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

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, 2011

OR

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

For the transition period from ____________________ to ____________________

Commission file number 0-12379

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

Ohio (State or other jurisdiction of incorporation or organization)	31-1042001 (I.R.S. Employer Identification No.)
201 East Fourth Street, Suite 1900 Cincinnati, Ohio	45202
(Address of principal executive offices)	(Zip Code)

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

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

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

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at November 4, 2011
Common stock, No par value	58,265,092

FIRST FINANCIAL BANCORP.

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

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

Federal funds purchased and securities sold under agreements to repurchase	95,451	59,842
Long-term debt	76,875	128,880
Other long-term debt	0	20,620
Total borrowed funds	172,326	209,342
Accrued interest and other liabilities	139,171	197,240
TOTAL LIABILITIES	5,610,597	5,552,831
SHAREHOLDERS' EQUITY		
Common stock - no par value		
Authorized - 160,000,000 shares Issued - 68,730,731 shares in 2011 and 2010	578,974	580,097
Retained earnings	329,243	310,271
Accumulated other comprehensive loss	(3,388)	(12,044)
Treasury stock, at cost, 10,474,595 shares in 2011 and 10,665,754 shares in 2010	(177,697)	(180,930)
TOTAL SHAREHOLDERS' EQUITY	727,132	697,394
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$6,337,729	$6,250,225

See notes to consolidated financial statements.

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

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

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

See notes to consolidated financial statements.

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

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

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

See notes to consolidated financial statements.

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

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

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

Balances at September 30, 2010									
Balances at January 1, 2011	0	$0	68,730,731	$580,097	$310,271	$(12,044)	(10,665,754)	$(180,930)	$697,394
Net income					48,798				48,798
Unrealized holding gains on securities available-for-sale arising during the period						8,070			8,070
Change in retirement obligation						794			794
Unrealized loss on derivatives-Trust Preferred Swap						391			391
Foreign Currency Exchange						(599)			(599)
Total comprehensive income									57,454
Cash dividends declared :									
Common stock at $0.51 per share					(29,826)				(29,826)
Excess tax benefit on share-based compensation				167					167
Exercise of stock options, net of shares purchased				(228)			12,808	217	(11)
Restricted stock awards, net of forfeitures				(3,929)			178,351	3,016	(913)
Share-based compensation expense				2,867					2,867
Balances at September 30, 2011	0	$0	68,730,731	$578,974	$329,243	$(3,388)	(10,474,595)	$(177,697)	$727,132

See Notes to Consolidated Financial Statements.

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

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

NOTE 1: BASIS OF PRESENTATION

The consolidated financial statements of First Financial, a bank holding company, include the accounts of First Financial and its wholly-owned subsidiary – First Financial Bank, N.A. All intercompany transactions and accounts have been eliminated in consolidation. Certain reclassifications of prior periods' amounts have been made to conform to current period's presentation and had no effect on previously reported net income amounts or financial condition.

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates, assumptions, and judgments that affect the amounts reported in the financial statements and accompanying notes. Actual realized amounts could differ materially from those estimates. These interim financial statements have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X and serve to update the First Financial Bancorp. Annual Report on Form 10-K (Form 10-K) for the year ended December 31, 2010. These financial statements may not include all information and notes necessary to constitute a complete set of financial statements under GAAP applicable to annual periods and accordingly should be read in conjunction with the financial information contained in the Form 10-K. Management believes these unaudited consolidated financial statements reflect all adjustments of a normal recurring nature which are necessary for a fair presentation of the results for the interim periods presented. The results of operations for the interim periods are not necessarily indicative of the results that may be expected for the full year or any other interim period. The Consolidated Balance Sheet as of December 31, 2010, has been derived from the audited financial statements in the company's 2010 Form 10-K.

NOTE 2: RECENTLY ADOPTED AND ISSUED ACCOUNTING STANDARDS

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

In April 2011, the FASB issued an update (ASU No. 2011-03, Reconsideration of Effective Control for Repurchase Agreements), which simplified the accounting for arrangements such as repurchase and securities lending agreements. The collateral maintenance requirement will be eliminated from the assessment of effective control, which could result in more transactions being accounted for as secured borrowings rather than sales. The assessment of effective control will focus on a transferor's contractual rights and obligations, not the amount of collateral obtained to repurchase or redeem the transferred financial asset. Under the amended guidance, a transferor maintains effective control over transferred financial assets, and thus accounts for the transfer as a secured borrowing, if there is an agreement that both entitles and obligates the transferor to repurchase the financial assets before maturity and all of the conditions already described in FASB ASC Topic 860, Transfers and Servicing, are met. This revised guidance is applicable to new transactions and transactions that are modified on or after the first interim or annual period beginning after December 15, 2011. First Financial does not anticipate this update will have a material impact on its consolidated financial statements.

In May 2011, the FASB issued an update (ASU No. 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs), which expands the disclosure requirements around fair value measurements categorized in Level 3 of the fair value hierarchy and requires disclosure of the level in the fair value hierarchy of items that are not measured at fair value but whose fair value must be disclosed. It also clarifies and expands upon existing requirements for fair value measurements of financial assets and liabilities as well as instruments classified in shareholders' equity. The guidance is effective for interim and annual financial periods beginning after December 15, 2011. First Financial does not anticipate this update will have a material impact on its consolidated financial statements.

In June 2011, the FASB issued an update (ASU 2011-05, Presentation of Comprehensive Income), which revises the manner in which entities present comprehensive income in their financial statements. This update eliminates the option to present components of other comprehensive income (OCI) as part of the statement of changes in stockholders' equity. The amendments to the existing standard require that all nonowner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. Under either method, adjustments must be displayed for items that are reclassified from OCI to net income, in both net income and OCI. The amendments to the existing standard do not change the current option for presenting components of OCI gross or net of the effect of income taxes, provided that such tax effects are presented in the statement in which OCI is presented or disclosed in the notes to the financial statements. Additionally, the standard does not affect the calculation or reporting of earnings per share. This guidance is effective for interim and annual financial periods beginning after December 15, 2011 and is to be applied retrospectively, with early adoption permitted. First Financial does not anticipate this update will have a material impact on its consolidated financial statements.

In September 2011, the FASB issued an update (ASU 2011-08, Testing Goodwill for Impairment), to simplify the current two-step goodwill impairment test in FASB ASC Topic 350-20, Intangibles - Goodwill and Other: Goodwill. This update permits entities to first perform a qualitative assessment to determine whether it is more likely than not (a likelihood of more than 50 percent) that the fair value of a reporting unit is less than its carrying amount. If the entity determines that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, it would then perform the first step of the goodwill impairment test; otherwise, no further impairment test would be required. This guidance is effective for interim and annual goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. First Financial does not anticipate this update will have a material impact on its consolidated financial statements.

NOTE 3: BUSINESS COMBINATIONS

On September 23, 2011, First Financial Bank completed the purchase of 16 Ohio banking centers from Liberty Savings Bank, FSB (Liberty) including $126.5 million of performing loans and $341.9 million of deposits at their estimated fair values. First Financial also acquired $3.8 million of fixed assets at estimated fair value and paid Liberty a $22.4 million net deposit premium. Assets acquired in this transaction are not subject to a loss share agreement. The Liberty banking center acquisition was accounted for in accordance with FASB ASC Topic 805, Business Combinations. Fair values are preliminary and subject to refinement for up to one year after the closing date of the acquisition (the measurement period) as information relative to closing date fair values becomes available. First

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

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

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

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

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

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

NOTE 4: GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

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

Goodwill is not amortized, but is measured for impairment on an annual basis as of October 1 of each year or whenever events or changes in circumstances indicate that the fair value of a reporting unit may be below its carrying value. First Financial performed its annual impairment test as of October 1, 2010, and no impairment was indicated. As of September 30, 2011, no events or changes in circumstances indicated that the fair value of a reporting unit was below its carrying value.

Other intangible assets

Other intangible assets consist of mortgage servicing rights and core deposit intangibles. Mortgage servicing rights are carried at their estimated fair value.

Core deposit intangibles are recorded at their estimated fair value as of acquisition and are then amortized on an accelerated basis over their estimated useful lives. First Financial recorded $4.0 million of core deposit intangibles associated with the Liberty banking center acquisition during the third quarter of 2011. Core deposit intangibles have an estimated weighted average remaining life of 8.67 years.

NOTE 5: COMMITMENTS AND CONTINGENCIES

In the normal course of business, First Financial offers a variety of financial instruments with off-balance-sheet risk to its clients to aid them in meeting their requirements for liquidity and credit enhancement. These financial instruments include standby letters of credit and outstanding commitments to extend credit. U.S. generally accepted accounting principles do not require these financial instruments to be recorded in the Consolidated Balance Sheets, Consolidated Statements of Income, Consolidated Statements of Changes in Shareholders' Equity, and Consolidated Statements of Cash Flows. Following is a discussion of these transactions.

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

Letters of credit – These transactions are conditional commitments issued by First Financial to guarantee the performance of a client to a third party. First Financial's portfolio of standby letters of credit consists primarily of performance assurances made on behalf of clients who have a contractual commitment to produce or deliver goods or services. The risk to First Financial arises from its obligation to make payment in the event of the clients' contractual default to produce the contracted good or service to a third party. First Financial has issued letters of credit (including standby letters of credit) aggregating $22.1 million and $17.6 million at September 30, 2011, and December 31, 2010, respectively. Management conducts regular reviews of these instruments on an individual client basis.

Loan commitments – Commitments to extend credit are agreements to lend to a client as long as there is no violation of any condition established in the commitment. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. First Financial evaluates each client's creditworthiness on an individual basis. The amount of collateral obtained, if deemed necessary by First Financial upon extension of credit, is based on management's credit evaluation of the counterparty. The collateral held varies, but may include securities, real estate, inventory, plant, or equipment. First Financial had commitments outstanding to extend credit totaling $1.2 billion at September 30, 2011, and $1.0 billion at December 31, 2010.

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

NOTE 6: INVESTMENTS

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

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

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

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

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

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

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

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

	September 30, 2011					
	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	$114,524	$(204)	$1,340	$(63)	$115,864	$(267)
Obligations of state and other political subdivisions	0	0	2,257	(26)	2,257	(26)
Other securities	0	0	2,146	(225)	2,146	(225)
Total	$114,524	$(204)	$5,743	$(314)	$120,267	$(518)

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

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

Unrealized losses on debt securities are generally due to higher current market yields relative to the yields of the debt securities at their amortized cost. Unrealized losses due to credit risk associated with the underlying collateral of the debt security, if any, are not material. All securities with unrealized losses are reviewed quarterly to determine if any impairment is considered other than temporary, requiring a write-down to fair market value. First Financial considers the percentage loss on a security, duration of the loss, average life or duration of the security, credit rating of the security, as well as payment performance and the Company's intent and ability to hold the security to maturity when determining whether any impairment is other than temporary. At this time First Financial does not intend to sell, and it is not more likely than not that the Company will be required to sell debt security issues temporarily impaired prior to maturity or recovery of book value. First Financial had no other than temporary impairment charges for the nine months ended September 30, 2011.

For further detail on the fair value of investment securities, see Note 15 – Fair Value Disclosures.

NOTE 7: DERIVATIVES

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

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

	Fair Value Hedges	
(Dollars in thousands)	September 30, 2011	December 31, 2010
Instruments associated with loans:		
Total notional value	$737,922	$578,959

While authorized to use a variety of derivative products, First Financial primarily utilizes interest rate swaps as a means to offer borrowers credit-based products that meet their needs and may from time to time utilize interest rate swaps to manage the macro interest rate risk profile of the Company. These agreements establish the basis on which interest rate payments are exchanged with counterparties and are referred to as the notional amount. As only interest rate payments are exchanged, cash requirements and credit risk are significantly less than the notional amount and the Company's credit risk exposure is limited to the market value of the instrument.

First Financial manages this market value credit risk through counterparty credit policies. These policies require the Company to maintain a total derivative notional position of less than 35% of assets, total credit exposure of less than 3% of capital, and no single counterparty credit risk exposure greater than $20.0 million. The Company is currently well below all single counterparty and portfolio limits. At September 30, 2011, the Company had a total counterparty notional amount outstanding of approximately $377.8 million, spread among seven counterparties, with an outstanding liability from these contracts of $27.7 million.

In connection with its use of derivative instruments, First Financial from time to time is required to post cash collateral with its counterparties to offset its market position. Derivative collateral balances were $25.1 million, and $12.5 million at September 30, 2011, and December 31, 2010, respectively. First Financial classifies the derivative cash collateral outstanding with its counterparties as an adjustment to the fair value of the derivative contracts within accrued interest and other liabilities in the Consolidated Balance Sheets.

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

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

The following table details the derivative financial instruments, the average remaining maturities and the weighted-average interest rates being paid and received by First Financial at September 30, 2011:

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

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

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

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

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

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

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

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

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

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

NOTE 8: LONG-TERM DEBT

Long-term debt on the Consolidated Balance Sheets consists of FHLB long-term advances and repurchase agreements utilizing investment securities pledged as collateral. These instruments are primarily utilized to reduce overnight liquidity risk and to mitigate interest rate sensitivity on the balance sheet. First Financial has $65.0 million in repurchase agreements which have remaining maturities of between one and four years and a weighted average rate of 3.50%. Securities pledged as collateral in conjunction with the repurchase agreements are included within Investment securities available-for-sale on the Consolidated

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Balance Sheets. First Financial assumed additional FHLB long-term advances in the Peoples and Irwin acquisitions of $63.5 million and $216.3 million, respectively. During the third quarter of 2010, approximately $232.0 million of these advances were prepaid. As of September 30, 2011, the remaining FHLB long-term advances assumed in the two transactions totaled $1.8 million, had remaining maturities of less than eight years and a weighted average effective yield of 3.80%.

The following is a summary of long-term debt:

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

NOTE 9: OTHER LONG-TERM DEBT

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

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

NOTE 10: LOANS (excluding covered loans)

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

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

Commercial real estate loans are secured by a mortgage lien on the real property. The credit underwriting for both owner-occupied and investor income producing real estate loans includes detailed market analysis, historical and projected cash flow analysis, appropriate equity margins, assessment of lessees and lessors, type of real estate and other analysis. Risk of loss is managed by adherence to standard loan policies that establish certain levels of performance prior to the extension of a loan to the borrower. Market diversification within First Financial's service area, as well as a diversification by industry, are other means by which the risk of loss is managed by First Financial.

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

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

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

Loan delinquency, including nonaccrual loans, was as follows:

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

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

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

Nonaccrual
Loans are classified as nonaccrual when, in the opinion of management, collection of principal or interest is doubtful or when principal or interest payments are 90 days or more past due. Generally, loans are placed in nonaccrual status due to the continued failure to adhere to contractual payment terms by the borrower coupled with other pertinent factors, such as, insufficient collateral value. The accrual of interest income is discontinued and previously accrued, but unpaid interest is reversed when a loan is placed in nonaccrual status. Any payments received while a loan is in nonaccrual status are applied as a

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reduction to the carrying value of the loan. A loan may be placed back on accrual status if all contractual payments have been received and collection of future principal and interest payments is no longer doubtful.

Troubled Debt Restructurings

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

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

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

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

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

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

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

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

Combination of Rate and Maturity Changes	132	1,056
Other [1]	0	111
Total	$495	$2,883

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

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of interest rate adjustments and maturity extensions.
(2) Balances are as of period end.

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

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

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

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

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

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

Total impaired loans	$76,433	$79,915

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

In the commercial portfolio, management reviews all impaired loan relationships in excess of $250,000 to determine if a specific allowance based on the borrower’s overall financial condition, resources and payment record, support from guarantors, and the realizable value of any collateral is necessary.

Specific allowances are based on discounted cash flows using the loan's initial effective interest rate or the fair value of the collateral for certain collateral dependent loans. Interest income for impaired loans is recorded on a cash basis during the period the loan is considered impaired after recovery of principal is reasonably assured.

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

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

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

Credit Quality

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

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

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

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

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

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

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

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

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

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

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

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

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

During the first three months of 2011, First Financial recognized a reduction in the estimated value of vacant land obtained from a commercial real estate developer of $3.1 million. This property was subsequently sold during the third quarter of 2011 at a $0.3 million gain. Changes in other real estate owned were as follows:

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

NOTE 11: LOANS (covered)

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

First Financial evaluates purchased loans for impairment in accordance with the provisions of FASB ASC Topic 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality. The cash flows expected to be collected on purchased loans are estimated based upon the expected remaining life of the underlying loans, which includes the effects of estimated prepayments. Purchased loans are considered impaired if there is evidence of credit deterioration since origination and if it is probable that not all contractually required payments will be collected. First Financial is accounting for the majority of purchased loans under FASB ASC Topic 310-30 except loans with revolving privileges, which are outside the scope of this guidance, and loans for which cash flows could not be estimated, which are accounted for under the cost recovery method. Purchased impaired loans were not classified as nonperforming assets at September 30, 2011 as the loans are considered to be performing under FASB ASC Topic 310-30. Therefore, interest income, through accretion of the difference between the carrying value of the loans and the expected cash flows is being recognized on all purchased loans being accounted for under FASB ASC Topic 310-30.

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

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

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

The outstanding balance of all loans accounted for under FASB ASC Topic 310-30, including contractual principal, interest, fees, and penalties, was $1.7 billion and $2.2 billion as of September 30, 2011 and December 31, 2010, respectively.

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

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

(1) Excludes loans with revolving privileges which are scoped out of FASB Topic 310-30 and certain loans which First Financial elected to treat under the cost recovery method.
(2) Includes the impact of loan repayments and charge-offs.

First Financial reviewed its forecast of expected cash flows for loans accounted for under FASB ASC Topic 310-30 during the third quarter of 2011. The Company recognized improvement in the cash flow expectations related to certain loan pools resulting in the reclassification from nonaccretable to accretable difference during the third quarter of 2011 and 2010 of $17.3 million and $81.1 million, respectively and $50.5 million and $81.1 million for the nine months ended September 30, 2011 and 2010, respectively. These reclassifications resulted in yield adjustments on these loan pools on a prospective basis. The Company also recognized declines in the cash flow expectations of certain loan pools. Any decline in expected cash flows for a pool of loans is considered impairment and recorded as provision expense, and a related allowance for loan and lease losses on covered loans, on a discounted basis during the period. There were also loan pools that were impaired in prior periods but improved during the third quarter. This improvement was recorded as a recapture of prior period impairment which partially offset impairment recorded in the third quarter. For further detail on impairment and provision expense related to loans accounted for under FASB ASC Topic 310-30, see "Covered Loans" under Note 11 - Allowance for Loan and Lease Losses.

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

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

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

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

Nonaccrual

Covered loans accounted for under FASB ASC Topic 310-30 are classified as performing, even though they may be contractually past due, as any nonpayment of contractual principal or interest is considered in the periodic re-estimation of expected cash flows and is included in the resulting recognition of current period covered loan loss provision or prospective yield adjustments.

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

Information as to covered nonaccrual loans was as follows:

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

	Three Months Ended	Nine Months Ended
(Dollars in thousands)	September 30, 2011	September 30, 2011
Interest income effect		
Gross amount of interest that would have been recorded under original terms	$268	$769
Interest included in income	8	49
Net impact on interest income	$260	$720

Impaired Loans

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

	As of September 30, 2011					
(Dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	YTD Interest Income Recognized	Quarterly Interest Income Recognized
Loans with no related allowance recorded:						
Commercial	$8,378	$10,559	$0	$10,541	$43	$7
Real estate - commercial	3,782	4,547	0	2,583	1	0
Home equity	2,114	3,642	0	1,512	5	1
All other	9	21	0	7	0	0
Total	$14,283	$18,769	$0	$14,643	$49	$8

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

Credit Quality

For further discussion of First Financial's monitoring of credit quality for commercial and consumer loans, including discussion of the risk attributes noted below, please see Note 10 - Loans.

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

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

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

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

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

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

Changes in covered other real estate owned were as follows:

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

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

NOTE 12: ALLOWANCE FOR LOAN AND LEASE LOSSES

Uncovered Loans

For each reporting period, management maintains the allowance at a level that it considers sufficient to absorb inherent risks in the loan portfolio. Management's evaluation in establishing the adequacy of the allowance includes evaluation of the loan and lease portfolios, actual past loan and lease loss experience, known and inherent risks in the portfolio, adverse situations that may affect a specific borrower's ability to repay (including the timing of future payments), the estimated value of any underlying collateral, composition of the loan portfolio, economic conditions, and other pertinent factors, such as periodic internal and external evaluations of delinquent, nonaccrual, and classified loans. The evaluation is inherently subjective as it requires utilizing material estimates, including the amounts and timing of future cash flows expected to be received on impaired loans. The evaluation of these factors is the responsibility of the Allowance for Loan and Lease Losses Committee, which is comprised of senior officers from the risk management, credit administration, finance, and lending areas.

The allowance for commercial loans, including time and demand notes, tax-exempt loans, and commercial real estate loans begins with a process of estimating the probable losses inherent in the portfolio. The loss estimates for these commercial loans are established by category and based on First Financial's internal system of credit risk ratings and historical loss data.

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

In the commercial portfolio, certain loans, typically larger-balance non-homogeneous exposures, may have a specific allowance established based on the borrower's overall financial condition, resources and payment record, support from guarantors, and the realizable value of any collateral.

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

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

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

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

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

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

	Nine Months Ended September 30, 2011							
		Real Estate						
(Dollars in thousands)	Commercial	Construction	Commercial	Residential	Installment	Home Equity	Other	Total
Allowance for loan and lease losses:								
Balance at beginning of period	$10,138	$8,326	$14,917	$8,907	$1,981	$10,939	$2,027	$57,235
Provision for loan and lease losses	2,309	2,978	8,875	(2,928)	40	1,732	1,040	14,046
Gross charge-offs	1,694	4,174	7,877	1,078	411	1,695	1,078	18,007
Recoveries	414	27	241	42	267	46	226	1,263
Total net charge-offs	1,280	4,147	7,636	1,036	144	1,649	852	16,744
Ending allowance for loan and lease losses	$11,167	$7,157	$16,156	$4,943	$1,877	$11,022	$2,215	$54,537
Ending allowance on loans individually evaluated for impairment	$2,820	$4,615	$3,809	$270	$0	$2	$0	$11,516
Ending allowance on loans collectively evaluated for impairment	8,347	2,542	12,347	4,673	1,877	11,020	2,215	43,021
Ending allowance for loan and lease losses	$11,167	$7,157	$16,156	$4,943	$1,877	$11,022	$2,215	$54,537
Loans and Leases:								
Ending balance of loans individually evaluated for impairment	$8,626	$19,936	$26,251	$3,483	$0	$101	$0	$58,397

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

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	Twelve Months Ended December 31, 2010							
		Real Estate						
(Dollars in thousands)	Commercial	Construction	Commercial	Residential	Installment	Home Equity	Other	Total
Allowance for loan and lease losses:								
Balance at beginning of period	$18,590	$8,143	$15,190	$5,308	$2,159	$8,063	$1,858	$59,311
Provision for loan and lease losses	4,252	8,778	6,836	5,268	457	6,183	1,790	33,564
Gross charge-offs	13,324	8,619	8,191	1,693	1,154	3,499	1,871	38,351
Recoveries	620	24	1,082	24	519	192	250	2,711
Total net charge-offs	12,704	8,595	7,109	1,669	635	3,307	1,621	35,640
Ending allowance for loan and lease losses	$10,138	$8,326	$14,917	$8,907	$1,981	$10,939	$2,027	$57,235
Ending allowance on loans individually evaluated for impairment	$2,017	$3,716	$4,347	$336	$0	$0	$0	$10,416
Ending allowance on loans collectively evaluated for impairment	8,121	4,610	10,570	8,571	1,981	10,939	2,027	46,819
Ending allowance for loan and lease losses	$10,138	$8,326	$14,917	$8,907	$1,981	$10,939	$2,027	$57,235
Loans and Leases:								
Ending balance of loans individually evaluated for impairment	$12,175	$19,294	$31,260	$5,420	$0	$0	$0	$68,149
Ending balance of loans collectively evaluated for impairment	788,078	144,249	1,108,671	263,753	69,711	341,310	32,172	2,747,944
Total loans, excluding covered loans	$800,253	$163,543	$1,139,931	$269,173	$69,711	$341,310	$32,172	$2,816,093

Covered Loans

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

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

$25.6 million. Additionally, the Company recognized loss share expenses of $10.3 million for the first nine months of 2011 and $3.8 million for the third quarter of 2011 primarily related to losses on covered OREO during the period. The receivable due from the FDIC under loss share agreements related to the covered provision expense and losses on covered OREO of $53.5 million for the first nine months of 2011 and $8.4 million for the third quarter of 2011 was recognized as FDIC loss sharing income and a corresponding increase to the FDIC indemnification asset.

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

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

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

(Dollars in thousands)	September 30, 2011 Commercial	Real Estate Commercial	Residential	Installment	Total
Ending allowance on loans acquired with deteriorated credit quality (ASC 310-30)	$17,850	$27,301	$2,694	$267	$48,112
Ending allowance on acquired loans outside the scope of ASC 310-30	0	0	0	0	0
Ending allowance on covered loans	$17,850	$27,301	$2,694	$267	$48,112

(Dollars in thousands)	December 31, 2010 Commercial	Real Estate Commercial	Residential	Installment	Total
Ending allowance on loans acquired with deteriorated credit quality (ASC 310-30)	$8,787	$7,213	$232	$261	$16,493
Ending allowance on acquired loans outside the scope of ASC 310-30	0	0	0	0	0
Ending allowance on covered loans	$8,787	$7,213	$232	$261	$16,493

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

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

NOTE 13: INCOME TAXES

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

At September 30, 2011, and December 31, 2010, First Financial had no unrecognized tax benefits recorded under FASB ASC Topic 740-10, Income Taxes. First Financial does not expect the total amount of unrecognized tax benefits to significantly increase within the next twelve months.

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

First Financial and its subsidiaries are subject to U.S. federal income tax as well as state and local income tax in several jurisdictions. Tax years prior to 2008 have been closed and are no longer subject to U.S. federal income tax examinations.

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

First Financial was notified in the second quarter of 2011 that the Internal Revenue Service will commence a routine examination of its income tax return for the calendar year 2009. At this time, the Company cannot make an assessment of the outcome of this examination.

NOTE 14: EMPLOYEE BENEFIT PLANS

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

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

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

	Three months ended September 30,		Nine months ended September 30,	
(Dollars in thousands)	2011	2010	2011	2010
Service cost	$825	$743	$2,475	$1,943
Interest cost	675	633	2,025	2,033
Expected return on assets	(2,237)	(1,199)	(6,787)	(3,699)
Amortization of prior service cost	(100)	(117)	(300)	(317)
Recognized net actuarial loss	525	498	1,575	1,548
Net periodic benefit (income) cost	$(312)	$558	$(1,012)	$1,508

Amounts recognized in accumulated other comprehensive income (loss):

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

NOTE 15: FAIR VALUE DISCLOSURES

Fair Value Measurement

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

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

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

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

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

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

Loans (excluding covered loans) – The fair value of commercial, commercial real estate, residential real estate, and consumer loans were estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities or repricing frequency. The carrying amount of accrued interest approximates its fair value.

Loans are designated as impaired when, in the judgment of management based on current information and events, it is probable that all amounts due according to the contractual terms of the loan agreement will not be collected. Impaired loans are valued at the lower of cost or market for purposes of determining the appropriate amount of impairment to be allocated to the allowance for loan and lease losses. Market value is measured based on the value of the collateral securing the loans. Collateral may be in the form of real estate or business assets including equipment, inventory, and accounts receivable. The vast majority of the collateral is real estate. The value of real estate collateral is determined utilizing an income or market valuation approach based on an appraisal conducted by an independent, licensed appraiser from outside of the Company (Level 2). The value of business equipment is based upon an outside appraisal if deemed significant, or the net book value on the applicable borrower financial statements if not considered significant. Likewise, values for inventory and accounts receivable collateral are based on borrower financial statement balances or aging reports (Level 3). Impaired loans allocated to the allowance for loan and lease losses are measured at fair value on a nonrecurring basis. Any fair value adjustments are recorded in the period incurred as provision for loan and lease losses on the Consolidated Statements of Income.

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

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

These cash flow evaluations are inherently subjective as they require material estimates, all of which may be susceptible to significant change.

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

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

The expected cash flows are discounted to reflect the uncertainty of the timing and receipt of the loss sharing reimbursement from the FDIC. These cash flow evaluations are inherently subjective as they require material estimates, all of which may be susceptible to significant change.

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

Borrowings – The carrying amounts of federal funds purchased and securities sold under agreements to repurchase and other short-term borrowings approximated their fair values. The fair value of long-term debt was estimated using a discounted cash flow calculation which utilizes the interest rates currently offered for borrowings of similar remaining maturities. Third-party valuations were used for long-term debt with embedded options, such as call features.

Commitments to extend credit and standby letters of credit – Pricing of these financial instruments is based on the credit quality and relationship, fees, interest rates, probability of funding and compensating balance and other covenants or requirements. Loan commitments generally have fixed expiration dates, are variable rate and contain termination and other clauses which provide for relief from funding in the event that there is a significant deterioration in the credit quality of the client. Many loan commitments are expected to expire without being drawn upon. The rates and terms of the commitments to extend credit and the standby letters of credit are competitive with those in First Financial's market area. The carrying amounts are reasonable estimates of the fair value of these financial instruments. Carrying amounts, which are comprised of the unamortized fee income and, where necessary, reserves for any expected credit losses from these financial instruments, are immaterial.

Derivatives – First Financial utilizes interest rate swaps as a means to offer commercial borrowers products that meet their needs and also to achieve First Financial's desired interest rate risk profile at the time. The net interest receivable or payable is accrued and recognized as an adjustment to the interest income or interest expense of the hedged item. First Financial utilizes third-party vendors for derivative valuation purposes. These vendors determine the appropriate fair value based on a net present value calculation of the cash flows related to the interest rate swaps using primarily observable market inputs such as interest rate yield curves. The discounted net present value calculated represents the cost to terminate the swap if First Financial should choose to do so on the applicable measurement date (Level 2). Additionally, First Financial utilizes a vendor developed, proprietary model to value the credit risk component of both the derivative assets and liabilities. The credit valuation adjustment is recorded as an adjustment to the fair value of the derivative asset or liability on the applicable measurement date (Level 3).

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

	September 30, 2011		December 31, 2010	
(Dollars in thousands)	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Cash and short-term investments				