

FIRST FINANCIAL BANCORP /OH/  
Form 10-Q  
November 09, 2010  
FORM 10-Q

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington D.C. 20549

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

For the quarterly period ended September 30, 2010

OR

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

For the transition period from to

Commission file number 0-12379

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

Ohio  
(State or other jurisdiction of  
incorporation or organization)

31-1042001  
(I.R.S. Employer  
Identification No.)

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

45202  
(Zip Code)

Registrant's telephone number, including area code (513) 979-5837

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

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

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of Exchange Act).

Yes" 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 5, 2010
Common stock, No par value	58,057,934

---

## FIRST FINANCIAL BANCORP.

## INDEX

Page No.

**Part I-FINANCIAL INFORMATION****Item 1-Financial Statements**

Consolidated Balance Sheets -  
September 30, 2010 and December 31, 2009 (unaudited) 1

Consolidated Statements of Income -  
Nine and Three Months Ended September 30, 2010 and 2009 (unaudited) 2

Consolidated Statements of Cash Flows -  
Nine and Three Months Ended September 30, 2010 and 2009 (unaudited) 3

Consolidated Statements of Changes in Shareholders' Equity -  
Nine and Three Months Ended September 30, 2010 and 2009 (unaudited) 5

Notes to Consolidated Financial Statements (unaudited) 6

Item 2-Management's Discussion and Analysis of Financial Condition  
and Results of Operations 28

Item 3-Quantitative and Qualitative Disclosures about Market Risk 48

Item 4-Controls and Procedures 49

**Part II-OTHER INFORMATION**

Item 1-Legal Proceedings 50

Item 1A-Risk Factors 52

Item 2-Unregistered Sales of Equity Securities and Use of Proceeds 64

Item 6-Exhibits 66

Signatures 69

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

	September 30, 2010	December 31, 2009
<b>ASSETS</b>		
Cash and due from banks	\$ 144,101	\$ 344,150
Interest-bearing deposits with other banks	280,457	262,017
Investment securities trading	0	200
Investment securities available-for-sale, at market value (cost \$596,901 at September 30, 2010 and \$454,953 at December 31, 2009)	616,175	471,002
Investment securities held-to-maturity (market value \$18,755 at September 30, 2010 and \$18,590 at December 31, 2009)	17,842	18,115
Other investments	86,509	89,830
Loans held for sale	19,075	6,413
<b>Loans:</b>		
Commercial	763,449	800,261
Real estate-construction	178,914	253,223
Real estate-commercial	1,095,543	1,079,628
Real estate-residential	283,914	321,047
Installment	73,138	82,989
Home equity	341,288	328,940
Credit card	28,825	29,027
Lease financing	138	14
Total loans, excluding covered loans	2,765,209	2,895,129
<b>Less</b>		
Allowance for loan and lease losses	57,249	59,311
Net loans - uncovered	2,707,960	2,835,818
Covered loans	1,609,584	1,934,740
<b>Less</b>		
Allowance for loan and lease losses	11,583	0
Net loans - covered	1,598,001	1,934,740
Net loans	4,305,961	4,770,558
Premises and equipment	116,959	107,351
Goodwill	51,820	51,820
Other intangibles	6,049	7,461
FDIC indemnification asset	237,709	287,407
Accrued interest and other assets	271,843	241,269
<b>TOTAL ASSETS</b>	<b>\$ 6,154,500</b>	<b>\$ 6,657,593</b>
<b>LIABILITIES</b>		
<b>Deposits:</b>		
Interest-bearing	\$ 999,922	\$ 1,060,383
Savings	1,407,332	1,231,081
Time	1,930,652	2,229,500
Total interest-bearing deposits	4,337,906	4,520,964

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

Noninterest-bearing	713,357	829,676
Total deposits	5,051,263	5,350,640
Federal funds purchased and securities sold under agreements to repurchase	58,747	37,430
Long-term debt	129,224	404,716
Other long-term debt	20,620	20,620
Accrued interest and other liabilities	203,715	194,229
TOTAL LIABILITIES	5,463,569	6,007,635
<b>SHAREHOLDERS' EQUITY</b>		
Preferred stock - \$1,000 par value		
Authorized - 80,000 shares		
Outstanding - 0 shares in 2010 and 80,000 shares in 2009	0	79,195
Common stock - no par value		
Authorized - 160,000,000 shares		
Issued - 68,730,731 shares in 2010 and 62,358,614 shares in 2009	579,309	490,532
Retained earnings	301,777	276,119
Accumulated other comprehensive loss	(9,106)	(10,487)
Treasury stock, at cost, 10,672,797 shares in 2010 and 10,924,793 shares in 2009	(181,049)	(185,401)
TOTAL SHAREHOLDERS' EQUITY	690,931	649,958
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 6,154,500	\$ 6,657,593

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,	
	2010	2009	2010	2009
<b>Interest income</b>				
Loans, including fees	\$ 75,957	\$ 46,811	\$ 230,239	\$ 114,446
<b>Investment securities</b>				
Taxable	5,386	6,241	16,226	22,954
Tax-exempt	240	352	720	1,172
Total investment securities interest	5,626	6,593	16,946	24,126
Other earning assets	3,101	1,311	13,996	1,311
Total interest income	84,684	54,715	261,181	139,883
<b>Interest expense</b>				
Deposits	14,457	11,490	45,413	30,373
Short-term borrowings	25	261	61	1,295
Long-term borrowings	2,034	1,977	7,147	4,534
Subordinated debentures and capital securities	322	323	956	880
Total interest expense	16,838	14,051	53,577	37,082
Net interest income	67,846	40,664	207,604	102,801
Provision for loan and lease losses - uncovered	6,287	26,655	23,823	41,272
Provision for loan and lease losses - covered	20,725	0	49,147	0
Net interest income after provision for loan and lease losses	40,834	14,009	134,634	61,529
<b>Noninterest income</b>				
Service charges on deposit accounts	5,632	5,408	17,098	13,776
Trust and wealth management fees	3,366	3,339	10,579	9,881
Bankcard income	2,193	1,379	6,263	4,092
Net gains from sales of loans	2,749	63	3,391	855
Gains on sales of investment securities	0	0	0	3,349
Gain on acquisition	0	342,494	0	342,494
FDIC loss sharing income	17,800	0	40,538	0
Accelerated discount on covered loans	9,448	0	22,954	0
Income (loss) on preferred securities	0	154	(30)	277
Other	3,707	1,599	11,504	5,842
Total noninterest income	44,895	354,436	112,297	380,566
<b>Noninterest expenses</b>				
Salaries and employee benefits	28,790	22,051	88,544	55,927
Net occupancy	4,663	3,442	18,125	8,912
Furniture and equipment	2,490	1,874	7,277	5,527
Data processing	1,191	973	3,559	2,585
Marketing	1,230	871	3,904	2,211

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

Communication	986	737	3,016	2,077
Professional services	2,117	1,220	6,306	3,427
Debt extinguishment	8,029	0	8,029	0
State intangible tax	724	628	3,481	1,944
FDIC expense	2,123	1,612	6,040	5,318
Other	8,967	12,893	29,109	21,103
Total noninterest expenses	61,310	46,301	177,390	109,031
Income before income taxes	24,419	322,144	69,541	333,064
Income tax expense	8,840	121,787	24,590	125,522
Net income	15,579	200,357	44,951	207,542
Dividends on preferred stock	0	1,000	1,865	2,578
Net income available to common shareholders	\$ 15,579	\$ 199,357	\$ 43,086	\$ 204,964
Net earnings per common share - basic:	\$ 0.27	\$ 3.91	\$ 0.76	\$ 4.77
Net earnings per common share - diluted:	\$ 0.27	\$ 3.87	\$ 0.75	\$ 4.71
Cash dividends declared per share	\$ 0.10	\$ 0.10	\$ 0.30	\$ 0.30
Average basic shares outstanding	57,570,709	51,027,887	56,765,933	43,005,983
Average diluted shares outstanding	58,531,505	51,457,189	57,758,906	43,502,561

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,	
	2010	2009
<b>Operating activities</b>		
Net income	\$ 44,951	\$ 207,542
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Provision for loan and lease losses	72,970	41,272
Provision for depreciation and amortization	8,130	5,613
Stock-based compensation expense	2,155	2,073
Pension expense	1,508	833
Net amortization of premiums/accretion of discounts on investment securities	729	1,031
Gains on sales of investment securities	0	(3,349)
Loss (income) on trading securities	30	(277)
Gain on acquisition	0	(342,494)
Originations of loans held for sale	(93,113)	(114,966)
Net gains from sales of loans held for sale	(1,333)	(948)
Proceeds from sales of loans held for sale	81,785	113,558
Deferred income taxes	17,607	140,099
Decrease (increase) in interest receivable	7,745	(11,029)
Increase in cash surrender value of life insurance	(3,491)	(3,178)
Decrease (increase) in prepaid expenses	1,687	(991)
Decrease in indemnification asset	49,698	0
(Decrease) increase in accrued expenses	(32,005)	10,103
Increase (decrease) in interest payable	1,960	(847)
Contribution to pension plan	0	(30,800)
Other	(13,963)	(14,425)
Net cash provided by (used in) operating activities	147,050	(1,180)
<b>Investing activities</b>		
Proceeds from sales of securities available-for-sale	0	152,720
Proceeds from calls, paydowns and maturities of securities available-for-sale	112,055	135,566
Purchases of securities available-for-sale	(254,734)	(113,042)
Proceeds from calls, paydowns and maturities of securities held-to-maturity	852	647
Purchases of securities held-to-maturity	(577)	0
Net increase in interest-bearing deposits with other banks	(18,440)	(728,853)
Net decrease (increase) in loans and leases, excluding covered loans	86,106	(180,908)
Net decrease in covered assets	279,900	10,384
Proceeds from disposal of other real estate owned	3,769	5,046
Purchases of premises and equipment	(16,961)	(10,124)
Net cash acquired from acquisitions	0	285,562
Net cash proceeds received in FDIC assisted acquisition	0	967,391
Net cash provided by investing activities	191,970	524,389
<b>Financing activities</b>		
Net decrease in total deposits	(299,377)	(51,325)



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

Net increase (decrease) in short-term borrowings	21,317	(308,770)
Payments on long-term borrowings	(255,149)	(101,463)
Cash dividends paid on common stock	(16,708)	(13,880)
Cash dividends paid on preferred stock	(1,100)	(2,578)
Redemption of preferred stock	(80,000)	0
Issuance of common stock, net of issuance costs	91,224	97,985
Proceeds from exercise of stock options	206	0
Excess tax benefit (liability) on share-based compensation	518	(189)
Net cash used in financing activities	(539,069)	(380,220)
<b>Cash and cash equivalents:</b>		
Net (decrease) increase in cash and cash equivalents	(200,049)	142,989
Cash and cash equivalents at beginning of period	344,150	100,935
Cash and cash equivalents at end of period	\$ 144,101	\$ 243,924

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,	
	2010	2009
<b>Supplemental Schedule for Investing Activities</b>		
<b>Acquisitions</b>		
Assets acquired - branch acquisition	\$ 0	\$ 79,101
Liabilities assumed - branch acquisition	0	84,641
Goodwill	\$ 0	\$ 5,540
Assets acquired - Peoples	\$ 0	\$ 566,642
Liabilities assumed - Peoples	0	584,661
Goodwill	\$ 0	\$ 18,019
Assets acquired - Irwin	\$ 0	\$ 3,230,376
Liabilities assumed - Irwin	0	2,887,882
Bargain purchase gain	\$ 0	\$ 342,494

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	Preferred	Common	Common	Retained	Accumulated	Treasury stock		Total
	Stock	Stock	Stock	Stock		earnings	other	Shares	
	Shares	Amount	Shares	Amount		comprehensive			
						income			
						(loss)			
Balances at January 1, 2009	80,000	\$ 78,019	48,558,614	\$ 394,169	\$ 76,339	\$(11,905)	(11,077,413)	\$(188,295)	\$ 348,322
Net income					207,542				207,542
Unrealized holding gains (losses) on securities available-for-sale arising during the period						4,939			4,939
Change in retirement obligation						501			501
Unrealized loss on derivatives-Prime Swap market value adj.						(356)			(356)
Unrealized loss on derivatives-Trust Preferred Swap market value adj.						162			162
Total comprehensive income									212,788
Issuance of common stock			13,800,000	97,985					97,985
Cash dividends declared :									
Common stock at \$0.30 per share						(12,650)			(12,650)
Preferred stock						(2,578)			(2,578)
Discount on preferred stock		252				(252)			
Excess tax liability on share-based compensation					(189)				(189)
Restricted stock awards, net of forfeitures					(3,184)		150,221	2,845	(3,184)

Share-based compensation expense				2,073						2,073
Balances at September 30, 2009	80,000	78,271	62,358,614	490,854	268,401	(6,659)	(10,927,192)	(185,450)		645,417
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 redemption	(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				(3,586)			170,381	2,968		(618)

forfeitures															
Share-based compensation expense				2,155						2,155					
Balances at September 30, 2010	0	\$	0	68,730,731	\$	579,309	\$	301,777	\$	(9,106)	(10,672,797)	\$	(181,049)	\$	690,93

See Notes to Consolidated Financial Statements.

FIRST FINANCIAL BANCORP. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2010  
(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 subsidiaries – First Financial Bank, N.A. and First Financial Capital Advisors LLC, a registered investment advisor. 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, 2009. 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, 2009, has been derived from the audited financial statements in the company's 2009 Form 10-K.

The Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) became effective July 1, 2009. At that date, the ASC became the FASB's officially recognized source of authoritative GAAP applicable to all public and non-public non-governmental entities, superseding existing FASB, American Institute of Certified Public Accountants, Emerging Issues Tax Force, and related literature. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under the authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. All other accounting literature is considered non-authoritative. The change to ASC affects the way companies refer to GAAP in financial statements and accounting policies. Citing particular content in the ASC involves specifying the unique numeric path to the content through the Topic, Subtopic, Section, and Paragraph structure.

**NOTE 2: RECENTLY ADOPTED AND ISSUED ACCOUNTING STANDARDS**

Effective January 1, 2010, First Financial adopted the amended guidance on the consolidation of variable interest entities in ASC Topic 810, Consolidations. This guidance affects all entities and enterprises currently within its scope, as well as qualifying special purpose entities that were previously outside of its scope, and is effective for fiscal years beginning after November 15, 2009, with early adoption prohibited. The adoption of this guidance did not have a material impact on First Financial's Consolidated Financial Statements.

Effective January 1, 2010, First Financial adopted the amended guidance on derecognition on transfers of financial assets in ASC Topic 860, Transfers and Servicing. This guidance removes the concept of a qualifying special-purpose

entity and removes the exception from applying ASC Topic 810, Consolidations, to qualifying special-purpose entities. This guidance applies prospectively to transfers of financial assets occurring on or after the effective date and was effective for fiscal years beginning after November 15, 2009, with early adoption prohibited. The adoption of this guidance did not have a material impact on First Financial's Consolidated Financial Statements.

Effective January 1, 2010, First Financial adopted the amended guidance on variable interest entities in ASC Topic 810-10. This guidance replaces the quantitative-based risks-and-rewards calculation for determining which reporting entity, if any, has controlling financial interest in a variable interest entity with an approach focused on identifying which reporting entity has (1) the power to direct the activities of a variable interest entity that most significantly affect the entity's economic performance and (2) the obligation to absorb losses of, or the right to receive benefits from, the entity. This guidance also requires additional disclosures about a reporting entity's involvement with variable interest entities and about any significant changes in risk exposure as a result of that involvement. The adoption of this guidance did not have a material impact on First Financial's Consolidated Financial Statements.

Effective January 1, 2010 First Financial adopted the amended guidance on fair value disclosures in ASC Topic 820, Fair Value Measurements and Disclosures. This amended guidance requires disclosures about transfers into and out of Levels 1 and 2 and separate disclosures about purchases, sales, issuances, and settlements relating to Level 3 measurements. The guidance also clarifies existing fair value disclosures about the level of disaggregation and about inputs and valuation techniques used to measure fair value and amends guidance on employers' disclosures about postretirement benefit plan assets under ASC Topic 715, Compensation – Post Retirement Benefits, to require that disclosures be provided by classes of assets instead of by major categories of assets. This guidance was effective for the first reporting period, including interim periods, beginning after December 15, 2009, except for the requirement to provide the Level 3 activity of purchases, sales, issuances, and settlements on a gross basis, which will be effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. For further detail on First Financial's fair value measurements and disclosures, see Note 14 - Fair Value Disclosures.

In March 2010, the FASB issued an update (ASU No. 2010-11, Scope Exception Related to Embedded Credit Derivatives) impacting FASB ASC 815-15, Derivatives and Hedging — Embedded Derivatives. The amendments clarify the scope exception for embedded credit derivative features related to the transfer of credit risk in the form of subordination of one financial instrument to another. This update became effective for First Financial for the interim reporting period beginning after June 15, 2010 and did not have a material impact on First Financial's consolidated financial statements or results of operations.

In April 2010, the FASB issued an update (ASU No. 2010-18, Effect of a Loan Modification When the Loan Is Part of a Pool That Is Accounted for as a Single Asset) impacting FASB ASC 310-30, Receivables — Loans and Debt Securities Acquired with Deteriorated Credit Quality. Under the amendments, modifications of loans that are accounted for within a pool do not result in the removal of those loans from the pool even if the modification of those loans would otherwise be considered a troubled debt restructuring. An entity will continue to be required to consider whether the pool of assets in which the loan is included is impaired if expected cash flows for the pool change. This update became effective for First Financial for the interim reporting period beginning after June 15, 2010 and did not have a material impact on First Financial's consolidated financial statements or results of operations.

In July 2010, the FASB issued Accounting Standards Update 2010-20, Disclosure about the Credit Quality of Financing Receivables and the Allowance for Credit losses. The new guidance will increase disclosures made about the credit quality of loans and the allowance for credit losses. The disclosures will provide additional information about the nature of credit risk inherent in First Financial's loans, how credit risk is analyzed and assessed, and the reasons for the change in the allowance for loan losses. The requirements will be effective for First Financial's year ended December 31, 2010. First Financial is still evaluating the potential impact to its consolidated financial statements from the adoption of this guidance.

#### NOTE 3: BUSINESS COMBINATIONS

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).

Prior to the acquisition, Peoples operated 19 banking centers in the Cincinnati, Ohio metropolitan area. Excluding the effects of purchase accounting adjustments, First Financial acquired \$579.6 million in assets and assumed approximately \$520.8 million of the deposits of Peoples.

In connection with the Peoples acquisition, First Financial Bank entered into a loss sharing agreement with the FDIC that covers \$449.7 million of assets, based upon seller's records, including 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. First Financial acquired other Peoples assets that are not covered by the loss sharing agreement with the FDIC including investment securities purchased at fair market value and other tangible assets. Pursuant to the terms of the loss sharing agreement, the covered assets are subject to a stated loss threshold of \$190.0 million whereby the FDIC will reimburse First Financial for 80% of losses up to \$190.0 million, and 95% of losses in excess of this amount. First Financial will reimburse the FDIC for its share of recoveries with respect to losses for which the FDIC paid First Financial a reimbursement under the loss sharing agreement. The FDIC's obligation to reimburse First Financial for losses with respect to covered assets began with the first dollar of loss incurred.

On September 18, 2009, First Financial Bank, N.A, 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.

Prior to the acquisition, Irwin operated 27 banking centers primarily located in Indiana, with banking centers also located in Michigan, Nevada, Arizona, California, Kentucky, Missouri, New Mexico and Utah. Excluding the effects of purchase accounting adjustments, First Financial acquired \$2.6 billion in assets and assumed approximately \$2.5 billion of the deposits of Irwin.

In connection with the Irwin acquisitions, First Financial Bank entered into loss sharing agreements with the FDIC that collectively cover approximately \$2.2 billion of assets, based upon seller's records, which include single family residential mortgage loans, commercial real estate and commercial and industrial loans (covered assets). First Financial acquired other Irwin assets that are not covered by loss sharing agreements with the FDIC including investment securities purchased at fair market value and other tangible assets. Pursuant to the terms of the loss sharing agreements, the covered assets of Irwin Union Bank are subject to a stated loss threshold of \$526.0 million whereby the FDIC will reimburse First Financial for 80% of losses up to \$526.0 million, and 95% of losses in excess of this amount. Also pursuant to the terms of the loss sharing agreements, the covered assets of Irwin FSB are subject to a stated loss threshold of \$110.0 million whereby the FDIC will reimburse First Financial for 80% of losses up to \$110.0 million, and 95% of losses in excess of this amount. First Financial will reimburse the FDIC for its share of recoveries with respect to losses for which the FDIC paid First Financial a reimbursement under the loss sharing agreements. The FDIC's obligation to reimburse First Financial for losses with respect to covered assets began with the first dollar of loss incurred.

The amounts covered by the loss sharing agreements are the pre-acquisition book values of the underlying covered assets, the contractual balance of unfunded commitments that were acquired, and certain future net direct costs. The loss sharing agreements applicable to single family residential mortgage loans provide for FDIC loss sharing and First Financial reimbursement to the FDIC, in each case as described above, for ten years. The loss sharing agreements applicable to all other covered assets provide for FDIC loss sharing for five years and First Financial reimbursement of recoveries to the FDIC for eight years, in each case as described above.

The loss sharing agreements are subject to certain servicing procedures as specified in agreements with the FDIC. The expected reimbursements under the loss sharing agreements were recorded as indemnification assets at their estimated fair values of \$63.4 million and \$224.6 million for the Peoples Agreement and the Irwin Agreements, respectively, on the acquisition dates. The indemnification assets reflect the present value of the expected net cash reimbursement related to the loss sharing agreements described above.

The estimated fair value of liabilities assumed exceeded the estimated fair value of assets acquired in the Peoples acquisition, resulting in the recognition of goodwill in the amount of approximately \$18.0 million. In the Irwin acquisition, the estimated fair value of assets acquired exceeded the estimated fair value of liabilities assumed, resulting in a bargain purchase gain of \$342.5 million and the recognition of a \$213.2 million after-tax gain.

First Financial did not acquire the real estate, banking facilities, furniture and equipment of Peoples as part of the purchase and assumption agreement but had the option to purchase these assets at fair market value from the FDIC. This purchase option expired 90 days after acquisition date, but was extended by the FDIC. First Financial completed a review of the former Peoples locations and notified the FDIC during the first quarter of 2010 of the company's intent to purchase certain properties for a combined purchase price of \$7.9 million. First Financial completed the acquisition of these properties from the FDIC in the third quarter of 2010, concluding its last material settlement with the FDIC related to the acquisition of Peoples.

First Financial has determined that the acquisitions of the net assets of Peoples and Irwin constitute business combinations as defined by the FASB ASC Topic 805, Business Combinations. Accordingly, the assets acquired and liabilities assumed are presented at their fair values as required. Fair values were determined based on the requirements of FASB ASC Topic 820, Fair Value Measurements. In many cases the determination of these fair

values required management to make estimates about discount rates, future expected cash flows, market conditions and other future events that are highly subjective in nature and subject to change.

Early in the fourth quarter of 2009, First Financial completed the technology conversion and operational integration of Peoples. The conversion of Irwin's technology and operational systems was completed in the first quarter of 2010. During the first quarter of 2010, in conjunction with the planning and product mapping of the Irwin technology integration, First Financial determined that certain noninterest-bearing, interest-bearing and other savings account products were ultimately classified in categories different than had been previously reported. Based upon this updated product level information, the previously reported deposit line items in the third and fourth quarters of 2009 have been reclassified to reflect the classifications as shown in the first quarter 2010 reporting. This reclassification did not change the total amount of outstanding deposits in any reported period, only individual line items.

Estimated fair values were considered preliminary and, in accordance with FASB ASC Topic 805, were subject to change up to one year after the acquisition date. This allowed for adjustments to the initial purchase entries if additional information relative to closing date fair values became available. Material adjustments to acquisition date estimated fair values were recorded in the period in which the acquisition occurred and, as a result, previously reported results are subject to change. Certain reclassifications of prior periods' amounts were also made to conform to the current period's presentation and had no effect on previously reported net income amounts. The one year measurement period expired at the end of the third quarter of 2010.

First Financial made certain adjustments to the estimated fair values of the assets and liabilities acquired in connection with the Irwin acquisitions during the third quarter of 2010 based on new information. As a result of its valuation procedures and assumptions regarding the timing of expected loss experience related to loans acquired from Irwin, First Financial determined that the FDIC indemnification asset related to these loans required an adjustment decreasing the balance by \$22.4 million. The FDIC indemnification asset represents the expected payments from the FDIC over the course of the loss sharing agreements, on a discounted basis. The fair value of loans acquired from Irwin was adjusted to reflect the impact of reclassifications of the initial category assignments. The fair value adjustment of other assets is primarily related to the establishment of valuation allowances for certain assets and investments of Irwin subsidiaries as well as other community reinvestment related assets. These adjustments resulted in a \$36.6 million pre-tax decline in the bargain purchase gain on the Irwin acquisitions and are included in the tables below.

The table below summarizes all material adjustments to the fair values of assets acquired in the Irwin transactions during the one year measurement period and the impact on the bargain purchase gain recorded on the acquisitions.

(Dollars in thousands)	Three months ended September 30, 2009 Pre-Tax Impact
Bargain purchase gain on acquisitions, as originally reported	\$ 383,330
Adjustments:	
Valuation - indemnification asset related to Irwin	(23,784)
Valuation - loans acquired from Irwin	(1,496)
Other net asset valuations	(15,556)
Total adjustments to gain on acquisitions	(40,836)
Bargain purchase gain on acquisitions, as adjusted	\$ 342,494

First Financial also made certain adjustments to the estimated fair values of the assets and liabilities acquired in connection with the Peoples acquisition during the third quarter of 2010 based on new information. As a result of these adjustments, goodwill was decreased for the Peoples Community Bank acquisition by \$0.1 million.

Until First Financial and the FDIC conduct a final settlement for the Irwin transactions, the determination of which assets and liabilities are ultimately acquired or assumed by First Financial cannot be completed. The estimated fair values for the purchased impaired and nonimpaired loans were based upon the FDIC's estimated data for acquired loans. First Financial anticipates the final settlement for the Irwin transactions will be completed in the fourth quarter of 2010. In addition, the tax treatment of FDIC assisted acquisitions is complex and subject to interpretations that may result in future adjustments of deferred taxes as of the acquisition dates.

(Dollars in thousands)	Peoples		Irwin			
	As Recorded by FDIC	Fair Value Adjustments	As Recorded by FFB	As Recorded by FDIC	Fair Value Adjustments	As Recorded by FFB
<b>Assets</b>						
Cash and interest-bearing deposits	\$ 87,158	\$ 0	\$ 87,158	\$ 158,786	\$ 0	\$ 158,786
Investment securities	37,681	0	37,681	70,700	0	70,700
Covered loans	431,217	(100,425)	330,792	2,237,158	(483,026)	1,754,132
Total loans	431,217	(100,425)	330,792	2,237,158	(483,026)	1,754,132
Goodwill (Bargain Purchase)	0	18,019	18,019	0	(342,494)	(342,494)
Core deposit intangible	0	1,820	1,820	0	3,326	3,326
Covered other real estate owned	18,457	(7,728)	10,729	796	0	796
FDIC indemnification asset	0	63,420	63,420	0	224,620	224,620
Other assets	5,115	(4,697)	418	106,073	(20,870)	85,203
Total assets acquired	\$ 579,628	\$ (29,591)	\$ 550,037	\$ 2,573,513	\$ (618,444)	\$ 1,955,065
<b>Liabilities</b>						
<b>Deposits</b>						
Noninterest-bearing deposit accounts	\$ 49,424	\$ 0	\$ 49,424	\$ 300,859	\$ 0	\$ 300,859
Interest-bearing deposit accounts	0	0	0	741,525	0	741,525
Savings deposits	168,220	0	168,220	79,987	0	79,987
Time deposits	303,135	0	303,135	1,376,076	0	1,376,076
Total deposits	520,779	0	520,779	2,498,447	0	2,498,447
Advances from Federal Home Loan Banks	58,940	4,598	63,538	337,433	17,685	355,118
Accrued expenses and other liabilities	344	0	344	32,638	1,679	34,317
Total liabilities assumed	\$ 580,063	\$ 4,598	\$ 584,661	\$ 2,868,518	\$ 19,364	\$ 2,887,882
Due from FDIC for net liabilities assumed	\$ 435	\$ 34,189	\$ 34,624	\$ 295,005	\$ 637,808	\$ 932,813

The following is a description of the methods used to determine the fair values of significant assets and liabilities presented above.

Cash and due from banks and interest-bearing deposits in banks and the Federal Reserve – The carrying amount of these assets is a reasonable estimate of fair value based on the short-term nature of these assets.

Investment Securities – Investment securities were acquired from the FDIC at fair market value which was their quoted market prices at the time of acquisition.

Covered loans – Fair values for covered loans 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, loan term and whether or not the loan was amortizing, and current discount rates. The discount rates used for loans were based on then current market rates for new originations of comparable loans and include adjustments for liquidity concerns. Fair values of covered loans include both a rate-based valuation mark, representing the carrying value discount required to establish the appropriate effective yield for covered loans, as well as a credit-based valuation mark representing the valuation adjustment applied to covered loans related to credit loss assumptions.

Core deposit intangible – This intangible asset represents the value of the relationships that Peoples and Irwin had with its deposit customers. The fair value of this intangible asset was estimated based on a discounted cash flow methodology that gave appropriate consideration to expected customer attrition rates, cost of the deposit base, and the net maintenance cost attributable to customer deposits.

Covered other real estate owned – Covered OREO is presented at the estimated value that management expects to receive when the property is sold, net of related costs of disposal.

FDIC indemnification asset – This loss sharing asset is measured separately from the related covered assets as it is not contractually embedded in the covered assets and is not transferable with the covered assets should First Financial choose to dispose of them. Fair value 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. These cash flows were discounted to reflect the uncertainty of the timing and receipt of the loss sharing reimbursement from the FDIC.

Deposits – The fair values used for the demand and savings deposits that comprise the transaction accounts acquired, by definition equal the amount payable on demand at the acquisition date. No fair value adjustment was applied for time deposits as First Financial was provided with the option, upon acquisition, to reset deposit rates to market rates currently offered.

Advances from Federal Home Loan Banks – The fair values of Federal Home Loan Bank (FHLB) advances were based on contractual pre-payment penalties that are determined by the FHLB.

#### NOTE 4: GOODWILL AND OTHER INTANGIBLE ASSETS

##### Goodwill

Changes in the net carrying amount of goodwill are shown below. No changes to goodwill were recorded for 2010.

(Dollars in thousands)

Balance at December 31, 2008	\$	28,261
Goodwill acquired:		
Peoples Community Bank		18,019
Branch Acquisition		5,540
Balance at December 31, 2009	\$	51,820

Assets and liabilities of acquired entities are recorded at their estimated fair values as of the acquisition date and are subject to refinement for up to one year as information relative to the fair values of that data becomes available. The change in the goodwill for 2009 was a result of purchase accounting adjustments related to the FDIC assisted transaction in July of 2009 for Peoples Community Bank and the August of 2009 purchase of three branches, and related loans and deposits from Irwin Union Bank and Trust Company. As a result of the refinement, goodwill was decreased for the Peoples Community Bank acquisition by \$0.1 million. First Financial expects all the goodwill resulting from the acquisitions described above to be deductible for tax purposes.

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, 2009, and determined that no impairment was indicated.

##### Other intangible assets

Other intangible assets consist of mortgage servicing rights and core deposit intangibles. Core deposit intangibles are amortized on an accelerated basis over their estimated useful lives and have an estimated weighted average life of 9.4 years.

Other intangible assets consisted of the following:

(Dollars in thousands)	September 30, 2010		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Core deposit intangibles	\$ 5,691	\$ (1,294)	\$ 4,397
Mortgage servicing rights	2,065	(413)	1,652
Total other intangible assets	\$ 7,756	\$ (1,707)	\$ 6,049

(Dollars in thousands)	December 31, 2009		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Core deposit intangibles	\$ 5,691	\$ (332)	\$ 5,359
Mortgage servicing rights	2,072	(96)	1,976
Other	178	(52)	126
Total other intangible assets	\$ 7,941	\$ (480)	\$ 7,461

#### Mortgage Servicing Rights

Changes in capitalized mortgage servicing rights are summarized as follows:

(Dollars in thousands)	September 30,	
	2010	2009
Balance at beginning of year	\$ 1,976	\$ 398
Rights acquired	0	1,930
Amortization	(324)	(53)
Rights sold	0	0
Balance at end of period	\$ 1,652	\$ 2,275

Due to the 2009 acquisition of Irwin Union Bank, First Financial acquired \$1.9 million in servicing rights. No new servicing rights were capitalized.

The estimated fair value of capitalized mortgage servicing rights was \$1.7 million at September 30, 2010, and \$2.0 million at December 31, 2009.

#### 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.



Standby 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 standby letters of credit aggregating \$23.0 million and \$22.9 million at September 30, 2010, and December 31, 2009, respectively.

Management conducts regular reviews of these instruments on an individual client basis and does not anticipate any material losses as a result of these letters of credit.

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 \$1.0 billion at September 30, 2010, and \$1.1 billion at December 31, 2009.

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, 2010.

(Dollars in thousands)	Held-to-Maturity				Available-for-Sale			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value
U.S. Treasuries	\$ 14,335	\$ 576	\$ 0	\$ 14,911	\$ 0	\$ 0	\$ 0	\$ 0
Securities of U.S. government agencies and corporations	0	0	0	0	110,023	1,567	0	111,590
Mortgage-backed securities	125	4	0	129	462,111	17,141	(65)	479,187
Obligations of state and other political subdivisions	3,382	333	0	3,715	15,146	283	(50)	15,379
Other securities	0	0	0	0	9,621	398	0	10,019
Total	\$ 17,842	\$ 913	\$ 0	\$ 18,755	\$ 596,901	\$ 19,389	\$ (115)	\$ 616,175

The following is a summary of held-to-maturity and available-for-sale investment securities as of December 31, 2009.

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

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

U.S. Treasuries	\$ 13,857	\$ 204	\$ (31)	\$ 14,030	\$ 0	\$ 0	\$ 0	\$ 0
Securities of U.S. government agencies and corporations	0	0	0	0	20,036	585	0	20,621
Mortgage-backed securities	149	1	0	150	407,221	15,407	(369)	422,259
Obligations of state and other political subdivisions	4,109	301	0	4,410	17,949	303	(130)	18,122
Other securities	0	0	0	0	9,747	266	(13)	10,000
Total	\$ 18,115	\$ 506	\$ (31)	\$ 18,590	\$ 454,953	\$ 16,561	\$ (512)	\$ 471,002

The following is a summary of investment securities by estimated maturity as of September 30, 2010.

	Held-to-Maturity		Available-for-Sale	
	Amortized Cost	Market Value	Amortized Cost	Market Value
Due in one year or less	\$ 3,323	\$ 3,332	\$ 22,955	\$ 23,121
Due after one year through five years	13,352	14,070	503,464	519,858
Due after five years through ten years	289	335	48,611	50,440
Due after ten years	878	1,018	21,871	22,756
<b>Total</b>	<b>\$ 17,842</b>	<b>\$ 18,755</b>	<b>\$ 596,901</b>	<b>\$ 616,175</b>

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

(Dollars in thousands)	September 30, 2010					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Mortgage-backed securities	\$ 882	\$ 0	\$ 1,372	\$ 65	\$ 2,254	\$ 65
Obligations of state and other political subdivisions	0	0	2,235	50	2,235	50
<b>Total</b>	<b>\$ 882</b>	<b>\$ 0</b>	<b>\$ 3,607</b>	<b>\$ 115</b>	<b>\$ 4,489</b>	<b>\$ 115</b>

(Dollars in thousands)	December 31, 2009					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Treasuries	\$ 2,277	\$ 31	\$ 0	\$ 0	\$ 2,277	\$ 31
Mortgage-backed securities	23,800	266	1,608	103	25,408	369
Obligations of state and other political subdivisions	621	10	1,540	120	2,161	130
Other securities	312	13	0	0	312	13
<b>Total</b>	<b>\$ 27,010</b>	<b>\$ 320</b>	<b>\$ 3,148</b>	<b>\$ 223</b>	<b>\$ 30,158</b>	<b>\$ 543</b>

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 three and nine months ended September 30, 2010.



First Financial had trading securities with a fair value of \$0 at September 30, 2010, \$0.2 million at December 31, 2009, and \$0.3 million at September 30, 2009. For further detail on the fair value of investment securities, see Note 14 – Fair Value Disclosures.

#### NOTE 7: DERIVATIVES

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

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

(Dollars in thousands)	September 30, 2010			December 31, 2009			September 30, 2009		
	Fair Value Hedges	Cash Flow Hedges	Total	Fair Value Hedges	Cash Flow Hedges	Total	Fair Value Hedges	Cash Flow Hedges	Total
Instruments associated with:									
Loans	\$ 509,901	\$ 0	\$ 509,901	\$ 456,077	\$ 0	\$ 456,077	\$ 432,257	\$ 0	\$ 432,257
Other long-term debt	0	20,000	20,000	0	20,000	20,000	0	20,000	20,000
Total notional value	\$ 509,901	\$ 20,000	\$ 529,901	\$ 456,077	\$ 20,000	\$ 476,077	\$ 432,257	\$ 20,000	\$ 452,257

While authorized to use a variety of derivative products, First Financial primarily utilizes interest rate swaps as a means to offer borrowers 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 percent of assets, total credit exposure of less than 3 percent of capital, and no single counterparty credit risk exposure greater than \$20 million. The company is currently well below all single counterparty and portfolio limits. At September 30, 2010, the company had a total counterparty notional amount outstanding of approximately \$285.7 million, spread among six counterparties, with an outstanding liability from these contracts of \$14.1 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 \$18.1 million, \$11.2 million, and \$8.7 million at September 30, 2010, December 31, 2009, and September 30, 2009, respectively. First Financial classifies the derivative cash collateral outstanding with its counterparties as an adjustment to the fair value of the derivative contracts within accrued interest and other liabilities in the Consolidated Balance Sheets.

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

(Dollars in thousands)	Balance Sheet Location	September 30, 2010			December 31, 2009			September 30, 2009		
		Notional Amount	Estimated Gain	Fair Value Loss	Notional Amount	Estimated Gain	Fair Value Loss	Notional Amount	Estimated Gain	Fair Value Loss
Fair Value Hedges		\$ 21,543	\$ 0	\$ (2,927)	\$ 22,559	\$ 0	\$ (1,928)	\$ 22,795	\$ 0	\$ (2,331)

Pay fixed interest rate swaps with counterparty	Accrued interest and other liabilities									
Matched interest rate swaps with borrower	Accrued interest and other assets	244,179	19,919	0	216,759	10,226	(32)	204,731	12,353	0
Matched interest rate swaps with counterparty	Accrued interest and other liabilities	244,179	0	(20,734)	216,759	32	(10,661)	204,731	0	\$(12,353)
Cash Flow Hedge										
Trust Preferred Swap	Accumulated other comprehensive income (loss)	20,000	0	(1,326)	20,000	998	0	20,000	253	0
Total		\$ 529,901	\$ 19,919	\$ (24,987)	\$ 476,077	\$ 11,256	\$ (12,621)	\$ 452,257	\$ 12,606	\$ (14,684)

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, 2010:

(Dollars in thousands)	Notional Value	Average Maturity (years)	Fair Value	Weighted-Average Rate	
				Receive	Pay
<b>Asset conversion swaps</b>					
Pay fixed interest rate swaps with counterparty	\$ 21,543	5.2	\$ (2,927)	2.28%	6.83%
Receive fixed, matched interest rate swaps with borrower	244,179	4.4	19,919	6.22%	2.87%
Pay fixed, matched interest rate swaps with counterparty	244,179	4.4	(20,734)	2.87%	6.22%
<b>Total asset conversion swaps</b>	<b>509,901</b>	<b>4.4</b>	<b>(3,742)</b>	<b>4.45%</b>	<b>4.64%</b>
<b>Liability conversion swaps</b>					
Trust Preferred Swap	20,000	8.5	(1,326)	3.63%	6.20%
<b>Total liability conversion swaps</b>	<b>20,000</b>	<b>8.5</b>	<b>(1,326)</b>	<b>3.63%</b>	<b>6.20%</b>
<b>Total swap portfolio</b>	<b>\$ 529,901</b>	<b>4.6</b>	<b>\$ (5,068)</b>	<b>4.42%</b>	<b>4.70%</b>

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 swap agreements generally involve the net receipt by First Financial of floating-rate amounts in exchange for net payments by First Financial, through its loan clients, of fixed-rate amounts over the life of the agreements without an exchange of the underlying principal or notional amount. This results in First Financial's loan customers receiving fixed rate funding, while providing First Financial with a floating rate asset. The net interest receivable or payable on the interest rate swaps is accrued and recognized as an adjustment to the interest income or interest expense of the hedged item. The fair value of the interest rate swaps is included within accrued interest and other assets on the Consolidated Balance Sheets. The corresponding fair-value adjustment is also included on the Consolidated Balance Sheets in the carrying value of the hedged item. Derivative gains and losses not considered effective in hedging the change in fair value of the hedged item are recognized immediately in income. The following table details the location and amounts recognized for fair value hedges:

(Dollars in thousands)	Location of change in fair value recognized in earnings on derivative	Increase (decrease) to Interest Income Three Months Ended		
		September 30, 2010	December 31, 2009	September 30, 2009
Derivatives in fair value hedging relationships				
<b>Interest Rate Contracts</b>				
	Loans			
	Interest Income - Loans	\$ (249)	\$ (253)	\$ (252)
<b>Total</b>		<b>\$ (249)</b>	<b>\$ (253)</b>	<b>\$ (252)</b>



Derivatives in fair value hedging relationships	Location of change in fair value recognized in earnings on derivative	Increase (decrease) to Interest Income Nine Months Ended	
		September 30, 2010	September 30, 2009
<b>Interest Rate Contracts</b>			
	Loans	Interest Income - Loans	
		\$ (759)	\$ (755)
<b>Total</b>		\$ (759)	\$ (755)

Cash Flow Hedges – First Financial utilizes interest rate swaps designated as cash flow hedges to manage the variability of cash flows, primarily net interest income, attributable to changes in interest rates. The net interest receivable or payable on an interest rate swap designated as a cash flow hedge is accrued and recognized as an adjustment to interest income or interest expense. The fair value of 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 swap 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. All of First Financial's cash flow hedges are considered effective.

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 involves the receipt by First Financial of variable-rate interest amounts in exchange for fixed-rate interest payments by First Financial for a period of 10 years. The net interest receivable or payable on the trust preferred interest rate swap is accrued and recognized as an adjustment to interest expense. The fair value of the trust preferred interest rate swap is included in accrued interest and other assets or liabilities on the Consolidated Balance Sheets. Changes in the fair value of the trust preferred interest rate swap are included in accumulated other comprehensive income (loss) on the Consolidated Balance Sheets. The following table details the location and amounts recognized for cash flow hedges.

Derivatives in cash flow hedging relationships	Amount of gain or (loss) recognized in OCI on derivatives (effective portion) Three 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) Three Months Ended	
	September 30, 2010	September 30, 2009		September 30, 2010	September 30, 2009
	<b>Interest Rate Contracts</b>			<b>Interest Expense</b>	
Other long-term debt	\$ (471)	\$ (312)	Other long-term debt	\$ (131)	\$ (128)
<b>Total</b>	<b>\$ (471)</b>	<b>\$ (312)</b>		<b>\$ (131)</b>	<b>\$ (128)</b>

Derivatives in cash flow hedging relationships	Amount of gain or (loss) recognized in OCI on derivatives (effective portion) Nine 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) Nine Months Ended	
	September 30, 2010	September 30, 2009		September 30, 2010	September 30, 2009
	<b>Interest Rate Contracts</b>			<b>Interest Expense</b>	
Other long-term debt	\$ (1,470)	\$ 161	Other long-term debt	\$ (417)	\$ (223)
<b>Total</b>	<b>\$ (1,470)</b>	<b>\$ 161</b>		<b>\$ (417)</b>	<b>\$ (223)</b>

First Financial expects approximately \$0.3 million of the unrecognized losses on cash flow hedges, net of taxes, at September 30, 2010 to be reclassified into earnings within the next 12 months.

U.S. lawmakers recently passed financial reform legislation, including new regulations on the use of derivatives. While specific regulations are yet to be enacted, First Financial continues to monitor these developments and assess the potential impact on its use of derivatives.

#### 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. During the third quarter of 2008, First Financial executed \$65.0 million in repurchase agreements with remaining maturities of between three and five years and a weighted average rate of 3.50%. These instruments have current call dates of less than one year. Securities pledged as collateral in conjunction with the repurchase agreements are included within Investment securities available-for-sale on the Consolidated Balance Sheets. First Financial assumed additional FHLB long-term advances in the Peoples and Irwin acquisitions of \$63.5 million and \$216.3 million, respectively. During the third quarter of 2010, approximately \$232 million of these advances were prepaid. These advances had a weighted average maturity of 5.5 years, an effective duration of 3.3 years, and a weighted average effective yield of 2.08% after adjusting for the

impact of purchase accounting adjustments. The funding for the prepayments consisted entirely of interest-bearing deposits with other banks that were previously earning 0.25%. As of September 30, 2010, the remaining FHLB long-term advances assumed in the two transactions totaled \$1.7 million and had remaining maturities of less than 9 years and a weighted average effective yield of 5.04%.

The following is a summary of long-term debt:

(Dollars in thousands)	September 30, 2010	
	Amount	Average Rate
Federal Home Loan Bank	\$ 64,224	3.83%
National Market Repurchase Agreement	65,000	3.50%
Total long-term debt	\$ 129,224	3.66%

#### NOTE 9: OTHER LONG-TERM DEBT

Other long-term debt on the Consolidated Balance Sheets consists 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).

The debentures issued in 2003 were eligible for early redemption by First Financial in September of 2008. First Financial did not elect to redeem early, but under the terms of the agreement may redeem the securities on any interest payment date, with a final maturity in 2033.

First Financial owns 100% of the common equity of the remaining trust, Trust II. The trust was formed with the sole purpose of issuing the capital securities and investing the proceeds from the sale of such capital securities in the debentures. The debentures held by the trust are the sole asset of the trust. Distributions on the capital securities are payable quarterly at a variable rate of interest, which is equal to the interest rate being earned by the trust on the debentures and are recorded as interest expense of First Financial. The interest rate is subject to change every three months, indexed to the three-month London Inter-Bank Offered Rate (LIBOR).

First Financial has the option to defer interest for up to five years on the debentures. However, the debt covenants prevent the payment of dividends on First Financial's common stock if the interest is deferred. The capital securities are subject to mandatory redemption, in whole or in part, upon repayment of the debentures. First Financial has entered into agreements which, taken collectively, fully or unconditionally guarantee the capital securities subject to the terms of the guarantees. The debenture currently qualifies as Tier I capital under Federal Reserve Board guidelines, but is limited to 25% of qualifying Tier I capital. The company has the capacity to issue approximately \$148.7 million in additional qualifying debentures under these guidelines.

The following is a summary of other long-term debt:

(Dollars in \$000's)	Amount	Contractual	Maturity
		Rate	Date
First Financial (OH) Statutory Trust II	\$ 20,000	3.63%	09/30/2033

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 indexed to the London Inter-Bank Offered Rate (LIBOR). The interest rate swap involves the receipt by First Financial of variable-rate interest amounts in exchange for fixed-rate interest payments by First Financial for a period of 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. The net interest receivable or payable on the trust preferred interest rate swap is accrued and recognized as an adjustment to interest expense. The fair value of the trust preferred interest rate swap is included in accrued interest and other assets or liabilities on the Consolidated Balance Sheets. Changes in the fair value of the trust preferred interest rate swap are included in accumulated other comprehensive income (loss) on the Consolidated Balance Sheets. For further information on this cash flow hedge, see Note 7.

**NOTE 10: COVERED LOANS**

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, 2010 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.

All loans acquired in the Peoples and Irwin acquisitions are 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 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 balance, with the accretable balance being recognized as interest income over the remaining term of the loan.

The following table reflects the carrying value of all purchased impaired and nonimpaired loans as of September 30, 2010:

(Dollars in thousands)	Loans excluded from FASB ASC		Total Purchased Loans
	FASB ASC Topic 310-30	Topic 310-30 (1)	
Commercial	\$ 336,779	\$ 49,814	\$ 386,593
Real estate - construction	59,804	0	59,804
Real estate - commercial	880,940	16,447	897,387
Real estate - residential	167,039	69,253	236,292
Installment	20,201	1,662	21,863
Other covered loans	0	7,645	7,645
Total covered loans	\$ 1,464,763	\$ 144,821	\$ 1,609,584

(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 purchased impaired and nonimpaired loans accounted for under FASB ASC Topic 310-30, including contractual principal, interest, fees, and penalties, was \$2.4 billion and \$3.0 billion as of September 30, 2010 and December 31, 2009, respectively.

Changes in the carrying amount of accretable yield for purchased impaired and nonimpaired loans were as follows:

(Dollars in thousands)	Three Months Ended September 30, 2010		Nine Months Ended September 30, 2010	
	Accretable Yield	Carrying Amount of Loans	Accretable Yield	Carrying Amount of Loans
Balance at beginning of period (1)	\$ 514,810	\$ 1,552,414	\$ 623,669	\$ 1,733,106
Reclassification from nonaccretable difference	81,067	0	81,067	0
Accretion	(34,891)	34,891	(104,096)	104,096
Payments received, net (2)	(11,893)	(122,542)	(51,547)	(372,439)
Balance at end of period	\$ 549,093	\$ 1,464,763	\$ 549,093	\$ 1,464,763

(1) Excludes covered lines of credit which are outside the scope of FASB ASC Topic 310-30 and certain consumer loans which are treated under the cost recovery method.

(2) Includes the impact of loan prepayments 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 2010. The Company recognized an improvement in the cash flow expectations related to

certain loan pools of \$36.7 million, which is reflected as a yield adjustment on a prospective basis. Additionally, the Company identified impairment in certain loan pools. First Financial recognized a provision expense related to covered loans of \$20.7 million and realized net charge-offs of \$10.4 million, resulting in an allowance for covered loan losses of \$11.6 million as of September 30, 2010. The related receivable due from the FDIC under loss share agreements related to these loans of \$17.8 million was recognized as FDIC loss share income and a corresponding increase to the FDIC indemnification asset.

## NOTE 11: ALLOWANCE FOR LOAN AND LEASE LOSSES

## Uncovered Loans

Due to the significant difference in the accounting for the covered loans and the loss sharing agreements with the FDIC, management believes that asset quality measures excluding the covered loans are generally more meaningful. Therefore, management has included asset quality measures that exclude covered loans in the tables below.

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

(Dollars in thousands)	Three Months Ended				Nine Months Ended		
	2010 Sep. 30	2010 June 30	2010 Mar. 31	2009 Dec. 31	2010 Sep. 30	2009 Sep. 30	
Balance at beginning of period	\$ 57,811	\$ 56,642	\$ 59,311	\$ 55,770	\$ 38,649	\$ 59,311	\$ 35,873
Provision for loan losses	6,287	6,158	11,378	14,812	26,655	23,823	41,272
Loans charged off	(8,124)	(5,457)	(14,485)	(12,055)	(10,063)	(28,066)	(22,894)
Recoveries	1,275	468	438	784	529	2,181	1,519
Ending allowance for loan and lease losses - uncovered	57,249	57,811	56,642	59,311	55,770	57,249	55,770
Allowance for loan and lease losses to total ending loans	2.07%	2.07%	2.01%	2.05%	1.94%	2.07%	1.94%

The allowance for uncovered loan and lease losses related to loans that are identified as impaired, as defined by FASB ASC Topic 310-10-35-4, Receivables-Subsequent Measurement: Loan Impairment, 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 uncovered impaired loans is as follows:

(Dollars in thousands)	As of and for the Quarter Ended				
	2010 Sep. 30	2010 Jun. 30	2010 Mar. 31	2009 Dec. 31	2009 Sep. 30
Impaired loans requiring a valuation	\$ 38,185	\$ 44,218	\$ 35,363	\$ 27,666	\$ 23,579
Impaired loans not requiring a valuation	39,057	35,205	39,090	49,437	40,113
Total impaired loans	\$ 77,242	\$ 79,423	\$ 74,453	\$ 77,103	\$ 63,692
Valuation allowance	\$ 12,124	\$ 12,004	\$ 12,310	\$ 11,662	\$ 9,789
Average impaired loans for the period	\$ 78,333	\$ 76,938	\$ 75,778	\$ 70,398	\$ 50,643
Interest income included in revenue	\$ 263	\$ 257	\$ 204	\$ 186	\$ 117

## Covered Loans

In accordance with accounting for business combinations, there was no allowance brought forward on any of the acquired loans, as the credit losses evident in the loans were included in the determination of the fair value of the loans at the acquisition date. The majority of the loans acquired in the Peoples and Irwin acquisitions were considered



to be accruing loans as of the acquisition date. In accordance with bank regulatory reporting standards, covered loans that are contractually past due will continue to be reported as past due and still accruing based on the number of days past due.

The Company established an allowance for loan losses associated with covered loans during the second quarter 2010 based on its valuation procedures performed during the period. This allowance, totaling \$1.3 million, was the net effect of \$19.0 million recognized as provision expense during the second quarter less \$17.7 million of net charge-offs related to these loans. The related, estimated reimbursement due from the FDIC under loss sharing agreements of \$15.2 million was recorded as both FDIC loss sharing income and an increase to the FDIC indemnification asset. The net amount of this activity reflects the Company's expected proportionate share of losses related to this impairment.

During the third quarter 2010, the Company updated its valuation procedures related to loans covered under loss share agreements. As a result of impairment in certain loan pools, it recognized a provision expense related to covered loans of \$20.7 million and realized net charge-offs of \$10.4 million, resulting in an allowance for covered loan losses of \$11.6 million as of September 30, 2010. The related receivable due from the FDIC under loss share agreements related to these loans of \$17.8 million was recognized as FDIC loss share 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. The timing inherent in this accounting treatment may result in earnings volatility in future periods.

(Dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Balance at beginning of period	\$ 1,273	\$ 0	\$ 0	\$ 0
Provision for impairment on covered loans	20,725	0	49,147	0
Loans charged off	(10,492)	0	(37,641)	0
Recoveries	77	0	77	0
Ending allowance for loan and lease losses - covered	11,583	0	11,583	0
Total allowance for loan and lease losses	\$ 11,583	\$ 0	\$ 11,583	\$ 0

#### NOTE 12: INCOME TAXES

First Financial's effective tax rate for the third quarter of 2010 was 36.2% compared to 37.8% for the third quarter of 2009. The 2010 year-to-date effective tax rate was 35.4% compared to 37.7% for 2009. The decrease in the effective tax rate was primarily due to the 2009 gain associated with the Irwin transaction as well as increased bank owned life insurance income and tax credits related to investments in low income housing initiatives, partially offset by a decrease in tax-exempt investment and loan interest.

At September 30, 2010, and December 31, 2009, 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 or state of Indiana income tax examinations.

First Financial is no longer subject to state and local income tax examinations for years prior to 2006. Tax years 2006 through 2008 remain open to state and local examination in various jurisdictions. The years open to examination by state and local government authorities vary by jurisdiction and First Financial is not aware of any material outstanding tax examination matters. There may be tax matters related to the acquisitions of Peoples and Irwin at the federal, state, and local levels that could arise in the future.

**NOTE 13: EMPLOYEE BENEFIT PLANS**

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

In April of 2009, due to the unfunded pension obligation resulting from the significant decline in equity market values, First Financial contributed \$30.8 million to its defined benefit pension plan. First Financial has not yet determined if it will make contributions to the plan during 2010.

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

(Dollars in thousands)	Three months ended		Nine months ended	
	September 30,		September 30,	
	2010	2009	2010	2009
Service cost	\$ 743	\$ 590	\$ 1,943	\$ 1,770
Interest cost	633	675	2,033	2,025
Expected return on assets	(1,199)	(918)	(3,699)	(2,753)
Amortization of prior service cost	(117)	(105)	(317)	(315)
Recognized net actuarial loss	498	388	1,548	1,163
Net periodic benefit cost	\$ 558	\$ 630	\$ 1,508	\$ 1,890

Amounts recognized in accumulated other comprehensive income (loss):

(Dollars in thousands)	Three months ended		Nine months ended	
	September 30,		September 30,	
	2010	2009	2010	2009
Net actuarial loss	\$ 498	\$ 388	\$ 1,548	\$ 1,163
Net prior service (credit) cost	(117)	(105)	(317)	(315)
Deferred tax assets	(141)	(141)	(167)	(347)
Net amount recognized	\$ 240	\$ 142	\$ 1,064	\$ 501

#### NOTE 14: 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.

Uncovered 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 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 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, loan term and whether or not the loan was amortizing, and current discount rates. Covered loans were grouped together according to similar characteristics and were treated in the aggregate when applying various valuation techniques. The discount rates used for covered loans are based on current market rates for new originations of comparable loans and include adjustments for liquidity concerns.

There was no allowance for loan and lease losses related to covered loans prior to June 30, 2010 as these loans were recorded at acquisition at their estimated fair value. With the exception of covered loans accounted for outside the scope of FASB ASC Topic 310-30, improvements in the estimated fair value of covered loans are reflected through higher yields on these loans while declines in the estimated fair value of covered loans are recorded as impairment

charges in the company's operating results in the period in which the decline occurs.

Under the applicable accounting guidance, impairment is generally recognized in the current period as provision expense while improvement in the credit outlook is not recognized immediately but instead is reflected as a loan yield adjustment on a prospective basis. The timing inherent in this accounting treatment may result in earnings volatility in future periods.

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 – These loss sharing assets are measured separately from the related covered assets as they are not contractually embedded in the assets and are not transferable with the assets should the Bank choose to dispose of them. Fair value 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. These expected reimbursements do not include reimbursable amounts related to future covered expenditures. These cash flows were discounted to reflect the uncertainty of the timing and receipt of the loss sharing reimbursement from the FDIC.

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

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

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



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

(Dollars in thousands)	September 30, 2010		December 31, 2009	
	Carrying value	Fair value	Carrying value	Fair value
<b>Financial assets</b>				
Cash and short-term investments	\$ 424,558	\$ 424,558	\$ 606,167	\$ 606,167
Investment securities trading	0	0	200	200
Investment securities held-to-maturity	17,842	18,755	18,115	18,590
Investment securities available-for-sale	616,175	616,175	471,002	471,002
Other investments	86,509	86,509	89,830	89,830
Loans held for sale	19,075	19,075	6,413	6,413
Loans, excluding covered loans	2,707,960	2,744,139	2,835,818	2,907,648
Covered loans	1,598,001	1,598,001	1,934,740	1,934,740
Mortgage-servicing rights	1,652	1,652	1,976	1,976
FDIC indemnification asset	237,709	237,709	287,407	287,407
Accrued interest receivable	14,902	14,902	22,647	22,647
Derivative financial instruments	0	0	998	998
<b>Financial liabilities</b>				
<b>Deposits</b>				
Noninterest-bearing	\$ 713,357	\$ 713,357	\$ 829,676	\$ 829,676
Interest-bearing demand	999,922	999,922	1,060,383	1,060,383
Savings	1,407,332	1,407,332	1,231,081	1,231,081
Time	1,930,652	1,961,775	2,229,500	2,230,273
Total deposits	5,051,263	5,082,386	5,350,640	5,351,413
Short-term borrowings	58,747	58,747	37,430	37,430
Long-term debt	129,224	136,153	404,716	428,358
Other long-term debt	20,620	20,620	20,620	20,620
Accrued interest payable	6,719	6,719	4,759	4,759
Derivative financial instruments	5,068	5,068	2,363	2,363

The following table summarizes the financial assets and liabilities measured at fair value on a recurring basis at September 30, 2010:

(Dollars in thousands)	Fair Value Measurements Using			Netting Adjustments (1)	Assets/Liabilities at Fair Value
	Level 1	Level 2	Level 3		
<b>Assets</b>					
Derivatives	\$ 0	\$ 20,734	\$ (815)	\$ (19,919)	\$ 0
Available-for-sale investment securities	112	616,063	0	0	616,175
Total	\$ 112	\$ 636,797	\$ (815)	\$ (19,919)	\$ 616,175
<b>Liabilities</b>					
Derivatives	\$ 0	\$ 25,042	\$ (55)	\$ (19,919)	\$ 5,068

(1) Amounts represent the impact of legally enforceable master netting arrangements that allow First Financial to settle positive and negative positions and also cash collateral held with the same counterparties.



Certain financial assets and liabilities are measured at fair value on a nonrecurring basis. Adjustments to the fair market value of these assets usually result from the application of lower-of-cost-or-market accounting or write-downs of individual assets. The following table summarizes financial assets and liabilities measured at fair value on a nonrecurring basis at September 30, 2010:

(Dollars in thousands)	Fair Value Measurements Using			Year-to-date Gains/(Losses)
	Level 1	Level 2	Level 3	
<b>Assets</b>				
Loans held for sale	\$ 0	\$ 19,075	\$ 0	0
Impaired loans (1)	0	20,968	2,146	0

(1) Amounts represent the fair value of collateral for impaired loans allocated to the allowance for loan and lease losses. Fair values are determined using actual market prices (Level 1), independent third party valuations, discounted as appropriate (Level 2), and borrower records discounted as appropriate (Level 3).

#### NOTE 15: ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

(Dollars in thousands)	September 30, 2010			
	Pre-tax	Transactions Tax-effect	Net of tax	Balances Net of tax
Unrealized gain on securities available-for-sale	\$ 3,225	\$ (1,331)	\$ 1,894	\$ 12,118
Unrealized loss on derivatives	(2,787)	1,022	(1,765)	(834)
Unfunded pension obligation	1,231	(167)	1,064	(20,697)
Foreign currency translation	188	0	188	307
Total	\$ 1,857	\$ (476)	\$ 1,381	\$ (9,106)

(Dollars in thousands)	September 30, 2009			
	Pre-tax	Transactions Tax-effect	Net of tax	Balances Net of tax
Unrealized gain on securities available-for-sale	\$ 7,728	\$ (2,789)	\$ 4,939	\$ 11,878
Unrealized gain on derivatives	(307)	113	(194)	575
Unfunded pension obligation	848	(347)	501	(19,112)
Total	\$ 8,269	\$ (3,023)	\$ 5,246	\$ (6,659)

## NOTE 16: EARNINGS PER COMMON SHARE

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

(Dollars in thousands, except per share data)	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Numerator for basic and diluted earnings per share -				
income available to common shareholders:				
Net income	\$ 15,579	\$ 200,357	\$ 44,951	\$ 207,542
Dividends on preferred stock	0	1,000	1,865	2,578
Income available to common shareholders	\$ 15,579	\$ 199,357	\$ 43,086	\$ 204,964
Denominator for basic earnings per share - weighted average shares				
	57,570,709	51,027,887	56,765,934	43,005,983
Effect of dilutive securities —				
Employee stock awards	873,959	429,302	887,477	496,578
Warrants	86,837	0	105,495	0
Denominator for diluted earnings per share - adjusted weighted average shares	58,531,505	51,457,189	57,758,906	43,502,561
Earnings per share available to common shareholders				
Basic	\$ 0.27	\$ 3.91	\$ 0.76	\$ 4.77
Diluted	\$ 0.27	\$ 3.87	\$ 0.75	\$ 4.71

Stock options and warrants, where the exercise price was greater than the average market price of the common shares, were not included in the computation of net income per diluted share as they would have been antidilutive. These out-of-the-money options were 692,312 and 3,272,093 at September 30, 2010 and 2009, respectively. The warrants to purchase 465,117 shares of common stock were also outstanding as of September 30, 2010. At September 30, 2009, the warrant to purchase 930,233 shares of common stock was also outstanding, but was out-of-the-money. The reduction in the warrant share position was a result of the common stock offering that occurred in June of 2009, in accordance with rules established by the U.S. Treasury.

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

SUMMARY

MARKET STRATEGY

First Financial serves a combination of metropolitan and non-metropolitan markets in Ohio, Indiana, Kentucky, and Michigan through 113 full-service banking centers across 75 communities. Market selection is based upon a number of factors, but markets are primarily chosen for their potential for growth, and long-term profitability. First Financial's goal is to develop a competitive advantage utilizing a local market focus; building long-term relationships with clients and helping them reach greater levels of success in their financial life. During the third quarter of 2009, First Financial assumed the banking operations of Peoples Community Bank (Peoples), Irwin Union Bank and Trust Company (Irwin Union Bank) and Irwin Union Bank, F.S.B. (Irwin FSB) (Irwin Union Bank and Irwin FSB, collectively, Irwin) through Federal Deposit Insurance Corporation (FDIC) assisted transactions. First Financial acquired a specialty, franchise lending subsidiary as part of the Irwin acquisition. The franchise finance business provides equipment and leasehold improvement financing for franchisees, in the quick service and casual dining restaurant sector, throughout the United States. First Financial intends to continue to concentrate future growth plans and capital investments in its metropolitan markets, however, the acquired franchise finance subsidiary is a national business. Smaller markets have historically provided stable, low-cost funding sources to First Financial and they remain an important part of its funding base. First Financial believes its historical strength in these markets should enable it to retain or improve its market share.

BUSINESS COMBINATIONS

All references to acquired balances reflect their fair values unless stated otherwise.

During the third quarter of 2009, through FDIC-assisted transactions, First Financial acquired the banking operations of Peoples and Irwin. The company also acquired 3 Indiana banking centers, including related deposits and loans, from Irwin in a separate and unrelated transaction. The acquisitions of the Peoples and Irwin franchises significantly expanded the First Financial footprint, opened new markets and strengthened the company through the generation of additional capital. Through these three transactions, the company added, at the time of acquisition, a total of 49 banking centers, including 39 banking centers within the company's primary markets. Since the acquisitions, 13 banking centers in non-strategic locations, primarily the western United States, have been closed.

In connection with the Peoples and Irwin FDIC-assisted transactions, First Financial entered into loss sharing agreements with the FDIC. Under the terms of these agreements the FDIC will reimburse First Financial for a percentage of losses with respect to certain loans (covered loans) and other real estate owned (OREO) (collectively, covered assets) beginning with the first dollar of loss. These agreements provide for loss protection on single-family, residential loans for a period of ten years and First Financial is required to share any recoveries of previously charged-off amounts for the same time period, on the same pro-rata basis with the FDIC. All other loans are provided loss protection for a period of five years and recoveries of previously charged-off loans must be shared with the FDIC for a period of eight years, again on the same pro-rata basis. Covered loans now represent approximately 37% of First Financial's loans.

First Financial must follow specific servicing and resolution procedures, as outlined in the loss share agreements, in order to receive reimbursement from the FDIC for losses on covered assets. The company has established separate and dedicated teams of legal, finance, credit and technology staff to execute and monitor all activity related to each agreement, including the required periodic reporting to the FDIC. First Financial intends to service all covered assets with the same resolution practices and diligence as it does for the assets that are not subject to a loss share agreement.

An overview of the transactions and their respective loss share agreements are discussed below.

Peoples Community Bank

Including cash received from the FDIC, First Financial acquired \$566.6 million in assets, including \$341.5 million in loans and other real estate, and assumed \$584.7 million in liabilities, including \$520.8 million in deposits. All assets and liabilities were recorded at their estimated fair market value resulting in recorded goodwill of \$18.0 million as the estimated fair value of liabilities assumed exceeded the estimated fair value of assets acquired.

Covered loans totaling \$421.0 million in unpaid principal balances are subject to a stated loss threshold of \$190.0 million whereby the FDIC will reimburse First Financial for 80% of covered asset losses up to \$190.0 million, and 95% of losses beyond \$190.0 million. The FDIC's obligation to reimburse First Financial for losses with respect to covered assets begins with the first dollar of loss incurred.

First Financial obtained a purchase option from the FDIC for each of Peoples bank properties and their associated contents. First Financial completed a review of the former Peoples locations and notified the FDIC of the company's intent to purchase certain properties for a combined purchase price of \$7.9 million during the first quarter of 2010. First Financial completed the acquisition of these properties from the FDIC in the third quarter of 2010, concluding its last material settlement with the FDIC related to the acquisition of Peoples.

Early in the fourth quarter of 2009, First Financial completed the technology conversion and operational integration of Peoples. In conjunction with these efforts, two former Peoples banking centers were consolidated into First Financial locations and one First Financial banking center was consolidated into a former Peoples location.

#### Irwin

Including cash received from the FDIC, First Financial acquired \$3.2 billion in assets, including \$1.8 billion in loans, and assumed \$2.9 billion in liabilities, including \$2.5 billion in deposits, with all assets and liabilities recorded at their estimated fair market value.

The loans were acquired under a modified transaction structure with the FDIC whereby certain nonperforming loans, foreclosed real estate, acquisition, development and construction loans, and residential and commercial land loans were excluded from the acquired portfolio. Until First Financial and the FDIC conduct a final settlement, the determination of which assets and liabilities are ultimately acquired or assumed by First Financial cannot be completed. First Financial anticipates the final settlement for the Irwin transactions will be completed in the fourth quarter of 2010.

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

Covered loans acquired from Irwin FSB totaling \$368.1 million in unpaid principal balances are subject to a stated loss threshold of \$110.0 million whereby the FDIC will reimburse First Financial for 80% of covered asset losses up to \$110.0 million, and 95% of losses beyond \$110.0 million. The FDIC's obligation to reimburse First Financial for losses with respect to covered assets begins with the first dollar of loss incurred.

As the estimated fair value of assets acquired exceeded the estimated fair value of liabilities assumed, First Financial recorded a pre-tax bargain purchase gain of \$342.5 million, as required by Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 805, Business Combinations.

Conversion of Irwin's technology and operational systems was completed in the first quarter of 2010.

#### Strategic Decisions

Management concluded that the markets previously operated by Irwin in the western United States did not align with the long-term strategic plans for the company. Each of these markets pursued an exit strategy whereby the market presidents worked with an institution of their choosing to refer existing client relationships. If a suitable financial institution was not identified, an exit date was selected for each market and the office closed in compliance with the applicable regulatory requirements. Exit strategies coincided with the conversion and operational integration process.

In the fourth quarter of 2009, the company elected to close the St. Louis, Missouri location and sold \$42.9 million in western market loans, at their unpaid principal balances.

Additionally, in the first quarter of 2010, First Financial closed 7 of the remaining 9 western market offices and sold an additional \$24.5 million in western market loans at their unpaid principal balances. The two remaining western offices were closed in the third quarter of 2010.

First Financial also acquired, as part of the Irwin transaction, a franchise finance business. This national business is a specialty lender in the quick service and casual dining segments of the restaurant industry. It is led by a seasoned management team with strong underwriting, credit management and loss mitigation experience. There were outstanding principal balances of approximately \$587.3 million in franchise finance loans at September 30, 2010, all of which are covered under a loss share agreement with the FDIC except for \$79.7 million of loans originated subsequent to the acquisition.



This business offers First Financial the ability to diversify its earning assets and will be supported as part of the company's ongoing strategy. The overall portfolio size will be managed to a risk-appropriate level so as not to create an industry concentration.

#### OVERVIEW OF OPERATIONS

Third quarter 2010 net income and net income available to common shareholders, was \$15.6 million, and earnings per diluted common share were \$0.27. This compares with second quarter 2010 net income and net income available to common shareholders of \$17.8 million, and earnings per diluted common share of \$0.30 and third quarter 2009 net income of \$200.4 million, net income available to common shareholders of \$199.4 million and earnings per diluted common share of \$3.87. Impacting net income during the third quarter 2010 was a prepayment penalty of \$8.0 million on a pre-tax basis, or \$0.09 per fully diluted share after taxes, related to the early redemption of \$232 million of Federal Home Loan Bank (FHLB) advances. Included in the third quarter 2009 amounts was a pre-tax bargain purchase gain of \$342.5 million recognized in connection with the Company's FDIC-assisted transactions.

For the nine month period ended September 30, 2010, net income was \$45.0 million, net income available to common shareholders was \$43.1 million and earnings per diluted common share were \$0.75 as compared to net income of \$207.5 million, net income available to common shareholders of \$205.0 million and earnings per diluted common share of \$4.71 for the nine month period ended September 30, 2009.

Each acquisition in the third quarter of 2009 was considered a business combination and accounted for under FASB ASC Topic 805, Business Combinations, ASC Topic 820, Fair Value Measurements and Disclosures, ASC Topic 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality, and ASC Topic 310-20, Receivables-Nonrefundable Fees and Costs. All acquired assets and liabilities, including identifiable intangible assets, were recorded at their estimated fair values as of the date of acquisition.

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. For a more detailed discussion of the transactions please see Note 3, Business Combinations.

Return on average assets for the third quarter of 2010 was 0.96% compared to 17.64% for the comparable period in 2009 and 1.08% for the linked-quarter (third quarter of 2010 compared to the second quarter of 2010). Return on average shareholders' equity for the third quarter of 2010 was 9.03% compared to 166.45% for the comparable period in 2009 and 10.62% for the linked-quarter.

Return on average assets for the first nine months of 2010 was 0.92% compared to 6.89% for the comparable period in 2009. Return on average shareholder's equity was 8.86% for the first nine months of 2010 compared to 68.81% for the same period in 2009.

A discussion of the first nine months and third quarter of 2010 results of operations follows.

#### NET INTEREST INCOME

Net interest income, First Financial's principal source of income, is the excess of interest received from earning assets over interest paid on interest-bearing liabilities. For analytical purposes, net interest income is also presented in the table that follows, adjusted to a tax equivalent basis assuming a 35% marginal tax rate for interest earned on tax-exempt assets such as municipal loans and investments. This is to recognize the income tax savings that facilitates a comparison between taxable and tax-exempt assets. Management believes that it is a standard practice in the banking industry to present net interest margin and net interest income on a fully tax equivalent basis. Therefore, management believes these measures provide useful information for both management and investors by allowing them to make peer comparisons.



(Dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Net interest income	\$ 67,846	\$ 40,664	\$ 207,604	\$ 102,801
Tax equivalent adjustment	222	300	646	970
Net interest income - tax equivalent	\$ 68,068	\$ 40,964	\$ 208,250	\$ 103,771
Average earning assets	\$ 5,867,311	\$ 4,134,955	\$ 5,946,078	\$ 3,702,855
Net interest margin *	4.59%	3.90%	4.67%	3.71%
Net interest margin (fully tax equivalent) *	4.60%	3.93%	4.68%	3.75%

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

Net interest income for the third quarter of 2010 was \$67.8 million, an increase of \$27.2 million from the third quarter of 2009 net interest income of \$40.7 million and a slight increase of \$0.1 million from the second quarter of 2010 net interest income of \$67.7 million. Net interest income on a fully tax-equivalent basis for the third quarter 2010 was \$68.1 million as compared to \$68.0 million for the second quarter 2010 and \$41.0 million as compared to the year-over-year period. Despite a lower level of average interest earning assets relative to the linked quarter, net interest income in the third quarter of 2010 remained essentially the same due to an increase in interest income related to loans and a decrease in interest expense as a result of lower time and brokered deposit balances and the prepayment of FHLB advances. In addition to higher levels of average interest-earning assets and interest-bearing liabilities resulting from the 2009 acquisitions, the year-over-year increase of \$27.1 million was also impacted by the significant increase in the net interest margin.

For the nine month period ended September 30, 2010, net interest income was \$207.6 million, an increase of \$104.8 million over the comparable period in 2009. Net interest income on a fully tax-equivalent basis was \$208.3 million as compared to \$103.8 million for the comparable period in 2009. Similar to the quarterly year-over-year items noted above, the increase was driven by the larger balance sheet items as well as a higher net interest margin.

Included in net interest income for all quarters of 2010 were the results of operations classified by the Company as acquired-non-strategic, including loans and deposits from offices located in the western United States. These amounts totaled \$10.6 million and \$31.6 million for the quarter and nine month periods ended September 30, 2010, respectively.

Net interest margin was 4.59% for the third quarter 2010 as compared to 4.53% for the second quarter 2010 and 3.90% for the third quarter 2009. The net interest margin continued to be negatively impacted by the combination of normal amortization and paydowns in both the legacy and acquired loan portfolios and reduced loan demand in the Company's strategic markets. However, during the third quarter, First Financial used a portion of its liquidity to purchase \$154 million of FNMA / FHMLC mortgage backed securities and prepay \$232 million of FHLB advances, which helped to offset the net effect of muted loan activity. Net interest margin was also positively impacted by the expected runoff of retail and brokered certificates of deposit and the lower earning asset base during the quarter.

Net interest margin was also positively impacted by certain activity related to the acquired loan portfolio. As these loans are recorded at fair value, the Company is required to periodically update its forecast of expected cash flows from these loans. The Company recognized an improvement in the cash flow expectations related to certain loan pools, which is reflected as a yield adjustment on a prospective basis. During the third quarter 2010, this

improvement positively impacted net interest margin by 6 basis points.

As part of its on-going valuation procedures, the Company experienced an improvement in the cash flow expectations related to certain loan pools of \$36.7 million during the third quarter 2010. As a result, the average yield earned on covered loans increased from 9.10% during the second quarter 2010 to 9.75% during the third quarter 2010. On a prospective basis and until its next periodic valuation, the Company expects the yield on covered loans to be 10.08%.

This projected improvement in cash flow expectations on loans is partially offset by a related \$20.7 million decline in cash flow expectations on the FDIC indemnification asset. The net result of improvement and impairment activity related to covered loans affected the average yield earned on the indemnification asset, decreasing from 6.50% during the second quarter 2010 to 3.91% during the third quarter 2010. On a prospective basis and until its next periodic valuation, the Company expects the yield on the indemnification asset to be 2.61%.

The increase of 69 basis points over the comparable year-over-year period was primarily attributable to the higher yield on covered loans, improved pricing in new loan originations, lower funding costs of deposits as a result of repricing acquired CDs and disciplined pricing strategies, and an overall increase in earning assets.

Net interest margin for the nine month period ended September 30, 2010 was 4.67% as compared to 3.71% for the nine month period ended September 30, 2009.

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

#### QUARTERLY CONSOLIDATED AVERAGE BALANCE SHEETS AND NET INTEREST INCOME ANALYSIS

(Dollars in thousands)	September 30, 2010			June 30, 2010			September 30, 2009		
	Average Balance	Average Interest	Average Rate	Average Balance	Average Interest	Average Rate	Average Balance	Average Interest	Average Rate
<b>Earning assets</b>									
<b>Investments:</b>									
Interest-bearing deposits with other banks	\$ 483,097	\$ 396	0.33%	\$ 554,333	\$ 459	0.33%	\$ 136,210	\$ -	0.25%
Investment securities	691,700	5,626	3.23%	597,991	5,689	3.82%	575,697	6,593	4.54%
<b>Gross loans including covered loans and indemnification asset (1)</b>	4,692,514	78,662	6.65%	4,848,436	79,790	6.60%	3,423,048	48,122	5.58%
<b>Total earning assets</b>	5,867,311	84,684	5.73%	6,000,760	85,938	5.74%	4,134,955	54,715	5.25%
<b>Nonearning assets</b>									
Cash and due from banks	185,322			273,162			107,216		
Allowance for loan and lease losses	(61,753)			(60,444)			(42,034)		
Premises and equipment	115,518			115,587			91,252		
Other assets	302,081			291,956			214,351		
<b>Total assets</b>	\$ 6,408,479			\$ 6,621,021			\$ 4,505,740		
<b>Interest-bearing liabilities</b>									
<b>Deposits:</b>									
Interest-bearing	\$ 1,029,350	1,063	0.41%	\$ 1,139,001	1,265	0.45%	\$ 735,258	448	0.24%
Savings	1,412,441	2,115	0.59%	1,341,194	2,058	0.62%	838,381	2,300	1.09%
Time	2,007,138	11,279	2.23%	2,090,776	11,985	2.30%	1,480,587	8,742	2.34%
<b>Short-term borrowings</b>	50,580	25	0.20%	37,353	17	0.18%	150,878	261	0.69%
	301,790	2,356	3.10%	410,592	2,875	2.81%	226,528	2,300	4.03%

Long-term  
borrowingsTotal interest-bearing  
liabilities

4,801,299	16,838	1.39%	5,018,916	18,200	1.45%	3,431,632	14,051	1.62%
-----------	--------	-------	-----------	--------	-------	-----------	--------	-------

Noninterest-bearing  
liabilities and  
shareholders' equityNoninterest-bearing  
demand

721,501			740,011			554,471		
---------	--	--	---------	--	--	---------	--	--

## Other liabilities

201,567			191,043			42,087		
---------	--	--	---------	--	--	--------	--	--

## Shareholders' equity

684,112			671,051			477,550		
---------	--	--	---------	--	--	---------	--	--

Total liabilities and  
shareholders' equity

\$ 6,408,479			\$ 6,621,021			\$ 4,505,740		
--------------	--	--	--------------	--	--	--------------	--	--

## Net interest income

	\$ 67,846			\$ 67,738			\$ 40,664	
--	-----------	--	--	-----------	--	--	-----------	--

## Net interest spread

		4.34%			4.29%			3.63%
--	--	-------	--	--	-------	--	--	-------

Contribution of  
noninterest-bearing  
sources of funds

		0.25%			0.24%			0.27%
--	--	-------	--	--	-------	--	--	-------

## Net interest margin

(2)		4.59%			4.53%			3.90%
-----	--	-------	--	--	-------	--	--	-------

(1) Nonaccrual loans and loans held for sale are included in average balances for each applicable loan category.

(2) Because noninterest-bearing funding sources, demand deposits, other liabilities, and shareholders' equity also support earning assets, the net interest margin exceeds the interest spread.

## RATE/VOLUME ANALYSIS

The impact of changes in the volume of interest-earning assets and interest-bearing liabilities and interest rates on net interest income is illustrated in the following tables.

(Dollars in thousands)	Changes for the Three Months Ended September 30					
	Linked Qtr. Income Variance			Comparable Qtr. Income Variance		
	Rate	Volume	Total	Rate	Volume	Total
<b>Earning assets</b>						
Investment securities	\$ (878)	\$ 815	\$ (63)	\$ (1,911)	\$ 944	\$ (967)
Other earning assets	(10)	(53)	(63)	112	284	396
Gross loans (1)	602	(1,730)	(1,128)	9,260	21,280	30,540
Total earning assets	(286)	(968)	(1,254)	7,461	22,508	29,969
<b>Interest-bearing liabilities</b>						
Total interest-bearing deposits	\$ (616)	\$ (235)	\$ (851)	\$ (1,565)	\$ 4,532	\$ 2,967
<b>Borrowed funds</b>						
Short-term borrowings	1	7	8	(186)	(50)	(236)
<b>Federal Home Loan Bank</b>						
long-term debt	234	(756)	(522)	(487)	544	57
Other long-term debt	(1)	4	3	(1)	0	(1)
Total borrowed funds	234	(745)	(511)	(674)	494	(180)
Total interest-bearing liabilities	(382)	(980)	(1,362)	(2,239)	5,026	2,787
Net interest income (2)	\$ 96	\$ 12	\$ 108	\$ 9,700	\$ 17,482	\$ 27,182

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

(2) Not tax equivalent.

	Changes for the		
	Nine Months Ended September 30		
	Year-to-Date Income Variance		
	Rate	Volume	Total
<b>Earning assets</b>			
Investment securities		\$ (5,226)	\$ (7,180)
Federal funds sold		128	1,196
Gross loans (1)		32,717	127,282
Total earning assets		27,619	121,298
<b>Interest-bearing liabilities</b>			
Total interest-bearing deposits		\$ (3,968)	\$ 15,040
<b>Borrowed funds</b>			
Short-term borrowings		(844)	(1,234)
Federal Home Loan Bank long-term debt		(1,279)	2,613
Other long-term debt		76	76
Total borrowed funds		(2,047)	1,455
Total interest-bearing liabilities		(6,015)	16,495
Net interest income (2)		\$ 33,634	\$ 104,803

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

(2) Not tax equivalent.





## NONINTEREST INCOME

Third quarter 2010 noninterest income was \$44.9 million, compared to \$40.5 million in the second quarter of 2010 and \$354.4 million in the third quarter of 2009. Excluding the gain on the acquisition recorded in the third quarter of 2009, noninterest income for that period was \$11.9 million.

During the third and second quarters of 2010, covered loan activity positively impacted noninterest income by \$9.4 million and \$7.4 million, respectively due to loan prepayments and dispositions. When covered loan balances paydown early, through either a loan sale or prepayments by the borrower, and credit experience is better than originally estimated, the remaining carrying value of the valuation mark associated with the respective loan is recognized as noninterest income, net of a corresponding valuation adjustment on the FDIC indemnification asset. When losses are incurred on covered loans, the Company recognizes those credit losses as provision expense. Reimbursements due from the FDIC under loss share agreements related to these credit losses are recorded as noninterest income and were \$17.8 million and \$15.2 million for the third and second quarters of 2010, respectively. The impact on earnings of this offsetting activity is the net effect of the gross up of credit losses and FDIC reimbursement, representing the Company's proportionate share of the credit losses realized on covered loans.

During the third quarter of 2010, the Company sold approximately \$23.2 million of loans originated by its franchise finance business, recognizing a \$2.0 million gain. Sales of franchise loans will be a recurring strategy in order to manage risk in the business line but the frequency has yet to be determined. Additionally, consistent with the Company's previous exit of a similar business line, the property and casualty insurance business acquired as part of the Irwin acquisition was sold during the quarter, resulting in the recognition of a \$1.3 million gain. Excluding the nonrecurring items previously discussed which totaled \$28.6 million, estimated noninterest income was \$16.4 million for the third quarter of 2010. For the second quarter of 2010, excluding the \$22.6 million previously discussed as well as \$3.4 million in nonrecurring FDIC settlement and other income, estimated noninterest income was \$14.5 million.

Excluding the bargain purchase gain recognized during the third quarter 2009, noninterest income earned in the third quarter 2009 was \$11.9 million. The remaining increase in the comparable year-over-year quarter was driven primarily by higher service charges on deposit accounts resulting from an increase in transaction-based deposits, increased bankcard income, higher trust and wealth management fees and higher brokerage and insurance income, primarily as a result of the 2009 acquisitions, as well as the gain the sale of franchise loans.

As discussed above, the Company sold \$23.2 million of loans originated by its franchise finance unit, a portion of which consisted of loans covered under loss share agreements. With regard to the covered loan portion, the Company recognized \$0.4 million of revenue related to the accelerated discount, which is included in the \$9.4 million of accelerated discount resulted from loan prepayments previously discussed.

For the nine month period ended September 30, 2010, noninterest income totaled \$112.3 million as compared to \$380.6 million for the similar year-over-year period. Excluding the items mentioned previously as well as gains on sales of investments and the gain on sale of the property and casualty portion of the insurance business which occurred during the first quarter 2009, noninterest income was \$43.7 million for the nine month period ended September 30, 2010 as compared to \$33.9 million for the nine months ended September 30, 2009.

## NONINTEREST EXPENSE

Third quarter 2010 noninterest expense was \$61.3 million, compared with \$46.3 million in the third quarter of 2009, and \$55.8 million in the second quarter of 2010. Acquisition-related costs for the third quarter of 2010 consisted of \$1.2 million in professional services fees and \$0.3 million in integration-related and other costs. Transition related items such as salaries, employee benefits and other items related to people, processes, and facilities that are diminishing over time were \$1.4 million for the same period. Additionally, there was \$0.9 million for FDIC indemnification support, \$8.0 million for the FHLB prepayment penalty, and \$0.5 million in other items not expected

to recur. These expenses totaled \$12.3 million for the second quarter of 2010.

After adjusting for these items, estimated noninterest expense increased slightly, totaling \$49.0 million for the third quarter 2010. Compared to the year-over-year quarter, excluding the acquisition-related and other non-recurring expenses incurred during the third quarter 2009, estimated noninterest expense increased \$13.6 million, primarily driven by higher salaries and employment benefits, occupancy costs, equipment expenses and marketing costs resulting from the 2009 acquisitions.

Likewise, acquisition-related costs for the second quarter of 2010 consisted of \$0.7 million in integration-related and other costs and \$1.4 million in professional services fees. Transition related items such as salaries and employee benefits were \$1.9 million and occupancy expense and other was \$3.1 million for the same period. Additionally, there was \$0.9 million for FDIC indemnification support, \$1.0 million in retention plan expense, \$0.3 million in professional fees related to the auction of the common stock warrant held by the U.S. Treasury, and other items not expected to recur of \$1.1 million. These expenses totaled \$8.1 for the second quarter of 2010.

For the nine month period ended September 30, 2010, noninterest expense totaled \$177.4 million compared to \$109.0 million for the comparable year-over-year period. Excluding the items mentioned previously, first quarter 2010 acquisition related expenses and other expenses not expected to recur totaling \$12.7 million, the FDIC special assessment and acquisition related expenses incurred during the second quarter 2009 and severance costs related to the first quarter 2009 sale of the property & casualty portion of the insurance business, noninterest expense was \$144.3 million for the nine month period ended September 30, 2010 as compared to \$106.6 million for the nine months ended September 30, 2009, reflecting the strategic growth of the company.

While the technology and operational integration of Irwin and Peoples is complete, it is expected that there will be additional integration and wind-down-related costs incurred throughout 2010 and much of 2011.

#### INCOME TAXES

Income tax expense was \$8.8 million and \$121.8 million for the third quarters of 2010 and 2009, respectively. The effective tax rates for the third quarters of 2010 and 2009 were 36.2% and 37.8%, respectively. Income tax expense was \$24.6 million and \$125.5 million for the nine months ended September 30, 2010 and 2009, respectively, with a tax benefit related to securities transactions of \$11 thousand for the nine months ended September 30, 2010 and a tax expense of \$1.2 million for the same period in 2009. The effective tax rates for the nine months ended September 30, 2010, and 2009, were 35.4% and 37.7%, respectively.

The decrease in the effective tax rate was primarily due to the 2009 gain associated with the Irwin transaction as well as increased bank owned life insurance income and tax credits related to investments in low income housing initiatives partially offset by a decrease in tax-exempt investment and loan interest.

#### LOANS (excluding covered loans)

Loans, excluding covered loans, totaled \$2.8 billion at the end of the third quarter, a decrease of \$28.9 million, or 1.0%, from the balance of \$2.8 billion as of June 30, 2010 and a decrease of \$106.7 million, or 3.7%, from the amount of \$2.9 billion as of September 30, 2009. As compared to the linked quarter, the composition of the loan portfolio remained essentially the same with the slight overall decrease occurring in the construction, commercial real estate, and residential real estate portfolios offset by modest increases in the commercial and home equity portfolio. Overall, loan demand continued to remain slow in the Company's strategic operating markets.

Third quarter 2010 average loans excluding covered loans and loans held for sale, decreased \$93.2 million or 3.2% from the third quarter of 2009. Third quarter average commercial, commercial real estate, and construction loans decreased \$61.5 million or 2.9% from the third quarter of 2009. Year-to-date average loans, excluding loans covered and held for sale, increased \$33.5 million or 1.2% from the same period on 2009. Year-to-date average commercial, commercial real estate, and construction loans increased \$65.2 million or 3.2% from the same period in 2009.

During the third quarter 2010, the Company sold approximately \$23.2 million of loans originated by its franchise finance business at a premium, recognizing a gain of \$2.0 million. The loans sold consisted of both loans covered by FDIC loss sharing agreements and credits originated subsequent to the Irwin acquisition. The sale was conducted to lessen credit and geographic concentration risk within the franchise portfolio. As a liquid secondary market exists for these types of credits, the Company may consider additional franchise loan sales in the future as a way to mitigate the aforementioned risks.

#### INVESTMENTS

Investment securities totaled \$720.5 million as of September 30, 2010 as compared to \$579.1 million as of December 31, 2009 and \$629.3 million as of September 30, 2009. The total investment portfolio represented 11.7% of total assets at September 30, 2010, 8.7% at December 31, 2009, and 8.7% at September 30, 2009. Securities available-for-sale at September 30, 2010, totaled \$616.2 million, compared with \$523.4 million at September 30,

2009, and \$471.0 million at December 31, 2009. The net increase relative to December 31, 2009 was due to the purchase of \$100 million of FNMA agency securities during the second quarter and \$154 million of FNMA/FHLMC mortgage-backed securities in the third quarter. While loan demand remains muted, the Company continues to selectively redeploy a portion of its cash position to purchase investments as market conditions permit. Future purchases will be made utilizing the same discipline and portfolio management philosophy applied in the past, including avoidance of material credit risk and geographic concentration risk within mortgage-backed securities, while also balancing the Company's overall asset/liability management objectives. The aforementioned purchase of FNMA/FHLMC agency securities represents the Company's commitment to this discipline and philosophy.

The company has recorded, as a component of equity in accumulated other comprehensive income, an unrealized after-tax gain on the investment portfolio of approximately \$12.1 million at September 30, 2010, compared with an unrealized after-tax gain of \$11.9 million at September 30, 2009, and an unrealized after-tax gain of \$10.2 million at December 31, 2009.

## DEPOSITS AND FUNDING

Total deposits as of September 30, 2010 were \$5.1 billion, a decline of \$299.4 million, or 5.6%, from \$5.4 billion as of December 31, 2009. A significant portion of this decrease related to declines in time deposits of \$298.8 million, noninterest-bearing deposits of \$116.3 million, and interest-bearing checking accounts of \$60.5 million, offset by increases in savings accounts of \$176.3 million. The acquisition of low cost core deposits and customer relationships is central to the Company's long term operating strategy despite the current strong liquidity position. Overall, strategic deposit retention from the acquisitions continues to exceed management's expectations.

On a linked quarter basis, strategic transaction and savings accounts declined \$36.9 million during the third quarter. Retail and business transactional accounts continued to experience solid growth during the quarter, increasing \$60.4 million. However, this growth was offset by a decrease of \$97.2 million in public funds transaction deposits, reflecting the company's determination to maintain disciplined pricing and transaction structure. While we are always sensitive to the client relationship aspect of our decisions, we will not pursue business that erodes our internal profitability targets. Similar to the prior quarter, acquired-non-strategic balances continued to decline, the majority of which consisted of time and brokered deposits. During the third quarter 2010, the Company closed its remaining two western market offices acquired as part of the Irwin transaction, contributing to the decline in acquired-non-strategic transaction and savings accounts. As of September 30, 2010, brokered deposits had declined to less than 4% of total deposits.

Borrowed funds as of September 30, 2010 totaled \$208.6 million, as compared to \$443.7 million as of June 30, 2010. This decrease was primarily due to the third quarter of 2010 prepayment of long-term FHLB advances acquired in the Peoples and Irwin transactions. Borrowed funds declined \$323.1 million, or 60.8%, from \$531.7 million as of September 30, 2009, which was also due to the prepayment previously mentioned. Other than the FHLB long-term debt acquired in the Peoples and Irwin transactions First Financial has not increased long-term borrowings since the third quarter of 2008.

## RISK MANAGEMENT

First Financial manages risks through processes that regularly assess the overall level of risk and identifies specific risks and the steps being taken to mitigate them. First Financial continues to enhance its risk management capabilities and has, over time, enhanced risk awareness as part of the culture of the company. First Financial employ's a structured Enterprise Risk Management (ERM) approach as part of this progression. ERM allows First Financial to align a variety of risk management activities within the company into a cohesive, enterprise-wide approach, focus on process-level risk management activities and strategic objectives within the risk management culture, deliberately consider risk responses and effectiveness of mitigation compared to established standards for risk appetite and tolerance, recognize and respond to the significant organizational changes that have increased the size and complexity of the organization, and consolidate information obtained through a common process into concise business performance and risk information for management and the board of directors.

First Financial uses a robust regulatory risk framework as one of the foundational components of its ERM framework. This not only allows for a common categorization among business units, but allows for a consistent and complete risk framework that can be summarized and assessed enterprise-wide. In addition, the framework is consistent with that used by the company's regulators, allowing for additional feedback on First Financials ability to assess and measure risk across the organization and for management and the board of directors to identify and understand differences in assessed risk profiles using this same foundation. The goal of this framework is to implement effective risk management techniques and strategies, minimize losses, and strengthen the company's overall performance.

## CREDIT RISK

Credit risk represents the risk of loss due to failure of a customer or counterparty to meet its financial obligations in accordance with contractual terms. First Financial manages credit risk through underwriting, periodically reviewing

and approving its credit exposures using Board approved credit policies and guidelines.

Allowance for loan and lease losses (Excluding covered assets)

Due to the significant difference in the accounting for the covered loans and the loss sharing agreements with the FDIC, management believes that asset quality measures excluding the covered loans are generally more meaningful. Therefore, management has included asset quality measures that exclude covered loans in the table in this section.

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

As of the end of the third quarter 2010, the allowance for uncovered loan and lease losses decreased slightly to \$57.2 million from \$57.8 million as of June 30, 2010 and was \$55.8 million as of September 30, 2009. As a percentage of period-end loans, the allowance for loan and lease losses remained unchanged at 2.07% as of September 30, 2010 as compared to June 30, 2010 and 1.94% as of September 30, 2009. The allowance for loan and lease losses as of September 30, 2010 reflects management's estimate of credit risk inherent in the Company's portfolio at that time.

Third quarter 2010 net charge-offs were \$6.8 million, or 0.97% of average loans and leases, compared with \$5.0 million, or 0.71%, for the linked quarter and \$9.5 million, or 1.31%, for the comparable year-over-year quarter. The increase compared to the linked quarter was driven by higher charge-offs in the construction, commercial real estate and, to a lesser degree, residential portfolios, offset by lower net charge-offs in the commercial portfolio.

For the nine months ended September 30, 2010, net charge-offs were \$25.9 million, or 1.23% of average loans and leases. These amounts were impacted by the alleged fraudulent activity noted during the first quarter 2010 which totaled \$8.8 million, representing 42 basis points of average loans and leases for the period. Excluding the alleged fraudulent activity, net charge-offs were \$17.1 million, or 0.81%, as compared to \$21.4 million, or 1.03%, for the nine month period ended September 30, 2009.

Third quarter 2010 provision expense related to uncovered loans and leases was \$6.3 million as compared to \$6.2 million during the linked quarter and \$26.7 million during the comparable year-over-year quarter. As a percentage of net charge-offs, third quarter 2010 provision expense equaled 91.8% compared to 123.4% during the second quarter 2010 and 279.6% during the third quarter 2009. Year-to-date 2010 provision expense related to uncovered loans and leases was \$23.8 million as compared to \$41.3 million during the comparable period in 2009. As a percentage of net charge-offs, year-to-date 2010 provision expense equaled 92.0% compared to 193.1% during the first nine months of 2009.

The table that follows indicates the activity in the allowance for loan losses, excluding covered loans, for the quarterly periods presented.

(Dollars in thousands)	Three Months Ended				Nine Months Ended		
	Sep. 30	2010 June 30	Mar. 31	Dec. 31	2009 Sep. 30	2010 September 30,	2009
Balance at beginning of period	\$ 57,811	\$ 56,642	\$ 59,311	\$ 55,770	\$ 38,649	\$ 59,311	\$ 35,873
Provision for loan losses	6,287	6,158	11,378	14,812	26,655	23,823	41,272
<b>Gross charge-offs</b>							
Commercial	762	1,156	6,275	1,143	2,924	8,193	10,152
Real estate-construction	3,607	2,386	2,126	6,788	4,552	8,119	5,892
Real estate-commercial	2,013	359	3,932	1,854	927	6,304	2,660
Real estate-residential	717	246	534	262	471	1,497	1,053
Installment	205	304	414	449	315	923	1,019
Home equity	389	580	684	1,105	382	1,653	932
All other	431	426	520	454	492	1,377	1,186
<b>Total gross charge-offs</b>	<b>8,124</b>	<b>5,457</b>	<b>14,485</b>	<b>12,055</b>	<b>10,063</b>	<b>28,066</b>	<b>22,894</b>
<b>Recoveries</b>							
Commercial	334	120	109	148	91	563	484
Real estate-construction	0	24	0	0	0	24	0
Real estate-commercial	728	99	12	360	167	839	197
Real estate-residential	11	4	3	3	2	18	24
Installment	116	127	160	195	205	403	662
Home equity	21	10	87	6	9	118	10
All other	65	84	67	72	55	216	142
<b>Total recoveries</b>	<b>1,275</b>	<b>468</b>	<b>438</b>	<b>784</b>	<b>529</b>	<b>2,181</b>	<b>1,519</b>
<b>Total net charge-offs</b>	<b>6,849</b>	<b>4,989</b>	<b>14,047</b>	<b>11,271</b>	<b>9,534</b>	<b>25,885</b>	<b>21,375</b>
Ending allowance for loan and lease losses - uncovered	\$ 57,249	\$ 57,811	\$ 56,642	\$ 59,311	\$ 55,770	\$ 57,249	\$ 55,770
<b>NET CHARGE-OFFS TO AVERAGE LOANS AND LEASES (ANNUALIZED)</b>							
Commercial	0.23%	0.56%	3.18%	0.47%	1.31%	1.35%	1.54%
Real estate-construction	7.64%	4.68%	3.72%	10.48%	6.90%	5.23%	3.10%
Real estate-commercial	0.45%	0.09%	1.47%	0.57%	0.30%	0.66%	0.36%
Real estate-residential	0.95%	0.32%	0.70%	0.31%	0.56%	0.65%	0.39%
Installment	0.49%	0.92%	1.30%	1.15%	0.50%	0.91%	0.53%
Home equity	0.43%	0.69%	0.73%	1.31%	0.47%	0.61%	0.41%
All other	5.05%	4.89%	6.46%	5.40%	6.35%	5.46%	5.19%
<b>Total net charge-offs</b>	<b>0.97%</b>	<b>0.71%</b>	<b>2.00%</b>	<b>1.53%</b>	<b>1.31%</b>	<b>1.23%</b>	<b>1.03%</b>

While the Company is seeing isolated areas of improvement, overall weakness in both the commercial and consumer sectors continues to exist in its strategic markets and, as a result, recovery will be slow. Given the continued challenging environment, it will be critical to remain proactive in identifying and managing individual credit situations.

Allowance for loan and lease losses on covered loans



All loans acquired in the Peoples and Irwin acquisitions are 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 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 balance, with the accretable balance being recognized as interest income over the remaining term of the loan. In accordance with accounting for business combinations, there was no allowance brought forward on any of the acquired loans, as the credit losses evident in the loans were included in the determination of the fair value of the loans at the acquisition date and are represented by the nonaccretable balance. The majority of the nonaccretable balance is expected to be received from the FDIC through the loss sharing agreements and is recorded as a separate asset from the covered loans and reflected on the Consolidated Balance Sheets. As a result, the majority of loans acquired in the Peoples and Irwin acquisitions were considered to be accruing loans as of the acquisition date. In accordance with regulatory reporting standards, covered loans that are contractually past due will continue to be reported as past due and still accruing based on the number of days past due. First Financial had \$20.1 million of covered nonaccrual loans, \$222.5 million of covered loans 90 days past due and still accruing, and \$20.6 million of covered OREO at September 30, 2010.

There was no allowance for loan and lease losses related to covered loans prior to June 30, 2010 as these loans were recorded at acquisition at their estimated fair value. With the exception of covered loans accounted for outside the scope of FASB ASC Topic 310-30, improvements in the estimated fair value of covered loans are reflected through higher yields on these loans while declines in the estimated fair value of covered loans are recorded as impairment charges in the company's operating results in the period in which the decline occurs.

Under the applicable accounting guidance, the allowance for loan losses related to covered loans as a result of impairment identified in 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. The timing inherent in this accounting treatment may result in earnings volatility in future periods.

The Company established an allowance for loan losses associated with covered loans during the second quarter 2010 based on its estimated valuation procedures performed during the period. This allowance, totaling \$1.3 million, was the net effect of \$19.0 million recognized as provision expense during the second quarter less \$17.7 million of net charge-offs related to these loans. The related estimated reimbursement due from the FDIC under loss sharing agreements of \$15.2 million was recorded as both FDIC loss sharing income and an increase to the FDIC indemnification asset. The net amount of this activity reflects the Company's expected proportionate share of losses related to this impairment.

During the third quarter 2010, the Company updated its estimated valuation procedures related to loans covered under loss share agreements. As a result of impairment identified in certain loan pools, it recognized a provision expense related to covered loans of \$20.7 million and realized net charge-offs of \$10.4 million, resulting in an allowance for covered loan losses of \$11.6 million as of September 30, 2010. The related receivable due from the FDIC under loss share agreements related to these loans of \$17.8 million was recognized as FDIC loss share income and a corresponding increase to the FDIC indemnification asset.

(Dollars in thousands)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2010	2009	2010	2009
Balance at beginning of period	\$ 1,273	\$ 0	\$ 0	\$ 0
Provision for impairment on covered loans	20,725	0	49,147	0
Loans charged off	(10,492)	0	(37,641)	0
Recoveries	77	0	77	0
Ending allowance for loan and lease losses - covered	11,583	0	11,583	0
Total allowance for loan and lease losses	\$ 11,583	\$ 0	\$ 11,583	\$ 0

#### Nonperforming/Underperforming Assets (Excluding covered assets)

Nonperforming loans totaled \$79.5 million and nonperforming assets totaled \$97.8 million as of September 30, 2010 compared with \$79.4 million and \$96.2 million, respectively, for the linked quarter and \$63.6 million and \$67.9 million, respectively, for the comparable year-over-year quarter.

While total nonaccrual loans remained essentially unchanged, the individual components changed as commercial nonaccrual loans increased \$4.4 million and home equity nonaccrual loans increased \$0.6 million, offset by a decrease in construction nonaccrual loans of \$5.4 million driven by the higher level of net charge-offs related to this loan category.

The third quarter 2010 allowance for loan and lease losses as a percent of nonaccrual loans was 86.5% compared with 86.7% in the second quarter of 2010, and 92.2% in the third quarter of 2009, and the allowance for loan and lease losses as a percent of nonperforming loans was 72.0% at September 30, 2010, compared with 72.8% in the second quarter of 2010, and 87.7% in the third quarter of 2009.

Total classified assets increased \$10.7 million during the third quarter to \$212.6 million. Classified assets are defined by the Company as nonperforming assets plus performing loans internally rated substandard or worse. This increase was driven primarily by one relationship related to a multi-family, mixed use project totaling \$9.3 million in the aggregate. All credits included in classified assets are monitored closely and have workout strategies in place should their status continue to deteriorate.

While the Company is seeing isolated areas of improvement, overall weakness in both the commercial and consumer sectors continues to exist in its strategic markets and, as a result, recovery will be slow. Given the continued challenging environment, it will be critical to remain proactive in identifying and managing individual credit situations.

#### Restructured Loans

Restructured loans increased \$0.6 million during the third quarter 2010 from the linked quarter and \$7.2 million from December 31, 2009. The increase from year end was due primarily to one commercial relationship totaling \$5.0 million that was previously classified as nonaccrual in which the Company worked with the borrower to modify certain terms including the addition of an interest-only feature for a specified period of time and re-amortization. Restructured loans remain on nonaccrual status until the borrower demonstrates the ability to comply with the modified terms.

#### Delinquent Loans

Loans 30-to-89 days past due totaled \$45.1 million, or 1.63% of period end loans, as of September 30, 2010. This compares to \$21.8 million, or 0.78%, as of June 30, 2010 and \$20.8 million, or 0.72%, as of September 30, 2009. The increase was driven primarily by the multi-family project discussed above, two residential developments totaling \$8.1 million in the aggregate and a commercial real estate credit of \$3.4 million.

#### Other Real Estate Owned

At September 30, 2010, OREO was \$18.3 million, compared with \$4.1 million at December 31, 2009, and \$4.3 million at September 30, 2009. One relationship with multiple commercial land loans, totaling \$13.6 million in the aggregate, all of which was previously classified as nonperforming, was transferred to OREO during the first quarter of 2010.

The table that follows shows the categories that are included in nonperforming and underperforming assets, excluding covered assets, as of September 30, 2010, and the four previous quarters, as well as related credit quality ratios.

(Dollars in thousands)	Quarter Ended				
	Sep. 30	2010 June 30	Mar. 31	2009 Dec. 31	Sep. 30
<b>Nonaccrual loans</b>					
Commercial	\$ 17,320	\$ 12,874	\$ 21,572	\$ 13,756	\$ 13,244
Real estate - construction	13,454	18,890	17,710	35,604	26,575
Real estate - commercial	27,945	28,272	21,196	15,320	12,407
Real estate - residential	4,801	4,571	4,116	3,993	5,253
Installment	279	267	365	660	493
Home equity	2,358	1,797	1,910	2,324	2,534
Total nonaccrual loans	66,157	66,671	66,869	71,657	60,506
Restructured loans	13,365	12,752	7,584	6,125	3,102
Total nonperforming loans	79,522	79,423	74,453	77,782	63,608
Other real estate owned (OREO)	18,305	16,818	18,087	4,145	4,301
Total nonperforming assets	97,827	96,241	92,540	81,927	67,909

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

Accruing loans past due 90 days or more	233	276	286	417	308
Total underperforming assets	\$ 98,060	\$ 96,517	\$ 92,826	\$ 82,344	\$ 68,217
Allowance for loan and lease losses to					
Nonaccrual loans	86.54%	86.71%	84.71%	82.77%	92.17%
Nonperforming loans	71.99%	72.79%	76.08%	76.25%	87.68%
Total ending loans	2.07%	2.07%	2.01%	2.05%	1.94%
Nonperforming loans to total loans	2.88%	2.84%	2.65%	2.69%	2.21%
Nonperforming assets to					
Ending loans, plus OREO	3.51%	3.42%	3.27%	2.83%	2.36%
Total assets, including covered assets	1.59%	1.46%	1.41%	1.23%	0.94%

## MARKET RISK

Market risk is the risk of loss arising from adverse changes in the fair value of financial instruments due to changes in interest rates, foreign exchange rates, and equity prices. The primary source of market risk for First Financial is interest-rate risk. Interest-rate risk is the risk to earnings and market value arising from changes in market interest rates and arises in the normal course of business to the extent that there is a divergence between the amount of First Financial's interest-earning assets and the amount of interest-bearing liabilities that are prepaid/withdrawn, re-price, or mature in specified periods. First Financial seeks to achieve consistent growth in net interest income and capital while managing volatility arising from shifts in market interest rates. First Financial's board of directors establishes policy limits with respect to interest rate risk. First Financial's Asset and Liability Committee (ALCO) oversees market risk management, monitoring risk measures, limits, and policy guidelines for managing the amount of interest-rate risk and its effect on net interest income and capital.

Interest rate risk management is an active process that encompasses monitoring loan and deposit flows complemented by investment and funding activities. Effective interest rate risk management begins with understanding the dynamic characteristics of assets and liabilities and determining the appropriate interest rate risk position given business activities, management objectives, market expectations and ALCO policy limits and guidelines.

### Liquidity

Liquidity management is the process by which First Financial manages the continuing flow of funds necessary to meet its financial commitments on a timely basis and at a reasonable cost. These funding commitments include withdrawals by depositors, credit commitments to borrowers, shareholder dividends, expenses of its operations, and capital expenditures. Liquidity is monitored and closely managed by ALCO, a group of senior officers from the lending, deposit gathering, finance, risk management, and treasury areas. It is ALCO's responsibility to ensure First Financial has the necessary level of funds available for normal operations as well as maintain a contingency funding policy to ensure that liquidity stress events are quickly identified, and management plans are in place to respond. This is accomplished through the use of policies which establish limits and require measurements to monitor liquidity trends, including management reporting that identifies the amounts and costs of all available funding sources. First Financial has expanded its various funding sources, including overnight borrowing lines, and has a diversified base of liquidity sources. These sources are periodically tested for funding availability and there have been no restrictions in availability.

Liquidity is derived primarily from deposit growth, principal and interest payments on loans and investment securities, maturing loans and investment securities, access to wholesale funding sources, and collateralized borrowings. First Financial's most stable source of liability-funded liquidity for both the long and short-term needs is deposit growth and retention of the core deposit base. The deposit base is diversified among individuals, partnerships, corporations, public entities, and geographic markets. This diversification helps First Financial minimize dependence on large concentrations of funding sources.

Capital expenditures, such as banking center expansions and technology investments, were \$17.0 million and \$10.1 million for the first nine months of 2010 and 2009, respectively. Management believes that First Financial has sufficient liquidity to fund its future capital expenditure commitments.

As of September 30, 2010, First Financial had pledged certain eligible residential and farm real estate loans, home equity lines of credit, as well as certain government and agency securities, totaling \$1.2 billion as collateral for borrowings to the FHLB. For ease of borrowing execution, First Financial utilizes a blanket collateral agreement with the FHLB.

From time to time, First Financial utilizes its short-term line of credit and longer-term advances from the FHLB as funding sources. At both September 30, 2010 and December 31, 2009, the company had no short-term borrowings

from the FHLB. At September 30, 2010, and December 31, 2009, total long-term borrowings from the FHLB were \$64.2 million and \$339.7 million, respectively. The total remaining borrowing capacity from the FHLB at September 30, 2010, was \$259.7 million.

The principal source of asset-funded liquidity is marketable investment securities, particularly those of shorter maturities. The market value of investment securities classified as available-for-sale totaled \$616.2 million at September 30, 2010. Securities classified as held-to-maturity that are maturing in one year or less are also a source of liquidity and totaled \$3.3 million at September 30, 2010. In addition, other types of assets such as cash and due from banks, federal funds sold and securities purchased under agreements to resell, as well as loans maturing within one year, are sources of liquidity.

At September 30, 2010, in addition to liquidity on hand of \$424.6 million, First Financial had unused and available short-term wholesale funding of approximately \$2.2 billion to fund any significant deposit runoff that may occur.

Certain restrictions exist regarding the ability of First Financial's subsidiaries to transfer funds to First Financial in the form of cash dividends, loans, or advances. The approval of the subsidiaries' respective primary federal regulators is required for First Financial's subsidiaries to pay dividends in excess of regulatory limitations. In June 2010, banking regulators issued interagency guidelines on their evaluation of bargain purchase gains created in business combinations. The guidance lists several situations in which the bargain purchase gain is to be excluded from capital during the one year period under which U.S. generally accepted accounting principles allow for adjustments to be made to the original asset and liability valuations ("conditional period"). Capital will be excluded for the calculations of legal lending limits, bank-to-parent dividend availability and any other business combination application. The conditional period for First Financial's acquisitions expired at the end of the third quarter of 2010. Dividends paid to First Financial from its subsidiaries totaled \$0.5 million for the first nine months of 2010. As of September 30, 2010, First Financial's subsidiaries had retained earnings of \$369.8 million of which \$240.7 million was available for distribution to First Financial at the end of the third quarter of 2010. Management is not aware of any other events or regulatory requirements that, if implemented, are likely to have a material effect on First Financial's liquidity.

First Financial Bancorp makes quarterly interest payments on its junior subordinated debenture owed to its unconsolidated subsidiary trust. Interest expense related to this other long-term debt totaled \$0.3 million for each of the three months ended September 30, 2010, and 2009. Interest expense was \$1.0 million for the nine months ended September 30, 2010, and \$0.9 million for the comparable period in 2009. Through the execution of an interest-rate swap the company has fixed its interest rate on the debentures for the next 10 years at 6.20%.

During 2009, First Financial made quarterly dividend payments to the U.S. Treasury on the 80,000 perpetual preferred securities, which carried a 5.0% dividend rate for the first five years and a 9.0% rate thereafter. On February 24, 2010, First Financial Bancorp redeemed all of the \$80.0 million of senior preferred shares issued to the U.S. Treasury in December 2008 under its Capital Purchase Program (CPP). First Financial included in its computation of earnings per diluted common share the impact of a non-cash, deemed dividend of \$0.8 million, representing the unaccreted preferred stock discount remaining on the transaction date. This one-time deemed dividend was in addition to the first quarter 2010 preferred cash dividends paid through the redemption date, totaling \$1.1 million.

First Financial had no share repurchase activity under publicly announced plans in 2009 or 2010. First Financial does not plan to repurchase any of its shares during 2010.

#### OPERATIONAL RISK

As with all companies, First Financial is subject to operational risk in all the products and services offered and in every business line. Operational risk is the risk of loss due to human behavior, inadequate or failed internal systems and controls, and external influences such as market conditions, fraudulent activities, disasters, and security risks. First Financial continuously strives to strengthen the company's system of internal controls, operating processes and employee awareness to assess the impact on earnings and capital and to improve the oversight of our operational risk.

#### COMPLIANCE RISK

Compliance risk represents the risk of regulatory sanctions, reputational impact or financial loss resulting from the company's failure to comply with regulations and standards of good banking practice. Activities which may expose First Financial to compliance risk include, but are not limited to, those dealing with the prevention of money laundering, privacy and data protection, community reinvestment initiatives, fair lending challenges resulting from the company's expansion of its banking center network and employment and tax matters.

#### STRATEGIC AND/OR REPUTATION RISK

Strategic and/or reputation risk represents the risk of loss due to impairment of reputation, failure to fully develop and execute business plans, failure to assess current and new opportunities in business, markets and products, and any other event not identified in the defined risk types mentioned previously. Mitigation of the various risk elements that



represent strategic and/or reputation risk is achieved through initiatives to help First Financial better understand and report on the various risks.

#### CAPITAL

First Financial and its subsidiary, First Financial Bank, are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations involve quantitative measures of assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet minimum capital requirements can initiate regulatory action.

On June 8, 2009, First Financial completed a public offering of 13.8 million shares of its common stock adding approximately \$98.0 million of additional common equity, after offering related costs. As a result of the capital raise, the company's capital ratios strengthened and continued to significantly exceed the amounts necessary to be classified as well capitalized.

On February 2, 2010, First Financial completed a public offering of 6.4 million shares of its common stock adding approximately \$91.2 million of additional common equity, after offering related costs. This public offering completed the issuance of common shares available to be offered pursuant to a prospectus supplement and base prospectus filed as part of an existing shelf registration statement, filed with the Securities and Exchange Commission (SEC) on Form S-3.

Consolidated regulatory capital ratios at September 30, 2010, included the leverage ratio of 10.50%, Tier 1 ratio of 18.64%, and total capital ratio of 19.91%. All regulatory capital ratios exceeded the amounts necessary to be classified as "well capitalized," and total regulatory capital exceeded the "minimum" requirement by approximately \$428.3 million, on a consolidated basis. First Financial's tangible common equity ratio increased to 10.38% for the third quarter 2010 as compared to 9.55% for the linked quarter and 7.07% for the comparable year-over-year quarter.

Quantitative measures established by regulation to ensure capital adequacy require First Financial to maintain minimum amounts and ratios (as defined by the regulations and set forth in the following table) of Total and Tier 1 capital to risk-weighted assets and to average assets, respectively. Management believes, as of September 30, 2010, that First Financial met all capital adequacy requirements to which it was subject. At September 30, 2010, and December 31, 2009, regulatory notifications categorized First Financial as well-capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized, First Financial must maintain minimum Total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table. There have been no conditions or events since those notifications that management believes has changed the institution's category.

First Financial's Tier I capital is comprised of total shareholders' equity plus junior subordinated debentures, less unrealized gains and losses and any amounts resulting from the application of FASB ASC Topic 715, Compensation-Retirement Benefits, that is recorded within accumulated other comprehensive income (loss), intangible assets, and any valuation related to mortgage servicing rights. Total risk-based capital consists of Tier I capital plus qualifying allowance for loan and lease losses and gross unrealized gains on equity securities.

For purposes of calculating the leverage ratio, average assets represents quarterly average assets less assets not qualifying for Total risk-based capital including intangibles and non-qualifying mortgage servicing rights and allowance for loan and lease losses.

The Peoples and Irwin FDIC-assisted transactions, which were each accounted for as a business combination, resulted in the recognition of an FDIC Indemnification Asset, which represents the fair value of estimated future payments by the FDIC to First Financial for losses on covered assets. The FDIC Indemnification Asset, as well as covered assets, are risk-weighted at 20% for regulatory capital requirement purposes.

#### U.S. Department of the Treasury Troubled Asset Relief Program

The U.S. Department of the Treasury ("Treasury"), working with the Federal Reserve Board, established late in 2008 the Troubled Asset Relief Program (TARP) Capital Purchase Program (CPP), which was intended to stabilize the financial services industry. One of the components of the CPP included a \$250 billion voluntary capital purchase program for certain qualified and healthy banking institutions. Pursuant to the CPP, Treasury purchased from First Financial 80,000 shares of \$1,000 par value senior perpetual preferred securities at a price of \$80.0 million equal to approximately 3.0% of the company's then risk-weighted assets. Such preferred shares paid a dividend of 5% for the first five years and was to increase to 9% thereafter. In addition, subject to certain limited exceptions, as a participant

in the CPP, the company was prohibited from (a) increasing its dividend to common shareholders and (b) conducting share repurchases without prior approval of the Treasury. First Financial also was subject to certain limitations on executive compensation as well as other conditions. On January 21, 2009, First Financial filed a registration statement on Form S-3 with the SEC to register these securities as required by the security purchase agreement with the Treasury. On February 19, 2009, the registration statement was deemed effective by the SEC.

During February 2010, First Financial successfully completed a follow-on equity offering and, after deducting underwriting and other offering costs, received net proceeds of \$91.2 million. On February 24, 2010, First Financial used most of the net proceeds to redeem all of the \$80 million in senior preferred shares issued to the U.S. Treasury in December 2008 under CPP. Subsequent to the equity offering and redemption of the preferred shares, the Company experienced an increase in its already strong regulatory and GAAP capitalization levels.

In connection with the company's participation in the CPP, Treasury also received a warrant for the purchase of common stock in the amount of 930,233 shares at a strike price of \$12.90 per share and expires on December 23, 2018. As a result of the common equity raised during the second quarter of 2009, the number of common shares eligible for purchase under the warrant agreement was reduced by 50% to 465,117 shares. In June 2010, the U.S. Treasury conducted an auction of the warrants in which the warrants were sold in a public offering at a price of \$6.70 per warrant. This transaction represents the final step in the redemption process and the U.S. Treasury no longer owns any securities issued by First Financial.

The following table illustrates the actual and required capital amounts and ratios as of September 30, 2010, and the year ended December 31, 2009.

(Dollars in thousands)	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>SEPTEMBER 30, 2010</b>						
Total capital to risk-weighted assets						
Consolidated	715,938	19.91%	287,624	8.00%	N/A	N/A
First Financial Bank	643,891	17.96%	286,771	8.00%	358,463	10.00%
Tier 1 capital to risk-weighted assets						
Consolidated	670,121	18.64%	143,812	4.00%	N/A	N/A
First Financial Bank	590,809	16.48%	143,385	4.00%	215,078	6.00%
Tier 1 capital to average assets						
Consolidated	670,121	10.50%	254,343	4.00%	N/A	N/A
First Financial Bank	590,809	9.28%	253,916	4.00%	317,395	5.00%

(Dollars in thousands)	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>DECEMBER 31, 2009</b>						
Total capital to risk-weighted assets						
Consolidated	678,024	17.37%	312,285	8.00%	N/A	N/A
First Financial Bank	596,898	15.33%	311,566	8.00%	389,458	10.00%
Tier 1 capital to risk-weighted assets						
Consolidated	628,982	16.11%	156,143	4.00%	N/A	N/A
First Financial Bank	540,544	13.88%	155,783	4.00%	233,675	6.00%
Tier 1 capital to average assets						
Consolidated	628,982	9.24%	271,557	4.00%	N/A	N/A
First Financial Bank	540,544	7.90%	272,760	4.00%	340,950	5.00%

#### CRITICAL ACCOUNTING POLICIES

First Financial's Consolidated Financial Statements are prepared based on the application of accounting policies. These policies require the reliance on estimates and assumptions. Changes in underlying factors, assumptions, or estimates in any of these areas could have a material impact on First Financial's future financial condition and results of operations. In management's opinion, some of these areas have a more significant impact than others on First Financial's financial reporting. For First Financial, these areas currently include accounting for the allowance for loan and lease losses for uncovered and covered loans, FDIC indemnification asset, goodwill, pension and income taxes.



Allowance for Loan and Lease Losses – Uncovered Loans. First Financial maintains the allowance for loan and lease losses at a level sufficient to absorb potential losses inherent in the uncovered loan portfolio given the conditions at the time. Management determines the adequacy of the allowance based on periodic evaluations of the loan portfolio and other factors. These evaluations are inherently subjective as they require material estimates, all of which may be susceptible to significant change, including, among others:

- Probability of default,
- Loss given default,
- Exposure at date of default,
- Amounts and timing of expected future cash flows on impaired loans,
- Value of collateral,
- Historical loss exposure, and
- The effects of changes in economic conditions that may not be reflected in historical results.

To the extent actual outcomes differ from management's estimates, additional provision for credit losses may be required that would impact First Financial's operating results.

Allowance for Loan and Lease Losses – Covered Loans. First Financial maintains an allowance for loan and lease losses on covered loans. For loans accounted for under FASB ASC Topic 310-30, expected cash flows are re-estimated periodically with any decline in expected cash flows recorded as provision expense on a discounted basis during the period. These cash flow evaluations are inherently subjective as they require material estimates, all of which may be susceptible to significant change. The related, estimated reimbursement on covered loan losses due from the FDIC under loss sharing agreements is recorded as both FDIC loss sharing income and an increase to the FDIC indemnification asset.

Covered Loans. Loans acquired in FDIC-assisted transactions are covered under loss sharing agreements. Covered loans were recorded at fair value at acquisition. Fair values for covered loans were based on a discounted cash flow methodology that considered various 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.

FDIC Indemnification Asset. FDIC indemnification assets result from the loss share agreements in the assisted transactions and are measured separately from the related covered assets as they are not contractually embedded in the assets and are not transferable with the assets should First Financial choose to dispose of them. Fair value is estimated using projected cash flows related to the loss sharing agreements based on the expected reimbursements for losses and the applicable loss sharing percentages. These expected reimbursements do not include reimbursable amounts related to future covered expenditures. These cash flows are discounted to reflect the uncertainty of the timing and receipt of the loss sharing reimbursement from the FDIC.

Goodwill. Goodwill arising from business acquisitions represents the value attributable to unidentifiable intangible elements in the business acquired. FASB ASC Topic 350, Intangibles-Goodwill and Other, requires goodwill to be tested for impairment on an annual basis and more frequently in certain circumstances. At least annually, First Financial reviews goodwill for impairment using both income and asset based approaches. The income-based approach utilizes a multiple of earnings method in which First Financial's annualized earnings are compared to equity to provide an implied book-value-to-earnings multiple. First Financial then compares the implied multiple to current marketplace earnings multiples for which banks are being traded. An implied multiple less than current marketplace earnings multiples is an indication of possible goodwill impairment. The asset-based approach uses the discounted cash flows of First Financial's assets and liabilities, inclusive of goodwill, to determine an implied fair value. This

input is used to calculate the fair value of the company, including goodwill, and is compared to the company's book value. An implied fair value that exceeds the company's book value is an indication that goodwill is not impaired. If First Financial's book value exceeds the implied fair value, an impairment loss equal to the excess amount would be recognized. Based on First Financial's analysis at year-end 2009, there have been no impairment charges required.

Pension. First Financial sponsors a non-contributory defined-benefit pension plan covering substantially all employees. Accounting for the pension plan involves material estimates regarding future plan obligations and investment returns on plan assets. Significant assumptions used in the pension plan include the discount rate, expected return on plan assets, and the rate of compensation increase. First Financial determines the discount rate assumption using published Corporate Bond Indices, projected cash flows of the pension plan, and comparisons to external industry surveys for reasonableness. The expected long-term return on plan assets is based on the composition of plan assets and a consensus of estimates of expected future returns from similarly managed portfolios while the rate of compensation increase is compared to historical increases for plan participants. Changes in these assumptions can have a material impact on the amount of First Financial's future pension obligations, on the funded status of the plan and can impact First Financial's operating results.

Income Taxes. First Financial evaluates and assesses the relative risks and appropriate tax treatment of transactions after considering statutes, regulations, judicial precedent and other information and maintains tax accruals consistent with its evaluation of these relative risks. Changes to the estimate of accrued taxes occur periodically due to changes in tax rates, interpretations of tax laws, the status of examinations being conducted by taxing authorities and changes to statutory, judicial and regulatory guidance that impact the relative risks of tax positions. These changes, when they occur, can affect deferred taxes and accrued taxes as well as the current period's income tax expense and can be material to First Financial's operating results.

#### ACCOUNTING AND REGULATORY MATTERS

Note 2 to the Consolidated Financial Statements discusses new accounting standards adopted by First Financial during 2010 and the expected impact of accounting standards recently issued but not yet required to be adopted. To the extent the adoption of new accounting standards materially affects financial condition, results of operations, or liquidity, the impacts are discussed in the applicable section(s) of Management's Discussion and Analysis and the Notes to the Consolidated Financial Statements.

#### FORWARD-LOOKING INFORMATION

Certain statements contained in this report that are not statements of historical fact constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act (the Act). In addition, certain statements in future filings by First Financial with the SEC, in press releases, and in oral and written statements made by or with the approval of First Financial which are not statements of historical fact constitute forward-looking statements within the meaning of the Act.

Examples of forward-looking statements include, but are not limited to, projections of revenues, income or loss, earnings or loss per share, the payment or non-payment of dividends, capital structure and other financial items, statements of plans and objectives of First Financial or its management or board of directors, and statements of future economic performances and statements of assumptions underlying such statements. Words such as "believes," "anticipates," "intends," and other similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

Management's analysis contains forward-looking statements that are provided to assist in the understanding of anticipated future financial performance. However, such performance involves risk and uncertainties that may cause actual results to differ materially. Factors that could cause actual results to differ from those discussed in the forward-looking statements include, but are not limited to:

- management's ability to effectively execute its business plan;
- the risk that the strength of the United States economy in general and the strength of the local economies in which we conduct operations may continue to deteriorate resulting in, among other things, a further deterioration in credit quality or a reduced demand for credit, including the resultant effect on our loan portfolio, allowance for loan and lease losses and overall financial performance;
  - the ability of financial institutions to access sources of liquidity at a reasonable cost;
- the impact of recent upheaval in the financial markets and the effectiveness of domestic and international governmental actions taken in response, such as the U.S. Treasury's TARP and the FDIC's Temporary Liquidity Guarantee Program, and the effect of such governmental actions on us, our competitors and counterparties, financial markets generally and availability of credit specifically, and the U.S. and international economies, including potentially higher FDIC premiums arising from increased payments from FDIC insurance funds as a result of depository institution failures;
- the effects of and changes in policies and laws of regulatory agencies (notably the recently enacted Dodd-Frank Wall Street Reform and Consumer Protection Act);
  - inflation and possible changes in interest rates;



- our ability to keep up with technological changes;
- mergers and acquisitions, including costs or difficulties related to the integration of acquired companies, the wind-down of non-strategic operations and the duration of those wind-down activities;
- the risk that exploring merger and acquisition opportunities may detract from management's time and ability to successfully manage our company;
- expected cost savings in connection with the consolidation of recent acquisitions may not be fully realized or realized within the expected time frames, and deposit attrition, customer loss and revenue loss following completed acquisitions may be greater than expected;
  - our ability to increase market share and control expenses;

- the effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies as well as the Financial Accounting Standards Board and the SEC; adverse changes in the securities and debt markets;
- our success in recruiting and retaining the necessary personnel to support business growth and expansion and maintain sufficient expertise to support increasingly complex products and services;
- monetary and fiscal policies of the Board of Governors of the Federal Reserve System (Federal Reserve) and the U.S. government and other governmental initiatives affecting the financial services industry;
- our ability to manage loan delinquency and charge-off rates and changes in estimation of the adequacy of the allowance for loan losses; and
  - the costs and effects of litigation and of unexpected or adverse outcomes in such litigation.

In addition, please refer to “Item 1A. Risk Factors” and our Annual Report on Form 10-K for the year ended December 31, 2009, as well as our other filings with the SEC, for a more detailed discussion of these risks and uncertainties and other factors. Such forward-looking statements are meaningful only on the date when such statements are made, and First Financial undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such a statement is made to reflect the occurrence of unanticipated events.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the risk of loss arising from adverse changes in the fair value of financial instruments due to changes in interest rates, foreign exchange rates, and equity prices. The primary source of market risk for First Financial is interest rate risk. Interest rate risk arises in the normal course of business to the extent that there is a divergence between the amount of First Financial's interest-earning assets and the amount of interest-bearing liabilities that are prepaid/withdrawn, re-price, or mature in specified periods. First Financial seeks to achieve consistent growth in net interest income and capital while managing volatility arising from shifts in market interest rates. The Asset and Liability Committee (ALCO) oversees market risk management, establishing risk measures, limits, and policy guidelines for managing the amount of interest-rate risk and its effect on net interest income and capital.

Interest-rate risk for First Financial's Consolidated Balance Sheets consists of repricing, option, and basis risks. Repricing risk results from differences in the maturity, or repricing, of interest-bearing assets and liabilities. Option risk in financial instruments arises from embedded options such as loan prepayments, early withdrawal of Certificates of Deposits, and calls on investments and debt instruments that are primarily driven by third party or client behavior. Basis risk refers to the potential for changes in the underlying relationship between market rates or indices, which subsequently result in a narrowing of the net interest margin. Basis risk is also present in managed rate liabilities, such as interest-bearing checking accounts and savings accounts, where historical pricing relationships to market rates may change due to the level or directional change in market interest rates, or competitive pressures.

The interest rate risk position is measured and monitored using income simulation models and economic value of equity sensitivity analysis that capture both short-term and long-term interest rate risk exposure. Income simulation involves forecasting net interest income under a variety of interest rate scenarios including instantaneous shocks.

Presented below is the estimated impact on First Financial's net interest income as of September 30, 2010, assuming immediate, parallel shifts in interest rates:

	-200 basis points	-100 basis points	+100 basis points	+200 basis points
September 30, 2010	(9.14)%	(2.75)%	4.89%	6.93%

Modeling the sensitivity of net interest income and the economic value of equity to changes in market interest rates is highly dependent on numerous assumptions incorporated into the modeling process. These assumptions are periodically reviewed in the context of balance sheet changes, product offerings, external economic factors and anticipated client behavior. Due to the current low interest rate environment, funding rates on deposit and wholesale funding instruments were not reduced below 0.0% in the down 200 and down 100 basis points scenarios. The analysis provides a framework as to what our overall sensitivity is as of our most recent reported position. Management strategies may impact future reporting periods, as our actual results may differ from simulated results due to the timing, magnitude, and frequency of interest rate changes, the difference between actual experience, and the characteristics assumed, as well as changes in market conditions. Market based prepayment speeds are factored into the analysis for loan and securities portfolios. Rate sensitivity for transactional deposit accounts is modeled based on both historical experience and external industry studies.

First Financial uses economic value of equity sensitivity analysis to understand the impact of changes in interest rates on long-term cash flows, income, and capital. Economic value of equity is based on discounting the cash flows for all balance sheet instruments under different interest-rate scenarios. Deposit premiums are based on external industry studies and utilizing historical experience. Presented below is the change in First Financial's economic value of equity position as of September 30, 2010, assuming immediate, parallel shifts in interest rates and excluding the impact of the Irwin acquisition as noted above:

	-200 basis points	-100 basis points	+100 basis points	+200 basis points
September 30, 2010	(18.00)%	(8.21)%	5.43%	7.25%

First Financial, utilizing interest rates primarily based upon external industry studies, models additional scenarios covering the next twelve months. Based on these scenarios, First Financial has a relatively neutral rate risk position of a positive 1.59% when compared to a base-case scenario with interest rates held constant. Given its outlook for future interest rates, First Financial is managing its balance sheet with a bias toward asset sensitivity.

See also “Item 2-Management’s Discussion and Analysis of Financial Condition and Results of Operations—Net Interest Income.”

#### ITEM 4. CONTROLS AND PROCEDURES

##### Disclosure Controls and Procedures

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

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

##### Changes in Internal Control over Financial Reporting

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

## PART II-OTHER INFORMATION

### Item 1. Legal Proceedings.

We make the following disclosure in connection with the acquisition of certain assets and assumption of certain liabilities of Irwin Union Bank and Trust Company (Irwin Union Bank) by First Financial Bank from the FDIC as receiver for Irwin Union Bank. The acquisition was completed pursuant to a Purchase and Assumption Agreement by and among the FDIC, the FDIC as receiver, and First Financial Bank dated September 18, 2009, as amended (the "Purchase Agreement"). Some of these claims involve Irwin Union Bank prior to it being placed in receivership and are thus the responsibility of the FDIC as receiver pursuant to the Purchase Agreement. Furthermore, with respect to the claims set forth below, First Financial Bank has or expects to submit requests for indemnification to the FDIC as receiver pursuant to Section 12 of the Purchase Agreement. Pursuant to the Purchase Agreement, the FDIC as receiver has agreed to indemnify and hold harmless First Financial Bank for certain claims against Irwin Union Bank and the former subsidiaries of Irwin Union Bank for actions taken on or prior to September 18, 2009. First Financial believes the matters discussed below qualify for indemnification. Furthermore, discussions are ongoing with the FDIC regarding indemnification with respect to certain actions taken by Irwin and its subsidiaries in connection with the purchase of certain assets and assumption of certain liabilities of Irwin by First Financial Bank from the FDIC as receiver.

#### Litigation in Connection with Loans Purchased by Former Irwin Subsidiaries from Freedom Mortgage Corporation

On January 22, 2008, Irwin Union Bank and Irwin Home Equity Corporation (IHE), filed suit against Freedom Mortgage Corporation (Freedom) in the United States District Court for the Northern District of California, Oakland Division, Irwin Union Bank, et al. v. Freedom Mortgage Corp. (the "First California Action"), for breach of contract and negligence arising out of Freedom's refusal to repurchase certain mortgage loans that Irwin Union Bank and IHE had purchased from Freedom. Irwin Union Bank and IHE are seeking damages in excess of \$8 million from Freedom.

In response, in March 2008, Freedom moved to compel arbitration of the claims asserted in the First California Action and filed suit against Irwin Mortgage Corporation (Irwin Mortgage) and its former indirect parent, Irwin Financial Corporation (IFC), (now in Chapter 7 bankruptcy), in the United States District Court for the District of Delaware, Freedom Mortgage Corporation v. Irwin Financial Corporation et al., (the "Delaware Action"). Freedom alleged that the repurchase demands in the First California Action represent various breaches of an Asset Purchase Agreement dated as of August 7, 2007, which was entered into by IFC, Irwin Mortgage and Freedom in connection with the sale to Freedom of the majority of Irwin Mortgage's loan origination assets. In the Delaware Action, Freedom sought damages in excess of \$8 million and to compel IFC to order its (now former) subsidiaries in the First California Action to dismiss their claims.

In April 2008, the California district court stayed the First California Action pending completion of arbitration. The arbitration remains pending. The California district judge previously stated on the record that she would not hear Freedom's claims in the Delaware Action until the arbitration is completed.

On March 23, 2009, the Delaware district court granted Irwin's motion to transfer the Delaware Action to the Northern District of California, and ordered that the Delaware case be closed. The Delaware Action was transferred on March 30, 2009 and officially filed in the United States District Court for the Northern District of California, San Francisco Division, on March 31, 2009, Freedom Mortgage Corporation v. Irwin Financial Corporation and Irwin Mortgage Corporation (the "Second California Action").

As a result of the FDIC receivership of Irwin Union Bank, the bankruptcy of IFC, and the perceived desire of the parties to consider settlement options, several stipulations were entered into postponing various case management

dates originally ordered by the court. No reserves have been established for this litigation.

First Financial Bank continues to evaluate this matter, has engaged in discussions with Freedom and FDIC counsel, and expects to make a claim for indemnification with respect to the subsidiaries.

EverBank v. Irwin Mortgage Corporation and Irwin Union Bank and Trust Company-Demand for Arbitration

On March 25, 2009, Irwin Mortgage and Irwin Union Bank received an arbitration demand (Demand) from EverBank for administration by the American Arbitration Association (AAA), claiming damages for alleged breach of an "Agreement for Purchase and Sale of Servicing" (the "EverBank Agreement") under which Irwin Mortgage is alleged to have sold the servicing of certain mortgage loans to EverBank. The Demand also alleges that Irwin Union Bank is the guarantor of Irwin Mortgage's obligations under the EverBank Agreement, and that the EverBank Agreement was amended November 1, 2006 to include additional loans. According to the Demand, EverBank alleges that Irwin Mortgage and Irwin Union Bank breached certain warranties and covenants under the EverBank Agreement by failing to repurchase certain loans and failing to indemnify EverBank after EverBank had demanded repurchase. The Demand sets forth several claims based on legal theories of breach of warranty, breach of the covenant of good faith and fair dealing, promissory estoppel, specific performance and unjust enrichment, and requests damages, penalties, interest, attorneys' fees, costs, and other appropriate relief to be granted by the arbitration panel. The Demand also states that, as a result of Irwin Mortgage's alleged failure to repurchase loans, EverBank has allegedly incurred and continues to incur damages that it claims could exceed \$10,000,000. In April 2009, Irwin Mortgage and Irwin Union Bank filed an answer and counter-claims to the Demand. Discussions to resolve this matter led to the issuance of a stay of the arbitration on February 16, 2010. A reserve has been established that is deemed appropriate for resolution of all open repurchase issues with EverBank.

On October 23, 2009, First Financial requested indemnification from the FDIC for this matter under the Agreement and continues to explore possible resolution of the litigation.

Additional Repurchase Demands

Irwin Mortgage has recorded a liability for losses from the potential repurchases by Irwin Mortgage of loans it sold that allegedly contained origination errors. Such alleged errors included inaccurate appraisals, errors in underwriting, and ineligibility for inclusion in loan programs of government-sponsored entities. In determining liability levels for repurchases, we estimate the number of loans that may contain origination errors, the year in which the loss is expected to occur, and the expected severity of the loss upon occurrence applied to an average loan amount. Inaccurate assumptions in setting this liability could result in changes in future liabilities. A reserve has been established that is deemed appropriate for resolution of verified repurchase issues.

In addition, in August 2009, Irwin Mortgage received a request to repurchase approximately 1,700 mobile home loans with an unpaid principal balance of approximately \$154 million. The request alleged that title was not perfected with respect to these loans in accordance with contractual terms. However, Irwin Mortgage believes the requesting party has failed to provide sufficient evidence to support its claim. Irwin Mortgage disputed the claim in September 2009. Additional unsubstantiated claims have been received subsequent to the August 2009 requests of approximately \$15 million. Based on the information available at the time of this filing, there is insufficient evidence to warrant the recording of a reserve for these claims.

We and our subsidiaries are from time to time engaged in various matters of litigation, including the matters described above, 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, except as described above. 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.

51

---

Item 1A. Risk Factors.

Possible Additional Risks

The risks listed here are not the only risks we face. Additional risks that are not presently known, or that we presently deem to be immaterial, also could have a material adverse effect on our financial condition, results of operations, business, and prospects. (See also “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” for certain forward looking statements.)

Recent Market, Legislative, and Regulatory Events

Difficult market conditions have adversely affected our industry.

Dramatic declines in the housing market over the past years, with falling home prices and increasing foreclosures, unemployment and under-employment, have negatively impacted the credit performance of real estate related loans and resulted in significant write-downs of asset values by financial institutions. These write-downs, initially of mortgage-backed securities (MBS) but spreading to other securities and loans have caused many financial institutions to seek additional capital, to reduce or eliminate dividends, to merge with larger and stronger institutions and, in some cases, to fail. Reflecting concern about the stability of the financial markets generally and the strength of counterparties, many lenders and institutional investors have reduced or ceased providing funding to borrowers, including to other financial institutions. This market turmoil and tightening of credit have led to an increased level of commercial and consumer delinquencies, lack of consumer confidence, increased market volatility and widespread reduction of business activity generally. The resulting economic pressure on consumers and lack of confidence in the financial markets has adversely affected our business, financial condition and results of operations. Market developments may affect consumer confidence levels and may cause adverse changes in payment patterns, causing increases in delinquencies and default rates, which may impact our charge-offs and provision for credit and fraud losses. A worsening of these conditions would likely exacerbate the adverse effects of these difficult market conditions on us and others in the financial institutions industry.

Current levels of market volatility are unprecedented.

The capital and credit markets have been experiencing volatility and disruption for more than 12 months. Recently, volatility and disruption have reached unprecedented levels. In some cases, the markets have produced downward pressure on stock prices and credit availability for certain issuers without regard to those issuers’ underlying financial strength. If current levels of market disruption and volatility continue or worsen, there can be no assurance that we will not experience an adverse effect, which may be material, on our ability to access capital and on our business, financial condition and results of operations. Numerous facts and circumstances are considered when evaluating the carrying value of our goodwill. One of those considerations is our market capitalization, evaluated over a reasonable period of time, in relation to the aggregate estimated fair value of the reporting units. While this comparison provides some relative market information regarding the estimated fair value of the reporting units, it is not determinative and needs to be evaluated in the context of the current economic and political environment. However, significant and/or sustained declines in First Financial’s market capitalization, especially in relation to First Financial’s book value, could be an indication of potential impairment of goodwill.

The soundness of other financial institutions could adversely affect us.

Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services institutions are interrelated as a result of trading, clearing, counterparty, or other relationships. As a result, defaults by, or even rumors or questions about, one or more financial services institutions, or the financial services industry generally, have led to market-wide liquidity problems and could lead to losses or defaults by us or by other institutions. Many of these transactions expose us to credit risk in the event of default of our counterparty or client. In addition, our credit risk may be exacerbated when the collateral held by us cannot be realized upon or is liquidated at prices not sufficient to recover the full amount of the financial instrument exposure due us. There is no assurance that any such losses would not materially and adversely affect our results of

operations.

There can be no assurance that enacted legislation or any proposed federal programs will stabilize the U.S. financial system and such legislation and programs may adversely affect us.

There has been much legislative and regulatory action in response to the financial crises affecting the banking system and financial markets and threats to investment banks and other financial institutions. There can be no assurance, however, as to the actual impact that the legislation and its implementing regulations or any other governmental program will have on the financial markets. The failure of the actions by the legislators, the regulatory bodies or the U.S. government to stabilize the financial markets and a continuation or worsening of current financial market conditions could materially and adversely affect our business, financial condition, results of operations, and access to credit or the trading price of our common shares.

Contemplated and proposed legislation, state and federal programs, and increased government control or influence may adversely affect us by increasing the uncertainty in our lending operations and expose us to increased losses, including legislation that would allow bankruptcy courts to permit modifications to mortgage loans on a debtor's primary residence, moratoriums on a mortgagor's right to foreclose on property, and requirements that fees be paid to register other real estate owned property. Statutes and regulations may be altered that may potentially increase our costs to service and underwrite mortgage loans. Additionally, federal intervention and operation of formerly private institutions may adversely affect our rights under contracts with such institutions and the way in which we conduct business in certain markets.

Financial reforms and related regulations may affect our business activities, financial position and profitability. On July 21, 2010, President Obama signed into law the Financial Reform Act. The Financial Reform Act will institute far-reaching reforms, including the creation of an independent Bureau of Consumer Financial Protection inside the Federal Reserve Board and new federal government power to wind down large, failing financial institutions.

The changes resulting from the Financial Reform Act, as well as the regulations promulgated by federal agencies, may impact the profitability of our business activities, require changes to certain of its business practices, impose upon us more stringent capital, liquidity and leverage ratio requirements or otherwise adversely affect our business. These changes may also require us to invest significant management attention and resources to evaluate and make necessary changes.

Further Treasury “Stress Tests” and Other Actions may Adversely Affect Bank Operations and Value of Shares. On February 10, 2009, the Treasury outlined a plan to restore stability to the financial system. This announcement included reference to a plan by the Treasury to conduct “stress tests” of certain banks which received funds under the CPP and similar Treasury programs. The methods and procedures to be used by the Treasury in conducting its “stress tests,” how these methods and procedures will be applied, and the significance or consequence of such tests presently are not known. Any of these or their consequences could adversely affect the banking industry in general, and the value of First Financial shares, among other things.

The fiscal and monetary policies of the federal government and its agencies could have a material adverse effect on our earnings.

The Board of Governors of the Federal Reserve System regulates the supply of money and credit in the United States. Its policies determine in large part the cost of funds for lending and investing and the return earned on those loans and investments, both of which affect the net interest margin. The resultant changes in interest rates can also materially decrease the value of certain financial assets we hold, such as debt securities. Its policies can also adversely affect borrowers, potentially increasing the risk that they may fail to repay their loans. Changes in Federal Reserve Board policies are beyond our control and difficult to predict; consequently, the impact of these changes on our activities and results of operations is difficult to predict.

## Risks Relating to Our Business

### Credit Risks

When we loan money, commit to loan money or enter into a letter of credit or other contract with a counterparty, we incur credit risk, or the risk of losses if our borrowers do not repay their loans or our counterparties fail to perform according to the terms of their contracts.

Large, individual loans, letters of credit and contracts magnify such credit risks. As lending is one of our primary business activities, the credit quality of our portfolio can have a significant impact on our earnings. We estimate and establish reserves for credit risks and credit losses inherent in our total loan portfolio. This process, which is critical to our financial results and condition, requires difficult, subjective and complex judgments, including forecasts of economic conditions and how these economic predictions might impair the ability of our borrowers to repay their loans. As is the case with any such assessments, there is always the chance that we will fail to identify the proper factors or that we will fail to accurately estimate the impacts of factors that we identify. In addition, large loans, letters of credit and contracts with individual counterparties in our portfolio magnify the credit risk that we face, as the impact of large borrowers and counterparties not repaying their loans or performing according to the terms of their contracts has a disproportionately significant impact on our credit losses and reserves.

Weakness in the economy and in the real estate market, including specific weakness within our geographic footprint, has adversely affected us and may continue to adversely affect us.

If the strength of the U.S. economy in general and the strength of the local economies in which we conduct operations decline, or continue to decline, this could result in, among other things, a deterioration of credit quality or a reduced demand for credit, including a resultant effect on our loan portfolio and allowance for loan and lease losses. These factors could result in higher delinquencies and greater charge-offs in future periods, which would materially adversely affect our financial condition and results of operations.

Weakness in the real estate market, including the secondary residential mortgage loan markets, could adversely affect us.

Significant ongoing disruptions in the secondary market for residential mortgage loans have limited the market for and liquidity of many mortgage loans. The effects of ongoing mortgage market challenges, combined with the ongoing correction in residential real estate market prices and reduced levels of home sales, could result in further price reductions in single family home values, adversely affecting the value of collateral securing mortgage loans that we hold, mortgage loan originations and profits on sales of mortgage loans. These trends could continue and such conditions could result in higher losses, write downs and impairment charges in our mortgage and other lines of business. Continued declines in real estate values, home sale volumes, financial stress on borrowers as a result of job losses, interest rate resets on adjustable rate mortgage loans or other factors could have further adverse effects on borrowers that could result in higher delinquencies and greater charge-offs in future periods, which adversely affect our financial condition or results of operations. Additionally, decreases in real estate values might adversely affect the creditworthiness of state and local governments, and this might result in decreased profitability or credit losses from loans made to such governments. A decline in home values or overall economic weakness could also have an adverse impact upon the value of real estate or other assets which we own upon foreclosing a loan and our ability to realize value on such assets.

Real estate volatility and future changes in our disposition strategies could result in net proceeds that differ significantly from our OREO fair value appraisals.

Our other real estate owned (“OREO”) portfolio consists of properties that we obtained through foreclosure or through an in-substance foreclosure in satisfaction of loans. Properties in our OREO portfolio are recorded at the lower of the recorded investment in the loans for which the properties previously served as collateral or the “fair value”, which represents the estimated sales price of the properties on the date acquired less estimated selling costs. Generally, in determining “fair value” an orderly disposition of the property is assumed, except where a different disposition strategy is expected. Significant judgment is required in estimating the fair value of OREO property, and the period of time within which such estimates can be considered current is significantly shortened during periods of market volatility, as is currently being experienced and as experienced during 2008 and 2009.

In response to market conditions and other economic factors, we may utilize alternative sale strategies other than orderly disposition as part of our OREO disposition strategy, such as immediate liquidation sales. In this event, as a result of the significant judgments required in estimating fair value and the variables involved in different methods of disposition, the net proceeds realized from such sales transactions could differ significantly from appraisals, comparable sales, and other estimates used to determine the fair value of our OREO properties.

The information that we use in managing our credit risk may be inaccurate or incomplete, which may result in an increased risk of default and otherwise have an adverse effect on our business, results of operations and financial condition.

In deciding whether to extend credit or enter into other transactions with clients and counterparties, we may rely on information furnished by or on behalf of clients and counterparties, including financial statements and other financial information. We also may rely on representations of clients and counterparties as to the accuracy and completeness of that information and, with respect to financial statements, on reports of independent auditors. Although we regularly review our credit exposure to specific clients and counterparties and to specific industries that we believe may present credit concerns, default risk may arise from events or circumstances that are difficult to detect, such as fraud. Moreover, such circumstances, including fraud, may become more likely to occur and/or be detected in periods of general economic uncertainty, such as at the present time. We may also fail to receive full information with respect to the risks of a counterparty. In addition, in cases where we have extended credit against collateral, we may find that we are undersecured, for example, as a result of sudden declines in market values that reduce the value of collateral or due to fraud with respect to such collateral. If such events or circumstances were to occur, it could result in a potential loss of revenue and have an adverse effect on our business, results of operations and financial condition.

Recently declining values of real estate, increases in unemployment, and the related effects on local economies may increase our credit losses, which would negatively affect our financial results.

We offer a variety of secured loans, including commercial lines of credit, commercial term loans, real estate, construction, home equity, consumer and other loans. Many of our loans are secured by real estate (both residential and commercial) in our market area. A major change in the real estate market, such as deterioration in the value of this collateral, or in the local or national economy, could adversely affect our customer's ability to pay these loans, which in turn could adversely impact us. Additionally, increases in unemployment also may adversely affect the ability of certain clients to pay loans and the financial results of commercial clients in localities with higher unemployment, which may result in loan defaults and foreclosures and which may impair the value of our collateral. Risk of loan defaults and foreclosures are unavoidable in the banking industry, and we try to limit our exposure to this risk by monitoring our extensions of credit carefully. We cannot fully eliminate credit risk, and as a result credit losses may increase in the future.

Deteriorating credit quality, particularly in real estate loans, has adversely impacted us and may continue to adversely impact us.

Late in 2008 we began to experience a downturn in the overall credit performance of our loan portfolio, as well as acceleration in the deterioration of general economic conditions. This deterioration, including a significant increase in national and regional unemployment levels and decreased sources of liquidity are the primary drivers of the increased stress being placed on most borrowers and is negatively impacting their ability to repay. These conditions resulted in an increase in our loan loss reserves.

We expect credit quality to remain challenging and could continue to deteriorate for much of 2010 and into 2011, notably in commercial real estate. Continued deterioration in the quality of our credit portfolio could significantly increase nonperforming loans, require additional increases in loan loss reserves, elevate charge-off levels and have a material adverse effect on our capital, financial condition, and results of operations. Furthermore, given the size of our loan portfolio, it is possible that a deterioration in the credit quality of one or two of our largest credits could have a material adverse effect on our capital, financial condition, and results of operations. Because we have substantially fewer nonperforming assets than many of our peers, the credit quality of our loan portfolio in recent quarters has and may continue to deteriorate at a faster rate than many of our peers.

The results of the internal stress test may not accurately predict the impact on our company if the condition of the economy were to continue to deteriorate.

During 2009 we conducted a number of internal stress tests. These stress tests were based on the tests that were administered to the nation's 19 largest banks by the Treasury in connection with its Supervisory Capital Assessment Program. Under the stress tests, we applied the Treasury's assumptions to estimate our credit losses, resources available to absorb those losses and any necessary additions to capital that would be required under the "more adverse" stress test scenario.

While we believe we have appropriately applied the Treasury's assumptions in performing our internal stress tests, we can not assure you that the results of this test are comparable to the results of stress tests performed and publicly released by the Treasury or that the results of our stress test would be the same if it had been performed by the Treasury. Moreover, the results of the stress tests may not accurately reflect the impact on our company if the economy does not improve or continues to deteriorate. Any continued deterioration of the economy could result in credit losses significantly higher, with a corresponding impact on our resources and capital requirements, than those predicted by our internal stress tests.

Our allowance for loan losses may prove to be insufficient to absorb losses in our loan portfolio.

Like all financial institutions, we maintain an allowance for loan losses to provide for loans in our portfolio that may not be repaid in their entirety. We believe that our allowance for loan losses is maintained at a level adequate to absorb probable losses inherent in our loan portfolio as of the corresponding balance sheet date. However, our allowance for loan losses may not be sufficient to cover actual loan losses, and future provisions for loan losses could materially and adversely affect our operating results. We have seen a significant increase in the level of potential problem loans and other loans with higher than normal risk. We expect to receive more frequent requests from borrowers to modify loans. The related accounting measurements related to impairment and the loan loss allowance require significant estimates which are subject to uncertainty and changes relating to new information and changing circumstances. Our estimates of the risk of loss and amount of loss on any loan are complicated by the significant uncertainties surrounding our borrowers' abilities to successfully execute their business models through changing economic environments, competitive challenges and other factors. Because of the degree of uncertainty and susceptibility of these factors to change, our actual losses may vary from our current estimates.

State and federal regulators, as an integral part of their examination process, periodically review our allowance for loan losses and may require us to increase our allowance for loan losses by recognizing additional provisions for loan losses charged to expense, or to decrease our allowance for loan losses by recognizing loan charge-offs, net of recoveries. Any such additional provisions for loan losses or charge-offs, as required by these regulatory agencies, could have a material adverse effect on our financial condition and results of operations.

We expect fluctuations in our loan loss provisions due to the uncertain economic conditions.

## Operating Risks



The introduction, implementation, withdrawal, success and timing of business initiatives and strategies, including, but not limited to, the opening of new banking centers or entering into new product lines, may be less successful or may be different than anticipated, which could adversely affect our business.

First Financial makes certain projections and develops plans and strategies for its banking and financial products. If we do not accurately determine demand for our banking and financial products, it could result in us incurring significant expenses without the anticipated increases in revenue, which could result in a material adverse effect on its business.

Changes in market interest rates or capital markets could adversely affect our revenue and expense, the value of assets and obligations, and the availability and cost of capital or liquidity.

Given our business mix, and the fact that most of the assets and liabilities are financial in nature, we tend to be sensitive to market interest rate movements and the performance of the financial markets. In addition to the impact of the general economy, changes in interest rates or in valuations in the debt or equity markets could directly impact us in one or more of the following ways:

- The yield on earning assets and rates paid on interest bearing liabilities may change in disproportionate ways;
- The value of certain balance sheet and off-balance sheet financial instruments or the value of equity investments that we hold could decline;
  - The value of assets for which we provide processing services could decline; or
- To the extent we access capital markets to raise funds to support our business; such changes could affect the cost of such funds or the ability to raise such funds.

We may be required to repurchase mortgage loans or indemnify mortgage loan purchasers as a result of breaches of representations and warranties, borrower fraud, or certain borrower defaults, which could harm our liquidity, results of operations, and financial condition.

When we sell mortgage loans, whether as whole loans or pursuant to a securitization, we are required to make customary representations and warranties to the purchaser about the mortgage loans and the manner in which they were originated. Our whole loan sale agreements require us to repurchase or substitute mortgage loans in the event we breach any of these representations or warranties. In addition, we may be required to repurchase mortgage loans as a result of borrower fraud. Likewise, we are required to repurchase or substitute mortgage loans if we breach a representation or warranty in connection with our securitizations. While we have taken steps to enhance our underwriting policies and procedures, there can be no assurance that these steps will be effective or reduce risk associated with loans sold in the past. If the level of repurchase and indemnity activity becomes material, our liquidity, results of operations and financial condition will be adversely affected.

Clients could pursue alternatives to bank deposits, causing us to lose a relatively inexpensive source of funding. Checking and savings account balances and other forms of client deposits could decrease if clients perceive alternative investments as providing superior expected returns. When clients move money out of bank deposits in favor of alternative investments, we can lose a relatively inexpensive source of funds, increasing our funding costs.

Consumers may decide not to use banks to complete their financial transactions, which could affect net income. Technology and other changes now allow parties to complete financial transactions without banks. For example, consumers can pay bills and transfer funds directly without banks. This process could result in the loss of fee income, as well as the loss of client deposits and the income generated from those deposits.

Our asset management business subjects us to a variety of risks.

At September 30, 2010, we had \$2.2 billion in assets under management. A sharp decline in the stock market can negatively impact the amount of assets under management and thus subject our earnings to a broader variety of risks and uncertainties.

Negative public opinion could damage our reputation and adversely impact business and revenues.

As a financial institution, our earnings and capital are subject to risks associated with negative public opinion. Negative public opinion could result from our actual or alleged conduct in any number of activities, including lending practices, the failure of any product or service sold by us to meet our clients' expectations or applicable regulatory requirements, corporate governance and acquisitions, or from actions taken by government regulators and community organizations in response to those activities. Negative public opinion can adversely affect our ability to keep and attract and/or retain clients and can expose us to litigation and regulatory action. Actual or alleged conduct by one of our businesses can result in negative public opinion about our other businesses. Negative public opinion could also affect our ability to borrow funds in the unsecured wholesale debt markets.

We rely on other companies to provide key components of our business infrastructure.

Third parties provide key components of our business infrastructure such as banking services, processing, and Internet connections and network access. Any disruption in such services provided by these third parties or any failure of these third parties to handle current or higher volumes of use could adversely affect our ability to deliver products and services to clients and otherwise to conduct business. Technological or financial difficulties of a third party service provider could adversely affect our business to the extent those difficulties result in the interruption or discontinuation of services provided by that party. We may not be insured against all types of losses as a result of third party failures and our insurance coverage may be inadequate to cover all losses resulting from system failures or other disruptions. Failures in our business infrastructure could interrupt the operations or increase the costs of doing business.

We rely on our systems, employees, and certain counterparties, and certain failures could materially adversely affect our operations.

We are exposed to many types of operational risk, including the risk of fraud by employees and outsiders, clerical and record-keeping errors, and computer/telecommunications systems malfunctions. Our businesses are dependent on our ability to process a large number of increasingly complex transactions. If any of our financial, accounting, or other data processing systems fail or have other significant shortcomings, we could be materially adversely affected. We are similarly dependent on our employees. We could be materially adversely affected if one of our employees causes a significant operational break-down or failure, either as a result of human error or where an individual purposefully sabotages or fraudulently manipulates our operations or systems. Third parties with which we do business could also be sources of operational risk to us, including relating to break-downs or failures of such parties' own systems or employees. Any of these occurrences could result in our diminished ability to operate one or more of our businesses, potential liability to clients, reputational damage and regulatory intervention, which could materially adversely affect us. We may also be subject to disruptions of our operating systems arising from events that are wholly or partially beyond our control, which may include, for example, computer viruses or electrical or telecommunications outages or natural disasters, or events arising from local or regional politics, including terrorist acts. Such disruptions may give rise to losses in service to clients and loss or liability to us. In addition there is the risk that our controls and procedures as well as business continuity and data security systems prove to be inadequate. Any such failure could affect our operations and could materially adversely affect our results of operations by requiring us to expend significant resources to correct the defect, as well as by exposing us to litigation or losses not covered by insurance.

We depend on the accuracy and completeness of information about clients and counterparties. In deciding whether to extend credit or enter into other transactions with clients and counterparties, we may rely on information furnished by or on behalf of clients and counterparties, including financial statements and other financial information. We also may rely on representations of clients and counterparties as to the accuracy and completeness of that information and, with respect to financial statements, on reports of independent auditors.

#### Industry Risks

Regulation by federal and state agencies could adversely affect the business, revenue, and profit margins. We are heavily regulated by federal and state agencies. This regulation is to protect depositors, the federal deposit insurance fund and the banking system as a whole. Congress and state legislatures and federal and state regulatory agencies continually review banking laws, regulations, and policies for possible changes. Changes to statutes, regulations, or regulatory policies, including interpretation or implementation of statutes, regulations, or policies, could affect us adversely, including limiting the types of financial services and products we may offer and/or increasing the ability of non-banks to offer competing financial services and products. Also, if we do not comply with laws, regulations, or policies, we could receive regulatory sanctions and damage to our reputation.

Competition in the financial services industry is intense and could result in losing business or reducing margins. We operate in a highly competitive industry that could become even more competitive as a result of legislative, regulatory and technological changes, and continued consolidation. We face aggressive competition from other domestic and foreign lending institutions and from numerous other providers of financial services. The ability of non-banking financial institutions to provide services previously limited to commercial banks has intensified competition. Because non-banking financial institutions are not subject to the same regulatory restrictions as banks and bank holding companies, they can often operate with greater flexibility and lower cost structures. Securities firms and insurance companies that elect to become financial holding companies may acquire banks and other financial institutions. This may significantly change the competitive environment in which we conduct business. Some of our competitors have greater financial resources and/or face fewer regulatory constraints. As a result of these various sources of competition, we could lose business to competitors or be forced to price products and services on less advantageous terms to retain or attract clients, either of which would adversely affect our profitability.

Future legislation could harm our competitive position.

Federal, state, and local legislatures increasingly have been considering proposals to substantially change the financial institution regulatory system and to expand or contract the powers of banking institutions and bank holding companies. Various legislative bodies have also recently been considering altering the existing framework governing creditors' rights, including legislation that would result in or allow loan modifications of various sorts. Such legislation may change banking statutes and the operating environment in substantial and unpredictable ways. If enacted, such legislation could increase or decrease the cost of doing business, limit or expand permissible activities, or affect the competitive balance among banks, savings associations, credit unions, and other financial institutions. We cannot predict whether new legislation will be enacted and, if enacted, the effect that it, or any regulations, would have on our activities, financial condition, or results of operations.

Maintaining or increasing market share depends on market acceptance and regulatory approval of new products and services.

Our success depends, in part, on the ability to adapt products and services to evolving industry standards. There is increasing pressure to provide products and services at lower prices. This can reduce net interest income and noninterest income from fee-based products and services. In addition, the widespread adoption of new technologies could require us to make substantial capital expenditures to modify or adapt existing products and services or develop new products and services. We may not be successful in introducing new products and services in response to industry trends or development in technology or those new products may not achieve market acceptance. As a result, we could lose business, be forced to price products and services on less advantageous terms to retain or attract clients, or be subject to cost increases.

Company Risks

We may not pay dividends on your common shares.

Holders of our common shares are only entitled to receive such dividends as our Board of Directors may declare out of funds legally available for such payments. Although we have historically declared cash dividends on our common shares, we are not required to do so and may reduce or eliminate our common shares dividend in the future. This could adversely affect the market price of our common shares. Also, our ability to increase our dividend or to make other distributions was restricted due to our participation in the CPP, which limited (without the consent of the Treasury) our ability to increase our dividend or to repurchase our common shares for so long as any preferred securities issued under such program remain outstanding.

57

---

There may be future sales or other dilution of our equity, which may adversely affect the market price of our common shares.

Generally, we are not restricted from issuing additional common shares, including any securities that are convertible into or exchangeable for, or that represent the right to receive, common shares. We are currently authorized to issue up to 160 million common shares, of which 58,057,934 shares are outstanding. Our board of directors has authority, without action or vote of the shareholders, to issue all or part of the authorized but unissued shares. These authorized but unissued shares could be issued on terms or in circumstances that could dilute the interests of other shareholders.

Furthermore, in connection with our participation in the CPP, the U.S. Treasury received a warrant as discussed under “-The U.S. Department of the Treasury Troubled Asset Relief Program”, and we have agreed to provide the U.S. Treasury with certain anti-dilutive adjustments. The purchasers of our warrants in the second quarter of 2010 have these same rights. Any issuance of additional common shares as a result of exercise of the warrant or otherwise or the issuance of securities convertible or exercisable into common shares would dilute the ownership interest of our existing common shareholders.

Our liquidity is dependent upon our ability to receive dividends from our subsidiaries, which accounts for most of our revenue and could affect our ability to pay dividends, and we may be unable to enhance liquidity from other sources. We are a separate and distinct legal entity from our subsidiaries, notably First Financial Bank. We receive substantially all of our revenue from dividends from our subsidiaries. These dividends are the principal source of funds to pay dividends on our common stock and interest and principal on our debt. Various federal and/or state laws and regulations limit the amount of dividends that our bank and certain of our non-bank subsidiaries may pay us. Additionally, if our subsidiaries’ earnings are not sufficient to make dividend payments to us while maintaining adequate capital levels, we may not be able to make dividend payments to our common shareholders.

To enhance liquidity, we may depend upon borrowings under credit facilities or other indebtedness. As a result of recent turbulence in the capital and credit markets, many lenders and institutional investors have reduced or ceased to provide funding to borrowers and, as a result, we may not be able to further increase liquidity through additional borrowings.

Limitations on our ability to receive dividends from our subsidiaries or an inability to increase liquidity through additional borrowings, or inability to maintain, renew or replace existing credit facilities, could have a material adverse effect on our liquidity and on our ability to pay dividends on our common and preferred shares and interest and principal on our debt.

Significant legal actions could subject us to substantial uninsured liabilities.

We are from time to time subject to claims related to our operations. These claims and legal actions, including supervisory actions by our regulators, could involve large monetary claims and significant defense costs. Substantial legal liability or significant regulatory action against us could have material adverse financial effects or cause significant reputational harm to us, which in turn could seriously harm our business prospects. We may be exposed to substantial uninsured liabilities, which could adversely affect our results of operations and financial condition.

If our regulators deem it appropriate, they can take regulatory actions that could impact our ability to compete for new business, constrain our ability to fund our liquidity needs, and increase the cost of our services.

First Financial and its subsidiaries are subject to the supervision and regulation of various State and Federal regulators, including the Office of the Comptroller of the Currency, the Federal Reserve, the FDIC, SEC, FINRA, and various state regulatory agencies. As such, First Financial is subject to a wide variety of laws and regulations. As part of their supervisory process, which includes periodic examinations and continuous monitoring, the regulators have the authority to impose restrictions or conditions on our activities and the manner in which we manage the organization. These actions could impact the organization in a variety of ways, including subjecting us to monetary fines, restricting our ability to pay dividends, precluding mergers or acquisitions, limiting our ability to offer certain products or

services, or imposing additional capital, operating, or oversight requirements.

Disruptions in our ability to access capital markets may negatively affect our capital resources and liquidity. In managing our consolidated balance sheet, we depend on wholesale capital markets to provide us with sufficient capital resources and liquidity to meet our commitments and business needs, and to accommodate the transaction and cash management needs of our clients. Other sources of funding available to us, and upon which we rely as regular components of our liquidity risk management strategy, include inter-bank borrowings, repurchase agreements, and borrowings from the Federal Home Loan Bank system. Any occurrence that may limit our access to these sources, such as a decline in the confidence of debt purchasers, or our depositors or counterparties participating in the capital markets, may adversely affect our capital costs and our ability to raise capital and, in turn, our liquidity.

Management's ability to retain key officers and employees may change.

Our future operating results depend substantially upon the continued service of its executive officers and key personnel. Our future operating results also depend in significant part upon its ability to attract and retain qualified management, financial, technical, marketing, sales, and support personnel. Competition for qualified personnel is intense, and we cannot ensure success in attracting or retaining qualified personnel. There may be only a limited number of persons with the requisite skills to serve in these positions, and it may be increasingly difficult for us to hire personnel over time.

Our ability to retain key officers and employees may be further impacted by legislation and regulation affecting the financial services industry. For example, recent legislation and bank regulatory action has or will place additional restrictions on executive compensation at, and the pay practices of, financial institutions. Such restrictions and standards may further impact management's ability to compete for talent with other industries that are not subject to the same limitations as financial institutions.

Our business, financial condition, or results of operations could be materially adversely affected by the loss of any of its key employees, or our inability to attract and retain skilled employees.

Potential acquisitions may disrupt our business and dilute shareholder value and we may not be able to successfully consummate or integrate such acquisitions.

Acquiring other banks, businesses, or branches involves various risks commonly associated with acquisitions, including, among other things:

- potential exposure to unknown or contingent liabilities of the target company;
- exposure to potential asset quality issues of the target company;
- difficulty and expense of integrating the operations and personnel of the target company;
- difficulty or added costs in the wind-down of non-strategic operations;
- potential disruption to our business;
- potential diversion of our management's time and attention;
- the possible loss of key employees and customers of the target company;
- difficulty in estimating the value (including goodwill) of the target company;
- difficulty in receiving appropriate regulatory approval for any proposed transaction;
- difficulty in estimating the fair value of acquired assets, liabilities and derivatives of the target company; and
- potential changes in accounting, banking, or tax laws or regulations that may affect the target company.

We regularly evaluate merger and acquisition opportunities and conduct due diligence activities related to possible transactions with other financial institutions and financial services companies. As a result, merger or acquisition discussions and, in some cases, negotiations may take place and future mergers or acquisitions involving cash, debt or equity securities may occur at any time. Acquisitions could involve the payment of a premium over book and market values, and, therefore, some dilution of our tangible book value and net income per common share may occur in connection with any future transaction.

Any merger or acquisition opportunity that we decide to pursue will ultimately be subject to regulatory approval and other closing conditions. We may expend substantial time and resources pursuing potential acquisitions which may not be consummated because regulatory approval is not received or other closing conditions are not satisfied. In addition, our existing credit facility and the terms of other indebtedness that we may subsequently incur may restrict our ability to consummate certain acquisitions. Furthermore, any difficulty integrating businesses acquired as a result of a merger or acquisition and the failure to realize the expected revenue increases, cost savings, increases in geographic or product presence, and/or other projected benefits from an acquisition could have an adverse impact on our liquidity, results of operations, and financial condition and any such integration could divert management's time and attention from managing our company in an effective manner and could be significantly more expensive than we



anticipate.

Our accounting policies and processes are critical to how we report our financial condition and results of operations. They require management to make estimates about matters that are uncertain.

Accounting policies and processes are fundamental to how we record and report the financial condition and results of operations. Management must exercise judgment in selecting and applying many of these accounting policies and processes so they comply with Generally Accepted Accounting Principles in the United States (U.S. GAAP).

Management has identified certain accounting policies as being critical because they require management's judgment to ascertain the valuations of assets, liabilities, commitments, and contingencies. A variety of factors could affect the ultimate value that is obtained either when earning income, recognizing an expense, recovering an asset, valuing an asset or liability, or reducing a liability. We have established detailed policies and control procedures that are intended to ensure these critical accounting estimates and judgments are well controlled and applied consistently. In addition, the policies and procedures are intended to ensure that the process for changing methodologies occurs in an appropriate manner. Because of the uncertainty surrounding our judgments and the estimates pertaining to these matters, we cannot guarantee that we will not be required to adjust accounting policies or restate prior period financial statements.

See the “Critical Accounting Policies” in the MD&A and Note 1, “Accounting Policies,” to the Consolidated Financial Statements, in our annual report on Form 10-K for the year ended December 31, 2009 for more information.

Changes in our accounting policies or in accounting standards could materially affect how we report our financial results and condition.

From time to time, the Financial Accounting Standards Board (“FASB”) and SEC change the financial accounting and reporting standards that govern the preparation of our financial statements. These changes can be hard to predict and can materially impact how we record and report our financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retroactively, resulting in us restating prior period financial statements.

Our results of operations depend upon the results of operations of our subsidiaries.

We are a holding company that conducts substantially all of our operations through our bank and other subsidiaries. As a result, our ability to make dividend payments on our common shares will depend primarily upon the receipt of dividends and other distributions from our subsidiaries. There are various regulatory restrictions on the ability of our bank subsidiary to pay dividends or make other payments to us. As of the close of business on September 30, 2010, our bank subsidiary had an additional \$240.7 million available to pay dividends to us without prior regulatory approval.

Our disclosure controls and procedures may not prevent or detect all errors or acts of fraud.

Our disclosure controls and procedures are designed to reasonably assure that information required to be disclosed by us in reports we file or submit under the Exchange Act is accurately accumulated and communicated to management, and recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms. We believe that any disclosure controls and procedures or internal controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

These inherent limitations include the realities that judgments in decision-making can be faulty, that alternative reasoned judgments can be drawn, or that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by an unauthorized override of the controls. Accordingly, because of the inherent limitations in our control system, misstatements due to error or fraud may occur and not be detected.

Our financial instruments carried at fair value expose us to certain market risks.

We maintain an available for sale investment securities portfolio which includes assets with various types of instruments and maturities. At times, we also maintain certain assets that are classified and accounted for as trading assets. The changes in fair value of the available for sale securities are recognized in shareholders equity as a component of other comprehensive income. The changes in fair value of financial instruments classified as trading assets are carried at fair value and recognized in earnings. The financial instruments carried at fair value are exposed to market risks related to changes in interest rates and market liquidity. We manage the market risks associated with these instruments through broad asset/liability management strategies. Changes in the market values of these financial instruments could have a material adverse impact on our financial condition or results of operations. We may classify additional financial assets or financial liabilities at fair value in the future.

Our revenues derived from our investment securities may be volatile and subject to a variety of risks.

We generally maintain investment securities and trading positions in the fixed income markets. Unrealized gains and losses associated with our investment portfolio and mark to market gains and losses associated with our trading portfolio are affected by many factors, including our credit position, interest rate volatility, volatility in capital markets, and other economic factors. Our return on such investments could experience volatility and such volatility may materially adversely affect our financial condition and results of operations. Additionally, accounting regulations

may require us to record a charge prior to the actual realization of a loss when market valuations of such securities are impaired and such impairment is considered to be other than temporary.

We are subject to ongoing tax examinations in various jurisdictions. The Internal Revenue Service and other taxing jurisdictions may propose various adjustments to our previously filed tax returns. It is possible that the ultimate resolution of such proposed adjustments, if unfavorable, may be material to the results of operations in the period it occurs.

In the ordinary course of business, we operate in various taxing jurisdictions and are subject to income and non-income taxes. The effective tax rate is based in part on our interpretation of the relevant current tax laws. We believe the aggregate liabilities related to taxes are appropriately reflected in the consolidated financial statements. We review the appropriate tax treatment of all transactions taking into consideration statutory, judicial, and regulatory guidance in the context of our tax positions. In addition, we rely on various tax opinions, recent tax audits, and historical experience.

From time to time, we engage in business transactions that may have an effect on our tax liabilities. Where appropriate, we have obtained opinions of outside experts and have assessed the relative merits and risks of the appropriate tax treatment of business transactions taking into account statutory, judicial, and regulatory guidance in the context of the tax position. However, changes to our estimates of accrued taxes can occur due to changes in tax rates, implementation of new business strategies, resolution of issues with taxing authorities regarding previously taken tax positions prior to acquisition and newly enacted statutory, judicial, and regulatory guidance. Such changes could affect the amount of our accrued taxes and could be material to our financial position and/or results of operations.

In the event the Internal Revenue Service, State of Ohio, or other state tax officials propose adjustments to our previously filed tax returns (or those of our subsidiaries), it is possible that the ultimate resolution of the proposed adjustments, if unfavorable, may be material to the results of operations in the period it occurs.

Risks Related to the Acquisition of the Business and Assets of Peoples Community Bank, Irwin Union Bank and Trust Company and Irwin Union Bank, FSB.

Changes in national and local economic conditions could lead to higher loan charge-offs in connection with the acquisitions all of which may not be supported by the loss sharing agreements with the FDIC. In connection with the acquisitions, we acquired a significant portfolio of loans. Although we marked down the loan portfolios we have acquired, there is no assurance that the non-impaired loans we acquired will not become impaired or that the impaired loans will not suffer further deterioration in value resulting in additional charge-offs to this loan portfolio. The fluctuations in national, regional and local economic conditions, including those related to local residential, commercial real estate and construction markets, which may increase the level of charge-offs that we make to our loan portfolio, and, consequently, reduce our net income, may also increase the level of charge-offs on the loan portfolios that we have acquired in the acquisitions and correspondingly reduce our net income. These fluctuations are not predictable, cannot be controlled and may have a material adverse impact on our operations and financial condition even if other favorable events occur. See “Business Risks – Credit Risks“ in our Annual Report on Form 10-K for the year ended December 31, 2009 for more information on the factors affecting the levels of these charge-offs.

Although we have entered into loss sharing agreements with the FDIC, which provide that a significant portion of losses related to specified loan portfolios that we have acquired in connection with the acquisitions will be indemnified by the FDIC, we are not protected from all losses resulting from charge-offs with respect to those specified loan portfolios. Additionally, the loss sharing agreements have limited terms; therefore, any charge-off of related losses that we experience after the term of the loss sharing agreements will not be reimbursed by the FDIC and will negatively impact our net income.

We may fail to realize any benefits and incur unanticipated losses related to the assets of Peoples Community Bank, Irwin Union Bank and Trust Company and Irwin Union Bank, FSB that First Financial Bank acquired and the liabilities of Peoples Community Bank, Irwin Union Bank and Trust Company and Irwin Union Bank, FSB that were assumed.

The success of these acquisitions will depend, in part, on First Financial’s ability to successfully combine the acquired businesses and assets with First Financial’s business and First Financial’s ability to successfully manage the significant loan portfolio that was acquired. As with any acquisition involving a financial institution, particularly with respect to the acquisition nearly doubling the size of First Financial and the large increase in the number of bank branches, there may be business and service changes and disruptions that result in the loss of customers or cause customers to close their accounts and move their business to competing financial institutions. It is possible that the integration process could result in the loss of key employees, the disruption of ongoing business, or inconsistencies in standards, controls, procedures and policies that adversely affect First Financial’s ability to maintain relationships with clients, customers, depositors and employees or to achieve the anticipated benefits of the acquisition. Successful integration may also be hampered by differences between the organizations. Although First Financial had significant operations in the principal regional markets in which the acquired entities operated, the loss of key employees of these entities could adversely affect First Financial’s ability to successfully conduct business in certain local markets in which the entities operated, which could have an adverse effect on First Financial’s financial results. Integration efforts will also divert attention and resources from First Financial’s management. Additionally, general market and economic conditions or governmental actions affecting the financial industry generally may inhibit our ability to successfully integrate the institutions or wind-down/exit non-strategic businesses. If First Financial experiences difficulties with, or delays in, the integration or wind-down processes, the anticipated benefits of the acquisitions may not be realized fully, or at all, or may take longer to realize than expected. Furthermore, any cost savings that are realized may be offset by losses in

revenues or other charges to earnings.

Finally, First Financial will need to ensure that the banking operations of the acquired entities maintain effective disclosure controls as well as internal controls and procedures for financial reporting, and such compliance efforts may be costly and may divert the attention of management.

First Financial's Exchange Act reports contain limited financial information on which to evaluate the acquisition of Irwin Union Bank and Trust Company and Irwin Union Bank, FSB.

The acquisition of the banking operations and certain assets of Irwin Union Bank and Irwin FSB are significant acquisitions for First Financial; however, First Financial's Exchange Act reports contain limited financial information on which to evaluate these acquisitions. First Financial's Exchange Act reports may not contain all of the financial and other information about Irwin Union Bank and Trust Company and Irwin Union, FSB and the assets that were acquired and liabilities assumed that investors may consider important, including information related to the loan portfolio acquired and the impact of the acquisition on First Financial.

First Financial will be expanding operations into new geographic areas.

Portions of the market areas represented by Irwin Union Bank and Irwin FSB, including those in Arizona, California, Nevada and Utah, are areas in which First Financial historically conducted no banking activities. Although First Financial has indicated it plans to divest itself of banking centers in areas outside its strategic footprint (and has exited all markets in the west with respect to branch operations as of September 30, 2010), in the interim, First Financial must effectively integrate these new markets to retain and expand the business currently conducted by these branches while maintaining appropriate risk controls. The ability to compete effectively in the new markets will be dependent on First Financial's ability to understand the local market and competitive dynamics and identify and retain certain employees from Irwin who know their markets better than First Financial does.

Furthermore, the operations of the acquired franchise lending business will increase the concentration risk of First Financial's lending and expand our geography footprint in this area and First Financial will rely on the expertise of those individuals currently at the acquired franchise group.

Prior to the acquisition, Irwin Union Bank and Trust Company and a number of its subsidiaries, notably Irwin Home Equity and Irwin Mortgage Corporation were the subject of a number of legal actions regarding their mortgage and/or home equity lines of business and these matters may require significant resources and management attention. In connection with the acquisition of certain assets and assumption of certain liabilities of Irwin Union Bank by First Financial Bank from the FDIC as receiver for Irwin Union Bank, First Financial assumed, subject to the terms of a Purchase and Assumption Agreement by and among the FDIC, the FDIC as receiver, and First Financial Bank dated September 18, 2009, as amended (the "Purchase Agreement"), certain legal claims against the subsidiaries of Irwin Union Bank. Some of these claims involve Irwin Union Bank prior to it being placed in receivership and are thus the responsibility of the FDIC as receiver pursuant to the Agreement. Furthermore, with respect to the claims involving the subsidiaries, First Financial Bank has or expects to submit requests for indemnification to the FDIC as receiver pursuant to Section 12 of the Purchase Agreement. Pursuant to the Purchase Agreement, the FDIC as receiver has agreed to indemnify and hold harmless First Financial Bank for certain claims against Irwin and its former subsidiaries for actions taken on or prior to September 18, 2009. There can be no assurances the FDIC will agree with our positions regarding indemnification.

Although the assets and liabilities that the FDIC as receiver determines are subject to First Financial's indemnification claims will be covered by the FDIC as receiver and thus excluded from the acquisition of Irwin Union Bank, during the process of integrating Irwin Union Bank and its subsidiaries with First Financial Bank, First Financial may discover other inconsistencies in standards, controls, procedures and policies that adversely affect First Financial's ability to achieve the anticipated benefits of the acquisition of Irwin Union Bank and could distract management from implementing its strategic plan. Furthermore, unless the FDIC as receiver assumes the defense of such claims, First Financial will have to expend considerable time and effort to defend the actions, subject to such indemnification.

We have identified a number of claims against which we believe we should be indemnified pursuant to the Purchase Agreement, and we have submitted and expect to continue to submit requests for indemnification to the FDIC as receiver. The process of seeking indemnification from the FDIC as receiver with respect to such litigation could be time-consuming and subject to dispute. Further, until the FDIC as receiver has approved and reimbursed us for the claims for which we should be indemnified, we could be exposed to liabilities arising from the defense of such claims. Discussions are ongoing with the FDIC regarding indemnification with respect to certain actions taken by Irwin and/or its subsidiaries prior to September 18, 2009.

The acquisitions have increased First Financial's commercial real estate loan portfolio, which have a greater credit risk than traditional residential mortgage loans.

With the acquisition of the Irwin entities loan portfolios, the commercial loan and construction loan portfolios have become a larger portion of First Financial Bank's total loan portfolio than it was prior to the acquisitions. This type of

lending is generally considered to have more complex credit risks than traditional single-family residential lending, because the principal is concentrated in a limited number of loans with repayment dependent on the successful operation of the related real estate or construction project. Consequently, these loans are more sensitive to the current adverse conditions in the real estate market and the general economy. These loans are generally less predictable and more difficult to evaluate and monitor and collateral may be more difficult to dispose of in a market decline.

First Financial Bank's acquisitions of Peoples and Irwin from the FDIC have caused us to modify our disclosure controls and procedures, which may not result in the material information that we are required to disclose in our Exchange Act reports being recorded, processed, summarized, and reported adequately.

Our management is responsible for establishing and maintaining effective disclosure controls and procedures that are designed to cause the material information that we are required to disclose in reports that we file or submit under the Exchange Act to be recorded, processed, summarized, and reported to the extent applicable within the time periods required by the SEC's rules and forms. The internal control over financial reporting of Peoples' and Irwin's banking operations were excluded from the evaluation of effectiveness of our disclosure controls and procedures as of the period ended December 31, 2009, because of the timing of the acquisitions. As a result of the Peoples and Irwin acquisitions, however, we will be implementing changes to processes, information technology systems and other components of internal control over financial reporting as part of our integration activities. Notwithstanding any changes to our disclosure controls and procedures resulting from our evaluation of the same after the Peoples and Irwin acquisitions, our control systems, no matter how well designed and operated, may not result in the material information that we are required to disclose in our Exchange Act reports being recorded, processed, summarized, and reported adequately. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company have been detected.

Certain fair value estimates and other measures associated with the assets of Peoples and Irwin acquired from the FDIC remain uncertain, and subject to change, based on future determinations made by the FDIC, which could adversely affect our financial condition and results of operations.

We have determined that the acquisitions of the net assets of Peoples and Irwin constitute business combinations as defined under GAAP. Accordingly, the assets acquired and liabilities assumed have been presented by us in our financial statements at their fair values as required. In many cases, the determination of these fair values requires management to make estimates about discount rates, future expected cash flows, market conditions and other future events that are highly subjective in nature and subject to change. Under GAAP, these fair value estimates were considered preliminary, and remained subject to change for up to one year after the closing dates of the acquisitions as additional information relative to closing date fair values became available. The one year measurement period expired at the end of the third quarter 2010. We and the FDIC are engaged in on-going discussions that may impact which assets and liabilities were acquired or assumed by First Financial and/or the associated purchase prices. Based upon these discussions, there could be further adjustments to those assets acquired or assumed. Should future material adjustments be considered necessary, those adjustments would be reflected in that current period. In addition, the tax treatment of FDIC assisted acquisitions is complex and subject to interpretations that may result in future adjustments of deferred taxes as of the acquisition dates. Any future changes to such measures or determinations could adversely affect our financial condition and results of operations.

First Financial Bank's failure to fully comply with the loss-sharing provisions relating to its acquisitions of Peoples and Irwin from the FDIC could jeopardize the loss-share coverage afforded to certain individual or pools of assets, rendering First Financial Bank financially responsible for the full amount of any losses related to such assets.

In connection with First Financial Bank's acquisitions of Peoples and Irwin from the FDIC, First Financial Bank entered into loss-sharing agreements with the FDIC whereby the FDIC has agreed to cover 80% of the losses on certain single family residential mortgage loans and certain commercial loans (together, "covered assets"), and 95% of the losses on such covered assets in excess of thresholds stated in the loss-sharing agreements. First Financial Bank's management of and application of the terms and conditions of the loss-sharing provisions of the Purchase and Assumption Agreements related to the covered assets is monitored by the FDIC through periodic reports that First Financial Bank must submit to the FDIC and on-site compliance visitations by the FDIC. If First Financial Bank fails to fully comply with its obligations under the loss-sharing provisions of the Purchase and Assumption Agreements relating to First Financial Bank's acquisitions of Peoples and Irwin from the FDIC, First Financial Bank could lose the benefit of the loss-share coverage as it applies to certain individual or pools of covered assets. Without such loss-share coverage, First Financial Bank would be solely financially responsible for the losses sustained by such individual or pools of assets.



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

(c) The following table shows the total number of shares repurchased in the third quarter of 2010.

## Issuer Purchases of Equity Securities

Period	(a) Total Number of Shares Purchased (1)	(b) Average Price Paid Per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans (2)	(d) Maximum Number of Shares that may yet be purchased Under the Plans
July 1 through July 31, 2010	1,845	\$ 15.00	0	4,969,105
August 1 through August 31, 2010	0	0.00	0	4,969,105
September 1 through September 30, 2010	375	16.02	0	4,969,105
Total	2,220	\$ 15.17	0	4,969,105

(1) The number of shares purchased in column (a) and the average price paid per share in column (b) include the purchase of shares other than through publicly announced plans. The shares purchased other than through publicly announced plans were purchased pursuant to First Financial's Thrift Plan, Director Fee Stock Plan, 1999 Stock Option Plan for Non-Employee Directors and 1999 Stock Incentive Plan for Officers and Employees, 2009 Employee Stock Plan, and 2009 Non-Employee Director Stock Plan. (The last four plans are referred to hereafter as the Stock Plans.) The following tables show the number of shares purchased pursuant to those plans and the average price paid per share. The purchases for the Thrift Plan and the Director Fee Stock Plan were made in open-market transactions. Under the Stock Plans, shares were purchased from plan participants at the then current market value in satisfaction of stock option exercise prices.

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid Per Share
<b>First Financial Bancorp Thrift Plan</b>		
July 1 through July 31, 2010	0	\$ 0.00
August 1 through August 31, 2010	0	0.00
September 1 through September 30, 2010	0	0.00
Total	0	\$ 0.00
<b>Director Fee Stock Plan</b>		
July 1 through July 31, 2010	1,845	\$ 15.00
August 1 through August 31, 2010	0	0.00
September 1 through September 30, 2010	0	0.00
Total	1,845	\$ 15.00
<b>Stock Plans</b>		
July 1 through July 31, 2010	0	\$ 0.00
August 1 through August 31, 2010	0	0.00
September 1 through September 30, 2010	375	16.02
Total	375	\$ 16.02

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

Announcement Date	Total Shares Approved for Repurchase	Total Shares Repurchased Under the Plan	Expiration Date
1/25/2000	7,507,500	2,538,395	None

Item 6.

Exhibits

(a)Exhibits:

- 3.1 Amended and Restated Articles of Incorporation (filed as Exhibit 3.1 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2007, and incorporated herein by reference).
- 3.2 Certificate of Amendment by the Board of Directors to the Amended and Restated Articles of Incorporation (filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on December 24, 2008, and incorporated herein by reference).
- 3.3 Certificate of Amendment by Shareholders to the Amended and Restated Articles of Incorporation (filed as Exhibit 4.2 to the Form S-3 filed on January 21, 2009, and incorporated herein by reference, Registration No. 333-156841).
- 3.4 Amended and Restated Regulations, as amended as of May 1, 2007 (filed as Exhibit 3.2 to the Form 10-Q for the quarter ended June 30, 2007 and incorporated herein by reference).
- 4.1 Letter Agreement, dated as of December 23, 2008, between the Registrant and the United States Department of the Treasury, which includes the Securities Purchase Agreement – Standard Terms (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on December 30, 2008, and incorporated herein by reference).
- 4.2 Warrant to Purchase up to 930,233 shares of Common Stock dated as of December 23, 2008 (filed as Exhibit 4.1 to the Form 8-K filed on December 30, 2008 and incorporated herein by reference).
- 4.3 Form of Series A Preferred Stock Certificate dated as of December 23, 2008 (filed as Exhibit 4.2 to the Form 8-K filed on December 30, 2008 and incorporated herein by reference).
- 4.4 No instruments defining the rights of holders of long-term debt of First Financial are filed herewith. Pursuant to (b)(4)(iii) of Item 601 of Regulation S-K, First Financial agrees to furnish a copy of any such agreements to the Securities and Exchange Commission upon request.
- 10.1 Agreement between Charles D. Lefferson and First Financial Bancorp. dated August 4, 2000 (filed as Exhibit 10.5 to the Form 10-K for the year ended December 31, 2002 and incorporated herein by reference). \* +
- 10.2 Amendment to Employment Agreement between Charles D. Lefferson and First Financial Bancorp. dated May 23, 2003 (filed as Exhibit 10.5 to the Form 10-Q for the quarter ended June 30, 2003 and incorporated herein by reference).\* +
- 10.3 First Financial Bancorp. Dividend Reinvestment and Share Purchase Plan, dated April 24, 1997 (incorporated herein by reference to a Registration Statement on Form S-3, Registration No. 333-25745).
- 10.4 First Financial Bancorp. 1999 Stock Incentive Plan for Officers and Employees, dated April 27, 1999 (incorporated herein by reference to a Registration Statement on Form S-3, Registration No. 333-86781).\*
- 10.5

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

First Financial Bancorp. 1999 Non-Employee Director Stock Plan, as dated April 27, 1999 and amended and restated as of April 26, 2006 (filed as Exhibit 10.11 to the Form 10-Q for the quarter ended March 31, 2006 and incorporated herein by reference).\*

- 10.6 First Financial Bancorp. Director Fee Stock Plan amended and restated effective April 20, 2004 (filed as Exhibit 10.12 to the Form10-Q for the quarter ended June 30, 2004 and incorporated herein by reference).\*

- 10.7 Form of Executive Supplemental Retirement Plan (filed as Exhibit 10.7 to the Form 10-Q for the quarter ended March 31, 2010 and incorporated herein by reference).\*
- 10.8 Form of Endorsement Method Split Dollar Agreement for Certain Executives (filed as Exhibit 10.8 to the Form 10-Q for the quarter ended March 31, 2010 and incorporated herein by reference).\*
- 10.9 First Financial Bancorp. Amended and Restated Deferred Compensation Plan (filed as Exhibit 10.9 to the Form 10-Q for the quarter ended March 31, 2010 and incorporated herein by reference).\*
- 10.10 Form of Stock Option Agreement for Incentive Stock Options (2005 – 2008) (filed as Exhibit 10.1 to the Form 8-K filed on April 22, 2005 and incorporated herein by reference).\*
- 10.11 Form of Stock Option Agreement for Non-Qualified Stock Options (2005-2008) (filed as Exhibit 10.2 to the Form 8-K filed on April 22, 2005 and incorporated herein by reference).\*
- 10.12 Amended and Restated Employment and Non-Competition Agreement between Claude E. Davis and First Financial Bancorp. dated August 22, 2006, and incorporated herein by reference to Exhibit 10.1 to First Financial Bancorp's Form 8-K filed on August 28, 2006.\* ++
- 10.13 First Financial Bancorp. Amended and Restated Severance Pay Plan as approved April 28, 2008 (filed as Exhibit 10.19 to the Form 10-Q filed on May 9, 2008 and incorporated herein by reference).\*
- 10.14 Terms of First Financial Bancorp. Short-Term Incentive Plan (2007) (incorporated herein by reference to the Form 8-K filed on May 4, 2007).\*
- 10.15 First Financial Bancorp. Amended and Restated Key Management Severance Plan as approved February 26, 2008 (filed as Exhibit 10.21 to the Form 10-Q filed on May 9, 2008 and incorporated herein by reference).\*
- 10.16 Form of Agreement for Restricted Stock Award (2008) (filed as Exhibit 10.22 to the Form 10-Q filed on May 9, 2008 and incorporated herein by reference).\*
- 10.17 Long-Term Incentive Plan Grant Design (2008) (filed as Exhibit 10.23 to the Form 10-Q filed on May 9, 2008 and incorporated herein by reference).\*
- 10.18 Short-Term Incentive Plan Design (2008) (filed as Exhibit 10.24 to the Form 10-Q filed on May 9, 2008 and incorporated herein by reference).\*
- 10.19 Letter Agreement, dated December 23, 2008, including Securities Purchase Agreement – Standard Terms incorporated by reference herein, between First Financial and the United States Department of the Treasury (filed as Exhibit 10.1 to the Form 8-K filed on December 30, 2008 and incorporated herein by reference).
- 10.20 Form of Waiver, executed by each of Messrs. Claude E. Davis, C. Douglas Lefferson, J. Franklin Hall, Samuel J. Munafa and Gregory A. Gehlmann dated as of December 23, 2008 (filed as Exhibit 10.2 to the Form 8-K filed on December 30, 2008 and incorporated herein by reference).\*
- 10.21

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

Form of Letter Agreement, executed by each of Messrs. Claude E. Davis, C. Douglas Lefferson, J. Franklin Hall, Samuel J. Munafò and Gregory A. Gehlmann dated as of December 23, 2008 (filed as Exhibit 10.3 to the Form 8-K filed on December 30, 2008 and incorporated herein by reference).\*

- 10.22 Form of Amendment No. 1 to Agreement for Restricted Stock Awards for 2005 Awards (filed as Exhibit 10.24 to the Form 10-K filed on March 11, 2009 and incorporated herein by reference).\*
- 10.23 Form of Amendment No. 1 to Agreement for Restricted Stock Awards for 2006 Awards (filed as Exhibit 10.25 to the Form 10-K filed on March 11, 2009 and incorporated herein by reference).\*
- 10.24 Form of Amendment No. 1 to Agreement for Restricted Stock Awards for 2007 Awards (filed as Exhibit 10.26 to the Form 10-K filed on March 11, 2009 and incorporated herein by reference).\*

- 10.25 Terms of First Financial Bancorp. Short-Term Incentive Plan (2009) (incorporated herein by reference to the Form 8-K filed on April 16, 2009).\*
- 10.26 First Financial Bancorp. 2009 Employee Stock Plan (filed as Appendix A to the DEF 14 Definitive Proxy Statement filed on April 23, 2009 and incorporated herein by reference).\*
- 10.27 First Financial Bancorp. 2009 Non-Employee Director Stock Plan (filed as Appendix B to the DEF 14 Definitive Proxy Statement filed on April 23, 2009 and incorporated herein by reference).\*
- 10.28 Form of Agreement for Restricted Stock Awards for 2009 Awards under the First Financial Bancorp. 1999 Stock Incentive Plan for Officers and Employees (filed as Exhibit 10.30 for the Form 10-Q filed on November 16, 2009 and incorporated herein by reference).\*
- 10.29 Form of Agreement for Restricted Stock Awards for Awards under the First Financial Bancorp. 2009 Employee Stock Plan (filed as Exhibit 10.31 for the Form 10-Q filed on November 16, 2009 and incorporated herein by reference).\*
- 10.30 Executive Supplemental Savings Agreement between Claude E. Davis and First Financial Bancorp. Dated August 25, 2008 (filed as Exhibit 10.31 to the Form10-Q for the quarter ended March 31, 2010 and incorporated herein by reference).\*
- 10.31 Form of Amended and Restated Agreement for Restricted Stock Award (2009) for NEOs/Top Five Compensated Employees (filed as Exhibit 10.32 to the Form10-Q for the quarter ended March 31, 2010 and incorporated herein by reference).\*
- 10.32 Form of Agreement for Restricted Stock Awards under the First Financial Bancorp. 2009 Employee Plan (3-year vesting/accrual of dividends) (filed as Exhibit 10.33 to the Form10-Q for the quarter ended June 30, 2010 and incorporated herein by reference).\*
- 10.33 Form of Agreement for Restricted Stock Awards under the First Financial Bancorp. 2009 Non-Employee Directors Stock Plan (filed as Exhibit 10.34 to the Form10-Q for the quarter ended June 30, 2010 and incorporated herein by reference).\*
- 10.34 First Financial Bancorp. Short-Term Incentive Plan (2010) (filed as Exhibit 10.1 to the Form 8-K filed on October 29, 2010 and incorporated herein by reference).\*
- 14 First Financial Bancorp. Code of Business Conduct and Ethics as amended April 27, 2010 (filed as Exhibit 14 to the Form 10-Q for the quarter ended March 31, 2010 and incorporated herein by reference).
- 31.1 Certification by Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 filed herewith.
- 31.2 Certification by Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 filed herewith.
- 32.1 Certification of Periodic Financial Report by Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 furnished herewith.

32.2 Certification of Periodic Financial Report by Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 furnished herewith.

---

First Financial will furnish, without charge, to a security holder upon request a copy of the documents and will furnish any other Exhibit upon payment of reproductions costs. Unless as otherwise noted, documents incorporated by reference involve File No. 000-12379.

\* Compensatory plans or arrangements.

+ Similar agreements between the Company and NEOs J. Franklin Hall and Samuel J. Munafa exist, the material differences which are disclosed in the Company's definitive proxy statement filed with the SEC on Schedule 14A on April 19, 2009.

++ A similar agreement between the Company and NEO Gregory A. Gehlmann exists, the material differences which are disclosed in the Company's definitive proxy statement filed with the SEC on Schedule 14A on April 19, 2009.



SIGNATURES

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

FIRST FINANCIAL BANCORP.  
(Registrant)

/s/ J. Franklin Hall  
J. Franklin Hall  
Executive Vice President and  
Chief Financial Officer

/s/ Anthony M. Stollings  
Anthony M. Stollings  
Senior Vice President, Chief Accounting  
Officer, and Controller

Date 11/9/10

Date 11/9/10