FIRST FINANCIAL BANCORP /OH/
Form 10-Q
August 09, 2011

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, 2011

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 (State or other jurisdiction of incorporation or organization)	31-1042001 (I.R.S. Employer Identification No.)
201 East Fourth Street, Suite 1900 Cincinnati, Ohio (Address of principal executive offices)	45202 (Zip Code)

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

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

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

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

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

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

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

Class	Outstanding at August 4, 2011
Common stock, No par value	58,259,315

FIRST FINANCIAL BANCORP.

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

	June 30, 2011 (Unaudited)	December 31, 2010
ASSETS		
Cash and due from banks	$104,150	$105,981
Interest-bearing deposits with other banks	147,108	176,952
Investment securities available-for-sale, at market value (cost $1,114,869 at June 30, 2011 and $904,546 at December 31, 2010)	1,134,114	919,110
Investment securities held-to-maturity (market value $3,226 at June 30, 2011 and $18,066 at December 31, 2010)	3,001	17,406
Other investments	71,492	78,689
Loans held for sale	8,824	29,292
Loans:		
Commercial	798,552	800,253
Real estate-construction	142,682	163,543
Real estate-commercial	1,144,368	1,139,931
Real estate-residential	256,788	269,173
Installment	63,799	69,711
Home equity	344,457	341,310
Credit card	28,618	29,563
Lease financing	9,890	2,609
Total loans, excluding covered loans	2,789,154	2,816,093
Less: Allowance for loan losses	53,671	57,235
Net loans - uncovered	2,735,483	2,758,858
Covered loans	1,242,730	1,481,493
Less: Allowance for loan losses	51,044	16,493
Net loans – covered	1,191,686	1,465,000
Net loans	3,927,169	4,223,858
Premises and equipment	114,797	118,477
Goodwill	51,820	51,820
Other intangibles	4,847	5,604
FDIC indemnification asset	193,113	222,648
Accrued interest and other assets	281,172	300,388
TOTAL ASSETS	$6,041,607	$6,250,225
LIABILITIES		
Deposits:		
Interest-bearing	$1,021,519	$1,111,877
Savings	1,643,110	1,534,045
Time	1,581,603	1,794,843
Total interest-bearing deposits	4,246,232	4,440,765
Noninterest-bearing	728,178	705,484
Total deposits	4,974,410	5,146,249

Federal funds purchased and securities sold under agreements to repurchase	105,291	59,842
Long-term debt	102,255	128,880
Other long-term debt	0	20,620
Total borrowed funds	207,546	209,342
Accrued interest and other liabilities	137,889	197,240
TOTAL LIABILITIES	5,319,845	5,552,831
SHAREHOLDERS' EQUITY		
Common stock - no par value		
Authorized - 160,000,000 shares Issued - 68,730,731 shares in 2011 and 2010	577,856	580,097
Retained earnings	329,455	310,271
Accumulated other comprehensive loss	(7,902)	(12,044)
Treasury stock, at cost, 10,471,291 shares in 2011 and 10,665,754 shares in 2010	(177,647)	(180,930)
TOTAL SHAREHOLDERS' EQUITY	721,762	697,394
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$6,041,607	$6,250,225

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 June 30, 2011	2010	Six months ended June 30, 2011	2010
Interest income				
Loans, including fees	$71,929	$74,944	$145,945	$154,282
Investment securities				
Taxable	7,080	5,444	13,883	10,840
Tax-exempt	192	245	390	480
Total investment securities interest	7,272	5,689	14,273	11,320
Other earning assets	(1,384)	5,305	(2,338)	10,895
Total interest income	77,817	85,938	157,880	176,497
Interest expense				
Deposits	10,767	15,308	22,167	30,956
Short-term borrowings	49	17	94	36
Long-term borrowings	937	2,556	2,026	5,113
Subordinated debentures and capital securities	197	319	391	634
Total interest expense	11,950	18,200	24,678	36,739
Net interest income	65,867	67,738	133,202	139,758
Provision for loan and lease losses - uncovered	5,756	6,158	6,403	17,536
Provision for loan and lease losses - covered	23,895	18,962	49,911	28,422
Net interest income after provision for loan losses	36,216	42,618	76,888	93,800
Noninterest income				
Service charges on deposit accounts	4,883	5,855	9,493	11,466
Trust and wealth management fees	3,507	3,668	7,432	7,213
Bankcard income	2,328	2,102	4,483	4,070
Net gains from sales of loans	854	473	1,843	642
FDIC loss sharing income	21,643	15,170	45,078	22,738
Accelerated discount on covered loans	4,756	7,408	10,539	13,506
Loss on preferred securities	0	0	0	(30)
Other	3,147	5,791	5,908	7,797
Total noninterest income	41,118	40,467	84,776	67,402
Noninterest expenses				
Salaries and employee benefits	25,123	29,513	52,693	59,754
Net occupancy	4,493	5,340	11,353	13,462
Furniture and equipment	2,581	2,514	5,134	4,787
Data processing	1,453	1,136	2,691	2,368
Marketing	1,402	1,600	2,643	2,674
Communication	753	822	1,567	2,030
Professional services	3,095	2,446	5,322	4,189
State intangible tax	1,236	1,426	2,601	2,757
FDIC expense	1,152	1,907	3,273	3,917

Loss-Other real estate owned	163	138	3,485	608
Loss-Covered other real estate owned	2,621	70	5,733	70
Other	8,425	8,907	13,792	19,464
Total noninterest expenses	52,497	55,819	110,287	116,080
Income before income taxes	24,837	27,266	51,377	45,122
Income tax expense	8,864	9,492	18,197	15,750
Net income	15,973	17,774	33,180	29,372
Dividends on preferred stock	0	0	0	1,865
Net income available to common shareholders	$15,973	$17,774	$33,180	$27,507
Net earnings per common share - basic:	$0.28	$0.31	$0.58	$0.49
Net earnings per common share - diluted:	$0.27	$0.30	$0.57	$0.48
Cash dividends declared per share	$0.12	$0.10	$0.24	$0.20
Average basic shares outstanding	57,694,792	57,539,901	57,642,970	56,356,877
Average diluted shares outstanding	58,734,662	58,604,039	58,722,448	57,365,322

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, 2011	2010
Operating activities		
Net income	$33,180	$29,372
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	56,314	45,958
Provision for depreciation and amortization	5,779	5,540
Stock-based compensation expense	1,805	1,322
Pension (income) expense	(700)	950
Net amortization of premiums/accretion of discounts on investment securities	1,710	534
Income on trading securities	0	30
Originations of loans held for sale	(59,692)	(47,612)
Net gains from sales of loans held for sale	(1,843)	(642)
Proceeds from sales of loans held for sale	82,004	42,722
Deferred income taxes	(6,643)	(3,459)
Decrease in interest receivable	646	3,836
Increase in cash surrender value of life insurance	(629)	(822)
Decrease in prepaid expenses	3,291	1,205
Decrease in indemnification asset	29,535	36,792
(Decrease) increase in accrued expenses	(22,272)	9,552
(Decrease) increase in interest payable	(1,124)	2,599
Other	5,614	5,689
Net cash provided by operating activities	126,975	133,566
Investing activities		
Proceeds from calls, paydowns and maturities of securities available-for-sale	198,811	72,683
Purchases of securities available-for-sale	(410,845)	(100,395)
Proceeds from calls, paydowns and maturities of securities held-to-maturity	11,665	567
Purchases of securities held-to-maturity	0	(51)
Net decrease (increase) in interest-bearing deposits with other banks	29,844	(413,874)
Net decrease in loans and leases, excluding covered loans	14,756	66,443
Net decrease in covered assets	198,782	192,366
Proceeds from disposal of other real estate owned	18,947	2,842
Purchases of premises and equipment	(4,613)	(12,277)
Net cash provided by (used in) investing activities	57,347	(191,696)
Financing activities		
Net decrease in total deposits	(171,839)	(103,304)
Net increase in short-term borrowings	45,449	869
Payments on long-term borrowings	(26,611)	(16,881)
Redemption of other long-term debt	(20,620)	0
Cash dividends paid on common stock	(12,748)	(10,925)
Cash dividends paid on preferred stock	0	(1,100)
Redemption of preferred stock	0	(80,000)

Issuance of common stock, net of issuance costs	0	91,192
Proceeds from exercise of stock options	60	235
Excess tax benefit on share-based compensation	156	498
Net cash used in financing activities	(186,153)	(119,416)
Cash and cash equivalents:		
Net decrease in cash and cash equivalents	(1,831)	(177,546)
Cash and cash equivalents at beginning of period	105,981	344,150
Cash and cash equivalents at end of period	$104,150	$166,604

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
Balances at January 1, 2010	80,000	$79,195	62,358,614	$490,532	$276,119	$(10,487)	(10,924,793)	$(185,401)	$649,958
Net income					29,372				29,372
Unrealized holding gains on securities available-for-sale arising during the period						3,153			3,153
Change in retirement obligation						824			824
Unrealized loss on derivatives-Prime Swap market value adj.						(239)			(239)
Unrealized loss on derivatives-Trust Preferred Swap market value adj.						(999)			(999)
Foreign Currency Exchange						(83)			(83)
Total comprehensive income									32,028
Issuance of common stock			6,372,117	91,192					91,192
Preferred stock-CPP payoff	(80,000)	(79,235)							(79,235)
Cash dividends declared :									
Common stock at $0.20 per share					(11,582)				(11,582)
Preferred stock					(1,100)				(1,100)
Discount on preferred stock		40			(805)				(765)
Excess tax benefit on share-based compensation				498					498

Exercise of stock options, net of shares purchased				(1,551)			75,446	1,383	(168)
Restricted stock awards, net of forfeitures				(3,631)			181,271	3,039	(592)
Share-based compensation expense				1,322					1,322
Balances at June 30, 2010	0	$0	68,730,731	$578,362	$292,004	$(7,831)	(10,668,076)	$(180,979)	$681,556
Balances at January 1, 2011	0	$0	68,730,731	$580,097	$310,271	$(12,044)	(10,665,754)	$(180,930)	$697,394
Net income					33,180				33,180
Unrealized holding gains on securities available-for-sale arising during the period						2,913			2,913
Change in retirement obligation						529			529
Unrealized loss on derivatives-Trust Preferred Swap						391			391
Foreign Currency Exchange						309			309
Total comprehensive income									37,322
Cash dividends declared :									
Common stock at $0.24 per share					(13,996)				(13,996)
Excess tax benefit on share-based compensation				156					156
Exercise of stock options, net of shares purchased				(228)			12,808	217	(11)
Restricted stock awards, net of forfeitures				(3,974)			181,655	3,066	(908)
Share-based compensation expense				1,805					1,805
Balances at June 30, 2011	0	$0	68,730,731	$577,856	$329,455	$(7,902)	(10,471,291)	$(177,647)	$721,762

See Notes to Consolidated Financial Statements.

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FIRST FINANCIAL BANCORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2011
(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. All intercompany transactions and accounts have been eliminated in consolidation. Certain reclassifications of prior periods' amounts have been made to conform to current period's presentation and had no effect on previously reported net income amounts or financial condition.

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates, assumptions, and judgments that affect the amounts reported in the 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, 2010. These financial statements may not include all information and notes necessary to constitute a complete set of financial statements under GAAP applicable to annual periods and accordingly should be read in conjunction with the financial information contained in the Form 10-K. Management believes these unaudited consolidated financial statements reflect all adjustments of a normal recurring nature which are necessary for a fair presentation of the results for the interim periods presented. The results of operations for the interim periods are not necessarily indicative of the results that may be expected for the full year or any other interim period. The Consolidated Balance Sheet as of December 31, 2010, has been derived from the audited financial statements in the company's 2010 Form 10-K.

NOTE 2: RECENTLY ADOPTED AND ISSUED ACCOUNTING STANDARDS

In January 2010, the FASB issued an update (ASU 2010-06, Improving Disclosures about Fair Value Measurements) amending FASB ASC Topic 820-10, Fair Value Measurements and Disclosures, requiring disclosure of transfers in and out of the level 1 and 2 fair value measurement categories and activity in the level 3 fair value measurement category. Additionally, this update amends existing disclosure requirements on the level of disaggregation, inputs and valuation techniques. This update became effective for First Financial for all reporting periods beginning after December 15, 2009 with the exception of the disclosure requirements around activity in the level 3 fair value measurement category, which became effective for all reporting periods beginning after December 15, 2010. This update did not have a material impact on First Financial's consolidated financial statements.

In December 2010, the FASB issued an update (ASU 2010-28, Intangibles - Goodwill and Other: When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts) amending FASB ASC Topic 350-20, Goodwill. This update modifies Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that impairment may exist. The qualitative factors that should be considered are consistent with existing guidance which requires that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. This update became effective for First Financial's interim reporting periods beginning after December 15, 2010 and did not have a material impact on First Financial's consolidated financial statements.

In April 2011, the FASB issued an update (ASU No. 2011-02, A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring) clarifying the requirements of FASB ASC Topic 310-40, Troubled Debt Restructurings by Creditors. This update provides additional guidance related to determining whether a creditor has granted a concession, including factors and examples for creditors to consider in evaluating whether a restructuring results in a delay in payment that is insignificant, prohibits creditors from using the borrower's effective rate test to evaluate whether a concession has been granted to the borrower, and adds factors for creditors to use in determining whether a borrower is experiencing financial difficulties. This update also ends the FASB's deferral of the additional disclosure requirements around troubled debt restructurings included in ASU No. 2010-20, Disclosure about the Credit Quality of Financing Receivables and the Allowance for Credit Losses. The provisions of ASU No. 2011-02 become effective for the first interim and annual period beginning on or after June 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption. While the provisions of ASU No. 2011-02 may increase the volume of loan restructurings determined to be troubled debt restructurings and will expand the Company's disclosures on troubled debt restructurings, First Financial does not anticipate this update will have a material impact on its consolidated financial statements.

In April 2011, the FASB issued an update (ASU No. 2011-03, Reconsideration of Effective Control for Repurchase Agreements), which simplified the accounting for arrangements such as repurchase and securities lending agreements. The collateral maintenance requirement will be eliminated from the assessment of effective control, which could result in more transactions being accounted for as secured borrowings rather than sales. The assessment of effective control will focus on a transferor's contractual rights and obligations, not the amount of collateral obtained to repurchase or redeem the transferred financial asset. Under the amended guidance, a transferor maintains effective control over transferred financial assets, and thus accounts for the transfer as a secured borrowing, if there is an agreement that both entitles and obligates the transferor to repurchase the financial assets before maturity and all of the conditions already described in FASB ASC Topic 860, Transfers and Servicing, are met. This revised guidance is applicable to new transactions and transactions that are modified on or after the first interim or annual period beginning after December 15, 2011. First Financial does not anticipate this update will have a material impact on its consolidated financial statements.

In May 2011, the FASB issued an update (ASU No. 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs), which expands the disclosure requirements around fair value measurements categorized in Level 3 of the fair value hierarchy and requires disclosure of the level in the fair value hierarchy of items that are not measured at fair value but whose fair value must be disclosed. It also clarifies and expands upon existing requirements for fair value measurements of financial assets and liabilities as well as instruments classified in shareholders' equity. The guidance is effective for interim and annual financial periods beginning after December 15, 2011. First Financial does not anticipate this update will have a material impact on its consolidated financial statements.

In June 2011, the FASB issued an update (ASU 2011-05, Presentation of Comprehensive Income), which revises the manner in which entities present comprehensive income in their financial statements. This update eliminates the option to present components of other comprehensive income (OCI) as part of the statement of changes in stockholders' equity. The amendments to the existing standard require that all nonowner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. Under either method, adjustments must be displayed for items that are reclassified from OCI to net income, in both net income and OCI. The amendments to the existing standard do not change the current option for presenting components of OCI gross or net of the effect of income taxes, provided that such tax effects are presented in the statement in which OCI is presented or disclosed in the notes to the financial statements. Additionally, the standard does not affect the calculation or reporting of earnings per share. This guidance is effective for interim and annual financial periods beginning after December 15, 2011 and is to be applied retrospectively, with early adoption permitted. First Financial does not anticipate this update will have a material impact on its consolidated financial statements.

NOTE 3: BUSINESS COMBINATIONS

On July 31, 2009, First Financial Bank, N.A. (First Financial Bank), a wholly owned subsidiary of First Financial Bancorp, entered into a purchase and assumption agreement (Peoples Agreement) with the Federal Deposit Insurance Corporation (FDIC), as receiver, pursuant to which First Financial acquired certain assets and assumed substantially all of the deposits and certain liabilities of Peoples Community Bank (Peoples).

On September 18, 2009, First Financial Bank, N.A, entered into separate purchase and assumption agreements (Irwin Agreements) with the FDIC, as receiver, pursuant to which First Financial acquired certain assets and assumed substantially all of the deposits and certain liabilities of Irwin Union Bank and Trust Company (Irwin Union Bank) and Irwin Union Bank, F.S.B. (Irwin FSB). Irwin Union Bank and Irwin FSB are collectively referred to herein as Irwin.

In connection with both the Peoples and Irwin acquisitions, First Financial Bank entered into loss sharing agreements with the FDIC that covers single family residential mortgage loans, commercial real estate and commercial and industrial loans, and other real estate acquired through foreclosure (OREO), all of which are referred to collectively as covered assets.

NOTE 4: GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill
Assets and liabilities of acquired entities are recorded at their estimated fair values as of the acquisition.

Goodwill is not amortized, but is measured for impairment on an annual basis as of October 1 of each year or whenever events or changes in circumstances indicate that the fair value of a reporting unit may be below its carrying value. First Financial performed its annual impairment test as of October 1, 2010, and no impairment was indicated. As of June 30, 2011, no events or changes in circumstances indicated that the fair value of a reporting unit was below its carrying value.

Other intangible assets
Other intangible assets consist of mortgage servicing rights and core deposit intangibles. Mortgage servicing rights are carried at their estimated fair value. Core deposit intangibles are recorded at their estimate fair value as of acquisition and are then amortized on an accelerated basis over their estimated useful lives. Core deposit intangibles have an estimated weighted average life of 9.4 years.

NOTE 5: COMMITMENTS AND CONTINGENCIES

In the normal course of business, First Financial offers a variety of financial instruments with off-balance-sheet risk to its clients to aid them in meeting their requirements for liquidity and credit enhancement. These financial instruments include standby letters of credit and outstanding commitments 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 outstanding commitments 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.

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 letters of credit (including standby letters of credit) aggregating $15.6 million and $17.6 million at June 30, 2011, and December 31, 2010, respectively.

Management conducts regular reviews of these instruments on an individual client basis and 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 $1.1 billion at June 30, 2011, and $1.0 billion at December 31, 2010.

Contingencies/Litigation – We and our subsidiaries are from time to time engaged in various matters of litigation, other assertions of improper or fraudulent loan practices or lending violations, and other matters, and we have a number of unresolved claims pending. In addition, as part of the ordinary course of business, we and our subsidiaries are parties to litigation involving claims to the ownership of funds in particular accounts, the collection of delinquent accounts, challenges to security interests in collateral, and foreclosure interests, that is incidental to our regular business activities. While the ultimate liability with respect to these other litigation matters and claims cannot be determined at this time, we believe that damages, if any, and other amounts relating to pending matters are not likely to be material to our consolidated financial position or results of operations. Reserves are established for these various matters of litigation, when appropriate under FASB ASC Topic 450, Contingencies, based in part upon the advice of legal counsel.

NOTE 6: INVESTMENTS

The following is a summary of held-to-maturity and available-for-sale investment securities as of June 30, 2011.

	Held-to-Maturity				Available-for-Sale			
(Dollars in thousands)	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	$5,027	$149	$0	$5,176
Mortgage-backed securities	103	2	0	105	1,087,462	19,311	(776)	1,105,997
Obligations of state and other political subdivisions	2,898	223	0	3,121	12,187	173	(52)	12,308
Other securities	0	0	0	0	10,193	441	(1)	10,633
Total	$3,001	$225	$0	$3,226	$1,114,869	$20,074	$(829)	$1,134,114

The following is a summary of held-to-maturity and available-for-sale investment securities as of December 31, 2010.

	Held-to-Maturity				Available-for-Sale			
(Dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value
U.S. Treasuries	$13,959	$390	$(18)	$14,331	$0	$0	$0	$0
Securities of U.S. government agencies and corporations	0	0	0	0	105,028	957	0	105,985
Mortgage-backed securities	118	4	0	122	775,867	15,513	(2,630)	788,750
Obligations of state and other political subdivisions	3,329	284	0	3,613	13,708	207	(91)	13,824
Other securities	0	0	0	0	9,943	614	(6)	10,551
Total	$17,406	$678	$(18)	$18,066	$904,546	$17,291	$(2,727)	$919,110

The following is a summary of investment securities by estimated maturity as of June 30, 2011.

	Held-to-Maturity		Available-for-Sale	
	Amortized Cost	Market Value	Amortized Cost	Market Value
Due in one year or less	$317	$321	$22,851	$23,018
Due after one year through five years	1,606	1,696	846,587	861,471
Due after five years through ten years	220	253	185,129	188,286
Due after ten years	858	956	60,302	61,339
Total	$3,001	$3,226	$1,114,869	$1,134,114

The following tables present the age of gross unrealized losses and associated fair value by investment category.

June 30, 2011

(Dollars in thousands)	Less than 12 Months Fair Value	Less than 12 Months Unrealized Loss	12 Months or More Fair Value	12 Months or More Unrealized Loss	Total Fair Value	Total Unrealized Loss
Mortgage-backed securities	$281,769	$(682)	$1,317	$(94)	$283,086	$(776)
Obligations of state and other political subdivisions	0	0	2,232	(52)	2,232	(52)
Other securities	2,252	(1)	17	0	2,269	(1)
Total	$284,021	$(683)	$3,566	$(146)	$287,587	$(829)

	December 31, 2010					
	Less than 12 Months		12 Months or More		Total	
(Dollars in thousands)	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Treasuries	$2,334	$(18)	$0	$0	$2,334	$(18)
Mortgage-backed securities	280,445	(2,538)	1,336	(92)	281,781	(2,630)
Obligations of state and other political subdivisions	0	0	2,194	(91)	2,194	(91)
Other securities	2,217	(6)	17	0	2,234	(6)
Total	$284,996	$(2,562)	$3,547	$(183)	$288,543	$(2,745)

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 considered 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. At this time First Financial does not intend to sell, and it is not more likely than not that the Company will be required to sell debt security issues temporarily impaired prior to maturity or recovery of book value. First Financial had no other than temporary impairment charges for the six months ended June 30, 2011.

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

NOTE 7: 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:

	Fair Value Hedges	
(Dollars in thousands)	June 30, 2011	Deember 31, 2010
Instruments associated with loans:		
Total notional value	$703,286	$578,959

While authorized to use a variety of derivative products, First Financial primarily utilizes interest rate swaps as a means to offer borrowers credit-based products that meet their needs and may from time to time utilize interest rate swaps to manage the 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 35% of assets, total credit exposure of less than 3% 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, 2011, the Company had a total counterparty notional amount outstanding of approximately $361.8 million, spread among six counterparties, with an outstanding liability from these contracts of $18.9 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 $17.0 million, and $12.5 million at June 30, 2011, and December 31, 2010, 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:

		June 30, 2011			December 31, 2010		
			Estimated Fair Value			Estimated Fair Value	
(Dollars in thousands)	Balance Sheet Location	Notional Amount	Gain	Loss	Notional Amount	Gain	Loss
Fair Value Hedges							
Pay fixed interest rate swaps with counterparty	Accrued interest and other liabilities	$20,310	$0	$(2,108)	$21,301	$0	$(2,302)
Matched interest rate swaps with borrower	Accrued interest and other assets	341,488	16,758	(29)	278,829	14,843	(131)
Matched interest rate swaps with counterparty	Accrued interest and other liabilities	341,488	29	(17,521)	278,829	131	(15,502)
Total		$703,286	$16,787	$(19,658)	$578,959	$14,974	$(17,935)

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, 2011:

				Weighted-Average Rate	
(Dollars in thousands)	Notional Value	Average Maturity (years)	Fair Value	Receive	Pay
Asset conversion swaps					
Pay fixed interest rate swaps with counterparty	$20,310	4.4	$(2,108)	2.23 %	6.79 %
Receive fixed, matched interest rate swaps with borrower	341,488	4.4	16,729	5.87 %	2.93 %
Pay fixed, matched interest rate swaps with counterparty	341,488	4.4	(17,492)	2.93 %	5.87 %
Total asset conversion swaps	$703,286	4.4	$(2,871)	4.34 %	4.47 %
Total swap portfolio	$703,286	4.4	$(2,871)	4.34 %	4.47 %

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 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.

The following table details the location and amounts recognized for fair value hedges:

(Dollars in thousands)		Increase (decrease) to Interest Income			
		Three Months Ended		Six Months Ended	
Derivatives in fair value hedging relationships	Location of change in fair value derivative	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Interest Rate Contracts					
Loans	Interest Income - Loans	$(236)	$(251)	$(471)	$(511)
Total		$(236)	$(251)	$(471)	$(511)

Cash Flow Hedges – First Financial may utilize 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 swaps 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.

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 involved 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. This interest rate swap effectively fixed the rate of interest on the floating rate trust preferred securities at 6.20% for the 10 year life of the swap.

First Financial terminated the $20.0 million trust preferred interest rate swap during the fourth quarter of 2010 in the course of its normal interest rate risk and balance sheet management activities. Terminating the trust preferred interest rate swap resulted in a $0.6 million pre-tax loss that was included in accumulated comprehensive income (loss) on the Consolidated Balance Sheets. Due to the early redemption of the trust preferred securities, the remaining balance of the unrecognized loss of $0.6 million was recognized in noninterest expense in the second quarter of 2011. First Financial has no derivative instruments designated as cash flow hedges at June 30, 2011.

(Dollars in thousands)	Amount of gain or (loss) recognized in OCI on derivatives (effective portion)		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)	
	3 months ended	6 months ended		3 months ended	6 months ended
Derivatives in cash flow hedging relationships	June 30, 2010			June 30, 2010	
Interest Rate Contracts					
Other long-term debt	$(796)	$(999)	Interest Expense - Other long-term debt	$ (144)	$ (286)
Total	$(796)	$(999)	Total	$ (144)	$ (286)

NOTE 8: LONG-TERM DEBT

Long-term debt on the Consolidated Balance Sheets consists of FHLB long-term advances and repurchase agreements utilizing investment securities pledged as collateral. These instruments are primarily utilized to reduce overnight liquidity risk and to mitigate interest rate sensitivity on the balance sheet. First Financial has $65.0 million in repurchase agreements which have remaining maturities of between two and five years and a weighted average rate of 3.50%. Securities pledged as collateral in conjunction with the repurchase agreements are included within Investment securities available-for-sale on the Consolidated Balance Sheets. First Financial assumed additional FHLB long-term advances in the Peoples and Irwin acquisitions of $63.5 million and $216.3 million, respectively. During the third quarter of 2010, approximately $232 million of these advances were prepaid. As of June 30, 2011, the remaining FHLB long-term advances assumed in the two transactions totaled $1.8 million, had remaining maturities of less than nine years and a weighted average effective yield of 3.90%.

The following is a summary of long-term debt:

	June 30, 2011		
(Dollars in thousands)	Amount	Average Rate	
Federal Home Loan Bank	$37,255	3.86	%
National Market Repurchase Agreement	65,000	3.50	%
Total long-term debt	$102,255	3.63	%

NOTE 9: OTHER LONG-TERM DEBT

Other long-term debt on the Consolidated Balance Sheets previously consisted 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). These debentures were eligible for early redemption by First Financial in September of 2008 and were redeemed on June 30, 2011.

The debentures qualified as Tier I capital under Federal Reserve Board guidelines, but had been limited to 25% of qualifying Tier I capital. After the early redemption, the Company has the capacity to issue approximately $171.5 million in additional qualifying debentures under these guidelines.

NOTE 10: LOANS (excluding covered loans)

Commercial loans are made to all types of businesses for a variety of purposes. First Financial works with businesses to meet their shorter term working capital needs while also providing long-term financing for their business plans. Credit risk is managed through standardized loan policies, established and authorized credit limits, centralized portfolio management and the diversification of market area and industries. The overall strength of the borrower is evaluated through the credit underwriting process and includes a variety of analytical activities including the review of historical and projected cash flows, historical financial performance, financial strength of the principals and guarantors, and collateral values, where applicable. First Financial also offers lease and equipment financing through a wholly-owned subsidiary of First Financial Bank, First Financial Equipment Finance LLC, (First Equipment Finance) primarily in its principal markets. First Equipment Finance delivers financing solutions to small and mid-size companies in various industries with significant diversity in the types of underlying equipment.

Commercial lending activities include equipment and leasehold improvement financing for franchisees, principally quick service and casual dining restaurants. The underwriting of these loans incorporates basic credit proficiencies combined with knowledge of select franchise concepts to measure the creditworthiness of proposed multi-unit borrowers. The focus is on a limited number of concepts that have sound economics, low closure rates, and brand awareness within specified local, regional, or national markets. Loan terms for equipment are generally up to 84 months fully amortizing and up to 180 months on real estate.

Commercial real estate loans are secured by a mortgage lien on the real property. The credit underwriting for both owner-occupied and investor income producing real estate loans includes detailed market analysis, historical and projected cash flow analysis, appropriate equity margins, assessment of lessees and lessors, type of real estate and other analysis. Risk of loss is managed by adherence to standard loan policies that establish certain levels of performance prior to the extension of a loan to the borrower. Market diversification within First Financial's service area, as well as a diversification by industry, are other means by which the risk of loss is managed by First Financial.

The majority of residential real estate loans originated by the Bank conforms to secondary market underwriting standards and is sold within a short timeframe to unaffiliated third parties, including the future servicing rights to the loans. The credit underwriting standards adhere to a certain level of documentation, verifications, valuation, and overall credit performance of the borrower.

Consumer loans are primarily loans made to individuals. Types of loans include new and used vehicle loans, second mortgages on residential real estate, and unsecured loans. Risk elements in the consumer loan portfolio are primarily focused on the borrower's cash flow and credit history, key indicators of the ability to repay. A certain level of security is provided through liens on automobile titles and second mortgage liens, where applicable. Economic conditions that affect consumers in First Financial's markets have a direct impact on the credit quality of these loans. Higher levels of unemployment, lower levels of income growth and weaker economic growth are factors that may adversely impact consumer loan credit quality.

Home equity lines of credit consist mainly of revolving lines of credit secured by residential real estate. Home equity lines of credit are generally governed by the same lending policies and subject to the same credit risk as described previously for residential real estate loans.

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

Loans are classified as nonaccrual when, in the opinion of management, collection of principal or interest is doubtful. Generally, loans are placed in nonaccrual status due to the continued failure to adhere to contractual payment terms by the borrower coupled with other pertinent factors, such as, insufficient collateral value. The accrual of interest income is discontinued when a loan is placed in nonaccrual status and any payments received reduce the carrying value of the loan. A loan may be placed back on accrual status if all contractual payments have been received and collection of future principal and interest payments is no longer doubtful.

Loans placed in nonaccrual status, including restructured loans in nonaccrual status, are considered to be impaired. Information as to nonaccrual, restructured, and impaired loans was as follows:

(Dollars in thousands)	June 30, 2011	December 31, 2010
Principal balance		
Nonaccrual loans		
Commercial	$9,811	$13,729
Real estate-construction	13,237	12,921
Real estate-commercial	26,213	28,342
Real estate-residential	4,564	4,607
Installment	335	150
Home equity	2,376	2,553
Total nonaccrual loans	56,536	62,302
Restructured loans	17,482	17,613
Total	74,018	79,915
Less: restructured loans - accruing	(3,039)	(3,508)
Total impaired loans	$70,979	$76,407

(Dollars in thousands)	June 30, 2011 Three Months Ended	Six Months Ended
Interest income effect		
Gross amount of interest that would have been recorded under original terms	$1,304	$2,713
Interest included in income		
Nonaccrual loans	105	250
Restructured loans	84	166
Total interest included in income	189	416
Net impact on interest income	$1,115	$2,297

Loans placed in nonaccrual status are considered to be impaired. In the commercial portfolio, management reviews all impaired loan relationships in excess of $250,000 to determine if a specific allowance based on the borrower's overall financial condition, resources and payment record, support from guarantors, and the realizable value of any collateral is necessary.

Specific allowances are based on discounted cash flows using the loan's initial effective interest rate or the fair value of the collateral for certain collateral dependent loans. 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 was as follows:

	As of June 30, 2011					
(Dollars in thousands)	Recorded Investment	Contractual Principal Balance	Related Allowance	Average Recorded Investment	YTD Interest Income Recognized	Quarterly Interest Income Recognized
Loans with no related allowance recorded:						
Commercial	$6,706	$8,146	$0	$7,858	$27	$15
Real estate - construction	5,638	12,238	0	5,494	1	0
Real estate - commercial	18,586	24,353	0	19,088	132	68
Real estate - residential	5,857	6,334	0	5,713	10	5
Installment	448	461	0	287	3	2
Home equity	2,375	2,483	0	2,444	4	2
Loans with an allowance recorded:						
Commercial	3,112	4,590	1,528	3,299	0	0
Real estate - construction	13,908	16,481	4,387	14,327	88	35
Real estate - commercial	13,453	18,401	4,021	15,204	105	39
Real estate - residential	795	807	93	874	10	4
Installment	0	0	0	26	0	0
Home equity	101	101	2	67	1	1
Total:						
Commercial	9,818	12,736	1,528	11,157	27	15
Real estate - construction	19,546	28,719	4,387	19,821	89	35
Real estate - commercial	32,039	42,754	4,021	34,292	237	107
Real estate - residential	6,652	7,141	93	6,587	20	9
Installment	448	461	0	313	3	2
Home equity	2,476	2,584	2	2,511	5	3
Total	$70,979	$94,395	$10,031	$74,681	$381	$171

(Dollars in thousands)	As of December 31, 2010 Recorded Investment	Contractual Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Loans with no related allowance recorded:					
Commercial	$9,375	$12,008	$0	$7,432	$228
Real estate - construction	4,925	8,458	0	9,935	98
Real estate - commercial	17,431	21,660	0	14,113	804
Real estate - residential	5,854	6,447	0	6,611	84
Installment	150	179	0	336	6
Home equity	2,553	3,345	0	2,188	74
Loans with an allowance recorded:					
Commercial	4,354	6,090	2,017	10,423	77
Real estate - construction	14,407	18,261	3,716	11,063	378
Real estate - commercial	16,693	19,799	4,347	13,391	392
Real estate - residential	665	757	122	1,434	23
Total:					
Commercial	13,729	18,098	2,017	17,855	305
Real estate - construction	19,332	26,719	3,716	20,998	476
Real estate - commercial	34,124	41,459	4,347	27,504	1,196
Real estate - residential	6,519	7,204	122	8,045	107
Installment	150	179	0	336	6
Home equity	2,553	3,345	0	2,188	74
Total	$76,407	$97,004	$10,202	$76,926	$2,164

Loan delinquency, including nonaccrual loans, was as follows:

	As of June 30, 2011 30 – 59 Days past due	60 – 89 Days past due	> 90 days past due	Total Past due	Current	Total	> 90 days past due and still accruing
Loans							
Commercial	$2,683	$2,835	$8,741	$14,259	$784,293	$798,552	$0
Real estate - construction	2,146	0	13,213	15,359	127,323	142,682	0
Real estate - commercial	10,260	2,008	15,523	27,791	1,116,577	1,144,368	0
Real estate - residential	5,644	1,901	5,306	12,851	243,937	256,788	0
Installment	214	98	181	493	63,306	63,799	0
Home equity	917	383	1,894	3,194	341,263	344,457	0
All other	340	218	149	707	37,801	38,508	149
Total	$22,204	$7,443	$45,007	$74,654	$2,714,500	$2,789,154	$149

	As of December 31, 2010						
	30 - 59 days past due	60 - 89 days past due	> 90 days past due	Total past due	Current	Total	> 90 days past due and still accruing
Loans							
Commercial	$2,241	$1,573	$11,684	$15,498	$784,755	$800,253	$0
Real estate - construction	1,754	3,782	8,973	14,509	149,034	163,543	0
Real estate - commercial	3,202	3,979	16,435	23,616	1,116,315	1,139,931	0
Real estate - residential	7,671	1,930	5,127	14,728	254,445	269,173	0
Installment	456	48	120	624	69,087	69,711	0
Home equity	1,260	392	2,166	3,818	337,492	341,310	0
All other	366	176	370	912	31,260	32,172	370
Total	$16,950	$11,880	$44,875	$73,705	$2,742,388	$2,816,093	$370

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

	As of June 30, 2011		
(Dollars in thousands)	Commercial	Real Estate Construction	Commercial
Pass	$739,569	$108,989	$989,787
Special Mention	30,334	2,708	57,711
Substandard	28,450	30,985	96,870
Doubtful	199	0	0
Total	$798,552	$142,682	$1,144,368

(Dollars in thousands)	Real Estate Residential	Installment	Home Equity	Other
Performing	$250,136	$63,351	$341,981	$38,508
Nonperforming	6,652	448	2,476	0
Total	$256,788	$63,799	$344,457	$38,508

	As of December 31, 2010		
(Dollars in thousands)	Commercial	Real Estate Construction	Commercial
Pass	$731,932	$115,988	$979,023
Special Mention	36,453	4,829	63,618
Substandard	31,557	42,726	97,290
Doubtful	311	0	0
Total	$800,253	$163,543	$1,139,931

(Dollars in thousands)	Real Estate Residential	Installment	Home Equity	Other
Performing	$262,654	$69,561	$338,757	$32,172
Nonperforming	6,519	150	2,553	0
Total	$269,173	$69,711	$341,310	$32,172

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Other real estate owned is comprised of properties acquired by the Bank through the loan foreclosure or repossession process, or any other resolution activity that results in partial or total satisfaction of problem loans. The acquired properties are recorded at the lower of cost, or fair value less estimated costs of disposal (net realizable value), upon acquisition. Losses arising at the time of acquisition of such properties are charged against the allowance for loan and lease losses. Subsequent write-downs in the carrying value of OREO properties are expensed as incurred. Improvements to the properties may be capitalized if the improvements contribute to the overall value of the property, but may not be capitalized in excess of the net realizable value of the property.

During the first six months of 2011, First Financial recognized a reduction in the estimated value of vacant land obtained from a commercial real estate developer of $3.1 million. Changes in other real estate owned were as follows:

(Dollars in thousands)	Six Months Ended June 30, 2011	Full Year December 31, 2010
Balance at beginning of period	$17,907	$4,145
Additions		
Commercial	1,087	17,520
Residential	2,193	1,130
Total additions	3,280	18,650
Disposals		
Commercial	304	2,315
Residential	1,052	1,674
Total disposals	1,356	3,989
Write-downs		
Commercial	3,341	727
Residential	177	172
Total write-downs	3,518	899
Balance at end of period	$16,313	$17,907

NOTE 11: LOANS (covered)

All loans acquired in the Peoples and Irwin acquisitions were covered by loss sharing agreements with the FDIC, whereby the FDIC reimburses First Financial for the majority of the losses incurred. Additionally, these loans were recorded at their estimated fair value as of the acquisition date. Generally the determination of the fair value of the loans resulted in a significant write-down in the value of the loans, which was assigned to an accretable or nonaccretable difference, with the accretable difference to be recognized as interest income over the expected remaining term of the loan.

First Financial evaluates purchased loans for impairment in accordance with the provisions of FASB ASC Topic 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality. The cash flows expected to be collected on purchased loans are estimated based upon the expected remaining life of the underlying loans, which includes the effects of estimated prepayments. Purchased loans are considered impaired if there is evidence of credit deterioration since origination and if it is probable that not all contractually required payments will be collected. First Financial is accounting for the majority of purchased loans under FASB ASC Topic 310-30 except loans with revolving privileges, which are outside the scope of this guidance, and loans for which cash flows could not be estimated, which are accounted for under the cost recovery method. Purchased impaired loans were not classified as nonperforming assets at June 30, 2011 as the loans are considered to be performing under FASB ASC Topic 310-30. Therefore, interest income, through accretion of the difference between the carrying value of the loans and the expected cash flows is being recognized on all purchased loans being accounted for under FASB ASC Topic 310-30.

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The following table reflects the carrying value of all purchased impaired and nonimpaired loans:

(Dollars in thousands)	June 30, 2011 Loans Accounted For Under FASB ASC Topic 310-30	Loans excluded from FASB ASC Topic 310-30 [(1)]	Total Purchased Loans	December 31, 2010 Loans Accounted For Under FASB ASC Topic 310-30	Loans Excluded From FASB ASC Topic 310-30 [(1)]	Total Purchased Loans
Commercial	$234,024	$17,729	$251,753	$295,600	$38,439	$334,039
Real estate - construction	40,811	0	40,811	42,743	0	42,743
Real estate - commercial	714,240	12,645	726,885	837,942	17,783	855,725
Real estate - residential	134,131	0	134,131	147,052	0	147,052
Installment	13,989	1,208	15,197	19,560	1,511	21,071
Home equity	6,289	62,375	68,664	7,241	66,454	73,695
Other covered loans	0	5,289	5,289	0	7,168	7,168
Total covered loans	$1,143,484	$99,246	$1,242,730	$1,350,138	$131,355	$1,481,493

(1) Includes loans with revolving privileges which are scoped out of FASB ASC Topic 310-30 and certain loans which First Financial elected to treat under the cost recovery method of accounting.

The outstanding balance of all purchased impaired and nonimpaired loans accounted for under FASB ASC Topic 310-30, including contractual principal, interest, fees, and penalties, was $1.9 billion and $2.2 billion as of June 30, 2011 and December 31, 2010, respectively.

Changes in the carrying amount of accretable yield for purchased impaired and nonimpaired loans accounted for under FASB ASC Topic 310-30 were as follows:

(Dollars in thousands)	Three Months Ended June 30, 2011	2010	Six Months Ended June 30, 2011	2010
Balance at beginning of period [(1)]	$461,290	$573,381	$509,945	$623,669
Additions	0	0	0	0
Reclassification from non-accretable difference	11,229	0	33,206	0
Accretion	(31,818)	(33,046)	(66,279)	(69,205)
Other net activity [(2)]	(18,920)	(25,899)	(55,091)	(40,028)
Balance at end of period	$421,781	$514,436	$421,781	$514,436

(1) Excludes loans with revolving privileges which are scoped out of FASB Topic 310-30 and certain loans which First Financial elected to treat under the cost recovery method.
(2) Includes the impact of loan repayments and charge-offs.

First Financial reviewed its forecast of expected cash flows for loans accounted for under FASB ASC Topic 310-30 during the second quarter of 2011. The Company recognized improvement in the cash flow expectations related to certain loan pools resulting in the reclassification of $11.2 million from nonaccretable to accretable difference during the second quarter and $33.2 million for the six months ended June 30, 2011. These reclassifications resulted in yield adjustments on these loan pools on a prospective basis. There were no reclassifications from nonaccretable to accretable difference during the three and six months ended June 30, 2010. The Company also recognized declines in the cash flow expectations of certain loan pools. Any decline in expected cash flows for a pool of loans is considered impairment and recorded as provision expense, and a related allowance for loan and lease losses on covered loans, on a discounted basis during the period. There were also loan pools that were impaired in prior periods but improved during the second quarter. This improvement was recorded as a recapture of prior period impairment which partially offset impairment recorded in the second quarter. For further detail on impairment and provision expense related to loans accounted for under FASB ASC Topic 310-30, see "Covered Loans" under Note 11 - Allowance for Loan and Lease Losses.

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

Covered loans accounted for under FASB ASC Topic 310-30 are classified as performing, even though they may be contractually past due, as any nonpayment of contractual principal or interest is considered in the periodic re-estimation of expected cash flows and is included in the resulting recognition of current period covered loan loss provision or prospective yield adjustments.

Similar to uncovered loans, covered loans accounted for outside FASB ASC Topic 310-30 are classified as nonaccrual when, in the opinion of management, collection of principal or interest is doubtful. Generally, these loans are placed in nonaccrual status due to the continued failure to adhere to contractual payment terms by the borrower coupled with other pertinent factors, such as, insufficient collateral value. The accrual of interest income is discontinued when a loan is placed in nonaccrual status and any payments received reduce the carrying value of the loan. A loan may be placed back on accrual status if all contractual payments have been received and collection of future principal and interest payments is no longer doubtful.

Information as to covered nonaccrual loans was as follows:

(Dollars in thousands)	June 30, 2011	December 31, 2010
Principal balance		
Nonaccrual loans		
Commercial	$8,733	$16,190
Real estate-commercial	2,883	2,074
Home equity	1,157	1,491
All other	10	0
Total	$12,783	$19,755

(Dollars in thousands)	Three Months Ended June 30, 2011	Six Months Ended June 30, 2011
Interest income effect		
Gross amount of interest that would have been recorded under original terms	$961	$2,019
Interest included in income	54	163
Net impact on interest income	$907	$1,856

First Financial’s investment in covered impaired loans, excluding loans accounted for under FASB ASC Topic 310-30, was as follows:

	As of June 30, 2011					
(Dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	YTD Interest Income Recognized	Quarterly Interest Income Recognized
Loans with no related allowance recorded:						
Commercial	$8,733	$11,215	$0	$11,262	$144	$51
Real estate - commercial	2,883	3,634	0	2,183	2	0

Home equity	1,157	2,257	0	1,311	17	3
All other	10	10	0	7	0	0
Total	$12,783	$17,116	$0	$14,763	$163	$54

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(Dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	YTD Interest Income Recognized
	As of December 31, 2010				
Loans with no related allowance recorded:					
Commercial	$16,190	$18,346	$0	$12,324	$316
Real estate - commercial	2,074	5,412	0	3,910	14
Installment	0	0	0	255	0
Home equity	1,491	3,137	0	1,597	68
Total	$19,755	$26,895	$0	$18,086	$398

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

	30 - 59 days past due	60 - 89 days past due	> 90 days past due	Total past due	Current	Total	> 90 days past due and still accruing
	As of June 30, 2011						
Loans							
Commercial	$1,346	$1,875	$5,189	$8,410	$9,319	$17,729	$0
Real estate - commercial	1,408	29	2,841	4,278	8,367	12,645	0
Installment	0	0	0	0	1,208	1,208	0
Home equity	1,353	1,086	1,103	3,542	58,833	62,375	0
All other	159	5	10	174	5,115	5,289	0
Total	$4,266	$2,995	$9,143	$16,404	$82,842	$99,246	$0

	30 - 59 days past due	60 - 89 days past due	> 90 days past due	Total past due	Current	Total	> 90 days past due and still accruing
	As of December 31, 2010						
Loans							
Commercial	$880	$419	$13,764	$15,063	$23,376	$38,439	$0
Real estate - commercial	225	62	1,896	2,183	15,600	17,783	0
Installment	0	0	0	0	1,511	1,511	0
Home equity	656	443	1,424	2,523	63,931	66,454	0
All other	87	10	9	106	7,062	7,168	9
Total	$1,848	$934	$17,093	$19,875	$111,480	$131,355	$9

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

(Dollars in thousands)	Commercial	Real Estate Construction	Commercial
	As of June 30, 2011		
Pass	$159,323	$7,453	$384,580
Special Mention	28,341	13,019	79,563
Substandard	44,444	20,339	253,858
Doubtful	19,645	0	8,884
Total	$251,753	$40,811	$726,885

(Dollars in thousands)	Real Estate Residential	Installment	Home Equity	Other
Performing	$134,131	$15,197	$67,507	$5,289
Nonperforming	0	0	1,157	0
Total	$134,131	$15,197	$68,664	$5,289

	As of December 31, 2010		
(Dollars in thousands)	Commercial	Real Estate Construction	Commercial
Pass	$225,088	$14,021	$476,140
Special Mention	35,768	5,743	106,057
Substandard	60,090	22,979	268,651
Doubtful	13,093	0	4,877
Total	$334,039	$42,743	$855,725

(Dollars in thousands)	Real Estate Residential	Installment	Home Equity	Other
Performing	$147,052	$21,071	$72,204	$7,168
Nonperforming	0	0	1,491	0
Total	$147,052	$21,071	$73,695	$7,168

Covered other real estate owned is comprised of properties acquired by the Bank through the loan foreclosure or, repossession process, or any other resolution activity that results in partial or total satisfaction of problem covered loans. These properties remain subject to loss share agreements whereby the FDIC reimburses First Financial for the majority of any losses incurred. The acquired properties are recorded at the lower of cost, or fair value less estimated costs of disposal (net realizable value), upon acquisition. Losses arising at the time of acquisition of such properties are charged against the allowance for loan and lease losses. Subsequent write-downs in the carrying value of covered OREO properties are expensed as incurred. Improvements to the properties may be capitalized if the improvements contribute to the overall value of the property, but may not be capitalized in excess of the net realizable value of the property.

Changes in covered other real estate owned were as follows:

(Dollars in thousands)	Six Months Ended June 30, 2011	Full Year December 31, 2010
Balance at beginning of period	$35,257	$12,916
Additions		
Commercial	21,732	22,237
Residential	1,825	9,827
Total additions	23,557	32,064
Disposals		
Commercial	11,500	4,744
Residential	6,091	4,536
Total disposals	17,591	9,280
Write-downs		
Commercial	3,524	414
Residential	1,012	29
Total write-downs	4,536	443
Balance at end of period	$36,687	$35,257

NOTE 12: ALLOWANCE FOR LOAN AND LEASE LOSSES

Uncovered Loans

For each reporting period, management maintains the allowance at a level that it considers sufficient to absorb inherent risks in the loan portfolio. Management's evaluation in establishing the adequacy of the allowance includes evaluation of the loan and lease portfolios, actual past loan and lease loss experience, known and inherent risks in the portfolio, adverse situations that may affect a specific borrower's ability to repay (including the timing of future payments), the estimated value of any underlying collateral, composition of the loan portfolio, economic conditions, and other pertinent factors, such as periodic internal and external evaluations of delinquent, nonaccrual, and classified loans. The evaluation is inherently subjective as it requires utilizing material estimates, including the amounts and timing of future cash flows expected to be received on impaired loans. The evaluation of these factors is the responsibility of the Allowance for Loan and Lease Losses Committee, which is comprised of senior officers from the risk management, credit administration, finance, and lending areas.

The allowance for commercial loans, including time and demand notes, tax-exempt loans, and commercial real estate loans begins with a process of estimating the probable losses inherent in the portfolio. The loss estimates for these commercial loans are established by category and based on First Financial's internal system of credit risk ratings and historical loss data.

The estimate of losses inherent in the commercial portfolio may be adjusted for management's estimate of probable losses on specific exposures dependent upon the values of the underlying collateral and/or the present value of expected future cash flows, as well as trends in delinquent and nonaccrual loans, prevailing economic conditions, changes in lending strategies, and other influencing factors.

In the commercial portfolio, certain loans, typically larger-balance non-homogeneous exposures, may have a specific allowance established based on the borrower's overall financial condition, resources and payment record, support from guarantors, and the realizable value of any collateral.

The allowance for consumer loans which includes residential real estate, installment, home equity, credit card loans, and overdrafts, is established for each of the categories by estimating losses inherent in that particular category of consumer loans. The estimate of losses is primarily based on historical loss rates for the category, as well as trends in delinquent and nonaccrual loans, prevailing economic conditions, and other influencing factors. Consumer loans are evaluated as an asset type within a category (i.e., residential real estate, installment, etc.), as these loans are smaller with more homogeneous characteristics.

There were no material changes to First Financial's accounting policies or methodology related to the allowance for loan and lease losses during the second quarter of 2011.

First Financial's policy is to charge-off loans when, in management's opinion, full collectibility of principal and interest based upon the contractual terms of the loan is unlikely.

Changes in the allowance for loan and lease losses for the previous five quarters are presented in the table that follows:

	Three Months Ended					Six Months Ended	
	2011		2010			June 30,	
(Dollars in thousands)	June 30,	Mar. 31,	Dec. 31,	Sep. 30,	June 30,	2011	2010

Balance at beginning of period	$53,645	$57,235	$57,249	$57,811	$56,642	$57,235	$59,311
Provision for loan losses	5,756	647	9,741	6,287	6,158	6,403	17,536
Loans charged off	(6,232)	(4,601)	(10,285)	(8,124)	(5,457)	(10,833)	(19,942)
Recoveries	502	364	530	1,275	468	866	906
Balance at end of period	$53,671	$53,645	$57,235	$57,249	$57,811	$53,671	$57,811
Allowance for loan and lease losses to total ending loans	1.92%	1.93%	2.03%	2.07%	2.07%	1.92%	2.07%

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

	Six Months Ended June 30, 2011							
		Real Estate						
(Dollars in thousands)	Commercial	Construction	Commercial	Residential	Installment	Home Equity	Other	Total
Allowance for loan and lease losses:								
Balance at beginning of period	$10,138	$8,326	$ 14,917	$ 8,907	$1,981	$10,939	$2,027	$57,235
Provision for loan and lease losses	1,930	1,841	6,205	(4,356)	(119)	242	660	6,403
Gross charge-offs	815	2,403	4,880	514	249	1,185	787	10,833
Recoveries	322	27	73	38	180	37	189	866
Total net charge-offs	493	2,376	4,807	476	69	1,148	598	9,967
Ending allowance for loan and lease losses	$11,575	$7,791	$ 16,315	$ 4,075	$1,793	$10,033	$2,089	$53,671
Ending allowance on loans individually evaluated for impairment	$1,528	$4,387	$ 4,021	$ 93	$0	$2	$0	$10,031
Ending allowance on loans collectively evaluated for impairment	679	41	351	69	9	69	0	1,218
	$2,207	$4,428	$ 4,372	$ 162	$9	$71	$0	$11,249
Loans and Leases:								
Ending balance of loans individually evaluated for impairment	$7,423	$19,377	$ 28,537	$ 2,088	$113	$101	$0	$57,639
Ending balance of loans collectively evaluated for impairment	2,395	169	3,502	4,564	335	2,375	0	13,340
	$9,818	$19,546	$ 32,039	$ 6,652	$448	$2,476	$0	$70,979

	Twelve Months Ended December 31, 2010							
		Real Estate						
(Dollars in thousands)	Commercial	Construction	Commercial	Residential	Installment	Home Equity	Other	Total
Allowance for loan and lease losses:								
Balance at beginning of period	$18,590	$8,143	$ 15,190	$ 5,308	$2,159	$8,063	$1,858	$59,311
Provision for loan and lease losses	4,252	8,778	6,836	5,268	457	6,183	1,790	33,564
Gross charge-offs	13,324	8,619	8,191	1,693	1,154	3,499	1,871	38,351
Recoveries	620	24	1,082	24	519	192	250	2,711
Total net charge-offs	12,704	8,595	7,109	1,669	635	3,307	1,621	35,640
Ending allowance for loan and lease losses	$10,138	$8,326	$ 14,917	$ 8,907	$1,981	$10,939	$2,027	$57,235
	$2,017	$3,716	$ 4,347	$ 122	$0	$0	$0	$10,202

Ending allowance on loans individually evaluated for impairment								
Ending allowance on loans collectively evaluated for impairment	279	7	196	149	4	82	0	717
	$2,296	$3,723	$ 4,543	$ 271	$4	$82	$0	$10,919
Loans and Leases:								
Ending balance of loans individually evaluated for impairment	$12,175	$19,294	$ 31,260	$ 1,912	$0	$0	$0	$64,641
Ending balance of loans collectively evaluated for impairment	1,554	38	2,864	4,607	150	2,553	0	11,766
	$13,729	$19,332	$ 34,124	$ 6,519	$150	$2,553	$0	$76,407

Covered Loans

In accordance with the accounting guidance for business combinations, there was no allowance brought forward on any of the acquired loans as any credit deterioration evident in the loans was included in the determination of the fair value of the loans at the acquisition date.

First Financial established an allowance for loan losses associated with covered loans during 2010 based on its valuation procedures performed during the period. The Company continued to update its valuations related to loans covered under loss share agreements during the second quarter of 2011 and, as a result of impairment in certain loan pools, recognized total provision expense of $23.9 million and realized net charge-offs of $4.4 million during the quarter, resulting in an allowance for covered loan losses of $51.0 million as of June 30, 2011. For the first six months of 2011, the Company recognized total provision expense of $49.9 million and realized net charge-offs of $15.4 million. Additionally, the Company recognized loss share expenses of $6.5 million for the first six months of 2011 and $3.4 million for the second quarter of 2011 primarily related to losses on covered OREO during the period. The receivable due from the FDIC under loss share agreements related to the covered provision expense and losses on covered OREO of $45.1 million for the first six months of 2011 and $21.6 million for the second quarter of 2011 was recognized as FDIC loss share income and a corresponding increase to the FDIC indemnification asset.

For the second quarter of 2010, First Financial recognized provision expense on covered loans of $19.0 million related to net charge-offs of $17.7 million during the period. For the first six months of 2010, the Company recognized provision expense of $28.4 million related to net charge-offs of $27.1 million. The related receivable due from the FDIC under loss share agreements related to these loans of $15.2 million and $22.7 million for the second quarter and first six months, respectively, was recognized as FDIC loss share income and a corresponding increase to the FDIC indemnification asset.

Under the applicable accounting guidance, the allowance for loan losses related to covered loans as a result of impairment to loan pools arising from on-going valuation procedures is generally recognized in the current period as provision expense. Improvement in the credit outlook, however, is not recognized immediately but instead is reflected as an adjustment to the yield earned on the related loan pools on a prospective basis once any previously recorded impairment has been recaptured. The timing inherent in this accounting treatment may result in earnings volatility in future periods.

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

	June 30, 2011				
(Dollars in thousands)	Commercial	Real Estate Commercial	Residential	Installment	Total
Ending allowance on loans acquired with deteriorated credit quality (ASC 310-30)	$24,548	$24,773	$1,547	$176	$51,044
Ending allowance on acquired loans outside the scope of ASC 310-30	0	0	0	0	0
Ending allowance on covered loans	$24,548	$24,773	$1,547	$176	$51,044

	December 31, 2010				
(Dollars in thousands)	Commercial	Real Estate Commercial	Residential	Installment	Total
Ending allowance on loans acquired with deteriorated credit quality (ASC 310-30)	$8,787	$7,213	$232	$261	$16,493
Ending allowance on acquired loans outside the scope of ASC 310-30	0	0	0	0	0
Ending allowance on covered loans	$8,787	$7,213	$232	$261	$16,493

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

	Three Months Ended					Six Months Ended	
	2011		2010			June 30,	
(Dollars in thousands)	Jun. 30	Mar. 31	Dec. 31	Sep. 30	Jun. 30	2011	2010
Balance at beginning of period	$31,555	$16,493	$11,583	$1,273	$0	$16,493	$0
Provision for loan and lease losses	23,895	26,016	13,997	20,725	18,962	49,911	28,422
Loans charged-off	(7,456)	(14,026)	(9,351)	(10,492)	(17,689)	(21,482)	(27,149)
Recoveries	3,050	3,072	264	77	0	6,122	0
Balance at end of period	$51,044	$31,555	$16,493	$11,583	$1,273	$51,044	$1,273

NOTE 13: INCOME TAXES

First Financial's effective tax rate for the second quarter of 2011 was 35.7% compared to 34.8% for the second quarter of 2010. The 2011 year-to-date effective tax rate was 35.4% compared to 34.9% for 2010.

At June 30, 2011, and December 31, 2010, First Financial had no unrecognized tax benefits recorded under FASB ASC Topic 740-10, Income Taxes. 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 state and local income tax in several jurisdictions. Tax years prior to 2008 have been closed and are no longer subject to U.S. federal income tax examinations.

First Financial is no longer subject to state and local income tax examinations for years prior to 2007. The Company's 2007 state examination by the state of Indiana has closed with no material impact to the Company's financial position as a result of the examinations. Tax years 2007 through 2009 remain open to state and local examination in various jurisdictions.

First Financial was notified in the second quarter of 2011 that the Internal Revenue Service will commence a routine examination of its income tax return for the calendar year 2009. At this time, the company cannot make an assessment of the outcome of this examination.

NOTE 14: EMPLOYEE BENEFIT PLANS

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

First Financial made cash contributions totaling $60.0 million to fund the pension plan in 2010. First Financial does not expect to make a cash contribution to its pension plan in 2011. As a result of the plan's funding status and related actuarial projections for 2011, First Financial recorded income in the first six months of 2011 of $0.7 million, compared to expense of $1.0 million for the first six months of 2010. Likewise, First Financial recorded income in the second quarter of 2011 of $0.4 million compared to expense of $0.5 million for the same period in 2010.

The following table sets forth information concerning amounts recognized in First Financial's Consolidated Balance Sheets and Consolidated Statements of Income.

	Three months ended June 30,		Six months ended June 30,	
(Dollars in thousands)	2011	2010	2011	2010
Service cost	$825	$600	$1,650	$1,200
Interest cost	675	700	1,350	1,400
Expected return on assets	(2,275)	(1,250)	(4,550)	(2,500)
Amortization of prior service cost	(100)	(100)	(200)	(200)
Recognized net actuarial loss	525	525	1,050	1,050
Net periodic benefit (income) cost	$(350)	$475	$(700)	$950

Amounts recognized in accumulated other comprehensive income (loss):

	Three months ended June 30,	Six months ended June 30,

(Dollars in thousands)	2011	2010	2011	2010
Net actuarial loss	$525	$525	$1,050	$1,050
Net prior service credit	(100)	(100)	(200)	(200)
Deferred tax (liabilities) assets	(160)	(158)	(321)	(26)
Net amount recognized	$265	$267	$529	$824

NOTE 15: FAIR VALUE DISCLOSURES

Fair Value Measurement
The fair value framework as disclosed in the Fair Value Measurements and Disclosure Topic of the FASB Accounting Standards Codification (Fair Value Topic) includes a hierarchy which focuses on prioritizing the inputs used in valuation techniques. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1), a lower priority to observable inputs other than quoted prices in active markets for identical assets and liabilities (Level 2), and the lowest priority to unobservable inputs (Level 3). When determining the fair value measurements for assets and liabilities, First Financial looks to active markets to price identical assets or liabilities whenever possible and classifies such items in Level 1. When identical assets and liabilities are not traded in active markets, First Financial looks to 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 the Fair Value Topic. 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 qualified third parties. Fair value is based on the contractual price to be received from these third parties, which is not materially different than cost due to the short duration between origination and sale (Level 2). As such, First Financial records any fair value adjustments on a nonrecurring basis. Gains and losses on the sale of loans are recorded as net gains from sales of loans within noninterest income in the Consolidated Statements of Income.

Loans (excluding covered loans) – The fair value of commercial, commercial real estate, residential real estate, and consumer loans were estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities or repricing frequency. The carrying amount of accrued interest approximates its fair value.

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.

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

Fair values for covered loans accounted for outside of FASB ASC Topic 310-30 were estimated by discounting the estimated future cash flows using current interest rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities or repricing frequency. The carrying amount of accrued interest approximates its fair value.

These cash flow evaluations are inherently subjective as they require material estimates, all of which may be susceptible to significant change.

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.

FDIC indemnification asset – The accounting for FDIC indemnification assets is closely related to the accounting for the underlying, indemnified assets. Fair value of the FDIC indemnification asset was estimated using projected cash flows related to the loss sharing agreements based on the expected reimbursements for losses and the applicable loss sharing percentages. First Financial re-estimates the expected indemnification asset cash flows in conjunction with the periodic re-estimation of cash flows on covered loans accounted for under FASB ASC Topic 310-30. Improvements in cash flow expectations on covered loans generally result in a related decline in the expected indemnification cash flows while declines in cash flow expectations on covered loans generally result in an increase in expected indemnification cash flows.

The expected cash flows are discounted to reflect the uncertainty of the timing and receipt of the loss sharing reimbursement from the FDIC. These cash flow evaluations are inherently subjective as they require material estimates, all of which may be susceptible to significant change.

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, 2011		December 31, 2010	
(Dollars in thousands)	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Cash and short-term investments	$251,258	$251,258	$282,933	$282,933
Investment securities held-to-maturity	3,001	3,226	17,406	18,066
Investment securities available-for-sale	1,134,114	1,134,114	919,110	919,110
Other investments	71,492	71,492	78,689	78,689
Loans held for sale	8,824	8,824	29,292	29,292
Loans, excluding covered loans	2,735,483	2,720,921	2,758,858	2,720,080
Covered loans	1,191,686	1,215,537	1,465,000	1,477,631
Mortgage-servicing rights	1,201	1,212	1,502	1,502
FDIC indemnification asset	193,113	170,602	222,648	212,431
Accrued interest receivable	10,903	10,903	14,063	14,063
Derivative financial instruments	0	0	262	262
Financial liabilities				
Deposits				
Noninterest-bearing	$728,178	$728,178	$705,484	$705,484
Interest-bearing demand	1,021,519	1,021,519	1,111,877	1,111,877
Savings	1,643,110	1,643,110	1,534,045	1,534,045
Time	1,581,603	1,591,588	1,794,843	1,818,237
Total deposits	4,974,410	4,984,395	5,146,249	5,169,643
Short-term borrowings	105,291	105,291	59,842	59,842
Long-term debt	102,255	106,604	128,880	125,825
Other long-term debt	0	0	20,620	20,620
Accrued interest payable	4,392	4,392	5,516	5,516
Derivative financial instruments	2,871	2,871	3,223	3,223

The following table summarizes the financial assets and liabilities measured at fair value on a recurring basis at June 30, 2011:

(Dollars in thousands)	Fair Value Measurements Using Level 1	Level 2	Level 3	Netting Adjustments [1]	Assets/Liabilities at Fair Value
Assets					
Derivatives	$0	$17,550	$(763)	$(16,787)	$ 0
Available-for-sale investment securities	145	1,133,969	0	0	1,134,114
Total	$145	$1,151,519	$(763)	$(16,787)	$ 1,134,114
Liabilities					
Derivatives	$0	$19,658	$0	$(16,787)	$ 2,871

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

Certain financial assets and liabilities are measured at fair value on a nonrecurring basis. Adjustments to the fair market value of these assets usually result from the application of lower-of-cost-or-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, 2011:

(Dollars in thousands)	Fair Value Measurements Using Level 1	Level 2	Level 3	Year-to-date Gains/(Losses)
Assets				
Loans held for sale	$0	$8,824	$0	$0
Impaired loans [1]	156	18,046	323	0

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

NOTE 16: ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

	June 30, 2011 Transactions			
(Dollars in thousands)	Pre-tax	Tax-effect	Net of tax	Balances Net of tax
Unrealized gain on securities available-for-sale	$4,680	$(1,767)	$2,913	$11,977
Unrealized loss on derivatives	628	(237)	391	0
Unfunded pension obligation	850	(321)	529	(20,753)
Foreign currency translation	309	0	309	874
Total	$6,467	$(2,325)	$4,142	$(7,902)

(Dollars in thousands)	June 30, 2010 Transactions Pre-tax	Tax-effect	Net of tax	Balances Net of tax
Unrealized gain on securities available-for-sale	$5,226	$(2,073)	$3,153	$13,377
Unrealized loss on derivatives	(1,949)	711	(1,238)	(307)
Unfunded pension obligation	850	(26)	824	(20,937)
Foreign currency translation	(83)	0	(83)	36
Total	$4,044	$(1,388)	$2,656	$(7,831)

NOTE 17: EARNINGS PER COMMON SHARE

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

	Three months ended June 30,		Six months ended June 30,	
(Dollars in thousands, except per share data)	2011	2010	2011	2010
Numerator for basic and diluted earnings per share -income available to common shareholders:				
Net income	$15,973	$17,774	$33,180	$29,372
Dividends on preferred stock	0	0	0	1,865
Income available to common shareholders	$15,973	$17,774	$33,180	$27,507
Denominator for basic earnings per share - weighted average shares	57,694,792	57,539,901	57,642,970	56,356,877
Effect of dilutive securities —				
Employee stock awards	945,250	944,176	974,958	893,621
Warrants	94,620	119,962	104,520	114,824
Denominator for diluted earnings per share - adjusted weighted average shares	58,734,662	58,604,039	58,722,448	57,365,322
Earnings per share available to common shareholders				
Basic	$0.28	$0.31	$0.58	$0.49
Diluted	$0.27	$0.30	$0.57	$0.48

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 434,976 and 320,963 at June 30, 2011 and 2010, respectively. The warrants to purchase 465,117 shares of common stock were outstanding as of June 30, 2011 and 2010.

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

SUMMARY

First Financial is a $6.0 billion bank holding company headquartered in Cincinnati, Ohio. As of June 30, 2011 First Financial, through its subsidiaries, operated in Ohio, Indiana, and Kentucky. These subsidiaries include a commercial bank, First Financial Bank, N.A. (Bank) with 102 banking centers and ATMs, and an investment advisory company, First Financial Capital Advisors LLC (Capital Advisors). First Financial conducts three primary activities through its bank subsidiary: commercial banking, retail banking and wealth management. First Financial expects to execute a dissolution strategy of Capital Advisors which should be completed later in 2011. The Bank operates in 65 communities under the First Financial Bank name and provides credit based products, deposit accounts, corporate cash management support, and other services to commercial and retail clients. The wealth management activities include a full range of services including trust services, brokerage, investment, and other related services. Additionally, the Bank conducts specialty, franchise lending providing equipment and leasehold improvement financing for franchisees, in the quick service and casual dining restaurant sector, throughout the United States. Loans to franchisees often include the financing of real estate as well as equipment. The franchise portfolio is managed to a risk-appropriate level so as not to create an industry, geographic or franchisee concept concentration.

MARKET STRATEGY

First Financial serves a combination of metropolitan and non-metropolitan markets in Ohio, Indiana, and Kentucky through its full-service banking centers, while the franchise lending activity serves borrowers throughout the United States. First Financial's market selection process includes 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 utilizing a local market focus; building long-term relationships with clients, helping them reach greater levels of success in their financial life and providing a superior level of service. First Financial intends to continue 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 remain an important part of its funding base. First Financial believes its historical strength in these markets should enable it to retain or improve its market share.

During the first quarter of 2011, First Financial exited the four banking center locations comprising its Michigan geographic market as well as its single banking center in Louisville, Kentucky. First Financial decided to shift resources towards core markets such as Cincinnati and Dayton, Ohio and Indianapolis, Southern and Northwest Indiana that it believes will provide a higher level of potential overall growth while improving the efficiency of its operations. The five banking centers in Michigan and Louisville were acquired during 2009 as part of First Financial's Federal Deposit Insurance Corporation (FDIC)-assisted transactions under which the Company assumed the banking operations of Irwin Union Bank and Trust Company and Irwin Union Bank, F.S.B. (collectively, Irwin).

BUSINESS COMBINATIONS

During the second quarter of 2011, First Financial signed a purchase and assumption agreement to acquire all 16 of the retail banking branches of Liberty Savings Bank, FSB (Liberty) located in Ohio. The deposits associated with these branches totaled approximately $350 million as of March 31, 2011. Additionally, First Financial agreed to purchase a diversified portfolio of approximately $150 million of in-market performing loans as part of this transaction. The Liberty transaction is expected to close during the third quarter 2011 and is subject to regulatory approval and other customary closing conditions.

During the third quarter of 2009, through FDIC-assisted transactions, First Financial acquired the banking operations of Peoples Community Bank (Peoples) and Irwin. The acquisitions of the Peoples and Irwin franchises significantly expanded the First Financial footprint, opened new markets and strengthened the company through the generation of additional capital.

In connection with the Peoples and Irwin FDIC-assisted transactions, First Financial entered into loss sharing agreements with the FDIC. Under the terms of these agreements the FDIC reimburses First Financial for a percentage of losses with respect to certain loans (covered loans) and other real estate owned (covered OREO) (collectively, covered assets). These agreements provide for loss protection on single-family, residential loans for a period of ten years and First Financial is required to share any recoveries of previously charged-off amounts for the same time period, on the same pro-rata basis with the FDIC. All other loans are provided loss protection for a period of five years and recoveries of previously charged-off loans must be shared with the FDIC for a period of eight years, again on the same pro-rata basis. The FDIC's obligation to reimburse First Financial for losses with respect to covered assets for all three assisted transactions began with the first dollar of loss incurred. Covered loans represent approximately 31% of First Financial's loans at June 30, 2011.

First Financial must follow specific servicing and resolution procedures, as outlined in the loss share agreements, in order to receive reimbursement from the FDIC for losses on covered assets. The company has established separate and dedicated teams of legal, finance, credit and technology staff to execute and monitor all activity related to each agreement, including the required periodic reporting to the FDIC. First Financial services all covered assets with the same resolution practices and diligence as it does for the assets that are not subject to a loss share agreement.

Covered loans acquired from Peoples totaling $421.0 million in unpaid principal balances are subject to a stated loss threshold of $190.0 million whereby the FDIC will reimburse First Financial for 80% of covered asset losses up to $190.0 million, and 95% of losses beyond $190.0 million.

Covered loans acquired from Irwin Union Bank totaling $1.9 billion in unpaid principal balances are subject to a stated loss threshold of $526.0 million whereby the FDIC will reimburse First Financial for 80% of covered asset losses up to $526.0 million, and 95% of losses beyond $526.0 million.

Covered loans acquired from Irwin FSB totaling $368.1 million in unpaid principal balances are subject to a stated loss threshold of $110.0 million whereby the FDIC will reimburse First Financial for 80% of covered asset losses up to $110.0 million, and 95% of losses beyond $110.0 million.

Each acquisition was considered a business combination and accounted for under FASB ASC Topic 805, Business Combinations, FASB ASC Topic 820, Fair Value Measurements and Disclosures, FASB ASC Topic 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality, and FASB ASC Topic 310-20, Receivables-Nonrefundable Fees and Costs. All acquired assets and liabilities, including identifiable intangible assets, were recorded at their estimated fair values as of the date of acquisition. For a more detailed discussion of the transactions please see Note 3, Business Combinations.

OVERVIEW OF OPERATIONS

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

Second quarter 2011 net income and net income available to common shareholders, was $16.0 million, and earnings per diluted common share were $0.27. This compares with first quarter 2011 net income and net income available to common shareholders of $17.2 million, and earnings per diluted common share of $0.29 and second quarter 2010 net income and net income available to common shareholders of $17.8 million and earnings per diluted common share of $0.30.

For the six month period ended June 30, 2011, net income and net income available to common shareholders, was $33.2 million, and earnings per diluted common share was $0.57. This compares to net income of $29.4 million, net income available to common shareholders of $27.5 million, and earnings per diluted common share of $0.48.

Return on average assets for the second quarter of 2011 was 1.03% compared to 1.08% for the comparable period in 2010 and 0.90% at December 31, 2010. Return on average shareholders' equity for the second quarter of 2011 was 9.05 % compared to 10.62% for the comparable period in 2010 and 8.14% at December 31, 2010.

A discussion of the first six months and second quarter of 2011 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 June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2011	2010	2011	2010
Net interest income	$65,867	$67,738	$133,202	$139,758
Tax equivalent adjustment	240	212	478	424
Net interest income - tax equivalent	$66,107	$67,950	$133,680	$140,182
Average earning assets	$5,733,604	$6,000,760	$5,752,807	$5,986,114
Net interest margin *	4.61 %	4.53 %	4.67 %	4.71 %
Net interest margin (fully tax equivalent) *	4.62 %	4.54 %	4.69 %	4.72 %

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

Net interest income for the second quarter of 2011 was $65.9 million, a decrease of $1.9 million from the second quarter of 2010 net interest income of $67.7 million and $1.5 million from the first quarter of 2011 net interest income of $67.3 million. Net interest income on a fully tax-equivalent basis for the second quarter 2011 was $66.1 million as compared to $67.6 million for the first quarter 2011 and $68.0 million as compared to the year-over-year period. Compared to the linked quarter (second quarter of 2011 compared to the first quarter of 2011), the decrease during the second quarter 2011 resulted from a decline in interest income earned on loans primarily driven by an 8.8% decrease in the balance of average covered loans outstanding. However, this decline was partially offset by an increase in interest earned on investments and lower interest expense on deposits. The decrease compared to the year-over-year quarter was primarily driven by the 27.3% decline in average covered loan balances and the reduced yield on the FDIC indemnification asset, offset partially by higher interest income from investments and lower funding costs as a result of the continued runoff of higher cost time deposits and the prepayment of $232 million of Federal Home Loan Bank (FHLB) advances during the third quarter 2010.

For the six month period ended June 30, 2011, net interest income was $133.2 million as compared to $139.8 million for the comparable period in 2010. Similar to the quarterly year-over-year items noted above, the decrease was driven by the decline in average covered loan balances and the reduced yield on the FDIC indemnification asset, offset partially by higher interest income from investments and lower funding costs.

Net interest margin was 4.61% for the second quarter 2011 as compared to 4.73% for the first quarter 2011 and 4.53% for the second quarter 2010. Net interest margin continued to be negatively impacted by the combination of normal amortization and paydowns in the acquired loan portfolio. However, the Company continued to use a significant portion of its liquidity to purchase investment securities, totaling $249.8 million during the quarter, helping to offset the margin decline from lower loan balances. Net interest margin also benefited from the expected runoff of retail and brokered certificates of deposit as well as runoff in deposits related to the exited markets of Michigan and Louisville.

Net interest margin is affected by certain activity related to the acquired loan portfolio. The majority of these loans are accounted for under ASC Topic 310-30 and, as such, the Company is required to periodically update its forecast of expected cash flows from these loans. Impairment, as a result of a decrease in expected cash flows, is recognized in the period it is measured as provision expense and has no impact on net interest margin. Improvements in expected cash flows are recognized on a prospective basis through an upward adjustment to the yield earned on the portfolio. Impairment and improvement are both partially offset by the impact of changes in the value of the FDIC indemnification asset. Impairment is partially offset by an increase to the FDIC indemnification asset as a result of FDIC loss sharing income and has no impact on net interest margin. Improvement, which is reflected as a higher yield, is partially offset by a lower yield earned on the FDIC indemnification asset until the next periodic valuation of the loans and the indemnification asset. The weighted average yield of the acquired loan portfolio can also be subject to change as loans with higher yields pay down more quickly or slowly than loans with lower yields.

The Consolidated Average Balance Sheets and Net Interest Income Analysis that follows are presented on a GAAP basis.

QUARTERLY CONSOLIDATED AVERAGE BALANCE SHEETS AND NET INTEREST INCOME ANALYSIS

	June 30, 2011			March 31, 2011			June 30, 2010		
(Dollars in thousands)	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Earning assets									
Investments:									
Interest-bearing deposits with other banks	$375,434	$328	0.35 %	$276,837	$282	0.41 %	$554,333	$459	0.33 %
Investment securities	1,093,870	7,272	2.67 %	1,045,292	7,001	2.72 %	597,991	5,689	3.82 %
Gross loans including covered loans and indemnification asset [(1)]	4,264,300	70,217	6.60 %	4,450,095	72,780	6.63 %	4,848,436	79,790	6.60 %
Total earning assets	5,733,604	77,817	5.44 %	5,772,224	80,063	5.63 %	6,000,760	85,938	5.74 %
Nonearning assets									
Cash and due from banks	118,829			111,953			273,162		
Allowance for loan and lease losses	(94,202)			(83,155)			(60,444)		
Premises and equipment	115,279			119,006			115,587		
Other assets	346,244			346,380			291,956		
Total assets	$6,219,754			$6,266,408			$6,621,021		
Interest-bearing liabilities									
Deposits:									
Interest-bearing	$1,130,503	$808	0.29 %	$1,088,791	855	0.32 %	$1,139,001	1,265	0.45 %
Savings	1,636,821	1,838	0.45 %	1,585,065	1,743	0.45 %	1,341,194	2,058	0.62 %
Time	1,634,779	8,121	1.99 %	1,757,668	8,802	2.03 %	2,090,776	11,985	2.30 %
Short-term borrowings	95,297	49	0.21 %	89,535	45	0.20 %	37,353	17	0.18 %
Long-term borrowings	122,899	1,134	3.70 %	140,552	1,283	3.70 %	410,592	2,875	2.81 %
Total interest-bearing liabilities	4,620,299	11,950	1.04 %	4,661,611	12,728	1.11 %	5,018,916	18,200	1.45 %
Noninterest-bearing liabilities and shareholders' equity									
Noninterest-bearing demand	734,674			733,242			740,011		
Other liabilities	157,031			176,493			191,043		
Shareholders' equity	707,750			695,062			671,051		
Total liabilities and shareholders' equity	$6,219,754			$6,266,408			$6,621,021		
Net interest income		$65,867			$67,335			$67,738	

Net interest spread	4.40 %	4.52 %	4.29 %
Contribution of noninterest-bearing sources of funds	0.21 %	0.21 %	0.24 %
Net interest margin [2]	4.61 %	4.73 %	4.53 %

(1) Nonaccrual loans and loans held for sale are included in average balances.

(2) Because noninterest-bearing funding sources, demand deposits, other liabilities, and shareholders' equity also support earning assets, the net interest margin exceeds the interest spread.

RATE/VOLUME ANALYSIS

The impact of changes in the volume of interest-earning assets and interest-bearing liabilities and interest rates on net interest income is illustrated in the following tables.

	Changes for the Three Months Ended June 30					
	Linked Qtr. Income Variance			Comparable Qtr. Income Variance		
(Dollars in thousands)	Rate	Volume	Total	Rate	Volume	Total
Earning assets						
Investment securities	$(128)	$399	$271	$(1,714)	$3,297	$1,583
Other earning assets	(43)	89	46	25	(156)	(131)
Gross loans [1]	(309)	(2,254)	(2,563)	46	(9,619)	(9,573)
Total earning assets	(480)	(1,766)	(2,246)	(1,643)	(6,478)	(8,121)
Interest-bearing liabilities						
Total interest-bearing deposits	$(680)	$47	$(633)	$(4,128)	$(413)	$(4,541)
Borrowed funds						
Short-term borrowings	1	3	4	2	30	32
Federal Home Loan Bank long-term debt	(5)	(147)	(152)	1,009	(2,628)	(1,619)
Other long-term debt	3	0	3	(120)	(2)	(122)
Total borrowed funds	(1)	(144)	(145)	891	(2,600)	(1,709)
Total interest-bearing liabilities	(681)	(97)	(778)	(3,237)	(3,013)	(6,250)
Net interest income [2]	$201	$(1,669)	$(1,468)	$1,594	$(3,465)	$(1,871)

[1] Loans held for sale, nonaccrual loans, covered loans, and indemnification asset are included in gross loans.
[2] Not tax equivalent.

	Changes for the Six Months Ended June 30		
	Year-to-Date Income Variance		
(Dollars in thousands)	Rate	Volume	Total
Earning assets			
Investment securities	$(3,602)	$6,555	$2,953
Other earning assets	87	(278)	(191)
Gross loans (1)	(2,472)	(18,907)	(21,379)
Total earning assets	(5,987)	(12,630)	(18,617)
Interest-bearing liabilities			
Total interest-bearing deposits	$(8,081)	$(708)	$(8,789)
Borrowed funds			
Short-term borrowings	3	55	58
Federal Home Loan Bank long-term debt	2,083	(5,170)	(3,087)
Other long-term debt	(241)	(2)	(243)
Total borrowed funds	1,845	(5,117)	(3,272)
Total interest-bearing liabilities	(6,236)	(5,825)	(12,061)
Net interest income	$249	$(6,805)	$(6,556)

NONINTEREST INCOME

Second quarter 2011 noninterest income was $41.1 million, compared to $43.7 million in the first quarter of 2011 and $40.5 million in the second quarter of 2010. The decrease on a linked basis was primarily due to decreased reimbursements due from the FDIC related to covered loans as well as decreased accelerated discount on covered loans. The increase from the comparable quarter in 2010 was due to increased reimbursements due from the FDIC on covered loans although offset by decreased accelerated discount on covered loans. When losses are incurred on covered loans, the Company recognizes those credit losses as provision expense, while losses incurred on covered OREO are recognized as other noninterest expense. Reimbursements due from the FDIC under loss share agreements related to these credit losses are recorded as noninterest income and were $21.6 million for the second quarter of 2011, $23.4 million for the first quarter of 2011, and $15.2 million for the second quarter of 2010. The impact on earnings of this offsetting activity is the net effect of the credit losses and FDIC reimbursement, representing the Company's proportionate share of the credit losses realized on covered loans.

While no material sales of covered loans occurred during the second quarter of 2011, covered loan activity continued to positively impact noninterest income due to loan sales and prepayments. Accelerated discount is recognized when acquired loans, which are recorded on the Company's balance sheet at an amount less than the unpaid principal balance, prepay at an amount greater than their recorded book value. Prepayments can occur either through customer driven payments before the maturity date or loan sales. The amount of discount attributable to the credit loss component of each loan varies and the recognized amount is offset by a related reduction in the FDIC indemnification asset. First Financial sold covered loans associated with the exited Michigan market during the first quarter of 2011 with a carrying value of $36.8 million. These loans were sold at 100% of the unpaid principal balance and represented $3.1 million of the total accelerated discount for the quarter.

Excluding accelerated income and FDIC loss sharing income, noninterest income earned in the second quarter 2011 was $14.7 million as compared to $14.4 million in the first quarter 2011 and $17.9 million in the second quarter 2010. The increase compared to the linked quarter was primarily driven by higher service charges on deposits, bankcard income and client derivative fees; offset partially by lower gain on sale from residential mortgage originations and trust and wealth management fees. Additionally, the Company recognized a gain of $429,000 resulting from the sale of certain loans originated by its franchise finance unit that had a net book value of approximately $9.3 million. Consistent with a prior sale of franchise-related loans, the sale was conducted to lessen credit and geographic concentration risk within the franchise portfolio.

The decrease from the comparable quarter in 2010 was primarily related to lower service charges on deposits due to regulatory factors as well as $2.3 million of non-recurring income resulting from the settlement of certain initial cash items and valuations related to the 2009 FDIC acquisitions, partially offset by higher gain on sale of residential originations related to increased mortgage origination activity and increased bankcard income.

On a comparable basis, noninterest income for the six months ended June 30, 2011 was $84.8 million as compared to $67.4 million for the six months period ended June 30, 2010. The increase of $17.4 million, or 25.8%, was primarily attributable to increased FDIC loss sharing income of $22.3 million, offset by a decrease in accelerated discount on covered loans of $3.0 million as well as a decrease of $2.0 million in services charges on deposits.

Excluding accelerated income and FDIC loss sharing income, noninterest income for the six months ended June 30, 2011 was $29.2 million as compared to $31.2 million in the six months ended June 30, 2010. The $2.0 million decline was primarily related to lower service charges on deposits attributable to regulatory factors as well as a decline in other noninterest income due to $2.3 million of non-recurring income resulting from the settlement of certain initial cash items and valuations related to the 2009 FDIC acquisitions in the six months ended June 30, 2010. These declines were partially offset by higher gain on sale of loans related to increased mortgage origination activity and increased bankcard income during the period.

NONINTEREST EXPENSE

Second quarter 2011 noninterest expense was $52.5 million, compared with $57.8 million in the first quarter of 2011, and $55.8 million in the second quarter of 2010.

Compared to the same quarter in 2010, noninterest expense decreased $3.3 million or 6.0%. Salaries and employee benefits decreased $4.4 million from the comparable quarter in 2010, primarily a result of lower base salaries, incentive bonuses, and pension expense. Pension expense was lower due to plan contributions made in 2010. Occupancy expense declined $0.8 million as a result of exiting certain banking centers in Michigan and Kentucky during the first quarter of 2011, while FDIC assessments declined $0.8 million related to lower assessment rates that became effective during the second quarter 2011. Professional services expense increased $0.6 million as a result of increased legal and consulting expenses, while other noninterest expenses increased $2.1 million primarily due to expenses associated with covered OREO. Covered OREO expenses are partially reimbursed by the FDIC.

On a linked quarter basis, noninterest expense decreased $5.3 million or 9.2%. This decrease was primarily related to a $2.4 million decrease in salaries and employee benefits, a $2.4 million decline in occupancy expense due to costs associated with the exit from certain banking centers in Michigan and Kentucky during the first quarter 2011, and a $1.0 million decline in FDIC assessments related to lower assessment rates that became effective during the second quarter 2011. These declines were partially offset by a $0.9 million increase in professional services related to increased legal and consulting expenses.

For the six months ended June 30, 2011, noninterest expense totaled $110.3 million compared to $116.1 million for the comparable year-over-year period. This decline in year-to-date noninterest expense was primarily due to lower salaries and employee benefits, occupancy expense, communication expense, and FDIC assessments as a result of the lower headcount and fewer banking centers. These declines were partially offset by increases in professional services and OREO-related expenses.

INCOME TAXES

Income tax expense was $8.9 million and $9.5 million for the second quarters of 2011 and 2010, respectively. The effective tax rates for the second quarters of 2011 and 2010 were 35.7% and 34.8%, respectively. Income tax expense was $18.2 million and $15.8 million for the six months ended June 30, 2011 and 2010. The effective tax rates for the six months ended June 30, 2011, and 2010, were 35.4% and 34.9%, respectively.

The quarter and year-to-date increases in the effective tax rate were primarily due to a decline in tax-exempt investments and an increase in non-deductible executive compensation.

LOANS - Excluding covered loans

Loans, excluding covered loans, totaled $2.8 billion at June 30, 2011, representing a decrease of $26.9 million, or 1.0%, compared to December 31, 2010 and a decrease of $5.0 million, or 0.2%, compared to June 30, 2010. Compared to December 31, 2010 the composition of the loan portfolio remained similar with slight net declines in commercial, real estate residential, and installment portfolios. Loan demand remains a challenge in the Company's strategic operating markets due to uncertainty in the economic environment.

Second quarter 2011 average loans excluding covered loans and loans held for sale, declined $16.7 million or 0.6% from the second quarter of 2010. The decline in average loans excluding covered loans and loans held for sale was primarily related to a $63.3 million decline in average construction real estate loans and a $33.1 million decline in average residential real estate loans, partially offset by a $72.6 million increase in average commercial and commercial real estate loans.

LOANS - Covered

As of June 30, 2011, 30.8% of the Company's total loans were covered loans. As required under the loss-share agreements, First Financial must file monthly certifications with the FDIC on single-family residential loans and quarterly certifications on all other loans. To date, all certifications have been filed in a timely manner and without significant issues.

Covered loans totaled $1.2 billion at June 30, 2011, representing a $238.8 million, or 16.1%, decline compared to December 31, 2010 and a $474.9 million, or a 27.6%, decline compared to June 30, 2010. Compared to December 31, 2010 and the comparable quarter declines in covered loan balances were to be expected as there were no acquisitions of loans subject to loss share agreements during the periods. The covered loan portfolio will continue to decline, through payoffs, loan sales, charge-offs, termination or expiration of loss share coverage, unless First Financial acquires additional loans subject to loss share agreements in the future.

INVESTMENTS

Investment securities totaled $1.2 billion as of June 30, 2011, $1.0 billion at December 31, 2010 and $607.5 million as of June 30, 2010. The total investment portfolio represented 20.0% of total assets at June 30, 2011, 16.2% at December 31, 2010, and 9.2% at June 30, 2010. Securities available-for-sale at June 30, 2011, totaled $1.1 billion, compared with $919.1 million at December 31, 2010, and $503.4 million at June 30, 2010.

The increase in the investment portfolio as compared to December 31, 2010 was due to the purchase of $249.8 million of agency mortgage backed securities, net of maturities, amortizations, and investments called prior to maturity. The growth in the investment portfolio relative to both year end and the year-over-year quarter is primarily due to the investment of liquidity resulting from continued muted loan demand and deposit inflows. The addition of short and long-term securities was executed in conjunction with the Company's overall asset/liability structure and interest rate risk modeling activities, and, to a lesser extent, market and rate expectations. As in past quarters, First Financial has avoided adding to its portfolio any particular securities that would materially increase credit risk or geographic concentration risk. The Company does, however, include these risks in its total evaluation of current market opportunities that would enhance the overall performance of the portfolio.

The Company has recorded, as a component of equity in accumulated other comprehensive income, an unrealized after-tax gain on the investment portfolio of approximately $12.0 million at June 30, 2011, compared with $9.1 million at December 31, 2010 and $13.4 million at June 30, 2010.

DEPOSITS AND FUNDING

Total deposits as of June 30, 2011 were $5.0 billion, a decrease of $171.8 million, or 3.3%, compared to December 31, 2010 and a $272.9 million, or 5.2%, decline from June 30, 2010. The decrease over year end was driven by a $90.4 million decline in interest-bearing deposits and a $213.2 million decline in time deposits, partially offset by a $22.7 million increase in noninterest-bearing deposits and a $109.1 million increase in savings deposits. The increase in transaction accounts as of June 30, 2011 compared to the balance as of December 31, 2010 reflects the continued benefits of First Financial's deposit pricing strategy as outflows of time deposits and brokered deposits have been replaced with less expensive transaction-based and wholesale funding. The acquisition of low cost core deposits and customer relationships is central to the Company's long term operating strategy despite the current strong liquidity position.

Second quarter 2011 average deposits declined $174.2 million, or 3.3%, from June 30, 2010. The decline in average deposits was primarily related to a $456.0 million, or 21.8%, decline in average time deposits and a $8.5 million decrease in average interest-bearing checking balances partially offset by a $295.6 million increase in average savings account balances during the period.

Borrowed funds as of June 30, 2011 totaled $207.5 million, as compared to $209.3 million as of December 31, 2010. This decrease was primarily due to the redemption of the $20.6 million of floating rate trust preferred securities, offset by an increase in repurchase agreements opened in the second quarter. Borrowed funds declined $236.1 million, or 53.2%, from $443.7 million as of June 30, 2010, primarily due to the prepayment of long-term FHLB advances acquired in the Peoples and Irwin transactions in the third quarter of 2010, as well as the redemption of the trust preferred securities previously mentioned.

RISK MANAGEMENT

Risk is an inherent part of First Financial's business activities and the Company manages risks through a structured enterprise risk management (ERM) approach that routinely assesses the overall level of risk and identifies specific risks and the steps being taken to mitigate them. First Financial continues to enhance its risk management capabilities and has, over time, enhanced risk awareness as part of the culture of the Company. First Financial has identified nine types of risk that it monitors in its ERM framework. These risks include information technology, market, legal, strategic, reputation, credit, regulatory (compliance), operational and external/environmental.

For further discussion of these risks, see Risk Management on pages 19 – 25 of First Financial's 2010 Annual Report and the information below.

CREDIT RISK

Credit risk represents the risk of loss due to failure of a customer or counterparty to meet its financial obligations in accordance with contractual terms. First Financial manages credit risk through its underwriting process, periodically reviewing and approving its credit exposures using Board of Directors approved credit policies and guidelines. Due to the significant differences in the accounting for covered loans and the loss sharing agreements with the FDIC, management believes that asset quality measures excluding the covered loans are generally more meaningful. Therefore, management has included asset quality measures that exclude covered loans in the table in this section.

Allowance for loan and lease losses (excluding covered loans)

Management maintains the allowance at a level that is considered sufficient to absorb inherent risks in the loan portfolio. Management’s evaluation in establishing the adequacy of the allowance includes evaluation of the loan and lease portfolios, past loan and lease loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower’s ability to repay (including the timing of future payments), the estimated value of any underlying collateral, composition of the loan portfolio, economic conditions, and other pertinent factors, such as periodic internal and external evaluations of delinquent, nonaccrual, and classified loans. The evaluation is inherently subjective as it requires utilizing material estimates, including the amounts and timing of future cash flows expected to be received on impaired loans. The evaluation of these factors is the responsibility of the Allowance for Loan and Lease Losses Committee, which is comprised of senior officers from the risk management, credit administration, finance, and lending areas.

As of the end of the second quarter 2011, the allowance for uncovered loan and lease losses was $53.7 million comparable to $57.2 million as of December 31, 2010 and $57.8 million as of June 30, 2010. As a percentage of period-end loans, the allowance for loan and lease losses was 1.92% as of June 30, 2011 compared to 2.03% as of December 31, 2010 and 2.07% as of June 30, 2010. The allowance for loan and lease losses as of June 30, 2011 reflects management's estimate of credit risk inherent in the Company's portfolio at that time.

Second quarter 2011 net charge-offs were $5.7 million, or 0.83% of average loans and leases, compared with $9.8 million, or 1.39%, at December 31, 2010 and $5.0 million, or 0.71%, for the comparable year-over-year quarter. There were no individually significant items included in net charge-offs during the second quarter 2011 and the total amount was driven primarily by activity in the commercial real estate and construction portfolios.

For the six months ended June 30, 2011, net charge-offs were $10.0 million, or 0.72% of average loans and leases, as compared to $19.0 million, or 1.36%, for the six months ended June 30, 2010.

Second quarter 2011 provision expense related to uncovered loans and leases was $5.8 million as compared to $0.6 million during the linked quarter and $6.2 million during the comparable year-over-year quarter. As a percentage of net charge-offs, second quarter 2011 provision expense equaled 100.5% compared to 15.3% during the first quarter 2011 and 123.4% during the second quarter 2010.

For the six months ended June 30, 2011, provision expense related to uncovered loans and leases was $6.4 million as compared to $17.5 million for the same period in 2010. As a percentage of net charge-offs, year-to-date 2011 provision expense was 64.2% compared to 92.1% for the same period in 2010.

The table that follows indicates the activity in the allowance for loan losses, excluding covered loans, for the quarterly periods presented.

	Three Months Ended					Six Months Ended	
	2011		2010			June 30,	
(Dollars in thousands)	June 30	Mar. 31	Dec. 31	Sep. 30	June 30	2011	2010
ALLOWANCE FOR LOAN AND LEASE LOSS ACTIVITY							
Balance at beginning of period	$53,645	$57,235	$57,249	$57,811	$56,642	$57,235	$59,311
Provision for loan losses	5,756	647	9,741	6,287	6,158	6,403	17,536
Gross charge-offs							
Commercial	383	432	5,131	762	1,156	815	7,431
Real estate-construction	1,213	1,190	500	3,607	2,386	2,403	4,512
Real estate-commercial	2,791	2,089	1,887	2,013	359	4,880	4,291
Real estate-residential	406	108	196	717	246	514	780
Installment	177	72	231	205	304	249	718
Home equity	923	262	1,846	389	580	1,185	1,264
All other	339	448	494	431	426	787	946
Total gross charge-offs	6,232	4,601	10,285	8,124	5,457	10,833	19,942
Recoveries							
Commercial	222	100	57	334	120	322	229
Real estate-construction	27	0	0	0	24	27	24
Real estate-commercial	38	35	243	728	99	73	111
Real estate-residential	29	9	6	11	4	38	7
Installment	82	98	116	116	127	180	287
Home equity	12	25	74	21	10	37	97
All other	92	97	34	65	84	189	151
Total recoveries	502	364	530	1,275	468	866	906
Total net charge-offs	5,730	4,237	9,755	6,849	4,989	9,967	19,036
Ending allowance for loan losses	$53,671	$53,645	$57,235	$57,249	$57,811	$53,671	$57,811
NET CHARGE-OFFS TO AVERAGE LOANS AND LEASES (ANNUALIZED)							
Commercial	0.08 %	0.17 %	2.72 %	0.23 %	0.56 %	0.12 %	1.90 %
Real estate-construction	3.42 %	3.05 %	1.15 %	7.64 %	4.68 %	3.22 %	4.17 %
Real estate-commercial	0.97 %	0.73 %	0.56 %	0.45 %	0.09 %	0.85 %	0.77 %
Real estate-residential	0.56 %	0.15 %	0.27 %	0.95 %	0.32 %	0.35 %	0.51 %
Installment	0.58 %	(0.16)%	0.64 %	0.49 %	0.92 %	0.21 %	1.11 %
Home equity	1.07 %	0.28 %	2.07 %	0.43 %	0.69 %	0.68 %	0.71 %
All other	2.68 %	4.09 %	6.26 %	5.05 %	4.89 %	3.36 %	5.67 %
Total net charge-offs	0.83 %	0.61 %	1.39 %	0.97 %	0.71 %	0.72 %	1.36 %

While First Financial is seeing isolated areas of improvement, overall weakness in both the commercial and consumer sectors continues to exist in its strategic markets. Given the continued challenging environment, the Company intends to remain proactive in identifying and managing individual credit situations.

Allowance for loan and lease losses (covered loans)

Substantially all loans acquired in the 2009 Peoples and Irwin acquisitions were covered by loss sharing agreements with the FDIC, whereby the FDIC reimburses First Financial for the majority of the losses incurred. These loans were recorded at their estimated fair value upon acquisition. Generally the determination of the fair value of the loans resulted in a significant write-down in the value of the loans, which was assigned to an accretable or nonaccretable balance, with the accretable balance being recognized as interest income over the remaining term of the loan. In accordance with accounting for business combinations, there was no allowance brought forward on any of the acquired loans, as the credit losses evident in the loans were included in the determination of the fair value of the loans at the acquisition date and are generally represented by the nonaccretable balance. The majority of the nonaccretable balance is expected to be received from the FDIC through the loss sharing agreements and is recorded as a separate indemnification asset from the covered loans and reflected on the Consolidated Balance Sheets.

The majority of covered loans are accounted for under FASB ASC Topic 310-30, whereby First Financial is required to periodically re-estimate the expected cash flows on the loans. For purposes of applying the guidance under FASB ASC Topic 310-30, First Financial grouped acquired loans into pools based on common risk characteristics. A decline in expected cash flows for a pool of loans is referred to as impairment and recorded as provision expense, and a related allowance for loan and lease losses on covered loans, on a discounted basis during the period. Estimated reimbursements due from the FDIC under loss share agreements related to any declines in expected loan cash flows are recorded as noninterest income and an increase to the FDIC indemnification asset in the same period. Improvement in expected cash flows for a pool of loans, once any previously recorded impairment is recaptured, is recognized prospectively as an adjustment to the yield on the loans in the pool and a related adjustment to the yield on the FDIC indemnification asset. These cash flow evaluations are inherently subjective as they require material estimates, all of which may be susceptible to significant change. First Financial recognized provision expense related to impairment in the expected cash flows on certain covered loans, as well as enhanced yields reflecting improved cash flow expectations on other covered loans during the first half of 2011.

First Financial established an allowance for loan losses associated with covered loans during 2010 based on its valuation procedures performed during the period. The Company continued to update its valuations related to loans covered under loss share agreements during the second quarter of 2011 and, as a result of impairment in certain loan pools, recognized total provision expense of $23.9 million and realized net charge-offs of $4.4 million during the quarter, resulting in an allowance for covered loan losses of $51.0 million as of June 30, 2011. For the first six months of 2011, the Company recognized total provision expense of $49.9 million and realized net charge-offs of $15.4 million. Additionally, the Company recognized loss share expenses of $6.5 million for the first six months of 2011 and $3.4 million for the second quarter of 2011 primarily related to losses on covered OREO during the period. The receivable due from the FDIC under loss share agreements related to the covered provision expense and losses on covered OREO of $45.1 million for the first six months of 2011 and $21.6 million for the second quarter of 2011 was recognized as FDIC loss share income and a corresponding increase to the FDIC indemnification asset.

For the second quarter of 2010, First Financial recognized provision expense on covered loans of $19.0 million and realized net charge-offs of $17.7 million during the period. For the first six months of 2010, the Company recognized provision expense of $28.4 million and realized net charge-offs of $27.1 million. The related receivable due from the FDIC under loss share agreements related to these loans of $15.2 million and $22.7 million for the second quarter and first six months, respectively, was recognized as FDIC loss share income and a corresponding increase to the FDIC indemnification asset.

	Three Months Ended					Six Months Ended	
	2011		2010			June 30,	
(Dollars in thousands)	Jun. 30,	Mar. 31,	Dec. 31,	Sep. 30,	Jun. 30,	2011	2010
Balance at beginning of period	$31,555	$16,493	$11,583	$1,273	$0	$16,493	$0
Provision for loan and lease losses	23,895	26,016	13,997	20,725	18,962	49,911	28,422
Loans charged-off	(7,456)	(14,026)	(9,351)	(10,492)	(17,689)	(21,482)	(27,149)
Recoveries	3,050	3,072	264	77	0	6,122	0
Ending allowance for covered loan losses	$51,044	$31,555	$16,493	$11,583	$1,273	$51,044	$1,273

Nonperforming/Underperforming Assets (excluding covered assets)

Nonperforming loans totaled $74.0 million and nonperforming assets totaled $90.3 million as of June 30, 2011 compared with $79.9 million and $97.8 million, respectively, at December 31, 2010 and $79.4 million and $96.2 million, respectively, at June 30, 2010. The decrease in nonperforming assets relative to December 31, 2010 was driven primarily by a reduction in nonaccrual and restructured loans, as well as a decrease in OREO. The declines in nonaccrual and restructured loans primarily related to the commercial and commercial real estate portfolios and included the effect of net charge-off activity discussed above and other resolution strategies which more than offset additions during the quarter.

The second quarter 2011 allowance for loan and lease losses as a percent of nonaccrual loans was 94.9% compared with 91.9%

at December 31, 2010, and 86.7% in the second quarter of 2010, and the allowance for loan and lease losses as a percent of nonperforming loans was 72.5% at June 30, 2011, compared with 71.6% at December 31, 2010, and 72.8% in the second quarter of 2010.

Total classified assets as of June 30, 2011 decreased to $184.8 million as compared to $202.1 million at December 31, 2010. Classified assets are defined by the Company as nonperforming assets plus performing loans internally rated substandard or worse.

Restructured Loans

Restructured loans decreased $131,000 during the second quarter 2011 from December 31, 2010 and increased $4.7 million from June 30, 2010. The increase over the comparable quarter was due primarily to the restructuring of a single commercial relationship totaling $9.3 million, partially offset by the sale of a $4.9 million restructured loan, both during the fourth quarter of 2010. Restructured loans remain on nonaccrual status until the borrower demonstrates the ability to comply with the modified terms.

Delinquent Loans

Loans 30-to-89 days past due totaled $26.8 million, or 0.96% of period end loans, as of June 30, 2011. This compares to $22.3 million, or 0.79%, as of December 31, 2010 and $21.8 million, or 0.78%, as of June 30, 2010. The increase compared to the December 31, 2010 resulted from increased delinquencies in the commercial and commercial real estate portfolios, offset by an improvement in residential real estate delinquencies.

Other Real Estate Owned

At June 30, 2011, OREO originating from uncovered loans was $16.3 million, compared with $17.9 million at December 31, 2010. The $1.6 million decline in OREO was primarily due to a $3.1 million reduction in value related to vacant land obtained from a commercial real estate developer partially offset by the additions of a single commercial property and a single residential property, totaling $1.6 million in the aggregate, during the period.

OREO originating from covered loans was $36.7 million at June 30, 2011, compared with $35.3 million at December 31, 2010.

The table that follows shows the categories that are included in nonperforming and underperforming assets, excluding covered assets, as of June 30, 2011, and the four previous quarters, as well as related credit quality ratios.

	Quarter Ended									
	2011				2010					
(Dollars in thousands)	June 30		Mar. 31		Dec. 31		Sep. 30		June 30	
Nonaccrual loans										
Commercial	$9,811		$9,918		$13,729		$17,320		$12,874	
Real estate - construction	13,237		14,199		12,921		13,454		18,890	
Real estate - commercial	26,213		30,846		28,342		27,945		28,272	
Real estate - residential	4,564		4,419		4,607		4,801		4,571	
Installment	335		262		150		279		267	
Home equity	2,376		2,404		2,553		2,358		1,797	
Total nonaccrual loans	56,536		62,048		62,302		66,157		66,671	
Restructured loans	17,482		18,532		17,613		13,365		12,752	
Total nonperforming loans	74,018		80,580		79,915		79,522		79,423	
Other real estate owned (OREO)	16,313		14,953		17,907		18,305		16,818	
Total nonperforming assets	90,331		95,533		97,822		97,827		96,241	
Accruing loans past due 90 days or more	149		241		370		233		276	
Total underperforming assets	$90,480		$95,774		$98,192		$98,060		$96,517	
Allowance for loan and lease losses to										
Nonaccrual loans	94.93	%	86.46	%	91.87	%	86.54	%	86.71	%
Nonperforming loans	72.51	%	66.57	%	71.62	%	71.99	%	72.79	%
Total ending loans	1.92	%	1.93	%	2.03	%	2.07	%	2.07	%
Nonperforming loans to total loans	2.65	%	2.90	%	2.84	%	2.88	%	2.84	%
Nonperforming assets to										
Ending loans, plus OREO	3.22	%	3.42	%	3.45	%	3.51	%	3.42	%
Total assets, including covered assets	1.50	%	1.51	%	1.57	%	1.59	%	1.46	%

MARKET RISK

Market risk is the risk of loss arising from adverse changes in the fair value of financial instruments due to changes in interest rates, foreign exchange rates, and equity prices. The primary source of market risk for First Financial is interest-rate risk. Interest-rate risk is the risk to earnings and equity value arising from changes in market interest rates and arises in the normal course of business to the extent that there is a divergence between the amount of First Financial’s interest-earning assets and the amount of interest-bearing liabilities that are prepaid/withdrawn, re-price, or mature in specified periods. First Financial seeks to achieve consistent growth in net interest income and equity while managing volatility arising from shifts in market interest rates. First Financial’s board of directors establishes policy limits with respect to interest rate risk and changes in the economic value of equity. First Financial’s Asset and Liability Committee (ALCO) oversees market risk management, monitoring risk measures, limits, and policy guidelines for managing the amount of interest-rate risk and its effect on net interest income and capital.

Interest rate risk management is an active process that encompasses monitoring loan and deposit flows complemented by investment and funding activities. Effective interest rate risk management begins with understanding the dynamic characteristics of assets and liabilities and determining the appropriate interest rate risk position given business activities, management objectives, market expectations and ALCO policy limits and guidelines.

Liquidity

Liquidity management is the process by which First Financial manages the continuing flow of funds necessary to meet its financial commitments on a timely basis and at a reasonable cost. These funding commitments include withdrawals by depositors, credit commitments to borrowers, shareholder dividends, expenses of its operations, and capital expenditures. Liquidity is monitored and closely managed by ALCO, a group of senior officers from the lending, deposit gathering, finance, risk management, and treasury areas. It is ALCO's responsibility to ensure First Financial has the necessary level of funds available for normal operations as well as maintain a contingency funding policy to ensure that liquidity stress events are quickly identified, and management plans are in place to respond. This is accomplished through the use of policies which establish limits and require measurements to monitor liquidity trends, including modeling and management reporting that identifies the amounts and costs of all available funding sources. These sources are periodically tested for funding availability.

Liquidity is derived primarily from deposit growth, principal and interest payments on loans and investment securities, maturing loans and investment securities, access to wholesale funding sources, and collateralized borrowings. First Financial's most stable source of liability-funded liquidity for both long and short-term needs is deposit growth and retention of the core deposit base. The deposit base is diversified among individuals, partnerships, corporations, public entities, and geographic markets. This diversification helps First Financial minimize dependence on large concentrations of funding sources.

Capital expenditures, such as banking center expansions and technology investments, were $4.6 million and $12.3 million for the first six months of 2011 and 2010, respectively. Management believes that First Financial has sufficient liquidity to fund its future capital expenditure commitments.

As of June 30, 2011, First Financial had pledged certain eligible residential and farm real estate loans, home equity lines of credit, as well as certain government and agency securities, totaling $1.1 billion as collateral for borrowings to the FHLB. For ease of borrowing execution, First Financial utilizes a blanket collateral agreement with the FHLB.

From time to time, First Financial utilizes its short-term line of credit and longer-term advances from the FHLB as funding sources. At both June 30, 2011 and December 31, 2010, the company had no short-term borrowings from the FHLB. At June 30, 2011, and December 31, 2010, total long-term borrowings from the FHLB were $37.3 million and $63.9 million, respectively. The total remaining borrowing capacity from the FHLB at June 30, 2011, was $238.8 million.

The principal source of asset-funded liquidity is marketable investment securities, particularly those of shorter maturities. The market value of investment securities classified as available-for-sale totaled $1.1 billion at June 30, 2011. Securities classified as held-to-maturity that are maturing within a short period of time are also a source of liquidity and totaled $0.3 million at June 30, 2011. In addition, other types of assets such as cash and due from banks, federal funds sold and securities purchased under agreements to resell, as well as loans maturing within one year, are sources of liquidity.

At June 30, 2011, in addition to liquidity on hand of $251.3 million, First Financial had unused and available overnight wholesale funding of approximately $2.1 billion (or approximately 34.9% of total assets) to fund any significant deposit runoff that may occur as a result of the repriced deposits and from the markets that the Company is exiting as well as general corporate requirements.

Certain restrictions exist regarding the ability of First Financial's subsidiaries to transfer funds to First Financial in the form of cash dividends, loans, other assets, or advances. The approval of the subsidiaries' respective primary federal regulators is required for First Financial's subsidiaries to pay dividends in excess of regulatory limitations. Dividends paid to First Financial from its subsidiaries totaled $16.4 million for the first six months of 2011. As of June 30, 2011, First Financial's subsidiaries had retained earnings of $346.0 million of which $210.6 million was available for distribution to First Financial. Additionally, First Financial had $100.5 million in cash as of June 30, 2011, which is approximately three times the Company's annual base shareholder dividend (currently $0.48 per share) and operating expenses. Management is not aware of any other events or regulatory requirements that, if implemented, are likely to have a material effect on First Financial's liquidity.

Until its prepayment during the second quarter 2011, First Financial made quarterly interest payments on its junior subordinated debenture owed to its unconsolidated subsidiary trust. Interest expense related to this other long-term debt totaled $0.2 million for the three months ended June 30, 2011, and $0.3 million for the three months ended June

30, 2010. Interest expense was $0.4 million and $0.6 million for the six months ended June 30, 2011, and 2010, respectively. On June 30, 2011, the trust preferred security was redeemed. Therefore, there will be no future interest expense associated with the junior subordinated debenture.

During the first quarter of 2010, First Financial made a $1.1 million cash quarterly dividend payment to the U.S. Treasury on the 80,000 perpetual preferred securities, which carried a 5.0% dividend rate for the first five years and a 9.0% rate thereafter. On February 24, 2010, First Financial Bancorp redeemed all of the $80.0 million of senior preferred shares issued to the U.S. Treasury in December 2008 under its Capital Purchase Program (CPP). First Financial included in its computation of earnings per diluted common share the impact of a non-cash, deemed dividend of $0.8 million, representing the unaccreted preferred stock discount remaining on the transaction date. This one-time deemed dividend was in addition to the first quarter 2010 preferred cash dividends paid through the redemption date.

First Financial had no share repurchase activity under publicly announced plans in 2010 or 2011.

CAPITAL

First Financial and its subsidiary, First Financial Bank, are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations involve quantitative measures of assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet minimum capital requirements can initiate regulatory action.

Consolidated regulatory capital ratios at June 30, 2011, included the leverage ratio of 11.01%, Tier 1 ratio of 20.15%, and total capital ratio of 21.43%. All regulatory capital ratios exceeded the amounts necessary to be classified as “well capitalized,” and total regulatory capital exceeded the “minimum” requirement by approximately $454.2 million, on a consolidated basis. First Financial’s tangible common equity ratio increased to 11.11% for the second quarter 2011 as compared to 10.33% at December 31, 2010 quarter and 9.55% for the comparable year-over-year quarter.

Quantitative measures established by regulation to ensure capital adequacy require First Financial to maintain minimum amounts and ratios (as defined by the regulations and set forth in the following table) of Total and Tier 1 capital to risk-weighted assets and to average assets, respectively. Management believes, as of June 30, 2011, that First Financial met all capital adequacy requirements to which it was subject. At June 30, 2011, and December 31, 2010, regulatory notifications categorized First Financial as well-capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized, First Financial must maintain minimum Total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table. There have been no conditions or events since those notifications that management believes has changed the institution’s category.

First Financial’s Tier I capital is comprised of total shareholders’ equity and prior to June 30, 2011 included its junior subordinated debentures, less unrealized gains and losses on investment securities available-for-sale accounted for under FASB ASC Topic 320, Investments-Debt and Equity Securities, and any amounts resulting from the application of FASB ASC Topic 715, Compensation-Retirement Benefits, that is recorded within accumulated other comprehensive income (loss), intangible assets, and any valuation related to mortgage servicing rights. Total risk-based capital consists of Tier I capital plus qualifying allowance for loan and lease losses and gross unrealized gains on equity securities.

For purposes of calculating the leverage ratio, average assets represents quarterly average assets less assets not qualifying for Total risk-based capital including intangibles and non-qualifying mortgage servicing rights and allowance for loan and lease losses.

On April 28, 2011, First Financial filed a shelf registration on Form S-3 with the Securities and Exchange Commission (SEC). This shelf registration allows First Financial to raise capital from time to time through the sale of various types of securities, subject to approval by the Company’s board of directors.

The following table illustrates the actual and required capital amounts and ratios as of June 30, 2011, and the year ended December 31, 2010.

(Dollars in thousands)	Actual Amount	Ratio		For Capital Adequacy Purposes Amount	Ratio		To Be Well Capitalized Under Prompt Corrective Action Provisions Amount	Ratio	
June 30, 2011									
Total capital to risk-weighted assets									
Consolidated	$724,735	21.43	%	$270,546	8.00	%	N/A	N/A	
First Financial Bank	619,217	18.36	%	269,749	8.00	%	$337,186	10.00	%
Tier 1 capital to risk-weighted assets									
Consolidated	681,492	20.15	%	135,273	4.00	%	N/A	N/A	
First Financial Bank	568,752	16.87	%	134,874	4.00	%	202,312	6.00	%
Tier 1 capital to average assets									
Consolidated	681,492	11.01	%	247,658	4.00	%	N/A	N/A	
First Financial Bank	568,752	9.20	%	247,209	4.00	%	309,012	5.00	%

(Dollars in thousands)	Actual Amount	Ratio		For Capital Adequacy Purposes Amount	Ratio		To Be Well Capitalized Under Prompt Corrective Action Provisions Amount	Ratio	
December 31, 2010									
Total capital to risk-weighted assets									
Consolidated	$727,252	19.72	%	$294,978	8.00	%	N/A	N/A	
First Financial Bank	600,911	16.36	%	293,930	8.00	%	367,412	10.00	%
Tier 1 capital to risk-weighted assets									
Consolidated	680,145	18.45	%	147,489	4.00	%	N/A	N/A	
First Financial Bank	546,726	14.88	%	146,965	4.00	%	220,447	6.00	%
Tier 1 capital to average assets									
Consolidated	680,145	10.89	%	248,847	4.00	%	N/A	N/A	
First Financial Bank	546,726	8.75	%	248,437	4.00	%	310,546	5.00	%

CRITICAL ACCOUNTING POLICIES

First Financial's Consolidated Financial Statements are prepared based on the application of accounting policies. These policies require the reliance on estimates and assumptions. Changes in underlying factors, assumptions, or estimates in any of these areas could have a material impact on First Financial's future financial condition and results of operations. In management's opinion, some of these areas have a more significant impact than others on First Financial's financial reporting. For First Financial, these areas currently include accounting for the allowance for loan and lease losses, covered loans, FDIC indemnification asset, goodwill, pension and income taxes. These accounting policies are discussed in detail in Management's Discussion and Analysis – Critical Accounting Policies on pages 27 – 28 of First Financial's 2010 Annual Report. There were no material changes to these accounting policies during the first half of 2011.

ACCOUNTING AND REGULATORY MATTERS

Note 2 to the Consolidated Financial Statements discusses new accounting standards adopted by First Financial during 2011 and the expected impact of accounting standards recently issued but not yet required to be adopted. To the extent the adoption of new accounting standards materially affects financial condition, results of operations, or liquidity, the impacts are discussed in the applicable section(s) of Management's Discussion and Analysis and the Notes to the Consolidated Financial Statements.

FORWARD-LOOKING INFORMATION

Certain statements contained in this news release which are not statements of historical fact constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act (the Act). In addition, certain statements in future filings by First Financial with the SEC, in press releases, and in oral and written statements made by or with the approval of First Financial which are not statements of historical fact constitute forward-looking statements within the meaning of the Act. Examples of forward-looking statements include, but are not limited to, projections of revenues, income or loss, earnings or loss per share, the payment or non-payment of dividends, capital structure and other financial items, statements of plans and objectives of First Financial or its management or board of directors, and statements of future economic performances and statements of assumptions underlying such statements. Words such as ''believes'', ''anticipates'', "likely", "expected", ''intends'', and other similar expressions are inter to identify forward-looking statements but are not the exclusive means of identifying such statements. Management's analysis contains forward-looking statements that are provided to assist in the understanding of anticipated future financial performance. However, such performance involves risks and uncertainties that may cause actual results to differ materially. Factors that could cause actual results to differ from those discussed in the forward-looking statements include, but are not limited to:

- management's ability to effectively execute its business plan;
- the risk that the strength of the United States economy in general and the strength of the local economies in which we conduct operations may continue to deteriorate resulting in, among other things, a further deterioration in credit quality or a reduced demand for credit, including the resultant effect on our loan portfolio, allowance for loan and lease losses and overall financial performance;
- the effects of the potential delay or failure of the U.S. federal government to pay its debts as they become due or make payments in the ordinary course;
- the ability of financial institutions to access sources of liquidity at a reasonable cost;
- the impact of recent upheaval in the financial markets and the effectiveness of domestic and international governmental actions taken in response, such as the U.S. Treasury's TARP and the FDIC's Temporary Liquidity Guarantee Program, and the effect of such governmental actions on us, our competitors and counterparties, financial markets generally and availability of credit specifically, and the U.S. and international economies, including potentially higher FDIC premiums arising from increased payments from FDIC insurance funds as a result of depository institution failures;
- the effect of and changes in policies and laws or regulatory agencies (notably the recently enacted Dodd-Frank Wall Street Reform and Consumer Protection Act);
- inflation and possible changes in interest rates;
- our ability to keep up with technological changes;
- our ability to comply with the terms of loss sharing agreements with the FDIC;
- mergers and acquisitions, including costs or difficulties related to the integration of acquired companies and the wind-down of non-strategic operations that may be greater than expected, such as the previous activities of Irwin Union Bank & Trust Company and its former affiliates, including the risks and uncertainties associated with the Irwin Mortgage Corporation bankruptcy proceedings;
- the risk that exploring merger and acquisition opportunities may detract from management's time and ability to successfully manage our company;
- expected cost savings in connection with the consolidation of recent acquisitions may not be fully realized or realized within the expected time frames, and deposit attrition, customer loss and revenue loss following completed acquisitions may be greater than expected;
- our ability to increase market share and control expenses;

- the effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies as well as the Financial Accounting Standards Board and the SEC;
- adverse changes in the securities and debt markets;
- our success in recruiting and retaining the necessary personnel to support business growth and expansion and maintain sufficient expertise to support increasingly complex products and services;
- monetary and fiscal policies of the Board of Governors of the Federal Reserve System (Federal Reserve) and the U.S. government and other governmental initiatives affecting the financial services industry;
- our ability to manage loan delinquency and charge-off rates and changes in estimation of the adequacy of the

allowance for loan losses; and

- the costs and effects of litigation and of unexpected or adverse outcomes in such litigation.

Such forward-looking statements are meaningful only on the date when such statements are made, and First Financial undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such a statement is made to reflect the occurrence of unanticipated events.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the risk of loss arising from adverse changes in the fair value of financial instruments due to changes in interest rates, foreign exchange rates, and equity prices. The primary source of market risk for First Financial is interest-rate risk. Interest-rate risk is the risk to earnings and equity value arising from changes in market interest rates and arises in the normal course of business to the extent that there is a divergence between the amount of First Financial's interest-earning assets and the amount of interest-bearing liabilities that are prepaid/withdrawn, re-price, or mature in specified periods. First Financial seeks to achieve consistent growth in net interest income and equity while managing volatility arising from shifts in market interest rates. First Financial's board of directors establishes policy limits with respect to interest rate risk. First Financial's Asset and Liability Committee (ALCO) oversees market risk management, monitoring risk measures, limits, and policy guidelines for managing the amount of interest-rate risk and its effect on net interest income and capital.

Interest-rate risk for First Financial's Consolidated Balance Sheets consists of repricing, option, and basis risks. Repricing risk results from differences in the maturity, or repricing, of interest-bearing assets and liabilities. Option risk in financial instruments arises from embedded options such as loan prepayments, early withdrawal of Certificates of Deposits, and calls on investments and debt instruments that are primarily driven by third party or client behavior. Basis risk refers to the potential for changes in the underlying relationship between market rates or indices, which subsequently result in a narrowing of the net interest margin. Basis risk is also present in managed rate liabilities, such as interest-bearing checking accounts and savings accounts, where historical pricing relationships to market rates may change due to the level or directional change in market interest rates, or competitive pressures.

The interest rate risk position is measured and monitored using income simulation models and economic value of equity sensitivity analysis that capture both short-term and long-term interest rate risk exposure. Income simulation involves forecasting net interest income under a variety of interest rate scenarios including instantaneous shocks.

Presented below is the estimated impact on First Financial's net interest income as of June 30, 2011, assuming immediate, parallel shifts in interest rates:

	-200 basis points	-100 basis points	+100 basis points	+200 basis points
June 30, 2011	(10.54)%	(3.47)%	1.17%	4.85%

Modeling the sensitivity of net interest income and the economic value of equity to changes in market interest rates is highly dependent on numerous assumptions incorporated into the modeling process. These assumptions are periodically reviewed in the context of balance sheet changes, product offerings, external economic factors and anticipated client behavior. In the first quarter of 2011, First Financial completed an update to its core deposit product repricing and retention formulas, as well as average life estimates, used in its interest rate risk modeling. The Company employed linear regression analysis in developing these updated components while utilizing an average of various predominant industry approaches to arrive at updated average life estimates. Using these updated assumptions, First Financial's projected results for earnings at risk and long-term economic value of equity indicate the Company remains in an asset sensitive position, which is consistent with results from the previous method employed. Due to the current low interest rate environment, funding rates on deposit and wholesale funding instruments were not reduced below 0.0% in the down 200 and down 100 basis points scenarios. The analysis provides a framework as to what our overall sensitivity is as of our most recent reported position.

Management strategies may impact future reporting periods, as our actual results may differ from simulated results due to the timing, magnitude, and frequency of interest rate changes, the difference between actual experience, and the characteristics assumed, as well as changes in market conditions. Market based prepayment speeds are factored into the analysis for loan and securities portfolios. Rate sensitivity for transactional deposit accounts is modeled based on both historical experience and external industry studies.

First Financial uses economic value of equity sensitivity analysis to understand the impact of changes in interest rates on long-term cash flows, income, and capital. Economic value of equity is based on discounting the cash flows for all balance sheet instruments under different interest-rate scenarios. Deposit premiums are based on external industry studies and utilizing historical experience. Presented below is the change in First Financial's economic value of equity position as of June 30, 2011, assuming immediate, parallel shifts in interest rates:

	-200 basis points	-100 basis points	+100 basis points	+200 basis points
June 30, 2011	(14.07)%	(4.76)%	3.77 %	4.21 %

First Financial, utilizing interest rates primarily based upon external industry studies, models additional scenarios covering the next twelve months. Based on these scenarios, First Financial has a relatively neutral rate risk position of a positive 0.67% when compared to a base-case scenario with interest rates held constant. Given its outlook for future interest rates, First Financial is managing its balance sheet with a bias toward asset sensitivity.

See also “Item 2-Management’s Discussion and Analysis of Financial Condition and Results of Operations—Net Interest Income.”

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Management is responsible for establishing and maintaining effective disclosure controls and procedures, as defined under Rule 13a-15 of the Securities Exchange Act of 1934, that are designed to cause the material information required to be disclosed by First Financial in the reports it files or submits under the Securities Exchange Act of 1934 to be recorded, processed, summarized, and reported to the extent applicable within the time periods required by the Securities and Exchange Commission’s rules and forms. In designing and evaluating the disclosure controls and procedures, management recognized that a control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

As of the end of the period covered by this report, First Financial performed an evaluation under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of its disclosure controls and procedures pursuant to Rule 13a-15 of the Securities Exchange Act of 1934. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

No changes were made to the Corporation’s internal control over financial reporting (as defined in Rule 13a-15 under the Securities Exchange Act of 1934) during the last fiscal quarter that materially affected, or are reasonably likely to materially affect, the Corporation’s internal control over financial reporting.

PART II-OTHER INFORMATION

Item 1. Legal Proceedings.
The following supplements the Company's response to the disclosure in response to Part I - Item 3. Legal Proceedings of Form 10-K for the year ended December 31, 2010.

Recent Litigation
The Western and Southern Life Insurance Company and other plaintiffs filed a complaint on July 11, 2011 against numerous defendants, including DLJ Mortgage Capital, Inc., Credit Suisse Securities (USA) LLC, Credit Suisse First Boston Mortgage Securities Corp., Irwin Funding Corporation, IHE Funding Corporation II, First Horizon Home Loan Corporation, First Horizon Asset Securities, Inc. and Bank of America Securities LLC in the Hamilton County Court of Common Pleas, entitled The Western and Southern Life Insurance Company, et al., vs. DLJ Mortgage Capital, Inc., et. al (Case No. A1105352). Plaintiffs allege that they purchased residential mortgaged-backed securities (“MBS”) issued by numerous entities pursuant to various offering materials, including MBS involving former Irwin Union Bank-related entities in certain offerings between July 2006 and May 2007. Plaintiffs also assert claims against Credit Suisse Securities and others that underwrote MBS issued by third parties. Plaintiffs contend, among other allegations, that defendants made false and misleading statements regarding (i) the appraisal process for properties that served as collateral for the mortgage loans underlying the MBS; (ii) the underwriting practices by which those mortgage loans were originated; (iii) the credit ratings of the MBS; and (iv) the transfer and assignment of the mortgages to the trusts. Thus Plaintiffs allege the offering materials contained untrue statements and omissions of material facts in violation of the Ohio Securities Act. Plaintiffs also allege negligent misrepresentation and common law fraud against certain defendants.
Plaintiffs seek damages, including rescission and recovery of the consideration paid, monetary losses including loss of market value and loss of principal and interest payments, attorneys' fees and costs, prejudgment interest, and such other relief as the court deems proper. Plaintiffs allege they purchased certificates representing a total investment of approximately $276,000,000, of which approximately $20,430,000 is allegedly related to IHE Funding Corporation II (“IHE Funding”). IHE Funding is a wholly-owned subsidiary of Irwin Home Equity Corporation (“IHE”). First Financial Bank acquired all of the stock of IHE and thus IHE Funding in connection with the acquisition of certain assets of Irwin Union Bank and Trust Company (“Irwin Union Bank”) from the FDIC as receiver in September 2009. Prior to September 2009, IHE ceased its involvement in the origination and/or securitization of home equity loans.
Because the litigation is in the early stages, it is not possible at this time to form a reasonable estimate of the portion of plaintiffs' claimed damages, if any, for which IHE Funding could be held legally responsible. No reserves have been established for this litigation. First Financial Bank expects to make a claim with the FDIC as receiver for indemnification with respect to IHE Funding in this litigation.

Irwin Mortgage Corporation Bankruptcy
On July 8, 2011, Irwin Mortgage Corporation (“IMC”), a wholly-owned subsidiary of First Financial Bank, filed a voluntary bankruptcy petition under Chapter 11 of the U.S. Bankruptcy Code in the United States Bankruptcy Court for the Southern District of Ohio (“Bankruptcy Court”), Case No. 11-57191. In its Declaration in Support of First Day Pleadings filed with the Bankruptcy Court (“Declaration”), IMC stated that it believes “[a] Chapter 11 filing (a) affords national jurisdiction to effectively and efficiently manage the numerous claims against IMC, many of which are pending in state and federal courts around the country; and (b) allows IMC to proceed as a debtor in possession with experienced and knowledgeable management to assist with the liquidation and the claims administration.” In addition, the Declaration sought the following, among other things, to assist in IMC's orderly liquidation: (i) an order rejecting the IMC lease of the premises in Fishers, Indiana, which the court granted at an expedited hearing on July 12, 2011; (ii) an extension of time to file schedules and statements, which the court granted without a hearing on July 15, 2011; (iii) an order approving IMC's case management procedures; and (iv) orders authorizing the retention and compensation of certain consultants, counsel and specialists to assist in the wind-down. The court established case management procedures on its own initiative on July 28, 2011, and at a hearing on August 3, 2011 the court indicated

its intention to grant IMC's motions in connection with consultants, counsel and specialists.

The consolidated balance sheet and results of operations for the six months ended June 30, 2011 were deconsolidated from First Financial at the end of the second quarter 2011. It is anticipated that any previous or subsequent litigation involving IMC will no longer be reported in First Financial filings.

Item 1A. Risk Factors.

The following supplements the risk factors relating to First Financial as disclosed in response to Item 1A. to Part I of Form 10-K for the year ended December 31, 2010.

Risks Related to the Acquisition of the Business and Assets of Peoples Community Bank, Irwin Union Bank and Trust Company and Irwin Union Bank, FSB.

Irwin Union Bank and Trust Company (“Irwin Union Bank”) and certain of its subsidiaries, notably IHE and IMC were and continue to be the subject of a number of claims and legal actions regarding their mortgage banking, mortgage and/or home equity lines of business activities that took place prior to September 18, 2009. These matters may require significant resources and management attention.
In connection with the acquisition of certain assets and assumption of certain liabilities of Irwin Union Bank by First Financial Bank from the FDIC as receiver for Irwin Union Bank, First Financial purchased all of the stock of most of the subsidiaries of Irwin Union Bank. The transaction is governed by a Purchase and Assumption Agreement by and among the FDIC, the FDIC as receiver, and First Financial Bank dated September 18, 2009, as amended (the “Purchase Agreement”). There are currently claims and litigation against Irwin Union Bank and certain former Irwin Union Bank subsidiaries for alleged actions taken by Irwin Union Bank and/or its subsidiaries prior to September 18, 2009. Pursuant to the Purchase Agreement, litigation involving Irwin Union Bank's conduct prior to First Financial Bank's acquisition of its assets principally is the responsibility of the FDIC as receiver, and the FDIC as receiver has agreed to indemnify and hold harmless First Financial Bank for certain claims against Irwin Union Bank and its former subsidiaries for actions taken on or prior to September 18, 2009.

We have identified a number of claims (and are evaluating others) against which we believe we should be indemnified pursuant to Section 12 of the Purchase Agreement, and we have submitted and expect to continue to submit requests for indemnification to the FDIC as receiver. The process of seeking indemnification from the FDIC as receiver with respect to such litigation could be time-consuming and subject to dispute. Unless the FDIC as receiver assumes the defense of such claims, First Financial will have to expend considerable time and effort to defend the actions, subject to such indemnification. Further, until the FDIC as receiver has approved and reimbursed us for the claims for which we should be indemnified, we could be exposed to liabilities arising from the defense of such claims. Discussions are ongoing with the FDIC as receiver regarding indemnification with respect to certain actions taken by Irwin Union Bank and/or its subsidiaries prior to September 18, 2009. However, there can be no assurances that the FDIC as receiver will agree with our positions regarding indemnification.

Although we expect the FDIC as receiver to provide indemnification in connection with certain assets and liabilities pursuant to the Purchase Agreement, First Financial may discover aspects of the acquisition for which indemnification is not available. These might involve inconsistencies in standards, controls, procedures and policies of the acquired Irwin entities that could adversely affect First Financial's ability to achieve the anticipated benefits of the transaction and could distract management from implementing its strategic plan.

The Chapter 11 proceedings initiated by IMC involve various risks and uncertainties that could have a material effect on us.

In connection with the Purchase Agreement, First Financial acquired, among other things, all of the stock of IMC. Prior to the acquisition, the operations of subsidiary IMC had been in wind-down: (a) in September 2006 a majority of its assets were sold, including the production and most of the headquarters operations; and (b) in January 2007 the bulk of IMC's portfolio of mortgage servicing rights as well as its servicing platform were sold to various purchasers. IMC continues to wind down, including its prior activities in the mortgage reinsurance business through its subsidiary, Irwin Reinsurance Corporation, a Vermont Corporation.

On July 8, 2011, IMC filed a voluntary bankruptcy petition under Chapter 11 of the U.S. Bankruptcy Code (see “Item 1. Legal Proceedings - Irwin Mortgage Corporation Bankruptcy”). The outcome of the Chapter 11 proceedings will depend on IMC's ability to reach acceptable agreement with creditors on the wind-down of IMC that is approved by the Bankruptcy Court, or alternatively if such wind-down would be confirmed by the Bankruptcy Court over the objection of any creditors or other parties in interest. We believe IMC also will be precluded from paying dividends to First Financial Bank and from making payments to any pre-petition creditors (including intercompany payables due and owing to First Financial or its subsidiaries) during the pendency of the Chapter 11 proceedings, without the Bankruptcy Court's approval. Furthermore, it is possible that in the Chapter 11 proceedings various claims may be asserted against First Financial, including allegations that we are liable for the pending litigation described in the immediately preceding risk factor, or other liabilities of IMC. We note, however, that to date, no such claims have been asserted or threatened against us, and we believe that First Financial and its subsidiaries have no responsibility for any liabilities of IMC. Accordingly, we cannot give any assurances as to the impact of the Chapter 11 proceedings on the financial condition, results of operations or future prospects of First Financial and its subsidiaries' businesses. We are also unable to predict the timing of any of the foregoing matters or the Chapter 11 proceedings themselves.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(c) The following table shows the total number of shares repurchased in the second quarter of 2011.

Issuer Purchases of Equity Securities

Period	(a) Total Number Of Shares Purchased [1]	(b) Average Price Paid Per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans [2]	(d) Maximum Number of Shares that may yet be purchased Under the Plans
April 1 to April 30, 2011				
Share repurchase program	0	$0.00	0	4,969,105
Director Fee Stock Plan	1,898	16.26	NA	NA
Stock Plans	31,387	16.57	NA	NA
May 1 to May 31, 2011				
Share repurchase program	0	$0.00	0	4,969,105
Director Fee Stock Plan	0	0.00	NA	NA
Stock Plans	21,524	16.53	NA	NA
June 1 to June 30, 2011				
Share repurchase program	0	$0.00	0	4,969,105
Director Fee Stock Plan	0	0.00	NA	NA
Stock Plans	2,575	15.82	NA	NA
Total				
Share repurchase program	0	$0.00	0	
Director Fee Stock Plan	1,898	$16.26	NA	
Stock Plans	55,486	$16.52	NA	

(1) The number of shares purchased in column (a) and the average price paid per share in column (b) include the purchase of shares other than through publicly announced plans. The shares purchased other than through publicly announced plans were purchased pursuant to First Financial's Director Fee Stock Plan, 1999 Stock Option Plan for Non-Employee Directors, 1999 Stock Incentive Plan for Officers and Employees, 2009 Employee Stock Plan, and 2009 Non-Employee Director Stock Plan. (The last four plans are referred to hereafter as the Stock Plans.) The table shows the number of shares purchased pursuant to those plans and the average price paid per share. The purchases for the Director Fee Stock Plan were made in open-market transactions. Under the Stock Plans, shares were purchased from plan participants at the then current market value in satisfaction taxes owed for vested shares/options.

(2) First Financial has one remaining previously announced stock repurchase plan under which it is currently authorized to purchase shares of its common stock. The plan has no expiration date. The table that follows provides additional information regarding this plan. No shares were repurchased under this plan in 2011.

Announcement Date	Total Shares Approved for Repurchase	Total Shares Repurchased Under the Plan	Expiration Date
1/25/2000	7,507,500	2,538,395	None

Item 6. Exhibits

(a) Exhibits:

3.1	Amended Article FIFTH of the Amended and Restated Articles of Incorporation of the Registrant (filed as Exhibit 3.1 to the Registrant's Current Report on From 8-K filed with the SEC on May 27, 2011 and incorporated herein by reference).
3.2	Amended Article II, Section 2.2 of the Regulations of the Registrant (filed as Exhibit 3.1 to the Registrant's Current Report on From 8-K filed with the SEC on May 27, 2011 and incorporated herein by reference).
10.1	Form of Agreement for Restricted Stock Award under the First Financial Bancorp. 2009 Employee Stock Plan (2011 grants).*
31.1	Certification by Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 filed herewith.
31.2	Certification by Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 filed herewith.
32.1	Certification of Periodic Financial Report by Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 furnished herewith.
101.1	Financial statements from the Quarterly Report on Form 10-Q of the Company for the quarter ended June 30, 2011, formatted in XBRL: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Cash Flows, (iv) Consolidated Statements of Shareholders' Equity, and (v) Notes to Consolidated Financial Statements, as blocks of text and in detail**.

First Financial will furnish, without charge, to a security holder upon request a copy of the documents and will furnish any other Exhibit upon payment of reproductions costs. Unless as otherwise noted, documents incorporated by reference involve File No. 000-12379.

* Compensatory plans or arrangements.
** As provided in Rule 406T of Regulation S-T, this information shall not be deemed “filed” for purposes of Section 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934 or otherwise subject to liability under those sections.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

FIRST FINANCIAL BANCORP.
(Registrant)

/s/ J. Franklin Hall	/s/ Anthony M. Stollings
J. Franklin Hall	Anthony M. Stollings
Executive Vice President and	Senior Vice President, Chief Accounting
Chief Financial Officer	Officer, and Controller
Date 8/9/2011	Date 8/9/2011