financial recorded income in the third quarter of 2011 of \$0.3 million compared to expense of \$0.6 million for the same period in 2010.

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,		
	2011	2010	2011	2010	
Service cost	\$825	\$743	\$2,475	\$1,943	
Interest cost	675	633	2,025	2,033	
Expected return on assets	(2,237	)(1,199	)(6,787	)(3,699)
Amortization of prior service cost	(100	)(117	)(300	)(317)
Recognized net actuarial loss	525	498	1,575	1,548	
Net periodic benefit (income) cost	\$(312	)\$558	\$(1,012	)\$1,508	

Amounts recognized in accumulated other comprehensive income (loss):

(Dollars in thousands)	Three months ended		Nine months ended		
	September 30,		September 30,		
	2011	2010	2011	2010	
Net actuarial loss	\$525	\$498	\$1,575	\$1,548	
Net prior service credit	(100	)(117	)(300	)(317)
Deferred tax (liabilities) assets	(160	)(141	)(481	)(167)
Net amount recognized	\$265	\$240	\$794	\$1,064	

NOTE 15: FAIR VALUE DISCLOSURES

Fair Value Measurement

The fair value framework as disclosed in the Fair Value Measurements and Disclosure Topic of the FASB Accounting Standards Codification (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 market observable 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.

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. Third party vendors compile prices from various sources and 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 third party vendors, 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 to the third party vendor 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.

Loans held for sale – Loans held for sale are carried at the lower of cost or market 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 carrying amount of accrued interest approximates its fair value.

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 at the lower of cost or market for purposes of determining the appropriate amount of impairment to be allocated to the allowance for loan and lease losses. Market value is 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 appraiser from outside of the Company (Level 2). 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 (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 310-30 were 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 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. Covered loans were grouped together according to similar characteristics and were 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.

Mortgage-servicing rights – The fair value of mortgage-servicing rights was determined through modeling the expected future cash flows. The modeling included stratification by maturity and coupon rates on the underlying mortgage loans. Certain assumptions were used in the valuation regarding prepayment speeds, discount rates, servicing costs, delinquency, cash balances, and foreclosure costs which were arrived at from third-party sources and internal records.

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 was 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.

Deposit liabilities – The fair value of demand deposits, savings accounts, and certain money-market deposits was 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 was 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 approximated its fair value.

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 fair value of long-term debt was estimated using a discounted cash flow calculation which utilizes the interest rates currently offered for borrowings of similar remaining maturities. Third-party valuations were used for long-term debt with embedded options, such as call features.

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 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 – First Financial utilizes interest rate swaps as a means to offer commercial borrowers products that meet their needs and also to achieve First Financial’s desired interest rate risk profile at the time. The net interest receivable or payable is accrued and recognized as an adjustment to the interest income or interest expense of the hedged item. First Financial utilizes third-party vendors for derivative valuation purposes. These vendors determine the appropriate fair value based on a net present value calculation of the cash flows related to the interest rate swaps 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 on the applicable measurement date (Level 2). 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 applicable measurement date (Level 3).

The estimated fair values of First Financial's financial instruments were as follows:

(Dollars in thousands)	September 30, 2011		December 31, 2010	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Cash and short-term investments	\$477,383	\$477,383	\$282,933	\$282,933
Investment securities held-to-maturity	2,724	2,953	17,406	18,066
Investment securities available-for-sale	1,120,179	1,120,179	919,110	919,110
Other investments	71,492	71,492	78,689	78,689
Loans held for sale	14,259	14,259	29,292	29,292
Loans, excluding covered loans	2,883,124	2,858,649	2,758,858	2,720,080
Covered loans	1,102,954	1,126,291	1,465,000	1,477,631
Mortgage-servicing rights	1,049	1,066	1,502	1,502
FDIC indemnification asset	177,814	159,537	222,648	212,431
Accrued interest receivable	12,584	12,584	14,063	14,063
Derivative financial instruments	0	0	262	262
Financial liabilities				
Deposits				
Noninterest-bearing	\$814,928	\$814,928	\$705,484	\$705,484
Interest-bearing demand	1,288,721	1,288,721	1,111,877	1,111,877
Savings	1,537,420	1,537,420	1,534,045	1,534,045
Time	1,658,031	1,677,444	1,794,843	1,818,237
Total deposits	5,299,100	5,318,513	5,146,249	5,169,643
Short-term borrowings	95,451	95,451	59,842	59,842
Long-term debt	76,875	82,022	128,880	125,825
Other long-term debt	0	0	20,620	20,620
Accrued interest payable	3,963	3,963	5,516	5,516
Derivative financial instruments	3,760	3,760	3,223	3,223

The following table summarizes the financial assets and liabilities measured at fair value on a recurring basis at September 30, 2011:

(Dollars in thousands)	Fair Value Measurements Using			Netting Adjustments ⁽¹⁾	Assets/Liabilities at Fair Value
	Level 1	Level 2	Level 3		
Assets					
Derivatives	\$0	\$26,086	\$(1,353)	) \$(24,733	) \$ 0
Available-for-sale investment securities	133	1,120,046	0	0	1,120,179
Total	\$133	\$1,146,132	\$(1,353)	) \$(24,733	) \$ 1,120,179
Liabilities					
Derivatives	\$0	\$28,493	\$0	\$(24,733	) \$ 3,760

(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-market accounting or write-downs of individual assets. The following table summarizes financial assets and liabilities measured at fair value on a nonrecurring basis at September 30, 2011:

(Dollars in thousands)	Fair Value Measurements Using			Year-to-date Gains/(Losses)
	Level 1	Level 2	Level 3	
Assets				
Loans held for sale	\$0	\$14,259	\$0	\$0
Impaired loans ⁽¹⁾	35	17,060	444	0

⁽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, discounted as appropriate (Level 2), and borrower records discounted as appropriate (Level 3).

NOTE 16: 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)	September 30, 2011 Transactions			Balances Net of tax
	Pre-tax	Tax-effect	Net of tax	
Unrealized gain on securities available-for-sale	\$12,966	\$(4,896)	) \$8,070	\$17,134
Unrealized loss on derivatives	628	(237)	) 391	0
Unfunded pension obligation	1,275	(481)	) 794	(20,488)
Foreign currency translation	(599)	) 0	(599)	) (34)
Total	\$14,270	\$(5,614)	) \$8,656	\$(3,388)
September 30, 2010 Transactions				
(Dollars in thousands)	Pre-tax	Tax-effect	Net of tax	Balances Net of tax
Unrealized gain on securities available-for-sale	\$3,225	\$(1,331)	) \$1,894	\$12,118
Unrealized loss on derivatives	(2,787)	) 1,022	(1,765)	) (834)
Unfunded pension obligation	1,231	(167)	) 1,064	(20,697)
Foreign currency translation	188	0	188	307
Total	\$1,857	\$(476)	) \$1,381	\$(9,106)

NOTE 17: EARNINGS PER COMMON SHARE

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

	Three months ended	Nine months ended
--	--------------------	-------------------

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

(Dollars in thousands, except per share data)	September 30,		September 30,	
	2011	2010	2011	2010
Numerator for basic and diluted earnings per share				
-income available to common shareholders:				
Net income	\$15,618	\$15,579	\$48,798	\$44,951
Dividends on preferred stock	0	0	0	1,865
Income available to common shareholders	\$15,618	\$15,579	\$48,798	\$43,086
Denominator for basic earnings per share - weighted average shares				
Effect of dilutive securities —				
Employee stock awards	841,604	873,959	930,461	887,478
Warrants	76,684	86,837	95,241	105,495
Denominator for diluted earnings per share - adjusted weighted average shares	58,654,099	58,531,505	58,699,952	57,758,906
Earnings per share available to common shareholders				
Basic	\$0.27	\$0.27	\$0.85	\$0.76
Diluted	\$0.27	\$0.27	\$0.83	\$0.75

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 1,267,705 and 692,312 at September 30, 2011 and 2010, respectively. The warrants to purchase 465,117 shares of common stock were outstanding as of September 30, 2011 and 2010.

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 is a \$6.3 billion bank holding company headquartered in Cincinnati, Ohio. As of September 30, 2011 First Financial, through its subsidiaries, operated in Ohio, Indiana, and Kentucky. These subsidiaries include a commercial bank, First Financial Bank, N.A. (Bank) with 116 banking centers and 142 ATMs. An investment advisory company, First Financial Capital Advisors LLC, which had been a subsidiary of First Financial, was dissolved effective September 1, 2011. 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. The wealth management activities include a full range of services including trust services, brokerage, investment, and other related services. Additionally, the Bank conducts specialty, franchise lending providing equipment and leasehold improvement financing for franchisees, in the quick service and casual dining restaurant sector, throughout the United States. Loans to franchisees often include the financing of real estate as well as equipment. The franchise portfolio is managed to a risk-appropriate level so as not to create an industry, geographic or franchisee concept concentration.

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 the franchise lending activity serves 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.

During the first quarter of 2011, First Financial exited the four banking center locations comprising its Michigan geographic market as well as its single banking center in Louisville, Kentucky. First Financial decided to shift resources towards core markets such as Cincinnati and Dayton, Ohio and Indianapolis, Southern and Northwest Indiana that it believes will provide a higher level of potential overall growth while improving the efficiency of its operations. The five banking centers in Michigan and Louisville were acquired during 2009 as part of First Financial's Federal Deposit Insurance Corporation (FDIC)-assisted transactions under which the Company assumed the banking operations of Irwin Union Bank and Trust Company and Irwin Union Bank, F.S.B. (collectively, Irwin).

BUSINESS COMBINATIONS

On September 23, 2011, First Financial Bank, N.A., completed the purchase of 16 Ohio 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. The Liberty banking center acquisition was accounted for in accordance with FASB ASC Topic 805, Business Combinations. Fair values are preliminary and 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. First

Financial recorded \$17.1 million of goodwill during the third quarter of 2011 related to the acquisition.

Also during the third quarter of 2011, First Financial signed a purchase and assumption agreement to acquire 22 Indiana-based retail banking branches from Flagstar Bank, FSB (Flagstar) and assume approximately \$530 million of deposits associated with these branches. The Flagstar transaction is expected to close during the fourth quarter 2011. While both companies have received regulatory approval, the transaction remains subject to other customary closing conditions.

During the third quarter of 2009, through FDIC-assisted transactions, First Financial acquired the banking operations of Peoples Community Bank (Peoples) and Irwin. 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. Covered loans represent approximately 28% of First Financial's loans at September 30, 2011.

First Financial must follow specific servicing and resolution procedures, as outlined in the loss share 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 the assets that are not subject to a loss share agreement.

Covered loans acquired from Peoples totaling \$421.0 million in unpaid principal balances are subject to a stated loss threshold of \$190.0 million whereby the FDIC will reimburse First Financial for 80% of covered asset losses up to \$190.0 million, and 95% of losses beyond \$190.0 million.

Covered loans acquired from Irwin Union Bank totaling \$1.9 billion in unpaid principal balances are subject to a stated loss threshold of \$526.0 million whereby the FDIC will reimburse First Financial for 80% of covered asset losses up to \$526.0 million, and 95% of losses beyond \$526.0 million.

Covered loans acquired from Irwin FSB totaling \$368.1 million in unpaid principal balances are subject to a stated loss threshold of \$110.0 million whereby the FDIC will reimburse First Financial for 80% of covered asset losses up to \$110.0 million, and 95% of losses beyond \$110.0 million.

Each acquisition was considered a business combination and accounted for under FASB ASC Topic 805, Business Combinations, FASB ASC Topic 820, Fair Value Measurements and Disclosures, FASB ASC Topic 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality, and FASB ASC Topic 310-20, Receivables-Nonrefundable Fees and Costs. All acquired assets and liabilities, including identifiable intangible assets, were recorded at their estimated fair values as of the date of acquisition. For a more detailed discussion of the transactions please see Note 3, Business Combinations.

OVERVIEW OF OPERATIONS

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

Third quarter 2011 net income and net income available to common shareholders, was \$15.6 million, and earnings per diluted common share were \$0.27. This compares with third quarter 2010 net income and net income available to common shareholders of \$15.6 million and earnings per diluted common share of \$0.27.

For the nine month period ended September 30, 2011, net income and net income available to common shareholders, was \$48.8 million, and earnings per diluted common share was \$0.83. This compares with net income of \$45.0 million, net income available to common shareholders of \$43.1 million, and earnings per diluted common share of

\$0.75 for the nine month period ended September 30, 2010.

Return on average assets for the third quarter of 2011 was 1.01% compared to 0.96% for the comparable period in 2010 and 0.90% for the quarter ended December 31, 2010. Return on average shareholders' equity for the third quarter of 2011 was 8.54% compared to 9.03% for the comparable period in 2010 and 8.14% for the quarter ended December 31, 2010.

Return on average assets for the first nine months of 2011 was 1.05% compared to 0.92% for the comparable period in 2010. Return on average shareholders' equity was 9.19% for the first nine months of 2011 compared to 8.86% for the same period in 2010.

A discussion of the first nine months and third quarter of 2011 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 for both management and investors by allowing them to make peer comparisons.

(Dollars in thousands)	Three Months Ended		Nine months ended		
	September 30,		September 30,		
	2011	2010	2011	2010	
Net interest income	\$65,218	\$67,846	\$198,420	\$207,604	
Tax equivalent adjustment	236	222	714	646	
Net interest income - tax equivalent	\$65,454	\$68,068	\$199,134	\$208,250	
Average earning assets	\$5,687,036	\$5,867,311	\$5,730,642	\$5,946,078	
Net interest margin *	4.55	% 4.59	% 4.63	% 4.67	%
Net interest margin (fully tax equivalent)	4.57	% 4.60	% 4.65	% 4.68	%
*					

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

Net interest income for the third quarter of 2011 was \$65.2 million, a decline of \$2.6 million from the third quarter of 2010 net interest income of \$67.8 million. Net interest income on a fully tax-equivalent basis for the third quarter 2011 was \$65.5 million as compared to \$68.1 million for the third quarter of 2010. Compared to the third quarter of 2010, total interest income declined \$8.7 million, or 10.3% during the third quarter 2011 due to lower interest income earned on loans, driven primarily by a 27.4% decline in average covered loan balances, and the reduced yield on the FDIC indemnification asset as a result of better than expected credit performance in the covered loan portfolio. However, this decline was partially offset by an increase in interest earned on investments. Total interest expense declined \$6.1 million, or 36.3%, due primarily to lower interest expense on deposits and lower funding costs resulting from the prepayment of \$232 million of FHLB advances that occurred during the third quarter 2010 as well as the redemption of \$20.6 million of trust preferred securities in the second quarter 2011.

For the nine month period ended September 30, 2011, net interest income was \$198.4 million as compared to \$207.6 million for the comparable period in 2010. Similar to the quarterly year-over-year items noted above, the decline was driven by lower average covered loan balances and the reduced yield on the FDIC indemnification asset, offset partially by higher interest income from investments and lower funding costs.

Net interest margin was 4.55% for the third quarter 2011 as compared to 4.59% for the third quarter 2010. Net interest margin continued to be negatively impacted by the combination of normal amortization and paydowns in the originated and covered loan portfolios, with proceeds reinvested in lower yielding securities, as well as lower yields earned on new loan originations during the quarter. However, yields remained strong on covered loans, helping to offset the decline in the balance outstanding. During the quarter, the Company implemented several strategic initiatives related to deposits, including a repricing strategy on all deposit products offered and reducing the balance of higher-cost, non-core relationships, which positively impacted net interest margin. The Company also used liquidity to

purchase \$38.6 million of investment securities as well as realized a full quarter's impact from both investment purchases that settled late in the second quarter 2011 and the redemption of \$20.6 million of trust preferred securities that also occurred late in the second quarter. Additionally, liquidity not used to purchase investments was used to fund the redemption of wholesale borrowings and maturing time deposits, including the expected runoff of retail certificates of deposits and deposits related to the exited markets of Michigan and Louisville, helping to offset the margin decline from lower total loan balances.

Net interest margin for the nine month period ended September 30, 2011 declined slightly to 4.63% as compared to 4.67% for the nine month period ended September 30, 2010.

Net interest margin is affected by certain activity related to the covered loan portfolio. The majority of these loans are accounted for under ASC Topic 310-30 and, 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 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 margin. Improvement, which is reflected as a higher yield, 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 change as loans with higher yields pay down more quickly or slowly than loans with lower yields.

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

QUARTERLY CONSOLIDATED AVERAGE BALANCE SHEETS AND NET INTEREST INCOME ANALYSIS

(Dollars in thousands)	September 30, 2011			June 30, 2011			September 30, 2010		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Earning assets									
Investments:									
Interest-bearing deposits with other banks	\$306,969	\$208	0.27 %	\$375,434	\$328	0.35 %	\$483,097	\$396	0.33 %
Investment securities	1,199,473	7,587	2.51 %	1,093,870	7,272	2.67 %	691,700	5,626	3.23 %
Gross loans including covered loans and indemnification asset ⁽¹⁾	4,180,594	68,157	6.47 %	4,264,300	70,217	6.60 %	4,692,514	78,662	6.65 %
Total earning assets	5,687,036	75,952	5.30 %	5,733,604	77,817	5.44 %	5,867,311	84,684	5.73 %
Nonearning assets									
Cash and due from banks	110,336			118,829			185,322		
Allowance for loan and lease losses	(107,101)			(94,202)			(61,753)		
Premises and equipment	116,070			115,279			115,518		
Other assets	330,474			346,244			302,081		
Total assets	\$6,136,815			\$6,219,754			\$6,408,479		
Interest-bearing liabilities									
Deposits:									
Interest-bearing	\$1,153,178	\$690	0.24 %	\$1,130,503	808	0.29 %	\$1,029,350	1,063	0.41 %
Savings	1,659,152	1,412	0.34 %	1,636,821	1,838	0.45 %	1,412,441	2,115	0.59 %
Time	1,554,497	7,721	1.97 %	1,634,779	8,121	1.99 %	2,007,138	11,279	2.23 %
Short-term borrowings	100,990	44	0.17 %	95,297	49	0.21 %	50,580	25	0.20 %
Long-term borrowings	94,150	867	3.65 %	122,899	1,134	3.70 %	301,790	2,356	3.10 %
Total interest-bearing liabilities	4,561,967	10,734	0.93 %	4,620,299	11,950	1.04 %	4,801,299	16,838	1.39 %
Noninterest-bearing liabilities and shareholders' equity									
Noninterest-bearing demand	735,621			734,674			721,501		
Other liabilities	113,418			157,031			201,567		
Shareholders' equity	725,809			707,750			684,112		
Total liabilities and shareholders' equity	\$6,136,815			\$6,219,754			\$6,408,479		
Net interest income		\$65,218			\$65,867			\$67,846	

Net interest spread	4.37 %	4.40 %	4.34 %
Contribution of noninterest-bearing sources of funds	0.18 %	0.21 %	0.25 %
Net interest margin ⁽²⁾	4.55 %	4.61 %	4.59 %

(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.

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					
	Linked Qtr. Income Variance			Comparable Qtr. Income Variance		
	Rate	Volume	Total	Rate	Volume	Total
Earning assets						
Investment securities	\$(428)	\$743	\$315	\$(1,251)	\$3,212	\$1,961
Other earning assets	(76)	(44)	(120)	(69)	(119)	(188)
Gross loans ⁽¹⁾	(1,451)	(609)	(2,060)	(2,159)	(8,346)	(10,505)
Total earning assets	(1,955)	90	(1,865)	(3,479)	(5,253)	(8,732)
Interest-bearing liabilities						
Total interest-bearing deposits	\$(972)	\$28	\$(944)	\$(4,449)	\$(185)	\$(4,634)
Borrowed funds						
Short-term borrowings	(8)	3	(5)	(3)	22	19
Federal Home Loan Bank long-term debt	(3)	(67)	(70)	555	(1,722)	(1,167)
Other long-term debt	0	(197)	(197)	0	(322)	(322)
Total borrowed funds	(11)	(261)	(272)	552	(2,022)	(1,470)
Total interest-bearing liabilities	(983)	(233)	(1,216)	(3,897)	(2,207)	(6,104)
Net interest income ⁽²⁾	\$(972)	\$323	\$(649)	\$418	\$(3,046)	\$(2,628)

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

⁽²⁾ Not tax equivalent.

(Dollars in thousands)	Changes for the Nine Months Ended September 30		
	Year-to-Date Income Variance		
	Rate	Volume	Total
Earning assets			
Investment securities	\$(4,841)	\$9,755	\$4,914
Other earning assets	26	(404)	(378)
Gross loans (1)	(4,642)	(27,243)	(31,885)
Total earning assets	(9,457)	(17,892)	(27,349)
Interest-bearing liabilities			
Total interest-bearing deposits	\$(12,542)	\$(881)	\$(13,423)
Borrowed funds			
Short-term borrowings	0	77	77
Federal Home Loan Bank long-term debt	2,637	(6,891)	(4,254)
Other long-term debt	(363)	(202)	(565)
Total borrowed funds	2,274	(7,016)	(4,742)
Total interest-bearing liabilities	(10,268)	(7,897)	(18,165)
Net interest income	\$811	\$(9,995)	\$(9,184)

NONINTEREST INCOME

Third quarter 2011 noninterest income was \$28.1 million, compared to \$44.9 million in the third quarter of 2010. The decline in noninterest income from the comparable quarter in 2010 was due primarily to lower reimbursements due from the FDIC on covered assets as well as declines in accelerated discount on covered loans and gains from sales of loans. 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 other noninterest expense. Reimbursements due from the FDIC under loss share agreements related to these credit losses are recorded as noninterest income and were \$8.4 million for the third quarter of 2011 and \$17.8 million for the third quarter of 2010. 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 loans.

While no material sales of covered loans occurred during the third quarter of 2011, covered loan activity continued to positively impact noninterest income due to a small amount of loan sale activity as well as 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 \$5.2 million for the third quarter of 2011 and \$9.4 million for the third quarter of 2010.

First Financial sold \$13.8 million of loans originated by its franchise finance business during the third quarter of 2011 resulting in a \$0.7 million gain. During the third quarter of 2010, the Company sold approximately \$23.2 million of loans originated by its franchise finance business, recognizing a \$2.0 million gain.

On a comparable basis, noninterest income for the nine months ended September 30, 2011 was \$112.9 million as compared to \$112.3 million for the nine months period ended September 30, 2010. The increase of \$0.6 million, or 0.5%, was primarily attributable to increased FDIC loss sharing income of \$12.9 million, offset by a decline in accelerated discount on covered loans of \$7.2 million as well as declines of \$2.8 million in service charges on deposits and \$2.8 million in other noninterest income. The increase in FDIC loss sharing income for the nine months ended September 30, 2011 reflects an increase in expected reimbursements from the FDIC as a result of losses related to covered assets. The decline in accelerated discount on covered loans is a result of fewer borrowers paying off their loans prior to contractual maturity and a lower level of covered loan sales during the period while the decline in service charges on deposits is primarily attributable to regulatory factors. The decline in other noninterest income is the result of the settlement of certain initial cash items and valuations related to the 2009 FDIC acquisitions in the nine months ended September 30, 2010 as well as the runoff of certain reinsurance activities related to a subsidiary acquired as part of the Irwin acquisition in 2009.

NONINTEREST EXPENSE

Third quarter 2011 noninterest expense was \$53.1 million, compared with \$61.3 million in the third quarter of 2010. The \$8.2 million or 13.3% decline from the comparable quarter in 2010 was primarily due to an \$8.0 million prepayment penalty on Federal Home Loan Bank (FHLB) advances that was incurred in the third quarter of 2010. Also contributing to the decline was reduced FDIC assessments of \$0.9 million related to lower assessment rates that became effective in the second quarter of 2011 and a \$1.0 million decline in salaries and employee benefits. The decline in salaries and employee benefits expense was primarily the result of the Company exiting five banking center locations in Michigan and Kentucky during the first quarter of 2011 as well as other cost management efforts, partially offset by elevated staffing and employee benefit costs associated with certain exit and transition activities during the third quarter of 2011. The declines in debt extinguishment costs, FDIC assessments, and salaries and benefits expenses were partially offset by a \$2.2 million increase in other noninterest expenses primarily related to losses on covered OREO and costs related to the Liberty banking center acquisition. Covered OREO expenses are partially reimbursed by the FDIC.

For the nine months ended September 30, 2011, noninterest expense totaled \$163.4 million compared to \$177.4 million for the comparable year-over-year period. This decline in year-to-date noninterest expense was primarily due

to the \$8.0 million prepayment penalty on FHLB advances, lower salaries and employee benefits, occupancy expense, communication expense, and FDIC assessments as a result of lower headcount, fewer banking centers and lower FDIC assessment rates as discussed above. These declines were partially offset by increases in professional services, data processing and other noninterest expenses due primarily to litigation relating to the departure of certain employees from First Franchise in the first quarter of 2011 as well as costs associated with the Liberty banking center acquisition and OREO-related expenses.

INCOME TAXES

Income tax expense was \$9.7 million and \$8.8 million for the third quarters of 2011 and 2010, respectively. The effective tax rates for the third quarters of 2011 and 2010 were 38.2% and 36.2%, respectively. The increase in the effective tax rate during the third quarter 2011 was primarily driven by the completion of the Company's 2010 federal and state tax returns and adjustments of this nature are typical for this calendar quarter.

Income tax expense was \$27.9 million and \$24.6 million for the nine months ended September 30, 2011 and 2010. The effective tax rates for the nine months ended September 30, 2011, and 2010, were 36.3% and 35.4%, respectively.

LOANS - Excluding covered loans

Loans, excluding covered loans, totaled \$2.9 billion at September 30, 2011, representing an increase of \$121.6 million, or 4.3%, compared to December 31, 2010. The year to date increase in loan balances is primarily the result of the \$126.5 million of performing loans acquired in connection with the Liberty branch acquisition during the third quarter of 2011.

Third quarter 2011 average loans excluding covered loans and loans held for sale, increased \$8.9 million or 0.3% from the third quarter of 2010. The increase in average loans excluding covered loans and loans held for sale was primarily related to a \$45.6 million decline in average construction real estate loans and a \$28.8 million decline in average residential real estate loans, offset by a \$68.9 million increase in average commercial and commercial real estate loans and an \$11.4 million increase in leases. As the Liberty transaction closed late in the third quarter, the acquired loans had a minimal effect on the average loan balances.

LOANS - Covered

As of September 30, 2011, 28.2% of the Company's total loans were covered loans. As required under the loss-share 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.

Covered loans totaled \$1.2 billion at September 30, 2011, representing a \$330.4 million, or 22.3%, decline compared to December 31, 2010. The decline in covered loan balances is expected as there were no acquisitions of loans subject to loss share 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 share agreements in the future. Loans with coverage terminated, or removed, generally represent loans to 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.

INVESTMENTS

Investment securities totaled \$1.2 billion or 18.8% of total assets at September 30, 2011, compared with \$1.0 billion or 16.2% of total assets at December 31, 2010. Securities available-for-sale at September 30, 2011, totaled \$1.1 billion, compared with \$919.1 million at December 31, 2010.

The \$179.2 million or 17.7% net increase in the investment portfolio as compared to December 31, 2010 was due to the purchase of \$449.4 million of agency mortgage backed securities, partially offset by maturities and amortizations, during the period. The net growth in the investment portfolio is primarily due to the investment of liquidity resulting from continued, muted loan demand and deposit inflows.

The Company received \$190.7 million of cash upon closing of the Liberty transaction which had not yet been redeployed as of September 30, 2011. Subsequent to the end of the third quarter, the Company began deploying these proceeds through the purchase of agency mortgage backed securities. The addition of longer duration securities was executed in conjunction with First Financial's overall asset/liability structure and interest rate risk modeling activities, and, to a lesser extent, market and rate expectations. First Financial continues to avoid adding any particular securities to its portfolio that would materially increase credit risk or geographic concentration risk. The Company does,

however, include these risks in its total evaluation of current market opportunities that would enhance the overall performance of the portfolio.

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 \$17.1 million at September 30, 2011, compared with \$9.1 million at December 31, 2010.

DEPOSITS AND FUNDING

Total deposits as of September 30, 2011 were \$5.3 billion, an increase of \$152.9 million or 3.0% compared to December 31, 2010. The increase in total deposits as compared to December 31, 2010 was primarily related to the \$341.9 million of deposits assumed in connection with the Liberty branch acquisition during the third quarter of 2011 partially offset by the continued runoff of certain deposits acquired as part of the Irwin acquisition in 2009. The increase in deposit balances reflects the

continued benefits of First Financial's deposit pricing strategy as outflows of time deposits and brokered deposits have been replaced with less expensive transaction-based and wholesale funding. Additionally, First Financial focused on several strategic initiatives related to deposits that impacted the activity during the period. Specifically, the Company implemented a more disciplined pricing strategy on all deposit products and initiated a deposit rationalization strategy focused on improving core relationship profitability and reducing non-core relationship deposits.

Third quarter 2011 average deposits declined \$68.0 million, or 1.3%, from September 30, 2010. The decline in average deposits was primarily related to a \$452.6 million, or 22.6%, decline in average time deposits partially offset by a \$246.7 million increase in average savings account balances and a \$123.8 million increase in average interest-bearing checking account balances during the period.

Borrowed funds as of September 30, 2011 totaled \$172.3 million, as compared to \$209.3 million as of December 31, 2010. This decrease was primarily due to the redemption of the \$20.6 million of floating rate trust preferred securities in the second quarter 2011.

RISK MANAGEMENT

Risk is an inherent part of First Financial's business activities and the Company manages risks through a structured enterprise risk management (ERM) approach that routinely assesses the overall level of risk and identifies specific risks and the steps being taken to mitigate them. First Financial continues to enhance its risk management capabilities and has, over time, enhanced risk awareness as part of the culture of the Company. 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 Risk Management on pages 19 – 25 of First Financial's 2010 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, periodically reviewing and approving its credit exposures using Board of Directors approved credit policies and guidelines. 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 at a level that is considered sufficient to absorb inherent risks in the loan portfolio. Management's evaluation in establishing the adequacy of the allowance includes evaluation of the loan and lease portfolios, past loan and lease loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay (including the timing of future payments), the estimated value of any underlying collateral, composition of the loan portfolio, economic conditions, and other pertinent factors, such as periodic internal and external evaluations of delinquent, nonaccrual, and classified loans. The evaluation is inherently subjective as it requires utilizing material estimates, including the amounts and timing of future cash flows expected to be received on impaired loans. 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.

As of the end of the third quarter 2011, the allowance for uncovered loan and lease losses was \$54.5 million compared to \$57.2 million as of December 31, 2010. As a percentage of period-end loans, the allowance for loan and lease losses was 1.86% as of September 30, 2011 compared to 2.03% as of December 31, 2010. The allowance for loan and lease losses as of September 30, 2011 reflects management's estimate of credit risk inherent in the Company's uncovered loan portfolio at that time.

Third quarter 2011 net charge-offs were \$6.8 million or 0.96% of average loans and leases, compared with \$5.7 million or 0.83% for the quarter ended June 30, 2011, and \$6.8 million or 0.97% for the comparable year-over-year quarter. Significant items driving net charge-offs for the quarter included \$1.6 million related to three separate residential development credits, \$1.5 million related to a multifamily real estate loan and \$0.5 million related to a recreational facility credit.

For the nine months ended September 30, 2011, net charge-offs were \$16.7 million, or 0.80% of average loans and leases, as

compared to \$25.9 million, or 1.23%, for the nine months ended September 30, 2010.

Third quarter 2011 provision expense related to uncovered loans and leases was \$7.6 million as compared to \$5.8 million during the linked quarter and \$6.3 million during the comparable year-over-year quarter. As a percentage of net charge-offs, third quarter 2011 provision expense equaled 112.8% compared to 100.5% during the second quarter 2011 and 91.8% during the third quarter 2010.

For the nine months ended September 30, 2011, provision expense related to uncovered loans and leases was \$14.0 million as compared to \$23.8 million for the same period in 2010. As a percentage of net charge-offs, year-to-date 2011 provision expense was 83.9% compared to 92.0% for the same period in 2010.

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				Nine Months Ended		
	Sep. 30,	June 30,	Mar. 31,	2010 Dec. 31,	Sep. 30,	September 30, 2011	2010
ALLOWANCE FOR LOAN AND LEASE LOSS ACTIVITY							
Balance at beginning of period	\$53,671	\$53,645	\$57,235	\$57,249	\$57,811	\$57,235	\$59,311
Provision for loan losses	7,643	5,756	647	9,741	6,287	14,046	23,823
Gross charge-offs							
Commercial	879	383	432	5,131	762	1,694	8,193
Real estate-construction	1,771	1,213	1,190	500	3,607	4,174	8,119
Real estate-commercial	2,997	2,791	2,089	1,887	2,013	7,877	6,304
Real estate-residential	564	406	108	196	717	1,078	1,497
Installment	162	177	72	231	205	411	923
Home equity	510	923	262	1,846	389	1,695	1,653
All other	291	339	448	494	431	1,078	1,377
Total gross charge-offs	7,174	6,232	4,601	10,285	8,124	18,007	28,066
Recoveries							
Commercial	92	222	100	57	334	414	563
Real estate-construction	0	27	0	0	0	27	24
Real estate-commercial	168	38	35	243	728	241	839
Real estate-residential	4	29	9	6	11	42	18
Installment	87	82	98	116	116	267	403
Home equity	9	12	25	74	21	46	118
All other	37	92	97	34	65	226	216
Total recoveries	397	502	364	530	1,275	1,263	2,181
Total net charge-offs	6,777	5,730	4,237	9,755	6,849	16,744	25,885
Ending allowance for loan losses	\$54,537	\$53,671	\$53,645	\$57,235	\$57,249	\$54,537	\$57,249

**NET CHARGE-OFFS TO AVERAGE LOANS AND LEASES
(ANNUALIZED)**

Commercial	0.39	% 0.08	% 0.17	% 2.72	% 0.23	% 0.21	% 1.35	%
Real estate-construction	4.96	% 3.42	% 3.05	% 1.15	% 7.64	% 3.79	% 5.23	%
Real estate-commercial	0.98	% 0.97	% 0.73	% 0.56	% 0.45	% 0.90	% 0.66	%
Real estate-residential	0.83	% 0.56	% 0.15	% 0.27	% 0.95	% 0.51	% 0.65	%

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

Installment	0.47	% 0.58	% (0.16	)% 0.64	% 0.49	% 0.29	% 0.91	%
Home equity	0.57	% 1.07	% 0.28	% 2.07	% 0.43	% 0.64	% 0.61	%
All other	2.46	% 2.68	% 4.09	% 6.26	% 5.05	% 3.03	% 5.46	%
Total net charge-offs	0.96	% 0.83	% 0.61	% 1.39	% 0.97	% 0.80	% 1.23	%

30

While First Financial is seeing isolated areas of improvement, overall weakness in both the commercial and consumer sectors continues to exist in its strategic markets. Given the continued challenging environment, the Company intends to remain proactive in identifying and managing individual credit situations.

Allowance for loan and lease losses (covered loans)

Substantially all loans acquired in the 2009 Peoples and Irwin acquisitions were covered by loss sharing agreements with the FDIC, whereby the FDIC reimburses First Financial for the majority of the losses incurred. These loans were recorded at their estimated fair value upon acquisition. Generally the determination of the fair value of the loans resulted in a significant write-down in the value of the loans, which was assigned to an accretable or nonaccretable balance, with the accretable balance being recognized as interest income over the remaining term of the loan. In accordance with accounting for business combinations, there was no allowance brought forward on any of the acquired loans, as the credit losses evident in the loans were included in the determination of the fair value of the loans at the acquisition date and are generally represented by the nonaccretable balance. The majority of the nonaccretable balance is expected to be received from the FDIC through the loss sharing agreements and is recorded as a separate indemnification asset from the covered loans and reflected on the Consolidated Balance Sheets.

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 share 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. First Financial recognized provision expense related to impairment in the expected cash flows on certain covered loans, as well as enhanced yields reflecting improved cash flow expectations on other covered loans during the first nine months of 2011.

First Financial established an allowance for loan losses associated with covered loans during 2010 based on its valuation procedures performed during the period. The Company continued to update its valuations related to loans covered under loss share agreements during the third quarter of 2011 and, as a result of impairment in certain loan pools, recognized total provision expense of \$7.3 million and realized net charge-offs of \$10.2 million during the quarter, resulting in an allowance for covered loan losses of \$48.1 million as of September 30, 2011. For the first nine months of 2011, the Company recognized total provision expense of \$57.2 million and realized net charge-offs of \$25.6 million. Additionally, the Company recognized loss share expenses of \$10.3 million for the first nine months of 2011 and \$3.8 million for the third quarter of 2011 primarily related to 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 \$53.5 million for the first nine months of 2011 and \$8.4 million for the third quarter of 2011 was recognized as FDIC loss sharing income and a corresponding increase to the FDIC indemnification asset.

For the third quarter of 2010, First Financial recognized provision expense on covered loans of \$20.7 million and realized net charge-offs of \$10.4 million during the period. For the first nine months of 2010, the Company recognized provision expense of \$49.1 million and realized net charge-offs of \$37.6 million. The related receivable due from the FDIC under loss share agreements related to these loans of \$17.8 million and \$40.5 million for the third quarter and first nine months, respectively, was recognized as FDIC loss sharing income and a corresponding increase

to the FDIC indemnification asset.

31

(Dollars in thousands)	Three Months Ended				Nine Months Ended		
	2011		2010		September 30,		
	Sep. 30,	Jun. 30,	Mar. 31,	Dec. 31,	Sep. 30,	2011	2010
Balance at beginning of period	\$51,044	\$31,555	\$16,493	\$11,583	\$1,273	\$16,493	\$0
Provision for loan and lease losses	7,260	23,895	26,016	13,997	20,725	57,171	49,147
Loans charged-off	(10,609)	(7,456)	(14,026)	(9,351)	(10,492)	(32,091)	(37,641)
Recoveries	417	3,050	3,072	264	77	6,539	77
Ending allowance for covered loan losses	\$48,112	\$51,044	\$31,555	\$16,493	\$11,583	\$48,112	\$11,583

Nonperforming/Underperforming Assets (excluding covered assets)

Nonperforming loans totaled \$76.4 million and nonperforming assets totaled \$88.4 million as of September 30, 2011 compared with \$79.9 million and \$97.8 million, respectively, at December 31, 2010 and \$79.5 million and \$97.8 million, respectively, at September 30, 2010. The decrease in nonperforming assets relative to December 31, 2010 was driven primarily by a reduction in nonaccrual and restructured loans, as well as a decrease in OREO. The declines in nonaccrual and restructured loans primarily related to the commercial and commercial real estate portfolios and included the effect of net charge-off activity discussed above and other resolution strategies which more than offset the additions.

The third quarter 2011 allowance for loan and lease losses as a percent of nonaccrual loans was 92.2% compared with 91.9% at December 31, 2010, and 86.5% in the third quarter of 2010, and the allowance for loan and lease losses as a percent of nonperforming loans was 71.4% at September 30, 2011, compared with 71.6% at December 31, 2010, and 72.0% in the third quarter of 2010.

Total classified assets as of September 30, 2011 totaled \$172.6 million as compared to \$202.1 million at December 31, 2010. Classified assets, which have declined five consecutive quarters, are defined by the Company as nonperforming assets plus performing loans internally rated substandard or worse.

Restructured Loans

Restructured loans at September 30, 2011 decreased \$0.3 million from December 31, 2010 and increased \$3.9 million from September 30, 2010. The increase over the comparable quarter was due primarily to the restructuring of a single commercial relationship totaling \$9.3 million, partially offset by the sale of a \$4.9 million restructured loan, both during the fourth quarter of 2010. Restructured loans remain on nonaccrual status until the borrower demonstrates the ability to comply with the modified terms.

Delinquent Loans

Loans 30-to-89 days past due totaled \$19.5 million, or 0.66% of period end loans, as of September 30, 2011. This compares to \$22.3 million, or 0.79%, as of December 31, 2010. The decline in loans 30-to-89 days past due compared to December 31, 2010 resulted from reduced delinquencies in the residential and commercial real estate portfolios, offset by an increase in commercial delinquencies.

Other Real Estate Owned

At September 30, 2011, OREO originating from uncovered loans was \$12.0 million, compared with \$17.9 million at December 31, 2010. The \$5.9 million decline in OREO was primarily due to a \$3.1 million reduction in value during the first quarter of 2011 related to vacant land obtained from a commercial real estate developer and the subsequent sale of this same property during the third quarter of 2011. The property had a book value of \$3.4 million at the time of sale and the sale resulted in a \$0.3 million gain to First Financial.

OREO originating from covered loans was \$42.8 million at September 30, 2011, compared with \$35.3 million at December 31, 2010.

The table that follows shows the categories that are included in nonperforming and underperforming assets, excluding covered assets, as of September 30, 2011, and the four previous quarters, as well as related credit quality ratios.

(Dollars in thousands)	Quarter Ended					Sep. 30,
	2011 Sep. 30,	June 30,	Mar. 31,	2010 Dec. 31,	Sep. 30,	
Nonaccrual loans						
Commercial	\$10,792	\$9,811	\$9,918	\$13,729	\$17,320	
Real estate - construction	13,844	13,237	14,199	12,921	13,454	
Real estate - commercial	26,408	26,213	30,846	28,342	27,945	
Real estate - residential	5,507	4,564	4,419	4,607	4,801	
Installment	322	335	262	150	279	
Home equity	2,277	2,376	2,404	2,553	2,358	
Total nonaccrual loans	59,150	56,536	62,048	62,302	66,157	
Restructured loans	17,283	17,482	18,532	17,613	13,365	
Total nonperforming loans	76,433	74,018	80,580	79,915	79,522	
Other real estate owned (OREO)	12,003	16,313	14,953	17,907	18,305	
Total nonperforming assets	88,436	90,331	95,533	97,822	97,827	
Accruing loans past due 90 days or more	235	149	241	370	233	
Total underperforming assets	\$88,671	\$90,480	\$95,774	\$98,192	\$98,060	
Allowance for loan and lease losses to						
Nonaccrual loans	92.20	% 94.93	% 86.46	% 91.87	% 86.54	%
Nonperforming loans	71.35	% 72.51	% 66.57	% 71.62	% 71.99	%
Total ending loans	1.86	% 1.92	% 1.93	% 2.03	% 2.07	%
Nonperforming loans to total loans	2.60	% 2.65	% 2.90	% 2.84	% 2.88	%
Nonperforming assets to						
Ending loans, plus OREO	3.00	% 3.22	% 3.42	% 3.45	% 3.51	%
Total assets, including covered assets	1.40	% 1.50	% 1.51	% 1.57	% 1.59	%

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 equity value 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 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 lending, 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 maintain a contingency funding policy to ensure that liquidity stress events are quickly identified, and management plans are in place to respond. 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.

First Financial Bank received \$190.7 million of cash upon closing of the Liberty transaction during the third quarter of 2011. The Company believes this provides sufficient liquidity to fund any runoff of deposits assumed in the transaction.

Capital expenditures, such as banking center expansions and technology investments, were \$9.7 million and \$17.0 million for the first nine months of 2011 and 2010, respectively. First Financial also acquired \$3.8 million of fixed assets at estimated fair value as part of the Liberty transaction in the third quarter of 2011. Management believes that First Financial has sufficient liquidity to fund its future capital expenditure commitments.

As of September 30, 2011, First Financial had pledged certain eligible residential and farm real estate loans, home equity lines of credit, as well as certain government and agency securities, totaling \$1.1 billion as collateral for borrowings to the FHLB. For ease of borrowing execution, First Financial utilizes a blanket collateral agreement with the FHLB.

From time to time, First Financial utilizes its short-term line of credit and longer-term advances from the FHLB as funding sources. At both September 30, 2011 and December 31, 2010, the Company had no short-term borrowings from the FHLB. At September 30, 2011, and December 31, 2010, total long-term borrowings from the FHLB were \$11.9 million and \$63.9 million, respectively. The total remaining borrowing capacity from the FHLB at September 30, 2011, was \$367.2 million.

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 \$1.1 billion at September 30, 2011. Securities classified as held-to-maturity that are maturing within a short period of time are also a source of liquidity and totaled \$0.3 million at September 30, 2011. 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, 2011, in addition to liquidity on hand of \$477.4 million, First Financial had unused and available overnight wholesale funding of approximately \$2.5 billion (or approximately 39.2% of total assets) to fund significant deposit runoff that may occur as a result of the repriced deposits and from the markets that the Company is exiting as well as 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 \$32.5 million for the first nine months of 2011. As of September 30, 2011, First Financial's subsidiaries had retained earnings of \$347.1 million of which \$211.5 million was available for distribution to First Financial. Additionally, First Financial had \$111.8 million in cash as of

September 30, 2011, which is approximately three times the Company's annual base shareholder dividend (currently \$0.48 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. On June 30, 2011, the trust preferred security was redeemed. Therefore, for the third quarter of 2011, there was no interest expense associated with the junior subordinated debenture. Interest expense related to this other long-term debt totaled \$0.3 million for the three months ended September 30, 2010. Interest expense was \$0.4 million and \$1.0 million for the nine months ended September 30, 2011, and 2010, respectively.

During the first quarter of 2010, First Financial made a \$1.1 million cash quarterly dividend payment to the U.S. Treasury on the 80,000 perpetual preferred securities, which carried a 5.0% dividend rate for the first five years and a 9.0% rate thereafter. On February 24, 2010, First Financial Bancorp redeemed all of the \$80.0 million of senior preferred shares issued to the U.S. Treasury in December 2008 under its Capital Purchase Program (CPP). First Financial included in its computation of earnings per diluted common share the impact of a non-cash, deemed dividend of \$0.8 million, representing the unaccreted preferred stock discount remaining on the transaction date. This one-time deemed dividend was in addition to the first quarter 2010

preferred cash dividends paid through the redemption date.

First Financial had no share repurchase activity under publicly announced plans in 2011 or 2010.

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.

Consolidated regulatory capital ratios at September 30, 2011, included the leverage ratio of 10.87%, Tier 1 ratio of 18.81%, and total capital ratio of 20.08%. All regulatory capital ratios exceeded the amounts necessary to be classified as “well capitalized,” and total regulatory capital exceeded the “minimum” requirement by approximately \$425.1 million, on a consolidated basis. First Financial’s tangible common equity ratio increased to 10.38% at September 30, 2011 as compared to 10.33% at December 31, 2010.

Quantitative measures established by regulation to ensure capital adequacy require First Financial to maintain minimum amounts and ratios (as defined by the regulations and set forth in the following table) of Total and Tier 1 capital to risk-weighted assets and to average assets, respectively. Management believes, as of September 30, 2011, that First Financial met all capital adequacy requirements to which it was subject. At September 30, 2011, and December 31, 2010, 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, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table. There have been no conditions or events since those notifications that management believes has changed the institution’s category.

First Financial’s Tier I capital is comprised of total shareholders’ equity and prior to June 30, 2011 included its junior subordinated debentures, 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 intangibles and non-qualifying mortgage servicing rights and allowance for loan and lease losses.

On April 28, 2011, First Financial filed a shelf registration on Form S-3 with the Securities and Exchange Commission (SEC). 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.

The following table illustrates the actual and required capital amounts and ratios as of September 30, 2011 and December 31, 2010.

(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, 2011								
Total capital to risk-weighted assets								
Consolidated	\$706,570	20.08	% \$281,442	8.00	% N/A	N/A		
First Financial Bank	601,417	17.13	% 280,813	8.00	% \$351,016	10.00	%	
Tier 1 capital to risk-weighted assets								
Consolidated	661,838	18.81	% 140,721	4.00	% N/A	N/A		
First Financial Bank	549,205	15.65	% 140,406	4.00	% 210,610	6.00	%	
Tier 1 capital to average assets								
Consolidated	661,838	10.87	% 243,546	4.00	% N/A	N/A		
First Financial Bank	549,205	9.03	% 243,217	4.00	% 304,021	5.00	%	

(Dollars in thousands)	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions			
	Amount	Ratio	Amount	Ratio	Amount	Ratio		
December 31, 2010								
Total capital to risk-weighted assets								
Consolidated	\$727,252	19.72	% \$294,978	8.00	% N/A	N/A		
First Financial Bank	600,911	16.36	% 293,930	8.00	% 367,412	10.00	%	
Tier 1 capital to risk-weighted assets								
Consolidated	680,145	18.45	% 147,489	4.00	% N/A	N/A		
First Financial Bank	546,726	14.88	% 146,965	4.00	% 220,447	6.00	%	
Tier 1 capital to average assets								
Consolidated	680,145	10.89	% 248,847	4.00	% N/A	N/A		
First Financial Bank	546,726	8.75	% 248,437	4.00	% 310,546	5.00	%	

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, covered loans, FDIC indemnification asset, goodwill, pension and income taxes. These accounting policies are discussed in detail in Management's Discussion and Analysis – Critical Accounting Policies on pages 27 – 28 of First Financial's 2010 Annual Report. There were no material changes to these accounting policies during the nine months ended 2011.

ACCOUNTING AND REGULATORY MATTERS

Note 2 to the Consolidated Financial Statements discusses new accounting standards adopted by First Financial during 2011 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

36

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;
- the effects of the potential delay or failure of the U.S. federal government to pay its debts as they become due or make payments in the ordinary course;
- 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 governmental actions taken in response, such as the U.S. Treasury's TARP and the FDIC's Temporary Liquidity Guarantee Program, 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);
- inflation and possible changes in interest rates;
- our ability to keep up with technological changes;
- 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 previous activities of Irwin Union Bank & Trust Company and its former affiliates, including the risks and uncertainties associated with the Irwin Mortgage Corporation bankruptcy proceedings;
- 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 and debt 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 losses; and
the costs and effects of litigation and of unexpected or adverse outcomes in such litigation.

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.

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 equity value 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 sensitivity analysis that capture both short-term and long-term interest rate risk exposure. Income simulation involves forecasting net interest income under a variety of interest rate scenarios including instantaneous shocks.

Presented below is the estimated impact on First Financial's net interest income as of September 30, 2011, assuming immediate, parallel shifts in interest rates:

	-200 basis points	-100 basis points	+100 basis points	+200 basis points
September 30, 2011	(10.73	)% (4.85	)% 1.49	% 5.87

Modeling the sensitivity of net interest income and the economic value of equity 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. In the first quarter of 2011, First Financial completed an update to its core deposit product repricing and retention formulas, as well as average life estimates, used in its interest rate risk modeling. The Company employed linear regression analysis in developing these updated components while utilizing an average of various predominant industry approaches to arrive at updated average life estimates. Using these updated assumptions, First Financial's projected results for earnings at risk and long-term economic value of equity indicate the Company remains in an asset sensitive position, which is consistent with results from the previous method employed. First Financial continues to refine the assumptions used in its interest rate risk modeling.

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 market conditions. Market based prepayment speeds are factored into the analysis for loan and securities portfolios. Rate

sensitivity for transactional deposit accounts is 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 200 and down 100 basis points scenarios.

First Financial uses economic value of equity sensitivity analysis to understand the impact of changes in interest rates on long-term cash flows, income, and capital. Economic value of equity is based on discounting the cash flows for all balance sheet instruments under different interest-rate scenarios. Deposit premiums are based on external industry studies and utilizing historical experience. Presented below is the change in First Financial's economic value of equity position as of September 30, 2011, assuming immediate, parallel shifts in interest rates:

	-200 basis points	-100 basis points	+100 basis points	+200 basis points
September 30, 2011	(20.46	)% (7.44	)% 8.34	% 11.70
				%

First Financial, utilizing interest rates primarily based upon external industry studies, models additional scenarios covering the next twelve months. Based on these scenarios, First Financial has a relatively neutral rate risk position of a positive 1.24% when compared to a base-case scenario with interest rates held constant. Given its outlook for future interest rates, First Financial is managing its balance sheet with a bias toward asset sensitivity.

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.

PART II-OTHER INFORMATION

Item 1. Legal Proceedings.

For information concerning legal proceedings, see "Part I - Item 3. Legal Proceedings" in the Company's Annual Report on Form 10-K for the year ended December 31, 2010 and in "Part II - Other Information - Item 1. Legal Proceedings" in the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2011.

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, 2010 and "Part II - Other Information - Item 1A. Risk Factors" of Form 10-Q for the quarter ended June 30, 2011.

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 2011.

Issuer Purchases of Equity Securities

Period	(a) Total Number Of Shares Purchased ⁽¹⁾	(b) Average Price Paid Per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans ⁽²⁾	(d) Maximum Number of Shares that may yet be purchased Under the Plans
July 1 to July 31, 2011				
Share repurchase program	0	\$0.00	0	4,969,105
Director Fee Stock Plan	1,836	16.87	NA	NA
Stock Plans	0	0.00	NA	NA
August 1 to August 31, 2011				
Share repurchase program	0	\$0.00	0	4,969,105
Director Fee Stock Plan	0	0.00	NA	NA
Stock Plans	0	0.00	NA	NA
September 1 to September 30, 2011				
Share repurchase program	0	\$0.00	0	4,969,105
Director Fee Stock Plan	0	0.00	NA	NA
Stock Plans	0	0.00	NA	NA
Total				
Share repurchase program	0	\$0.00	0	
Director Fee Stock Plan	1,836	\$16.87	NA	
Stock Plans	0	\$0.00	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, and (1) 2009 Non-Employee Director Stock Plan. (The last four 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 taxes owed for vested shares/options.

First Financial has one remaining previously announced stock repurchase plan under which it is currently (2) authorized to purchase shares of its common stock. The plan has no expiration date. The table that follows provides additional information regarding this plan. No shares were repurchased under this plan in 2011.

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

Item 6. Exhibits

(a) Exhibits:

- 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.
- 101.1 Financial statements from the Quarterly Report on Form 10-Q of the Company for the quarter ended June 30, 2011, formatted in XBRL: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Cash Flows, (iv) Consolidated Statements of Shareholders' Equity, and (v) 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 reproductions 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.

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
(Principal Accounting Officer)

Date 11/8/2011