FIRST FINANCIAL BANCORP /OH/
Form 10-Q
May 07, 2014
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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 March 31, 2014

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

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

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

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

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

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

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

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

Class	Outstanding at May 6, 2014
Common stock, No par value	57,708,794

FIRST FINANCIAL BANCORP.

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

	March 31, 2014 (Unaudited)	December 31, 2013
Assets		
Cash and due from banks	$161,515	$117,620
Interest-bearing deposits with other banks	9,681	25,830
Investment securities available-for-sale, at market value (cost $887,692 at March 31, 2014 and $945,052 at December 31, 2013)	862,526	913,601
Investment securities held-to-maturity (market value $885,327 at March 31, 2014 and $824,985 at December 31, 2013)	890,806	837,272
Other investments	47,659	47,427
Loans held for sale	6,171	8,114
Loans		
Commercial	1,118,057	1,035,668
Real estate-construction	87,996	80,741
Real estate-commercial	1,513,891	1,496,987
Real estate-residential	360,671	352,931
Installment	44,911	47,133
Home equity	374,427	376,454
Credit card	34,458	35,592
Lease financing	79,792	80,135
Total loans - excluding covered loans	3,614,203	3,505,641
Less: Allowance for loan and lease losses - uncovered	43,023	43,829
Net loans - excluding covered loans	3,571,180	3,461,812
Covered loans	409,405	457,873
Less: Allowance for loan and lease losses - covered	10,573	18,901
Net loans – covered	398,832	438,972
Net loans	3,970,012	3,900,784
Premises and equipment	135,105	137,110
Goodwill	95,050	95,050
Other intangibles	5,566	5,924
FDIC indemnification asset	39,003	45,091
Accrued interest and other assets	275,995	283,390
Total assets	$6,499,089	$6,417,213
Liabilities		
Deposits		
Interest-bearing	$1,102,029	$1,125,723
Savings	1,639,495	1,612,005
Time	956,049	952,327
Total interest-bearing deposits	3,697,573	3,690,055
Noninterest-bearing	1,122,816	1,147,452
Total deposits	4,820,389	4,837,507

Federal funds purchased and securities sold under agreements to repurchase	112,293	94,749
Federal Home Loan Bank short-term borrowings	722,800	654,000
Total short-term borrowings	835,093	748,749
Long-term debt	60,163	60,780
Total borrowed funds	895,256	809,529
Accrued interest and other liabilities	92,097	88,016
Total liabilities	5,807,742	5,735,052
Shareholders' equity		
Common stock - no par value		
Authorized - 160,000,000 shares; Issued - 68,730,731 shares in 2014 and 2013	573,243	577,076
Retained earnings	330,672	324,192
Accumulated other comprehensive loss	(27,648)	(31,281)
Treasury stock, at cost, 11,020,794 shares in 2014 and 11,197,685 shares in 2013	(184,920)	(187,826)
Total shareholders' equity	691,347	682,161
Total liabilities and shareholders' equity	$6,499,089	$6,417,213

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 March 31, 2014	2013
Interest income		
Loans, including fees	$49,147	$56,025
Investment securities		
Taxable	10,437	8,376
Tax-exempt	810	580
Total interest on investment securities	11,247	8,956
Other earning assets	(1,406)	(1,472)
Total interest income	58,988	63,509
Interest expense		
Deposits	3,316	3,860
Short-term borrowings	329	329
Long-term borrowings	524	654
Total interest expense	4,169	4,843
Net interest income	54,819	58,666
Provision for loan and lease losses - uncovered	1,159	3,041
Provision for loan and lease losses - covered	(2,192)	9,042
Net interest income after provision for loan and lease losses	55,852	46,583
Noninterest income		
Service charges on deposit accounts	4,772	4,717
Trust and wealth management fees	3,746	3,950
Bankcard income	2,433	2,433
Net gains from sales of loans	396	706
Gains on sales of investment securities	50	1,536
FDIC loss sharing income	(508)	8,934
Accelerated discount on covered loans	1,015	1,935
Other	2,271	2,487
Total noninterest income	14,175	26,698
Noninterest expenses		
Salaries and employee benefits	25,261	27,329
Net occupancy	5,299	6,165
Furniture and equipment	2,077	2,371
Data processing	2,858	2,469
Marketing	786	897
Communication	623	833
Professional services	1,724	1,803
State intangible tax	644	1,014
FDIC assessments	1,134	1,125
Loss (gain) - other real estate owned	418	502
Loss (gain) - covered other real estate owned	33	(157)
Loss sharing expense	1,569	2,286
Other	5,416	6,469

Total noninterest expenses	47,842	53,106
Income before income taxes	22,185	20,175
Income tax expense	7,081	6,351
Net income	$15,104	$13,824
Net earnings per common share - basic	$0.26	$0.24
Net earnings per common share - diluted	$0.26	$0.24
Cash dividends declared per share	$0.15	$0.28
Average common shares outstanding - basic	57,091,604	57,439,029
Average common shares outstanding - diluted	57,828,179	58,283,467

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 March 31,	
	2014	2013
Net income	$15,104	$13,824
Other comprehensive income (loss), net of tax:		
Unrealized gains (losses) on investment securities arising during the period	3,862	(3,357)
Change in retirement obligation	237	445
Unrealized gain (loss) on derivatives	(457)	126
Unrealized gain (loss) on foreign currency exchange	(9)	(12)
Other comprehensive income (loss)	3,633	(2,798)
Comprehensive income	$18,737	$11,026

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, 2013	68,730,731	$579,293	$330,004	$ (18,677)	(10,684,496)	$(180,195)	$710,425
Net income			13,824				13,824
Other comprehensive income (loss)				(2,798)			(2,798)
Cash dividends declared:							
Common stock at $0.28 per share			(16,193)				(16,193)
Purchase of common stock					(249,000)	(3,831)	(3,831)
Excess tax benefit on share-based compensation		73					73
Exercise of stock options, net of shares purchased		(479)			20,370	343	(136)
Restricted stock awards, net of forfeitures		(4,460)			211,318	3,623	(837)
Share-based compensation expense		1,087					1,087
Balance at March 31, 2013	68,730,731	$575,514	$327,635	$ (21,475)	(10,701,808)	$(180,060)	$701,614
Balance at January 1, 2014	68,730,731	$577,076	$324,192	$ (31,281)	(11,197,685)	$(187,826)	$682,161
Net income			15,104				15,104
Other comprehensive income (loss)				3,633			3,633
Cash dividends declared:							
Common stock at $0.15 per share			(8,624)				(8,624)
Purchase of common stock					(40,255)	(697)	(697)
Excess tax benefit on share-based compensation		254					254
Exercise of stock options, net of shares		(703)			33,794	564	(139)

purchased							
Restricted stock awards, net of forfeitures		(4,194)			183,352	3,039	(1,155)
Share-based compensation expense		810					810
Balance at March 31, 2014	68,730,731	$573,243	$330,672	$(27,648)	(11,020,794)	$(184,920)	$691,347

See Notes to Consolidated Financial Statements.

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

	Three months ended March 31, 2014	2013
Operating activities		
Net income	$15,104	$13,824
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	(1,033)	12,083
Depreciation and amortization	3,178	3,875
Stock-based compensation expense	810	1,087
Pension (income) expense	(253)	15
Net amortization of premiums/accretion of discounts on investment securities	1,730	3,788
Gains on sales of investment securities	(50)	(1,536)
Originations of loans held for sale	(18,297)	(47,969)
Net gains from sales of loans held for sale	(396)	(706)
Proceeds from sales of loans held for sale	19,012	35,868
Deferred income taxes	0	(2,114)
Increase in interest receivable	(2,663)	(1,660)
Increase in cash surrender value of life insurance	(418)	(423)
Increase in prepaid expenses	(892)	(2,501)
Decrease in indemnification asset	6,088	7,179
Decrease in accrued expenses	(7,760)	(6,215)
Decrease in interest payable	(130)	(282)
Other	(906)	7,583
Net cash provided by operating activities	13,124	21,896
Investing activities		
Proceeds from sales of securities available-for-sale	92,573	48,686
Proceeds from calls, paydowns and maturities of securities available-for-sale	26,247	53,351
Purchases of securities available-for-sale	(61,081)	(54,838)
Proceeds from calls, paydowns and maturities of securities held-to-maturity	22,584	51,591
Purchases of securities held-to-maturity	(67,350)	0
Net decrease in interest-bearing deposits with other banks	16,149	23,171
Net increase in loans and leases - excluding covered loans	(110,107)	(72,053)
Net decrease in covered assets	41,574	44,904
Proceeds from disposal of other real estate owned	12,082	5,500
Purchases of premises and equipment	(1,567)	(3,857)
Net cash (used in) provided by investing activities	(28,896)	96,455
Financing activities		
Net decrease in total deposits	(17,118)	(134,493)
Net increase in short-term borrowings	86,344	8,493
Payments on long-term borrowings	(610)	(697)
Cash dividends paid on common stock	(8,570)	(16,149)
Treasury stock purchase	(697)	(3,831)
Proceeds from exercise of stock options	64	0

Excess tax benefit on share-based compensation	254	73
Net cash provided by (used in) financing activities	59,667	(146,604)
Cash and due from banks:		
Net increase (decrease) in cash and due from banks	43,895	(28,253)
Cash and due from banks at beginning of period	117,620	134,502
Cash and due from banks at end of period	$161,515	$106,249

See Notes to Consolidated Financial Statements.

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FIRST FINANCIAL BANCORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2014
(Unaudited)

NOTE 1: BASIS OF PRESENTATION

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

The preparation of financial statements in conformity with U.S. Generally Accepted Accounting Principles (GAAP) requires management to make estimates, assumptions and judgments that affect the amounts reported in the Consolidated Financial Statements and accompanying Notes. 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 First Financial Bancorp. Annual Report on Form 10-K (Form 10-K) for the year ended December 31, 2013. These interim financial statements may not include all information and notes necessary to constitute a complete set of financial statements under GAAP applicable to annual periods and accordingly should be read in conjunction with the financial information contained in the Form 10-K. Management believes these unaudited consolidated financial statements reflect all adjustments of a normal recurring nature which are necessary for a fair presentation of the results for the interim periods presented. The results of operations for the interim periods are not necessarily indicative of the results that may be expected for the full year or any other interim period. The Consolidated Balance Sheet as of December 31, 2013, has been derived from the audited financial statements in the Company's 2013 Form 10-K.

NOTE 2: RECENTLY ADOPTED AND ISSUED ACCOUNTING STANDARDS

In January 2014, the FASB issued an update (ASU 2014-04, Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure) which clarifies when an in substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be de-recognized and the real estate property recognized. The provisions of ASU 2014-04 become effective for First Financial for the interim reporting period ended March 31, 2015. First Financial does not anticipate this update will have a material impact on its Consolidated Financial Statements.

NOTE 3: INVESTMENTS

The following is a summary of held-to-maturity and available-for-sale investment securities as of March 31, 2014:

	Held-to-Maturity				Available-for-Sale			
(Dollars in thousands)	Amortized Cost	Unrealized Gain	Unrealized Loss	Market Value	Amortized Cost	Unrealized Gain	Unrealized Loss	Market Value
U.S. Treasuries	$0	$0	$0	$0	$97	$0	$(4)	$93
Securities of U.S. government agencies	18,603	0	(535)	18,068	9,978	0	(249)	9,729

and corporations								
Mortgage-backed securities	829,311	2,906	(7,924)	824,293	696,800	4,862	(24,414)	677,248
Obligations of state and other political subdivisions	25,512	195	(734)	24,973	31,121	9	(2,606)	28,524
Asset-backed securities	0	0	0	0	49,529	1	(100)	49,430
Other securities	17,380	613	0	17,993	100,167	645	(3,310)	97,502
Total	$890,806	$3,714	$(9,193)	$885,327	$887,692	$5,517	$(30,683)	$862,526

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The following is a summary of held-to-maturity and available-for-sale investment securities as of December 31, 2013:

(Dollars in thousands)	Held-to-Maturity Amortized Cost	Held-to-Maturity Unrealized Gain	Held-to-Maturity Unrealized Loss	Held-to-Maturity Market Value	Available-for-Sale Amortized Cost	Available-for-Sale Unrealized Gain	Available-for-Sale Unrealized Loss	Available-for-Sale Market Value
U.S. Treasuries	$0	$0	$0	$0	$97	$0	$(7)	$90
Securities of U.S. government agencies and corporations	18,981	0	(791)	18,190	9,980	0	(404)	9,576
Mortgage-backed securities	775,025	1,337	(12,229)	764,133	678,267	5,372	(28,593)	655,046
Obligations of state and other political subdivisions	25,788	152	(1,039)	24,901	33,410	10	(3,097)	30,323
Asset-backed securities	0	0	0	0	114,209	1	(616)	113,594
Other securities	17,478	283	0	17,761	109,089	262	(4,379)	104,972
Total	$837,272	$1,772	$(14,059)	$824,985	$945,052	$5,645	$(37,096)	$913,601

The following table provides a summary of investment securities by estimated weighted average life as of March 31, 2014. Estimated lives on certain investment securities may differ from contractual maturities as issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

(Dollars in thousands)	Held-to-Maturity Amortized Cost	Held-to-Maturity Market Value	Available-for-Sale Amortized Cost	Available-for-Sale Market Value
Due in one year or less	$156	$158	$7,060	$7,359
Due after one year through five years	365,819	364,424	290,533	289,018
Due after five years through ten years	399,321	394,238	256,653	247,950
Due after ten years	125,510	126,507	333,446	318,199
Total	$890,806	$885,327	$887,692	$862,526

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:

	March 31, 2014					
	Less than 12 Months		12 Months or More		Total	
(Dollars in thousands)	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Securities of U.S. government agencies and corporations	$27,887	$(564)	$0	$0	$27,887	$(564)
Mortgage-backed securities	677,538	(15,392)	281,627	(15,271)	959,165	(30,663)
Obligations of state and other political subdivisions	50,100	(2,440)	17,248	(1,982)	67,348	(4,422)
Asset-backed securities	48,937	(100)	0	0	48,937	(100)
Other securities	39,102	(1,306)	7,777	(509)	46,879	(1,815)
Total	$843,564	$(19,802)	$306,652	$(17,762)	$1,150,216	$(37,564)

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	December 31, 2013					
	Less than 12 Months		12 Months or More		Total	
(Dollars in thousands)	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Securities of U.S. government agencies and corporations	$27,851	$(970)	$0	$0	$27,851	$(970)
Mortgage-backed securities	966,718	(32,432)	108,929	(6,101)	1,075,647	(38,533)
Obligations of state and other political subdivisions	66,502	(5,294)	1,935	(46)	68,437	(5,340)
Asset-backed securities	93,355	(616)	0	0	93,355	(616)
Other securities	54,866	(2,142)	7,798	(561)	62,664	(2,703)
Total	$1,209,292	$(41,454)	$118,662	$(6,708)	$1,327,954	$(48,162)

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 as well as payment performance and the Company's intent and ability to hold the security to maturity when determining whether any impairment is other than temporary. At this time First Financial does not intend to sell, and it is not more likely than not that the Company will be required to sell debt 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 March 31, 2014 or December 31, 2013.

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

NOTE 4: LOANS - EXCLUDING COVERED LOANS

First Financial offers clients a variety of commercial and consumer loan and lease products with various interest rates and payment terms. Lending activities are primarily concentrated in Ohio, Indiana and Kentucky, where the Bank currently operates banking centers. Additionally, First Financial provides equipment and leasehold improvement financing for franchisees in the quick service and casual dining restaurant sector throughout the United States.

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

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

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

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

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

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

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

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

	As of March 31, 2014			
		Real Estate		
(Dollars in thousands)	Commercial	Construction	Commercial	Total
Pass	$1,070,038	$86,128	$1,445,777	$2,601,943
Special Mention	27,331	65	16,168	43,564
Substandard	20,688	1,803	51,946	74,437
Doubtful	0	0	0	0
Total	$1,118,057	$87,996	$1,513,891	$2,719,944

(Dollars in thousands)	Real Estate Residential	Installment	Home Equity	Other	Total
Performing	$352,514	$44,512	$371,727	$114,250	$883,003
Nonperforming	8,157	399	2,700	0	11,256
Total	$360,671	$44,911	$374,427	$114,250	$894,259

	As of December 31, 2013			
		Real Estate		
(Dollars in thousands)	Commercial	Construction	Commercial	Total
Pass	$991,161	$78,872	$1,422,215	$2,492,248
Special Mention	23,053	65	23,832	46,950
Substandard	21,454	1,804	50,940	74,198
Doubtful	0	0	0	0
Total	$1,035,668	$80,741	$1,496,987	$2,613,396

(Dollars in thousands)	Real Estate Residential	Installment	Home Equity	Other	Total
Performing	$344,325	$46,559	$373,472	$115,727	$880,083
Nonperforming	8,606	574	2,982	0	12,162
Total	$352,931	$47,133	$376,454	$115,727	$892,245

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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 March 31, 2014						
(Dollars in thousands)	30 – 59 days past due	60 – 89 days past due	> 90 days past due	Total past due	Current	Total	> 90 days past due and accruing
Loans							
Commercial	$1,040	$160	$6,846	$8,046	$1,110,011	$1,118,057	$0
Real estate - construction	0	0	223	223	87,773	87,996	0
Real estate - commercial	9,038	3,619	10,972	23,629	1,490,262	1,513,891	0
Real estate - residential	2,047	35	4,830	6,912	353,759	360,671	0
Installment	265	84	216	565	44,346	44,911	0
Home equity	579	112	1,405	2,096	372,331	374,427	0
Other	343	172	209	724	113,526	114,250	209
Total	$13,312	$4,182	$24,701	$42,195	$3,572,008	$3,614,203	$209

	As of December 31, 2013						
(Dollars in thousands)	30 - 59 days past due	60 - 89 days past due	> 90 days past due	Total past due	Current	Total	> 90 days past due and accruing
Loans							
Commercial	$2,016	$161	$7,136	$9,313	$1,026,355	$1,035,668	$0
Real estate - construction	0	0	223	223	80,518	80,741	0
Real estate - commercial	7,800	4,269	12,732	24,801	1,472,186	1,496,987	0
Real estate - residential	2,030	685	5,526	8,241	344,690	352,931	0
Installment	213	40	379	632	46,501	47,133	0
Home equity	985	292	1,648	2,925	373,529	376,454	0
Other	680	144	218	1,042	114,685	115,727	218
Total	$13,724	$5,591	$27,862	$47,177	$3,458,464	$3,505,641	$218

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

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

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

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First Financial had 231 TDRs totaling $28.0 million at March 31, 2014, including $13.4 million on accrual status and $14.6 million classified as nonaccrual. First Financial had an insignificant amount of commitments outstanding to lend additional funds to borrowers whose loan terms have been modified through TDRs at March 31, 2014. At March 31, 2014, the allowance for loan and lease losses included reserves of $3.4 million related to TDRs. For the three months ended March 31, 2014, First Financial charged off $0.7 million for the portion of TDRs determined to be uncollectible. Additionally, at March 31, 2014, approximately $8.4 million of accruing TDRs have been performing in accordance with the restructured terms for more than one year.

First Financial had 217 TDRs totaling $28.1 million at December 31, 2013, including $15.1 million of loans on accrual status and $13.0 million classified as nonaccrual. First Financial had an insignificant amount of commitments outstanding to lend additional funds to borrowers whose loan terms had been modified through TDRs. At December 31, 2013, the allowance for loan and lease losses included reserves of $4.4 million related to TDRs. For the year ended December 31, 2013, First Financial charged off $2.8 million for the portion of TDRs determined to be uncollectible. At December 31, 2013, approximately $9.0 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 months ended March 31, 2014 and 2013.

	Three months ended					
	March 31, 2014			March 31, 2013		
(Dollars in thousands)	Number of loans	Pre-modification loan balance	Period end balance	Number of loans	Pre-modification loan balance	Period end balance
Commercial	3	$ 73	$73	6	$ 7,568	$7,561
Real estate - construction	0	0	0	0	0	0
Real estate - commercial	6	1,857	1,849	4	1,592	1,588
Real estate - residential	9	545	539	21	1,373	1,320
Installment	1	3	3	8	138	130
Home equity	8	247	246	24	801	798
Total	27	$ 2,725	$2,710	63	$ 11,472	$11,397

The following table provides information on how TDRs were modified during the three months ended March 31, 2014 and 2013.

	Three months ended March 31, (2)	
(Dollars in thousands)	2014	2013
Extended maturities	$669	$8,481
Adjusted interest rates	293	568
Combination of rate and maturity changes	1,253	98
Forbearance	66	0
Other (1)	429	2,250
Total	$2,710	$11,397

(1) Includes covenant modifications and other concessions, or combination of concessions, that do not consist of interest rate adjustments, forbearance and maturity extensions
(2) Balances are as of period end

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

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The following table provides information on TDRs for which there was a payment default during the period that occurred within twelve months of the loan modification:

	March 31,			
	2014		2013	
(Dollars in thousands)	Number of Loans	Period End Balance	Number of Loans	Period End Balance
Commercial	1	$143	2	$85
Real estate - construction	0	0	0	0
Real estate - commercial	0	0	1	72
Real estate - residential	0	0	2	119
Installment	1	1	1	16
Home equity	1	24	1	54
Total	3	$168	7	$346

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

(Dollars in thousands)	March 31, 2014	December 31, 2013
Impaired loans		
Nonaccrual loans (1)		
Commercial	$7,097	$7,934
Real estate-construction	223	223
Real estate-commercial	16,758	17,286
Real estate-residential	8,157	8,606
Installment	399	574
Home equity	2,700	2,982
Other	0	0
Nonaccrual loans (1)	35,334	37,605
Accruing troubled debt restructurings	13,400	15,094
Total impaired loans	$48,734	$52,699

(1) Nonaccrual loans include nonaccrual TDRs of $14.6 million and $13.0 million as of March 31, 2014 and December 31, 2013, respectively.

	Three months ended March 31,	
(Dollars in thousands)	2014	2013
Interest income effect on impaired loans		
Gross amount of interest that would have been recorded under original terms	$809	$1,122
Interest included in income		
Nonaccrual loans	75	214
Troubled debt restructurings	109	101
Total interest included in income	184	315
Net impact on interest income	$625	$807
Commitments outstanding to borrowers with nonaccrual loans	$0	$2,691

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,

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

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

	As of March 31, 2014				
(Dollars in thousands)	Current Balance	Contractual Principal Balance	Related Allowance	Average Current Balance	YTD Interest Income Recognized
Loans with no related allowance recorded					
Commercial	$5,203	$7,086	$0	$5,208	$24
Real estate - construction	223	443	0	223	0
Real estate - commercial	11,498	15,188	0	11,927	65
Real estate - residential	9,876	11,448	0	10,083	42
Installment	465	492	0	554	2
Home equity	2,932	3,832	0	3,070	12
Other	0	0	0	0	0
Total	30,197	38,489	0	31,065	145
Loans with an allowance recorded					
Commercial	5,813	7,925	1,383	6,413	9
Real estate - construction	0	0	0	0	0
Real estate - commercial	10,478	13,411	2,800	11,058	19
Real estate - residential	2,145	2,212	368	2,081	10
Installment	0	0	0	0	0
Home equity	101	101	2	101	1
Other	0	0	0	0	0
Total	18,537	23,649	4,553	19,653	39
Total					
Commercial	11,016	15,011	1,383	11,621	33
Real estate - construction	223	443	0	223	0
Real estate - commercial	21,976	28,599	2,800	22,985	84
Real estate - residential	12,021	13,660	368	12,164	52
Installment	465	492	0	554	2
Home equity	3,033	3,933	2	3,171	13
Other	0	0	0	0	0
Total	$48,734	$62,138	$4,553	$50,718	$184

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(Dollars in thousands)	As of December 31, 2013 Current Balance	Contractual Principal Balance	Related Allowance	Average Current Balance	Interest Income Recognized
Loans with no related allowance recorded					
Commercial	$5,212	$7,083	$0	$10,712	$165
Real estate - construction	223	443	0	599	0
Real estate - commercial	12,355	16,431	0	16,563	380
Real estate - residential	10,291	12,087	0	10,225	152
Installment	642	663	0	463	6
Home equity	3,208	4,108	0	3,145	44
Other	0	0	0	148	0
Total	31,931	40,815	0	41,855	747
Loans with an allowance recorded					
Commercial	7,013	8,353	2,080	5,047	71
Real estate - construction	0	0	0	726	7
Real estate - commercial	11,638	14,424	2,872	21,098	110
Real estate - residential	2,016	2,072	348	1,997	37
Installment	0	0	0	0	0
Home equity	101	101	2	101	2
Other	0	0	0	167	0
Total	20,768	24,950	5,302	29,136	227
Total					
Commercial	12,225	15,436	2,080	15,759	236
Real estate - construction	223	443	0	1,325	7
Real estate - commercial	23,993	30,855	2,872	37,661	490
Real estate - residential	12,307	14,159	348	12,222	189
Installment	642	663	0	463	6
Home equity	3,309	4,209	2	3,246	46
Other	0	0	0	315	0
Total	$52,699	$65,765	$5,302	$70,991	$974

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OREO. Other real estate owned (OREO) is comprised of properties acquired by the Company through the loan foreclosure or repossession process, or other resolution activity that results in partial or total satisfaction of problem loans.

Changes in OREO were as follows:

	Three months ended March 31,	
(Dollars in thousands)	2014	2013
Balance at beginning of period	$19,806	$12,526
Additions		
Commercial	834	557
Residential	370	147
Total additions	1,204	704
Disposals		
Commercial	7,857	241
Residential	114	294
Total disposals	7,971	535
Valuation adjustment		
Commercial	223	405
Residential	73	297
Total valuation adjustment	296	702
Balance at end of period	$12,743	$11,993

NOTE 5: COVERED LOANS

Loans acquired in Federal Deposit Insurance Corporation (FDIC)-assisted transactions initially covered under loss sharing agreements whereby the FDIC will reimburse First Financial for the majority of any losses incurred are referred to as covered loans. Pursuant to the terms of each loss sharing agreement, covered loans are subject to a stated loss threshold whereby the FDIC will reimburse First Financial for 80% of losses up to the stated loss threshold and 95% of losses in excess of the threshold. These loss sharing agreements provide for partial loss protection on single-family, residential loans for a period of ten years and First Financial is required to share any recoveries of previously charged-off amounts for the same time period, on the same pro-rata basis with the FDIC. All other loans are provided loss protection for a period of five years and recoveries of previously charged-off amounts must be shared with the FDIC for an additional three year period, again on the same pro-rata basis.

The five year period of loss protection will expire for the majority of First Financial's covered commercial loans and covered OREO during the third quarter of 2014. The ten year period of loss protection on all other covered loans and covered OREO will expire during the third quarter of 2019. The expiration of loss sharing protection will result in a reclassification of loan balances in the Consolidated Balance Sheets from covered loans to uncovered loans, but will not have an effect on the accounting for these loans.

First Financial accounts for the majority of covered loans under FASB ASC Topic 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality, except loans with revolving privileges, which are outside the scope of this guidance, and loans for which cash flows could not be estimated, which are accounted for under the cost recovery method. Loans accounted for under FASB ASC Topic 310-30 are referred to as purchased impaired loans.

Purchased impaired loans are not classified as nonperforming assets as the loans are considered to be performing under FASB ASC Topic 310-30. Therefore, interest income, through accretion of the difference between the carrying value of the loans and the expected cash flows (accretable difference) is recognized on all covered purchased impaired loans.

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The following table reflects the carrying value of all covered loans:

(Dollars in thousands)	March 31, 2014 Loans accounted for under FASB ASC Topic 310-30	March 31, 2014 Loans excluded from FASB ASC Topic 310-30	March 31, 2014 Total covered loans	December 31, 2013 Loans accounted for under FASB ASC Topic 310-30	December 31, 2013 Loans excluded from FASB ASC Topic 310-30	December 31, 2013 Total covered loans
Commercial	$32,836	$1,549	$34,385	$41,172	$1,144	$42,316
Real estate - construction	8,480	0	8,480	8,556	0	8,556
Real estate - commercial	228,666	6,131	234,797	263,146	5,487	268,633
Real estate - residential	77,768	0	77,768	80,733	0	80,733
Installment	4,534	572	5,106	5,073	568	5,641
Home equity	1,018	45,301	46,319	975	48,649	49,624
Other covered loans	0	2,550	2,550	0	2,370	2,370
Total covered loans	$353,302	$56,103	$409,405	$399,655	$58,218	$457,873

The outstanding balance of all purchased impaired loans, including all contractual principal, interest, fees and penalties, was $452.7 million and $493.6 million as of March 31, 2014 and December 31, 2013, respectively. These balances exclude contractual interest not yet accrued.

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

(Dollars in thousands)	Three months ended March 31, 2014	2013
Balance at beginning of period	$133,671	$224,694
Reclassification (to)/from nonaccretable difference	13,216	7,751
Accretion	(9,717)	(17,947)
Other net activity [1]	(5,772)	(5,828)
Balance at end of period	$131,398	$208,670

(1) Includes the impact of loan repayments and charge-offs

First Financial regularly reviews its forecast of expected cash flows for covered purchased impaired loans. The Company recognized improvement in the cash flow expectations related to certain loan pools resulting in the reclassification from nonaccretable to accretable difference of $13.2 million and $7.8 million during the first quarters of 2014 and 2013, respectively. These reclassifications resulted in yield adjustments on the related loan pools on a prospective basis. For further detail on impairment and provision expense related to covered purchased impaired loans, see "Covered Loans" in Note 6 - Allowance for Loan and Lease Losses.

Credit Quality. For further discussion of First Financial's monitoring of credit quality for commercial and consumer loans, including discussion of the risk attributes noted below, please see Note 4 - Loans, excluding covered loans.

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

(Dollars in thousands)	As of March 31, 2014 Commercial	Real Estate Construction	Commercial	Total
Pass	$21,891	$5,228	$170,119	$197,238
Special Mention	1,055	0	5,564	6,619

Substandard	11,410	3,252	59,114	73,776
Doubtful	29	0	0	29
Total	$34,385	$8,480	$234,797	$277,662

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(Dollars in thousands)	Real estate residential	Installment	Home equity	Other	Total
Performing	$77,768	$5,106	$43,893	$2,549	$129,316
Nonperforming	0	0	2,426	1	2,427
Total	$77,768	$5,106	$46,319	$2,550	$131,743

	As of December 31, 2013			
(Dollars in thousands)	Commercial	Real Estate Construction	Commercial	Total
Pass	$25,196	$1,714	$182,621	$209,531
Special Mention	2,011	0	12,904	14,915
Substandard	14,693	6,842	73,108	94,643
Doubtful	416	0	0	416
Total	$42,316	$8,556	$268,633	$319,505

(Dollars in thousands)	Real estate residential	Installment	Home equity	Other	Total
Performing	$80,733	$5,636	$47,731	$2,370	$136,470
Nonperforming	0	5	1,893	0	1,898
Total	$80,733	$5,641	$49,624	$2,370	$138,368

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

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

	As of March 31, 2014						
(Dollars in thousands)	30 - 59 days past due	60 - 89 days past due	> 90 days past due	Total past due	Current	Total	> 90 days past due and accruing
Loans							
Commercial	$56	$0	$495	$551	$998	$1,549	$0
Real estate - commercial	0	76	1,221	1,297	4,834	6,131	0
Installment	20	0	0	20	552	572	0
Home equity	0	73	2,294	2,367	42,934	45,301	0
All other	20	22	9	51	2,499	2,550	8
Total	$96	$171	$4,019	$4,286	$51,817	$56,103	$8

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(Dollars in thousands)	As of December 31, 2013 30 - 59 days past due	60 - 89 days past due	> 90 days past due	Total past due	Current	Total	> 90 days past due and accruing
Loans							
Commercial	$60	$335	$483	$878	$266	$1,144	$0
Real estate - commercial	184	0	1,263	1,447	4,040	5,487	0
Installment	0	0	5	5	563	568	0
Home equity	239	36	1,727	2,002	46,647	48,649	0
All other	9	4	0	13	2,357	2,370	0
Total	$492	$375	$3,478	$4,345	$53,873	$58,218	$0

Nonaccrual. Covered 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 covered loan loss provision or prospective yield adjustments.

Similar to uncovered loans, covered loans accounted for outside FASB ASC Topic 310-30 are classified as nonaccrual when, in the opinion of management, collection of principal or interest is doubtful 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 classified as nonaccrual are applied as a reduction to the carrying value of the loan. A loan may be returned to accrual status if collection of future principal and interest payments is no longer doubtful.

Information as to covered nonaccrual loans, excluding loans accounted for under FASB ASC Topic 310-30, was as follows:

(Dollars in thousands)	March 31, 2014	December 31, 2013
Impaired loans		
Nonaccrual loans (1)		
Commercial	$968	$540
Real estate-commercial	1,315	1,349
Installment	0	5
Home equity	2,426	1,893
All other	1	0
Nonaccrual loans	4,710	3,787
Accruing troubled debt restructurings	15	335
Total impaired loans	$4,725	$4,122

(1) Nonaccrual loans include nonaccrual TDRs of $1.0 million and $0.9 million as of March 31, 2014 and December 31, 2013, respectively.

(Dollars in thousands)	Three months ended March 31, 2014	2013
Interest income effect on impaired loans		
Gross amount of interest that would have been recorded under original terms	$70	$138

Interest included in income		
Nonaccrual loans	9	7
Troubled debt restructurings	0	0
Total interest included in income	9	7
Net impact on interest income	$61	$131

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

	As of March 31, 2014				
(Dollars in thousands)	Current Balance	Unpaid Principal Balance	Related Allowance	Average Balance	YTD Interest Income Recognized
Loans with no related allowance recorded					
Commercial	$968	$1,266	$0	$922	$6
Real estate - commercial	1,315	1,536	0	1,332	1
Installment	0	0	0	3	0
Home equity	2,441	3,914	0	2,167	2
All other	1	1	0	1	0
Total	$4,725	$6,717	$0	$4,425	$9

	As of December 31, 2013				
(Dollars in thousands)	Current Balance	Unpaid Principal Balance	Related Allowance	Average Balance	Interest Income Recognized
Loans with no related allowance recorded					
Commercial	$875	$1,131	$0	$1,832	$11
Real estate - commercial	1,349	2,648	0	1,786	4
Installment	5	5	0	2	0
Home equity	1,893	2,899	0	2,611	15
All other	0	0	0	8	0
Total	$4,122	$6,683	$0	$6,239	$30

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Covered OREO. Covered OREO is comprised of properties acquired by the Company through the loan foreclosure or repossession process, or other resolution activities that result in partial or total satisfaction of problem covered loans. These properties remain subject to loss sharing agreements whereby the FDIC reimburses First Financial for the majority of any losses incurred.

Changes in covered OREO were as follows:

	Three months ended March 31,	
(Dollars in thousands)	2014	2013
Balance at beginning of period	$27,120	$28,862
Additions		
Commercial	730	6,462
Residential	28	216
Total additions	758	6,678
Disposals		
Commercial	3,981	4,621
Residential	130	344
Total disposals	4,111	4,965
Valuation adjustment		
Commercial	707	1,125
Residential	12	105
Total valuation adjustment	719	1,230
Balance at end of period	$23,048	$29,345

NOTE 6: ALLOWANCE FOR LOAN AND LEASE LOSSES

Loans, excluding covered loans. For each reporting period, management maintains the allowance for loan and lease losses at a level that it considers sufficient to absorb probable loan and lease losses inherent in the portfolio. There were no material changes to First Financial's accounting policies or methodology related to the allowance for loan and lease losses during the first three months of 2014.

The allowance is increased by provision expense and decreased by actual 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.

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

	Three months ended March 31,	
(Dollars in thousands)	2014	2013
Balance at beginning of period	$43,829	$47,777
Provision for loan and lease losses	1,159	3,041
Loans charged off	(2,424)	(3,210)
Recoveries	459	698
Balance at end of period	$43,023	$48,306
Allowance for loan and lease losses to total ending loans	1.19%	1.49%

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

	Three Months Ended March 31, 2014							
		Real Estate						
(Dollars in thousands)	Commercial	Construction	Commercial	Residential	Installment	Home Equity	Other	Total
Allowance for loan and lease losses:								
Balance at beginning of period	$10,568	$824	$20,478	$3,379	$365	$5,209	$3,006	$43,829
Provision for loan and lease losses	349	(11)	289	137	(11)	421	(15)	1,159
Gross charge-offs	656	0	543	257	128	544	296	2,424
Recoveries	39	0	114	27	77	103	99	459
Total net charge-offs	617	0	429	230	51	441	197	1,965
Ending allowance for loan and lease losses	$10,300	$813	$20,338	$3,286	$303	$5,189	$2,794	$43,023
Ending allowance on loans individually evaluated for impairment	$1,383	$0	$2,800	$368	$0	$2	$0	$4,553
Ending allowance on loans collectively evaluated for impairment	8,917	813	17,538	2,918	303	5,187	2,794	38,470
Ending allowance for loan and lease losses	$10,300	$813	$20,338	$3,286	$303	$5,189	$2,794	$43,023
Loans - excluding covered loans								
Ending balance of loans individually evaluated for impairment	$9,159	$0	$16,387	$3,604	$114	$645	$0	$29,909
Ending balance of loans collectively evaluated for impairment	1,108,898	87,996	1,497,504	357,067	44,797	373,782	114,250	3,584,294
Total loans - excluding covered loans	$1,118,057	$87,996	$1,513,891	$360,671	$44,911	$374,427	$114,250	$3,614,203

	Twelve Months Ended December 31, 2013							
		Real Estate						
(Dollars in thousands)	Commercial	Construction	Commercial	Residential	Installment	Home Equity	Other	Total

Allowance for loan and lease losses:								
Balance at beginning of period	$7,926	$3,268	$24,151	$3,599	$522	$5,173	$3,138	$47,777
Provision for loan and lease losses	5,385	(3,115)	2,659	593	(132)	1,937	1,387	8,714
Gross charge-offs	3,415	1	8,326	1,016	335	2,409	1,781	17,283
Recoveries	672	672	1,994	203	310	508	262	4,621
Total net charge-offs	2,743	(671)	6,332	813	25	1,901	1,519	12,662
Ending allowance for loan and lease losses	$10,568	$824	$20,478	$3,379	$365	$5,209	$3,006	$43,829
Ending allowance on loans individually evaluated for impairment	$2,080	$0	$2,872	$348	$0	$2	$0	$5,302
Ending allowance on loans collectively evaluated for impairment	8,488	824	17,606	3,031	365	5,207	3,006	38,527
Ending allowance for loan and lease losses	$10,568	$824	$20,478	$3,379	$365	$5,209	$3,006	$43,829
Loans - excluding covered loans								
Ending balance of loans individually evaluated for impairment	$10,391	$0	$18,023	$3,493	$122	$648	$0	$32,677
Ending balance of loans collectively evaluated for impairment	1,025,277	80,741	1,478,964	349,438	47,011	375,806	115,727	3,472,964
Total loans - excluding covered loans	$1,035,668	$80,741	$1,496,987	$352,931	$47,133	$376,454	$115,727	$3,505,641

Covered Loans. The majority of covered loans are accounted for under FASB ASC Topic 310-30, whereby First Financial is required to periodically re-estimate the expected cash flows on the loans. First Financial updated the valuations related to covered loans during the first quarter 2014 and realized net charge-offs of $6.1 million during the quarter. As a result of improved cash flow expectations from the updated valuations as well as net charge-off activity during the period, First Financial recognized negative provision expense, or impairment recapture, of $2.2 million during the first quarter, resulting in an allowance for covered loan losses of $10.6 million as of March 31, 2014. For the first quarter of 2013, First Financial recognized provision expense on covered loans of $9.0 million related to net charge-offs of $8.7 million during the period.

First Financial also recognized loss sharing expenses of $1.6 million and $2.1 million for the first quarter of 2014 and 2013, respectively, primarily related to attorney fees, appraisal costs, delinquent taxes and gains/losses on covered

OREO during the periods. The net payable due to the FDIC under loss sharing agreements related to covered loan provision expense, gains/losses on covered OREO and loss sharing expenses of $0.5 million was recognized as negative FDIC loss sharing income and a

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corresponding decrease to the FDIC indemnification asset during the first quarter of 2014. The net receivable due from the FDIC under loss sharing agreements of $8.9 million for the first quarter of 2013, was recognized as FDIC loss sharing income and a corresponding increase to the FDIC indemnification asset.

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

(Dollars in thousands)	March 31, 2014	December 31, 2013
Commercial	$5,079	$9,400
Real estate - commercial	4,564	8,515
Real estate - residential	719	761
Installment	211	225
Total	$10,573	$18,901

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

	Three Months Ended March 31,	
(Dollars in thousands)	2014	2013
Balance at beginning of period	$18,901	$45,190
Provision for loan and lease losses	(2,192)	9,042
Loans charged-off	(7,240)	(9,684)
Recoveries	1,104	948
Balance at end of period	$10,573	$45,496

NOTE 7: 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 had goodwill of $95.1 million as of March 31, 2014 and December 31, 2013.

Goodwill is not amortized, but is measured for impairment on an annual basis as of October 1 of each year or whenever events or changes in circumstances indicate that the fair value of a reporting unit may be below its carrying value. First Financial performed its most recent annual impairment test as of October 1, 2013 and no impairment was indicated. As of March 31, 2014, no events or changes in circumstances indicated that the fair value of a reporting unit was below its carrying value.

Other intangible assets. Other intangible assets consist primarily of core deposit intangibles. Core deposit intangibles are recorded at their estimated fair value as of the acquisition date and are then amortized on an accelerated basis over their estimated useful lives. Core deposit intangibles were $5.5 million and $5.9 million as of March 31, 2014 and December 31, 2013, respectively. First Financial's core deposit intangibles have an estimated weighted average remaining life of 6.6 years. Amortization expense for the three months ended March 31, 2014 and 2013 was $0.4 million for both periods.

NOTE 8: BORROWINGS

Short-term borrowings on the Consolidated Balance Sheets include repurchase agreements utilized for corporate sweep accounts with cash management account agreements in place as well as overnight advances from the Federal Loan Home Bank (FHLB). All repurchase agreements are subject to terms and conditions of repurchase/security agreements between First Financial Bank and the client. To secure the Bank's liability to the client, First Financial Bank is authorized to sell or repurchase U.S. Treasury, government agency and mortgage-backed securities.

First Financial had $722.8 million in short-term borrowings with the FHLB at March 31, 2014 and $654.0 million as of December 31, 2013. These short-term borrowings are used to manage the Company's normal liquidity needs and support the Company's asset and liability management strategies.

Long-term debt primarily consists of FHLB long-term advances and repurchase agreements utilizing investment securities pledged as collateral. These instruments are primarily utilized to reduce overnight liquidity risk and to mitigate interest rate

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sensitivity on the Consolidated Balance Sheets. First Financial has $52.5 million in repurchase agreements which have remaining maturities of less than 2 years and a weighted average rate of 3.49%. Securities pledged as collateral in conjunction with the repurchase agreements are included within Investment securities on the Consolidated Balance Sheets.

The following is a summary of long-term debt:

	March 31, 2014		December 31, 2013	
(Dollars in thousands)	Amount	Average Rate	Amount	Average Rate
Federal Home Loan Bank	$6,888	3.71 %	$7,505	3.72 %
National Market Repurchase Agreement	52,500	3.49 %	52,500	3.49 %
Capital loan with municipality	775	0.00 %	775	0.00 %
Total long-term debt	$60,163	3.47 %	$60,780	3.48 %

Under Federal Reserve Board guidelines, a company can issue qualifying debentures up to 25% of qualifying Tier I capital. First Financial has the capacity to issue approximately $159.1 million in additional qualifying debentures under these guidelines.

NOTE 9: 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:

	March 31, 2014							
	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	$6,098	$ 50	$6,048	$(2,186)	$3,862	$(16,289)	$3,862	$(12,427)
Unrealized gain (loss) on derivatives	(844)	(115)	(729)	272	(457)	602	(457)	145
Retirement obligation	0	(378)	378	(141)	237	(15,565)	237	(15,328)
Foreign currency translation	(9)	0	(9)	0	(9)	(29)	(9)	(38)
Total	$5,245	$ (443)	$5,688	$(2,055)	$3,633	$(31,281)	$3,633	$(27,648)

	March 31, 2013							
	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	$(3,857)	$ 1,536	$(5,393)	$2,036	$(3,357)	$12,802	$(3,357)	$9,445
Unrealized gain (loss) on cash flow hedges	136	(66)	202	(76)	126	(143)	126	(17)
Retirement obligation	0	(715)	715	(270)	445	(31,338)	445	(30,893)
Foreign currency translation	(12)	0	(12)	0	(12)	2	(12)	(10)
Total	$(3,733)	$ 755	$(4,488)	$1,690	$(2,798)	$(18,677)	$(2,798)	$(21,475)

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The following table details the activity reclassified from accumulated other comprehensive income into income during the period:

(Dollars in thousands)	Amount Reclassified from Accumulated Other Comprehensive Income (1) March 31, 2014	2013	Affected Line Item in the Consolidated Statements of Income
Gains and losses on cash flow hedges			
Interest rate contracts	$(115)	$(66)	Interest expense - deposits
Realized gains and losses on securities available-for-sale	50	1,536	Gains on sales of investments securities
Defined benefit pension plan			
Amortization of prior service cost (2)	103	105	Salaries and employee benefits
Recognized net actuarial loss (2)	(481)	(820)	Salaries and employee benefits
Amortization and settlement charges of defined benefit pension items	(378)	(715)	Salaries and employee benefits
Total reclassifications for the period, before tax	$(443)	$755	

(1) Negative amount are debits to profit/loss.
(2) Included in the computation of net periodic pension cost (see Note 13 - Employee Benefit Plans for additional details).

NOTE 10: DERIVATIVES

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

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. These policies require the Company to maintain a total derivative notional position of less than 35% of assets, total credit exposure of less than 3% of capital and no single counterparty credit risk exposure greater than $20.0 million. The Company is currently well below all single counterparty and portfolio limits. At March 31, 2014, the Company had a total counterparty notional amount outstanding of approximately $673.3 million, spread among nine counterparties, with an outstanding liability from these contracts of $10.1 million. At December 31, 2013, the Company had a total counterparty notional amount outstanding of approximately $561.6 million, spread among nine counterparties, with an outstanding liability from these contracts of $9.3 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 allowance for loan and lease losses committee. First Financial considers the market value of a derivative instrument to be part of the carrying value of the related loan for these purposes as the borrower is contractually obligated to pay First Financial this amount in the event the derivative contract is terminated.

Fair Value Hedges. First Financial utilizes interest rate swaps designated as fair value hedges as a means to offer commercial borrowers fixed rate funding while providing the Company with floating rate assets. The following table details the location and amounts recognized in the Consolidated Balance Sheets for fair value hedges:

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(Dollars in thousands)	Balance sheet location	March 31, 2014 Notional amount	March 31, 2014 Estimated fair value Gain	March 31, 2014 Estimated fair value Loss	December 31, 2013 Notional amount	December 31, 2013 Estimated fair value Gain	December 31, 2013 Estimated fair value Loss
Fair value hedges - instruments associated with loans							
Pay fixed interest rate swaps with counterparty	Accrued interest and other liabilities	$9,632	$0	$(762)	$9,836	$0	$(865)
Matched interest rate swaps with borrower	Accrued interest and other assets	463,663	11,174	(1,271)	451,744	11,710	(1,767)
Matched interest rate swaps with counterparty	Accrued interest and other liabilities	463,663	1,271	(11,394)	451,744	1,767	(11,799)
Total		$936,958	$12,445	$(13,427)	$913,324	$13,477	$(14,431)

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)	March 31, 2014 Gross amounts of recognized liabilities	March 31, 2014 Gross amounts offset in the Consolidated Balance Sheets	March 31, 2014 Net amounts of liabilities presented in the Consolidated Balance Sheets	December 31, 2013 Gross amounts of recognized liabilities	December 31, 2013 Gross amounts offset in the Consolidated Balance Sheets	December 31, 2013 Net amounts of liabilities presented in the Consolidated Balance Sheets
Fair value hedges						
Pay fixed interest rate swaps with counterparty	$762	$0	$762	$865	$(663)	$202
Matched interest rate swaps with counterparty	12,666	(10,470)	2,196	13,566	(9,533)	4,033
Total	$13,428	$(10,470)	$2,958	$14,431	$(10,196)	$4,235

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 March 31, 2014:

(Dollars in thousands)	Notional amount	Average maturity (years)	Fair value	Weighted-average rate Receive	Weighted-average rate Pay
Asset conversion swaps					
Pay fixed interest rate swaps with counterparty	$9,632	2.8	$(762)	2.13%	6.85%
	463,663	4.0	9,903	4.81%	2.82%

Receive fixed, matched interest rate swaps with borrower								
Pay fixed, matched interest rate swaps with counterparty	463,663	4.0	(10,123	)	2.82	%	4.81	%
Total asset conversion swaps	$936,958	4.0	$(982	)	3.80	%	3.85	%

Cash Flow Hedges. First Financial utilizes interest rate swaps designated as cash flow hedges to hedge against interest rate volatility on indexed floating rate deposits, totaling $200.0 million as of March 31, 2014 and $100.0 million as of December 31, 2013. These interest rate swaps qualify for hedge accounting and involve the receipt by First Financial of variable-rate interest amounts in exchange for fixed-rate interest payments by First Financial and have a remaining weighted average term of approximately 5 years. Accrued interest and other assets included $0.2 million at March 31, 2014 and $0.8 million at December 31, 2013, respectively, reflecting the fair value of these cash flow hedges.

NOTE 11: INCOME TAXES

For the first quarter 2014, income tax expense was $7.1 million, resulting in an effective tax rate of 31.9%, compared with income tax expense of $6.4 million and an effective tax rate of 31.5% for the comparable period in 2013. The increase in the

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effective tax rate for the first quarter 2014 as compared to the first quarter 2013 was primarily the result of a favorable tax reversal related to an intercompany tax obligation associated with an unconsolidated former Irwin subsidiary in 2013, partially offset by an adjustment to deferred tax liabilities relating to a favorable change in state tax laws and higher tax-exempt income earned during the first quarter 2014.

At March 31, 2014, and December 31, 2013, 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 March 31, 2014 and December 31, 2013.

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 2010 have been closed and are no longer subject to U.S. federal income tax examinations. Tax years 2010 through 2013 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 2009. Tax years 2009 through 2013 remain open to state and local examination in various jurisdictions.

NOTE 12: COMMITMENTS AND CONTINGENCIES

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

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

Letters of credit. Letters of credit are conditional commitments issued by First Financial to guarantee the performance of a client to a third party. First Financial's portfolio of standby letters of credit consists primarily of performance assurances made on behalf of clients who have a contractual commitment to produce or deliver goods or services. The risk to First Financial arises from its obligation to make payment in the event of the client's contractual default to produce the contracted good or service to a third party. First Financial issued letters of credit (including standby letters of credit) aggregating $16.9 million and $14.0 million at March 31, 2014, and December 31, 2013, respectively. Management conducts regular reviews of these instruments on an individual client basis.

Loan commitments. Loan commitments are agreements to extend credit to a client as long as there is no violation of any condition established in the commitment agreement. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if deemed necessary by First Financial upon extension of credit, is based on management's credit evaluation of the client. The collateral held varies, but may include securities, real estate, inventory, plant or equipment. First Financial had commitments outstanding to extend credit totaling $1.6 billion at March 31, 2014, and $1.4 billion at December 31, 2013.

First Financial utilizes the allowance for loan and lease losses methodology to maintain a reserve that it considers sufficient to absorb probable losses inherent in standby letters of credit and outstanding loan commitments and records the reserve within Accrued interest and other liabilities on the Consolidated Balance Sheets.

Contingencies/Litigation. First Financial and its subsidiaries are engaged in various matters of litigation, other assertions of improper or fraudulent loan practices or lending violations and other matters from time to time, and have a number of unresolved claims pending. Additionally, as part of the ordinary course of business, First Financial and its subsidiaries are parties to litigation involving claims to the ownership of funds in particular accounts, the collection of delinquent accounts, challenges to security interests in collateral and foreclosure interests that 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

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as of March 31, 2014. Reserves are established for these various matters of litigation, when appropriate under FASB ASC Topic 450, Contingencies, based in part upon the advice of legal counsel.

NOTE 13: 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.

First Financial made no cash contributions to fund the pension plan during the three months ended March 31, 2014 and does not expect to make cash contributions to the plan through the remainder of the year. First Financial made no cash contributions to fund the pension plan in 2013. As a result of the plan's actuarial projections for 2014, First Financial recorded income related to its pension plan of $0.3 million for the three months ended March 31, 2014, compared to an immaterial expense for the same period in 2013.

The following table sets forth information concerning amounts recognized in First Financial's Consolidated Statements of Income:

	Three months ended March 31,	
(Dollars in thousands)	2014	2013
Service cost	$1,041	$975
Interest cost	620	619
Expected return on assets	(2,292)	(2,294)
Amortization of prior service cost	(103)	(105)
Net actuarial loss	481	820
Net periodic benefit (income) cost	$(253)	$15

As a result of lump sum distributions from the pension plan during the year, First Financial was required to re-measure the plan's assets and liabilities and recognize pension settlement charges through noninterest expense during 2013. Consistent with FASB ASC Topic 715, Compensation - Retirement Benefits, pension settlement charges are an acceleration of previously deferred costs that would have been recognized in future periods and are triggered when lump sum distributions exceed an annual accounting threshold for the plan. Associates are eligible to request a lump sum distribution from the Company's pension plan at retirement or upon leaving the Company. The accounting threshold for lump sum distributions from the plan reset on January 1, 2014, however, the Company could incur pension settlement charges again if lump sum distributions exceed the annual accounting threshold in future periods.

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NOTE 14: EARNINGS PER COMMON SHARE

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

	Three months ended March 31,	
(Dollars in thousands, except per share data)	2014	2013
Numerator		
Net income available to common shareholders	$15,104	$13,824
Denominator		
Basic earnings per common share - weighted average shares	57,091,604	57,439,029
Effect of dilutive securities —		
Employee stock awards	591,659	744,503
Warrants	144,916	99,935
Diluted earnings per common share - adjusted weighted average shares	57,828,179	58,283,467
Earnings per share available to common shareholders		
Basic	$0.26	$0.24
Diluted	$0.26	$0.24

Warrants to purchase 465,117 shares of the Company's common stock were outstanding as of March 31, 2014 and 2013. 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, where the exercise price was greater than the average market price of the common shares were not included in the computation of net income per diluted share as they would have been antidilutive. These out-of-the-money options were 24,026 and 346,765 at March 31, 2014 and 2013, respectively.

NOTE 15: FAIR VALUE DISCLOSURES

Fair Value Measurement

The fair value framework as disclosed in the Fair Value Measurements and Disclosure Topic of FASB ASC Topic 825, Financial Instruments (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 above are considered Level 3.

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

First Financial reviews the pricing methodologies utilized by the administrator to ensure the fair value determination is consistent with the applicable accounting guidance and that the investments are properly classified in the fair value hierarchy. Further, the Company periodically validates the fair values for a sample of securities in the portfolio by comparing the fair values provided by the administrator to prices from other independent sources for the same or similar securities. First Financial analyzes unusual or significant variances, conducts additional research with the administrator, if necessary, and takes appropriate action based on its findings.

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

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

Loans are designated as impaired when, in the judgment of management based on current information and events, it is probable that all amounts due according to the contractual terms of the loan agreement will not be collected. Impaired loans are valued at the lower of cost or fair value for purposes of determining the appropriate amount of impairment to be allocated to the allowance for loan and lease losses. 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 vast majority of the collateral is real estate. The value of real estate collateral is determined utilizing an income or market valuation approach based on an appraisal conducted by an independent, licensed 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 if not considered significant. 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 allocated to the allowance for loan and lease losses are measured at fair value on a nonrecurring basis. Any fair value adjustments are recorded in the period incurred as provision for loan and lease losses on the Consolidated Statements of Income.

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

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Fair values for covered loans accounted for outside of FASB ASC Topic 310-30 were 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. The carrying amount of accrued interest approximates its fair value.

The Company classifies the estimated fair value of covered loans as Level 3 in the fair value hierarchy.

FDIC indemnification asset. Fair value of the FDIC indemnification asset was estimated using projected cash flows related to the loss sharing agreements based on the expected reimbursements for losses and the applicable loss sharing percentages. The expected cash flows are discounted to reflect the uncertainty of the timing and receipt of the loss sharing reimbursement from the FDIC. These cash flow evaluations are inherently subjective as they require material estimates, all of which may be susceptible to significant change, and may be impacted by the relatively short remaining term of loss sharing coverage on covered commercial assets. The five year period of loss protection will expire for the majority of First Financial's covered commercial loans and covered OREO during the third quarter of 2014. The Company classifies the estimated fair value of the indemnification asset as Level 3 in the fair value hierarchy.

Deposits. The fair value of demand deposits, savings accounts and certain money-market deposits was the amount payable on demand at the reporting date. The carrying amounts for variable-rate certificates of deposit approximated their fair values at the reporting date. The fair value of fixed-rate certificates of deposit was estimated using a discounted cash flow calculation which applies the interest rates currently offered for deposits of similar remaining maturities. The carrying amount of accrued interest approximates its fair value. 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 of 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. Third-party valuations are used for long-term debt with embedded options, such as call features. The Company classifies the estimated fair value of long-term debt as Level 2 in the fair value hierarchy.

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

Derivatives. 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. The discounted net present value calculated represents the cost to terminate the swap if First Financial should choose to do so. Additionally, First Financial utilizes a vendor-developed, proprietary model to value the credit risk component of both the derivative assets and liabilities. The credit valuation adjustment is recorded as an adjustment to the fair value of the derivative asset or liability on the reporting date. Derivative instruments are classified as Level 2 in the fair value hierarchy.

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

	Carrying	Estimated Fair Value			
(Dollars in thousands)	value	Total	Level 1	Level 2	Level 3
March 31, 2014					
Financial assets					
Cash and short-term investments	$171,196	$171,196	$171,196	$0	$0
Investment securities held-to-maturity	890,806	885,327	0	885,327	0
Other investments	47,659	47,659	0	47,659	0
Loans held for sale	6,171	6,171	0	6,171	0
Loans - excluding covered loans	3,571,180	3,564,373	0	0	3,564,373
Covered loans	398,832	404,861	0	0	404,861
FDIC indemnification asset	39,003	30,387	0	0	30,387
Financial liabilities					
Deposits					
Noninterest-bearing	$1,122,816	$1,122,816	$0	$1,122,816	$0
Interest-bearing demand	1,102,029	1,102,029	0	1,102,029	0
Savings	1,639,495	1,639,495	0	1,639,495	0
Time	956,049	957,047	0	957,047	0
Total deposits	4,820,389	4,821,387	0	4,821,387	0
Short-term borrowings	835,093	835,093	835,093	0	0
Long-term debt	60,163	61,787	0	61,787	0

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(Dollars in thousands)	Carrying value	Estimated Fair Value Total	Level 1	Level 2	Level 3
December 31, 2013					
Financial assets					
Cash and short-term investments	$143,450	$143,450	$143,450	$0	$0
Investment securities held-to-maturity	837,272	824,985	0	824,985	0
Other investments	47,427	47,427	0	47,427	0
Loans held for sale	8,114	8,114	0	8,114	0
Loans - excluding covered loans	3,461,812	3,455,776	0	0	3,455,776
Covered loans	438,972	451,545	0	0	451,545
FDIC indemnification asset	45,091	34,820	0	0	34,820
Financial liabilities					
Deposits					
Noninterest-bearing	$1,147,452	$1,147,452	$0	$1,147,452	$0
Interest-bearing demand	1,125,723	1,125,723	0	1,125,723	0
Savings	1,612,005	1,612,005	0	1,612,005	0
Time	952,327	951,220	0	951,220	0
Total deposits	4,837,507	4,836,400	0	4,836,400	0
Short-term borrowings	748,749	748,749	748,749	0	0
Long-term debt	60,780	62,706	0	62,706	0

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

(Dollars in thousands)	Fair Value Measurements Using Level 1	Level 2	Level 3	Netting Adjustments (1)	Assets/Liabilities at Fair Value
March 31, 2014					
Assets					
Derivatives	$0	$12,445	$0	$(12,445)	$ 0
Available-for-sale investment securities	8,050	854,476	0	0	862,526
Total	$8,050	$866,921	$0	$(12,445)	$ 862,526
Liabilities					
Derivatives	$0	$13,427	$0	$(12,445)	$ 982

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(Dollars in thousands)	Fair Value Measurements Using Level 1	Level 2	Level 3	Netting Adjustments (1)	Assets/Liabilities at Fair Value
December 31, 2013					
Assets					
Derivatives	$0	$13,477	$0	$(13,477)	$ 0
Available-for-sale investment securities	7,976	905,625	0	0	913,601
Total	$7,976	$919,102	$0	$(13,477)	$ 913,601
Liabilities					
Derivatives	$0	$14,431	$0	$(13,477)	$ 954

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

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

(Dollars in thousands)	Fair Value Measurements Using Level 1	Level 2	Level 3
March 31, 2014			
Assets			
Impaired loans (1)	$0	$0	$12,108
OREO	0	0	7,467
Covered OREO	0	0	11,975

(Dollars in thousands)	Fair Value Measurements Using Level 1	Level 2	Level 3
December 31, 2013			
Assets			
Impaired loans (1)	$0	$0	$13,699
OREO	0	0	5,358
Covered OREO	0	0	8,937

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

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

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

SUMMARY

First Financial Bancorp. (First Financial or the Company) is a $6.5 billion bank holding company headquartered in Cincinnati, Ohio. First Financial, through its subsidiaries, operates primarily in Ohio, Indiana and Kentucky. These subsidiaries include a commercial bank, First Financial Bank, N.A. (First Financial Bank or the Bank) with 106 banking centers and 129 ATMs. First Financial provides banking and financial services products through its four lines of business: commercial, consumer, wealth management and mortgage. The commercial, consumer and mortgage business lines provide credit-based products, deposit accounts, retail brokerage, corporate cash management support and other services to commercial and consumer clients. The Bank also provides lending products, primarily equipment and leasehold improvement financing, for select concepts and franchisees in the quick service and casual dining restaurant sector throughout the United States. First Financial Wealth Management provides wealth planning, portfolio management, trust and retirement plan services and had approximately $2.5 billion in assets under management as of March 31, 2014.

First Financial acquired the banking operations of Peoples Community Bank (Peoples), and Irwin Union Bank and Trust Company and Irwin Union Bank, F.S.B. (collectively, Irwin), through Federal Deposit Insurance Corporation (FDIC)-assisted transactions in 2009. In connection with these FDIC-assisted transactions, First Financial entered into loss sharing agreements with the FDIC. Under the terms of these agreements the FDIC reimburses First Financial for a percentage of losses with respect to certain loans (covered loans) and other real estate owned (covered OREO) (collectively, covered assets). These agreements provide for loss protection on covered single-family, residential loans for a period of ten years and First Financial is required to share any recoveries of previously charged-off amounts for the same time period, on the same pro-rata basis with the FDIC. All other covered loans are provided loss protection for a period of five years and recoveries of previously charged-off amounts must be shared with the FDIC for an additional three year period, on the same pro-rata basis. The five year period of loss protection will expire for the majority of First Financial's covered commercial loans and covered OREO during the third quarter of 2014. The ten year period of loss protection on all other covered loans and covered OREO will expire during the third quarter of 2019. Covered assets represent approximately 6.7% of First Financial’s total assets at March 31, 2014.

MARKET STRATEGY AND BUSINESS COMBINATIONS

On December 17, 2013, First Financial and First Financial Bank entered into a definitive merger agreement with The First Bexley Bank (First Bexley or Bexley). Founded in 2006 and conducting operations out of one full service branch location in Bexley, Ohio, First Bexley serves commercial and consumer clients throughout Columbus and central Ohio. Under the merger agreement, First Financial will acquire Bexley in a cash and stock transaction in which Bexley will merge with and into First Financial Bank. Shareholders of First Bexley will receive $30.50 for each share of First Bexley common stock consisting of $24.40 in the Company’s common stock and $6.10 in cash, subject to certain adjustment depending upon changes in the price of the Company’s common stock. Including outstanding options on First Bexley common stock, the transaction is valued at approximately $44.5 million. As of March 31, 2014, First Bexley had total assets of $309.6 million, total loans of $282.8 million, total deposits of $273.9 million