FIRST FINANCIAL BANCORP /OH/
Form 10-Q
November 08, 2016
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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 September 30, 2016

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 001-34762

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

Ohio	31-1042001
(State or other jurisdiction of incorporation or organization)	(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 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 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 November 7, 2016
Common stock, No par value	61,955,821

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Glossary of Abbreviations and Acronyms

First Financial has identified the following list of abbreviations and acronyms that are used in the Notes to Consolidated Financial Statements and the Management's Discussion and Analysis of Financial Condition and Results of Operations.

the Act	Private Securities Litigation Reform Act	FDIC	Federal Deposit Insurance Corporation
ALLL	Allowance for loan and lease losses	FHLB	Federal Home Loan Bank
ASC	Accounting standards codification	First Financial	First Financial Bancorp.
ASU	Accounting standards update	First Financial Bank	First Financial Bank, N.A.
ATM	Automated teller machine	Form 10-K	First Financial Bancorp. Annual Report on Form 10-K
Bank	First Financial Bank, N.A.	GAAP	U.S. Generally Accepted Accounting Principles
Basel III	Basel Committee regulatory capital reforms, Third Basel Accord	IRLC	Interest Rate Lock Commitment
Bp/bps	Basis point(s)	N/A	Not applicable
CDs	Certificates of deposits	NII	Net interest income
Company	First Financial Bancorp.	Oak Street	Oak Street Holdings Corporation
ERM	Enterprise Risk Management	OREO	Other real estate owned
EVE	Economic value of equity	SEC	United States Securities and Exchange Commission
FASB	Financial Accounting Standards Board	TDR	Troubled debt restructuring
Fair Value Topic	FASB ASC Topic 825, Financial Instruments		

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

	September 30, 2016 (Unaudited)	December 31, 2015
Assets		
Cash and due from banks	$ 117,982	$ 114,841
Interest-bearing deposits with other banks	16,765	33,734
Investment securities available-for-sale, at fair value (amortized cost $1,110,784 at September 30, 2016 and $1,203,065 at December 31, 2015)	1,120,494	1,190,642
Investment securities held-to-maturity (fair value $645,751 at September 30, 2016 and $731,951 at December 31, 2015)	628,497	726,259
Other investments	51,170	53,725
Loans held for sale	17,414	20,957
Loans and leases		
Commercial and industrial	1,782,782	1,663,102
Lease financing	96,046	93,986
Construction real estate	380,349	311,712
Commercial real estate	2,468,083	2,258,297
Residential real estate	507,715	512,311
Home equity	463,702	466,629
Installment	47,825	41,506
Credit card	43,009	41,217
Total loans and leases	5,789,511	5,388,760
Less: Allowance for loan and lease losses	57,618	53,398
Net loans and leases	5,731,893	5,335,362
Premises and equipment	132,082	136,603
Goodwill and other intangibles	210,888	211,865
FDIC indemnification asset	13,287	17,630
Accrued interest and other assets	328,009	305,793
Total assets	$ 8,368,481	$ 8,147,411
Liabilities		
Deposits		
Interest-bearing	$ 1,494,529	$ 1,414,291
Savings	2,005,407	1,945,805
Time	1,346,736	1,406,124
Total interest-bearing deposits	4,846,672	4,766,220
Noninterest-bearing	1,492,011	1,413,404
Total deposits	6,338,683	6,179,624
Federal funds purchased and securities sold under agreements to repurchase	77,936	89,325
Federal Home Loan Bank short-term borrowings	848,300	849,100
Total short-term borrowings	926,236	938,425
Long-term debt	119,549	119,540
Total borrowed funds	1,045,785	1,057,965

Accrued interest and other liabilities	122,876	100,446
Total liabilities	7,507,344	7,338,035
Shareholders' equity		
Common stock - no par value		
Authorized - 160,000,000 shares; Issued - 68,730,731 shares in 2016 and 2015	569,199	571,155
Retained earnings	423,800	388,240
Accumulated other comprehensive loss	(17,522)	(30,580)
Treasury stock, at cost, 6,777,858 shares in 2016 and 7,089,051 shares in 2015	(114,340)	(119,439)
Total shareholders' equity	861,137	809,376
Total liabilities and shareholders' equity	$ 8,368,481	$ 8,147,411

See Notes to Consolidated Financial Statements.

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

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Interest income				
Loans, including fees	$66,997	$ 58,694	$194,820	$167,744
Investment securities				
Taxable	10,326	9,986	32,405	28,875
Tax-exempt	1,083	1,163	3,401	3,419
Total interest on investment securities	11,409	11,149	35,806	32,294
Other earning assets	(1,081)	(1,168)	(3,323)	(3,511)
Total interest income	77,325	68,675	227,303	196,527
Interest expense				
Deposits	5,600	4,861	16,587	14,302
Short-term borrowings	1,368	374	3,591	930
Long-term borrowings	1,539	281	4,620	876
Total interest expense	8,507	5,516	24,798	16,108
Net interest income	68,818	63,159	202,505	180,419
Provision for loan and lease losses	1,687	2,647	7,379	7,777
Net interest income after provision for loan and lease losses	67,131	60,512	195,126	172,642
Noninterest income				
Service charges on deposit accounts	5,056	4,934	13,892	14,260
Trust and wealth management fees	3,236	3,134	9,959	10,042
Bankcard income	2,984	2,909	8,996	8,501
Client derivative fees	1,210	1,604	4,104	3,444
Net gains from sales of loans	2,066	1,758	5,093	5,146
Net gains on sales of investment securities	398	409	234	1,503
FDIC loss sharing income	(638)	(973)	(1,144)	(2,323)
Accelerated discount on covered/formerly covered loans	491	3,820	2,653	10,006
Other	2,146	2,760	8,868	8,804
Total noninterest income	16,949	20,355	52,655	59,383
Noninterest expenses				
Salaries and employee benefits	32,093	27,768	91,234	82,160
Net occupancy	4,543	4,510	13,991	13,895
Furniture and equipment	2,139	2,165	6,482	6,537
Data processing	2,828	2,591	8,311	8,020
Marketing	641	810	2,507	2,671
Communication	527	531	1,485	1,659
Professional services	1,460	4,092	4,572	7,789
State intangible tax	639	579	1,917	1,733
FDIC assessments	1,048	1,103	3,292	3,307
Loss (gain) - other real estate owned	(112)	196	(259)	1,089
Loss sharing expense	270	574	555	1,451
Other	5,029	8,073	17,151	19,535
Total noninterest expenses	51,105	52,992	151,238	149,846

Income before income taxes	32,975	27,875	96,543	82,179
Income tax expense	10,125	9,202	31,311	26,936
Net income	$22,850	$ 18,673	$65,232	$55,243
Net earnings per common share - basic	$0.37	$ 0.31	$1.07	$0.90
Net earnings per common share - diluted	$0.37	$ 0.30	$1.05	$0.89
Cash dividends declared per share	$0.16	$ 0.16	$0.48	$0.48
Average common shares outstanding - basic	61,280,283	61,135,749	61,170,845	61,088,794
Average common shares outstanding - diluted	62,086,067	61,987,795	61,962,961	61,858,724

See Notes to Consolidated Financial Statements.

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

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Net income	$22,850	$18,673	$65,232	$55,243
Other comprehensive income (loss), net of tax:				
Unrealized gains (losses) on investment securities arising during the period	(162)	3,057	12,073	4,287
Change in retirement obligation	200	220	601	624
Unrealized gain (loss) on derivatives	128	128	384	(771)
Unrealized gain (loss) on foreign currency exchange	0	91	0	50
Other comprehensive income (loss)	166	3,496	13,058	4,190
Comprehensive income	$23,016	$22,169	$78,290	$59,433

See Notes to Consolidated Financial Statements.

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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, 2015	68,730,731	$574,643	$352,587	$ (21,409)	(7,274,184)	$(122,050)	$783,771
Net income			55,243				55,243
Other comprehensive income (loss)				4,190			4,190
Cash dividends declared:							
Common stock at $0.48 per share			(29,572)				(29,572)
Purchase of common stock					(148,935)	(2,783)	(2,783)
Warrant exercises		(645)			39,217	658	13
Excess tax benefit on share-based compensation		85					85
Exercise of stock options, net of shares purchased		(195)			30,458	511	316
Restricted stock awards, net of forfeitures		(6,869)			336,346	5,612	(1,257)
Share-based compensation expense		3,006					3,006
Balance at September 30, 2015	68,730,731	$570,025	$378,258	$ (17,219)	(7,017,098)	$(118,052)	$813,012
Balance at January 1, 2016	68,730,731	$571,155	$388,240	$ (30,580)	(7,089,051)	$(119,439)	$809,376
Net income			65,232				65,232
Other comprehensive income (loss)				13,058			13,058
Cash dividends declared:							
Common stock at $0.48 per share			(29,672)				(29,672)
Warrant Exercises		(1,249)			74,079	1,249	0
Excess tax benefit on share-based compensation		225					225
Exercise of stock options, net of shares purchased		(328)			53,715	906	578
Restricted stock awards, net of forfeitures		(4,506)			183,399	2,944	(1,562)
Share-based compensation expense		3,902					3,902
Balance at September 30, 2016	68,730,731	$569,199	$423,800	$ (17,522)	(6,777,858)	$(114,340)	$861,137

See Notes to Consolidated Financial Statements.

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

	Nine months ended September 30, 2016	2015
Operating activities		
Net income	$65,232	$55,243
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	7,379	7,777
Depreciation and amortization	9,753	9,697
Stock-based compensation expense	3,902	3,006
Pension expense (income)	(675)	(900)
Net amortization of premiums/accretion of discounts on investment securities	6,213	5,874
Net gains on sales of investment securities	(234)	(1,503)
Originations of loans held for sale	(172,950)	(197,621)
Net gains from sales of loans held for sale	(5,093)	(5,146)
Proceeds from sales of loans held for sale	181,263	187,364
Deferred income taxes	271	2,954
Bank owned life insurance income	(1,342)	(1,314)
Decrease (increase) in interest receivable	(1,183)	(1,912)
Decrease (increase) in indemnification asset	4,343	3,735
(Decrease) increase in interest payable	(1,480)	706
Decrease (increase) in other assets	(21,301)	(22,770)
(Decrease) increase in other liabilities	2,634	16,136
Net cash provided by (used in) operating activities	76,732	61,326
Investing activities		
Proceeds from sales of securities available-for-sale	206,909	68,615
Proceeds from calls, paydowns and maturities of securities available-for-sale	119,437	88,336
Purchases of securities available-for-sale	(225,117)	(375,244)
Proceeds from sales of securities held-to-maturity	4,862	0
Proceeds from calls, paydowns and maturities of securities held-to-maturity	89,529	111,499
Purchases of securities held-to-maturity	0	(3,520)
Net decrease (increase) in interest-bearing deposits with other banks	16,969	(1,561)
Net decrease (increase) in loans and leases	(406,005)	(213,936)
Proceeds from disposal of other real estate owned	6,908	12,238
Purchases of premises and equipment	(6,427)	(6,371)
Life insurance premium payments	(4,006)	(3,575)
Life insurance death benefits	5,006	0
Net cash (paid) acquired from business combinations	0	(305,591)
Net cash provided by (used in) investing activities	(191,935)	(629,110)
Financing activities		
Net (decrease) increase in total deposits	159,059	425,686
Net (decrease) increase in short-term borrowings	(12,189)	102,125
Payments on long-term debt	(86)	(46,238)
Proceeds from issuance of long-term debt	0	120,000

Cash dividends paid on common stock	(29,318)	(29,282)
Treasury stock purchase	0	(2,783)
Proceeds from exercise of stock options	653	367
Excess tax benefit on share-based compensation	225	85
Net cash provided by (used in) financing activities	118,344	569,960
Cash and due from banks		
Change in cash and due from banks	3,141	2,176
Cash and due from banks at beginning of period	114,841	110,122
Cash and due from banks at end of period	$117,982	$112,298

See Notes to Consolidated Financial Statements.

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FIRST FINANCIAL BANCORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2016
(Unaudited)

NOTE 1: BASIS OF PRESENTATION

The Consolidated Financial Statements of First Financial Bancorp., 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. All significant intercompany transactions and accounts have been eliminated in consolidation. Certain reclassifications of prior periods' amounts have been made to conform to current year presentation. Such reclassifications had no effect on net earnings.

The preparation of financial statements in conformity with GAAP requires management to make estimates, assumptions and judgments that affect the amounts reported in the Consolidated Financial Statements and accompanying Notes. These estimates, assumptions and judgments are inherently subjective and may be susceptible to significant change. Actual realized amounts could differ materially from these 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 Form 10-K for the year ended December 31, 2015. 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 it is suggested that these interim statements be read in conjunction with 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, 2015 has been derived from the audited financial statements in the Company’s 2015 Form 10-K.

NOTE 2: RECENTLY ADOPTED AND ISSUED ACCOUNTING STANDARDS

In April 2015, the FASB issued an update (ASU 2015-03, Interest-Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs) that requires debt issuance costs to be presented as a deduction from the corresponding debt liability. Upon adoption, an entity must apply the new guidance retrospectively to all prior periods presented in the financial statements. The provisions of this update became effective January 1, 2016. First Financial early adopted this accounting standard during the third quarter of 2015. Management concluded that the debt issuance costs capitalized in prior periods was immaterial as a component of other assets, total assets, total long-term debt and total liabilities, and as such, the Company's prior periods have not been restated.

In September 2015, the FASB issued an update (ASU 2015-16, Business Combinations: Simplifying the Accounting for Measurement-Period Adjustments) which eliminates the requirement for an acquirer in a business combination to account for measurement-period adjustments retrospectively. This update requires acquiring companies to recognize measurement-period adjustments during the period in which they determine the amounts, including the effect on earnings of any amounts they would have recorded in previous periods if the accounting had been completed at the acquisition date. The guidance in this ASU became effective January 1, 2016 and did not have a material impact on the Company's Consolidated Financial Statements.

In January 2016, the FASB issued an update (ASU 2016-01, Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities) which will require entities to measure many equity investments at fair value and recognize changes in fair value in net income. This update does not apply to equity investments that result in consolidation, those accounted for under the equity method and certain others, and will eliminate use of the available for sale classification for equity securities while providing a new measurement alternative for equity investments that do not have readily determinable fair values and do not qualify for the net asset value practical expedient. The guidance in this ASU will become effective for interim and annual reporting periods beginning after December 15, 2017, with early adoption permitted. First Financial does not anticipate this update will have a material impact on its Consolidated Financial Statements.

In February 2016, the FASB issued an update (ASU 2016-02, Leases) which will require lessees to record most leases on their balance sheet and recognize leasing expenses in the income statement. Operating leases, except for short-term leases that are subject to an accounting policy election, will be recorded on the balance sheet for lessees by establishing a lease liability and corresponding right-of-use asset. The guidance in this ASU will become effective for interim and annual reporting periods beginning after December 15, 2018, with early adoption permitted. First Financial is currently evaluating the impact of this update on its Consolidated Financial Statements.

In March 2016, the FASB issued an update (ASU 2016-05, Derivatives and Hedging: Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships) which clarifies that the novation of a derivative contract in a hedge accounting relationship does not, in and of itself, require de-designation of that hedge accounting relationship. In the event of a novation, hedge accounting relationships could continue if all other hedge accounting criteria are met, including the expectation that the hedge will be highly effective when the creditworthiness of the new counterparty to the derivative contract is considered. The guidance in this ASU will become effective for interim and annual reporting periods beginning after December 15, 2016, with early adoption permitted. First Financial does not anticipate this update will have a material impact on its Consolidated Financial Statements.

In March 2016, the FASB issued an update (ASU 2016-06, Derivatives and Hedging: Contingent Put and Call Options in Debt Instruments) which clarifies that an assessment of whether an embedded contingent put or call option is clearly and closely related to the debt host requires only an analysis of the four-step decision sequence in ASC 815-15-25-42. Entities are required to apply the guidance to existing debt instruments (or hybrid financial instruments that are determined to have a debt host) using a modified retrospective transition method as of the period of adoption. The guidance in this ASU will become effective for interim and annual reporting periods beginning after December 15, 2016, with early adoption permitted. First Financial does not anticipate this update will have a material impact on its Consolidated Financial Statements.

In March 2016, the FASB issued an update (ASU 2016-07, Investments-Equity Method and Joint Ventures: Simplifying the Transition to the Equity Method of Accounting) which will eliminate the requirement to retrospectively apply the equity method when an investment that had been accounted for utilizing another method qualifies for use of the equity method. The guidance in this ASU will become effective for interim and annual reporting periods beginning after December 15, 2016, with early adoption permitted. First Financial does not anticipate this update will have a material impact on its Consolidated Financial Statements.

In March 2016, the FASB issued an update (ASU 2016-09, Compensation-Stock Compensation: Improvements to Employee Share-Based Payment Accounting) which will require recognition of the income tax effects of share-based awards in the income statement when the awards vest or are settled (i.e., Additional Paid-in-Capital pools will be eliminated). The guidance in this ASU will become effective for interim and annual reporting periods beginning after December 15, 2016, with early adoption permitted. First Financial does not anticipate this update will have a material impact on its Consolidated Financial Statements.

In June 2016, the FASB issued an update (ASU 2016-13, Financial Instruments-Credit Losses: Measurement of Credit Losses on Financial Instruments) which significantly changes how entities are required to measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. This update will replace the current incurred loss approach for estimating credit losses with an expected loss model for instruments measured at amortized cost, including loans and leases. Expected credit losses are required to be based on amortized cost and reflect losses expected over the remaining contractual life of the asset. Management is expected to consider any available information relevant to assessing the collectability of contractual cash flows, such as information about past events, current conditions, voluntary prepayments and reasonable and supportable forecasts, when developing expected credit loss estimates.

In addition to the new framework for calculating the ALLL, this update requires allowances for available-for-sale debt securities rather than a reduction of the security's carrying amount under the current other-than-temporary impairment model. This update also simplifies the accounting model for purchased credit-impaired debt securities and loans and will require new and updated footnote disclosures.

The guidance in this ASU will become effective for interim and annual reporting periods beginning after December 15, 2019. Early adoption is permitted for all entities for interim and annual reporting periods beginning after December 15, 2018. First Financial is currently evaluating the impact of this update on its Consolidated Financial Statements.

In August 2016, the FASB issued an update (ASU 2016-15 Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments) which may change how an entity classifies certain cash receipts and cash payments on its statement of cash flows to reduce diversity in practice. The update also provides guidance on when an entity should separate cash flows and classify them into more than one class and when an entity should classify the aggregate of those cash flows into a single class based on the predominance principle. The guidance in this ASU will become effective for interim and annual reporting periods beginning after December 15, 2017, with early adoption permitted. First Financial does not anticipate this update will have a material impact on its Consolidated Financial Statements.

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NOTE 3: INVESTMENTS

For the three months ending September 30, 2016, proceeds on the sale of $99.4 million of available-for-sale securities resulted in gains of $0.8 million and losses of $0.5 million. For the comparable quarter in 2015, proceeds on the sale of $14.7 million of available-for-sale securities resulted in gains of $0.4 million and no losses. For the nine months ended September 30, 2016, proceeds on the sale of $206.9 million of available-for-sale securities resulted in gains of $1.2 million and losses of $1.0 million. For the nine months ended September 30, 2015, proceeds on the sale of $68.6 million of available-for-sale securities resulted in gains of $1.5 million and no losses. For the three and nine months ended September 30, 2016, the Company sold a single security classified as held-to-maturity to comply with regulatory ownership guidelines. The $4.9 million of proceeds from that sale resulted in a $44 thousand gain. No held-to-maturity securities were sold in 2015.

The following is a summary of held-to-maturity and available-for-sale investment securities as of September 30, 2016:

	Held-to-maturity				Available-for-sale			
(Dollars in thousands)	Amortized cost	Unrecognized gain	Unrecognized loss	Fair value	Amortized cost	Unrealized gain	Unrealized loss	Fair value
U.S. Treasuries	$0	$ 0	$ 0	$0	$98	$4	$0	$102
Securities of U.S. government agencies and corporations	13,811	389	0	14,200	7,471	226	0	7,697
Mortgage-backed securities	591,224	16,639	(337)	607,526	662,535	8,714	(2,241)	669,008
Obligations of state and other political subdivisions	23,462	563	0	24,025	119,168	3,574	(502)	122,240
Asset-backed securities	0	0	0	0	286,427	1,508	(1,944)	285,991
Other securities	0	0	0	0	35,085	935	(564)	35,456
Total	$628,497	$ 17,591	$ (337)	$645,751	$1,110,784	$ 14,961	$(5,251)	$1,120,494

The following is a summary of held-to-maturity and available-for-sale investment securities as of December 31, 2015:

	Held-to-maturity				Available-for-sale			
(Dollars in thousands)	Amortized cost	Unrecognized gain	Unrecognized loss	Fair value	Amortized cost	Unrealized gain	Unrealized loss	Fair value
U.S. Treasuries	$0	$ 0	$ 0	$0	$98	$ 0	$(1)	$97
Securities of U.S. government agencies and corporations	15,486	121	0	15,607	8,183	157	0	8,340
Mortgage-backed securities	678,318	7,452	(1,999)	683,771	775,285	2,708	(12,926)	765,067
Obligations of state and other political subdivisions	27,646	338	(99)	27,885	105,212	2,655	(730)	107,137
Asset-backed securities	0	0	0	0	236,411	35	(3,445)	233,001
Other securities	4,809	0	(121)	4,688	77,876	523	(1,399)	77,000
Total	$726,259	$ 7,911	$ (2,219)	$731,951	$1,203,065	$ 6,078	$(18,501)	$1,190,642

The following table provides a summary of investment securities by contractual maturity or estimated weighted average life as of September 30, 2016. Estimated lives on amortizing 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	Fair value	Amortized cost	Fair value
Due in one year or less	$10,329	$10,396	$84,668	$84,666
Due after one year through five years	550,112	564,365	696,926	701,256
Due after five years through ten years	68,056	70,990	282,745	287,263
Due after ten years	0	0	46,445	47,309
Total	$628,497	$645,751	$1,110,784	$1,120,494

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The following tables provide the fair value and gross unrealized losses on investment securities in an unrealized loss position, aggregated by investment category and the length of time the individual securities have been in a continuous loss position:

	September 30, 2016					
	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	$97,408	$ (331)	$143,886	$ (2,247)	$241,294	$ (2,578)
Obligations of state and other political subdivisions	33,509	(100)	12,515	(402)	46,024	(502)
Asset-backed securities	51,613	(179)	100,822	(1,765)	152,435	(1,944)
Other securities	128	0	20,591	(564)	20,719	(564)
Total	$182,658	$ (610)	$277,814	$ (4,978)	$460,472	$ (5,588)

	December 31, 2015					
	Less than 12 months		12 months or more		Total	
(Dollars in thousands)	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
U.S. Treasuries	$97	$ (1)	$0	$0	$97	$ (1)
Mortgage-backed securities	500,768	(5,362)	246,523	(9,563)	747,291	(14,925)
Obligations of state and other political subdivisions	5,800	(65)	29,287	(764)	35,087	(829)
Asset-backed securities	189,066	(3,042)	17,144	(403)	206,210	(3,445)
Other securities	30,828	(592)	24,716	(928)	55,544	(1,520)
Total	$726,559	$ (9,062)	$317,670	$ (11,658)	$1,044,229	$ (20,720)

Gains and losses on debt securities are generally due to fluctuations in 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 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, 2016 or December 31, 2015.

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

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NOTE 4: LOANS AND LEASES

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 states where the Bank currently operates banking centers (Ohio, Indiana and Kentucky). Additionally, First Financial has two national lending platforms, one that provides equipment and leasehold improvement financing for franchisees in the quick service and casual dining restaurant sector and another that provides loans secured by commissions and cash collateral accounts primarily to insurance agents and brokers. Commercial loan categories include commercial and industrial, commercial real estate, construction real estate and lease financing. Consumer loan categories include residential real estate, home equity, installment and credit card.

Purchased impaired loans.   Loans accounted for under FASB ASC Topic 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality, are referred to as purchased impaired loans. First Financial accounts for the majority of loans acquired in FDIC transactions as purchased impaired loans, except for loans with revolving privileges, which are outside the scope of FASB ASC Topic 310-30, and loans for which cash flows could not be estimated, which are accounted for under the cost recovery method. Purchased impaired loans include loans previously covered under loss sharing agreements as well as loans that remain subject to FDIC loss sharing coverage.

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 purchased impaired loans. First Financial had purchased impaired loans totaling $151.9 million and $191.6 million, at September 30, 2016 and December 31, 2015, respectively. The outstanding balance of all purchased impaired loans, including all contractual principal, interest, fees and penalties, was $166.4 million and $213.3 million as of September 30, 2016 and December 31, 2015, respectively. These balances exclude contractual interest not yet accrued.

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

	Three months ended		Nine months ended	
	September 30,		September 30,	
(Dollars in thousands)	2016	2015	2016	2015
Balance at beginning of period	$56,819	$78,945	$64,857	$106,622
Reclassification from/(to) nonaccretable difference	36	76	3,756	(2,048)
Accretion	(3,399)	(4,945)	(11,364)	(17,046)
Other net activity [1]	(2,022)	(4,746)	(5,815)	(18,198)
Balance at end of period	$51,434	$69,330	$51,434	$69,330

[1] Includes the impact of loan repayments and charge-offs.

First Financial regularly reviews its forecast of expected cash flows for purchased impaired loans. Due to changes in the cash flow expectations related to certain loan pools, the Company recognized reclassifications from nonaccretable to accretable difference of $36 thousand for the third quarter of 2016 and $3.8 million for the nine months ended September 30, 2016. The Company recognized reclassifications from nonaccretable to accretable difference during the third quarter of 2015 of $0.1 million, however, during the nine months ended September 30, 2015, the Company recognized reclassifications to accretable from nonaccretable difference of $2.0 million. These reclassifications can result in impairment and provision expense in the current period or yield adjustments on the related loan pools on a prospective basis.

Covered loans. Loans acquired in FDIC-assisted transactions 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. Covered loans totaled $99.7 million as of September 30, 2016 and $113.3 million as of December 31, 2015. For a detailed discussion of covered loans, please refer to the Loans and Leases note in the Company's 2015 Annual Report on Form 10-K.

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

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

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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 highly questionable and improbable, on the basis of currently existing facts, conditions and values. 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 previously described are derived from standard regulatory rating definitions and are assigned upon initial approval of credit to borrowers and updated periodically thereafter.

First Financial considers repayment performance to be the best indicator of credit quality for consumer loans. Consumer loans that have principal and interest payments that are past due by 90 days or more are generally classified as nonperforming. Additionally, consumer loans that have been modified in a TDR are classified as nonperforming.

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

	As of September 30, 2016				
	Commercial	Real Estate		Lease	
(Dollars in thousands)	and industrial	Construction	Commercial	financing	Total
Pass	$1,714,538	$380,199	$2,385,796	$95,157	$4,575,690
Special Mention	19,000	0	17,043	128	36,171
Substandard	49,244	150	65,244	761	115,399
Doubtful	0	0	0	0	0
Total	$1,782,782	$380,349	$2,468,083	$96,046	$4,727,260

(Dollars in thousands)	Residential real estate	Home equity	Installment	Other	Total
Performing	$498,429	$459,115	$47,441	$43,009	$1,047,994
Nonperforming	9,286	4,587	384	0	14,257
Total	$507,715	$463,702	$47,825	$43,009	$1,062,251

	As of December 31, 2015				
	Commercial	Real Estate		Lease	
(Dollars in thousands)	and industrial	Construction	Commercial	financing	Total
Pass	$1,596,415	$310,806	$2,179,701	$93,236	$4,180,158
Special Mention	27,498	128	19,903	0	47,529
Substandard	39,189	778	58,693	750	99,410

Doubtful	0	0	0	0	0
Total	$1,663,102	$311,712	$2,258,297	$93,986	$4,327,097

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(Dollars in thousands)	Residential real estate	Home equity	Installment	Other	Total
Performing	$ 503,317	$461,188	$ 41,253	$41,217	$1,046,975
Nonperforming	8,994	5,441	253	0	14,688
Total	$ 512,311	$466,629	$ 41,506	$41,217	$1,061,663

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.

Loan delinquency, including loans classified as nonaccrual, was as follows:

	As of September 30, 2016								
(Dollars in thousands)	30 – 59 days past due	60 – 89 days past due	> 90 days past due	Total past due	Current	Subtotal	Purchased impaired	Total	> 90 days past due and still accruing
Loans									
Commercial and industrial	$1,310	$3,811	$ 2,142	$7,263	$1,769,726	$1,776,989	$5,793	$1,782,782	$ 0
Construction real estate	0	0	0	0	379,661	379,661	688	380,349	0
Commercial real estate	1,811	7,693	6,095	15,599	2,360,738	2,376,337	91,746	2,468,083	0
Residential real estate	43	323	2,077	2,443	454,855	457,298	50,417	507,715	0
Home equity	151	204	1,907	2,262	459,672	461,934	1,768	463,702	0
Installment	97	14	217	328	46,034	46,362	1,463	47,825	0
Other	474	145	255	874	138,181	139,055	0	139,055	130
Total	$3,886	$12,190	$ 12,693	$28,769	$5,608,867	$5,637,636	$151,875	$5,789,511	$ 130

	As of December 31, 2015								
(Dollars in thousands)	30 – 59 days past due	60 – 89 days past due	> 90 days past due	Total past due	Current	Subtotal	Purchased impaired	Total	> 90 days past due and still accruing
Loans									
Commercial and industrial	$2,255	$ 2,232	$ 1,937	$6,424	$1,648,902	$1,655,326	$7,776	$1,663,102	$ 0
Construction real estate	0	17	0	17	310,872	310,889	823	311,712	0
Commercial real estate	2,501	913	7,421	10,835	2,124,290	2,135,125	123,172	2,258,297	0
Residential real estate	1,220	239	2,242	3,701	451,907	455,608	56,703	512,311	0
Home equity	696	248	2,830	3,774	461,647	465,421	1,208	466,629	0
Installment	197	111	48	356	39,206	39,562	1,944	41,506	0
Other	920	302	230	1,452	133,751	135,203	0	135,203	108
Total	$7,789	$ 4,062	$ 14,708	$26,559	$5,170,575	$5,197,134	$191,626	$5,388,760	$ 108

Nonaccrual. Loans are classified as nonaccrual when, in the opinion of management, collection of principal or interest is doubtful or when principal or interest payments are 90 days or more past due. Generally, loans are 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 return to accrual status if collection of future principal and interest payments is no longer doubtful.

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 provision for loan and lease losses or prospective yield adjustments.

Troubled Debt Restructurings. A loan modification is considered a TDR when the borrower is experiencing financial difficulty and 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

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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 restructured terms of the loan agreement.

First Financial had 257 TDRs totaling $37.8 million at September 30, 2016, including $32.2 million on accrual status and $5.6 million classified as nonaccrual. First Financial had $0.7 million of commitments outstanding to lend additional funds to borrowers whose loan terms have been modified through TDRs, and the ALLL included reserves of $2.5 million related to TDRs at September 30, 2016. For the three months ended September 30, 2016 and 2015, the Company charged off $7 thousand and $0.7 million, respectively, for the portion of TDRs determined to be uncollectible. For the nine months ended September 30, 2016 and 2015, First Financial charged off $0.5 million and $2.5 million respectively, for the portion of TDRs determined to be uncollectible. Additionally, as of September 30, 2016, approximately $13.8 million of accruing TDRs have been performing in accordance with the restructured terms for more than one year.

First Financial had 271 TDRs totaling $38.2 million at December 31, 2015, including $28.9 million of loans on accrual status and $9.3 million classified as nonaccrual. First Financial had $1.8 million of commitments outstanding to lend additional funds to borrowers whose loan terms had been modified through TDRs. At December 31, 2015, the ALLL included reserves of $2.2 million related to TDRs, and $10.3 million of the accruing TDRs had been performing in accordance with the restructured terms for more than one year.

The following tables provide information on loan modifications classified as TDRs during the three and nine months ended September 30, 2016 and 2015:

	Three months ended					
	September 30, 2016			September 30, 2015		
(Dollars in thousands)	Number of loans	Pre-modification loan balance	Period end balance	Number of loans	Pre-modification loan balance	Period end balance
Commercial and industrial	6	$ 1,045	$ 1,159	5	$ 171	$ 166
Construction real estate	0	0	0	0	0	0
Commercial real estate	5	3,550	3,531	2	2,159	2,000
Residential real estate	0	0	0	6	920	901
Home equity	1	16	16	6	231	229
Installment	0	0	0	2	50	50
Total	12	$ 4,611	$ 4,706	21	$ 3,531	$ 3,346

	Nine months ended					
	September 30, 2016			September 30, 2015		
(Dollars in thousands)	Number of loans	Pre-modification loan balance	Period end balance	Number of loans	Pre-modification loan balance	Period end balance
Commercial and industrial	16	$ 3,172	$ 3,290	27	$ 1,686	$ 1,676
Construction real estate	0	0	0	0	0	0
Commercial real estate	15	5,060	4,612	14	17,499	13,734
Residential real estate	2	282	247	9	1,282	1,228
Home equity	5	165	156	16	2,281	1,768
Installment	3	9	9	9	96	96
Total	41	$ 8,688	$ 8,314	75	$ 22,844	$ 18,502

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The following table provides information on how TDRs were modified during the three and nine months ended September 30, 2016 and 2015.

(Dollars in thousands)	Three months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2016	Nine months ended September 30, 2015
Extended maturities	$1,831	$2,166	$2,352	$12,827
Adjusted interest rates	0	0	0	0
Combination of rate and maturity changes	2,744	0	2,906	1,219
Forbearance	0	0	88	260
Other [1]	131	1,180	2,968	4,196
Total	$4,706	$3,346	$8,314	$18,502

[1] Includes covenant modifications and other concessions, or combination of concessions, that do not consist of interest rate adjustments, forbearance and maturity extensions

First Financial considers repayment performance as an indication of the effectiveness of the Company's loan modifications. Borrowers that are 90 days or more past due on any principal or interest payments, or who prematurely terminate a restructured loan agreement without paying off the contractual principal balance (for example, in a deed-in-lieu arrangement), are considered to be in payment default of the terms of the TDR agreement.

For the three months ended September 30, 2016, there were no TDRs for which there was a payment default during the period that occurred within twelve months of the loan modification. For the comparable period in 2015, there were three TDRs with a balance of $0.4 million that experienced a payment default within twelve months of the modification. For the nine months ended September 30, 2016 and 2015, there were four and eight TDRs, respectively, with balances of $0.3 million and $1.6 million, respectively, for which there was a payment default during the period that occurred within twelve months of the loan modification.

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

(Dollars in thousands)	September 30, 2016	December 31, 2015
Impaired loans		
Nonaccrual loans [1]		
Commercial and industrial	$ 3,201	$ 8,405
Construction real estate	0	0
Commercial real estate	5,985	9,418
Residential real estate	4,759	5,027
Home equity	3,815	4,898
Installment	327	127
Other	214	122
Nonaccrual loans [1]	18,301	27,997
Accruing troubled debt restructurings	32,164	28,876
Total impaired loans	$ 50,465	$ 56,873

[1] Nonaccrual loans include nonaccrual TDRs of $5.6 million and $9.3 million as of September 30, 2016 and December 31, 2015, respectively.

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	Three months ended September 30,		Nine months ended September 30,	
(Dollars in thousands)	2016	2015	2016	2015
Interest income effect on impaired loans				
Gross amount of interest that would have been recorded under original terms	$705	$852	$2,173	$2,750
Interest included in income				
Nonaccrual loans	97	91	269	370
Troubled debt restructurings	224	168	665	436
Total interest included in income	321	259	934	806
Net impact on interest income	$384	$593	$1,239	$1,944

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 is necessary based on the borrower's overall financial condition, resources and payment record, support from guarantors and the realizable value of any collateral. Specific allowances are based on discounted cash flows using the loan's initial effective interest rate or the fair value of the collateral for certain collateral dependent loans.

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

	As of September 30, 2016		
(Dollars in thousands)	Current balance	Contractual principal balance	Related allowance
Loans with no related allowance recorded			
Commercial and industrial	$13,498	$ 14,448	$ 0
Construction real estate	0	0	0
Commercial real estate	12,881	15,974	0
Residential real estate	8,090	9,373	0
Home equity	4,487	5,974	0
Installment	384	551	0
Other	214	214	0
Total	39,554	46,534	0
Loans with an allowance recorded			
Commercial and industrial	1,301	1,301	777
Construction real estate	0	0	0
Commercial real estate	8,315	8,315	1,019
Residential real estate	1,195	1,195	179
Home equity	100	100	2
Installment	0	0	0
Other	0	0	0
Total	10,911	10,911	1,977
Total			
Commercial and industrial	14,799	15,749	777
Construction real estate	0	0	0
Commercial real estate	21,196	24,289	1,019
Residential real estate	9,285	10,568	179
Home equity	4,587	6,074	2
Installment	384	551	0
Other	214	214	0
Total	$50,465	$ 57,445	$ 1,977

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(Dollars in thousands)	As of December 31, 2015 Current balance	Contractual principal balance	Related allowance
Loans with no related allowance recorded			
Commercial and industrial	$16,418	$ 17,398	$ 0
Construction real estate	0	0	0
Commercial real estate	16,301	20,479	0
Residential real estate	7,447	8,807	0
Home equity	5,340	7,439	0
Installment	253	276	0
Other	122	122	0
Total	45,881	54,521	0
Loans with an allowance recorded			
Commercial and industrial	993	1,178	357
Construction real estate	0	0	0
Commercial real estate	8,351	8,706	979
Residential real estate	1,547	1,560	235
Home equity	101	101	2
Installment	0	0	0
Other	0	0	0
Total	10,992	11,545	1,573
Total			
Commercial and industrial	17,411	18,576	357
Construction real estate	0	0	0
Commercial real estate	24,652	29,185	979
Residential real estate	8,994	10,367	235
Home equity	5,441	7,540	2
Installment	253	276	0
Other	122	122	0
Total	$56,873	$ 66,066	$ 1,573

First Financial's average impaired loans by class and interest income recognized by class was as follows:

	Three months ended			
	September 30, 2016		September 30, 2015	
(Dollars in thousands)	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Commercial and industrial	$14,243	$ 91	$10,847	$ 53
Construction real estate	0	0	151	0
Commercial real estate	21,067	144	31,631	131
Residential real estate	9,186	59	9,119	53
Home equity	4,736	24	396	20
Installment	460	2	5,705	2
Other	691	1	0	0
Total	$50,383	$ 321	$57,849	$ 259

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	Nine months ended			
	September 30, 2016		September 30, 2015	
(Dollars in thousands)	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Commercial and industrial	$15,096	$ 258	$10,494	$ 169
Construction real estate	0	0	187	0
Commercial real estate	22,441	422	34,201	408
Residential real estate	9,007	171	10,051	163
Home equity	5,145	68	5,826	60
Installment	348	5	412	6
Other	406	10	0	0
Total	$52,443	$ 934	$61,171	$ 806

OREO. OREO consists of properties acquired by the Company primarily through the loan foreclosure or repossession process, or other resolution activity that results in partial or total satisfaction of problem loans.

Changes in OREO were as follows:

	Three months ended		Nine months ended	
	September 30,		September 30,	
(Dollars in thousands)	2016	2015	2016	2015
Balance at beginning of period	$9,302	$16,401	$12,525	$22,674
Additions				
Commercial and industrial	936	178	1,824	2,745
Residential real estate	303	1,405	594	3,210
Total additions	1,239	1,583	2,418	5,955
Disposals				
Commercial and industrial	(2,670)	(852)	(4,763)	(9,394)
Residential real estate	(66)	(1,708)	(2,145)	(2,844)
Total disposals	(2,736)	(2,560)	(6,908)	(12,238)
Valuation adjustment				
Commercial and industrial	(186)	(183)	(332)	(963)
Residential real estate	(42)	(54)	(126)	(241)
Total valuation adjustment	(228)	(237)	(458)	(1,204)
Balance at end of period	$7,577	$15,187	$7,577	$15,187

The preceding table includes OREO subject to loss sharing agreements of $0.1 million and $1.4 million at September 30, 2016 and 2015, respectively.

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FDIC indemnification asset. Changes in the balance of the FDIC indemnification asset and the related impact to the Consolidated Statements of Income are presented in the table that follows:

	Three months ended September 30,		Nine months ended September 30,		
(Dollars in thousands)	2016	2015	2016	2015	Affected Line Item in the Consolidated Statements of Income
Balance at beginning of period	$14,504	$20,338	$17,630	$22,666	
Adjustments not reflected in income					
Net FDIC claims (received) / paid	531	758	213	2,382	
Adjustments reflected in income					
Amortization	(1,110)	(1,192)	(3,412)	(3,562)	Interest income, other earning assets
FDIC loss sharing income	(638)	(973)	(1,144)	(2,323)	Noninterest income, FDIC loss sharing income
Offset to accelerated discount	0	0	0	(232)	Noninterest income, accelerated discount on covered loans
Balance at end of period	$13,287	$18,931	$13,287	$18,931	

The accounting for the FDIC indemnification asset is closely related to the accounting for the underlying, indemnified assets as well as the on-going assessment of the collectibility of the indemnification asset. The primary activities impacting the FDIC indemnification asset are FDIC claims, amortization, FDIC loss sharing income and accelerated discount. For a detailed discussion on the indemnification asset, please refer to the Loans and Leases note in the Company's 2015 Annual Report on Form 10-K.

NOTE 5: ALLOWANCE FOR LOAN AND LEASE LOSSES

Loans and leases. Management maintains the ALLL at a level that it considers sufficient to absorb probable incurred loan and lease losses inherent in the portfolio. Management determines the adequacy of the ALLL 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.

The ALLL is increased by provision expense and decreased by 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.

In the third quarter of 2015, First Financial closed its merger with Oak Street. Loans acquired in this transaction were recorded at estimated fair value at the acquisition date with no carryover of the related ALLL. See Note 15 – Business Combinations for further detail.

Covered/formerly covered loans. The majority of covered/formerly covered loans are purchased impaired loans, whereby First Financial is required to periodically re-estimate the expected cash flows on the loans. First Financial updated the valuations related to covered/formerly covered loans during the third quarter of 2016.

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Changes in the allowance for loan and lease losses were as follows:

	Three months ended		Nine months ended	
	September 30,		September 30,	
(Dollars in thousands)	2016	2015	2016	2015
Changes in the allowance for loan and lease losses on loans, excluding covered/formerly covered loans				
Balance at beginning of period	$46,931	$42,128	$43,149	$42,820
Provision for loan and lease losses	1,886	1,382	7,381	6,114
Loans charged-off	(1,131)	(2,385)	(4,547)	(9,200)
Recoveries	1,206	1,194	2,909	2,585
Balance at end of period	$48,892	$42,319	$48,892	$42,319
Changes in the allowance for loan and lease losses on covered/formerly covered loans				
Balance at beginning of period	$9,777	$10,748	$10,249	$10,038
Provision for loan and lease losses	(199)	1,265	(2)	1,663
Loans charged-off	(1,419)	(1,577)	(3,147)	(5,078)
Recoveries	567	577	1,626	4,390
Balance at end of period	$8,726	$11,013	$8,726	$11,013
Changes in the allowance for loan and lease losses				
Balance at beginning of period	$56,708	$52,876	$53,398	$52,858
Provision for loan and lease losses	1,687	2,647	7,379	7,777
Loans charged-off	(2,550)	(3,962)	(7,694)	(14,278)
Recoveries	1,773	1,771	4,535	6,975
Balance at end of period	$57,618	$53,332	$57,618	$53,332

Changes in the allowance for loan and lease losses by loan category were as follows:

	Three months ended September 30, 2016							
		Real Estate						
(Dollars in thousands)	Commercial and industrial	Construction	Commercial	Residential	Home Equity	Installment	Other	Total
Allowance for loan and lease losses:								
Balance at beginning of period	$20,897	$2,893	$ 22,784	$ 3,292	$3,002	$ 383	$3,457	$56,708
Provision for loan and lease losses	(720)	232	2,628	(13)	275	168	(883)	1,687
Gross charge-offs	(296)	(64)	(1,135)	(90)	(475)	(223)	(267)	(2,550)
Recoveries	327	6	997	38	257	56	92	1,773
Total net charge-offs	31	(58)	(138)	(52)	(218)	(167)	(175)	(777)
Ending allowance for loan and lease losses	$20,208	$3,067	$ 25,274	$ 3,227	$3,059	$ 384	$2,399	$57,618

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(Dollars in thousands)	Three months ended September 30, 2015 Commercial and industrial	Real Estate Construction	Commercial	Residential	Home Equity	Installment	Other	Total
Allowance for loan and lease losses:								
Balance at beginning of period	$16,775	$1,385	$ 24,357	$ 3,214	$4,386	$ 387	$2,372	$52,876
Provision for loan and lease losses	1,303	153	(339)	1,224	(724)	864	166	2,647
Loans charged off	(1,808)	(85)	(1,082)	(288)	(268)	(155)	(276)	(3,962)
Recoveries	374	87	691	237	236	94	52	1,771
Total net charge-offs	(1,434)	2	(391)	(51)	(32)	(61)	(224)	(2,191)
Ending allowance for loan and lease losses	$16,644	$1,540	$ 23,627	$ 4,387	$3,630	$ 1,190	$2,314	$53,332

(Dollars in thousands)	Nine months ended September 30, 2016 Commercial and industrial	Real Estate Construction	Commercial	Residential	Home Equity	Installment	Other	Total
Allowance for loan and lease losses:								
Balance at beginning of period	$16,995	$1,810	$23,656	$4,014	$3,943	$386	$2,594	$53,398
Provision for loan and lease losses	3,284	1,118	3,491	(806)	(247)	107	432	7,379
Loans charged off	(1,040)	(95)	(3,993)	(163)	(1,213)	(326)	(864)	(7,694)
Recoveries	969	234	2,120	182	576	217	237	4,535
Total net charge-offs	(71)	139	(1,873)	19	(637)	(109)	(627)	(3,159)
Ending allowance for loan and lease losses	$20,208	$3,067	$25,274	$3,227	$3,059	$384	$2,399	$57,618

	September 30, 2016 Commercial and industrial	Real Estate Construction	Commercial	Residential	Home Equity	Installment	Other	Total
Ending allowance balance attributable to loans								
Individually evaluated for impairment	$777	$0	$1,019	$179	$2	$0	$0	$1,977

Collectively evaluated for impairment	19,431	3,067	24,255	3,048	3,057	384	2,399	55,641
Ending allowance for loan and lease losses	$20,208	$3,067	$25,274	$3,227	$3,059	$384	$2,399	$57,618
Loans								
Loans individually evaluated for impairment	$14,799	$0	$21,196	$9,285	$4,587	$384	$214	$50,465
Loans collectively evaluated for impairment	1,767,983	380,349	2,446,887	498,430	459,115	47,441	138,841	5,739,046
Total loans	$1,782,782	$380,349	$2,468,083	$507,715	$463,702	$47,825	$139,055	$5,789,511

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(Dollars in thousands)	Nine months ended September 30, 2015							
		Real Estate						
	Commercial and industrial	Construction	Commercial	Residential	Home Equity	Installment	Other	Total
Allowance for loan and lease losses:								
Balance at beginning of period	$13,870	$1,045	$27,086	$3,753	$4,260	$407	$2,437	$52,858
Provision for loan and lease losses	4,522	431	(78)	1,739	(269)	916	516	7,777
Loans charged off	(4,631)	(85)	(5,668)	(1,449)	(1,258)	(380)	(807)	(14,278)
Recoveries	2,883	149	2,287	344	897	247	168	6,975
Total net charge-offs	(1,748)	64	(3,381)	(1,105)	(361)	(133)	(639)	(7,303)
Ending allowance for loan and lease losses	$16,644	$1,540	$23,627	$4,387	$3,630	$1,190	$2,314	$53,332

(Dollars in thousands)	December 31, 2015							
		Real Estate						
	Commercial and industrial	Construction	Commercial	Residential	Home Equity	Installment	Other	Total
Ending allowance balance attributable to loans								
Individually evaluated for impairment	$357	$0	$979	$235	$2	$0	$0	$1,573
Collectively evaluated for impairment	16,638	1,810	22,677	3,779	3,941	386	2,594	51,825
Ending allowance for loan and lease losses	$16,995	$1,810	$23,656	$4,014	$3,943	$386	$2,594	$53,398
Loans								
Loans individually evaluated for impairment	$17,411	$0	$24,652	$8,994	$5,441	$253	$122	$56,873
Loans collectively evaluated for impairment	1,645,691	311,712	2,233,645	503,317	461,188	41,253	135,081	5,331,887
Total loans	$1,663,102	$311,712	$2,258,297	$512,311	$466,629	$41,506	$135,203	$5,388,760

NOTE 6: GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill. Assets and liabilities acquired in a business combination are recorded at their estimated fair values as of the acquisition date. The excess cost of the acquisition over the fair value of net assets acquired is recorded as goodwill. First Financial recorded no additions to goodwill in the first nine months of 2016. Additions to goodwill in 2015 resulted from the acquisition of Oak Street in the third quarter. For further detail on the Oak Street acquisition, see Note 15 – Business Combinations.

Changes in the carrying amount of goodwill for the quarter ended September 30, 2016 and the year ended December 31, 2015 were as follows:

(Dollars in thousands)	September 30, 2016	December 31, 2015
Balance at beginning of year	$ 204,084	$ 137,739
Goodwill resulting from business combinations	0	66,345
Balance at end of period	$ 204,084	$ 204,084

Goodwill is not amortized, but is evaluated 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, 2015 and no impairment was indicated. As of September 30, 2016, no events or changes in circumstances indicated that the fair value of a reporting unit was below its carrying value.

Other intangible assets. As of September 30, 2016 and December 31, 2015, First Financial has $6.8 million and $7.8 million, respectively, of other intangible assets which are included in Goodwill and other intangibles in the Consolidated Balance Sheets and primarily consist of core deposit intangibles. Core deposit intangibles represent the estimated fair value of acquired customer deposit relationships. Core deposit intangibles are recorded at estimated fair value at the date of acquisition and are then amortized on an accelerated basis over their estimated useful lives. Core deposit intangibles were $4.8 million and $5.9 million as of September 30, 2016 and December 31, 2015, respectively. First Financial's core deposit intangibles have an estimated weighted average remaining life of 5.0 years. Amortization expense recognized on intangible assets was $0.4 million for each of the three months ended September 30, 2016 and 2015. Amortization expense recognized on intangible assets for the nine months ended September 30, 2016 and 2015 was $1.2 million and $1.3 million, respectively.

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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, overnight advances from the FHLB and a short-term line of credit. All repurchase agreements are subject to terms and conditions of repurchase security agreements between the Bank and the client. To secure it's liability to the client, the Bank is authorized to sell or repurchase U.S. Treasury, government agency and mortgage-backed securities.

First Financial had $848.3 million in short-term borrowings with the FHLB at September 30, 2016 and $849.1 million as of December 31, 2015. These short-term borrowings are used to manage normal liquidity needs and support the Company's asset and liability management strategies.

First Financial has a $15.0 million short-term credit facility with an unaffiliated bank that matures on May 29, 2017. This facility can have a variable or fixed interest rate and provides First Financial additional liquidity, if needed, for various corporate activities, including the repurchase of First Financial common stock and the payment of dividends to shareholders. As of September 30, 2016 and December 31, 2015, there was no outstanding balance. The credit agreement requires First Financial to comply with certain covenants including those related to asset quality and capital levels, and First Financial was in compliance with all covenants associated with this facility as of September 30, 2016 and December 31, 2015.

During the third quarter of 2015, First Financial issued $120.0 million of subordinated notes. The subordinated notes have a fixed interest rate of 5.125% payable semiannually and mature on August 25, 2025. These notes are not redeemable by the Company, or callable by the holders of the notes, prior to maturity. The subordinated notes are treated as Tier 2 capital for regulatory capital purposes and are included in Long-term debt on the Consolidated Balance Sheets.

Long-term debt also includes $0.4 million and $0.5 million of FHLB long-term advances as of September 30, 2016 and December 31, 2015, respectively. These instruments are primarily utilized to reduce overnight liquidity risk and to mitigate interest rate sensitivity on the Consolidated Balance Sheets.

The following is a summary of First Financial's long-term debt:

	September 30, 2016			December 31, 2015		
(Dollars in thousands)	Amount	Average rate		Amount	Average rate	
Subordinated debt	$118,419	5.19	%	$118,312	5.20	%
FHLB advances	355	1.41	%	453	2.37	%
Capital loan with municipality	775	0.00	%	775	0.00	%
Total long-term debt	$119,549	5.15	%	$119,540	5.15	%

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NOTE 8: ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

	Three months ended September 30, 2016							
	Total other comprehensive income					Total accumulated other comprehensive income		
(Dollars in thousands)	Prior to Reclassification	Reclassification from	Pre-tax	Tax-effect	Net of tax	Beginning Balance	Net Activity	Ending Balance
Unrealized gain (loss) on investment securities	$99	$ 398	$(299)	$ 137	$ (162)	$7,302	$ (162)	$7,140
Unrealized gain (loss) on derivatives	202	0	202	(74)	128	(1,343)	128	(1,215)
Retirement obligation	0	(317)	317	(117)	200	(23,647)	200	(23,447)
Foreign currency translation	0	0	0	0	0	0	0	0
Total	$301	$ 81	$220	$ (54)	$ 166	$(17,688)	$ 166	$(17,522)

	Three months ended September 30, 2015							
	Total other comprehensive income					Total accumulated other comprehensive income		
(Dollars in thousands)	Prior to Reclassification	Reclassification from	Pre-tax	Tax-effect	Net of tax	Beginning Balance	Net Activity	Ending Balance
Unrealized gain (loss) on investment securities	$5,213	$ 409	$4,804	$(1,747)	$ 3,057	$(1,276)	$ 3,057	$1,781
Unrealized gain (loss) on derivatives	203	0	203	(75)	128	(1,848)	128	(1,720)
Retirement obligation	0	(350)	350	(130)	220	(17,500)	220	(17,280)
Foreign currency translation	91	0	91	0	91	(91)	91	0
Total	$5,507	$ 59	$5,448	$(1,952)	$ 3,496	$(20,715)	$ 3,496	$(17,219)

	Nine months ended September 30, 2016							
	Total other comprehensive income					Total accumulated other comprehensive income (loss)		
(Dollars in thousands)	Prior to Reclassification	Reclassification from	Pre-tax	Tax-effect	Net of tax	Beginning Balance	Net Activity	Ending Balance
Unrealized gain (loss) on investment securities	$18,951	$ 234	$18,717	$(6,644)	$ 12,073	$(4,933)	$ 12,073	$7,140
Unrealized gain (loss) on derivatives	607	0	607	(223)	384	(1,599)	384	(1,215)
Retirement obligation	0	(951)	951	(350)	601	(24,048)	601	(23,447)
Total	$19,558	$ (717)	$20,275	$(7,217)	$ 13,058	$(30,580)	$ 13,058	$(17,522)

	Nine months ended September 30, 2015							
	Total other comprehensive income					Total accumulated other comprehensive income (loss)		
(Dollars in thousands)	Prior to Reclassification	Reclassification from	Pre-tax	Tax-effect	Net of tax	Beginning Balance	Net Activity	Ending Balance
Unrealized gain (loss) on investment securities	$8,219	$ 1,503	$6,716	$(2,429)	$ 4,287	$(2,506)	$ 4,287	$1,781

Unrealized gain (loss) on derivatives	(1,222)	0	(1,222)	451	(771)	(949)	(771)	(1,720)
Retirement obligation	0	(1,050)	1,050	(426)	624	(17,904)	624	(17,280)
Foreign currency translation	50	0	50	0	50	(50)	50	0
Total	$7,047	$ 453	$6,594	$(2,404)	$4,190	$(21,409)	$4,190	$(17,219)

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The following table presents the activity reclassified from accumulated other comprehensive income into income during the three and nine month periods ended September 30, 2016 and 2015, respectively:

	Amount reclassified from accumulated other comprehensive income [1]				
	Three months ended September 30,		Nine months ended September 30,		
(Dollars in thousands)	2016	2015	2016	2015	Affected Line Item in the Consolidated Statements of Income
Realized gains and losses on securities available-for-sale	$398	$409	$234	$1,503	Gains on sales of investments securities
Defined benefit pension plan					
Amortization of prior service cost [2]	103	100	310	300	Salaries and employee benefits
Recognized net actuarial loss [2]	(420)	(450)	(1,261)	(1,350)	Salaries and employee benefits
Defined benefit pension plan total	(317)	(350)	(951)	(1,050)	
Total reclassifications for the period, before tax	$81	$59	$(717)	$453	

[1] Negative amounts are reductions to net income.
[2] Included in the computation of net periodic pension cost (see Note 12 - Employee Benefit Plans for additional details).

NOTE 9: DERIVATIVES

First Financial uses certain 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.

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.

Interest rate swap agreements establish the basis on which interest rate payments are exchanged with counterparties, referred to as the notional amount. 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 this market value credit risk through counterparty credit policies, which 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 below all single counterparty and portfolio limits.

At September 30, 2016, the Company had a total counterparty notional amount outstanding of $697.4 million, spread among ten counterparties, with an outstanding liability from these contracts of $26.9 million. At December 31, 2015, the Company had a total counterparty notional amount outstanding of $551.7 million, spread among nine counterparties, with an outstanding liability from these contracts of $13.4 million.

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

Client Derivatives. First Financial utilizes interest rate swaps as a means to offer commercial borrowers fixed rate funding while providing the Company with floating rate assets. The following table details the classification and amounts recognized in the Consolidated Balance Sheets for client derivatives:

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(Dollars in thousands)	Balance sheet classification	September 30, 2016 Notional amount	Estimated fair value Gain	Loss	December 31, 2015 Notional amount	Estimated fair value Gain	Loss
Client derivatives - instruments associated with loans							
Pay fixed interest rate swaps with counterparty	Accrued interest and other liabilities	$812	$0	$(42)	$5,216	$0	$(120)
Matched interest rate swaps with borrower	Accrued interest and other assets	696,557	28,522	0	546,458	13,981	(44)
Matched interest rate swaps with counterparty	Accrued interest and other liabilities	696,557	0	(28,615)	546,458	44	(14,015)
Total		$1,393,926	$28,522	$(28,657)	$1,098,132	$14,025	$(14,179)

In connection with its use of derivative instruments, First Financial and its counterparties are required to post cash collateral to offset the market position of the derivative instruments under certain conditions. 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, 2016 Gross amounts of recognized liabilities	Gross amounts offset in the Consolidated Balance Sheets	Net amounts of assets presented in the Consolidated Balance Sheets	December 31, 2015 Gross amounts of recognized liabilities	Gross amounts offset in the Consolidated Balance Sheets	Net amounts of assets presented in the Consolidated Balance Sheets
Client derivatives						
Pay fixed interest rate swaps with counterparty	$42	$ 0	$ 42	$120	$ 0	$ 120
Matched interest rate swaps with counterparty	28,615	(29,990)	(1,375)	14,015	(16,710)	(2,695)
Total	$28,657	$ (29,990)	$ (1,333)	$14,135	$ (16,710)	$ (2,575)

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, 2016:

(Dollars in thousands)	Notional amount	Average maturity (years)	Fair value	Weighted-average rate Receive	Pay
Client derivatives					
Pay fixed interest rate swaps with counterparty	$812	1.9	$(42)	2.99 %	6.84 %
Receive fixed, matched interest rate swaps with borrower	696,557	5.7	28,522	4.14 %	2.68 %
Pay fixed, matched interest rate swaps with counterparty	696,557	5.7	(28,615)	2.68 %	4.14 %

Total client derivatives	$1,393,926	5.7	$(135)	3.41 %	3.42 %

Credit Derivatives. In conjunction with participating interests in commercial loans, First Financial periodically enters into risk participation agreements with counterparties whereby First Financial assumes a portion of the credit exposure associated with an interest rate swap on the participated loan in exchange for a fee. Under these agreements, First Financial will make payments to the counterparty if the loan customer defaults on its obligation to perform under the interest rate swap contract with the counterparty. The total notional value of these agreements totaled $65.3 million as of September 30, 2016 and $33.6 million as of December 31, 2015. The fair value of these agreements was recorded on the Consolidated Balance Sheets in Accrued interest and other liabilities and was $0.1 million as of September 30, 2016 and December 31, 2015, respectively.

Mortgage Derivatives. First Financial enters into IRLCs and forward commitments for the future delivery of mortgage loans to third party investors, which are considered derivatives. When borrowers secure an IRLC with First Financial and the loan is intended to be sold, First Financial will enter into forward commitments for the future delivery of the loans to third party investors in order to hedge against the effect of changes in interest rates impacting IRLCs and loans held for sale. At September 30, 2016, the notional amount of the IRLCs was $32.6 million and the notional amount of forward commitments

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was $34.0 million. As of December 31, 2015, the notional amount of IRLCs was $18.5 million and the notional amount of forward commitments was $25.1 million. The fair value of these agreements was recorded on the Consolidated Balance Sheets in Accrued interest and other assets and was $0.3 million at September 30, 2016 and $0.1 million at December 31, 2015.

NOTE 10: COMMITMENTS AND CONTINGENCIES

First Financial offers a variety of financial instruments with off-balance-sheet risk to assist clients in meeting their requirement 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 utilizes the same credit policies in issuing commitments and conditional obligations as it does for credit instruments recorded on the Consolidated Balance Sheets. First Financial's exposure to credit loss, in the event of nonperformance by the counterparty 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 utilizes the ALLL methodology to maintain a reserve that it considers sufficient to absorb probable incurred 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.

Loan commitments. Loan commitments are agreements to extend credit to a client, absent any violation of conditions 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 $2.0 billion at September 30, 2016 and December 31, 2015.

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 $18.0 million and $16.3 million at September 30, 2016 and December 31, 2015, respectively. Management conducts regular reviews of these instruments on an individual client basis.

Investments in affordable housing tax credits. First Financial has made investments in certain qualified affordable housing tax credits. These credits are an indirect federal subsidy that provide tax incentives to encourage investment in the development, acquisition and rehabilitation of affordable rental housing, and allow investors to claim tax credits and other tax benefits (such as deductions from taxable income for operating losses) on their federal income tax returns. The principal risk associated with qualified affordable housing investments is the potential for noncompliance with the tax code requirements, such as, failure to rent property to qualified tenants, resulting in unavailability or recapture of the tax credits and other tax benefits. First Financial's affordable housing commitments totaled $37.3 million and $31.5 million as of September 30, 2016 and December 31, 2015, respectively. The affordable housing investments resulted in $0.6 million and $0.4 million of tax credits for the three months ended September 30, 2016 and 2015, and $2.0 million and $1.1 million for the nine months ended September 30, 2016 and 2015, respectively. First Financial had no affordable housing contingent commitments as of September 30, 2016 or December 31, 2015.

Investments in historic tax credits. First Financial has noncontrolling financial investments in private investment funds and partnerships which are not consolidated. These investments may generate a return through the realization of federal and state income tax credits, as well as other tax benefits, such as tax deductions from net operating losses of the investments over a period of time. The Company's recorded investment in these entities, carried in other assets on the Consolidated Balance Sheets, was approximately $1.7 million at September 30, 2016, compared with $1.1 million at December 31, 2015. The maximum exposure to loss related to these investments was $13.8 million at September 30, 2016 and $1.1 million at December 31, 2015, representing the Company's investment balance and its unfunded commitments to invest additional amounts.

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 are 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, 2016. 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. First Financial had no reserves related to litigation matters as of September 30, 2016. As of December 31, 2015, the Company had $1.3 million of reserves related to litigation matters.

NOTE 11: INCOME TAXES

For the third quarter 2016, income tax expense was $10.1 million, resulting in an effective tax rate of 30.7%, compared with income tax expense of $9.2 million and an effective tax rate of 33.0% for the comparable period in 2015. The decrease in effective tax rate when comparing third quarter 2016 to third quarter 2015 was primarily driven by favorable provision to return adjustments related to affordable housing and qualified rehabilitation investments and a decrease in non-deductible acquisition costs, which was partially offset by a decline in tax-exempt interest income. For the first nine months of 2016, income tax expense was $31.3 million, resulting in an effective tax rate of 32.4% compared with income tax expense of $26.9 million and an effective tax rate of 32.8% for the comparable period in 2015.

At September 30, 2016, and December 31, 2015, First Financial had no FASB ASC Topic 740-10 unrecognized tax benefits recorded. First Financial does not expect the total amount of unrecognized tax benefits to significantly increase within the next twelve months.

First Financial regularly reviews its tax positions and establishes reserves for income tax-related uncertainties based on estimates of whether it is more likely than not that the tax uncertainty would be sustained upon challenge by the appropriate tax authorities, which would then result in additional taxes, penalties and interest due. Management determined that no reserve for income tax-related uncertainties was necessary as of September 30, 2016 and December 31, 2015.

First Financial and its subsidiaries are subject to U.S. federal income tax as well as state and local income tax in several jurisdictions. Tax years prior to 2013 have been closed and are no longer subject to U.S. federal income tax examinations. Tax years 2013 through 2015 remain open to examination by the federal taxing authority.

First Financial is no longer subject to state and local income tax examinations for years prior to 2011. Tax years 2011 through 2015 remain open to state and local examination in various jurisdictions.

NOTE 12: EMPLOYEE BENEFIT PLANS

First Financial sponsors a non-contributory defined benefit pension plan covering substantially all employees and uses a December 31 measurement date for the plan. Plan assets were primarily invested in fixed income and publicly traded equity mutual funds. The pension plan does not directly own any shares of First Financial common stock or any other First Financial security or product.

First Financial made no cash contributions to fund the pension plan during the nine months ended September 30, 2016, or the year ended December 31, 2015, and does not expect to make cash contributions to the plan through the remainder of the year. As a result of the plan's actuarial projections, First Financial recorded income of $0.2 million and $0.3 million for the quarters ended September 30, 2016 and 2015, respectively. First Financial recorded income of $0.7 million and $0.9 million for the nine months ended September 30, 2016 and 2015, respectively.

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The following table sets forth information concerning amounts recognized in First Financial's Consolidated Statements of Income related to the Company's pension plan:

	Three months ended September 30,		Nine months ended September 30,	
(Dollars in thousands)	2016	2015	2016	2015
Service cost	$1,308	$1,175	$3,925	$3,525
Interest cost	581	550	1,743	1,650
Expected return on assets	(2,431)	(2,375)	(7,294)	(7,125)
Amortization of prior service cost	(103)	(100)	(310)	(300)
Net actuarial loss	420	450	1,261	1,350
Net periodic benefit (income) cost	$(225)	$(300)	$(675)	$(900)

NOTE 13: EARNINGS PER COMMON SHARE

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

	Three months ended September 30,		Nine months ended September 30,	
(Dollars in thousands, except per share data)	2016	2015	2016	2015
Numerator				
Net income available to common shareholders	$22,850	$ 18,673	$65,232	$ 55,243
Denominator				
Basic earnings per common share - weighted average shares	61,280,283	61,135,749	61,170,845	61,088,794
Effect of dilutive securities				
Employee stock awards	740,977	715,585	736,659	643,536
Warrants	64,807	136,461	55,457	126,394
Diluted earnings per common share - adjusted weighted average shares	62,086,067	61,987,795	61,962,961	61,858,724
Earnings per share available to common shareholders				
Basic	$0.37	$ 0.31	$1.07	$ 0.90
Diluted	$0.37	$ 0.30	$1.05	$ 0.89

Warrants to purchase 141,913 and 369,377 shares of the Company's common stock were outstanding as of September 30, 2016 and 2015, respectively. These warrants, each representing the right to purchase one share of common stock, no par value per share, have an exercise price of $12.12 and expire on December 23, 2018.

Stock options and warrants with exercise prices greater than the average market price of the common shares, were not included in the computation of net income per diluted share, as they would have been antidilutive. Using the end of period price, there were no antidilutive options at September 30, 2016 and September 30, 2015.

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NOTE 14: FAIR VALUE DISCLOSURES

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

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

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

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

First Financial utilizes values provided by third-party pricing vendors to price the investment securities portfolio in accordance with the fair value hierarchy of the Fair Value Topic and reviews the pricing methodologies utilized by the pricing vendors to ensure that the fair value determination is consistent with the applicable accounting guidance. First Financial's pricing process includes a series of quality assurance activities where prices are compared to recent market conditions, historical prices and other independent pricing services. Further, the Company periodically validates the fair values of a sample of securities in the portfolio by comparing the fair values to prices from other independent sources for the same or similar securities. First Financial analyzes unusual or significant variances, conducts additional research with the pricing vendor, and if necessary, takes appropriate action based on its findings. The results of the quality assurance process are incorporated into the selection of pricing providers by the portfolio manager.

Other investments. Other investments include holdings in FRB and FHLB stock, which are carried at cost due to the inability to determine the fair value as a result of restrictions placed on transferability.

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

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

Impaired loans are specifically reviewed for purposes of determining the appropriate amount of impairment to be allocated to the ALLL. Fair value is generally measured based on the value of the collateral securing the loans. Collateral may be in the form of real estate or business assets including equipment, inventory and accounts receivable. The value of real estate collateral is determined utilizing an income or market valuation approach based on an appraisal conducted by an independent, licensed third-party appraiser (Level 3). The value of business equipment is based upon an outside appraisal, if deemed significant, or the net book value on the applicable borrower financial statements. Likewise, values for inventory and accounts receivable collateral are based on borrower financial statement balances or aging reports on a discounted basis as appropriate (Level 3). Impaired loans are measured at fair value on a nonrecurring basis. Any fair value adjustments are recorded in the period incurred as provision for loan and lease losses on the Consolidated Statements of Income.

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

Fair values for acquired loans accounted for outside of FASB ASC Topic 310-30 are estimated by discounting the future cash flows using current interest rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities or repricing frequency.

OREO. Assets acquired through loan foreclosure are initially recorded at the lower of cost or fair value less costs to sell. The carrying value of OREO is not re-measured to fair value on a recurring basis, but is subject to fair value adjustments when the carrying value exceeds the fair value, less estimated selling costs. Fair value is based on recent real estate appraisals and is updated at least annually. The Company classifies OREO in level 3 of the fair value hierarchy.

FDIC indemnification asset. Fair value of the FDIC indemnification asset is estimated using projected cash flows related to the loss sharing agreements based on expected reimbursements for losses and the applicable loss sharing percentages. The expected cash flows are discounted to reflect the uncertainty of the timing and receipt of the loss sharing reimbursement from the FDIC. The five year period of loss protection expired for the majority of First Financial's covered commercial loans and covered OREO effective October 1, 2014. The Company classifies the estimated fair value of the indemnification asset as Level 3 in the fair value hierarchy.

Accrued interest receivable and payable. The carrying amount of accrued interest receivable and accrued interest payable approximate their fair values and is aligned with the underlying assets or liabilities (Level 1, Level 2 or Level 3).

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

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

The fair value of long-term debt is estimated using a discounted cash flow calculation which utilizes the interest rates currently offered for borrowings of similar remaining maturities. The Company classifies the estimated fair value of long-term debt as Level 2 in the fair value hierarchy.

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

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

	Carrying	Estimated fair value			
(Dollars in thousands)	value	Total	Level 1	Level 2	Level 3
September 30, 2016					
Financial assets					
Cash and short-term investments	$134,747	$134,747	$134,747	$0	$ 0
Investment securities held-to-maturity	628,497	645,751	0	645,751	0
Other investments	51,170	N/A	N/A	N/A	N/A
Loans held for sale	17,414	17,414	0	17,414	0
Loans and leases, net of ALLL	5,731,893	5,787,327	0	0	5,787,327
FDIC indemnification asset	13,287	7,455	0	0	7,455
Accrued interest receivable	18,071	18,071	0	5,423	12,648
Financial liabilities					
Deposits					
Noninterest-bearing	$1,492,011	$1,492,011	$0	$1,492,011	$ 0
Interest-bearing demand	1,494,529	1,494,529	0	1,494,529	0
Savings	2,005,407	2,005,407	0	2,005,407	0
Time	1,346,736	1,349,546	0	1,349,546	0
Total deposits	6,338,683	6,341,493	0	6,341,493	0
Short-term borrowings	926,236	926,236	926,236	0	0
Long-term debt	119,549	124,890	0	124,890	0
Accrued interest payable	3,523	3,523	640	2,883	0

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(Dollars in thousands)	Carrying value	Estimated fair value Total	Level 1	Level 2	Level 3
December 31, 2015					
Financial assets					
Cash and short-term investments	$148,575	$148,575	$148,575	$0	$ 0
Investment securities held-to-maturity	726,259	731,951	0	731,951	0
Other investments	53,725	N/A	N/A	N/A	N/A
Loans held for sale	20,957	20,957	0	20,957	0
Loans and leases, net of ALLL	5,335,362	5,381,065	0	0	5,381,065
FDIC indemnification asset	17,630	9,756	0	0	9,756
Accrued interest receivable	16,995	16,995	0	5,791	11,204
Financial liabilities					
Deposits					
Noninterest-bearing	$1,413,404	$1,413,404	$0	$1,413,404	$ 0
Interest-bearing demand	1,414,291	1,414,291	0	1,414,291	0
Savings	1,945,805	1,945,805	0	1,945,805	0
Time	1,406,124	1,406,489	0	1,406,489	0
Total deposits	6,179,624	6,179,989	0	6,179,989	0
Short-term borrowings	938,425	938,425	938,425	0	0
Long-term debt	119,540	118,691	0	118,691	0
Accrued interest payable	5,003	5,003	113	4,890	0

The financial assets and liabilities measured at fair value on a recurring basis in the consolidated financial statements were as follows:

(Dollars in thousands)	Fair value measurements using Level 1	Level 2	Level 3	Assets/liabilities at fair value
September 30, 2016				
Assets				
Derivatives	$ 0	$ 28,835	$ 0	$ 28,835
Investment securities available-for-sale	8,905	1,111,589	0	1,120,494
Total	$ 8,905	$ 1,140,424	$ 0	$ 1,149,329
Liabilities				
Derivatives	$ 0	$ 28,756	$ 0	$ 28,756

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(Dollars in thousands)	Fair value measurements using Level 1	Level 2	Level 3	Assets/liabilities at fair value
December 31, 2015				
Assets				
Derivatives	$ 0	$ 14,111	$ 0	$ 14,111
Investment securities available-for-sale	8,583	1,182,059	0	1,190,642
Total	$ 8,583	$ 1,196,170	$ 0	$ 1,204,753
Liabilities				
Derivatives	$ 0	$ 14,243	$ 0	$ 14,243

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

(Dollars in thousands)	Fair value measurements using Level 1	Level 2	Level 3
September 30, 2016			
Assets			
Loans held for sale	$ 0	$ 17,414	$ 0
Impaired loans	0	0	7,820
OREO	0	0	5,149

(Dollars in thousands)	Fair value measurements using Level 1	Level 2	Level 3
December 31, 2015			
Assets			
Loans held for sale	$ 0	$ 20,957	$ 0
Impaired loans	0	0	8,008
OREO	0	0	7,598

NOTE 15: BUSINESS COMBINATIONS

Oak Street is a nationwide lender based in Indianapolis, Indiana that provides loans, secured by commissions and cash collateral accounts, primarily to insurance agents and brokers to grow their agency business and maximize their book-of-business value. Oak Street's lending activities are driven by agency acquisitions, agency ownership transitions, the purchase by agencies of books of business, as well as financing general working capital needs. The underwriting of these loans involves analyses of collateral (through use of Oak Street's proprietary software system) that consists of insurance commissions revenue, which is then monitored throughout the life of the loans. On August 14, 2015, First Financial acquired Oak Street for cash consideration and concurrent with the close of the transaction, First Financial paid off all of Oak Street's existing long-term debt, replacing higher-cost funding with the Company's lower-cost funding sources.

The Oak Street transaction was accounted for using the acquisition method of accounting and accordingly, assets acquired, liabilities assumed and consideration exchanged were recorded at estimated fair value on the acquisition date, in accordance with FASB ASC Topic 805, Business Combinations. The fair value measurements of assets acquired and liabilities assumed are subject to refinement for up to one year after the closing date of the acquisition as additional information relative to closing date fair values become available. No additional information became available during the third quarter of 2016 that required adjustment to the fair value of the assets or liabilities acquired from Oak Street.

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The following table provides the purchase price calculation as of the acquisition date and the identifiable assets purchased and the liabilities assumed at their estimated fair value:

(Dollars in thousands)	Oak Street
Purchase consideration	
Cash consideration	$110,000
Payoff of long-term borrowings	197,839
Total purchase consideration	307,839
Assets acquired	
Cash	2,248
Loans	237,377
Intangible assets	813
Other assets	2,633
Total assets	243,071
Liabilities assumed	
Other liabilities	1,577
Total liabilities	1,577
Net identifiable assets	241,494
Goodwill	$66,345

The goodwill arising from the Oak Street acquisition reflects the business's high growth potential and scalable platform. The acquisition leverages First Financial's excess capital and is expected to provide additional revenue growth and diversification. The goodwill is not deductible for income tax purposes as the merger was accounted for as a tax-free exchange. The tax-free exchange resulted in a carryover of tax attributes and tax basis to the Company's subsequent income tax filings and was adjusted for any fair value adjustments required in accounting for the acquisitions. For further detail, see Note 6 – Goodwill and Other Intangible Assets.

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

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

SUMMARY

First Financial is an $8.4 billion bank holding company headquartered in Cincinnati, Ohio, and through its subsidiaries, operates primarily in Ohio, Indiana and Kentucky. These subsidiaries include a commercial bank, First Financial Bank, with 101 banking centers and 123 ATMs. First Financial provides banking and financial services products through its four lines of business: commercial and private banking, retail banking, investment commercial real estate and commercial finance. These business units provide traditional banking services to business and retail clients. Commercial finance provides equipment and leasehold improvement financing for franchisees in the quick service and casual dining restaurant sector and commission-based financing, primarily to insurance agents and brokers, throughout the United States. Commercial and private banking includes wealth management, which provides wealth planning, portfolio management, trust and estate, brokerage and retirement plan services and had $2.4 billion in assets under management as of September 30, 2016.

First Financial acquired the banking operations of Peoples Community Bank, Irwin Union Bank and Trust Company and Irwin Union Bank, F.S.B., through FDIC-assisted transactions in 2009. In connection with these FDIC-assisted transactions, First Financial entered into loss sharing agreements with the FDIC. Under the terms of these agreements the FDIC reimburses First Financial for a percentage of losses with respect to certain loans (covered loans) and other real estate owned (covered OREO) (collectively, covered assets). These agreements provide for loss protection on covered single-family, residential loans for a period of ten years and First Financial is required to share any recoveries of previously charged-off amounts for the same time period, on the same pro-rata basis with the FDIC. All other covered loans were provided loss protection for a period of five years and recoveries of previously charged-off amounts must be shared with the FDIC for an additional three year period, on the same pro-rata basis. The Company’s five year loss sharing indemnification period related to non-single-family loans expired effective October 1, 2014. The loss sharing protection related to all other covered loans of approximately $99.7 million will expire October 1, 2019. Covered assets represented approximately 1.2% of First Financial’s total assets at September 30, 2016.

MARKET STRATEGY AND BUSINESS COMBINATIONS

Oak Street. On August 14, 2015 First Financial Bank completed its acquisition of Oak Street Holdings Corporation, the parent of Oak Street Funding. Formed in 2003, Oak Street Funding is a nationwide lender based in Indianapolis, Indiana that provides loans, secured by commissions and cash collateral accounts, primarily to insurance agents and brokers to grow their agency business and maximize their book-of-business value. Oak Street's lending activities are driven by agency acquisitions, agency ownership transitions, the purchase by agencies of books of business and financing general working capital needs. The underwriting of these loans involves analysis of collateral (through Oak Street's proprietary technology platform) that consists of insurance commissions revenue, which is then monitored by Oak Street throughout the life of the loans.

Oak Street utilizes deep industry knowledge, a proprietary technology platform and partner relationships to offer commission-based commercial financing for insurance professionals and third-party loan servicing for financial institutions nationwide. Oak Street's well-developed business model provides a strong strategic complement to First Financial's existing nationwide franchise finance business as well as an opportunity to expand and diversify the

Company's service offerings.

First Financial acquired Oak Street for $110.0 million cash consideration and concurrent with the close of the transaction, First Financial paid off all of Oak Street's existing long-term debt, replacing $197.8 million of higher-cost funding with the Company's lower-cost funding sources. First Financial acquired $243.1 million of total assets, including $237.4 million of loans, and the transaction resulted in a $66.3 million addition to goodwill. For further detail on the Oak Street acquisition, see Note 15 – Business Combinations in the Notes to the Consolidated Financial Statements.

OVERVIEW OF OPERATIONS

Third quarter 2016 net income was $22.9 million and earnings per diluted common share were $0.37. This compares with third quarter 2015 net income of $18.7 million and earnings per diluted common share of $0.30. For the nine months ended

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September 30, 2016, net income was $65.2 million, and earnings per diluted common share were $1.05. This compares with net income of $55.2 million and earnings per diluted common share of $0.89 for the first nine months of 2015.

Return on average assets for the third quarter 2016 was 1.09% compared to 0.97% for the comparable period in 2015 and return on average shareholders’ equity for the third quarter 2016 was 10.62% compared to 9.12% for the comparable period in 2015. Return on average assets for the nine months ended September 30, 2016 was 1.06% compared to 1.00% for the same period in 2015, and return on average shareholders' equity was 10.39% and 9.23% for the first nine months of 2016 and 2015, respectively.

A discussion of First Financial's results of operations for the three and nine months ended September 30, 2016 follows.

NET INTEREST INCOME

Net interest income, First Financial’s principal source of income, is the excess of interest received from earning assets, including loan-related fees, over interest paid on interest-bearing liabilities. The amount of net interest income is determined by the volume and mix of earning assets, the rates earned on such earning assets and the volume, mix and rates paid for the deposits and borrowed money that support the earning assets.

For analytical purposes, net interest income is also presented in the table that follows, adjusted to a tax equivalent basis assuming a 35.00% marginal tax rate for interest earned on tax-exempt assets such as municipal loans and investments. This is to recognize the income tax savings that facilitates a comparison between taxable and tax-exempt assets. Management believes that it is a standard practice in the banking industry to present net interest margin and net interest income on a fully tax equivalent basis as these measures provide useful information to make peer comparisons.

	Three months ended September 30,		Nine months ended September 30,	
(Dollars in thousands)	2016	2015	2016	2015
Net interest income	$68,818	$63,159	$202,505	$180,419
Tax equivalent adjustment	1,028	1,000	3,138	2,971
Net interest income - tax equivalent	$69,846	$64,159	$205,643	$183,390
Average earning assets	$7,591,160	$6,938,107	$7,488,670	$6,711,900
Net interest margin (1)	3.61 %	3.61 %	3.61 %	3.59 %
Net interest margin (fully tax equivalent) (1)	3.66 %	3.67 %	3.67 %	3.65 %

(1) Calculated using annualized net interest income divided by average earning assets.

Net interest income for the third quarter 2016 was $68.8 million, increasing $5.7 million, or 9.0%, from third quarter 2015 net interest income of $63.2 million. Net interest income on a fully tax equivalent basis for the third quarter 2016 was $69.8 million compared to $64.2 million for the third quarter 2015, and net interest margin on a fully tax equivalent basis was 3.66% for the third quarter 2016 compared to 3.67% for the third quarter 2015. The increase in net interest income for the third quarter 2016 as compared to the same period in 2015 was primarily driven by higher earning asset balances as a result of strong organic loan growth. The slight decline in net interest margin was primarily related to higher funding costs in the third quarter 2016, partially offset by higher yields on earning assets.

The increase in net interest income for the third quarter 2016, as compared to the third quarter 2015, was driven by an $8.7 million, or 12.6%, increase in total interest income to $77.3 million in the third quarter of 2016 from $68.7

million in the third quarter 2015. Partially offsetting the increase in interest income was a corresponding increase in interest expense of $3.0 million, or 54.2%, to $8.5 million in the third quarter 2016 from $5.5 million in the third quarter 2015. The increase in total interest income resulted from higher interest and fee income earned on the Company's loan portfolio, primarily as a result of strong organic loan growth in recent periods as well as the full quarter impact impact from the addition of $237.4 million of high-yielding loans acquired in the Oak Street transaction. Average loan balances increased $715.1 million, or 14.3%, in the third quarter 2016 compared to the third quarter 2015.

Interest expense increased as average total borrowed funds increased $406.3 million, or 54.4%, from the third quarter 2015, and average balances of interest-bearing deposits increased $131.0 million, or 2.8%. Average interest-bearing deposit balances increased as a result of strong deposit generation efforts in recent quarters. Average short-term borrowed funds increased $358.3 million, or 53.1%, as the Company utilized short-term borrowings to manage the Company's liquidity needs and support organic growth. The cost of funds related to interest-bearing deposits negatively impacted net interest margin, increasing 5 bps to 47 bps for the third quarter 2016 from 42 bps for the comparable quarter in 2015.

For the nine months ended September 30, 2016, net interest income was $202.5 million, an increase of $22.1 million, or 12.2%, from net interest income of $180.4 million for the comparable period in 2015. Net interest income on a fully-tax equivalent basis for the nine months ended September 30, 2016 was $205.6 million compared to $183.4 million for the comparable period in 2015. Similar to the comparable quarter items discussed above, the increase in net interest income was primarily driven by higher earning asset balances resulting from strong organic loan growth, as well as the impact from the addition of $237.4 million of high-yielding loans acquired in the Oak Street transaction during the third quarter of 2015. Net interest margin increased 2 bps, from 3.59% for the nine months ended September 30, 2015 to 3.61% for the nine months ended September 30, 2016. This increase was primarily related to higher yields on loans and securities, partially offset by the higher cost of interest-bearing liabilities. Higher interest income was partially offset by an $8.7 million, or 53.9%, increase in interest expense for the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015. The increase in interest expense for the nine months ended September 30, 2016 was primarily related to an increase in average short-term borrowings of $322.8 million, or 52.1%, when compared to the similar period in 2015, as well as a $312.2 million, or 7.0% increase in average interest-bearing deposits, the issuance of $120.0 million of subordinated notes in the third quarter 2015 and higher funding costs resulting from the Federal Reserve's actions to increase interest rates in December 2015.

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CONSOLIDATED AVERAGE BALANCE SHEETS AND NET INTEREST INCOME ANALYSIS

	Quarterly Averages				Year-to-Date Averages			
	September 30, 2016		September 30, 2015		September 30, 2016		September 30, 2015	
(Dollars in thousands)	Balance	Yield	Balance	Yield	Balance	Yield	Balance	Yield
Earning assets								
Investments								
Investment securities	$1,811,240	2.50%	$1,848,083	2.39%	$1,872,958	2.56%	$1,798,143	2.40%
Interest-bearing deposits with other banks	22,116	0.54%	37,468	0.25%	22,696	0.52%	26,287	0.26%
Gross loans (1)	5,757,804	4.54%	5,052,556	4.52%	5,593,016	4.58%	4,887,470	4.49%
Total earning assets	7,591,160	4.04%	6,938,107	3.93%	7,488,670	4.06%	6,711,900	3.91%
Nonearning assets								
Allowance for loan and lease losses	(58,284)		(54,398)		(56,231)		(54,239)	
Cash and due from banks	116,441		114,279		118,542		113,720	
Accrued interest and other assets	672,839		613,401		664,389		582,317	
Total assets	$8,322,156		$7,611,389		$8,215,370		$7,353,698	
Interest-bearing liabilities								
Deposits								
Interest-bearing demand	$1,447,226	0.15%	$1,230,621	0.09%	$1,440,638	0.14%	$1,209,291	0.08%
Savings	2,015,602	0.27%	2,015,373	0.19%	1,998,727	0.26%	1,960,443	0.22%
Time	1,284,059	1.14%	1,369,892	1.05%	1,348,345	1.10%	1,305,751	1.07%
Total interest-bearing deposits	4,746,887	0.47%	4,615,886	0.42%	4,787,710	0.46%	4,475,485	0.43%
Borrowed funds								
Short-term borrowings	1,033,439	0.53%	675,123	0.22%	942,334	0.51%	619,540	0.20%
Long-term debt	119,603	5.11%	71,583	1.56%	119,577	5.17%	55,645	2.10%
Total borrowed funds	1,153,042	1.00%	746,706	0.35%	1,061,911	1.03%	675,185	0.36%
Total interest-bearing liabilities	5,899,929	0.57%	5,362,592	0.41%	5,849,621	0.57%	5,150,670	0.42%
Noninterest-bearing liabilities								
Noninterest-bearing demand deposits	1,453,842		1,344,049		1,427,323		1,318,746	
Other liabilities	112,089		92,352		99,929		83,693	
Shareholders' equity	856,296		812,396		838,497		800,589	
Total liabilities and shareholders' equity	$8,322,156		$7,611,389		$8,215,370		$7,353,698	
Net interest income	$68,818		$63,159		$202,505		$180,419	
Net interest spread		3.47%		3.52%		3.49%		3.49%
Contribution of noninterest-bearing sources of funds		0.14%		0.09%		0.12%		0.10%
Net interest margin (2)		3.61%		3.61%		3.61%		3.59%

(1) Loans held for sale, nonaccrual loans, covered loans and indemnification asset are included in gross loans.
(2) The net interest margin exceeds the interest spread as noninterest-bearing funding sources, demand deposits, other liabilities and shareholders' equity also support earning assets.

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RATE/VOLUME ANALYSIS

The impact on net interest income from changes in interest rates as well as the volume of interest-earning assets and interest-bearing liabilities is illustrated in the table below:

	Changes for the three months ended September 30, 2016			Changes for the nine months ended September 30, 2016		
	Comparable quarter income variance			Comparable quarter income variance		
(Dollars in thousands)	Rate	Volume	Total	Rate	Volume	Total
Earning assets						
Investment securities	$ 492	$ (232)	$ 260	$ 2,082	$ 1,430	$ 3,512
Interest-bearing deposits with other banks	27	(21)	6	52	(14)	38
Gross loans [(1)]	314	8,070	8,384	3,080	24,146	27,226
Total earning assets	833	7,817	8,650	5,214	25,562	30,776
Interest-bearing liabilities						
Total interest-bearing deposits	584	155	739	1,203	1,082	2,285
Borrowed funds						
Short-term borrowings	520	474	994	1,431	1,230	2,661
Long-term debt	640	618	1,258	1,274	2,470	3,744
Total borrowed funds	1,160	1,092	2,252	2,705	3,700	6,405
Total interest-bearing liabilities	1,744	1,247	2,991	3,908	4,782	8,690
Net interest income	$ (911)	$ 6,570	$ 5,659	$ 1,306	$ 20,780	$ 22,086

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

NONINTEREST INCOME

Third quarter 2016 noninterest income was $16.9 million, representing a $3.4 million, or 16.7%, decrease from noninterest income of $20.4 million in the third quarter 2015. The decrease in noninterest income from the comparable quarter in 2015 was due primarily to a $3.3 million, or 87.1%, decrease in accelerated discount on covered loans, a $0.6 million, or 22.2%, decrease in other noninterest income and a $0.4 million, or 24.6%, decline in client derivative fees, partially offset by a $0.3 million, or 17.5%, increase in net gains from sales of loans.

Income from the accelerated discount on covered loans declined from $3.8 million during the third quarter 2015 to $0.5 million for the third quarter 2016. Accelerated discounts on covered loans that prepay result from the accelerated recognition of the remaining covered loan discount that would have been recognized over the expected life of the loan had it not prepaid. Lower income from the accelerated discount on covered loans during the third quarter 2016 was related to lower levels of prepayment activity during the period. The decrease in other noninterest income was primarily related to a $0.4 million distribution received during the third quarter of 2015 related to a limited partnership investment. Client derivative income declined due to lower customer demand during the third quarter of 2016. Net gains from sales of loans increased from $1.8 million during the third quarter 2015 to $2.1 million for the third quarter 2016 due to higher sales volume, as well as elevated premiums on sales of mortgage loans during the period.

Noninterest income for the nine months ended September 30, 2016 was $52.7 million, which represents a $6.7 million, or 11.3%, decrease from noninterest income of $59.4 million for the first nine months of 2015. Lower noninterest income from the comparable period in 2015 was due primarily to a $7.4 million, or 73.5%, decline in accelerated discount on covered loans and a $1.3 million, or 84.4%, decline in gains on sales of investment securities, which were partially offset by a $0.7 million, or 19.2%, increase in client derivative fees, a $1.2 million, or 50.8%, increase in FDIC loss sharing income and a $0.5 million, or 5.8%, increase in bankcard income.

Similar to the comparable quarter items previously discussed, the decrease in accelerated discount on covered loans was driven by lower levels of prepayment activity during the nine month period ended September 30, 2016. The decline in net gains on sales of investment securities was the result of efforts to rebalance the mix and duration of the securities portfolio. Higher client derivative income was the result of strong customer demand for interest rate swaps. FDIC loss sharing income represents the proportionate share of credit losses or recoveries on covered assets that First Financial expects to receive from/pay to the FDIC and the increase in income for the first nine months of 2016 related to claim activity. Bankcard income increased due to higher card volumes as well as increased customer activity during the first nine months of 2016.

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NONINTEREST EXPENSE

Third quarter 2016 noninterest expense was $51.1 million and $53.0 million for the third quarter of 2015. The $1.9 million, or 3.6%, decline from the comparable quarter in 2015 was primarily attributable to a $3.0 million, or 37.7%, decrease in other noninterest expense and a $2.6 million, or 64.3%, decrease in professional services, which were partially offset by a $4.3 million, or 15.6%, increase in salaries and employee benefits.

Other noninterest expense decreased from $8.1 million in the third quarter in 2015 to $5.0 million in the third quarter of 2016 primarily as a result of a legal settlement accrual and debt extinguishment costs in the third quarter of 2015. The decline in professional services expenses related to acquisition expenses associated with the Oak Street acquisition in the third quarter of 2015. The increase in salaries and benefits was primarily related to annual salary adjustments, performance-based compensation costs, severance expense, the full quarter impact of the Oak Street acquisition and other employee benefit costs during the period.

Noninterest expense for the nine months ended September 30, 2016 was $151.2 million compared with $149.8 million in the nine months ended September 30, 2015. The $1.4 million, or 0.9%, increase from the comparable period in 2015 was primarily attributable to a $9.1 million, or 11.0%, increase in salaries and benefits, partially offset by a $3.2 million, or 41.3%, decrease in professional services, a $2.4 million, or 12.2%, decrease in other noninterest expense, a $1.3 million, or 123.8%, decline in losses on the sale of OREO and a $0.9 million, or 61.8%, decrease in loss sharing expense. The increase in salaries and benefits were primarily due to expenses related to the Oak Street acquisition, performance based compensation, severance expense and annual salary adjustments. Similar to the comparable quarter, the decrease in professional services expenses was primarily due to expenses related to the Oak Street acquisition in 2015, while other noninterest expense decreased as a result of a legal settlement accrual and debt extinguishment costs in the first nine months of 2015. OREO losses decreased as the Company recorded $0.3 million of gains on sales of OREO properties for the nine months ended September 30, 2016, compared to losses of $1.1 million for the same period in 2015. Loss sharing expense represents costs incurred to resolve problem covered assets, including legal fees, appraisal costs and delinquent taxes. The decrease in loss sharing expense relates to a decline in collection costs resulting from lower covered asset balances. Loss sharing expenses and losses on covered OREO are partially reimbursed by the FDIC.

INCOME TAXES

Income tax expense was $10.1 million and $9.2 million and the effective tax rate was 30.7% and 33.0%, for the third quarters of 2016 and 2015, respectively. For the nine months ended September 30, 2016 and 2015, income tax expense was $31.3 million and $26.9 million, respectively, with effective tax rates of 32.4% and 32.8% for the respective periods. The decrease in effective tax rate when comparing third quarter 2016 to third quarter 2015 was primarily driven by favorable provision to return adjustments related to affordable housing and historic tax credit investments in 2016, as well as non-deductible acquisition costs related to the Oak Street transaction in 2015, which were partially offset by a decline in tax-exempt interest income during 2016.

While the Company's effective tax rate may fluctuate from quarter to quarter due to tax jurisdiction changes and the level of tax-enhanced assets, the overall effective tax rate for 2016 is expected to be approximately 32.5%.

LOANS

First Financial continued to experience strong loan demand in 2016 as a result of the Company's sales efforts, expanded presence in key metropolitan markets and investments in a diversified product suite. Loans, excluding loans held for sale, totaled $5.8 billion as of September 30, 2016, increasing $400.8 million, or 7.4%, compared to December 31, 2015. The increase in loan balances from December 31, 2015 was primarily related to a $209.8

million, or 9.3%, increase in commercial real estate loans, a $119.7 million, or 7.2%, increase in commercial and industrial loans and a $68.6 million, or 22.0%, increase in construction real estate loans during the period.

Third quarter 2016 average loans, excluding loans held for sale, increased $715.1 million, or 14.3%, from the third quarter of 2015. The increase in average loans, excluding loans held for sale, was primarily the result of a $322.0 million, or 22.0%, increase in commercial and industrial loans, a $235.4 million, or 10.9%, increase in commercial real estate loans and a $120.9 million, or 46.5%, increase in construction real estate loans. Increases in average loan balances were attributable to strong organic loan growth as well as the Oak Street acquisition.

Covered loans declined 12.0% to $99.7 million at September 30, 2016 from $113.3 million as of December 31, 2015. Declines in covered loan balances were expected as there were no acquisitions of loans subject to loss sharing agreements during the period. The covered loan portfolio will continue to decline through payoffs, loan sales, charge-offs and termination or expiration of loss sharing coverage unless First Financial acquires additional loans subject to loss sharing agreements in the future. The ten year period of loss protection on all remaining covered loans and covered OREO expires October 1, 2019.

ASSET QUALITY

Nonperforming assets consist of nonaccrual loans, accruing TDRs (collectively, nonperforming loans) and OREO. Loans are classified as nonaccrual when, in the opinion of management, collection of principal or interest is doubtful or when principal or interest payments are 90 days or more past due. Generally, loans are 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.

Loans accounted for under FASB ASC Topic 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality, are referred to as purchased impaired loans. Purchased impaired loans were grouped into pools for purposes of periodically re-estimating expected cash flows and recognizing impairment or improvement in the loan pools. Accordingly, 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 provision for loan and lease losses or prospective yield adjustments.

Nonperforming assets decreased $12.1 million, or 17.2%, to $58.0 million at September 30, 2016 from $70.1 million as of December 31, 2015, due to a $6.4 million, or 11.3%, decline in nonperforming loans and a $5.7 million, or 42.8%, decline in OREO balances during the period. The decline in nonperforming assets during 2016 reflects the Company's disciplined underwriting approach, ongoing resolution efforts and stable credit outlook.

Nonperforming loans declined during the first nine months of 2016, as commercial and industrial loans classified as nonaccrual decreased $5.2 million, or 61.9%, commercial real estate loans classified as nonaccrual decreased $3.4 million, or 36.5%, and home equity loans classified as nonaccrual decreased $1.1 million, or 22.1%.

OREO consists of properties acquired by First Financial primarily through loan defaults by borrowers. OREO balances declined $5.7 million, or 42.8%, during the first nine months of 2016 as resolutions and valuation adjustments of $7.4 million exceeded additions of $2.4 million during the period.

Loans are classified as TDRs when borrowers are experiencing financial difficulties and concessions are made by the Company that would not otherwise be considered for a borrower with similar credit characteristics. 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 restructured terms of the loan agreement. TDRs totaled $37.8 million at September 30, 2016, a $0.4 million, or 1.1%, decrease from $38.2 million at December 31, 2015.

Classified assets, which are defined by the Company as nonperforming assets plus performing loans internally rated substandard or worse, totaled $142.2 million as of September 30, 2016 compared to $132.4 million at December 31, 2015. Loans 30-to-89 days past due increased to $16.1 million, or 0.28% of period end loans at September 30, 2016, as compared to $11.9 million, or 0.22%, at December 31, 2015. The increase in classified assets during the period reflects modest downward credit migration as certain borrowers began experiencing stressed financial performance, however, the Company believes that the majority of these borrowers have adequate plans in place to stabilize performance and that there is sufficient collateral in place should these plans fail to materialize. The increase in classified assets is not concentrated in any particular industry or geography.

The table that follows details nonperforming, underperforming and classified assets, in addition to related credit quality ratios as of September 30, 2016 and the four previous quarters.

	Quarter ended				
	2016			2015	
(Dollars in thousands)	Sep. 30,	June 30,	Mar. 31,	Dec. 31,	Sep. 30,
Nonperforming loans, nonperforming assets, and underperforming assets					
Nonaccrual loans [1]					
Commercial and industrial	$3,201	$2,980	$3,917	$8,405	$7,438
Lease financing	214	1,167	121	122	0
Real estate - construction	0	0	0	0	79
Real estate - commercial	5,985	8,750	8,577	9,418	17,732
Real estate - residential	4,759	4,824	4,243	5,027	4,940
Home equity	3,815	4,123	5,036	4,898	5,203
Installment	327	433	113	127	321
Nonaccrual loans	18,301	22,277	22,007	27,997	35,713
Accruing troubled debt restructurings	32,164	28,022	30,127	28,876	20,226
Total nonperforming loans	50,465	50,299	52,134	56,873	55,939
Other real estate owned	7,577	9,302	11,939	13,254	15,187
Total nonperforming assets	58,042	59,601	64,073	70,127	71,126
Accruing loans past due 90 days or more	130	981	59	108	58
Total underperforming assets	$58,172	$60,582	$64,132	$70,235	$71,184
Total classified assets	$142,169	$143,331	$133,940	$132,431	$130,132
Credit quality ratios					
Allowance for loan and lease losses to					
Nonaccrual loans	314.84 %	254.56 %	244.16 %	190.73 %	149.33 %
Nonperforming loans	114.17 %	112.74 %	103.07 %	93.89 %	95.34 %
Total ending loans	1.00 %	0.99 %	0.98 %	0.99 %	1.02 %
Nonperforming loans to total loans	0.87 %	0.88 %	0.95 %	1.06 %	1.07 %
Nonperforming assets to					
Ending loans, plus OREO	1.00 %	1.04 %	1.16 %	1.30 %	1.36 %
Total assets	0.69 %	0.72 %	0.78 %	0.86 %	0.90 %
Nonperforming assets, excluding accruing TDRs to					
Ending loans, plus OREO	0.45 %	0.55 %	0.62 %	0.76 %	0.97 %
Total assets	0.31 %	0.38 %	0.41 %	0.51 %	0.65 %

[1] Nonaccrual loans include nonaccrual TDRs of $5.6 million, $8.0 million, $7.5 million, $9.3 million and $13.6 million, as of September 30, 2016, June 30, 2016, March 31, 2016, December 31, 2015 and September 30, 2015, respectively.

INVESTMENTS

First Financial's investment portfolio totaled $1.8 billion, or 21.5% of total assets, at September 30, 2016 and $2.0 billion, or 24.2% of total assets, at December 31, 2015. Securities available-for-sale totaled $1.1 billion at September 30, 2016 and $1.2 billion at December 31, 2015, while held-to-maturity securities totaled $628.5 million at September 30, 2016 and $726.3 million at December 31, 2015.

The investment portfolio declined $170.5 million, or 8.7%, during the first nine months of 2016 and the overall duration of the investment portfolio decreased to 2.6 years as of September 30, 2016, from 3.4 years as of December 31, 2015, as the Company redeployed cash flows from investments to support strong loan growth through the first nine months of 2016.

The Company invests in certain securities whose realization is dependent on future principal and interest repayments and thus carry credit risk. As in past quarters, First Financial has avoided adding to its portfolio any particular securities that would materially increase credit risk or geographic concentration risk and First Financial continuously monitors credit risk and geographic concentration risk in its evaluation of market opportunities that would enhance the overall performance of the portfolio.

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First Financial recorded a $7.1 million unrealized after-tax gain on the investment portfolio as a component of equity in accumulated other comprehensive income at September 30, 2016. The total unrealized gain on the investment portfolio increased $12.1 million, or 244.7%, from a $4.9 million unrealized after-tax loss at December 31, 2015, as declines in long-term interest rates during the third quarter of 2016 resulted in higher valuations on investment securities.

First Financial will continue to monitor loan and deposit demand, as well as balance sheet composition, capital sensitivity and the interest rate environment as it manages investment strategies in future periods.

DEPOSITS AND FUNDING

Total deposits as of September 30, 2016 were $6.3 billion, representing an increase of $159.1 million, or 2.6%, compared to December 31, 2015, as total interest-bearing deposits increased $80.2 million, or 5.7%, total noninterest-bearing deposits increased $78.6 million, or 5.6%, and total savings deposits increased $59.6 million, or 3.1%.

Non-time deposit balances totaled $5.0 billion as of September 30, 2016, increasing $218.4 million, or 4.6%, compared to December 31, 2015, while time deposit balances decreased $59.4 million, or 4.2%, as a result of the intentional runoff of higher-cost CDs and seasonal activity.

Year-to-date average deposits increased $420.8 million, or 7.3%, to $6.2 billion at September 30, 2016 from $5.8 billion at September 30, 2015 due to a $231.3 million, or 19.1%, increase in average interest-bearing demand deposits, a $108.6 million, or 8.2%, increase in average noninterest-bearing deposits, a $42.6 million, or 3.3%, increase in average time deposits and a $38.3 million, or 2.0%, increase in average savings deposits.

Borrowed funds decreased to $1.0 billion at September 30, 2016 from $1.1 billion at December 31, 2015. During the third quarter of 2015, First Financial issued $120.0 million of subordinated notes. The subordinated notes have a fixed interest rate of 5.125% payable semiannually and mature on August 25, 2025. These notes are not redeemable by the Company or callable by the holders of the notes prior to maturity. The subordinated notes are treated as Tier 2 capital for regulatory capital purposes and are included in Long-term debt on the Consolidated Balance Sheets. First Financial also had $848.3 million in short-term borrowings with the FHLB at September 30, 2016 and $849.1 million as of December 31, 2015. These short-term borrowings are used to manage normal liquidity needs and support the Company's asset and liability management strategies.

LIQUIDITY

Liquidity management is the process by which First Financial manages the continuing flow of funds necessary to meet its financial commitments on a timely basis and at a reasonable cost. These funding commitments include withdrawals by depositors, credit commitments to borrowers, shareholder dividends, share repurchases, operating expenses and capital expenditures. Liquidity is derived primarily from deposit growth, principal and interest payments on loans and investment securities, maturing loans and investment securities, access to wholesale funding sources and collateralized borrowings.

First Financial’s most stable source of liability-funded liquidity for both long and short-term needs is deposit growth and retention of the core deposit base. In addition to core deposit funding, First Financial also utilizes a variety of other short and long-term funding sources, which include subordinated notes, longer-term advances from the FHLB and its short-term line of credit.

As of September 30, 2016 and December 31, 2015, outstanding subordinated debt totaled $118.4 million and $118.3 million, respectively, which included prepaid debt issuance costs of $1.6 million and $1.7 million. Long-term debt also included FHLB long-term advances of $0.4 million and $0.5 million as of September 30, 2016 and December 31, 2015, respectively.

First Financial's total remaining borrowing capacity from the FHLB was $509.0 million at September 30, 2016. For ease of borrowing execution, First Financial utilizes a blanket collateral agreement with the FHLB. First Financial pledged certain eligible residential, commercial, and farm real estate loans, home equity lines of credit and government, agency and CMBS securities totaling $3.6 billion as collateral for borrowings from the FHLB as of September 30, 2016.

Both First Financial and the Bank received investment grade credit ratings from an independent rating agency. These credit ratings impact the cost and availability of financing to First Financial, and a downgrade to these credit ratings could affect First Financial's or the Bank’s abilities to access the credit markets and potentially increase borrowing costs, which would negatively impact financial condition and liquidity. Key factors in maintaining high credit ratings include consistent and diverse earnings, strong credit quality and capital ratios, diverse funding sources and disciplined liquidity monitoring procedures.

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First Financial maintains a short-term credit facility with an unaffiliated bank for $15.0 million that matures on May 29, 2017. This facility can have a variable or fixed interest rate and provides First Financial additional liquidity, if needed, for various corporate activities, including the repurchase of First Financial shares and the payment of dividends to shareholders. As of September 30, 2016 and December 31, 2015, there was no outstanding balance. The credit agreement requires First Financial to comply with certain covenants including those related to asset quality and capital levels, and First Financial was in compliance with all covenants associated with this line of credit as of September 30, 2016 and December 31, 2015.

First Financial's principal source of asset-funded liquidity is marketable investment securities, particularly those of shorter maturities. The market value of investment securities classified as available-for-sale totaled $1.1 billion at September 30, 2016. Securities classified as held-to-maturity that are maturing within a short period of time are an additional source of liquidity and totaled $10.3 million at September 30, 2016. Other types of assets such as cash and due from banks, interest-bearing deposits with other banks and loans maturing within one year, are also sources of liquidity.

At September 30, 2016, in addition to liquidity on hand of $134.7 million, First Financial had unused and available overnight wholesale funding of $2.1 billion, or 25.6% of total assets, to fund loan and deposit activities, as well as general corporate requirements.

Certain restrictions exist regarding the ability of First Financial’s subsidiary, First Financial Bank, to transfer funds to First Financial in the form of cash dividends, loans, other assets or advances. The approval of the Bank's primary federal regulator is required to pay dividends in excess of regulatory limitations. Dividends paid to First Financial from the Bank totaled $39.6 million for the first nine months of 2016. As of September 30, 2016, the Bank had retained earnings of $481.0 million of which $137.1 million was available for distribution to First Financial without prior regulatory approval. Additionally, First Financial had $57.2 million in cash at the parent company as of September 30, 2016, which approximates the Company’s annual regular shareholder dividend and operating expenses.

First Financial did not repurchase any of the Company's common stock during the first nine months of 2016, however, the Company repurchased 148,935 shares of its common stock for $2.8 million during the same period in 2015.

Capital expenditures, such as banking center expansions and technology investments were $6.4 million each for the first nine months of 2016 and 2015. Management believes that First Financial has sufficient liquidity to fund its future capital expenditure commitments.

Management is not aware of any other events or regulatory requirements that, if implemented, are likely to have a material effect on First Financial’s liquidity.

CAPITAL

Risk-Based Capital. The Board of Governors of the Federal Reserve System approved a final rule implementing changes intended to strengthen the regulatory capital framework for all banking organizations (Basel III) which became effective January 1, 2015, subject to a phase-in period for certain provisions. Basel III establishes and defines quantitative measures to ensure capital adequacy which require First Financial to maintain minimum amounts and ratios of Common Equity tier 1 capital, total and tier 1 capital to risk-weighted assets and tier 1 capital to average assets (leverage ratio).

The rule includes a minimum ratio of common equity tier 1 capital to risk-weighted assets of 4.5% and a capital conservation buffer of 2.5% of risk-weighted assets, which began on January 1, 2016 at 0.625% and will be phased in over a four-year period, increasing by the same amount on each subsequent January 1, until fully phased-in on January

1, 2019. Further, Basel III increased the minimum ratio of tier 1 capital to risk-weighted assets from 4.0% to 6.0% and all banks are now subject to a 4.0% minimum leverage ratio. The required total risk-based capital ratio was unchanged. Failure to maintain the required common equity tier 1 capital conservation buffer will result in potential restrictions on a bank’s ability to pay dividends, repurchase stock and/or pay discretionary compensation to its employees.

Management believes, as of September 30, 2016, that First Financial met all capital adequacy requirements to which it was subject. The Company's most recent regulatory notifications categorized First Financial as "well-capitalized" under the regulatory framework for prompt corrective action. To be categorized as well-capitalized, First Financial must maintain minimum Total risk-based capital, Tier 1 risk-based capital and Tier 1 leverage ratios as set forth in the table that follows. There have been no conditions or events since those notifications that management believes has changed the Company's categorization.

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The revised capital requirements also provide strict eligibility criteria for regulatory capital instruments and change the method for calculating risk-weighted assets in an effort to better identify riskier assets, such as highly volatile commercial real estate and nonaccrual loans, which require higher capital allocations. First Financial's tier 1 and total capital ratios declined from 10.29% and 13.04%, respectively, as of December 31, 2015 to 10.20% and 12.82% as of September 30, 2016. The declines in the Company's capital ratios were due primarily to an increase in risk-weighted assets resulting from organic loan growth, partially offset by an increase in capital from retained earnings during the period. The leverage ratio increased to 8.45% at September 30, 2016 compared to 8.33% as of December 31, 2015 and the Company’s tangible common equity ratio increased from 7.53% at December 31, 2015 to 7.97% during the current quarter. All regulatory capital ratios exceeded the amounts necessary to be classified as “well capitalized,” and total regulatory capital exceeded the minimum requirement by $283.0 million on a consolidated basis.

The following table presents the actual and required capital amounts and ratios as of September 30, 2016 under the Basel III Capital Rules. The minimum required capital amounts presented include the minimum required capital levels as of September 30, 2016 based on the phase-in provisions of the Basel III Capital Rules as well as the minimum required capital levels as of January 1, 2019 when the Basel III Capital Rules have been fully phased-in. Capital levels required to be considered "well capitalized" are based upon prompt corrective action regulations, as amended to reflect the changes under the Basel III Capital Rules.

	Actual		Minimum capital required - Basel III current period		Required to be considered well capitalized - current period		Minimum capital required - Basel III fully phased-in	
(Dollars in thousands)	Capital amount	Ratio	Capital amount	Ratio	Capital amount	Ratio	Capital amount	Ratio
September 30, 2016								
Common equity tier 1 capital to risk-weighted assets								
Consolidated	$688,363	10.20%	$345,976	5.125%	N/A	N/A	$472,553	7.00 %
First Financial Bank	733,710	10.89%	345,177	5.125%	$437,786	6.50 %	471,461	7.00 %
Tier 1 capital to risk-weighted assets								
Consolidated	688,467	10.20%	447,237	6.625%	N/A	N/A	573,814	8.50 %
First Financial Bank	733,814	10.90%	446,205	6.625%	538,813	8.00 %	572,489	8.50 %
Total capital to risk-weighted assets								
Consolidated	865,248	12.82%	582,252	8.625%	N/A	N/A	708,829	10.50%
First Financial Bank	799,536	11.87%	580,908	8.625%	673,516	10.00%	707,192	10.50%
Leverage ratio								
Consolidated	688,467	8.45 %	325,872	4.00 %	N/A	N/A	325,872	4.00 %
First Financial Bank	733,814	9.01 %	325,611	4.00 %	407,014	5.00 %	325,611	4.00 %

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The following table presents the actual and required capital amounts and ratios as of December 31, 2015 under the regulatory capital rules then in effect.

	Actual		Minimum capital required - Basel III		Required to be considered well capitalized		Minimum capital required - Basel III fully phased-in	
(Dollars in thousands)	Capital amount	Ratio	Capital amount	Ratio	Capital amount	Ratio	Capital amount	Ratio
December 31, 2015								
Common equity tier 1 capital to risk-weighted assets								
Consolidated	$648,748	10.28 %	$283,866	4.50 %	N/A	N/A	$441,570	7.00 %
First Financial Bank	647,844	10.30 %	283,080	4.50 %	$408,894	6.50 %	440,347	7.00 %
Tier 1 capital to risk-weighted assets								
Consolidated	648,852	10.29 %	378,488	6.00 %	N/A	N/A	536,192	8.50 %
First Financial Bank	647,948	10.30 %	377,440	6.00 %	503,254	8.00 %	534,707	8.50 %
Total capital to risk-weighted assets								
Consolidated	822,431	13.04 %	504,651	8.00 %	N/A	N/A	662,355	10.50 %
First Financial Bank	709,306	11.28 %	503,254	8.00 %	629,067	10.00 %	660,521	10.50 %
Leverage ratio								
Consolidated	648,852	8.33 %	311,481	4.00 %	N/A	N/A	311,481	4.00 %
First Financial Bank	647,948	8.33 %	311,205	4.00 %	389,006	5.00 %	311,205	4.00 %

Over an extended period, the Company generally expects to return to shareholders a target range of 60% - 80% of earnings through a combination of its regular dividend and share repurchases while still maintaining capital ratios that exceed internal target thresholds and current regulatory capital requirements under Basel III.

Shareholder Dividends. First Financial paid a dividend of $0.16 per common share on October 3, 2016 to shareholders of record as of September 2, 2016. Additionally, First Financial's board of directors authorized a dividend of $0.16 per common share for the next regularly scheduled dividend, payable on January 3, 2017 to shareholders of record as of December 2, 2016.

Share Repurchases. In October 2012, First Financial's board of directors approved a share repurchase plan under which the Company has the ability to repurchase up to 5,000,000 shares. During the first nine months of 2016 , First Financial did not repurchase any shares. However, for the same period in 2015, First Financial repurchased 148,935 shares at an average price of $18.68 per share. At September 30, 2016, 3,509,133 common shares remained available for repurchase under the 2012 share repurchase plan.

Shareholders' Equity. Total shareholders’ equity at September 30, 2016 was $861.1 million compared to total shareholders’ equity at December 31, 2015 of $809.4 million.

For further detail, see the Consolidated Statements of Changes in Shareholders’ Equity.

RISK MANAGEMENT

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

For a full discussion of these risks, see the Risk Management section in Management's Discussion and Analysis in First Financial's 2015 Annual Report. The sections that follow provide additional discussion related to credit risk and market risk.

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CREDIT RISK

Credit risk represents the risk of loss due to failure of a customer or counterparty to meet its financial obligations in accordance with contractual terms. First Financial manages credit risk through its underwriting process, periodically reviewing and approving its credit exposures using credit policies and guidelines approved by its board of directors.

Allowance for loan and lease losses. First Financial records a provision for loan and lease losses in the Consolidated Statements of Income to maintain the ALLL at a level considered sufficient to absorb probable incurred loan and lease losses inherent in the portfolio.

The ALLL was $57.6 million as of September 30, 2016 and $53.4 million as of December 31, 2015, and as a percentage of period-end loans, the ALLL was 1.00% as of September 30, 2016 compared to 0.99% as of December 31, 2015. The increase in the ALLL was consistent with strong organic loan growth and the increase in classified assets during the period.

The ALLL as a percentage of nonaccrual loans was 314.84% at September 30, 2016 and 190.73% at December 31, 2015. The ALLL as a percentage of nonperforming loans, which include accruing TDRs, increased to 114.17% as of September 30, 2016 from 93.89% as of December 31, 2015 due to the increase in the ALLL and a $6.4 million, or 11.3%, decline in nonperforming loans.

Third quarter 2016 net charge-offs were $0.8 million, or 0.05% of average loans and leases on an annualized basis, compared to net charge-offs of $2.2 million, or 0.17% of average loans and leases on an annualized basis for the comparable quarter in 2015. The $1.4 million decrease in net charge-offs from the comparable period in 2015 was primarily the result of lower charge-offs of commercial and industrial and retail real estate loans, partially offset by an increase in home equity loan charge-offs during the period.

Provision expense is a product of the Company's ALLL model, as well as net charge-off activity during the period. Third quarter provision expense was $1.7 million in 2016 and $2.6 million during the comparable quarter in 2015. Provision expense was $7.4 million and $7.8 million for the nine months ended September 30, 2016 and 2015, respectively.

See Note 5 – Allowance for Loan and Lease Losses in the Notes to Consolidated Financial Statements, for further discussion of First Financial's ALLL.

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The table that follows includes the activity in the allowance for loan and lease losses for the quarterly periods presented.

	Three months ended					Nine months ended	
	2016			2015		September 30,	
(Dollars in thousands)	Sep. 30,	June 30,	Mar. 31,	Dec. 31,	Sep. 30,	2016	2015
Allowance for loan and lease loss activity							
Balance at beginning of period	$56,708	$53,732	$53,398	$53,332	$52,876	$53,398	$52,858
Provision for loan losses	1,687	4,037	1,655	1,864	2,647	7,379	7,777
Gross charge-offs							
Commercial and industrial	296	265	479	777	1,808	1,040	4,631
Real estate-construction	64	28	3	0	85	95	85
Real estate-commercial	1,135	1,596	1,262	4,415	1,082	3,993	5,668
Real estate-residential	90	28	45	82	288	163	1,449
Home equity	475	398	340	633	268	1,213	1,258
Installment	223	30	73	129	155	326	380
All other	267	357	240	242	276	864	807
Total gross charge-offs	2,550	2,702	2,442	6,278	3,962	7,694	14,278
Recoveries							
Commercial and industrial	327	420	222	841	374	969	2,883
Real estate-construction	6	202	26	104	87	234	149
Real estate-commercial	997	681	442	2,927	691	2,120	2,287
Real estate-residential	38	81	63	214	237	182	344
Home equity	257	131	188	104	236	576	897
Installment	56	62	99	216	94	217	247
All other	92	64	81	74	52	237	168
Total recoveries	1,773	1,641	1,121	4,480	1,771	4,535	6,975
Total net charge-offs	777	1,061	1,321	1,798	2,191	3,159	7,303
Ending allowance for loan and lease losses	$57,618	$56,708	$53,732	$53,398	$53,332	$57,618	$53,332
Net charge-offs to average loans and leases (annualized)							
Commercial and industrial	(0.01)%	(0.04)%	0.06%	(0.02)%	0.39%	0.01%	0.17%
Real estate-construction	0.06%	(0.20)%	(0.03)%	(0.14)%	0.00%	(0.05)%	(0.04)%
Real estate-commercial	0.02%	0.16%	0.15%	0.27%	0.07%	0.11%	0.21%
Real estate-residential	0.04%	(0.04)%	(0.01)%	(0.10)%	0.04%	0.00%	0.30%
Home equity	0.19%	0.23%	0.13%	0.45%	0.03%	0.18%	0.10%
Installment	1.40%	(0.29)%	(0.25)%	(0.84)%	0.58%	0.33%	0.41%
All other	0.50%	0.83%	0.47%	0.51%	0.72%	0.60%	0.71%
Total net charge-offs	0.05%	0.08%	0.10%	0.14%	0.17%	0.08%	0.20%

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MARKET RISK

Market risk is the risk of loss arising from adverse changes in the fair value of financial instruments due to changes in interest rates, foreign exchange rates and equity prices. The primary source of market risk for First Financial is interest rate risk. Interest rate risk is the risk to earnings and the value of the Company's equity arising from changes in market interest rates, and arises in the normal course of business to the extent that there is a divergence between the amount of First Financial's interest-earning assets and the amount of interest-bearing liabilities that are prepaid, withdrawn, re-priced or mature in specified periods. First Financial seeks to achieve consistent growth in net interest income and equity while managing volatility arising from shifts in market interest rates.

First Financial monitors the Company's interest rate risk position using income simulation models and EVE sensitivity analyses that capture both short-term and long-term interest rate risk exposure. Income simulation involves forecasting NII under a variety of interest rate scenarios including instantaneous shocks. First Financial uses EVE sensitivity analysis to understand the impact of changes in interest rates on long-term cash flows, income and capital. EVE is calculated by discounting the cash flows for all balance sheet instruments under different interest-rate scenarios. For both NII and EVE modeling, First Financial leverages instantaneous parallel shocks to evaluate interest rate risk exposure across rising and falling rate scenarios. Additional scenarios evaluated include implied market forward rate forecasts and various non-parallel yield curve twists.

First Financial’s interest rate risk models are based on the contractual and assumed cash flows and repricing characteristics for all of the Company’s assets, liabilities and off-balance sheet exposure. A number of assumptions are also incorporated into the interest rate risk models, including prepayment behaviors and repricing spreads for assets as well as attrition and repricing rates for liabilities. Assumptions are primarily derived from behavior studies of the Company’s historical client base and are continually refined. Modeling the sensitivity of NII and EVE to changes in market interest rates is highly dependent on the assumptions incorporated into the modeling process.

Non-maturity deposit modeling is particularly dependent on the assumption for repricing sensitivity known as a beta. Beta is the amount by which First Financial’s interest bearing non-maturity deposit rates will increase when short-term interest rates rise. The Company utilized a weighted average deposit beta of 63% in its interest rate risk modeling as of September 30, 2016. First Financial also includes an assumption for the migration of non-maturity deposit balances into CDs for all upward rate scenarios beginning with the +200 BP scenario, thereby increasing deposit costs and reducing asset sensitivity.

Presented below is the estimated impact on First Financial’s NII and EVE position as of September 30, 2016, assuming immediate, parallel shifts in interest rates:

	% Change from base case for immediate parallel changes in rates		
	-100 BP [1]	+100 BP	+200 BP
NII-Year 1	(4.11)%	0.89 %	3.27 %
NII-Year 2	(5.89)%	2.10 %	5.48 %
EVE	(8.87)%	2.11 %	5.68 %

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

“Risk-neutral” refers to the absence of a strong bias toward either asset or liability sensitivity. “Asset sensitivity” is when a company's interest-earning assets reprice more quickly or in greater quantities than interest-bearing liabilities. Conversely, “liability sensitivity” is when a company's interest-bearing liabilities reprice more quickly or in greater quantities than interest-earning assets. In a rising interest rate environment, asset sensitivity results in higher net interest income while liability sensitivity results in lower net interest income. In a declining interest rate environment, asset sensitivity results in lower net interest income while liability sensitivity results in higher net interest income.

First Financial was within all internal policy limits set for interest rate risk monitoring as of September 30, 2016. Projected results for NII and EVE became more asset sensitive during the third quarter 2016 as a result of higher floating rate loan balances. First Financial continues to manage its balance sheet with a bias toward asset sensitivity while simultaneously balancing the potential earnings impact of this strategy.

First Financial continually evaluates the sensitivity of its interest rate risk position to modeling assumptions. The table that follows reflects First Financial’s estimated NII sensitivity profile as of September 30, 2016 assuming both a 25% increase and decrease to the beta assumption on managed rate deposits:

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	Beta sensitivity (% change from base)			
	+100 BP		+200 BP	
	Beta 25% lower	Beta 25% higher	Beta 25% lower	Beta 25% higher
NII-Year 1	2.20 %	(0.43)%	5.23 %	1.30 %
NII-Year 2	3.42 %	0.78 %	7.45 %	3.51 %

See the Net Interest Income section of Management's Discussion and Analysis for further discussion.

CRITICAL ACCOUNTING POLICIES

First Financial's Consolidated Financial Statements are prepared based on the application of the Company's accounting policies. These policies require the reliance on estimates and assumptions. Changes in underlying factors, assumptions or estimates could have a material impact on First Financial's future financial condition and results of operations. In management's opinion, certain accounting policies have a more significant impact than others on First Financial's financial reporting. For First Financial, these areas currently include accounting for the ALLL, acquired loans, the FDIC indemnification asset, goodwill, pension and income taxes. These accounting policies are discussed in detail in the Critical Accounting Policies section of Management's Discussion and Analysis in First Financial's 2015 Annual Report. There were no material changes to these accounting policies during the nine months ended September 30, 2016.

ACCOUNTING AND REGULATORY MATTERS

Note 2 - Recently Adopted and Issued Accounting Standards in the Notes to Consolidated Financial Statements, discusses new accounting standards adopted by First Financial during 2016 and the expected impact of accounting standards recently issued but not yet required to be adopted. To the extent the adoption of new accounting standards materially affects financial condition, results of operations or liquidity, the impacts are discussed in the applicable section(s) of Management's Discussion and Analysis and the Notes to the Consolidated Financial Statements.

FORWARD-LOOKING INFORMATION

This Form 10-Q contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are not based on historical or current facts, but rather on our current beliefs, expectations, assumptions and projections about our business, the economy and other future conditions. Forward-looking statements often include words such as ''believes,'' ''anticipates,'' "likely," "expected," ''intends,'' "could," and other similar references to future periods. Examples of forward-looking statements include, but are not limited to, statements we make about (i) our future operating or financial performance, including revenues, income or loss and earnings or loss per share, (ii) future common stock dividends, (iii) our capital structure, including future capital levels, (iv) our plans, objectives and strategies, and (v) the assumptions that underlie our forward-looking statements.

As with any forecast or projection, forward-looking statements are subject to inherent uncertainties, risks and changes in circumstances that may cause actual results to differ materially from those set forth in the forward-looking statements. Important factors that could cause actual results to differ materially from those in our forward-looking statements include the following, without limitation: (i) economic, market, liquidity, credit, interest rate, operational and technological risks associated with the Company's business; (ii) the effect of and changes in policies and laws or regulatory agencies, including the Dodd-Frank Wall Street Reform and Consumer Protection Act and other legislation and regulation relating to the banking industry; (iii) management's ability to effectively execute its business plans; (iv) mergers and acquisitions, including costs or difficulties related to the integration of acquired companies; (v) the Company's ability to comply with the terms of loss sharing agreements with the FDIC; (vi) the effect of changes in accounting policies and practices; (vii) changes in consumer spending, borrowing and saving and changes in unemployment; (viii) changes in customers' performance and creditworthiness; and (ix) the costs and effects of litigation and of unexpected or adverse outcomes in such litigation. Additional factors that may cause our actual results to differ materially from those described in our forward-looking statements can be found in the Company's Annual Report on Form 10-K for the year ended December 31, 2015, as well as its other filings with the SEC, which are available on the SEC website at www.sec.gov.

Forward-looking statements are meaningful only on the date when such statements are made. We undertake no obligation to update any forward-looking statement to reflect events or circumstances that may arise after the date on which a forward-looking statement is made.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information contained in "Item 2-Management's Discussion and Analysis of Financial Condition and Results of Operations—Market Risk" of this report is incorporated herein by reference in response to this item.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

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

Changes in Internal Control over Financial Reporting

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

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PART II-OTHER INFORMATION

Item 1. Legal Proceedings.

There have been no material changes to the disclosure in response to "Part I - Item 3. Legal Proceedings" in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

Item 1A. Risk Factors.

There are a number of factors that may adversely affect the Company's business, financial results, or stock price. See "Risk Factors" as disclosed in response to "Item 1A. to Part I - Risk Factors" of Form 10-K for the year ended December 31, 2015.

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

(c) The following table shows the total number of shares repurchased in the third quarter of 2016.

Issuer Purchases of Equity Securities

Period	(a) Total Number Of Shares Purchased [1]	(b) Average Price Paid Per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans [2]	(d) Maximum Number of Shares that may yet be purchased Under the Plans
July 1 to July 31, 2016				
Share repurchase program	0	$ 0.00	0	3,509,133
Stock Plans	0	0.00	N/A	N/A
August 1 to August 31, 2016				
Share repurchase program	0	$ 0.00	0	3,509,133
Stock Plans	30,100	21.11	N/A	N/A
September 1 to September 30, 2016				
Share repurchase program	0	$ 0.00	0	3,509,133
Stock Plans	0	0.00	N/A	N/A
Total				
Share repurchase program	0	$ 0.00	0	
Stock Plans	30,100	21.11	N/A	

(1) Except with respect to the share repurchase program, the number of shares purchased in column (a) and the average price paid per share in column (b) include the purchase of shares other than through publicly announced plans. The shares purchased other than through publicly announced plans were purchased pursuant to First Financial’s 1999 Stock Option Plan for Non-Employee Directors, 1999 Stock Incentive Plan for Officers and Employees, 2009 Employee Stock Plan, Amended and Restated 2009 Non-Employee Director Stock Plan and 2012 Stock Plan (collectively referred to hereafter as the Stock Plans). The table shows the number of shares purchased pursuant to those plans and the average price paid per share. Under the Stock Plans, shares were purchased from plan participants at the then current market value in satisfaction of stock option exercise prices.

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

Announcement Date	Total Shares Approved for Repurchase	Total Shares Repurchased Under the Plan	Expiration Date
10/25/2012	5,000,000	1,490,867	None

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Item 6. Exhibits

(a) Exhibits:

Exhibit Number	
31.1	Certification by Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 filed herewith.
31.2	Certification by Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 filed herewith.
32.1	Certification of Periodic Financial Report by Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 furnished herewith.
32.2	Certification of Periodic Financial Report by Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 furnished herewith.
101.1	Financial statements from the Quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 2016, formatted in XBRL (eXtensible Business Reporting Language) pursuant to Rule 405 of Regulation S-T: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statements of Changes in Shareholders' Equity, (v) Consolidated Statements of Cash Flows and (vi) Notes to Consolidated Financial Statements, as blocks of text and in detail.(1)

First Financial will furnish, without charge, to a security holder upon request a copy of the documents and will furnish any other Exhibit upon payment of reproduction costs. Unless as otherwise noted, documents incorporated by reference involve File No. 001-34762.

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

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SIGNATURES

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

	FIRST FINANCIAL BANCORP. (Registrant)
/s/ Claude E. Davis Claude E. Davis Chief Executive Officer	/s/ John M. Gavigan John M. Gavigan Senior Vice President and Chief Financial Officer (Principal Accounting Officer)
Date 11/8/2016	Date 11/8/2016