FIRST FINANCIAL BANCORP /OH/
Form 10-Q
May 08, 2015
Table of Contents

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, 2015

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 7, 2015
Common stock, No par value	61,685,656

Table of Contents

FIRST FINANCIAL BANCORP.

INDEX

Table of Contents

Glossary of Abbreviations and Acronyms

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

the Act	Private Securities Litigation Reform Act	FDIC	Federal Deposit Insurance Corporation
ALLL	Allowance for loan and lease losses	FHLB	Federal Home Loan Bank
ASC	Accounting standards codification	First Financial	First Financial Bancorp.
ASU	Accounting standards update	First Financial Bank	First Financial Bank, N.A.
ATM	Automated teller machine	GAAP	U.S. Generally Accepted Accounting Principles
Bank	First Financial Bank, N.A.	N/A	Not applicable
Basel III	Basel Committee regulatory capital reforms, Third Basel Accord	NII	Net interest income
BP	basis point	OREO	Other real estate owned
Company	First Financial Bancorp.	SEC	United States Securities and Exchange Commission
EVE	Economic value of equity	TDR	Troubled debt restructuring
FASB	Financial Accounting Standards Board		

Table of Contents

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

	March 31, 2015 (Unaudited)	December 31, 2014
Assets		
Cash and due from banks	$111,011	$110,122
Interest-bearing deposits with other banks	25,350	22,630
Investment securities available-for-sale, at market value (cost $893,123 at March 31, 2015 and $849,504 at December 31, 2014)	892,169	840,468
Investment securities held-to-maturity (market value $855,083 at March 31, 2015 and $874,749 at December 31, 2014)	839,666	867,996
Other investments	53,393	52,626
Loans held for sale	14,937	11,005
Loans and leases		
Commercial	1,298,874	1,315,114
Real estate-construction	227,969	197,571
Real estate-commercial	2,120,084	2,140,667
Real estate-residential	496,852	501,894
Installment	43,798	47,320
Home equity	456,278	458,627
Credit card	37,886	38,475
Lease financing	81,796	77,567
Total loans and leases	4,763,537	4,777,235
Less: Allowance for loan and lease losses	53,076	52,858
Net loans and leases	4,710,461	4,724,377
Premises and equipment	140,477	141,381
Goodwill	137,739	137,739
Other intangibles	7,847	8,114
FDIC indemnification asset	20,397	22,666
Accrued interest and other assets	292,349	278,697
Total assets	$7,245,796	$7,217,821
Liabilities		
Deposits		
Interest-bearing	$1,214,882	$1,225,378
Savings	1,922,815	1,889,473
Time	1,277,291	1,255,364
Total interest-bearing deposits	4,414,988	4,370,215
Noninterest-bearing	1,299,602	1,285,527
Total deposits	5,714,590	5,655,742
Federal funds purchased and securities sold under agreements to repurchase	68,142	103,192
Federal Home Loan Bank short-term borrowings	523,500	558,200
Total short-term borrowings	591,642	661,392
Long-term debt	47,598	48,241

Total borrowed funds	639,240	709,633
Accrued interest and other liabilities	96,224	68,369
Total liabilities	6,450,054	6,433,744
Shareholders' equity		
Common stock - no par value		
Authorized - 160,000,000 shares; Issued - 68,730,731 shares in 2015 and 2014	570,623	574,643
Retained earnings	360,390	352,893
Accumulated other comprehensive loss	(17,054)	(21,409)
Treasury stock, at cost, 7,043,844 shares in 2015 and 7,274,184 shares in 2014	(118,217)	(122,050)
Total shareholders' equity	795,742	784,077
Total liabilities and shareholders' equity	$7,245,796	$7,217,821

See Notes to Consolidated Financial Statements.

1

Table of Contents

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

	Three months ended March 31, 2015	2014
Interest income		
Loans, including fees	$54,464	$49,147
Investment securities		
Taxable	9,608	10,437
Tax-exempt	1,117	810
Total interest on investment securities	10,725	11,247
Other earning assets	(1,181)	(1,406)
Total interest income	64,008	58,988
Interest expense		
Deposits	4,820	3,316
Short-term borrowings	303	329
Long-term borrowings	299	524
Total interest expense	5,422	4,169
Net interest income	58,586	54,819
Provision for loan and lease losses	2,060	(1,033)
Net interest income after provision for loan and lease losses	56,526	55,852
Noninterest income		
Service charges on deposit accounts	4,523	4,772
Trust and wealth management fees	3,634	3,746
Bankcard income	2,620	2,433
Net gains from sales of loans	1,464	396
Gains on sales of investment securities	0	50
FDIC loss sharing income	(1,046)	(508)
Accelerated discount on covered/formerly covered loans	2,092	1,015
Other	4,326	2,271
Total noninterest income	17,613	14,175
Noninterest expenses		
Salaries and employee benefits	26,941	25,261
Net occupancy	5,005	5,299
Furniture and equipment	2,153	2,077
Data processing	2,772	2,858
Marketing	888	786
Communication	570	623
Professional services	1,970	1,724
State intangible tax	577	644
FDIC assessments	1,090	1,134
Loss (gain) - other real estate owned	474	451
Loss sharing expense	301	1,569
Other	5,327	5,416
Total noninterest expenses	48,068	47,842
Income before income taxes	26,071	22,185

Income tax expense	8,450	7,081
Net income	$17,621	$15,104
Net earnings per common share - basic	$0.29	$0.26
Net earnings per common share - diluted	$0.29	$0.26
Cash dividends declared per share	$0.16	$0.15
Average common shares outstanding - basic	61,013,489	57,091,604
Average common shares outstanding - diluted	61,731,844	57,828,179

See Notes to Consolidated Financial Statements.

Table of Contents

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

	Three months ended March 31,	
	2015	2014
Net income	$17,621	$15,104
Other comprehensive income (loss), net of tax:		
Unrealized gains (losses) on investment securities arising during the period	5,008	3,862
Change in retirement obligation	183	237
Unrealized gain (loss) on derivatives	(816)	(457)
Unrealized gain (loss) on foreign currency exchange	(20)	(9)
Other comprehensive income (loss)	4,355	3,633
Comprehensive income	$21,976	$18,737

See Notes to Consolidated Financial Statements.

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

	Common Stock Shares	Common Stock Amount	Retained Earnings	Accumulated other comprehensive income (loss)	Treasury stock Shares	Treasury stock Amount	Total
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 purchased		(703)			33,794	564	(139)
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
Balance at January 1, 2015	68,730,731	$574,643	$352,587	$ (21,409)	(7,274,184)	$(122,050)	$783,771
Net income			17,621				17,621
Other comprehensive income (loss)				4,355			4,355
Cash dividends declared:							
Common stock at $0.16 per share			(9,818)				(9,818)
Excess tax benefit on share-based compensation		99					99
Exercise of stock options, net of shares purchased		(170)			15,217	256	86
		(4,807)			215,123	3,577	(1,230)

Restricted stock awards, net of forfeitures							
Share-based compensation expense		858					858
Balance at March 31, 2015	68,730,731	$570,623	$360,390	$ (17,054)	(7,043,844)	$(118,217)	$795,742

See Notes to Consolidated Financial Statements.

4

Table of Contents

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

	Three months ended March 31, 2015	2014
Operating activities		
Net income	$17,621	$15,104
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	2,060	(1,033)
Depreciation and amortization	3,208	3,178
Stock-based compensation expense	858	810
Pension expense (income)	(300)	(253)
Net amortization of premiums/accretion of discounts on investment securities	1,741	1,730
Gains on sales of investment securities	0	(50)
Originations of loans held for sale	(59,541)	(18,297)
Net gains from sales of loans held for sale	(1,464)	(396)
Proceeds from sales of loans held for sale	56,816	19,012
Deferred income taxes	2,313	0
Decrease (increase) in interest receivable	(2,354)	(2,663)
Decrease (increase) in cash surrender value of life insurance	(480)	(418)
Decrease (increase) in prepaid expenses	(919)	(892)
Decrease (increase) in indemnification asset	2,269	6,088
(Decrease) increase in accrued expenses	(7,396)	(7,760)
(Decrease) increase in interest payable	0	(130)
Other	670	(906)
Net cash provided by (used in) operating activities	15,102	13,124
Investing activities		
Proceeds from sales of securities available-for-sale	25	92,573
Proceeds from calls, paydowns and maturities of securities available-for-sale	26,103	26,247
Purchases of securities available-for-sale	(55,005)	(61,081)
Proceeds from calls, paydowns and maturities of securities held-to-maturity	27,155	22,584
Purchases of securities held-to-maturity	0	(67,350)
Net decrease (increase) in interest-bearing deposits with other banks	(2,720)	16,149
Net decrease (increase) in loans and leases	8,883	(68,533)
Proceeds from disposal of other real estate owned	4,557	12,082
Purchases of premises and equipment	(2,255)	(1,567)
Net cash provided by (used in) investing activities	6,743	(28,896)
Financing activities		
Net (decrease) increase in total deposits	58,848	(17,118)
Net (decrease) increase in short-term borrowings	(69,750)	86,344
Payments on long-term borrowings	(532)	(610)
Cash dividends paid on common stock	(9,745)	(8,570)
Treasury stock purchase	0	(697)
Proceeds from exercise of stock options	124	64
Excess tax benefit on share-based compensation	99	254

Net cash provided by (used in) financing activities	(20,956)	59,667
Cash and due from banks		
Net increase (decrease) in cash and due from banks	889	43,895
Cash and due from banks at beginning of period	110,122	117,620
Cash and due from banks at end of period	$111,011	$161,515

See Notes to Consolidated Financial Statements.

Table of Contents

FIRST FINANCIAL BANCORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2015
(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, including covered loans and the related allowance for loan and lease losses in the Consolidated Balance Sheets have been made to conform to current year presentation. Such reclassifications had no effect on net earnings.

Effective October 1, 2014, the five-year loss sharing coverage period for non-single family assets expired and the majority of the Company’s formerly covered assets were no longer subject to FDIC loss sharing protection. As a result of this expiration, and the insignificant balance of assets that remain subject to FDIC loss sharing protection through the October 1, 2019 relative to the Company’s total assets, all covered loans and the related allowance for loan and lease losses-covered, as well as provision for covered loan and lease losses, have been reclassified in the Consolidated Financial Statements, and all credit quality metrics have been updated to include covered and formerly covered assets.

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, 2014. These interim financial statements may not include all information and notes necessary to constitute a complete set of financial statements under GAAP applicable to annual periods and it is suggested that these interim statements be read in conjunction with the Form 10-K. Management believes these unaudited consolidated financial statements reflect all adjustments of a normal recurring nature which are necessary for a fair presentation of the results for the interim periods presented. The results of operations for the interim periods are not necessarily indicative of the results that may be expected for the full year or any other interim period. The Consolidated Balance Sheet as of December 31, 2014 has been derived from the audited financial statements in the Company’s 2014 Form 10-K.

NOTE 2: RECENTLY ADOPTED AND ISSUED ACCOUNTING STANDARDS

In January 2014, the FASB issued an update (ASU 2014-01, Accounting for Investments in Qualified Affordable Housing
Projects) that permits First Financial to make an accounting policy election to account for its investments in qualified affordable housing projects using a proportional amortization method if certain conditions are met. Under the proportional
amortization method, First Financial would amortize the initial cost of the investment in proportion to the tax credits and other

tax benefits received and recognize the net investment performance in the income statement as a component of income tax
expense. The amended guidance requires disclosure of the nature of First Financial’s investments in qualified affordable
housing projects, and the effect of the measurement of the investments in qualified affordable housing projects and the related
tax credits on First Financial’s financial position and results of operation. The provisions of this update became effective for the interim reporting period ended March 31, 2015. First Financial made the election to adopt the proportional amortization method during the first quarter 2015 and had $14.8 million of affordable housing commitments as of March 31, 2015. This update did not have a material impact on the Company's Consolidated Financial Statements.

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 this update became effective for the interim reporting period ended March 31, 2015. This update did not have a material impact on the Company's Consolidated Financial Statements.

In April 2014, the FASB issued an update (ASU 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity) which redefines what constitutes a discontinued operation. Under the revised standard, a

Table of Contents

discontinued operation is a component of an entity or group of components that has been disposed of by sale, disposed of other than by sale or is classified as held for sale, that represents a strategic shift that has or will have a major effect on an entity’s operations and financial results or an acquired business or nonprofit activity that is classified as held for sale on the date of the acquisition. A strategic shift that has or will have a major effect on an entity’s operations and financial results could include the disposal of a major line of business, a major geographic area, a major equity method investment or other major parts of an entity. The new guidance eliminates the criteria prohibiting an entity from reporting a discontinued operation if it has certain continuing cash flows or involvement with the component after the disposal and requires additional disclosures for discontinued operations and new disclosures for individually material disposal transactions that do not meet the definition of a discontinued operation. The provisions of this update became effective for the interim reporting period ended March 31, 2015. This update did not have a material impact on the Company's Consolidated Financial Statements.

In May 2014, the FASB issued an update (ASU 2014-09, Revenue from Contracts with Customers) which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. Under the revised standard, an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU applies to all contracts with customers except those that are within the scope of other topics in the FASB Accounting Standards Codification. Certain of the ASU’s provisions also apply to transfers of nonfinancial assets, including in-substance nonfinancial assets that are not an output of an entity’s ordinary activities, such as sales of property, plant, and equipment; real estate; or intangible assets. The ASU also requires significantly expanded disclosures about revenue recognition. The provisions of ASU 2014-09 become effective for interim and annual reporting periods beginning after December 15, 2016. Early application is not permitted. First Financial is currently evaluating the impact of this update on its Consolidated Financial Statements.

In June 2014, the FASB issued an update (ASU 2014-11, Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures) that requires repurchase-to-maturity transactions to be accounted for as secured borrowings rather than as sales with a forward repurchase commitment and eliminates current guidance on repurchase financings. The ASU requires separate accounting for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty. If the derecognition criteria are met, the initial transfer will generally be accounted for as a sale and the repurchase agreement will generally be accounted for as a secured borrowing. The ASU requires new disclosures for repurchase agreements, securities lending transactions and repurchase-to-maturity transactions that are accounted for as secured borrowings. The ASU also requires new disclosures for transfers of financial assets that are accounted for as sales that involve an agreement with the transferee entered into in contemplation of the initial transfer that result in the transferor retaining substantially all of the exposure to the economic return on the transferred financial assets throughout the term of the transaction. The provisions of this update became effective for the interim reporting period ended March 31, 2015. This update did not have a material impact on the Company's Consolidated Financial Statements.

In August 2014, the FASB issued an update (ASU 2014-14, Receivables - Troubled Debt Restructurings by Creditors: Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure) that requires a mortgage loan be derecognized and a separate other receivable be recognized upon foreclosure if the following conditions are met: a) the loan has a government guarantee that is not separable from the loan before foreclosure, b) at the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim and c) at the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed. Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. The provisions of this update became effective for the interim reporting period ended March 31, 2015. This update did not have a material impact on the Company's Consolidated Financial Statements.

In August 2014, the FASB issued an update (ASU 2014-15, Presentation of Financial Statements-Going Concern: Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern) that requires management perform a going concern evaluation similar to the auditor’s evaluation required by standards issued by the PCAOB and the AICPA. The ASU requires management to evaluate relevant conditions, events and certain management plans that are known or reasonably knowable as of the evaluation date when determining whether substantial doubt about an entity’s ability to continue as a going concern exists for both annual and interim reporting periods. If management concludes that substantial doubt about an entity’s ability to continue as a going concern, the notes to the financial statements are required to include a statement that there is substantial doubt about the entity’s ability to continue as a going concern within one year after the date that the financial statements are issued. The provisions in this ASU become effective for interim and annual periods ending after December 15, 2016. Early adoption is permitted. First Financial does not anticipate this update will have a material impact on its Consolidated Financial Statements.

Table of Contents

NOTE 3: INVESTMENTS

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

(Dollars in thousands)	Held-to-maturity				Available-for-sale			
	Amortized cost	Unrealized gain	Unrealized loss	Market value	Amortized cost	Unrealized gain	Unrealized loss	Market value
U.S. Treasuries	$0	$0	$0	$0	$97	$2	$0	$99
Securities of U.S. government agencies and corporations	17,041	209	0	17,250	11,318	186	0	11,504
Mortgage-backed securities	774,331	14,934	(482)	788,783	588,766	5,419	(8,615)	585,570
Obligations of state and other political subdivisions	43,495	955	(250)	44,200	85,401	2,376	(1,018)	86,759
Asset-backed securities	0	0	0	0	125,338	304	(181)	125,461
Other securities	4,799	51	0	4,850	82,203	1,449	(876)	82,776
Total	$839,666	$16,149	$(732)	$855,083	$893,123	$9,736	$(10,690)	$892,169

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

(Dollars in thousands)	Held-to-maturity				Available-for-sale			
	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	$0	$97
Securities of U.S. government agencies and corporations	17,570	24	(23)	17,571	11,814	67	(1)	11,880
Mortgage-backed securities	801,465	7,813	(2,064)	807,214	611,497	4,462	(13,211)	602,748
Obligations of state and other political subdivisions	44,164	1,275	(193)	45,246	73,649	883	(947)	73,585
Asset-backed securities	0	0	0	0	74,784	155	(103)	74,836
Other securities	4,797	0	(79)	4,718	77,663	1,193	(1,534)	77,322
Total	$867,996	$9,112	$(2,359)	$874,749	$849,504	$6,760	$(15,796)	$840,468

The following table provides a summary of investment securities by estimated weighted average life as of March 31, 2015. 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		Available-for-sale	
	Amortized cost	Market value	Amortized cost	Market value
Due in one year or less	$5,426	$5,545	$25,034	$25,125
Due after one year through five years	360,042	364,027	365,068	367,463
Due after five years through ten years	244,118	249,477	167,204	168,454
Due after ten years	230,080	236,034	335,817	331,127
Total	$839,666	$855,083	$893,123	$892,169

8

Table of Contents

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, 2015					
	Less than 12 months		12 months or more		Total	
(Dollars in thousands)	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
Securities of U.S. government agencies and corporations	$0	$0	$0	$0	$0	$0
Mortgage-backed securities	27,187	(47)	299,124	(8,545)	326,311	(8,592)
Obligations of state and other political subdivisions	21,688	(214)	23,393	(1,054)	45,081	(1,268)
Asset-backed securities	59,696	(203)	0	0	59,696	(203)
Other securities	16,094	(297)	16,803	(579)	32,897	(876)
Total	$124,665	$(761)	$339,320	$(10,178)	$463,985	$(10,939)

	December 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	$493	$(1)	$97	$0	$590	$(1)
Mortgage-backed securities	119,641	(420)	428,486	(13,780)	548,127	(14,200)
Obligations of state and other political subdivisions	12,746	(126)	37,516	(1,014)	50,262	(1,140)
Asset-backed securities	32,045	(103)	0	0	32,045	(103)
Other securities	12,831	(317)	30,005	(1,296)	42,836	(1,613)
Total	$177,756	$(967)	$496,104	$(16,090)	$673,860	$(17,057)

Gains and losses on debt securities are generally due to fluctuations in current market yields relative to the yields of the debt securities at their amortized cost. All securities with unrealized losses are reviewed quarterly to determine if any impairment is considered other than temporary, requiring a write-down to fair value. First Financial considers the percentage loss on a security, duration of the loss, average life or duration of the security, credit rating of the security and payment performance as well as the Company's intent and ability to hold the security to maturity when determining whether any impairment is other than temporary. At this time First Financial does not intend to sell, and it is not more likely than not that the Company will be required to sell debt securities temporarily impaired prior to maturity or recovery of the recorded value. First Financial had no other than temporary impairment related to its investment securities portfolio as of March 31, 2015 or December 31, 2014.

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

Table of Contents

NOTE 4: LOANS AND LEASES

First Financial offers clients a variety of commercial and consumer loan and lease products with various interest rates and payment terms. Lending activities are primarily concentrated in Ohio, Indiana and Kentucky, states 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. Commercial loan categories include commercial and industrial (commercial), commercial real estate, construction real estate and lease financing. Consumer loan categories include residential real estate, home equity, installment and credit card.

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

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

First Financial had purchased impaired loans totaling $249.1 million and $264.9 million, at March 31, 2015 and December 31, 2014, respectively. The outstanding balance of all purchased impaired loans, including all contractual principal, interest, fees and penalties, was $289.6 million and $314.5 million as of March 31, 2015 and December 31, 2014, respectively. These balances exclude contractual interest not yet accrued.

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

	Three months ended March 31,	
(Dollars in thousands)	2015	2014
Balance at beginning of period	$106,622	$133,671
Reclassification from/(to) nonaccretable difference	(1,576)	13,216
Accretion	(6,357)	(9,717)
Other net activity [(1)]	(6,701)	(5,772)
Balance at end of period	$91,988	$131,398

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

First Financial regularly reviews its forecast of expected cash flows for purchased impaired loans. The Company recognized reclassifications from accretable to nonaccretable difference of $1.6 million during the first quarter of 2015, and recognized $13.2 million in reclassifications from nonaccretable to accretable difference during the same period in 2014 due to changes in the cash flow expectations related to certain loan pools. These reclassifications can result in impairment and provision expense in the current period or yield adjustments on the related loan pools on a prospective basis.

Covered loans. Loans acquired in FDIC-assisted transactions covered under loss sharing agreements whereby the FDIC will reimburse First Financial for the majority of any losses incurred are referred to as covered loans. Pursuant to the terms of the loss sharing agreements, covered loans are subject to a stated loss threshold whereby the FDIC will reimburse First Financial for 80% of losses up to a 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, on the same pro-rata basis.

The Company's loss sharing agreements with the FDIC related to non-single family loans expired effective October 1, 2014, and the ten year period of loss protection on all other covered loans and covered OREO expires October 1, 2019. Covered loans totaled $131.2 million as of March 31, 2015 and $135.7 million as of December 31, 2014.

Table of Contents

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.

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

Table of Contents

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

	As of March 31, 2015				
		Real Estate			
(Dollars in thousands)	Commercial	Construction	Commercial	Leasing	Total
Pass	$1,250,649	$226,090	$2,005,998	$80,218	$3,562,955
Special Mention	27,689	136	26,119	1,453	55,397
Substandard	20,536	1,743	87,967	125	110,371
Doubtful	0	0	0	0	0
Total	$1,298,874	$227,969			