

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

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

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

For the quarterly period ended September 30, 2013

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.)

255 East Fifth Street, Suite 700 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 5, 2013
Common stock, No par value	57,652,925

Table of Contents

FIRST FINANCIAL BANCORP.

INDEX

Page No.

Part I - FINANCIAL INFORMATION

Item 1 - Financial Statements

Consolidated Balance Sheets - September 30, 2013 (unaudited) and December 31, 2012 1

Consolidated Statements of Income - Three and Nine Months Ended September 30, 2013 and 2012 (unaudited) 2

Consolidated Statements of Comprehensive Income - Three and Nine Months Ended September 30, 2013 and 2012 (unaudited) 3

Consolidated Statements of Changes in Shareholders' Equity - Nine Months Ended September 30, 2013 and 2012 (unaudited) 4

Consolidated Statements of Cash Flows - Nine Months Ended September 30, 2013 and 2012 (unaudited) 5

Notes to Consolidated Financial Statements (unaudited) 6

Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations 39

Item 3 - Quantitative and Qualitative Disclosures about Market Risk 57

Item 4 - Controls and Procedures 58

Part II - OTHER INFORMATION

Item 1 - Legal Proceedings 59

Item 1A - Risk Factors 59

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

Item 6 - Exhibits 61

Signatures 62

Table of Contents

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

	September 30, 2013 (Unaudited)	December 31, 2012
Assets		
Cash and due from banks	\$177,698	\$134,502
Interest-bearing deposits with other banks	10,414	24,341
Investment securities available-for-sale, at market value (cost \$875,928 at September 30, 2013 and \$1,017,104 at December 31, 2012)	854,747	1,032,096
Investment securities held-to-maturity (market value \$661,685 at September 30, 2013 and \$778,474 at December 31, 2012)	669,093	770,755
Other investments	75,945	71,492
Loans held for sale	10,704	16,256
Loans		
Commercial	960,016	861,033
Real estate-construction	90,089	73,517
Real estate-commercial	1,493,969	1,417,008
Real estate-residential	352,830	318,210
Installment	49,273	56,810
Home equity	373,839	367,500
Credit card	34,285	34,198
Lease financing	76,615	50,788
Total loans - excluding covered loans	3,430,916	3,179,064
Less: Allowance for loan and lease losses - uncovered	45,514	47,777
Net loans - excluding covered loans	3,385,402	3,131,287
Covered loans	518,524	748,116
Less: Allowance for loan and lease losses - covered	23,259	45,190
Net loans – covered	495,265	702,926
Net loans	3,880,667	3,834,213
Premises and equipment	139,125	146,716
Goodwill	95,050	95,050
Other intangibles	6,249	7,648
FDIC indemnification asset	78,132	119,607
Accrued interest and other assets	255,617	244,372
Total assets	\$6,253,441	\$6,497,048
Liabilities		
Deposits		
Interest-bearing	\$1,068,067	\$1,160,815
Savings	1,593,895	1,623,614
Time	926,029	1,068,637
Total interest-bearing deposits	3,587,991	3,853,066
Noninterest-bearing	1,141,016	1,102,774
Total deposits	4,729,007	4,955,840

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

Federal funds purchased and securities sold under agreements to repurchase	105,472	122,570
Federal Home Loan Bank short-term borrowings	518,200	502,000
Total short-term borrowings	623,672	624,570
Long-term debt	61,088	75,202
Total borrowed funds	684,760	699,772
Accrued interest and other liabilities	147,635	131,011
Total liabilities	5,561,402	5,786,623
Shareholders' equity		
Common stock - no par value		
Authorized - 160,000,000 shares; Issued - 68,730,731 shares in 2013 and 2012	577,429	579,293
Retained earnings	328,993	330,004
Accumulated other comprehensive loss	(29,294	) (18,677)
Treasury stock, at cost, 11,028,287 shares in 2013 and 10,684,496 shares in 2012	(185,089	) (180,195)
Total shareholders' equity	692,039	710,425
Total liabilities and shareholders' equity	\$6,253,441	\$6,497,048

See Notes to Consolidated Financial Statements.

Table of Contents

FIRST FINANCIAL BANCORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands, except per share data)

(Unaudited)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Interest income				
Loans, including fees	\$52,908	\$59,536	\$163,955	\$189,362
Investment securities				
Taxable	8,267	8,358	24,938	29,254
Tax-exempt	541	111	1,681	366
Total interest on investment securities	8,808	8,469	26,619	29,620
Other earning assets	(2,185)	(1,700)	(5,213)	(5,657)
Total interest income	59,531	66,305	185,361	213,325
Interest expense				
Deposits	2,856	5,730	10,000	19,827
Short-term borrowings	286	54	920	103
Long-term borrowings	617	675	1,925	2,030
Total interest expense	3,759	6,459	12,845	21,960
Net interest income	55,772	59,846	172,516	191,365
Provision for loan and lease losses - uncovered	1,413	3,613	6,863	15,235
Provision for loan and lease losses - covered	5,293	6,622	6,052	25,620
Net interest income after provision for loan and lease losses	49,066	49,611	159,601	150,510
Noninterest income				
Service charges on deposit accounts	5,447	5,499	15,369	15,784
Trust and wealth management fees	3,366	3,374	10,813	10,542
Bankcard income	2,637	2,387	8,215	7,502
Net gains from sales of loans	751	1,319	2,546	3,391
Gains on sales of investment securities	0	2,617	1,724	2,617
FDIC loss sharing income	5,555	8,496	7,105	29,592
Accelerated discount on covered loans	1,711	3,798	5,581	11,207
Other	2,824	3,340	9,251	15,665
Total noninterest income	22,291	30,830	60,604	96,300
Noninterest expenses				
Salaries and employee benefits	23,834	27,212	77,379	85,121
Pension settlement charges	1,396	0	5,712	0
Net occupancy	5,101	5,153	16,650	15,560
Furniture and equipment	2,213	2,332	6,834	6,899
Data processing	2,584	2,334	7,612	6,311
Marketing	1,192	1,592	3,271	3,984
Communication	865	788	2,479	2,595
Professional services	1,528	1,304	5,095	5,602
State intangible tax	1,010	961	3,028	2,957
FDIC assessments	1,107	1,164	3,380	3,597

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

Loss (gain) - other real estate owned	184	1,372	902	2,681
Loss (gain) - covered other real estate owned	204	(25	) (2,165	) 2,500
Loss sharing expense	1,724	3,584	5,588	8,420
Other	5,859	7,515	19,425	22,296
Total noninterest expenses	48,801	55,286	155,190	168,523
Income before income taxes	22,556	25,155	65,015	78,287
Income tax expense	7,645	8,913	20,451	27,249
Net income	\$14,911	\$16,242	\$44,564	\$51,038
Net earnings per common share - basic	\$0.26	\$0.28	\$0.78	\$0.88
Net earnings per common share - diluted	\$0.26	\$0.28	\$0.77	\$0.87
Cash dividends declared per share	\$0.27	\$0.30	\$0.79	\$0.90
Average common shares outstanding - basic	57,201,390	57,976,943	57,309,934	57,902,102
Average common shares outstanding - diluted	58,012,588	58,940,179	58,143,372	58,930,570

See Notes to Consolidated Financial Statements.

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

(Dollars in thousands)

(Unaudited)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Net income	\$14,911	\$16,242	\$44,564	\$51,038
Other comprehensive income (loss), net of tax:				
Unrealized gains (losses) on investment securities arising during the period	(4,003	) (934	) (22,570	) 1,662
Change in retirement obligation	1,166	419	11,976	1,129
Unrealized gain (loss) on derivatives	(818	) (182	) (2	) (182
Unrealized gain (loss) on foreign currency exchange ⁶		14	(21	) 26
Other comprehensive income (loss)	(3,649	) (683	) (10,617	) 2,635
Comprehensive income	\$11,262	\$15,559	\$33,947	\$53,673

See Notes to Consolidated Financial Statements.

Table of ContentsFIRST FINANCIAL BANCORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Dollars in thousands except per share data)

(Unaudited)

	Common Stock	Common Stock	Retained	Accumulated other comprehensive	Treasury stock		Total
	Shares	Amount	Earnings	income (loss)	Shares	Amount	
Balance at January 1, 2012	68,730,731	\$579,871	\$331,351	\$ (21,490)	(10,463,677)	\$(177,511)	\$712,221
Net income			51,038				51,038
Other comprehensive income (loss)				2,635			2,635
Cash dividends declared:							
Common stock at \$0.90 per share			(52,375)				(52,375)
Excess tax benefit on share-based compensation		417					417
Exercise of stock options, net of shares purchased		(1,193)			71,391	1,211	18
Restricted stock awards, net of forfeitures		(4,053)			172,471	2,978	(1,075)
Share-based compensation expense		3,087					3,087
Balance at September 30, 2012	68,730,731	\$578,129	\$330,014	\$ (18,855)	(10,219,815)	\$(173,322)	\$715,966
Balance at January 1, 2013	68,730,731	\$579,293	\$330,004	\$ (18,677)	(10,684,496)	\$(180,195)	\$710,425
Net income			44,564				44,564
Other comprehensive income (loss)				(10,617)			(10,617)
Cash dividends declared:							
Common stock at \$0.79 per share			(45,575)				(45,575)
Purchase of common stock					(540,400)	(8,339)	(8,339)
Excess tax benefit on share-based compensation		133					133
Exercise of stock options, net of shares purchased		(1,016)			44,105	741	(275)
		(4,030)			152,504	2,704	(1,326)

Restricted stock awards,
net of forfeitures

Share-based compensation expense		3,049					3,049
Balance at September 30, 2013	68,730,731	\$577,429	\$328,993	\$ (29,294)	(11,028,287)	\$(185,089)	\$692,039

See Notes to Consolidated Financial Statements.

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

(Dollars in thousands)

(Unaudited)

	Nine months ended September 30,	
	2013	2012
Operating activities		
Net income	\$44,564	\$51,038
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	12,915	40,855
Depreciation and amortization	11,057	11,812
Stock-based compensation expense	3,049	3,087
Pension expense (income)	5,309	(392)
Net amortization of premiums/accretion of discounts on investment securities	11,327	8,461
Gains on sales of investment securities	(1,724)	(2,617)
Originations of loans held for sale	(126,881)	(173,115)
Net gains from sales of loans held for sale	(2,546)	(3,391)
Proceeds from sales of loans held for sale	131,979	175,180
Deferred income taxes	(5,621)	(10,618)
(Increase) decrease in interest receivable	(462)	2,896
(Increase) decrease in cash surrender value of life insurance	(3,781)	1,845
(Increase) decrease in prepaid expenses	(2,688)	2,758
Decrease in indemnification asset	41,475	42,533
Decrease in accrued expenses	(6,013)	(4,447)
Decrease in interest payable	(418)	(1,281)
Other	13,699	2,438
Net cash provided by operating activities	125,240	147,042
Investing activities		
Proceeds from sales of securities available-for-sale	92,684	57,663
Proceeds from calls, paydowns and maturities of securities available-for-sale	160,460	209,399
Purchases of securities available-for-sale	(109,816)	(465,303)
Proceeds from calls, paydowns and maturities of securities held-to-maturity	134,089	98,283
Purchases of securities held-to-maturity	(13,476)	0
Net decrease in interest-bearing deposits with other banks	13,927	353,903
Net increase in loans and leases - excluding covered loans	(261,546)	(121,810)
Net decrease in covered assets	180,074	191,069
Proceeds from disposal of other real estate owned	23,590	30,017
Purchases of premises and equipment	(6,017)	(18,605)
Net cash provided by investing activities	213,969	334,616
Financing activities		
Net decrease in total deposits	(226,833)	(698,229)
Net (decrease) increase in short-term borrowings	(898)	271,759
Payments on long-term borrowings	(14,093)	(1,002)
Cash dividends paid on common stock	(45,983)	(50,392)
Treasury stock purchase	(8,339)	0
Proceeds from exercise of stock options	0	317

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

Excess tax benefit on share-based compensation	133	417
Net cash used in financing activities	(296,013	) (477,130)
Cash and due from banks:		
Net increase in cash and due from banks	43,196	4,528
Cash and due from banks at beginning of period	134,502	149,653
Cash and due from banks at end of period	\$177,698	\$154,181

See Notes to Consolidated Financial Statements.

Table of Contents

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

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 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

Table of Contents

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).

On July 17, 2013, the FASB issued an update (ASU 2013-10, Derivatives and Hedging (Topic 815): Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes) which amends FASB ASC Topic 815, Disclosures about Derivatives and Hedging Activities (ASC 815), to allow entities to use the Fed Funds Effective Swap Rate, which is the Overnight Index Swap rate, or OIS, in the U.S., in addition to U.S. Treasury rates and LIBOR, as a benchmark interest rate in accounting for fair value and cash flow hedges in the United States. Companies can designate the Fed Funds Effective Swap Rate as a benchmark interest rate on a prospective basis in new or redesignated hedging relationships as of the date the final guidance was issued. Existing interest rate swaps designated as benchmark interest rate hedges must be redesignated in new hedge relationships with new hedge documentation if a company wants to change the hedged risk to the OIS rate. The FASB also eliminated the restriction in ASC 815 on designating different benchmark interest rate hedges for "similar hedges." The provisions of ASU 2013-10 are effective prospectively for qualifying new hedging relationships entered into on or after July 17, 2013, and did not have a material impact on the Company's Consolidated Financial Statements.

On July 18, 2013, the FASB issued an update (ASU 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists) which provides guidance on financial statement presentation of an unrecognized tax benefit when a net operating loss (NOL) carryforward, a similar tax loss, or a tax credit carryforward exists. This ASU applies to all entities with unrecognized tax benefits that also have tax loss or tax credit carryforwards in the same tax jurisdiction as of the reporting date. The provisions of ASU 2013-11 become effective for the interim reporting period ending March 31, 2014. First Financial does not anticipate this update will have a material impact on its Consolidated Financial Statements.

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 September 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 September 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 \$6.2 million and \$7.4 million as of September 30, 2013 and December 31, 2012, respectively. First Financial's core deposit intangibles have an estimated weighted average remaining life of 7.1 years. Amortization expense for the three months ended September 30, 2013 and 2012 was \$0.4 million and \$0.7 million, respectively. Amortization expense recognized on intangible assets for the nine months ended September 30, 2013 and 2012, was \$1.1 million and \$2.1 million, respectively.

NOTE 4: COMMITMENTS AND CONTINGENCIES

7

Table of Contents

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 issued letters of credit (including standby letters of credit) aggregating \$13.2 million and \$14.8 million at September 30, 2013, and December 31, 2012, respectively. Management conducts regular reviews of these instruments on an individual client basis.

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 \$1.4 billion at September 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 September 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 September 30, 2013:

(Dollars in thousands)	Held-to-Maturity				Available-for-Sale			
	Amortized Cost	Unrealized Gain	Unrealized Loss	Market Value	Amortized Cost	Unrealized Gain	Unrealized Loss	Market Value

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

U.S. Treasuries	\$0	\$0	\$0	\$0	\$97	\$0	\$(4	)	\$93	
Securities of U.S. government agencies and corporations	19,462	0	(864	)	18,598	10,266	0	(142	)	10,124
Mortgage-backed securities	637,170	768	(6,561	)	631,377	652,808	6,093	(20,818	)	638,083
Obligations of state and other political subdivisions	12,461	157	(908	)	11,710	34,005	31	(2,294	)	31,742
Asset-backed securities	0	0	0	0	67,816	0	(359	)	67,457	
Other securities	0	0	0	0	110,936	126	(3,814	)	107,248	
Total	\$669,093	\$925	\$(8,333	)	\$661,685	\$875,928	\$6,250	\$(27,431	)	\$854,747

Table of Contents

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

(Dollars in thousands)	Held-to-Maturity				Available-for-Sale			
	Amortized Cost	Unrealized Gain	Unrealized Loss	Market Value	Amortized Cost	Unrealized Gain	Unrealized Loss	Market Value
Securities of U.S. government agencies and corporations	\$20,512	\$679	\$0	\$21,191	\$15,562	\$333	\$0	\$15,895
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

The following table provides a summary of investment securities by weighted average life as of September 30, 2013. Estimated lives on certain investment securities may differ from contractual maturities as issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

(Dollars in thousands)	Held-to-Maturity		Available-for-Sale	
	Amortized Cost	Market Value	Amortized Cost	Market Value
Due in one year or less	\$215	\$218	\$5,009	\$5,152
Due after one year through five years	409,559	407,787	250,089	251,177
Due after five years through ten years	258,526	252,762	361,949	351,776
Due after ten years	793	918	258,881	246,642
Total	\$669,093	\$661,685	\$875,928	\$854,747

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

(Dollars in thousands)	September 30, 2013					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Securities of U.S. government agencies and corporations	\$28,806	\$(756)	\$0	\$0	\$28,806	\$(756)
Mortgage-backed securities	807,599	(24,767)	41,679	(261)	849,278	(25,028)
Obligations of state and other political subdivisions	64,895	(4,357)	0	0	64,895	(4,357)
Asset-backed securities	59,003	(359)	0	0	59,003	(359)
Other securities	72,326	(2,531)	1,244	(129)	73,570	(2,660)
Total	\$1,032,629	\$(32,770)	\$42,923	\$(390)	\$1,075,552	\$(33,160)

(Dollars in thousands)	December 31, 2012					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Mortgage-backed securities	\$240,641	\$(1,635)	\$25,513	\$(405)	\$266,154	\$(2,040)
	21,341	(96)	0	0	21,341	(96)

Obligations of state and other
political subdivisions

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)

9

Table of Contents

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 September 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.

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)	September 30, 2013	December 31, 2012
Fair value hedges		
Instruments associated with loans	\$916,011	\$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 September 30, 2013, the Company had a total counterparty notional amount outstanding of approximately \$563.2 million, spread among nine counterparties, with an outstanding liability from these contracts of \$13.6 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.

Table of Contents

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

(Dollars in thousands)	Balance Sheet Classification	September 30, 2013			December 31, 2012		
		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	\$10,431	\$0	\$(999)	\$12,739	\$0	\$(1,445)
Matched interest rate swaps with borrower	Accrued interest and other assets	452,790	13,798	(1,050)	461,377	24,135	0
Matched interest rate swaps with counterparty	Accrued interest and other liabilities	452,790	1,050	(13,995)	461,377	0	(24,978)
Total		\$916,011	\$14,848	\$(16,044)	\$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.

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

(Dollars in thousands)	September 30, 2013			December 31, 2012		
	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	\$999	\$(393)	\$606	\$1,445	\$(669)	\$776
Matched interest rate swaps with counterparty	15,045	(12,103)	2,942	24,978	(23,057)	1,921
Total	\$16,044	\$(12,496)	\$3,548	\$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 September 30, 2013:

(Dollars in thousands)	Notional amount	Average maturity (years)	Fair value	Weighted-average rate		
				Receive	Pay	
Asset conversion swaps						
Pay fixed interest rate swaps with counterparty	\$10,431	3.0	\$(999)	2.21	% 6.85	%
	452,790	4.1	12,748	4.88	% 2.94	%

Receive fixed, matched interest rate swaps with borrower							
Pay fixed, matched interest rate swaps with counterparty	452,790	4.1	(12,945)	2.94	%	4.88	%
Total asset conversion swaps	\$916,011	4.1	\$(1,196)	3.89	%	3.95	%

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

Table of Contents

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.

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

(Dollars in thousands)		Decrease to Interest income			
		Three months ended		Nine months ended	
Derivatives in fair value hedging relationships	Location of change in fair value	September 30,		September 30,	
		2013	2012	2013	2012
Interest rate contracts					
Loans	Interest income - loans	\$(123)	\$(167)	\$(393)	\$(555)
Total		\$(123)	\$(167)	\$(393)	\$(555)

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 while the fair value is included within Accrued interest and other assets or Accrued interest and other liabilities on the Consolidated Balance Sheets. Changes in the fair value of interest rate swaps designated as cash flow hedges 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.

First Financial utilizes interest rate swaps designated as cash flow hedges to hedge against interest rate volatility on indexed floating rate deposits, totaling \$100.0 million as of September 30, 2013 and \$35.0 million as of December 31, 2012. These interest rate swaps qualify for hedge accounting and involve the receipt by First Financial of variable-rate interest amounts in exchange for fixed-rate interest payments by First Financial and have a remaining weighted average term of approximately 6 years. Accrued interest and other liabilities included \$0.3 million at September 30, 2013 and \$0.2 million at December 31, 2012, respectively, reflecting the fair value of these cash flow hedges.

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 \$518.2 million in short-term borrowings with the FHLB at September 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 \$52.5 million in repurchase agreements which have

Table of Contents

remaining maturities of less than 2 years and a weighted average rate of 3.49%. 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:

(Dollars in thousands)	September 30, 2013		December 31, 2012		
	Amount	Average Rate	Amount	Average Rate	
Federal Home Loan Bank	\$7,813	3.74	% \$9,427	3.74	%
National Market Repurchase Agreement	52,500	3.49	% 65,000	3.50	%
Capital loan with municipality	775	0.00	% 775	0.00	%
Total long-term debt	\$61,088	3.48	% \$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 \$159.5 million in additional qualifying debentures under these guidelines.

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 also classified as nonperforming.

Table of Contents

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

As of September 30, 2013

(Dollars in thousands)	Commercial	Real Estate Construction	Commercial	Total
Pass	\$914,021	\$86,942	\$1,391,039	\$2,392,002
Special Mention	29,061	225	29,786	59,072
Substandard	16,934	2,922	73,144	93,000
Doubtful	0	0	0	0
Total	\$960,016	\$90,089	\$1,493,969	\$2,544,074

(Dollars in thousands)	Real Estate Residential	Installment	Home Equity	Other	Total
Performing	\$343,484	\$48,852	\$370,968	\$110,814	\$874,118
Nonperforming	9,346	421	2,871	86	12,724
Total	\$352,830	\$49,273	\$373,839	\$110,900	\$886,842

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 loans classified as nonaccrual, was as follows:

As of September 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	\$1,018	\$678	\$9,294	\$10,990	\$949,026	\$960,016	\$0
Real estate - construction	23	0	1,098	1,121	88,968	90,089	0
Real estate - commercial	8,280	2,747	23,569	34,596	1,459,373	1,493,969	0
Real estate - residential	1,705	1,230	6,484	9,419	343,411	352,830	0
Installment	389	38	371	798	48,475	49,273	0
Home equity	735	442	1,525	2,702	371,137	373,839	0
Other	424	111	351	886	110,014	110,900	265
Total	\$12,574	\$5,246	\$42,692	\$60,512	\$3,370,404	\$3,430,916	\$265

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 classified as nonaccrual 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 classified as nonaccrual. 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 reclassified back to 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 215 TDRs totaling \$29.3 million at September 30, 2013, including \$16.3 million on accrual status and \$13.0 million classified as nonaccrual. First Financial had \$0.6 million of commitments outstanding to lend additional funds to borrowers whose loan terms had been modified through TDRs. At September 30, 2013, the allowance for loan and lease losses included reserves of \$4.0 million related to TDRs. For the three and nine months ended September 30, 2013, First Financial charged off \$1.2 million and \$2.4 million, respectively, for the portion of TDRs determined to be uncollectible. Additionally, at September 30, 2013, approximately \$8.4 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 had 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 nine months ended September 30, 2013 and 2012.

(Dollars in thousands)	Three months ended September 30, 2013			September 30, 2012		
	Number of loans	Pre-modification loan balance	Period end balance	Number of loans	Pre-modification loan balance	Period end balance
Commercial	4	\$ 494	\$490	6	\$ 3,787	\$4,027
Real estate - construction	0	0	0	0	0	0
Real estate - commercial	10	2,502	2,493	8	5,105	5,077
Real estate - residential	3	387	367	0	0	0
Installment	3	34	33	0	0	0
Home equity	5	294	216	0	0	0
Total	25	\$ 3,711	\$3,599	14	\$ 8,892	\$9,104

(Dollars in thousands)	Nine months ended September 30, 2013			September 30, 2012		
	Number of loans	Pre-modification loan balance	Period end balance	Number of loans	Pre-modification loan balance	Period end balance
Commercial	14	\$ 8,233	\$6,105	16	\$ 8,358	\$8,589
Real estate - construction	0	0	0	0	0	0
Real estate - commercial	17	4,752	4,719	22	9,854	9,795
Real estate - residential	33	2,356	2,178	2	164	166
Installment	14	188	115	0	0	0
Home equity	35	1,176	887	0	0	0
Total	113	\$ 16,705	\$14,004	40	\$ 18,376	\$18,550

Table of Contents

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

(Dollars in thousands)	Three months ended		Nine months ended	
	September 30, ⁽²⁾		September 30, ⁽²⁾	
	2013	2012	2013	2012
Extended maturities	\$2,179	\$6,144	\$8,848	\$13,404
Adjusted interest rates	0	0	520	166
Combination of rate and maturity changes	613	0	850	563
Forbearance	0	2,565	0	3,801
Other ⁽¹⁾	807	395	3,786	616
Total	\$3,599	\$9,104	\$14,004	\$18,550

(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:

(Dollars in thousands)	September 30,		2012	
	2013	2012	2012	2012
	Number of	Period End	Number of	Period End
	Loans	Balance	Loans	Balance
Commercial	4	\$4,882	2	\$1,133
Real estate - construction	0	0	0	0
Real estate - commercial	2	63	0	0
Real estate - residential	3	185	0	0
Installment	4	26	0	0
Home equity	5	64	0	0
Total	18	\$5,220	2	\$1,133

Table of Contents

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

(Dollars in thousands)	September 30, 2013	December 31, 2012
Impaired loans		
Nonaccrual loans ⁽¹⁾		
Commercial	\$8,554	\$15,893
Real estate-construction	1,099	2,102
Real estate-commercial	35,549	34,977
Real estate-residential	9,346	7,869
Installment	421	452
Home equity	2,871	3,252
Other	86	496
Nonaccrual loans ⁽¹⁾	57,926	65,041
Accruing troubled debt restructurings	16,278	10,856
Total impaired loans	\$74,204	\$75,897

(1) Nonaccrual loans include nonaccrual TDRs of \$13.0 million and \$14.1 million as of September 30, 2013 and December 31, 2012, respectively.

(Dollars in thousands)	Three months ended		Nine months ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Interest income effect on impaired loans				
Gross amount of interest that would have been recorded under original terms	\$1,142	\$1,145	\$3,399	\$3,734
Interest included in income				
Nonaccrual loans	130	158	472	586
Troubled debt restructurings	115	95	316	247
Total interest included in income	245	253	788	833
Net impact on interest income	\$897	\$892	\$2,611	\$2,901
Commitments outstanding to borrowers with nonaccrual loans			\$0	\$2,977

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 September 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	\$6,420	\$8,480	\$0	\$12,087	\$141	\$17
Real estate - construction	1,099	1,671	0	693	0	0
Real estate - commercial	16,583	20,727	0	17,615	317	108
Real estate - residential	11,042	12,866	0	10,208	111	39
Installment	489	531	0	418	4	1
Home equity	3,100	3,807	0	3,129	32	11
Other	86	86	0	185	0	0
Loans with an allowance recorded						
Commercial	6,134	7,500	1,645	4,556	58	8
Real estate - construction	0	0	0	907	7	0
Real estate - commercial	27,123	31,628	6,371	23,463	89	50
Real estate - residential	2,027	2,082	348	1,992	28	10
Installment	0	0	0	0	0	0
Home equity	101	101	2	101	1	1
Other	0	0	0	209	0	0
Total						
Commercial	12,554	15,980	1,645	16,643	199	25
Real estate - construction	1,099	1,671	0	1,600	7	0
Real estate - commercial	43,706	52,355	6,371	41,078	406	158
Real estate - residential	13,069	14,948	348	12,200	139	49
Installment	489	531	0	418	4	1
Home equity	3,201	3,908	2	3,230	33	12
Other	86	86	0	394	0	0
Total	\$74,204	\$89,479	\$8,366	\$75,563	\$788	\$245

Table of Contents

(Dollars in thousands)	As of December 31, 2012				
	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:

(Dollars in thousands)	Three months ended		Nine months ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Balance at beginning of period	\$11,798	\$15,688	\$12,526	\$11,317
Additions				
Commercial	608	539	2,924	5,888
Residential	265	406	645	2,320
Total additions	873	945	3,569	8,208
Disposals				
Commercial	500	1,209	2,382	2,221
Residential	154	413	805	1,025
Total disposals	654	1,622	3,187	3,246
Write-downs				
Commercial	71	1,041	632	2,181
Residential	142	58	472	186
Total write-downs	213	1,099	1,104	2,367
Balance at end of period	\$11,804	\$13,912	\$11,804	\$13,912

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:

(Dollars in thousands)	September 30, 2013			December 31, 2012		
	Loans	Loans	Total	Loans	Loans	Total
	accounted for under FASB ASC Topic 310-30	excluded from FASB ASC Topic 310-30		accounted for under FASB ASC Topic 310-30	excluded from FASB ASC Topic 310-30	
Commercial	\$51,077	\$1,199	\$52,276	\$94,775	\$7,351	\$102,126
Real estate - construction	8,692	0	8,692	10,631	0	10,631
Real estate - commercial	306,345	6,453	312,798	458,066	7,489	465,555
Real estate - residential	84,418	0	84,418	100,694	0	100,694
Installment	5,552	583	6,135	7,911	763	8,674
Home equity	1,009	50,683	51,692	2,080	55,378	57,458
Other covered loans	0	2,513	2,513	0	2,978	2,978
Total covered loans	\$457,093	\$61,431	\$518,524	\$674,157	\$73,959	\$748,116

The outstanding balance of all purchased impaired and nonimpaired loans accounted for under FASB ASC Topic 310-30, including all contractual principal, interest, fees and penalties, was \$569.9 million and \$852.9 million as of September 30, 2013 and December 31, 2012, respectively. These balances exclude contractual interest not yet accrued.

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

(Dollars in thousands)	Three Months Ended		Nine months ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Balance at beginning of period	\$173,920	\$283,296	\$224,694	\$344,410
Reclassification (to)/from nonaccretable difference	(4,979)	2,338	(5,687)	25,780
Accretion	(13,772)	(21,730)	(46,971)	(71,674)
Other net activity ⁽¹⁾	(8,347)	(11,749)	(25,214)	(46,361)
Balance at end of period	\$146,822	\$252,155	\$146,822	\$252,155

(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 2013 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 \$5.0 million and resulted in lower yields on certain loan pools during the third quarter 2013. Conversely, First Financial recognized a \$2.3 million reclassification from nonaccretable difference to accretable difference and higher yields on certain loan pools during the third quarter of 2012 related to improvement in the cash flow expectations for certain loan pools. For the nine months ended September 30, 2013, the Company recognized a net reclassification of \$5.7 million from accretable difference to nonaccretable difference as a result of the enhancements to the valuation methodology. For the nine months ended September 30, 2012, the Company recognized a net reclassification of \$25.8 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 September 30, 2013

(Dollars in thousands)	Real Estate		Commercial	Total
	Commercial	Construction		
Pass	\$27,580	\$1,714	\$175,085	\$204,379
Special Mention	7,933	0	41,478	49,411
Substandard	15,973	6,978	96,235	119,186
Doubtful	790	0	0	790
Total	\$52,276	\$8,692	\$312,798	\$373,766

(Dollars in thousands)	Real estate residential	Installment	Home equity	Other	Total
Performing	\$84,418	\$6,135	\$49,680	\$2,507	\$142,740
Nonperforming	0	0	2,012	6	2,018
Total	\$84,418	\$6,135	\$51,692	\$2,513	\$144,758

As of December 31, 2012

(Dollars in thousands)	Real Estate		Commercial	Total
	Commercial	Construction		
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:

(Dollars in thousands)	As of September 30, 2013				Current	Total	> 90 days past due and accruing
	30 - 59 days past due	60 - 89 days past due	> 90 days past due	Total past due			
Loans							
Commercial	\$59	\$136	\$379	\$574	\$625	\$1,199	\$0
Real estate - commercial	59	5	1,809	1,873	4,580	6,453	0
Installment	6	0	0	6	577	583	0
Home equity	722	459	1,052	2,233	48,450	50,683	0
All other	3	0	49	52	2,461	2,513	43
Total	\$849	\$600	\$3,289	\$4,738	\$56,693	\$61,431	\$43
(Dollars in thousands)	As of December 31, 2012				Current	Total	> 90 days past due and accruing
	30 - 59 days past due	60 - 89 days past due	> 90 days past due	Total past due			
Loans							
Commercial	\$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						