FIRST FINANCIAL BANCORP /OH/
Form 10-Q
August 06, 2013
Table of Contents

FORM 10-Q
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

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

For the quarterly period ended June 30, 2013

OR

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

For the transition period from ____________________ to ____________________

Commission file number 0-12379

FIRST FINANCIAL BANCORP.
(Exact name of registrant as specified in its charter)

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Date 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 x No o

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 x	Accelerated filer o
Non-accelerated filer o	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of Exchange Act).
Yes o No x

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 August 5, 2013
Common stock, No par value	57,707,718

Table of Contents

FIRST FINANCIAL BANCORP.

INDEX

Table of Contents

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

	June 30, 2013 (Unaudited)	December 31, 2012
Assets		
Cash and due from banks	$114,745	$134,502
Interest-bearing deposits with other banks	2,671	24,341
Investment securities available-for-sale, at market value (cost $900,068 at June 30, 2013 and $1,017,104 at December 31, 2012)	884,694	1,032,096
Investment securities held-to-maturity (market value $664,398 at June 30, 2013 and $778,474 at December 31, 2012)	670,246	770,755
Other investments	75,645	71,492
Loans held for sale	18,650	16,256
Loans		
Commercial	940,420	861,033
Real estate-construction	97,246	73,517
Real estate-commercial	1,477,226	1,417,008
Real estate-residential	343,016	318,210
Installment	50,781	56,810
Home equity	370,206	367,500
Credit card	33,222	34,198
Lease financing	70,011	50,788
Total loans - excluding covered loans	3,382,128	3,179,064
Less: Allowance for loan and lease losses - uncovered	47,047	47,777
Net loans - excluding covered loans	3,335,081	3,131,287
Covered loans	622,265	748,116
Less: Allowance for loan and lease losses - covered	32,961	45,190
Net loans – covered	589,304	702,926
Net loans	3,924,385	3,834,213
Premises and equipment	142,675	146,716
Goodwill	95,050	95,050
Other intangibles	6,620	7,648
FDIC indemnification asset	88,966	119,607
Accrued interest and other assets	250,228	244,372
Total assets	$6,274,575	$6,497,048
Liabilities		
Deposits		
Interest-bearing	$1,131,466	$1,160,815
Savings	1,601,122	1,623,614
Time	978,680	1,068,637
Total interest-bearing deposits	3,711,268	3,853,066
Noninterest-bearing	1,059,368	1,102,774
Total deposits	4,770,636	4,955,840

Federal funds purchased and securities sold under agreements to repurchase	114,030	122,570
Federal Home Loan Bank short-term borrowings	505,900	502,000
Total short-term borrowings	619,930	624,570
Long-term debt	73,957	75,202
Total borrowed funds	693,887	699,772
Accrued interest and other liabilities	114,600	131,011
Total liabilities	5,579,123	5,786,623
Shareholders' equity		
Common stock - no par value		
Authorized - 160,000,000 shares; Issued - 68,730,731 shares in 2013 and 2012	576,641	579,293
Retained earnings	329,633	330,004
Accumulated other comprehensive loss	(25,645)	(18,677)
Treasury stock, at cost, 11,032,387 shares in 2013 and 10,684,496 shares in 2012	(185,177)	(180,195)
Total shareholders' equity	695,452	710,425
Total liabilities and shareholders' equity	$6,274,575	$6,497,048

See Notes to Consolidated Financial Statements.

1

FIRST FINANCIAL BANCORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Dollars in thousands, except per share data)
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Interest income				
Loans, including fees	$55,022	$63,390	$111,047	$129,826
Investment securities				
Taxable	8,295	10,379	16,671	20,896
Tax-exempt	560	121	1,140	255
Total interest on investment securities	8,855	10,500	17,811	21,151
Other earning assets	(1,556)	(1,967)	(3,028)	(3,957)
Total interest income	62,321	71,923	125,830	147,020
Interest expense				
Deposits	3,284	6,381	7,144	14,097
Short-term borrowings	305	37	634	49
Long-term borrowings	654	675	1,308	1,355
Total interest expense	4,243	7,093	9,086	15,501
Net interest income	58,078	64,830	116,744	131,519
Provision for loan and lease losses - uncovered	2,409	8,364	5,450	11,622
Provision for loan and lease losses - covered	(8,283)	6,047	759	18,998
Net interest income after provision for loan and lease losses	63,952	50,419	110,535	100,899
Noninterest income				
Service charges on deposit accounts	5,205	5,376	9,922	10,285
Trust and wealth management fees	3,497	3,377	7,447	7,168
Bankcard income	3,145	2,579	5,578	5,115
Net gains from sales of loans	1,089	1,132	1,795	2,072
Gains on sales of investment securities	188	0	1,724	0
FDIC loss sharing income	(7,384)	8,280	1,550	21,096
Accelerated discount on covered loans	1,935	3,764	3,870	7,409
Other	3,940	9,037	6,427	12,325
Total noninterest income	11,615	33,545	38,313	65,470
Noninterest expenses				
Salaries and employee benefits	26,216	29,048	53,545	57,909
Pension settlement charges	4,316	0	4,316	0
Net occupancy	5,384	5,025	11,549	10,407
Furniture and equipment	2,250	2,323	4,621	4,567
Data processing	2,559	2,076	5,028	3,977
Marketing	1,182	1,238	2,079	2,392
Communication	781	913	1,614	1,807
Professional services	1,764	2,151	3,567	4,298
State intangible tax	1,004	970	2,018	1,996
FDIC assessments	1,148	1,270	2,273	2,433

Loss (gain) - other real estate owned	216	313	718	1,309
Loss (gain) - covered other real estate owned	(2,212)	1,233	(2,369)	2,525
Loss sharing expense	1,578	3,085	3,864	4,836
Other	7,097	7,814	13,566	14,781
Total noninterest expenses	53,283	57,459	106,389	113,237
Income before income taxes	22,284	26,505	42,459	53,132
Income tax expense	6,455	8,703	12,806	18,336
Net income	$15,829	$17,802	$29,653	$34,796
Net earnings per common share - basic	$0.28	$0.31	$0.52	$0.60
Net earnings per common share - diluted	$0.27	$0.30	$0.51	$0.59
Cash dividends declared per share	$0.24	$0.29	$0.52	$0.60
Average common shares outstanding - basic	57,291,994	57,933,281	57,365,105	57,864,269
Average common shares outstanding - diluted	58,128,349	58,958,279	58,206,503	58,921,689

See Notes to Consolidated Financial Statements.

Table of Contents

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

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Net income	$15,829	$17,802	$29,653	$34,796
Other comprehensive (loss) income, net of tax:				
Unrealized (losses) gains on investment securities arising during the period	(15,210)	157	(18,567)	2,596
Change in retirement obligation	10,365	355	10,810	710
Unrealized gain (loss) on derivatives	690	0	816	0
Unrealized (loss) gain on foreign currency exchange	(15)	3	(27)	12
Other comprehensive (loss) income	(4,170)	515	(6,968)	3,318
Comprehensive income	$11,659	$18,317	$22,685	$38,114

See Notes to Consolidated Financial Statements.

Table of Contents

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

	Common Stock	Common Stock	Retained	Accumulated other comprehensive	Treasury stock		
	Shares	Amount	Earnings	income (loss)	Shares	Amount	Total
Balance at January 1, 2012	68,730,731	$579,871	$331,351	$ (21,490)	(10,463,677)	$(177,511)	$712,221
Net income			34,796				34,796
Other comprehensive income				3,318			3,318
Cash dividends declared:							
Common stock at $0.60 per share			(34,832)				(34,832)
Excess tax benefit on share-based compensation		348					348
Exercise of stock options, net of shares purchased		(914)			57,604	977	63
Restricted stock awards, net of forfeitures		(4,318)			188,735	3,250	(1,068)
Share-based compensation expense		1,942					1,942
Balance at June 30, 2012	68,730,731	$576,929	$331,315	$ (18,172)	(10,217,338)	$(173,284)	$716,788
Balance at January 1, 2013	68,730,731	$579,293	$330,004	$ (18,677)	(10,684,496)	$(180,195)	$710,425
Net income			29,653				29,653
Other comprehensive loss				(6,968)			(6,968)
Cash dividends declared:							
Common stock at $0.52 per share			(30,024)				(30,024)
Purchase of common stock					(540,400)	(8,339)	(8,339)
Excess tax benefit on share-based compensation		30					30
Exercise of stock options, net of shares purchased		(503)			21,526	362	(141)
		(4,316)			170,983	2,995	(1,321)

Restricted stock awards, net of forfeitures							
Share-based compensation expense		2,137					2,137
Balance at June 30, 2013	68,730,731	$576,641	$329,633	$ (25,645)	(11,032,387)	$(185,177)	$695,452

See Notes to Consolidated Financial Statements.

4

Table of Contents

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

	Six months ended June 30, 2013	2012
Operating activities		
Net income	$29,653	$34,796
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	6,209	30,620
Depreciation and amortization	7,630	7,669
Stock-based compensation expense	2,137	1,942
Pension expense (income)	4,185	(285)
Net amortization of premiums/accretion of discounts on investment securities	8,856	4,902
Gains on sales of investment securities	(1,724)	0
Originations of loans held for sale	(93,248)	(102,950)
Net gains from sales of loans held for sale	(1,795)	(2,072)
Proceeds from sales of loans held for sale	91,340	106,803
Deferred income taxes	(4,454)	(2,670)
(Increase) decrease in interest receivable	(570)	3,341
(Increase) decrease in cash surrender value of life insurance	(333)	2,039
(Increase) decrease in prepaid expenses	(3,178)	1,109
Decrease in indemnification asset	30,641	26,244
Decrease in accrued expenses	(4,199)	(2,932)
Decrease in interest payable	(267)	(993)
Other	8,848	4,928
Net cash provided by operating activities	79,731	112,491
Investing activities		
Proceeds from sales of securities available-for-sale	92,684	0
Proceeds from calls, paydowns and maturities of securities available-for-sale	128,606	126,901
Purchases of securities available-for-sale	(109,767)	(331,300)
Proceeds from calls, paydowns and maturities of securities held-to-maturity	95,020	50,122
Net decrease in interest-bearing deposits with other banks	21,670	366,211
Net increase in loans and leases - excluding covered loans	(210,630)	(62,600)
Net decrease in covered assets	99,995	128,100
Proceeds from disposal of other real estate owned	19,995	22,537
Purchases of premises and equipment	(5,440)	(10,779)
Net cash provided by investing activities	132,133	289,192
Financing activities		
Net decrease in total deposits	(185,204)	(541,091)
Net (decrease) increase in short-term borrowings	(4,640)	150,488
Payments on long-term borrowings	(1,231)	(1,410)
Cash dividends paid on common stock	(32,237)	(33,571)
Treasury stock purchase	(8,339)	0
Proceeds from exercise of stock options	0	292
Excess tax benefit on share-based compensation	30	348

Net cash used in financing activities	(231,621)	(424,944)
Cash and due from banks:		
Net decrease in cash and due from banks	(19,757)	(23,261)
Cash and due from banks at beginning of period	134,502	149,653
Cash and due from banks at end of period	$114,745	$126,392

See Notes to Consolidated Financial Statements.

Table of Contents

FIRST FINANCIAL BANCORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2013
(Unaudited)

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

NOTE 1: BASIS OF PRESENTATION

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

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

These interim financial statements have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X and serve to update the First Financial Bancorp. Annual Report on Form 10-K (Form 10-K) for the year ended December 31, 2012. These interim financial statements may not include all information and notes necessary to constitute a complete set of financial statements under GAAP applicable to annual periods and accordingly should be read in conjunction with the financial information contained in the Form 10-K. Management believes these unaudited consolidated financial statements reflect all adjustments of a normal recurring nature which are necessary for a fair presentation of the results for the interim periods presented. The results of operations for the interim periods are not necessarily indicative of the results that may be expected for the full year or any other interim period. The Consolidated Balance Sheet as of December 31, 2012, has been derived from the audited financial statements in the Company's 2012 Form 10-K.

NOTE 2: RECENTLY ADOPTED AND ISSUED ACCOUNTING STANDARDS

In December 2011, the FASB issued an update (ASU 2011-11, Disclosures About Offsetting Assets and Liabilities) which creates new disclosure requirements about the nature of an entity's rights of offset and related arrangements associated with its financial instruments and derivative instruments. These disclosure requirements are required for recognized financial and derivative instruments that are offset in accordance with the guidance in FASB ASC Topic 210-20-45, Balance Sheet - Offsetting - Other Presentation Matters, FASB ASC Topic 815-10-45, Derivatives and Hedging - Other Presentation Matters, or are subject to an enforceable master netting arrangement or similar agreement. Subsequently, the FASB issued ASU 2013-01, Scope Clarification of Disclosures about Offsetting Assets and Liabilities, which limits the scope of ASU 2011-11 to derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and lending transactions. Companies are required to disclose information to enable users of its financial statements to evaluate the effect or potential effect of netting arrangements on its financial position, including the effect or potential effect of rights of set-off associated with certain financial instruments and derivative instruments. The provisions of ASU 2011-11 became effective for the interim reporting period ended March 31, 2013 and resulted in additional disclosures related to the Company's derivatives programs. For further detail, see Note 6 - Derivatives.

In July 2012, the FASB issued an update (ASU 2012-02, Intangibles—Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment) which allows an entity testing an indefinite-lived intangible asset for impairment the option of performing a qualitative assessment before calculating the fair value of the asset. This update also addresses circumstances that a company should consider in interim periods, but does not remove the requirement for testing of indefinite-lived intangible assets for impairment annually and between annual tests if there is a change in events and circumstances. The provisions of ASU 2012-02 became effective for the interim reporting period ended March 31, 2013 and did not have a material impact on the Company's Consolidated Financial Statements.

In October 2012, the FASB issued an update (ASU 2012-06, Business Combinations (Topic 805): Subsequent Accounting for an Indemnification Asset Recognized at the Acquisition Date as a Result of a Government-Assisted Acquisition of a Financial Institution) which clarifies the applicable guidance for subsequently measuring an indemnification asset recognized as a result of a government-assisted acquisition of a financial institution. When a company recognizes an indemnification asset as a result

Table of Contents

of a government-assisted acquisition of a financial institution and subsequently a change in the cash flows expected to be collected on the indemnification asset occurs (as a result of a change in cash flows expected to be collected on the assets subject to indemnification), the company should subsequently account for the change in the measurement of the indemnification asset on the same basis as the change in the assets subject to indemnification. Any amortization of changes in value should be limited to the contractual term of the indemnification agreement (that is, the lesser of the term of the indemnification agreement and the remaining life of the indemnified assets). The provisions of ASU 2012-06 became effective for the interim reporting period ended March 31, 2013 and did not have a material impact on the Company's Consolidated Financial Statements.

On February 5, 2013, the FASB issued an update (ASU 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income (AOCI)) which requires preparers to report in one place information about reclassifications out of AOCI. The ASU also requires companies to report changes in AOCI balances and expands the disclosure requirements in FASB ASC Topic 220, Comprehensive Income (ASC 220), for presentation of changes in AOCI. This ASU requires companies to disaggregate the total change of each component of other comprehensive income and separately present (1) reclassification adjustments and (2) current-period OCI. ASU 2013-02 also requires companies to present information about significant items reclassified out of AOCI by component either (1) on the face of the statement where net income is presented or (2) as a separate disclosure in the notes to the financial statements. The provisions of ASU 2013-02 became effective for the interim reporting period ended March 31, 2013 and resulted in additional disclosures related to reclassifications from AOCI. For further detail, see Note 14 - Accumulated Other Comprehensive Income (Loss).

NOTE 3: GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill. Assets and liabilities of acquired entities are recorded at their estimated fair values as of the acquisition date. The excess cost of the acquisition over the fair value of net assets acquired is recorded as goodwill. 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 most recent annual impairment test as of October 1, 2012 and no impairment was indicated. As of June 30, 2013, no events or changes in circumstances indicated that the fair value of a reporting unit was below its carrying value. First Financial had goodwill of $95.1 million as of June 30, 2013 and December 31, 2012.

Other intangible assets. Other intangible assets consist primarily of core deposit intangibles. Core deposit intangibles are recorded at their estimated fair value as of the acquisition date and are then amortized on an accelerated basis over their estimated useful lives. Core deposit intangibles were $6.6 million and $7.4 million as of June 30, 2013 and December 31, 2012, respectively. First Financial's core deposit intangibles have an estimated weighted average remaining life of 7.3 years. Amortization expense for the three months ended June 30, 2013 and 2012 was $0.4 million and $0.8 million, respectively.
Amortization expense recognized on intangible assets for the six months ended June 30, 2013 and 2012, was $0.8 million and $1.3 million, respectively.

NOTE 4: COMMITMENTS AND CONTINGENCIES

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

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 issuing commitments and conditional obligations as it does for credit instruments recorded on the Consolidated Balance Sheets.

Letters of credit. Letters of credit are conditional commitments issued by First Financial to guarantee the performance of a client to a third party. First Financial's portfolio of standby letters of credit consists primarily of performance assurances made on behalf of clients who have a contractual commitment to produce or deliver goods or services. The risk to First Financial arises from its obligation to make payment in the event of the client's contractual default to produce the contracted good or service to a third party. First Financial has issued letters of credit (including standby letters of credit) aggregating $14.6 million and $14.8 million at June 30, 2013, and December 31, 2012, respectively. Management conducts regular reviews of these instruments on an individual client basis.

Table of Contents

Loan commitments. Loan commitments are agreements to extend credit to a client as long as there is no violation of any condition established in the commitment agreement. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if deemed necessary by First Financial upon extension of credit, is based on management's credit evaluation of the client. The collateral held varies, but may include securities, real estate, inventory, plant or equipment. First Financial had commitments outstanding to extend credit totaling $1.3 billion at June 30, 2013, and $1.2 billion at December 31, 2012.

First Financial utilizes the allowance for loan and lease losses methodology to maintain a reserve that it considers sufficient to absorb probable losses inherent in standby letters of credit and outstanding loan commitments and records the reserve within Accrued interest and other liabilities on the Consolidated Balance Sheets.

Contingencies/Litigation. First Financial and its subsidiaries are engaged in various matters of litigation, other assertions of improper or fraudulent loan practices or lending violations and other matters from time to time, and have a number of unresolved claims pending. Additionally, as part of the ordinary course of business, First Financial and its subsidiaries are parties to litigation involving claims to the ownership of funds in particular accounts, the collection of delinquent accounts, challenges to security interests in collateral and foreclosure interests, that is incidental to our regular business activities. While the ultimate liability with respect to these other litigation matters and claims cannot be determined at this time, First Financial believes that damages, if any, and other amounts relating to pending matters are not probable or cannot be reasonably estimated as of June 30, 2013. 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 5: INVESTMENTS

The following is a summary of held-to-maturity and available-for-sale investment securities as of June 30, 2013:

	Held-to-Maturity				Available-for-Sale			
(Dollars in thousands)	Amortized Cost	Unrealized Gain	Unrealized Loss	Market Value	Amortized Cost	Unrealized Gain	Unrealized Loss	Market Value
U.S. Treasuries	$0	$0	$0	$0	$97	$0	$(3)	$94
Securities of U.S. government agencies and corporations	19,854	0	(276)	19,578	10,272	0	(125)	10,147
Mortgage-backed securities	641,491	694	(5,835)	636,350	681,529	6,777	(17,974)	670,332
Obligations of state and other political subdivisions	8,901	166	(597)	8,470	34,693	52	(1,608)	33,137
Asset-backed securities	0	0	0	0	60,873	0	(388)	60,485
Other securities	0	0	0	0	112,604	193	(2,298)	110,499
Total	$670,246	$860	$(6,708)	$664,398	$900,068	$7,022	$(22,396)	$884,694

The following is a summary of held-to-maturity and available-for-sale investment securities as of December 31, 2012:

	Held-to-Maturity				Available-for-Sale			
(Dollars in thousands)	Amortized Cost	Unrealized Gain	Unrealized Loss	Market Value	Amortized Cost	Unrealized Gain	Unrealized Loss	Market Value
	$20,512	$679	$0	$21,191	$15,562	$333	$0	$15,895

Securities of U.S. government agencies and corporations								
Mortgage-backed securities	740,891	8,077	(1,290)	747,678	854,150	14,564	(1,485)	867,229
Obligations of state and other political subdivisions	9,352	265	(12)	9,605	35,913	169	(84)	35,998
Asset-backed securities	0	0	0	0	57,000	90	(1)	57,089
Other securities	0	0	0	0	54,479	1,569	(163)	55,885
Total	$770,755	$9,021	$(1,302)	$778,474	$1,017,104	$16,725	$(1,733)	$1,032,096

Table of Contents

The following is a summary of investment securities by estimated maturity as of June 30, 2013:

(Dollars in thousands)	Held-to-Maturity Amortized Cost	Held-to-Maturity Market Value	Available-for-Sale Amortized Cost	Available-for-Sale Market Value
Due in one year or less	$215	$218	$14,244	$14,779
Due after one year through five years	553,586	550,083	356,449	355,526
Due after five years through ten years	107,195	104,818	219,699	214,398
Due after ten years	9,250	9,279	309,676	299,991
Total	$670,246	$664,398	$900,068	$884,694

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

	June 30, 2013					
	Less than 12 Months		12 Months or More		Total	
(Dollars in thousands)	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Securities of U.S. government agencies and corporations	$19,625	$(225)	$0	$0	$19,625	$(225)
Mortgage-backed securities	865,450	(21,140)	23,867	(231)	889,317	(21,371)
Obligations of state and other political subdivisions	68,190	(2,648)	0	0	68,190	(2,648)
Asset-backed securities	60,486	(388)	0	0	60,486	(388)
Other securities	66,453	(1,737)	1,252	(119)	67,705	(1,856)
Total	$1,080,204	$(26,138)	$25,119	$(350)	$1,105,323	$(26,488)

	December 31, 2012					
	Less than 12 Months		12 Months or More		Total	
(Dollars in thousands)	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Mortgage-backed securities	$240,641	$(1,635)	$25,513	$(405)	$266,154	$(2,040)
Obligations of state and other political subdivisions	21,341	(96)	0	0	21,341	(96)
Asset-backed securities	9,999	(1)	0	0	9,999	(1)
Other securities	8,454	(163)	0	0	8,454	(163)
Total	$280,435	$(1,895)	$25,513	$(405)	$305,948	$(2,300)

Gains and losses on debt securities are generally due to higher current market yields relative to the yields of the debt securities at their amortized cost. All securities with unrealized losses are reviewed quarterly to determine if any impairment is considered other than temporary, requiring a write-down to fair market value. First Financial considers the percentage loss on a security, duration of the loss, average life or duration of the security, credit rating of the security and payment performance, as well as the Company's intent and ability to hold the security to maturity when determining whether any impairment is other than temporary. At this time First Financial does not intend to sell, and it is not more likely than not that the Company will be required to sell debt securities temporarily impaired prior to maturity or recovery of the recorded value. First Financial had no other than temporary impairment related to its investment securities portfolio as of June 30, 2013 or December 31, 2012.

For further detail on the fair value of investment securities, see Note 13 – Fair Value Disclosures.

NOTE 6: DERIVATIVES

First Financial uses derivative instruments, including interest rate caps, floors and swaps, to meet the needs of its clients while managing the interest rate risk associated with certain transactions. First Financial does not use derivatives for speculative purposes.

Table of Contents

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 interest rate risk profile of the Company. The interest rate swap agreements establish the basis on which interest rate payments are exchanged with counterparties referred to as the notional amount.

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

(Dollars in thousands)	June 30, 2013	December 31, 2012
Fair value hedges		
Instruments associated with loans	$910,175	$935,493

As only interest rate payments are exchanged, the cash requirements and credit risk associated with interest rate swaps are significantly less than the notional amount and the Company’s credit risk exposure is limited to the market value of the instruments. First Financial manages the market value credit risk associated with counterparties 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 June 30, 2013, the Company had a total counterparty notional amount outstanding of approximately $495.4 million, spread among eight counterparties, with an outstanding liability from these contracts of $12.6 million. At December 31, 2012, the Company had a total counterparty notional amount outstanding of approximately $509.1 million, spread among eight counterparties, with an outstanding liability from these contracts of $26.0 million.

First Financial’s exposure to credit loss, in the event of nonperformance by a borrower, is limited to the market value of the derivative instrument associated with that borrower. First Financial monitors its derivative credit exposure to borrowers through the normal credit review processes the Company performs on all borrowers. Additionally, the Company monitors derivative credit risk exposure related to problem loans through the Company's allowance for loan and lease losses committee. First Financial considers the market value of a derivative instrument to be part of the carrying value of the related loan for these purposes as the borrower is contractually obligated to pay First Financial this amount in the event the derivative contract is terminated.

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

		June 30, 2013			December 31, 2012		
			Estimated fair value			Estimated fair value	
(Dollars in thousands)	Balance Sheet Classification	Notional amount	Gain	Loss	Notional amount	Gain	Loss
Fair value hedges							
Pay fixed interest rate swaps with counterparty	Accrued interest and other liabilities	$10,675	$0	$(1,082)	$12,739	$0	$(1,445)
Matched interest rate swaps with borrower	Accrued interest and other assets	449,750	14,328	(1,169)	461,377	24,135	0
Matched interest rate swaps with counterparty	Accrued interest and other liabilities	449,750	1,169	(14,418)	461,377	0	(24,978)
Total		$910,175	$15,497	$(16,669)	$935,493	$24,135	$(26,423)

In connection with its use of derivative instruments, from time to time First Financial and its counterparties are required to post cash collateral to offset the market position of the derivative instruments. First Financial maintains the right to offset these derivative positions with the collateral posted against them by or with the relevant counterparties. 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 assets or Accrued interest and other liabilities in the Consolidated Balance Sheets.

Table of Contents

The following table discloses the gross and net amounts of liabilities recognized in the Consolidated Balance Sheets:

	June 30, 2013			December 31, 2012		
(Dollars in thousands)	Gross amounts of recognized liabilities	Gross amounts offset in the Consolidated Balance Sheets	Net amounts of liabilities presented in the Consolidated Balance Sheets	Gross amounts of recognized liabilities	Gross amounts offset in the Consolidated Balance Sheets	Net amounts of liabilities presented in the Consolidated Balance Sheets
Fair value hedges						
Pay fixed interest rate swaps with counterparty	$1,082	$(444)	$638	$1,445	$(669)	$776
Matched interest rate swaps with counterparty	15,587	(13,552)	2,035	24,978	(23,057)	1,921
Total	$16,669	$(13,996)	$2,673	$26,423	$(23,726)	$2,697

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 June 30, 2013:

				Weighted-average rate	
(Dollars in thousands)	Notional amount	Average maturity (years)	Fair value	Receive	Pay
Asset conversion swaps					
Pay fixed interest rate swaps with counterparty	$10,675	3.3	$(1,082)	2.21%	6.85%
Receive fixed, matched interest rate swaps with borrower	449,750	4.2	13,159	4.94%	2.93%
Pay fixed, matched interest rate swaps with counterparty	449,750	4.2	(13,249)	2.93%	4.94%
Total asset conversion swaps	$910,175	4.2	$(1,172)	3.91%	3.97%

The accounting for changes in the fair value of derivatives depends on the intended use of the derivative instrument 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 designated as fair value hedges 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. First Financial accomplishes this by entering into swap agreements with commercial borrowers and simultaneously entering into offsetting swap agreements, with substantially matching terms, with institutional counterparties. These interest rate swap agreements generally involve the receipt by First Financial of floating rate amounts from counterparties in exchange for payments to these counterparties by First Financial of fixed rate amounts received from commercial borrowers over the life of the agreements. These interest rate swap agreements do not involve 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. First Financial's matched interest rate swaps economically hedge offsetting "receive fixed" and "pay fixed" exposures, but do not qualify for hedge accounting.

The net interest receivable or payable on matched interest rate swaps is accrued and recognized as an adjustment to the interest income of the hedged item. The fair value of matched interest rate swaps is included within Accrued interest and other assets and Accrued interest and other liabilities on the Consolidated Balance Sheets.

For the unmatched, pay fixed interest rate swaps, which qualify for hedge accounting, the corresponding fair-value adjustment is included on the Consolidated Balance Sheets in the carrying value of the hedged item. The net interest receivable or payable on unmatched interest rate swaps is accrued and recognized as an adjustment to the interest income of the hedged item. Gains and losses from derivatives not considered effective in hedging the change in fair value of the hedged item, if any, are recognized in income immediately.

Table of Contents

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

		Decrease to Interest income			
(Dollars in thousands)		Three months ended		Six months ended	
Derivatives in fair value hedging relationships	Location of change in fair value	June 30,		June 30,	
		2013	2012	2013	2012
Interest rate contracts					
Loans	Interest income - loans	$(129)	$(192)	$(271)	$(388)
Total		$(129)	$(192)	$(271)	$(388)

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

In 2012, First Financial executed a cash flow hedge utilizing an interest rate swap to hedge against interest rate volatility on $35.0 million of floating rate interest-bearing deposits indexed to the U.S. Federal Funds Target Rate. This interest rate swap involves the receipt by First Financial of variable-rate interest amounts in exchange for fixed-rate interest payments by First Financial for a period of 7 years and does qualify for hedge accounting. Accrued interest and other assets included $1.1 million at June 30, 2013 and accrued interest and other liabilities included $0.2 million at December 31, 2012 reflecting the fair value of this cash flow hedge.

NOTE 7: BORROWINGS

Short-term borrowings on the Consolidated Balance Sheets include repurchase agreements utilized for corporate sweep accounts with cash management account agreements in place as well as overnight advances from the Federal Loan Home Bank (FHLB). All repurchase agreements are subject to terms and conditions of repurchase/security agreements between First Financial Bank and the client. To secure the Bank's liability to the client, First Financial Bank is authorized to sell or repurchase U. S. Treasury, government agency and mortgage-backed securities.

First Financial had $505.9 million in short-term borrowings with the FHLB at June 30, 2013 and $502.0 million as of December 31, 2012. These short-term borrowings are used to manage the Company's normal liquidity needs and support the Company's asset and liability management strategies.

Long-term debt primarily 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 Consolidated Balance Sheets. First Financial has $65.0 million in repurchase agreements which have remaining maturities of less than 3 years and a weighted average rate of 3.50%. Securities pledged as collateral in conjunction with the repurchase agreements are included within Investment securities available-for-sale on the Consolidated Balance Sheets.

The following is a summary of long-term debt:

	June 30, 2013		December 31, 2012	
(Dollars in thousands)	Amount	Average Rate	Amount	Average Rate
Federal Home Loan Bank	$8,182	3.77%	$9,427	3.74%
National Market Repurchase Agreement	65,000	3.50%	65,000	3.50%

Capital loan with municipality	775	0.00	%	775	0.00	%
Total long-term debt	$73,957	3.50	%	$75,202	3.49	%

Under Federal Reserve Board guidelines, a company can issue qualifying debentures up to 25% of qualifying Tier I capital. First Financial has the capacity to issue approximately $159.4 million in additional qualifying debentures under these guidelines.

Table of Contents

NOTE 8: LOANS - EXCLUDING COVERED LOANS

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

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

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

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

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

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

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

First Financial considers repayment performance as the best indicator of credit quality for consumer loans. Consumer loans that have principal and interest payments that are past due by ninety days or more are generally classified as nonperforming. Additionally, consumer loans that have been modified in a troubled debt restructuring (TDR) are classified as nonperforming unless such loans have a sustained period of repayment performance of six months or greater and are reasonably assured of repayment in accordance with the restructured terms.

Table of Contents

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

	As of June 30, 2013			
(Dollars in thousands)	Commercial	Real Estate Construction	Commercial	Total
Pass	$887,396	$91,897	$1,373,521	$2,352,814
Special Mention	28,523	65	31,091	59,679
Substandard	24,501	5,284	72,614	102,399
Doubtful	0	0	0	0
Total	$940,420	$97,246	$1,477,226	$2,514,892

(Dollars in thousands)	Real Estate Residential	Installment	Home Equity	Other	Total
Performing	$333,647	$50,532	$367,392	$102,737	$854,308
Nonperforming	9,369	249	2,814	496	12,928
Total	$343,016	$50,781	$370,206	$103,233	$867,236

	As of December 31, 2012			
(Dollars in thousands)	Commercial	Real Estate Construction	Commercial	Total
Pass	$803,351	$64,866	$1,307,370	$2,175,587
Special Mention	29,663	65	38,516	68,244
Substandard	28,019	8,586	71,122	107,727
Doubtful	0	0	0	0
Total	$861,033	$73,517	$1,417,008	$2,351,558

(Dollars in thousands)	Real Estate Residential	Installment	Home Equity	Other	Total
Performing	$310,341	$56,358	$364,248	$84,490	$815,437
Nonperforming	7,869	452	3,252	496	12,069
Total	$318,210	$56,810	$367,500	$84,986	$827,506

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

Table of Contents

Loan delinquency, including nonaccrual loans, was as follows:

	As of June 30, 2013						
(Dollars in thousands)	30 – 59 days past due	60 – 89 days past due	> 90 days past due	Total past due	Current	Total	> 90 days past due and accruing
Loans							
Commercial	$723	$3	$10,551	$11,277	$929,143	$940,420	$0
Real estate - construction	0	0	1,104	1,104	96,142	97,246	0
Real estate - commercial	7,397	2,504	28,314	38,215	1,439,011	1,477,226	0
Real estate - residential	4,618	0	6,460	11,078	331,938	343,016	0
Installment	414	131	197	742	50,039	50,781	0
Home equity	1,247	524	1,520	3,291	366,915	370,206	0
Other	261	160	654	1,075	102,158	103,233	158
Total	$14,660	$3,322	$48,800	$66,782	$3,315,346	$3,382,128	$158

	As of December 31, 2012						
(Dollars in thousands)	30 - 59 days past due	60 - 89 days past due	> 90 days past due	Total past due	Current	Total	> 90 days past due and accruing
Loans							
Commercial	$1,770	$832	$4,197	$6,799	$854,234	$861,033	$0
Real estate - construction	0	0	892	892	72,625	73,517	0
Real estate - commercial	2,549	1,931	27,966	32,446	1,384,562	1,417,008	0
Real estate - residential	6,071	1,463	6,113	13,647	304,563	318,210	0
Installment	280	148	344	772	56,038	56,810	0
Home equity	1,311	869	1,440	3,620	363,880	367,500	0
Other	386	168	708	1,262	83,724	84,986	212
Total	$12,367	$5,411	$41,660	$59,438	$3,119,626	$3,179,064	$212

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

Troubled Debt Restructurings. A loan modification is considered a TDR when two conditions are met: 1) the borrower is experiencing financial difficulty and 2) concessions are made by the Company that would not otherwise be considered for a borrower with similar credit characteristics. The most common types of modifications include interest rate reductions, maturity extensions and modifications to principal amortization, including interest only structures. Modified terms are dependent upon the financial position and needs of the individual borrower. If the modification agreement is violated, the loan is managed by the Company's credit administration group for resolution, which may result in foreclosure in the case of real estate.

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

Table of Contents

First Financial had 207 TDRs totaling $32.9 million at June 30, 2013, including $12.9 million on accrual status and $19.9 million classified as nonaccrual. First Financial had $2.6 million of commitments outstanding to lend additional funds to borrowers whose loan terms have been modified through TDRs. At June 30, 2013, the allowance for loan and lease losses included reserves of $2.9 million related to TDRs. For the three and six months ended June 30, 2013, First Financial charged off $0.3 million and $1.2 million, respectively, for the portion of TDRs determined to be uncollectible. Additionally, at June 30, 2013, approximately $5.7 million of the accruing TDRs have been performing in accordance with the restructured terms for more than one year.

First Financial had 145 TDRs totaling $25.0 million at December 31, 2012, including $10.9 million of loans on accrual status and $14.1 million classified as nonaccrual. First Financial had $3.5 million of commitments outstanding to lend additional funds to borrowers whose loan terms have been modified through TDRs. At December 31, 2012, the allowance for loan and lease losses included reserves of $3.0 million related to TDRs. For the year ended December 31, 2012, First Financial charged off $7.2 million for the portion of TDRs determined to be uncollectible. At December 31, 2012, approximately $2.7 million of the accruing TDRs had been performing in accordance with the restructured terms for more than one year.

The following tables provide information on loan modifications classified as TDRs during the three and six months ended June 30, 2013 and 2012.

	Three months ended					
	June 30, 2013			June 30, 2012		
(Dollars in thousands)	Number of loans	Pre-modification loan balance	Period end balance	Number of loans	Pre-modification loan balance	Period end balance
Commercial	4	$ 171	$171	2	$ 66	$66
Real estate - construction	0	0	0	0	0	0
Real estate - commercial	3	659	657	8	909	901
Real estate - residential	9	596	594	2	164	166
Installment	3	17	16	0	0	0
Home equity	6	82	81	0	0	0
Total	25	$ 1,525	$1,519	12	$ 1,139	$1,133

	Six months ended					
	June 30, 2013			June 30, 2012		
(Dollars in thousands)	Number of loans	Pre-modification loan balance	Period end balance	Number of loans	Pre-modification loan balance	Period end balance
Commercial	10	$ 7,738	$7,047	10	$ 4,571	$4,562
Real estate - construction	0	0	0	0	0	0
Real estate - commercial	7	2,251	2,242	14	4,749	4,718
Real estate - residential	30	1,969	1,850	2	164	166
Installment	11	154	97	0	0	0
Home equity	30	883	763	0	0	0
Total	88	$ 12,995	$11,999	26	$ 9,484	$9,446

Table of Contents

The following table provides information on how TDRs were modified during the three and six months ended June 30, 2013 and 2012.

	Three months ended June 30, (2)		Six months ended June 30, (2)	
(Dollars in thousands)	2013	2012	2013	2012
Extended maturities	$268	$406	$8,068	$7,260
Adjusted interest rates	0	166	562	166
Combination of rate and maturity changes	135	468	236	563
Forbearance	0	93	0	1,236
Other (1)	1,116	0	3,133	221
Total	$1,519	$1,133	$11,999	$9,446

(1) Includes covenant modifications and other concessions, or combination of concessions, that do not consist of interest rate adjustments, forbearance and maturity extensions
(2) Balances are as of period end

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

The following table provides information on TDRs for which there was a payment default during the period that occurred within twelve months of the loan modification:

	June 30, 2013		2012	
(Dollars in thousands)	Number of Loans	Period End Balance	Number of Loans	Period End Balance
Commercial	3	$6,238	1	$984
Real estate - construction	0	0	0	0
Real estate - commercial	1	72	0	0
Real estate - residential	3	185	0	0
Installment	3	14	0	0
Home equity	3	17	0	0
Total	13	$6,526	1	$984

Table of Contents

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

(Dollars in thousands)	June 30, 2013	December 31, 2012
Impaired loans		
Nonaccrual loans		
Commercial	$2,904	$10,562
Real estate-construction	808	950
Real estate-commercial	30,977	31,002
Real estate-residential	5,149	5,045
Installment	153	376
Home equity	1,576	2,499
Other	496	496
Nonaccrual loans	42,063	50,930
Troubled debt restructurings		
Accruing	12,924	10,856
Nonaccrual	19,948	14,111
Total troubled debt restructurings	32,872	24,967
Total impaired loans	$74,935	$75,897

	Three months ended June 30,		Six months ended June 30,	
(Dollars in thousands)	2013	2012	2013	2012
Interest income effect on impaired loans				
Gross amount of interest that would have been recorded under original terms	$1,135	$1,259	$2,257	$2,589
Interest included in income				
Nonaccrual loans	70	140	142	349
Troubled debt restructurings	158	148	401	231
Total interest included in income	228	288	543	580
Net impact on interest income	$907	$971	$1,714	$2,009
Commitments outstanding to borrowers with nonaccrual loans			$2,351	$288

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

Table of Contents

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

	As of June 30, 2013					
(Dollars in thousands)	Current Balance	Contractual Principal Balance	Related Allowance	Average Current Balance	YTD Interest Income Recognized	Quarterly Interest Income Recognized
Loans with no related allowance recorded						
Commercial	$13,909	$16,034	$0	$13,976	$124	$51
Real estate - construction	750	1,052	0	557	0	0
Real estate - commercial	20,473	27,322	0	17,958	209	97
Real estate - residential	10,818	12,650	0	9,931	72	37
Installment	319	357	0	394	3	1
Home equity	2,920	3,687	0	3,138	21	10
Other	0	0	0	217	0	0
Loans with an allowance recorded						
Commercial	2,194	2,716	1,076	4,030	50	5
Real estate - construction	354	624	35	1,210	7	0
Real estate - commercial	20,565	23,614	6,158	22,243	39	18
Real estate - residential	2,037	2,092	348	1,980	18	9
Installment	0	0	0	0	0	0
Home equity	100	100	2	101	0	0
Other	496	496	378	279	0	0
Total						
Commercial	16,103	18,750	1,076	18,006	174	56
Real estate - construction	1,104	1,676	35	1,767	7	0
Real estate - commercial	41,038	50,936	6,158	40,201	248	115
Real estate - residential	12,855	14,742	348	11,911	90	46
Installment	319	357	0	394	3	1
Home equity	3,020	3,787	2	3,239	21	10
Other	496	496	378	496	0	0
Total	$74,935	$90,744	$7,997	$76,014	$543	$228

Table of Contents

	As of December 31, 2012				
(Dollars in thousands)	Current Balance	Contractual Principal Balance	Related Allowance	Average Current Balance	Interest Income Recognized
Loans with no related allowance recorded					
Commercial	$14,961	$17,269	$0	$9,337	$215
Real estate - construction	462	672	0	3,857	15
Real estate - commercial	15,782	21,578	0	15,554	277
Real estate - residential	9,222	10,817	0	8,463	81
Installment	452	556	0	452	2
Home equity	3,251	4,132	0	2,423	19
Other	326	326	0	65	0
Loans with an allowance recorded					
Commercial	3,560	4,252	1,151	5,350	161
Real estate - construction	1,640	2,168	838	5,033	81
Real estate - commercial	24,014	25,684	7,155	25,499	235
Real estate - residential	1,956	2,003	290	2,278	38
Installment	0	0	0	0	0
Home equity	101	101	2	81	1
Other	170	170	92	34	0
Total					
Commercial	18,521	21,521	1,151	14,687	376
Real estate - construction	2,102	2,840	838	8,890	96
Real estate - commercial	39,796	47,262	7,155	41,053	512
Real estate - residential	11,178	12,820	290	10,741	119
Installment	452	556	0	452	2
Home equity	3,352	4,233	2	2,504	20
Other	496	496	92	99	0
Total	$75,897	$89,728	$9,528	$78,426	$1,125

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

Table of Contents

Changes in OREO were as follows:

	Three months ended June 30,		Six months ended June 30,	
(Dollars in thousands)	2013	2012	2013	2012
Balance at beginning of period	$11,993	$15,036	$12,526	$11,317
Additions				
Commercial	1,759	808	2,316	5,349
Residential	233	992	380	1,914
Total additions	1,992	1,800	2,696	7,263
Disposals				
Commercial	1,641	550	1,882	1,012
Residential	357	313	651	612
Total disposals	1,998	863	2,533	1,624
Write-downs				
Commercial	156	182	561	1,140
Residential	33	103	330	128
Total write-downs	189	285	891	1,268
Balance at end of period	$11,798	$15,688	$11,798	$15,688

NOTE 9: COVERED LOANS

Loans acquired in Federal Deposit Insurance Corporation (FDIC)-assisted transactions initially covered under loss sharing agreements whereby the FDIC will reimburse First Financial for the majority of any losses incurred are referred to as covered loans. Pursuant to the terms of each loss sharing agreement, covered loans are subject to a stated loss threshold whereby the FDIC will reimburse First Financial for 80% of losses up to the stated loss threshold and 95% of losses in excess of the threshold. First Financial will reimburse the FDIC for its pro rata share of recoveries with respect to losses for which the FDIC paid First Financial a reimbursement under the loss sharing agreement. The FDIC’s obligation to reimburse First Financial for losses with respect to covered loans began with the first dollar of loss incurred.

First Financial accounts for the majority of covered loans under FASB ASC Topic 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality, 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. Loans accounted for under FASB ASC Topic 310-30 are referred to as purchased impaired loans.

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

Table of Contents

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

	June 30, 2013			December 31, 2012		
(Dollars in thousands)	Loans accounted for under FASB ASC Topic 310-30	Loans excluded from FASB ASC Topic 310-30	Total purchased loans	Loans accounted for under FASB ASC Topic 310-30	Loans excluded from FASB ASC Topic 310-30	Total purchased loans
Commercial	$67,718	$1,844	$69,562	$94,775	$7,351	$102,126
Real estate - construction	9,647	0	9,647	10,631	0	10,631
Real estate - commercial	382,547	6,735	389,282	458,066	7,489	465,555
Real estate - residential	90,707	0	90,707	100,694	0	100,694
Installment	6,409	648	7,057	7,911	763	8,674
Home equity	1,372	51,842	53,214	2,080	55,378	57,458
Other covered loans	0	2,796	2,796	0	2,978	2,978
Total covered loans	$558,400	$63,865	$622,265	$674,157	$73,959	$748,116

The balance of all loans accounted for under FASB ASC Topic 310-30, including all contractual principal, interest, fees and penalties, was $0.9 billion and $1.1 billion as of June 30, 2013 and December 31, 2012, respectively. These balances include $187.1 million and $220.4 million of contractual interest not yet accrued as of June 30, 2013 and December 31, 2012, respectively.

Changes in the carrying amount of accretable difference for covered purchased impaired loans were as follows:

	Three Months Ended June 30,		Six months ended June 30,	
(Dollars in thousands)	2013	2012	2013	2012
Balance at beginning of period	$208,670	$313,669	$224,694	$344,410
Reclassification (to)/from nonaccretable difference	(8,459)	9,058	(708)	23,442
Accretion	(15,252)	(24,025)	(33,199)	(49,944)
Other net activity (1)	(11,039)	(15,406)	(16,867)	(34,612)
Balance at end of period	$173,920	$283,296	$173,920	$283,296

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

First Financial regularly reviews its forecast of expected cash flows for covered purchased impaired loans. During the second quarter, the Company implemented certain enhancements to its valuation methodology and the estimation of impairment to place greater emphasis on changes in total expected cash flows and less emphasis on changes in the net present value of expected cash flows. These enhancements contributed to a net reclassification from accretable difference to nonaccretable difference of $8.5 million and resulted in lower yields on certain loan pools during the quarter. Conversely, First Financial recognized a $9.1 million reclassification from nonaccretable difference to accretable difference and higher yields on certain loan pools during the second quarter of 2012 related to improvement in the cash flow expectations for certain loan pools. For the six months ended June 30, 2013, the Company recognized a net reclassification of $0.7 million from accretable difference to nonaccretable difference as a result of the enhancements made during the second quarter. For the six months ended June 30, 2012, the Company recognized a net reclassification of $23.4 million from nonaccretable difference to accretable difference. For further detail on impairment and provision expense related to covered purchased impaired loans, see "Covered Loans" in Note 10 - Allowance for Loan and Lease Losses.

Table of Contents

Credit Quality. For further discussion of First Financial's monitoring of credit quality for commercial and consumer loans, including discussion of the risk attributes noted below, please see Note 8 - Loans, excluding covered loans.

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

	As of June 30, 2013			
(Dollars in thousands)	Commercial	Real Estate Construction	Commercial	Total
Pass	$33,317	$1,714	$200,641	$235,672
Special Mention	9,716	0	45,491	55,207
Substandard	25,679	7,933	143,150	176,762
Doubtful	850	0	0	850
Total	$69,562	$9,647	$389,282	$468,491

(Dollars in thousands)	Real estate residential	Installment	Home equity	Other	Total
Performing	$90,707	$7,054	$50,640	$2,787	$151,188
Nonperforming	0	3	2,574	9	2,586
Total	$90,707	$7,057	$53,214	$2,796	$153,774

	As of December 31, 2012			
(Dollars in thousands)	Commercial	Real Estate Construction	Commercial	Total
Pass	$48,213	$2,304	$213,143	$263,660
Special Mention	16,293	7	70,894	87,194
Substandard	35,596	8,320	181,345	225,261
Doubtful	2,024	0	173	2,197
Total	$102,126	$10,631	$465,555	$578,312

(Dollars in thousands)	Real estate residential	Installment	Home equity	Other	Total
Performing	$100,694	$8,674	$53,231	$2,967	$165,566
Nonperforming	0	0	4,227	11	4,238
Total	$100,694	$8,674	$57,458	$2,978	$169,804

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

Table of Contents

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

	As of June 30, 2013						
(Dollars in thousands)	30 - 59 days past due	60 - 89 days past due	> 90 days past due	Total past due	Current	Total	> 90 days past due and accruing
Loans							
Commercial	$136	$0	$469	$605	$1,239	$1,844	$0
Real estate - commercial	506	0	1,331	1,837	4,898	6,735	0
Installment	0	0	6	6	642	648	0
Home equity	826	0	2,062	2,888	48,954	51,842	0
All other	61	0	33	94	2,702	2,796	24
Total	$1,529	$0	$3,901	$5,430	$58,435	$63,865	$24

	As of December 31, 2012						
(Dollars in thousands)	30 - 59 days past due	60 - 89 days past due	> 90 days past due	Total past due	Current	Total	> 90 days past due and accruing
Loans							
Commercial	$351	$148	$3,781	$4,280	$3,071	$7,351	$0
Real estate - commercial	138	1,149	2,201	3,488	4,001	7,489	0
Installment	0	0	0	0	763	763	0
Home equity	286	296	3,697	4,279	51,099	55,378	0
All other	19	26	42	87	2,891	2,978	31
Total	$794	$1,619	$9,721	$12,134	$61,825	$73,959	$31

Nonaccrual. Covered purchased impaired loans are classified as performing, even though they may be contractually past due, as any nonpayment of contractual principal or interest is considered in the periodic re-estimation of expected cash flows and is included in the resulting recognition of current period 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 or when principal or interest payments are ninety days or more past due. Generally, these loans are placed on nonaccrual status due to the continued failure to adhere to contractual payment terms by the borrower coupled with other pertinent factors, such as insufficient collateral value. The accrual of interest income is discontinued and previously accrued, but unpaid interest is reversed when a loan is placed in nonaccrual status. Any payments received while a loan is in nonaccrual status are applied as a reduction to the carrying value of the loan. A loan may be returned to accrual status if all contractual payments have been received and collection of future principal and interest payments is no longer doubtful.

Table of Contents

Information on covered nonaccrual loans was as follows:

(Dollars in thousands)	June 30, 2013	December 31, 2012
Impaired loans		
Nonaccrual loans		
Commercial	$449	$4,498
Real estate-commercial	1,413	2,986
Installment	3	0
Home equity	2,574	4,227
All other	9	11
Nonaccrual loans	4,448	11,722
Troubled debt restructurings		
Accruing	365	0
Nonaccrual	323	0
Total troubled debt restructurings	688	0
Total impaired loans	$5,136	$11,722

	Three months ended June 30,		Six months ended June 30,	
(Dollars in thousands)	2013	2012	2013	2012
Interest income effect on impaired loans				
Gross amount of interest that would have been recorded under original terms	$115	$150	$253	$358
Interest included in income				
Nonaccrual loans	6	13	13	61
Troubled debt restructurings	4	0	4	0
Total interest included in income	10	13	17	61
Net impact on interest income	$105	$137	$236	$297

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:

	As of June 30, 2013					
(Dollars in thousands)	Current Balance	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	YTD Interest Income Recognized	Quarterly Interest Income Recognized
Loans with no related allowance recorded						
Commercial	$449	$2,468	$0	$2,348	$5	$2
Real estate - commercial	1,413	2,827	0	1,894	2	1
Installment	3	3	0	1	0	0
Home equity	2,574	3,784	0	2,972	6	3
All other	9	9	0	11	0	0
Total	$4,448	$9,091	$0	$7,226	$13	$6

Table of Contents

(Dollars in thousands)	As of December 31, 2012 Current Balance	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Loans with no related allowance recorded					
Commercial	$4,498	$4,660	$0	$4,526	$62
Real estate - commercial	2,986	3,216	0	2,153	18
Home equity	4,227	5,260	0	2,006	5
All other	11	11	0	13	0
Total	$11,722	$13,147	$0	$8,698	$85

Covered OREO. Covered OREO is comprised of properties acquired by the Company through the loan foreclosure or repossession process, or other resolution activities that result in partial or total satisfaction of problem covered loans. These properties remain subject to loss sharing agreements whereby the FDIC reimburses First Financial for the majority of any losses incurred. The acquired properties are recorded at the lower of cost or fair value upon acquisition. Losses arising at the time of acquisition of such properties are charged against the allowance for loan and lease losses. Subsequent write-downs in the carrying value of covered OREO properties are expensed as incurred. Estimated reimbursements due from the FDIC under loss sharing agreements related to any losses upon acquisition or subsequent write-downs in the carrying value of covered OREO are recorded as noninterest income and an increase to the FDIC indemnification asset in the same period. 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 OREO were as follows:

	Three months ended June 30,		Six months ended June 30,	
(Dollars in thousands)	2013	2012	2013	2012
Balance at beginning of period	$29,345	$41,489	$28,862	$44,818
Additions				
Commercial	6,029	2,349	12,491	5,099
Residential	161	62	377	2,686
Total additions	6,190	2,411	12,868	7,785
Disposals				
Commercial	12,027	13,554	16,648	18,559
Residential	470	1,811	814	2,354
Total disposals	12,497	15,365	17,462	20,913
Write-downs				
Commercial	557	2,332	1,682	5,416
Residential	6	795	111	866
Total write-downs	563	3,127	1,793	6,282
Balance at end of period	$22,475	$25,408	$22,475	$25,408

NOTE 10: ALLOWANCE FOR LOAN AND LEASE LOSSES

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

Table of Contents

In the commercial portfolio, which includes commercial loans, construction and commercial real estate loans and lease financing, impaired loan relationships greater than $250,000 are evaluated to determine the need for a specific allowance based on the borrower's overall financial condition, resources and payment record, support from guarantors and the realizable value of any collateral. Loans are considered 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.

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

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

There were no material changes to First Financial's accounting policies or methodology related to the allowance for loan and lease losses during the first six months of 2013, however certain modifications were made to the estimation process in the third quarter of 2012 to place greater emphasis on quantitative factors such as historical loan losses and less emphasis on qualitative factors. This resulted in a shift in the allocation of the allowance between certain consumer and commercial loan types but had no significant impact on the total allowance for loan and lease losses at June 30, 2013.

The allowance is increased by provision expense and decreased by actual charge-offs, net of recoveries of amounts previously charged-off. First Financial's policy is to charge-off all or a portion of a loan when, in management's opinion, it is unlikely to collect the principal amount owed in full either through payments from the borrower or from the liquidation of collateral.

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

	Three Months Ended					Six months ended	
	2013		2012			June 30,	
(Dollars in thousands)	June 30,	Mar. 31,	Dec. 31,	Sep. 30,	June 30,	2013	2012
Balance at beginning of period	$48,306	$47,777	$49,192	$50,952	$49,437	$47,777	$52,576
Provision for loan and lease losses	2,409	3,041	3,882	3,613	8,364	5,450	11,622
Loans charged off	(4,194)	(3,210)	(5,548)	(5,804)	(7,138)	(7,404)	(13,960)
Recoveries	526	698	251	431	289	1,224	714
Balance at end of period	$47,047	$48,306	$47,777	$49,192	$50,952	$47,047	$50,952
Allowance for loan and lease losses to total ending loans	1.39%	1.49%	1.50%	1.60%	1.69%	1.39%	1.69%

27

Table of Contents

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

	Six Months Ended June 30, 2013							
		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	$7,926	$3,268	$24,151	$3,599	$522	$5,173	$3,138	$47,777
Provision for loan and lease losses	2,144	(1,655)	2,934	613	(136)	1,013	537	5,450
Gross charge-offs	1,640	0	3,039	549	197	1,292	687	7,404
Recoveries	386	136	96	9	187	277	133	1,224
Total net charge-offs	1,254	(136)	2,943	540	10	1,015	554	6,180
Ending allowance for loan and lease losses	$8,816	$1,749	$24,142	$3,672	$376	$5,171	$3,121	$47,047
Ending allowance on loans individually evaluated for impairment	$1,076	$35	$6,158	$348	$0	$2	$378	$7,997
Ending allowance on loans collectively evaluated for impairment	7,740	1,714	17,984	3,324	376	5,169	2,743	39,050
Ending allowance for loan and lease losses	$8,816	$1,749	$24,142	$3,672	$376	$5,171	$3,121	$47,047
Loans - excluding covered loans								
Ending balance of loans individually evaluated for impairment	$14,450	$1,104	$35,082	$3,652	$0	$517	$496	$55,301
Ending balance of loans collectively evaluated for impairment	925,970	96,142	1,442,144	339,364	50,781	369,689	102,737	3,326,827
Total loans - excluding covered loans	$940,420	$97,246	$1,477,226	$343,016	$50,781	$370,206	$103,233	$3,382,128

	Twelve Months Ended December 31, 2012							
		Real Estate						
(Dollars in thousands)	Commercial	Construction	Commercial	Residential	Installment	Home Equity	Other	Total
Allowance for loan and lease losses:								
	$10,289	$4,424	$ 18,228	$ 4,994	$1,659	$10,751	$2,231	$52,576

Balance at beginning of period								
Provision for loan and lease losses	1,556	1,528	16,670	346	(883)	(2,032)	1,932	19,117
Gross charge-offs	4,312	2,684	11,012	1,814	577	3,661	1,252	25,312
Recoveries	393	0	265	73	323	115	227	1,396
Total net charge-offs	3,919	2,684	10,747	1,741	254	3,546	1,025	23,916
Ending allowance for loan and lease losses	$7,926	$3,268	$ 24,151	$ 3,599	$522	$5,173	$3,138	$47,777
Ending allowance on loans individually evaluated for impairment	$1,151	$838	$ 7,155	$ 290	$0	$2	$92	$9,528
Ending allowance on loans collectively evaluated for impairment	6,775	2,430	16,996	3,309	522	5,171	3,046	38,249
Ending allowance for loan and lease losses	$7,926	$3,268	$ 24,151	$ 3,599	$522	$5,173	$3,138	$47,777
Loans - excluding covered loans								