FIRST FINANCIAL BANCORP /OH/
Form 10-Q
November 05, 2007

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FORM 10-Q
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

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

For the quarterly period ended September 30, 2007

OR

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

For the transition period from __________ to __________

Commission file number 0-12379

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

Ohio	**31-1042001**
(I.R.S. Employer incorporation or organization)	**(State or other jurisdiction of Identification No.)**
300 High Street, Hamilton, Ohio	**45011**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code (513) 979-5782

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 þ 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 þ **Accelerated filer** o **Non-accelerated filer** o

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

Yes o No þ

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

Class	Outstanding at November 1, 2007
Common stock, No par value	37,372,133

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)
(Unaudited)

	September 30, 2007	December 31, 2006
ASSETS		
Cash and due from banks	$ 92,414	$ 119,407
Federal funds sold	71,700	102,000
Investment securities held-to-maturity (market value $5,591 at September 30, 2007 and $8,154 at December 31, 2006)	5,467	7,995
Investment securities available-for-sale, at market value (cost $309,915 at September 30, 2007 and $324,922 at December 31, 2006)	307,908	324,259
Other investments	33,969	33,969
Loans held for sale	5,763	8,824
Loans:		
Commercial	774,059	673,445
Real estate construction	155,495	101,688
Real estate commercial	684,931	623,603
Real estate residential	556,255	628,579
Installment	149,881	198,881
Home equity	245,853	228,128
Credit card	24,904	24,587
Lease financing	500	923
Total loans	2,591,878	2,479,834
Less:		
Allowance for loan and lease losses	29,136	27,386
Net loans	2,562,742	2,452,448
Premises and equipment, net	78,214	79,609
Goodwill	28,261	28,261
Other intangibles	828	5,842
Accrued interest and other assets	141,890	138,985
TOTAL ASSETS	$ 3,329,156	$ 3,301,599
LIABILITIES		
Deposits:		
Interest-bearing	$ 611,764	$ 667,305
Savings	595,664	526,663
Time	1,253,383	1,179,852

Total interest-bearing deposits	2,460,811	2,373,820
Noninterest-bearing	389,070	424,138
Total deposits	2,849,881	2,797,958
Short-term borrowings:		
Federal funds purchased and securities sold under agreements to repurchase	26,749	57,201
Other	74,500	39,500
Total short-term borrowings	101,249	96,701
Federal Home Loan Bank long-term debt	55,317	63,762
Other long-term debt	20,620	30,930
Accrued interest and other liabilities	30,386	26,769
TOTAL LIABILITIES	3,057,453	3,016,120
SHAREHOLDERS EQUITY		
Common stock no par value		
Authorized - 160,000,000 shares		
Issued - 48,558,614 shares in 2007 and 2006	391,355	392,736
Retained earnings	77,745	71,320
Accumulated comprehensive loss	(7,569)	(13,375)
Treasury Stock, at cost 11,153,181 shares in 2007 and 9,313,207 shares in 2006	(189,828)	(165,202)
TOTAL SHAREHOLDERS EQUITY	271,703	285,479
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 3,329,156	$ 3,301,599

See notes to consolidated financial statements.

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

	Three months ended September 30, 2007	Three months ended September 30, 2006	Nine months ended September 30, 2007	Nine months ended September 30, 2006
Interest income				
Loans, including fees	$ 46,606	$ 45,484	$ 136,961	$ 132,727
Investment securities				
Taxable	3,667	3,728	11,320	12,667
Tax-exempt	863	996	2,683	3,157
Total investment securities interest	4,530	4,724	14,003	15,824
Federal funds sold	1,048	2,116	4,045	5,198
Total interest income	52,184	52,324	155,009	153,749
Interest expense				
Deposits	20,528	19,176	58,946	50,663
Short-term borrowings	1,041	953	3,021	2,741
Long-term borrowings	532	686	1,633	3,453
Subordinated debentures and capital securities	666	686	1,988	1,923
Total interest expense	22,767	21,501	65,588	58,780
Net interest income	29,417	30,823	89,421	94,969
Provision for loan and lease losses	2,558	2,888	6,012	4,000
Net interest income after provision for loan and lease losses	26,859	27,935	83,409	90,969
Noninterest income				
Service charges on deposit accounts	5,396	5,672	15,436	16,192
Trust and wealth management fees	4,721	3,949	13,407	12,277
Bankcard income	1,422	1,023	4,086	3,311
Net gains from sales of loans	203	2,468	549	2,972
Gains on sales of branches	0	12,545	0	12,545
Gain on sale of mortgage servicing rights	0	0	1,061	0
Gains (losses) on sales of investment securities	367	0	367	(476)
Other	2,341	2,623	8,420	8,259
Total noninterest income	14,450	28,280	43,326	55,080
Noninterest expenses				
Salaries and employee benefits	17,288	19,968	53,383	63,295
Net occupancy	2,728	2,802	8,019	8,339

Furniture and equipment	1,684	1,297	5,019	4,111
Data processing	1,010	3,058	2,673	8,395
Marketing	407	1,138	1,918	2,468
Communication	664	821	2,327	2,130
Professional services	964	2,342	3,033	5,761
Debt extinguishment	0	0	0	4,295
Other	3,980	5,759	13,003	15,952
Total noninterest expenses	28,725	37,185	89,375	114,746
Income before income taxes	12,584	19,030	37,360	31,303
Income tax expense	4,211	6,911	12,380	10,859
Net income	$ 8,373	$ 12,119	$ 24,980	$ 20,444
Earnings per share basic	$ 0.22	$ 0.31	$ 0.64	$ 0.52
Earnings per share diluted	$ 0.22	$ 0.31	$ 0.64	$ 0.52
Cash dividends declared per share	$ 0.16	$ 0.16	$ 0.48	$ 0.48
Average basic shares outstanding	38,383,228	39,612,408	38,820,545	39,592,908
Average diluted shares outstanding	38,383,228	39,619,786	38,825,940	39,623,911

See notes to consolidated financial statements.

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

	Nine months ended September 30, 2007	2006
Operating activities		
Net income	$ 24,980	$ 20,444
Adjustments to reconcile net cash provided by operating activities		
Provision for loan and lease losses	6,012	4,000
Depreciation and amortization	6,039	6,326
Stock-based compensation expense	845	1,306
Pension expense	2,053	3,971
Net amortization of premiums and accretion of discounts on investment securities	109	(154)
(Gains) losses on sales of investment securities	(367)	476
Originations of loans held for sale	(68,027)	(64,509)
Net gains from sales of loans held for sale	(549)	(2,972)
Proceeds from sales of loans held for sale	76,564	66,803
Deferred income taxes	(2,476)	5,789
Increase in interest receivable	(3,170)	(409)
Increase in cash surrender value of life insurance	(3,983)	(2,094)
Increase in prepaid expenses	(1,886)	(1,598)
Increase in accrued expenses	593	1,304
Increase in interest payable	1,911	717
Contribution to pension plan	0	(5,871)
Other	9,397	5,618
Net cash provided by operating activities	48,045	39,147
Investing activities		
Proceeds from sales of securities available-for-sale	392	184,902
Proceeds from calls, paydowns and maturities of securities available-for-sale	41,219	58,874
Purchases of securities available-for-sale	(26,346)	(13,157)
Proceeds from calls, paydowns and maturities of securities held-to-maturity	3,162	4,497
Purchases of securities held-to-maturity	(634)	0
Net decrease (increase) in federal funds sold	30,300	(3,000)
Net (increase) decrease in loans and leases	(123,437)	99,773
Proceeds from surrender of life insurance policies	10,823	0
Proceeds from disposal of other real estate owned	1,308	2,510
Purchases of premises and equipment	(4,378)	(12,534)
Net cash (used in) provided by investing activities	(67,591)	321,865
Financing activities		
Net increase (decrease) in total deposits	51,923	(148,718)
Net increase (decrease) in short-term borrowings	4,548	(18,505)
Payments on long-term borrowings	(8,445)	(218,458)
Redemption of junior subordinated debt	(10,000)	0

Cash dividends paid	(18,774)	(19,528)
Purchase of common stock	(26,834)	(2,369)
Proceeds from exercise of stock options	81	254
Excess tax benefit on share-based compensation	54	98
Net cash used in financing activities	(7,447)	(407,226)
Cash and cash equivalents:		
Net decrease in cash and cash equivalents	(26,993)	(46,214)
Cash and cash equivalents at beginning of period	119,407	163,281
Cash and cash equivalents at end of period	$ 92,414	$ 117,067

See notes to consolidated financial statements.

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

	Common stock shares	Common stock amount	Retained earnings	Accumulated comprehensive income (loss) Unrealized gain (loss) on AFS securities	Pension obligation	Treasury stock Shares	Treasury stock Amount	Total
Balance at January 1, 2006	48,558,614	$392,607	$ 75,357	$ (314)	$ (7,562)	(8,995,134)	$(160,207)	$299,881
Net income			20,444					20,444
Unrealized holding losses on securities available-for-sale arising during the period				(705)				(705)
Total comprehensive income								19,739
Cash dividends declared ($0.48 per share)			(19,018)					(19,018)
Purchase of common stock						(152,000)	(2,369)	(2,369)
Tax benefit on stock option exercise		98						98
Exercise of stock options, net of shares purchased		(213)				24,589	452	239
Restricted stock awards, net		(1,642)				71,647	1,291	(351)
Share-based compensation expense		1,306						1,306
	48,558,614	392,156	76,783	(1,019)	(7,562)	(9,050,898)	(160,833)	299,525

Balances at September 30, 2006								
Balances at January 1, 2007	48,558,614	392,736	71,320	(420)	(12,955)	(9,313,207)	(165,202)	285,479
Net income			24,980					24,980
Unrealized holding losses on securities available-for-sale arising during the period				(855)				(855)
Pension obligation					6,661			6,661
Total comprehensive income								30,786
Cash dividends declared ($0.48 per share)			(18,555)					(18,555)
Purchase of common stock						(1,965,700)	(26,834)	(26,834)
Tax benefit on stock option exercise		54						54
Exercise of stock options, net of shares purchased		(58)				8,474	139	81
Restricted stock awards, net		(2,222)				117,252	2,069	(153)
Share-based compensation expense		845						845
Balances at September 30, 2007	48,558,614	$391,355	$ 77,745	$(1,275)	$ (6,294)	(11,153,181)	$(189,828)	$271,703

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FIRST FINANCIAL BANCORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2007
(Unaudited)

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

NOTE 1: BASIS OF PRESENTATION

The consolidated financial statements of First Financial, a bank holding company, include the accounts of First Financial and its wholly-owned subsidiaries First Financial Bank, N.A. and First Financial Capital Advisors LLC, a registered investment advisor. All intercompany transactions and accounts have been eliminated in consolidation.

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates, assumptions, and judgments that affect the amounts reported in the financial statements and accompanying notes. Actual realized amounts could differ materially from those estimates. These interim financial statements have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X and serve to update the First Financial Bancorp. Annual Report on Form 10-K (Form 10-K) for the year ended December 31, 2006. These financial statements may not include all information and notes necessary to constitute a complete set of financial statements under U.S. generally accepted accounting principles 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, 2006, has been derived from the audited financial statements in the company s 2006 Form 10-K.

Certain reclassifications of prior year s amounts have been made to conform to current year presentation. Such reclassifications had no effect on net income.

NOTE 2: RECENTLY ISSUED ACCOUNTING STANDARDS

First Financial adopted the provisions of FIN 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109, effective January 1, 2007. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The adoption of FIN 48 did not have a material financial impact on the consolidated financial statements of First Financial.

In July of 2006, the Emerging Issues Task Force (EITF) of FASB issued a draft abstract for EITF Issue No. 06-4, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements. The EITF reached a consensus that for an endorsement split-dollar life insurance arrangement within the scope of this Issue, an employer under certain conditions should recognize a liability for future benefits. First Financial has purchased bank-owned life insurance on certain of its employees. The cash surrender value of these policies is carried as an asset on the Consolidated Balance Sheets in accrued interest and other assets. The carrying value was $76.1 million at September 30, 2007. These life insurance policies are generally subject to endorsement split-dollar life insurance arrangements. These arrangements were designed to provide a pre-and postretirement benefit for certain senior officers of First Financial and its subsidiaries. First Financial is required to apply EITF Issue No. 06-4 beginning January 1, 2008, and is currently evaluating the effect the implementation of EITF Issue No. 06-4 will have on its Consolidated Financial Statements.

In September of 2006, the FASB issued Statement No. 157 (SFAS No. 157), Fair Value Measurements. This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. First Financial is required to apply SFAS No. 157 beginning January 1, 2008, and is currently evaluating the effect the implementation of SFAS No. 157 will have on its Consolidated Financial Statements.

In February of 2007, the FASB issued Statement No. 159 (SFAS No. 159), The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115. This statement permits the measurement of many financial instruments and certain other assets and liabilities at fair value on an instrument-by-instrument, irrevocable basis. First Financial is required to apply SFAS No. 159 beginning January 1, 2008, and is currently evaluating the effect the implementation of SFAS No. 159 will have on its Consolidated Financial Statements.

NOTE 3: FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

In the normal course of business, First Financial offers a variety of financial instruments containing off-balance sheet risk. These financial instruments aid its clients in meeting their requirements for liquidity and credit enhancement, as well as to reduce its own exposure to fluctuations in interest rates. U.S. generally accepted accounting principles do not commonly require these financial instruments to be recorded in the Consolidated Balance Sheets, Consolidated Statements of Income, Consolidated Statements of Changes in Shareholders Equity, and Consolidated Statements of Cash Flows. Following is a discussion of these transactions.

First Financial uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

Standby 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 clients contractual default and surfaces in the form of credit risk. First Financial had issued standby letters of credit aggregating $27.1 million and $24.7 million at September 30, 2007, and December 31, 2006, respectively.

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

Loan commitments are agreements to lend to a client as long as there is no violation of any condition established in the 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. First Financial evaluates each client s creditworthiness on an individual basis. The amount of collateral obtained, if deemed necessary by First Financial upon extension of credit, is based on management s credit evaluation of the counterparty. The collateral held varies, but may include securities, real estate, inventory, plant, or equipment. First Financial had commitments outstanding to extend credit totaling $744.3 million and $633.1 million at September 30, 2007, and December 31, 2006, respectively. Management does not anticipate any material losses as a result of these commitments.

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NOTE 4: INVESTMENTS

The following is a summary of investment securities as of September 30, 2007 (dollars in $000 s):

	Held-to-Maturity				Available-for-Sale			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value
Securities of U.S. government agencies and corporations	$ 0	$ 0	$ 0	$ 0	$ 80,126	$ 138	$ (182)	$ 80,082
Mortgage-backed securities	314	3	(1)	316	158,899	707	(3,183)	156,423
Obligations of state and other political subdivisions	5,153	140	(18)	5,275	60,798	892	(58)	61,632
Other securities	0	0	0	0	10,092	166	(487)	9,771
Total	$5,467	$143	$(19)	$5,591	$309,915	$1,903	$(3,910)	$307,908

The following is a summary of investment securities as of December 31, 2006 (dollars in $000 s):

	Held-to-Maturity				Available-for-Sale			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value
Securities of U.S. government agencies and corporations	$ 0	$ 0	$ 0	$ 0	$ 63,118	$ 223	$ (205)	$ 63,136
Mortgage-backed securities	427	5	0	432	184,787	815	(3,227)	182,375
Obligations of state and other political subdivisions	7,568	175	(21)	7,722	71,280	1,377	(90)	72,567
Other securities	0	0	0	0	5,737	459	(15)	6,181
Total	$7,995	$180	$(21)	$8,154	$324,922	$2,874	$(3,537)	$324,259

All unrealized losses on debt securities are due to higher current market yields relative to the yields of the debt securities at their amortized cost. None of the unrealized losses are due to credit risk of the underlying collateral of the debt security. First Financial has the intent and ability to hold all debt security issues temporarily impaired until maturity or recovery of book value. All securities with unrealized losses are reviewed quarterly to determine if any impairment is other than temporary, requiring a write-down to fair market value. At September 30, 2007, management does not consider these securities to be other-than-temporarily impaired.

NOTE 5: DERIVATIVES

The use of derivative instruments allows First Financial to meet the needs of its clients while managing the interest-rate risk associated with certain transactions. First Financial s board of directors has authorized the use of certain derivative products, including interest rate caps, floors, and swaps. Currently, First Financial utilizes interest rate swaps as a means to offer commercial borrowers products that meet their needs, but also are designed to achieve First Financial s desired interest rate risk profile at the time.

First Financial s accounting policy for derivatives is based upon SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, and its related amendments.

The net interest receivable or payable on the interest rate swaps is accrued and recognized as an adjustment to the interest income or interest expense of the hedged item. The fair value of the interest rate swaps is included within accrued interest and other assets on the Consolidated Balance Sheets. The corresponding fair-value adjustment is also included on the Consolidated Balance Sheets in the carrying

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value of the hedged item. Derivative gains and losses not considered effective in hedging the change in fair value of the hedged item are recognized immediately in current income. The following table summarizes the derivative financial instruments utilized by First Financial and their balances (dollars in $000 s):

	September 30, 2007			December 31, 2006			September 30, 2006		
		Estimated Fair Value			Estimated Fair Value			Estimated Fair Value	
	Notional Amount	Gain	(Loss)	Notional Amount	Gain	(Loss)	Notional Amount	Gain	(Loss)
Fair Value Hedges									
Pay fixed interest rate swaps	$ 29,126	$ 384	$ (256)	$31,155	$ 557	$(200)	$31,365	$ 558	$(226)
Matched Client Hedges									
Client interest rate swaps	38,590	1,052	0	24,821	631	0	24,965	671	0
Client interest rate swaps with counterparty	38,590	0	(1,052)	24,821	0	(631)	24,965	0	(671)
Total	$106,306	$1,436	$(1,308)	$80,797	$1,188	$(831)	$81,295	$1,229	$(897)

NOTE 6: OTHER LONG-TERM DEBT

Other long-term debt, which appears on the balance sheet, consists of junior subordinated debentures owed to unconsolidated subsidiary trusts. Capital securities were issued in the third quarter of 2003 by First Financial (OH) Statutory Trust II and in the third quarter of 2002 by First Financial (OH) Statutory Trust I, both statutory business trusts.

The debentures issued in 2002 were eligible for early redemption by First Financial in September 2007, with a final maturity in 2032. In September 2007, First Financial redeemed all the underlying capital securities relating to First Financial (OH) Statutory Trust I. The total outstanding capital securities redeemed were $10 million. The debentures issued in 2003 are eligible for early redemption by First Financial in September 2008, with a final maturity in 2033. First Financial owns 100% of the common equity of the remaining trust. The trust was formed with the sole purpose of issuing the capital securities and investing the proceeds from the sale of such capital securities in the debentures. The debentures held by the trust are the sole assets of the trust. Distributions on the capital securities are payable quarterly at a variable rate of interest, which is equal to the interest rate being earned by the trust on the debentures and are recorded as interest expense of First Financial. The interest rate is subject to change every three months, indexed to the three-month LIBOR (London Inter-Bank Offered Rate). First Financial has the option to defer interest for up to five years on the debentures. However, the covenants prevent the payment of dividends on First Financial s common stock if the interest is deferred. The capital securities are subject to mandatory redemption, in whole or in part, upon repayment of the debentures. First Financial has entered into agreements which, taken collectively, fully or unconditionally guarantee the capital securities subject to the terms of the guarantees. The debentures qualify as Tier I capital under Federal Reserve Board guidelines, but are limited to 25% of qualifying Tier I capital.

(dollars in $000 s)	Amount	Rate	Maturity Date	Call Date
First Financial (OH) Statutory Trust II	$20,000	8.46%	9/30/33	9/30/08

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NOTE 7: ALLOWANCE FOR LOAN AND LEASE LOSSES

Changes in the allowance for loan and lease losses for the previous five quarters are presented in the table that follows (dollars in $000 s):

	Three Months Ended					Nine Months Ended	
	2007			2006		Sep. 30,	
	Sep. 30	June 30	Mar. 30	Dec. 31	Sep. 30	2007	2006
Balance at beginning of period	$28,060	$27,407	$27,386	$31,888	$30,085	$27,386	$42,485
Provision for loan losses	2,558	2,098	1,356	5,822	2,888	6,012	4,000
Loans charged off	(2,097)	(2,130)	(2,153)	(6,541)	(2,157)	(6,380)	(9,077)
Loans held for sale write-down	0	0	0	(4,375)	0	0	(8,356)
Recoveries	615	685	818	592	1,072	2,118	2,836
Balance at end of period	$29,136	$28,060	$27,407	$27,386	$31,888	$29,136	$31,888
Allowance for loan and lease losses to total ending loans	1.12%	1.10%	1.10%	1.10%	1.27%	1.12%	1.27%

The allowance for loan and lease losses related to loans that are identified as impaired, as defined by SFAS No. 114, as amended by SFAS No. 118, are based on discounted cash flows using the loan s initial effective interest rate or the fair value of the collateral for certain collateral dependent loans.

First Financial s investment in impaired loans is as follows (dollars in $000 s):

	As of and for the Quarter Ended				
	2007			2006	
	Sep. 30	June 30	Mar. 31	Dec. 31	Sep. 30
Impaired loans requiring a valuation	$ 5,325	$ 7,309	$ 2,911	$ 2,639	$ 5,305
Valuation allowance	$ 2,756	$ 3,477	$ 1,219	$ 1,523	$ 2,997
Average impaired loans for the period	$ 8,921	$ 8,435	$ 3,894	$ 8,791	$ 7,312

For all periods presented above, there were no impaired loans that did not require a valuation allowance. First Financial recognized interest income on impaired loans for the nine months and quarter ended September 30, 2007, of $0.3 million and $0.1 million, compared to $0.2 million and $0.1 million for the same periods in 2006. Interest income is recorded on a cash basis during the period the loan is considered impaired after recovery of principal is reasonably assured.

NOTE 8: INCOME TAXES

First Financial s effective tax rate in the third quarter of 2007 was 33.5%, compared to 36.3% in the third quarter of 2006. The 2007 year-to-date effective tax rate was 33.1% compared to 34.7% in 2006.

First Financial s income tax returns are subject to review and examination by federal, state, and local government authorities. The calendar years through 2004 have been closed by the Internal Revenue Service. The years open to examination by state and local government authorities vary by jurisdiction, and First Financial is not aware of any material outstanding examination matters.

Effective January 1, 2007, First Financial adopted the provisions of FIN 48. The adoption of FIN 48 did not have a material financial impact on the consolidated financial statements of First Financial. As of September 30, 2007, there were no unrecognized tax benefits.

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

NOTE 9: EMPLOYEE BENEFIT PLANS

Pension

First Financial sponsors a non-contributory defined benefit pension plan covering substantially all employees. Effective in the third quarter of 2007, First Financial amended the defined benefit pension plan formula to change the determination of participant benefits from a final average earnings plan to a cash balance plan. Pension plan participants prior to July 1, 2007, will transition to the amended plan on January 1, 2008. After July 1, 2007, newly eligible participants will enter the amended plan upon their eligibility date. First Financial does not expect, nor is it required, to make any contributions to its pension plan in 2007 due to the improved funded status of the pension plan. The following table sets forth information concerning amounts recognized in First Financial s Consolidated Balance Sheets and Consolidated Statements of Income (dollars in $000 s).

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Service cost	$ 881	$ 844	$ 2,582	$ 2,786
Interest cost	686	760	2,172	2,264
Expected return on plan assets	(1,084)	(734)	(3,327)	(2,155)
Amortization of transition asset	(12)	(14)	(36)	(42)
Amortization of prior service cost	(45)	14	(20)	42
Amortization of actuarial loss	229	280	682	902
Net periodic benefit cost	$ 655	$ 1,150	$ 2,053	$ 3,797

Amount recognized in accumulated other comprehensive income (loss) for the period ending September 30, 2007 (dollars in $000 s):

	2007
Prior service credit	$ 7,003
Net actuarial loss reduction	2,898
Amortization of unrecognized net loss from prior years	682
Amortization of prior service cost	(20)
Amortization of unrecognized net asset at transition	(36)
Deferred taxes	(3,864)
Total net increase in accumulated other comprehensive income (loss) for the period	$ 6,663

Other

Several of First Financial s subsidiaries maintain health care and, in limited instances, life insurance plans for retired employees. The following table sets forth the components of net periodic postretirement benefit costs for those retired employees (dollars in $000 s).

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Interest cost	$ 20	$ 21	$ 60	$ 63
Amortization of prior service cost	(1)	(1)	(3)	(3)
Amortization of actuarial loss	0	(1)	0	(3)
Net periodic postretirement benefit cost	$ 19	$ 19	$ 57	$ 57

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Amount recognized in accumulated other comprehensive income (loss) for the period ending September 30, 2007 (dollars in $000 s):

	2007
Amortization of unrecognized net (gain)/loss from prior years	$ 0
Amortization of prior service cost	(3)
Amortization of unrecognized net asset at transition	0
Deferred taxes	1
Total net reduction in accumulated other comprehensive income (loss) for the period	$ (2)

NOTE 10: SUBSEQUENT EVENT

On October 11, 2007, First Financial announced the formation of a long-term exclusive marketing agreement and the sale of its merchant payment processing portfolio to Metavante Corporation, the current technology provider for First Financial. Under the terms of the agreement, merchant processing will be offered by Metavante to existing clients of First Financial, and First Financial will jointly market merchant processing with Metavante to prospective clients. In exchange for 1,743 merchant accounts in the portfolio, First Financial expects to record a pre-tax gain of approximately $5.5 million net of expenses or approximately $0.09 per share in the fourth quarter of 2007.

On October 11, 2007, First Financial also announced that it expects to recognize a fourth quarter of 2007 pre-tax charge of approximately $2.3 million to $2.7 million, or $0.04 to $0.05 per share, related to a SFAS No, 88 settlement charge for its defined benefit pension plan. This charge is similar in nature to the charge First Financial recognized in the fourth quarter of 2006 in the amount of $3.1 million, or $0.05 per share. The 2007 SFAS No. 88 settlement charge will be incurred as a result of First Financial s staff changes in 2006 and 2007 and represents the expected future costs associated with maintaining the pension benefit for former employees who elected to take a lump-sum distribution during the calendar year 2007 of their pension benefit. Expected fourth quarter of 2007 distributions, combined with contributions made during the first nine months of 2007, have triggered this settlement charge. This charge is an acceleration of costs that were previously deferred under pension accounting rules and recognized over time; accordingly, the future pension expense is expected to decline.

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

SUMMARY

MARKET STRATEGY

First Financial s future growth and capital investment plans are primarily directed towards its larger metropolitan markets. The smaller markets in which First Financial operates have historically provided stable, low-cost funding sources and remain an important part of its funding plan. First Financial s historical strength in a number of these markets should enable it to retain market share.

First Financial s market strategy is to serve a combination of metropolitan and non-metropolitan markets in Indiana, western Ohio, and northern Kentucky. In addition to geographic fit, any new markets should have growth potential and the ability to meet profit targets.

As key components to executing its market strategy, First Financial completed the sale of ten and closure of seven banking centers in August of 2006. The sale was completed in three separate transactions with total net gains of $12.5 million or $0.20 in diluted earnings per share. Total deposits of $108.6 million were assumed by and total loans of $101.4 million were sold to the acquirers. The deposits and loans of the closed banking centers were transferred to other existing First Financial banking centers.

First Financial has 83 offices serving eight distinct markets with an average banking center deposit size of approximately $36 million. The operating model employed to execute its strategic plan includes a structure where market presidents manage these distinct markets, with the authority to make decisions at the point of client contact.

OVERVIEW OF OPERATIONS

Net income for the third quarter of 2007 was $8.4 million or $0.22 in diluted earnings per share versus $12.1 million or $0.31 in diluted earnings per share for the third quarter of 2006. The $3.7 million decrease in net income was due to decreased noninterest income of $13.8 million primarily due to the previously mentioned third quarter of 2006 net gain on the sales of branches, and decreased net interest income of $1.4 million, partially offset by decreased noninterest expense of $8.5 million, decreased provision expense for loan and lease losses of $0.3 million, and decreased income tax expense of $2.7 million. Compared to second quarter of 2007 net income of $8.2 million or $0.21 in diluted earnings per share, third quarter of 2007 net income increased $0.2 million due to increased noninterest income of $0.3 million and decreased noninterest expense of $0.7 million, partially offset by decreased net interest income of $0.2 million, increased provision expense for loan and lease losses of $0.4 million, and increased income tax expense of $0.2 million.

Net income for the first nine months of 2007 was $25.0 million or $0.64 in diluted earnings per share versus $20.4 million or $0.52 in diluted earnings per share for the first nine months of 2006. The $4.6 million increase in net income was due to decreased noninterest expense of $25.4 million, partially offset by decreased noninterest income of $11.8 million, decreased net interest income of $5.5 million, increased income tax expense of $1.5 million, and increased provision expense for loan and lease losses of $2.0 million.

Return on average assets for the third quarter of 2007 was 1.00% compared to 1.40% for the comparable period in 2006 and 1.00% for the linked-quarter (third quarter of 2007 compared to the second quarter of 2007). Return on average shareholders equity for the third quarter of 2007 was 12.03% compared to 16.09% for the comparable period in 2006 and 11.61% for the linked-quarter.

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Return on average assets for the first nine months of 2007 was 1.01% compared to 0.79% for the comparable period in 2006. Return on average shareholders equity was 11.86% for the first nine months of 2007, versus 9.18% for the comparable period in 2006.

A detailed discussion of the third quarter and first nine months of 2007 results of operations follows.

NET INTEREST INCOME

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in $000 s)	2007	2006	2007	2006
Net interest income	$ 29,417	$ 30,823	$ 89,421	$ 94,969
Tax equivalent adjustment	564	586	1,720	1,943
Net interest income tax equivalent	$ 29,981	$ 31,409	$ 91,141	$ 96,912
Average earning assets	$ 3,007,663	$ 3,109,040	$ 2,996,267	$ 3,153,661
Net interest margin *	3.88%	3.93%	3.99%	4.03%
Net interest margin (fully tax equivalent) *	3.95%	4.01%	4.07%	4.11%

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

Net interest income for the third quarter of 2007 was $29.4 million compared to $30.8 million in the third quarter of 2006, a decrease of $1.4 million or 4.6%. This decrease is primarily due to a 3.3% net decline in the level of average earnings assets, resulting primarily from the third quarter of 2006 sale of ten branches and their $101.4 million of loans and $108.6 million of deposits.

Net interest income on a linked-quarter basis remained relatively flat, decreasing from $29.6 million in the second quarter of 2007 to $29.4 million in the third quarter of 2007, a $0.2 million or 2.5% annualized decrease. This slight decline in net interest income is primarily a result of deposit mix shift to higher yielding products.

Year-to-date net interest income was $89.4 million compared to $95.0 million in 2006, a $5.6 million or 5.8% decrease. This decrease is primarily due to a 5.0% net decline in the level of average earning assets, resulting primarily from the balance sheet restructure completed in the first quarter of 2006 and the third quarter of 2006 sale of ten branches and their associated loans and deposits.

Third quarter of 2007 net interest margin of 3.88% decreased 5 basis points from 3.93% for the third quarter of 2006, reflecting the reduction in earning assets and an increase in deposit costs.

Linked-quarter net interest margin decreased 9 basis points from 3.97% to 3.88%. The net interest margin was positively impacted by the continuing shift from lower yielding indirect installment and conforming residential real estate loans to higher yielding commercial and commercial real estate loans. These benefits were more than offset by a continued increase in deposit costs and the 6 basis point seasonal negative impact from the public funds deposit portfolio.

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Year-to-date net interest margin was 3.99% in 2007 compared to 4.03% in 2006, reflecting the planned reduction in earning assets and an increase in deposit costs.

The Consolidated Average Balance Sheets and Net Interest Income Analysis that follows are presented on a GAAP basis (dollars in $000 s).

QUARTERLY CONSOLIDATED AVERAGE BALANCE SHEETS AND NET INTEREST INCOME ANALYSIS

	September 30, 2007			June 30, 2007			September 30, 2006		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Earning Assets									
Investments:									
Federal funds sold	$ 81,669	$ 1,048	5.09%	$ 93,986	$ 1,241	5.30%	$ 158,940	$ 2,116	5.28%
Investment securities	349,686	4,530	5.14%	364,050	4,673	5.15%	370,095	4,724	5.06%
Loans (1):									
Commercial loans	766,479	15,421	7.98%	733,972	14,832	8.11%	649,336	13,322	8.14%
Real estate construction	139,291	2,693	7.67%	118,425	2,268	7.68%	94,135	1,794	7.56%
Real estate commercial	682,287	11,951	6.95%	658,021	11,423	6.96%	645,967	10,700	6.57%
Real estate residential	567,910	8,022	5.60%	592,862	8,334	5.64%	701,461	9,788	5.54%
Installment	155,505	2,438	6.22%	170,750	2,616	6.15%	235,492	3,613	6.09%
Home equity	239,693	4,864	8.05%	231,993	4,674	8.08%	229,583	4,707	8.13%
Credit card	24,586	727	11.73%	23,944	694	11.63%	22,741	656	11.44%
Lease financing	557	9	6.41%	671	12	7.17%	1,290	19	5.84%
Loan fees		481			438			885	
Total loans	2,576,308	46,606	7.18%	2,530,638	45,291	7.18%	2,580,005	45,484	6.99%