FIRST FINANCIAL BANCORP /OH/
Form 10-Q
August 07, 2009

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 June 30, 2009

OR

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

For the transition period from to

Commission file number 0-12379

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

Ohio (State or other jurisdiction of incorporation or organization)	31-1042001 (I.R.S. Employer Identification No.)
4000 Smith Road, Cincinnati, Ohio (Address of principal executive offices)	45209 (Zip Code)

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

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

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 ¨ No ¨

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

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨

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

Yes ¨ No x

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

Class	Outstanding at August 6, 2009
Common stock, No par value	51,434,060

FIRST FINANCIAL BANCORP.

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ITEM I – FINANCIAL STATEMENTS
FIRST FINANCIAL BANCORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except per share data)

	June 30, 2009 (Unaudited)	December 31, 2008
ASSETS		
Cash and due from banks	$ 80,938	$ 100,935
Investment securities trading	184	61
Investment securities available-for-sale, at market value (cost $516,311 at June 30, 2009 and $648,845 at December 31, 2008)	528,179	659,756
Investment securities held-to-maturity (market value $4,776 at June 30, 2009 and $5,135 at December 31, 2008)	4,536	4,966
Other investments	27,976	27,976
Loans held for sale	6,193	3,854
Loans:		
Commercial	876,730	807,720
Real estate - construction	266,452	232,989
Real estate - commercial	988,901	846,673
Real estate - residential	337,704	383,599
Installment	88,370	98,581
Home equity	307,749	286,110
Credit card	27,023	27,538
Lease financing	25	50
Total loans	2,892,954	2,683,260
Less:		
Allowance for loan and lease losses	38,649	35,873
Net loans	2,854,305	2,647,387
Premises and equipment, net	86,216	84,105
Goodwill	28,261	28,261
Other intangibles	465	1,002
Accrued interest and other assets	166,100	140,839
TOTAL ASSETS	$ 3,783,353	$ 3,699,142
LIABILITIES		
Deposits:		
Interest-bearing	$ 599,365	$ 636,945
Savings	657,300	583,081
Time	1,111,399	1,150,208
Total interest-bearing deposits	2,368,064	2,370,234
Noninterest-bearing	423,781	413,283
Total deposits	2,791,845	2,783,517
Short-term borrowings:		
Federal funds purchased and securities sold under agreements to repurchase	206,777	147,533
Federal Home Loan Bank	125,000	150,000

Other	25,000	57,000
Total short-term borrowings	356,777	354,533
Long-term debt	135,908	148,164
Other long-term debt	20,620	20,620
Accrued interest and other liabilities	31,567	43,981
TOTAL LIABILITIES	3,336,717	3,350,815
SHAREHOLDERS' EQUITY		
Preferred stock - $1,000 par value		
Authorized – 80,000 shares		
Outstanding – 80,000 shares in 2009 and 2008	78,173	78,019
Common stock - no par value		
Authorized - 160,000,000 shares		
Issued – 62,358,614 shares in 2009 and 48,558,614 shares in 2008	490,292	394,169
Retained earnings	74,285	76,339
Accumulated other comprehensive loss	(10,700)	(11,905)
Treasury Stock, at cost 10,924,268 shares in 2009 and 11,077,413 shares in 2008	(185,414)	(188,295)
TOTAL SHAREHOLDERS' EQUITY	446,636	348,327
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 3,783,353	$ 3,699,142

See notes to consolidated financial statements.

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

	Three months ended June 30, 2009	Three months ended June 30, 2008	Six months ended June 30, 2009	Six months ended June 30, 2008
Interest income				
Loans, including fees	$ 33,978	$ 39,646	$ 67,635	$ 82,367
Investment securities				
Taxable	8,023	4,387	16,713	7,908
Tax-exempt	386	792	820	1,583
Total investment securities interest	8,409	5,179	17,533	9,491
Federal funds sold	0	40	0	605
Total interest income	42,387	44,865	85,168	92,463
Interest expense				
Deposits	9,080	14,635	18,883	32,374
Short-term borrowings	527	1,130	1,034	1,922
Long-term borrowings	1,251	384	2,557	790
Subordinated debentures and capital securities	320	302	557	714
Total interest expense	11,178	16,451	23,031	35,800
Net interest income	31,209	28,414	62,137	56,663
Provision for loan and lease losses	10,358	2,493	14,617	5,716
Net interest income after provision for loan and lease losses	20,851	25,921	47,520	50,947
Noninterest income				
Service charges on deposit accounts	4,289	4,951	8,368	9,558
Trust and wealth management fees	3,253	4,654	6,542	9,276
Bankcard income	1,422	1,493	2,713	2,791
Net gains from sales of loans	408	188	792	407
Gains on sales of investment securities	3,349	0	3,349	1,585
Income (loss) on preferred securities	112	(221)	123	(201)
Other	1,264	2,683	4,243	5,207
Total noninterest income	14,097	13,748	26,130	28,623
Noninterest expenses				
Salaries and employee benefits	16,223	15,895	33,876	32,968
Net occupancy	2,653	2,510	5,470	5,462
Furniture and equipment	1,851	1,617	3,653	3,270
Data processing	794	814	1,612	1,607
Marketing	700	474	1,340	991
Communication	669	749	1,340	1,554
Professional services	1,254	1,061	2,207	1,822
State intangible tax	648	688	1,316	1,374
FDIC expense	3,424	121	3,706	248
Other	4,580	4,040	8,210	7,693
Total noninterest expenses	32,796	27,969	62,730	56,989

Income before income taxes	2,152	11,700	10,920	22,581
Income tax expense	702	3,892	3,735	7,435
Net income	1,450	7,808	7,185	15,146
Dividends on preferred stock	1,000	0	1,578	0
Net income available to common shareholders	$ 450	$ 7,808	$ 5,607	$ 15,146
Earnings per share - basic	$ 0.01	$ 0.21	$ 0.14	$ 0.41
Earnings per share - diluted	$ 0.01	$ 0.21	$ 0.14	$ 0.40
Cash dividends declared per share	$ 0.10	$ 0.17	$ 0.20	$ 0.34
Average basic shares outstanding	40,734,254	37,114,451	38,928,557	37,090,603
Average diluted shares outstanding	41,095,949	37,524,789	39,458,443	37,478,353

See notes to consolidated financial statements.

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

	Six months ended June 30, 2009	Six months ended June 30, 2008
Operating activities		
Net income	$ 7,185	$ 15,146
Adjustments to reconcile net cash provided by (used in) operating activities		
Provision for loan and lease losses	14,617	5,716
Depreciation and amortization	3,805	3,398
Stock-based compensation expense	1,394	837
Pension expense	555	605
Net amortization of premiums and accretion of discounts on investment securities	764	92
Gains on sales of investment securities	(3,349)	(1,585)
Gains on trading securities	(123)	0
Originations of loans held for sale	(94,266)	(50,469)
Net gains from sales of loans held for sale	(792)	(407)
Proceeds from sales of loans held for sale	92,675	50,187
Deferred income taxes	11,046	(288)
Decrease in interest receivable	937	3,614
(Increase) decrease in cash surrender value of life insurance	(69)	390
Increase in prepaid expenses	(597)	(876)
Decrease in accrued expenses	(81)	(4,010)
Decrease in interest payable	(1,298)	(1,502)
Contribution to pension plan	(30,800)	0
Other	(13,483)	(2,588)
Net cash (used in) provided by operating activities	(11,880)	18,260
Investing activities		
Proceeds from sales of securities available for sale	152,720	1,124
Proceeds from calls, paydowns and maturities of securities available-for-sale	95,413	51,205
Purchases of securities available-for-sale	(113,014)	(173,052)
Proceeds from calls, paydowns and maturities of securities held-to-maturity	430	323
Net decrease in federal funds sold	0	102,985
Net increase in loans and leases	(225,238)	(82,596)
Proceeds from disposal of other real estate owned	2,565	701
Purchases of premises and equipment	(5,546)	(3,801)
Net cash used in investing activities	(92,670)	(103,111)
Financing activities		
Net increase (decrease) in total deposits	8,328	(117,273)
Net increase in short-term borrowings	2,244	219,543
Payments on long-term borrowings	(12,256)	(4,633)
Cash dividends paid	(11,697)	(12,717)

Issuance of common stock, net of issuance costs	98,125	0
Excess tax liability on share-based compensation	(191)	(45)
Net cash provided by financing activities	84,553	84,875
Cash and cash equivalents:		
Net (decrease) increase in cash and cash equivalents	(19,997)	24
Cash and cash equivalents at beginning of period	100,935	106,224
Cash and cash equivalents at end of period	$ 80,938	$ 106,248

See notes to consolidated financial statements.

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

	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Retained earnings	Accumulated Other Comprehensive income (loss)	Treasury stock Shares	Treasury stock Amount	Total
					(Dollars in thousands, except share amounts)				
Balance at December 31, 2007	0	$ 0	48,558,614	$ 391,962	$ 82,093	$ (7,127)	(11,190,806)	$ (190,345)	$ 276,583
Cumulative adjustment for accounting changes:									
Fair value option					(750)	750			0
Issue No. EITF 06-4					(2,499)				(2,499)
Net income					15,146				15,146
Net unrealized holding losses on securities available for sale arising during the period						(2,024)			(2,024)
SFAS No. 158 adjustment						165			165
Total comprehensive income									13,287
Cash dividends declared Common stock at $0.34 per share					(12,727)				(12,727)
Excess tax liability on share-based compensation				(45)					(45)
Restricted stock awards, net				(2,209)			115,576	2,063	(146)
Share-based compensation expense				837					837

Balances at June 30, 2008	0	0	48,558,614	390,545	81,263	(8,236)	(11,075,230)	(188,282)	275,290
Balances at December 31, 2008	80,000	78,019	48,558,614	394,169	76,339	(11,905)	(11,077,413)	(188,295)	348,327
Net income					7,185				7,185
Net unrealized holding gains on securities available for sale arising during the period						609			609
SFAS No. 158 adjustment						360			360
Unrealized gain on derivatives						236			236
Total comprehensive income									8,390
Issuance of common stock			13,800,000	98,125					98,125
Cash dividends declared Common stock at $0.20 per share					(7,507)				(7,507)
Preferred stock					(1,578)				(1,578)
Discount on preferred stock		154			(154)				0
Excess tax liability on share-based compensation				(191)					(191)
Restricted stock awards, net				(3,205)			153,145	2,881	(324)
Share-based compensation expense				1,394					1,394
Balances at June 30, 2009	80,000	$ 78,173	62,358,614	$ 490,292	$ 74,285	$ (10,700)	(10,924,268)	$ (185,414)	$ 446,636

See notes to consolidated financial statements

FIRST FINANCIAL BANCORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2009
(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, 2008. 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, 2008, has been derived from the audited financial statements in the company's 2008 Form 10-K.

NOTE 2: RECENTLY ADOPTED AND ISSUED ACCOUNTING STANDARDS
Effective January 1, 2009, First Financial adopted SFAS No. 141(R), "Business Combinations." This statement significantly changes how business acquisitions are accounted for, continuing the transition to fair value measurement, and will impact financial statements both on the acquisition date and in subsequent periods. This statement requires the acquirer to recognize assets acquired, liabilities assumed, and any noncontrolling interest in the acquiree at their respective fair values as of the acquisition date. SFAS No. 141(R) changes the treatment of acquisition-related costs, restructuring costs related to an acquisition that the acquirer expects but is not obligated to incur, contingent consideration associated with the purchase price, and preacquisition contingencies associated with acquired assets and liabilities. In addition, SFAS No. 141(R) requires enhanced disclosures to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS No. 141(R) has had no impact on First Financial to date.

Effective January 1, 2009, First Financial adopted SFAS No. 160, "Noncontrolling Interests in Financial Statements." This statement changes the accounting and reporting for minority interests, which are recharacterized as noncontrolling interests and classified as a component of shareholders' equity. SFAS No. 160 requires retroactive adoption of the presentation and disclosure requirements for existing consolidated minority interests. All other requirements of SFAS No. 160 are required to be applied prospectively. First Financial has no existing consolidated minority interests and management does not anticipate this will occur in the future; therefore, SFAS No. 160 has had no impact on First Financial to date.

Effective January 1, 2009, First Financial adopted SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities." This standard is intended to help investors better understand how derivative instruments and hedging activities impact an entity's financial condition, financial performance, and cash flows through enhanced disclosure requirements. For further detail on First Financial's derivative instruments and hedging activities, see Note 5 – Derivatives.

Effective June 30, 2009, First Financial adopted SFAS No. 165, "Subsequent Events." This statement represents the inclusion of guidance on subsequent events in accounting literature and provides guidance on management's assessment of subsequent events. Historically, management had relied on U.S. auditing literature for guidance on assessing and disclosing subsequent events. SFAS No. 165 clarifies that management must evaluate, as of each reporting period, events or transactions that occur after the balance sheet date "through the date that the financial statements are issued or are available to be issued." Management must perform its assessment for both interim and annual financial reporting periods. For further detail on First Financial's assessment of subsequent events, see Note 14 – Subsequent Events.

In June of 2009, the FASB issued SFAS No. 166, "Accounting for Transfers of Financial Assets," which amends the derecognition guidance in SFAS No. 140. This statement removes the concept of a qualifying special-purpose entity from SFAS No. 140 and removes the exception from applying FASB Interpretation No. 46, "Consolidation of Variable Interest Entities," to qualifying special-purpose entities. SFAS No. 166 is effective for fiscal years beginning after November 15, 2009, with early adoption prohibited. First Financial is evaluating the revised guidance included in SFAS No. 166 and does not anticipate a material impact on the Consolidated Financial Statements.

In June of 2009, the FASB issued SFAS No. 167, "Amendments to FASB Interpretation No. 46(R)." This statement amends the consolidation guidance that applies to variable interest entities and affects all entities and enterprises currently within the scope of Interpretation No. 46(R), as well as qualifying special purpose entities that are currently outside the scope of Interpretation 46(R). SFAS No. 167 is effective for fiscal years beginning after November 15, 2009, with early adoption prohibited. First Financial is evaluating the revised guidance included in SFAS No. 167 and does not anticipate a material impact on the Consolidated Financial Statements.

In June of 2009, FASB issued SFAS No. 168, "The FASB Accounting Standards CodificationTM and the Hierarchy of Genrally Accepted Accounting Principles – A Replacement of FASB Statement No. 162." This statement notes that "the FASB Accounting Standards Codification™" will become the source of authoritative U.S. generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. When the Codification is in effect, its contents will carry the same level of authority, effectively superseding SFAS 162. The GAAP hierarchy will be modified to include only two levels of GAAP: authoritative and nonauthoritative. SFAS No. 168 is effective for financial statements issued for interim and annual reporting periods ending after September 15, 2009.

Effective January 1, 2009, First Financial adopted FASB Staff Position No. FAS 140-3, "Accounting for Transfers of Financial Assets and Repurchase Financing Transactions." This position applies to a repurchase financing, which is a repurchase agreement that relates to a previously transferred financial asset between the same counterparties, that is entered into contemporaneously with the initial transfer. This position presumes that an initial transfer of a financial asset and a repurchase financing are considered part of the same arrangement, known as a linked transaction. However, if certain criteria are met, the initial transfer and repurchase financing may not be evaluated as a linked transaction and must be evaluated separately under FASB SFAS No. 140. Staff Position No. FAS 140-3 has had no impact on First Financial to date.

Effective January 1, 2009, First Financial adopted FASB Staff Position No. FAS 142-3, "Determination of the Useful Life of Intangible Assets." This position provides guidance as to factors considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, "Goodwill and Other Intangible Assets." Staff Position No. FAS 142-3 has had no impact on First Financial to date.

Effective January 1, 2009, First Financial adopted FASB Staff Position No. APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement)." This position clarifies that certain convertible debt instruments should be separately accounted for as liability and equity components. Staff Position No. FAS 142-3 has had no impact on First Financial to date.

Effective June 30, 2009, First Financial adopted FASB Staff Position FAS 141(R)-1, "Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies." This position amends and clarifies FASB SFAS No. 141 (revised 2007), "Business Combinations," to address application issues related to initial recognition and measurement, subsequent measurements and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. Staff Position No. FAS 141(R)-1 is effective for all acquisitions of assets and liabilities arising from contingencies in a business combination with closing dates after January 1, 2009. Staff Position No. 141(R)-1 has had no impact on First Financial to date.

Effective June 30, 2009, First Financial adopted FASB Staff Position No. FAS 107-1 and APB 28-1, "Interim Disclosures About Fair Value of Financial Instruments." This position extends the disclosure requirements of SFAS No. 107, "Disclosures About Fair Value of Financial Instruments," to interim financial statements of publicly traded companies. For further detail on First Financial's fair value disclosures, see Note 11 – Fair Value Disclosures.

Effective June 30, 2009, First Financial adopted FASB Staff Position No. FAS 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments." This position revised the guidance for determining whether an impairment is other than temporary for debt securities, requires bifurcation of any other than temporary impairment between the amount representing credit loss and the amount related to all other factors and requires additional disclosures on other than temporary impairment of debt and equity securities. Staff Position No. FAS 115-2 has had no impact on First Financial to date.

Effective June 30, 2009, First Financial adopted FASB Staff Position No. FAS 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly." This position provides additional guidance on estimating fair value when the volume and level of activity for an asset or liability have significantly decreased in relation to normal market activity for the asset or liability, provides guidance on circumstances that may indicate that a transaction is not orderly and requires additional disclosures about fair value measurements in annual and interim reporting periods. Staff Position No. FAS 157-4 has had no impact on First Financial to date.

In December 2008, the FASB issued Staff Position No. FAS 132(R)-1, "Employers' Disclosures about Postretirement Benefit Plan Assets." This position requires additional disclosures about plan assets in an employer's defined benefit pension and other postretirement plans including disclosure of the fair value of each major asset category, consideration of whether additional categories or further disaggregation should be disclosed, disclosure of the level within the fair value hierarchy in which each major category of plan assets falls, and reconciliation of beginning and ending balances of plan assets with fair values measured using significant unobservable inputs. Staff Position No. FAS 132(R)-1 is effective for fiscal years ending after December 15, 2009 with early adoption permitted. First Financial is evaluating the revised disclosure requirements included in Staff Position No. FAS 132(R)-1 and does not anticipate a material impact on the 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 with off-balance-sheet risk to its clients to aid them in meeting their requirements for liquidity and credit enhancement. These financial instruments include standby letters of credit and commitments outstanding to extend credit. U.S. generally accepted accounting principles do not require these financial instruments to be recorded in the Consolidated Balance Sheets, Consolidated Statements of Income, Consolidated Statements of Changes in Shareholders' Equity, and Consolidated Statements of Cash Flows. Following is a discussion of these transactions.

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

Standby letters of credit – These transactions are conditional commitments issued by First Financial to guarantee the performance of a client to a third party. First Financial's portfolio of standby letters of credit consists primarily of performance assurances made on behalf of clients who have a contractual commitment to produce or deliver goods or services. The risk to First Financial arises from its obligation to make payment in the event of the clients' contractual default to produce the contracted good or service to a third party. First Financial has issued standby letters of credit aggregating $20.0 million and $22.5 million at June 30, 2009, and December 31, 2008, respectively.

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

Loan commitments – Commitments to extend credit are agreements to lend to a client as long as there is no violation of any condition established in the commitment. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. First

Financial evaluates each client's creditworthiness on an individual basis. The amount of collateral obtained, if deemed necessary by First Financial upon extension of credit, is based on management's credit evaluation of the counterparty. The collateral held varies, but may include securities, real estate, inventory, plant, or equipment. First Financial had commitments outstanding to extend credit totaling $737.9 million and $767.3 million at June 30, 2009, and December 31, 2008, respectively. Management does not anticipate any material losses as a result of these commitments.

NOTE 4: INVESTMENTS

The following is a summary of held-to-maturity and available-for-sale investment securities as of June 30, 2009 (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	$ 39,982	$ 1,162	$ 0	$ 41,144
Mortgage-backed securities	168	1	0	169	446,799	11,245	(589)	457,455
Obligations of state and other political subdivisions	4,368	239	0	4,607	25,240	374	(241)	25,373
Other securities	0	0	0	0	4,290	51	(134)	4,207
Total	$ 4,536	$ 240	$ 0	$ 4,776	$ 516,311	$ 12,832	$ (964)	$ 528,179

The following is a summary of held-to-maturity and available-for-sale investment securities as of December 31, 2008 (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	$ 44,951	$ 1,731	$ 0	$ 46,682
Mortgage-backed securities	190	0	(1)	189	563,341	9,640	(465)	572,516
Obligations of state and other political subdivisions	4,776	170	0	4,946	35,992	461	(301)	36,152
Other securities	0	0	0	0	4,561	73	(228)	4,406
Total	$ 4,966	$ 170	$ (1)	$ 5,135	$ 648,845	$ 11,905	$ (994)	$ 659,756

During the six months ended June 30, 2009, investment securities available-for-sale were sold with a cost basis of $149.4 and gross proceeds of $152.7, resulting in net proceeds of $3.3 million.

The following is a summary of debt investment securities by estimated maturity as of June 30, 2009 (dollars in $000's).

	Held-to-Maturity		Available-for-Sale	
	Amortized Cost	Market Value	Amortized Cost	Market Value
Due in one year or less	$ 350	$ 354	$ 14,414	$ 14,535
Due after one year through five years	2,612	2,757	382,872	392,947
Due after five years through ten years	576	610	80,593	81,818

Due after ten years		998		1,055		38,432		38,879
Total	$	4,536	$	4,776	$	516,311	$	528,179

The following tables present the age of gross unrealized losses and associated fair value by investment category (dollars in $000's).

	June 30, 2009					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Securities of U.S. government agencies and corporations	$ 0	$ 0	$ 10	$ 0	$ 10	$ 0
Mortgage-backed securities	37,150	442	2,661	144	39,811	586
Obligations of state and other political subdivisions	211	1	1,736	241	1,947	242
Other securities	20	0	1,928	136	1,948	136
Total	$ 37,381	$ 443	$ 6,335	$ 521	$ 43,716	$ 964

	December 31, 2008					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Securities of U.S. government agencies and corporations	$ 11	$ 0	$ 0	$ 0	$ 11	$ 0
Mortgage-backed securities	32,362	311	15,925	154	48,287	465
Obligations of state and other political subdivisions	1,904	284	659	17	2,563	301
Other securities	44	0	1,787	228	1,831	228
Total	$ 34,321	$ 595	$ 18,371	$ 399	$ 52,692	$ 994

Unrealized losses on debt securities are generally due to higher current market yields relative to the yields of the debt securities at their amortized cost. Unrealized losses due to credit risk associated with the underlying collateral of the debt security, if any, are not material. All securities with unrealized losses are reviewed quarterly to determine if any impairment is other than temporary, requiring a write-down to fair market value. First Financial considers the percentage loss on a security, duration of the loss, average life or duration of the security, credit rating of the security, as well as payment performance and the company's intent and ability to hold the security to maturity when determining whether any impairment is other than temporary. First Financial has the intent and ability to hold all debt security issues temporarily impaired until maturity or recovery of book value. First Financial had no other than temporary impairment charges for the three and six months ended June 30, 2009.

First Financial had trading securities with a fair value of $0.2 million at June 30, 2009, $0.1 million at December 31, 2008, and $3.6 million at June 30, 2008. For further detail on the fair value of investment securities, see Note 11 – Fair Value Disclosures.

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. First Financial does not use derivatives for speculative purposes and currently does not have any derivatives that are not designated as hedges.

The following table summarizes the derivative financial instruments utilized by First Financial by the nature of the underlying asset or liability (dollars in $000's):

	June 30, 2009			December 31, 2008			June 30, 2008		
	Fair Value Hedges	Cash Flow Hedges	Total	Fair Value Hedges	Cash Flow Hedges	Total	Fair Value Hedges	Cash Flow Hedges	Total
Instruments associated with:									
Loans	$ 404,217	$ -	$ 404,217	$ 283,419	$ -	$ 283,419	$ 200,577	$ -	$ 200,577
Other long-term debt	-	20,000	20,000	-	-	-	-	-	-
Total notional value	$ 404,217	$ 20,000	$ 424,217	$ 283,419	$ -	$ 283,419	$ 200,577	$ -	$ 200,577

While authorized to use a variety of derivative products, First Financial primarily utilizes interest rate swaps as a means to offer borrowers products that meet their needs and may from time to time utilize interest rate swaps to manage the macro interest rate risk profile of the company. These agreements establish the basis on which interest rate payments are exchanged with counterparties and are referred to as the notional amount. As only interest rate payments are exchanged, cash requirements and credit risk are significantly less than the notional amount and the company's credit risk exposure is limited to the market value of the instrument.

First Financial manages this market value credit risk through counterparty credit policies. These policies require the company to maintain a total derivative notional position of less than 10 percent of assets, total credit exposure of less than 3 percent of capital, and no single counterparty credit risk exposure greater than $20 million. The company is currently well below all single counterparty and portfolio limits. At June 30, 2009, the company had a total counterparty notional amount outstanding of approximately $233.7 million, spread among six counterparties, with an outstanding liability from these contracts of $11.1 million.

In connection with its use of derivative instruments, First Financial from time to time is required to post cash collateral with its counterparties to offset its market position. Derivative collateral balances were $5.8 million, $12.1 million, and $0.9 million at June 30, 2009, December 31, 2008, and June 30, 2008, respectively. First Financial classifies the derivative cash collateral outstanding with its counterparties as an adjustment to the fair value of the derivative contracts within accrued interest and other liabilities in the Consolidated Balance Sheets.

The following table summarizes the derivative financial instruments utilized by First Financial and their balances (dollars in $000's):

		June 30, 2009			December 31, 2008			June 30, 2008		
	Balance Sheet Location	Notional Amount	Estimated Gain	Fair Value Loss	Notional Amount	Estimated Gain	Fair Value Loss	Notional Amount	Estimated Gain	Fair Value Loss
Fair Value Hedges										
Pay fixed interest rate swaps with counterparty	Accrued interest and other liabilities	$ 23,085	-	$ (2,071)	$ 24,703	$ 2	$ (3,339)	$ 26,515	$ 36	$ (876)
Matched interest rate swaps with borrower	Accrued interest and other assets	190,566	$ 10,085	(91)	129,358	15,074	-	87,031	3,233	(70)
Matched interest rate swaps with counterparty	Accrued interest and other liabilities	190,566	91	(9,738)	129,358	-	(15,020)	87,031	70	$ (3,233)
Cash Flow Hedge										
Trust Preferred Swap	Accumulated other comprehensive loss	20,000	745	-	-	-	-	-	-	-

Total	$ 424,217	10,921	$ (11,900)	$ 283,419	$ 15,076	$ (18,359)	$ 200,577	$ 3,339	$ (4,179)

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 June 30, 2009 (dollars in $000's):

	Notional Value	Average Maturity (years)	Fair Value	Weighted-Average Rate Receive	Pay
Asset conversion swaps					
Pay fixed interest rate swaps with counterparty	$ 23,085	6.2	$ (2,071)	2.39%	6.82%
Receive fixed, matched interest rate swaps with borrower	190,566	5.4	9,994	6.43%	2.94%
Pay fixed, matched interest rate swaps with counterparty	190,566	5.4	(9,647)	2.94%	6.43%
Total asset conversion swaps	$ 404,217	5.5	$ (1,724)	4.58%	4.87%
Liability conversion swaps					
Trust Preferred Swap	$ 20,000	9.8	$ 745	3.70%	6.20%
Total liability conversion swaps	$ 20,000	9.8	$ 745	3.70%	6.20%
Total swap portfolio	$ 424,217	5.7	$ (979)	4.46%	4.86%

The accounting for changes in the fair value of derivatives depends on the intended use of the derivative and the resulting designation. Derivatives used to hedge the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives used to hedge the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges.

Fair Value Hedges - First Financial utilizes interest rate swaps as a means to offer commercial borrowers products that meet their needs, but are also designed to achieve First Financial's desired interest rate risk profile at the time. The fair value hedge swap agreements generally involve the net receipt by First Financial of floating-rate amounts in exchange for net payments by First Financial, through its loan clients, of fixed-rate amounts over the life of the agreements without an exchange of the underlying principal or notional amount. This results in First Financial's loan customers receiving fixed rate funding, while providing First Financial with a floating rate asset. The net interest receivable or payable on the interest rate swaps is accrued and recognized as an adjustment to the interest income or interest expense of the hedged item. The fair value of the interest rate swaps is included within accrued interest and other assets on the Consolidated Balance Sheets. The corresponding fair-value adjustment is also included on the Consolidated Balance Sheets in the carrying value of the hedged item. Derivative gains and losses not considered effective in hedging the change in fair value of the hedged item are recognized immediately in income. All of First Financial's fair value hedges are considered effective.

		Increase (decrease) to Interest Income Three Months Ended		
Derivatives in fair value hedging relationships	Location of change in fair value recognized in earnings on derivative	June 30, 2009	December 31, 2008	June 30, 2008
Interest Rate Contracts				
Loans	Interest Income - Loans	$ (251)	$ (123)	$ (136)
Total		$ (251)	$ (123)	$ (136)

		Increase (decrease) to Interest Income Six Months Ended	
Derivatives in fair value hedging relationships	Location of change in fair value recognized in earnings on derivative	June 30, 2009	June 30, 2008
Interest Rate Contracts			
Loans	Interest Income - Loans	$ (503)	$ (203)
Total		$ (503)	$ (203)

Cash Flow Hedges – First Financial utilizes interest rate swaps designated as cash flow hedges to manage the variability of cash flows, primarily net interest income, attributable to changes in interest rates. The net interest receivable or payable on an interest rate swap designated as a cash flow hedge is accrued and recognized as an adjustment to interest income or interest expense. The fair value of the interest rate swaps is included within accrued interest and other assets on the Consolidated Balance Sheets. Changes in the fair value of the interest rate swap are included in accumulated comprehensive income (loss). Derivative gains and losses not considered effective in hedging the cash flows related to the underlying loans, if any, would be recognized immediately in income. All of First Financial's cash flow hedges are considered effective.

Effective March 30, 2009, First Financial executed a cash flow hedge utilizing an interest rate swap to hedge against interest rate volatility on $20.0 million of floating rate trust preferred securities based on the London Inter-Bank Offered Rate (LIBOR). The interest rate swap involves the receipt by First Financial of variable-rate interest amounts in exchange for fixed-rate interest payments by First Financial for a period of 10 years. The net interest receivable or payable on the trust preferred interest rate swap is accrued and recognized as an adjustment to interest expense. The fair value of the trust preferred interest rate swap is included in accrued interest and other assets or liabilities on the Consolidated Balance Sheets. Changes in the fair value of the trust preferred interest rate swap are included in accumulated other comprehensive income (loss) on the Consolidated Balance Sheets. Derivative gains and losses not considered effective in hedging the cash flows related to these securities, if any, will be recognized immediately in income.

Derivatives in cash flow hedging relationships	Amount of gain or (loss) recognized in OCI on derivatives (effective portion) Three Months Ended June 30, 2009	December 31, 2008	June 30, 2008	Location of gain or (loss) reclassified from accumulated OCI into earnings (effective portion)	Amount of gain or (loss) reclassified from accumulated OCI into earnings (effective portion) Three Months Ended June 30, 2009	December 31, 2008	June 30, 2008
Interest Rate Contracts							
Other long-term debt	$ 551	$ -	$ -	Interest Expense - Other long-term debt	$ (95)	$ -	$ -
Total	$ 551	$ -	$ -		$ (95)	$ -	$ -

Derivatives in cash flow hedging relationships	Amount of gain or (loss) recognized in OCI on derivatives (effective portion) Six Months Ended June 30, 2009	June 30, 2008	Location of gain or (loss) reclassified from accumulated OCI into earnings (effective portion)	Amount of gain or (loss) reclassified from accumulated OCI into earnings (effective portion) Six Months Ended June 30, 2009	June 30, 2008
Interest Rate Contracts					
Other long-term debt	$ 551	$ -	Interest Expense - Other long-term debt	$ (97)	$ -
Total	$ 551	$ -		$ (97)	$ -

First Financial expects approximately $318 of the unrecognized losses on cash flow hedges, net of taxes, at June 30, 2009 to be reclassified into earnings within the next 12 months.

NOTE 6: LONG-TERM DEBT

Long-term debt on the Consolidated Balance Sheets consists of Federal Home Loan Bank (FHLB) long-term advances and repurchase agreements utilizing investment securities as pledged collateral. These instruments are primarily utilized to reduce overnight liquidity risk and to mitigate interest rate sensitivity on the balance sheet. During the third quarter of 2008, First Financial executed $115 million of these term debt instruments utilizing a combination of its funding sources from the pledging of $65.0 million of investment securities and the $50.0 million borrowing from the FHLB. The $115 million of borrowings have remaining maturities between one and three years and a weighted average rate of 3.63%. Securities pledged as collateral in conjunction with the repurchase agreements are included within Investment securities available-for-sale on the Consolidated Balance Sheets.

NOTE 7: OTHER LONG-TERM DEBT

Other long-term debt on the Consolidated Balance Sheets consists of junior subordinated debentures owed to unconsolidated subsidiary trusts. Capital securities were issued in the third quarter of 2003 by a statutory business trust, First Financial (OH) Statutory Trust II (Trust II).

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

First Financial owns 100% of the common equity of the remaining trust, Trust II. The trust was formed with the sole purpose of issuing the capital securities and investing the proceeds from the sale of such capital securities in the debentures. The debentures held by the trust are the sole 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 London Inter-Bank Offered Rate (LIBOR). During the first quarter of 2009, First Financial executed a cash flow hedge utilizing an interest rate swap to hedge against interest rate volatility on the $20.0 million of floating rate trust preferred securities. The interest rate swap involves the receipt by First Financial of variable-rate interest amounts in exchange for fixed-rate interest payments by First Financial for a period of 10 years. The net interest receivable or payable on the trust preferred interest rate swap will be accrued and recognized as an adjustment to interest expense. For further information on this cash flow hedge, see Note 5.

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 debenture qualifies as Tier I capital under Federal Reserve Board guidelines, but is limited to 25% of qualifying Tier I capital. The company has the capacity to issue approximately $15.4 million in additional qualifying debentures under these guidelines.

(dollars in $000's)	Amount	Debt Rate	Derivative Rate	Maturity Date
First Financial (OH) Statutory Trust II	$ 20,000	3.70%	6.20%	09/30/2033

NOTE 8: 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					Six Months Ended	
	2009		2008			June 30,	
	June 30	Mar. 31	Dec. 31	Sep. 30	June 30	2009	2008
Balance at beginning of period	$ 36,437	$ 35,873	$ 30,353	$ 29,580	$ 29,718	$ 35,873	$ 29,057
Provision for loan losses	10,358	4,259	10,475	3,219	2,493	14,617	5,716
Loans charged off	(8,771)	(4,060)	(5,403)	(2,936)	(3,195)	(12,831)	(6,298)
Recoveries	625	365	448	490	564	990	1,105
Balance at end of period	$ 38,649	$ 36,437	$ 35,873	$ 30,353	$ 29,580	$ 38,649	$ 29,580
Allowance for loan and lease losses to total ending loans	1.34%	1.33%	1.34%	1.14%	1.11%	1.34%	1.11%

The allowance for loan and lease losses related to loans that are identified as impaired, as defined by SFAS No. 114 and 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. Interest income for impaired loans is recorded on a cash basis during the period the loan is considered impaired after recovery of principal is reasonably assured.

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

	As of and for the Quarter Ended				
	2009		2008		
	Jun. 30	Mar. 31	Dec. 31	Sep. 30	Jun. 30
Impaired loans requiring a valuation	$ 16,229	$ 7,137	$ 1,472	$ 5,642	$ 5,209
Impaired loans not requiring a valuation	21,364	17,554	16,509	8,188	9,603
Total impaired loans	$ 37,593	$ 24,691	$ 17,981	$ 13,830	$ 14,812
Valuation allowance	$ 5,890	$ 3,024	$ 864	$ 2,322	$ 2,106
Average impaired loans for the period	$ 31,142	$ 21,336	$ 15,906	$ 14,321	$ 14,752
Interest income included in revenue	$ 25	$ 12	$ 216	$ 182	$ 140

NOTE 9: INCOME TAXES

First Financial's effective tax rate for the second quarter of 2009 was 32.6%, compared to 33.3% for the second quarter of 2008. The 2009 year-to-date effective tax rate was 34.2% compared to 33.0% for 2008. The increase in the 2009 effective tax rate is primarily due to reduced tax-exempt investment interest and reduced bank-owned life insurance income.

At June 30, 2009, and December 31, 2008, First Financial had no FIN 48 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 recognizes interest and penalties on income tax assessments or income tax refunds in the Consolidated Financial Statements as a component of noninterest expense.

First Financial and its subsidiaries are subject to U.S. federal income tax as well as income tax of the state of Indiana. 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 reviewed and closed by the Internal Revenue Service. First Financial was notified during the first quarter of 2009 that the Internal Revenue Service will commence a routine examination of the income tax return for the calendar year 2007. First Financial was notified in the second quarter of 2009 that the Indiana Department of Revenue would commence a routine examination of the Indiana franchise tax returns, as well as payroll withholdings, for the calendar years of 2005, 2006, and 2007. The company cannot at this time make an assessment of the outcome of these examinations. 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.

NOTE 10: EMPLOYEE BENEFIT PLANS

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

In April of 2009, due to the unfunded pension obligation resulting from the significant decline in equity market values, First Financial contributed $30.8 million to its defined benefit pension plan. The impact from this cash contribution is not reflected in the tables below, but will be reflected in future periods. First Financial does not expect to make additional contributions to the plan the remainder of 2009.

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 June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Service cost	$ 590	$ 527	$ 1,180	$ 1,117
Interest cost	675	642	1,350	1,285
Expected return on assets	(917)	(1,025)	(1,835)	(2,049)
Amortization of transition asset	0	(8)	0	(17)
Amortization of prior service cost	(105)	(106)	(210)	(212)
Recognized net actuarial loss	387	239	775	481
Net periodic benefit cost	$ 630	$ 269	$ 1,260	$ 605

Amounts recognized in accumulated other comprehensive income (loss):

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Net actuarial loss	$ 387	$ 239	$ 775	$ 481
Net prior service (credit) cost	(105)	(106)	(210)	(212)
Net transition asset	0	(8)	0	(17)
Deferred tax assets	(102)	(46)	(205)	(92)
Net amount recognized	$ 180	$ 79	$ 360	$ 160

NOTE 11: FAIR VALUE DISCLOSURES

Fair Value Option

The following table summarizes the impact on First Financial's Consolidated Balance Sheets of adopting the fair value option (FVO) for equity securities of government sponsored entities, specifically 200,000 Federal Home Loan Mortgage Corporation perpetual preferred series V shares with an original cost basis of $5.0 million, due to market volatility. Amounts shown represent the carrying value of the affected investment security categories before and after the change in accounting resulting from the adoption of SFAS No. 159 (dollars in $000's).

	Jan. 1, 2008 Balance Sheet Prior to Adoption	Adoption Impact	Jan. 1, 2008 Balance Sheet After Adoption
Trading investment securities	$ 0	$ 3,799	$ 3,799
Available-for-sale investment securities	306,928	(3,799)	303,129
Accumulated comprehensive income (loss)	(7,127)	750	(6,377)
Cumulative effect of adoption of the FVO – charge to retained earnings (1)		$ 750	
Retained earnings	$ 82,093	$ (750)	$ 81,343

(1) The adoption of SFAS No. 159 had no overall tax impact due to the transfer of the unrealized loss from accumulated other comprehensive income (loss) to retained earnings, within shareholders' equity.

Prior to the election of the FVO effective January 1, 2008, First Financial's equity securities of government sponsored entities totaled $3.8 million and were classified as investment securities available-for-sale. An unrealized loss of $0.8 million, net of taxes of $0.4 million, as of December 31, 2007, was included as a component of accumulated other comprehensive income (loss). In connection with First Financial's adoption of SFAS No. 159 effective January 1, 2008, the $0.8 million unrealized loss was reclassified from accumulated other comprehensive income (loss) to beginning retained earnings as part of a cumulative-effect adjustment. There was no impact on total shareholders' equity upon adoption. The equity securities of government sponsored entities are included as trading investment securities on First Financial's Consolidated Balance Sheets effective January 1, 2008.

At June 30, 2009, the fair value of the equity securities of government sponsored entities for which the FVO was elected was $0.2 million, a decrease of approximately $3.6 million from the fair value of the equity securities at January 1, 2008. Since January 1, 2008, changes in market value for the equity securities of government sponsored entities for which the FVO was elected have been recorded in other noninterest income.

Future changes will be recorded similarly. There were no purchases or sales of these or similar investment securities during 2009.

Fair Value Measurement

The SFAS No. 157 fair value framework includes a hierarchy which focuses on prioritizing the inputs used in valuation techniques. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1), a lower priority to observable inputs other than quoted prices in active markets for identical assets and liabilities (Level 2), and the lowest priority to unobservable inputs (Level 3). When determining the fair value measurements for assets and liabilities, First Financial looks to active markets to price identical assets or liabilities whenever possible and classifies such items in Level 1. When identical assets and liabilities are not traded in active markets, First Financial looks to market observable data for similar assets and liabilities and classifies such items as Level 2. Certain assets and liabilities are not actively traded in observable markets and First Financial must use alternative techniques, based on unobservable inputs, to determine the fair value and classifies such items as Level 3. The level within the fair value hierarchy is based on the lowest level of input that is significant in the fair value measurement.

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

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

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

First Financial utilizes information provided by a third party investment securities portfolio manager in analyzing the investment securities portfolio in accordance with the fair value hierarchy of SFAS No. 157. The portfolio manager's evaluation of investment security portfolio pricing is performed using a combination of prices and data from third party vendors, along with internally developed matrix pricing models and assistance from the provider's internal fixed income analysts and trading desk. The portfolio manager's month-end pricing process includes a series of quality assurance activities where prices are compared to recent market conditions, previous evaluation prices, and between the various pricing services. These processes produce a series of quality assurance reports on which price exceptions are identified, reviewed, and where appropriate, securities are repriced. In the event of a materially different price, the portfolio manager will report the variance to the third party vendor as a "price challenge", and review the pricing methodology in detail. The results of the quality assurance process are incorporated into the selection of pricing providers by the portfolio manager.

Loans held for sale – Loans held for sale are carried at the lower of cost or market value. These loans currently consist of one-to-four family residential real estate loans originated for sale to a strategic partner. Fair value is based on the contractual price to be received from our strategic partner, 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 – The fair value of commercial, commercial real estate, residential real estate, and consumer loans were estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities or repricing frequency. The carrying amount of accrued interest approximates its fair value.

Allowance for loan and lease losses – Loans are designated as impaired when, in the judgment of management based on current information and events, it is probable that all amounts due according to the contractual terms of the loan agreement will not be collected. Impaired loans are valued at the lower of cost or market for purposes of determining the appropriate amount of impairment to be allocated to the allowance for loan and lease losses. Market value is measured based on the value of the collateral securing the loans. Collateral may be in the form of real estate or business assets including equipment, inventory, and accounts receivable. The vast majority of the collateral is real estate. The value of real estate collateral is determined utilizing an income or market valuation approach based on an appraisal conducted by an independent, licensed appraiser outside of the company (Level 2). The value of business equipment is based upon an outside appraisal if deemed significant, or the net book value on the applicable borrower financial statements if not considered significant. Likewise, values for inventory and accounts receivable collateral are based on borrower financial statement balances or aging reports (Level 3). Impaired loans allocated to the allowance for loan and lease losses are measured at fair value on a nonrecurring basis. Any fair value adjustments are recorded in the period incurred as provision for loan and lease losses on the Consolidated Statements of Income.

Mortgage-servicing rights – The fair value of mortgage-servicing rights was determined through modeling the expected future cash flows. The modeling included stratification by maturity and coupon rates on the underlying mortgage loans. Certain assumptions were used in the valuation regarding prepayment speeds, discount rates, servicing costs, delinquency, cash balances, and foreclosure costs which were arrived at from third-party sources and internal records.

Deposit liabilities – The fair value of demand deposits, savings accounts, and certain money-market deposits was the amount payable on demand at the reporting date. The carrying amounts for variable-rate certificates of deposit approximated their fair values at the reporting date. The fair value of fixed-rate certificates of deposit was estimated using a discounted cash flow calculation which applies the interest rates currently offered for deposits of similar remaining maturities. The carrying amount of accrued interest approximated its fair value.

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

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

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

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

	June 30, 2009		December 31, 2008	
(Dollars in thousands)	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Cash and short-term investments	$ 80,938	$ 80,938	$ 100,935	$ 100,935
Investment securities trading	184	184	61	61
Investment securities held-to-maturity	4,536	4,776	4,966	5,135
Investment securities available-for-sale	528,179	528,179	659,756	659,756
Other investments	27,976	27,976	27,976	27,976
Loans held for sale	6,193	6,193	3,854	3,854
Loans				
Commercial	876,730	868,213	807,720	795,013
Real estate — construction	266,452	261,403	232,989	228,448
Real estate — commercial	988,901	994,061	846,673	851,764
Real estate — residential	337,704	328,761	383,599	375,482
Installment	88,370	88,745	98,581	98,562
Home equity	307,749	302,442	286,110	288,537
Credit card	27,023	27,005	27,538	27,169
Leasing	25	25	50	49
Less allowance for loan and lease losses	38,649		35,873	
Net loans	2,854,305	2,870,655	2,647,387	2,665,024
Mortgage-servicing rights	335	335	398	398
Accrued interest receivable	14,286	14,286	15,223	15,223
Derivative financial instruments	1,091	1,091	56	56
Financial liabilities				
Deposits				
Noninterest-bearing	423,781	423,781	413,283	413,283
Interest-bearing demand	599,365	599,365	636,945	636,945
Savings	657,300	657,300	583,081	583,081
Time	1,111,399	1,118,178	1,150,208	1,168,228
Total deposits	2,791,845	2,798,624	2,783,517	2,801,537
Short-term borrowings	356,777	356,777	354,533	354,533
Long-term debt	135,908	140,134	148,164	155,702
Other long-term debt	20,620	20,620	20,620	20,620
Accrued interest payable	4,735	4,735	6,033	6,033
Derivative financial instruments	2,071	2,071	3,339	3,339

The following table summarizes the financial assets and liabilities measured at fair value on a recurring basis at June 30, 2009 (dollars in $000's):

	Fair Value Measurements Using			Netting	Assets/Liabilities
Assets	Level 1	Level 2	Level 3	Adjustments	at Fair Value
Trading investment securities	$ 184	$ 0	$ 0	$ 0	$ 184
Derivatives	0	11,136	(216)	(9,829)	1,091
Available-for-sale investment securities	114	528,065	0	0	528,179
Total	$ 298	$ 539,201	$ (216)	$ (9,829)	$ 529,454
Liabilities - Derivatives	$ 0	$ 12,247	$ (347)	$ (9,829)	$ 2,071

(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.

(2) Amount represents an item for which First Financial elected the fair value option under SFAS No. 159.

Certain financial assets and liabilities are measured at fair value on a nonrecurring basis. Adjustments to the fair market value of these assets usually result from the application of lower-of-cost-or-market accounting or write-downs of individual assets. The following table summarizes financial assets and liabilities measured at fair value on a nonrecurring basis at June 30, 2009 (dollars in $000's):

	Fair Value Measurements Using			Year-to-date
Assets	Level 1	Level 2	Level 3	Gains/(Losses)
Loans held for sale *	$ 0	$ 6,193	$ 0	0
Impaired loans	0	10,339	0	0

(1) Amounts represent the fair value of collateral for impaired loans allocated to the allowance for loan and lease losses.

NOTE 12: 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). Disclosure of the related tax effects allocated to other comprehensive income and accumulated other comprehensive income (loss) for the six months ended June 30 were as follows (dollars in $000's):

		Transactions		Balances
	Pre-tax	Tax-effect	Net of tax	Net of tax
June 30, 2009				
Unrealized gain on securities available-for-sale	$ 957	$ (348)	$ 609	$ 7,548
Unrealized loss on derivatives	371	(135)	236	1,005
Unfunded pension obligation	565	(205)	360	(19,253)
Total	$ 1,893	$ (688)	$ 1,205	$ (10,700)
June 30, 2008				
	$ 1,181	$ (431)	$ 750	$ 0

Cumulative adjustment for accounting change-fair value option				
Unrealized gain on securities available-for-sale	(3,186)	1,162	(2,024)	(946)
Unfunded pension obligation	260	(95)	165	(7,290)
Total	$ (1,745)	$ 636	$ (1,109)	$ (8,236)

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NOTE 13: EARNINGS PER COMMON SHARE

The following table sets forth the computation of basic and diluted earnings per share (dollars in $000's, except per share data):

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Numerator for basic and diluted earnings per share - income available to common shareholders:				
Net income	$ 1,450	$ 7,808	$ 7,185	$ 15,146
Dividends on preferred stock	1,000	0	1,578	0
Income available to common shareholders:	$ 450	$ 7,808	$ 5,607	$ 15,146
Denominator for basic earnings per share - weighted average shares	40,734,254	37,114,451	38,928,557	37,090,603
Effect of dilutive securities —				
Employee stock awards	361,695	410,338	529,886	387,750
Warrants	0	0	0	0
Denominator for diluted earnings per share - adjusted weighted average shares	41,095,949	37,524,789	39,458,443	37,478,353
Earnings per share available to common shareholders				
Basic	$ 0.01	$ 0.21	$ 0.14	$ 0.41
Diluted	$ 0.01	$ 0.21	$ 0.14	$ 0.40

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 3,314,462 and 1,963,489 at June 30, 2009 and 2008, respectively. The out-of-the-money warrant to purchase common stock of 930,233 was also outstanding at June 30, 2009.

NOTE 14: SUBSEQUENT EVENTS

First Financial evaluated events and transactions that occurred after the balance sheet date of June 30, 2009 through August 7, 2009, the date the financial statements were issued, for adjustment to or disclosure in the consolidated financial statements.

On July 1, 2009, First Financial's wholly-owned subsidiary bank, First Financial Bank, N.A. (First Financial Bank), entered into a Branch Purchase Agreement whereby the company agreed to purchase 3 branches from Irwin Union Bank and Trust Company (Irwin) in the Indiana cities of Carmel, Greensburg and Shelbyville. Approximately $143 million of deposits will be assumed at that time at par. The company also expects to purchase an additional $50 million in select performing commercial and consumer loans from Irwin in the third quarter when the acquisition of the 3 branches is expected to close. The branch purchase remains scheduled to close late in the third quarter of 2009, subject to regulatory approval and/or non-objection.

On July 31, 2009, First Financial announced that the company had terminated a previously announced proposed branch acquisition from Peoples Community Bank and instead acquired substantially all the assets and assumed substantially all the liabilities of Peoples Community Bank through the receivership and resolution process of the

Federal Deposit Insurance Corporation (FDIC).

First Financial paid a 1.5% premium for all deposits and acquired substantially all the assets at a $42 million discount. Total deposits are approximately $538 million and total loans are estimated at $436 million based on gross loans from the seller's records. Losses incurred from the loan portfolio will be partially absorbed by the FDIC under a loss sharing agreement whereby 80% of losses up to $190 million, and 95% of losses beyond $190 million, are covered by the FDIC. This loss sharing agreement provides First Financial with total loss protection on 88.5% of the $436 million loan portfolio and gives the company assurance that this transaction, despite the purchase of nonperforming loans, is conservative and will create added value to shareholders.

First Financial has a 90-day option to determine which branches it will purchase, or leases it will assume, at fair market value from the FDIC as receiver.

This transaction will be accounted for using the acquisition method of accounting under SFAS No. 141(R), "Business Combinations." The purchase price will be allocated to the assets acquired and liabilities assumed using estimated fair values as of the acquisition date. The final fair value determinations will be made throughout the third quarter.

The Peoples Community Bank and Irwin transactions are expected to add a combined $0.16 to $0.19 per share on a cash basis in their first full year of operation.

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 serves a combination of metropolitan and non-metropolitan markets in Ohio, Indiana, and Kentucky through its full-service banking centers. Market selection is based upon a number of factors, but markets are primarily chosen for their potential for growth and long-term profitability. First Financial's goal is to develop a competitive advantage through a local market focus; building long-term relationships with clients and helping them reach greater levels of success in their financial life. To help achieve its goals of superior service to an increasing number of clients, First Financial opened two new banking centers in its metropolitan markets in 2008, including a new market headquarters for its Dayton-Middletown metropolitan market and a new banking center in Crown Point, Indiana. Additionally First Financial added a commercial lending team in the Indianapolis metropolitan market. During the first quarter of 2009, First Financial opened a new banking center in Cincinnati, Ohio. First Financial intends to concentrate future growth plans and capital investments in its metropolitan markets. Smaller markets have historically provided stable, low-cost funding sources to First Financial and they remain an important part of First Financial's funding base. First Financial believes its historical strength in these markets should enable it to retain or improve its market share.

At June 30, 2009, First Financial had 82 offices serving nine distinct markets. 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 second quarter of 2009 was $1.5 million while net income available to common shareholders was $0.5 million or $0.01 in diluted earnings per share. Net income for the second quarter of 2008 was $7.8 million or $0.21 in diluted earnings per share. Net income available to common shareholders declined $7.3 million in the second quarter of 2009 when compared to the same quarter in 2008, primarily due to increased provision for loan and lease losses of $7.9 million, and increased noninterest expense of $4.8 million offset by increases in net interest income of $2.8 million and decreases in taxes of $3.2 million.

Net income available to common shareholders for the second quarter of 2009 compared to the first quarter of 2009 decreased $4.7 million due to the pre-tax increases in the provision for loan and lease losses of $6.1 million and noninterest expense of $2.9 million, offset by an increase in noninterest income of $2.1 million and a decrease in taxes of $2.3 million.

Year-to-date 2009 net income was $7.2 million, while net income available to common shareholders was $5.6 million, or $0.14 in diluted earnings per share. This compares with year-to-date 2008 net income of $15.1 million or $0.40 in diluted earnings per share. Net income available to common shareholders declined $9.5 million in 2009 when compared to the same six month period in 2008, primarily due to increased provision for loan and lease losses of $8.9 million and increased noninterest expense of $5.7 million offset by increases in net interest income of $5.5 million and decreases in taxes of $3.7 million.

Return on average assets for the second quarter of 2009 was 0.15% compared to 0.93% for the comparable period in 2008 and 0.62% for the linked-quarter (second quarter of 2009 compared to the first quarter of 2009). Return on average shareholders' equity for the second quarter of 2009 was 1.53% compared to 11.26% for the comparable period in 2008 and 6.63% for the linked-quarter.

Return on average assets for the first six months of 2009 was 0.38% compared to 0.91% for the comparable period in 2008. Return on average shareholders' equity was 3.96% for the first six months of 2009, versus 10.96% for the comparable period in 2008.

A detailed discussion of the first six months and second quarter of 2009 results of operations follows.

NET INTEREST INCOME

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

(dollars in $000's)	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Net interest income	$ 31,209	$ 28,414	$ 62,137	$ 56,663
Tax equivalent adjustment	307	510	670	1,024
Net interest income - tax equivalent	$ 31,516	$ 28,924	$ 62,807	$ 57,687
Average earning assets	$ 3,475,182	$ 3,074,885	$ 3,475,267	$ 3,041,235
Net interest margin *	3.60%	3.72%	3.62%	3.75%
Net interest margin (fully tax equivalent) *	3.64%	3.78%	3.65%	3.81%

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

Second quarter 2009 net interest income increased $2.8 million from the second quarter of 2008 and $0.3 million from the first quarter of 2009. The second quarter 2009 net interest margin declined 12 basis points from the second quarter of 2008 and 1 basis point from the first quarter 2009. Year-to-date 2009 net interest income increased $5.5 million from 2008's comparable period, and the net interest margin declined 13 basis points.

The year-over-year quarter, linked quarter and year-to-date increases in net interest income were due to higher balances in average total loans primarily driven by higher commercial lending volume, as well as an increase in lower-cost transaction deposit accounts. Second quarter and year-to-date 2009 net interest income were also positively impacted by growth in the investments securities portfolio.

The year-over-year quarter and year-to-date net interest margin declines were primarily related to the lower overall market interest rate environment. However, this was partially offset by growth in average total loans and the continued mix shift in the loan portfolio from consumer to commercial, growth in the investment portfolio, as well as increased average total deposits, including the continued transition in the deposit mix from time to transaction deposits.

The linked quarter net interest margin benefited from stabilization of overall market interest rates over the past six months and increased average total loans and deposits combined with the continued transitions in the mix of these portfolios. However, this was offset by monthly cash flows from the investment portfolio that were not reinvested into securities.

On a tax equivalent basis, the second quarter of 2009 net interest margin of 3.64% decreased 14 basis points from 3.78% for the second quarter of 2008 and 1 basis point from the first quarter of 2009. The 2009 year-to-date tax equivalent net interest margin of 3.65% decreased 16 basis points from the 3.81% for year-to-date 2008.

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

	June 30, 2009			March 31, 2009			June 30, 2008		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Earning Assets									
Investments:									
Federal funds sold	$ 0	$ 0	0.00%	$ 0	$ 0	0.00%	$ 4,095	$ 40	3.93%
Investment securities	731,119	8,409	4.61%	758,257	9,124	4.88%	422,463	5,179	4.93%
Loans (1):									
Commercial loans	843,183	9,422	4.48%	825,399	8,914	4.38%	805,122	11,302	5,65%
Real estate – construction	257,487	2,391	3.72%	242,750	2,225	3.72%	179,078	2,287	5.14%
Real estate – commercial	869,985	12,066	5.56%	858,403	11,938	5.64%	747,077	12,059	6.49%
Real estate – residential	354,776	4,814	5.44%	377,938	5,163	5.54%	511,871	7,221	5.67%
Installment	89,857	1,502	6.70%	94,881	1,573	6.72%	121,000	2,012	6.69%
Home equity	302,159	2,835	3.76%	291,038	2,855	3.98%	257,954	3,725	5.81%
Credit card	26,577	595	8.98%	26,641	615	9.36%	26,043	657	10.15%
Lease financing	39	1	10.28%	47	1	8.63%	182	3	6.63%
Loan fees		352			373			380	
Total loans	2,744,063	33,978	4.97%	2,717,097	33,657	5.02%	2,648,327	39,646	6.02%
Total earning assets	3,475,182	42,387	4.89%	3,475,354	42,781	4.99%	3,074,885	44,865	5.87%
Nonearning Assets									
Cash and due from banks	81,016			85,650			81,329		
Allowance for loan and lease losses	(36,644)			(37,189)			(29,248)		
Premises and equipment	85,433			84,932			78,933		
Other assets	179,471			168,763			155,750		
Total assets	$ 3,784,458			$ 3,777,510			$ 3,361,649		
Interest-bearing liabilities									
Deposits:									
Interest-bearing	$ 630,885	389	0.25%	$ 642,934	350	0.22%	$ 590,464	1,089	0.74%
Savings	645,197	487	0.30%	620,509	347	0.23%	617,029	1,321	0.86%
Time	1,131,972	8,204	2.91%	1,142,257	9,106	3.23%	1,193,447	12,225	4.12%
Short-term borrowings	385,769	527	0.55%	401,830	507	0.51%	194,183	1,130	2.34%
	156,809	1,571	4.02%	164,978	1,543	3.79%	62,226	686	4.43%

Long-term borrowings									
Total interest-bearing liabilities	2,950,632	11,178	1.52%	2,972,508	11,853	1.62%	2,657,349	16,451	2.49%
Noninterest-bearing liabilities and shareholders' equity									
Noninterest-bearing demand	425,330			416,206			394,352		
Other liabilities	28,552			37,939			31,145		
Shareholders' equity	379,944			350,857			278,803		
Total liabilities and shareholders' equity	$ 3,784,458			$ 3,777,510			$ 3,361,649		