FIRST FINANCIAL BANCORP /OH/
Form 10-Q
November 08, 2016
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FORM 10-Q
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

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

For the quarterly period ended September 30, 2016

OR

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

For the transition period from ____________________ to ____________________

Commission file number 001-34762

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

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

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

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

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

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

Large accelerated filer x Accelerated filer o

Non-accelerated filer o Smaller reporting company o

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

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

Class	Outstanding at November 7, 2016
Common stock, No par value	61,955,821

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Glossary of Abbreviations and Acronyms

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

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

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

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

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

See Notes to Consolidated Financial Statements.

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

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

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

See Notes to Consolidated Financial Statements.

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

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

See Notes to Consolidated Financial Statements.

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

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

See Notes to Consolidated Financial Statements.

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

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

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

See Notes to Consolidated Financial Statements.

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

NOTE 1: BASIS OF PRESENTATION

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

The preparation of financial statements in conformity with GAAP requires management to make estimates, assumptions and judgments that affect the amounts reported in the Consolidated Financial Statements and accompanying Notes. These estimates, assumptions and judgments are inherently subjective and may be susceptible to significant change. Actual realized amounts could differ materially from these estimates.

These interim financial statements have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X, and serve to update the Form 10-K for the year ended December 31, 2015. These interim financial statements may not include all information and notes necessary to constitute a complete set of financial statements under GAAP applicable to annual periods and it is suggested that these interim statements be read in conjunction with the Form 10-K. Management believes these unaudited consolidated financial statements reflect all adjustments of a normal recurring nature which are necessary for a fair presentation of the results for the interim periods presented. The results of operations for the interim periods are not necessarily indicative of the results that may be expected for the full year or any other interim period. The Consolidated Balance Sheet as of December 31, 2015 has been derived from the audited financial statements in the Company’s 2015 Form 10-K.

NOTE 2: RECENTLY ADOPTED AND ISSUED ACCOUNTING STANDARDS

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

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

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

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

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

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

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

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

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

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

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

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

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NOTE 3: INVESTMENTS

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

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

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

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

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

The following table provides a summary of investment securities by contractual maturity or estimated weighted average life as of September 30, 2016. Estimated lives on amortizing investment securities may differ from contractual maturities as issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

(Dollars in thousands)	Held-to-maturity		Available-for-sale	
	Amortized cost	Fair value	Amortized cost	Fair value
Due in one year or less	$10,329	$10,396	$84,668	$84,666
Due after one year through five years	550,112	564,365	696,926	701,256
Due after five years through ten years	68,056	70,990	282,745	287,263
Due after ten years	0	0	46,445	47,309
Total	$628,497	$645,751	$1,110,784	$1,120,494

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

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

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

Gains and losses on debt securities are generally due to fluctuations in current market yields relative to the yields of the debt securities at their amortized cost. All securities with unrealized losses are reviewed quarterly to determine if any impairment is considered other than temporary, requiring a write-down to fair value. First Financial considers the percentage loss on a security, duration of the loss, average life or duration of the security, credit rating of the security and payment performance as well as the Company's intent and ability to hold the security to maturity when determining whether any impairment is other than temporary. At this time First Financial does not intend to sell, and it is not more likely than not that the Company will be required to sell debt securities temporarily impaired prior to maturity or recovery of the recorded value. First Financial had no other than temporary impairment related to its investment securities portfolio as of September 30, 2016 or December 31, 2015.

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

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NOTE 4: LOANS AND LEASES

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

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

Purchased impaired loans are not classified as nonperforming assets as the loans are considered to be performing under FASB ASC Topic 310-30. Therefore, interest income, through accretion of the difference between the carrying value of the loans and the expected cash flows (accretable difference) is recognized on all purchased impaired loans. First Financial had purchased impaired loans totaling $151.9 million and $191.6 million, at September 30, 2016 and December 31, 2015, respectively. The outstanding balance of all purchased impaired loans, including all contractual principal, interest, fees and penalties, was $166.4 million and $213.3 million as of September 30, 2016 and December 31, 2015, respectively. These balances exclude contractual interest not yet accrued.

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

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

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

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

Covered loans. Loans acquired in FDIC-assisted transactions covered under loss sharing agreements whereby the FDIC will reimburse First Financial for the majority of any losses incurred are referred to as covered loans. Covered loans totaled $99.7 million as of September 30, 2016 and $113.3 million as of December 31, 2015. For a detailed discussion of covered loans, please refer to the Loans and Leases note in the Company's 2015 Annual Report on Form 10-K.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Nonaccrual. Loans are classified as nonaccrual when, in the opinion of management, collection of principal or interest is doubtful or when principal or interest payments are 90 days or more past due. Generally, loans are classified as nonaccrual due to the continued failure to adhere to contractual payment terms by the borrower, coupled with other pertinent factors such as insufficient collateral value. The accrual of interest income is discontinued and previously accrued but unpaid interest is reversed when a loan is classified as nonaccrual. Any payments received while a loan is on nonaccrual status are applied as a reduction to the carrying value of the loan. A loan may return to accrual status if collection of future principal and interest payments is no longer doubtful.

Purchased impaired loans are classified as performing, even though they may be contractually past due, as any nonpayment of contractual principal or interest is considered in the periodic re-estimation of expected cash flows and is included in the resulting recognition of current period provision for loan and lease losses or prospective yield adjustments.

Troubled Debt Restructurings. A loan modification is considered a TDR when the borrower is experiencing financial difficulty and concessions are made by the Company that would not otherwise be considered for a borrower with similar credit characteristics. The most common types of modifications include interest rate reductions, maturity extensions and modifications to principal amortization, including interest-only structures. Modified terms are dependent upon the financial

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position and needs of the individual borrower. If the modification agreement is violated, the loan is managed by the Company's credit administration group for resolution, which may result in foreclosure in the case of real estate.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Changes in OREO were as follows:

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

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

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

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

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

NOTE 5: ALLOWANCE FOR LOAN AND LEASE LOSSES

Loans and leases. Management maintains the ALLL at a level that it considers sufficient to absorb probable incurred loan and lease losses inherent in the portfolio. Management determines the adequacy of the ALLL based on historical loss experience as well as other significant factors such as composition of the portfolio, economic conditions, geographic footprint, the results of periodic internal and external evaluations of delinquent, nonaccrual and classified loans and any other adverse situations that may affect a specific borrower's ability to repay, including the timing of future payments.

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

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

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

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

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

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

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

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

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

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

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

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

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

NOTE 6: GOODWILL AND OTHER INTANGIBLE ASSETS

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

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

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

Goodwill is not amortized, but is evaluated for impairment on an annual basis as of October 1 of each year, or whenever events or changes in circumstances indicate that the fair value of a reporting unit may be below its carrying value. First Financial performed its most recent annual impairment test as of October 1, 2015 and no impairment was indicated. As of September 30, 2016, no events or changes in circumstances indicated that the fair value of a reporting unit was below its carrying value.

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

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NOTE 7: BORROWINGS

Short-term borrowings on the Consolidated Balance Sheets include repurchase agreements utilized for corporate sweep accounts with cash management account agreements in place, overnight advances from the FHLB and a short-term line of credit. All repurchase agreements are subject to terms and conditions of repurchase security agreements between the Bank and the client. To secure it's liability to the client, the Bank is authorized to sell or repurchase U.S. Treasury, government agency and mortgage-backed securities.

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

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

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

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

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

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

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NOTE 8: ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

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

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

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

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

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

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

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

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

NOTE 9: DERIVATIVES

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

First Financial primarily utilizes interest rate swaps as a means to offer borrowers credit-based products that meet their needs and may from time to time utilize interest rate swaps to manage the interest rate risk profile of the Company.

Interest rate swap agreements establish the basis on which interest rate payments are exchanged with counterparties, referred to as the notional amount. As only interest rate payments are exchanged, the cash requirements and credit risk associated with interest rate swaps are significantly less than the notional amount and the Company's credit risk exposure is limited to the market value of the instruments. First Financial manages this market value credit risk through counterparty credit policies, which require the Company to maintain a total derivative notional position of less than 35% of assets, total credit exposure of less than 3% of capital and no single counterparty credit risk exposure greater than $20.0 million. The Company is currently below all single counterparty and portfolio limits.

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

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

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

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

In connection with its use of derivative instruments, First Financial and its counterparties are required to post cash collateral to offset the market position of the derivative instruments under certain conditions. First Financial maintains the right to offset these derivative positions with the collateral posted against them by or with the relevant counterparties. First Financial classifies the derivative cash collateral outstanding with its counterparties as an adjustment to the fair value of the derivative contracts within Accrued interest and other assets or Accrued interest and other liabilities in the Consolidated Balance Sheets.

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

(Dollars in thousands)	September 30, 2016 Gross amounts of recognized liabilities	Gross amounts offset in the Consolidated Balance Sheets	Net amounts of assets presented in the Consolidated Balance Sheets	December 31, 2015 Gross amounts of recognized liabilities	Gross amounts offset in the Consolidated Balance Sheets	Net amounts of assets presented in the Consolidated Balance Sheets
Client derivatives						
Pay fixed interest rate swaps with counterparty	$42	$ 0	$ 42	$120	$ 0	$ 120
Matched interest rate swaps with counterparty	28,615	(29,990)	(1,375)	14,015	(16,710)	(2,695)
Total	$28,657	$ (29,990)	$ (1,333)	$14,135	$ (16,710)	$ (2,575)

The following table details the derivative financial instruments, the average remaining maturities and the weighted-average interest rates being paid and received by First Financial at September 30, 2016:

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

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

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

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

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

NOTE 10: COMMITMENTS AND CONTINGENCIES

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

First Financial utilizes the same credit policies in issuing commitments and conditional obligations as it does for credit instruments recorded on the Consolidated Balance Sheets. First Financial's exposure to credit loss, in the event of nonperformance by the counterparty to the financial instrument for standby letters of credit and outstanding commitments to extend credit, is represented by the contractual amounts of those instruments. First Financial utilizes the ALLL methodology to maintain a reserve that it considers sufficient to absorb probable incurred losses inherent in standby letters of credit and outstanding loan commitments and records the reserve within Accrued interest and other liabilities on the Consolidated Balance Sheets.

Loan commitments. Loan commitments are agreements to extend credit to a client, absent any violation of conditions established in the commitment agreement. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if deemed necessary by First Financial upon extension of credit, is based on management's credit evaluation of the client. The collateral held varies, but may include securities, real estate, inventory, plant or equipment. First Financial had commitments outstanding to extend credit totaling $2.0 billion at September 30, 2016 and December 31, 2015.

Letters of credit. Letters of credit are conditional commitments issued by First Financial to guarantee the performance of a client to a third party. First Financial's portfolio of standby letters of credit consists primarily of performance assurances made on behalf of clients who have a contractual commitment to produce or deliver goods or services. The risk to First Financial arises from its obligation to make payment in the event of the client's contractual default to produce the contracted good or service to a third party. First Financial issued letters of credit (including standby letters of credit) aggregating $18.0 million and $16.3 million at September 30, 2016 and December 31, 2015, respectively. Management conducts regular reviews of these instruments on an individual client basis.

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

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

Contingencies/Litigation. First Financial and its subsidiaries are engaged in various matters of litigation, other assertions of improper or fraudulent loan practices or lending violations and other matters from time to time, and have a number of unresolved claims pending. Additionally, as part of the ordinary course of business, First Financial and its subsidiaries are parties to litigation involving claims to the ownership of funds in particular accounts, the collection of delinquent accounts, challenges to security interests in collateral and foreclosure interests that are incidental to our regular business activities. While the ultimate liability with respect to these other litigation matters and claims cannot be determined at this time, First Financial believes that damages, if any, and other amounts relating to pending matters are not probable or cannot be reasonably estimated as of September 30, 2016. Reserves are established for these various matters of litigation, when appropriate, under FASB ASC Topic 450, Contingencies, based in part upon the advice of legal counsel. First Financial had no reserves related to litigation matters as of September 30, 2016. As of December 31, 2015, the Company had $1.3 million of reserves related to litigation matters.

NOTE 11: INCOME TAXES

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

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

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

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

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

NOTE 12: EMPLOYEE BENEFIT PLANS

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

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

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

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

NOTE 13: EARNINGS PER COMMON SHARE

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

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

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

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

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NOTE 14: FAIR VALUE DISCLOSURES

Fair Value Measurement

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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