FIRST FINANCIAL BANCORP /OH/
Form 10-Q
November 06, 2015
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FORM 10-Q
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

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

For the quarterly period ended September 30, 2015

OR

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

For the transition period from ____________________ to ____________________

Commission file number 001-34762

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

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

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

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

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

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

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

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

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

Class	Outstanding at November 5, 2015
Common stock, No par value	61,644,723

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Glossary of Abbreviations and Acronyms

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

the Act	Private Securities Litigation Reform Act	FDIC	Federal Deposit Insurance Corporation
ALLL	Allowance for loan and lease losses	FHLB	Federal Home Loan Bank
ASC	Accounting standards codification	First Financial	First Financial Bancorp.
ASU	Accounting standards update	First Financial Bank	First Financial Bank, N.A.
ATM	Automated teller machine	Form 10-K	First Financial Bancorp. Annual Report on Form 10-K
Bank	First Financial Bank, N.A.	GAAP	U.S. Generally Accepted Accounting Principles
Basel III	Basel Committee regulatory capital reforms, Third Basel Accord	IRLC	Interest Rate Lock Commitment
BP	basis point	N/A	Not applicable
CDs	certificates of deposits	NII	Net interest income
Company	First Financial Bancorp.	Oak Street	Oak Street Holdings Corporation
ERM	Enterprise Risk Management	OREO	Other real estate owned
EVE	Economic value of equity	SEC	United States Securities and Exchange Commission
FASB	Financial Accounting Standards Board	TDR	Troubled debt restructuring

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

	September 30, 2015 (Unaudited)	December 31, 2014
Assets		
Cash and due from banks	$112,298	$110,122
Interest-bearing deposits with other banks	24,191	22,630
Investment securities available-for-sale, at market value (cost $1,071,558 at September 30, 2015 and $849,504 at December 31, 2014)	1,069,667	840,468
Investment securities held-to-maturity (market value $770,512 at September 30, 2015 and $874,749 at December 31, 2014)	756,035	867,996
Other investments	53,431	52,626
Loans held for sale	26,287	11,005
Loans and leases		
Commercial	1,637,467	1,315,114
Real estate-construction	276,240	197,571
Real estate-commercial	2,169,662	2,140,667
Real estate-residential	506,653	501,894
Installment	39,974	47,320
Home equity	463,629	458,627
Credit card	39,759	38,475
Lease financing	82,679	77,567
Total loans and leases	5,216,063	4,777,235
Less: Allowance for loan and lease losses	53,332	52,858
Net loans and leases	5,162,731	4,724,377
Premises and equipment	139,020	141,381
Goodwill and other intangibles	211,732	145,853
FDIC indemnification asset	18,931	22,666
Accrued interest and other assets	306,210	278,697
Total assets	$7,880,533	$7,217,821
Liabilities		
Deposits		
Interest-bearing	$1,330,673	$1,225,378
Savings	1,979,627	1,889,473
Time	1,440,223	1,255,364
Total interest-bearing deposits	4,750,523	4,370,215
Noninterest-bearing	1,330,905	1,285,527
Total deposits	6,081,428	5,655,742
Federal funds purchased and securities sold under agreements to repurchase	62,317	103,192
Federal Home Loan Bank short-term borrowings	701,200	558,200
Total short-term borrowings	763,517	661,392
Long-term debt	119,515	48,241
Total borrowed funds	883,032	709,633

Accrued interest and other liabilities	103,061	68,369
Total liabilities	7,067,521	6,433,744
Shareholders' equity		
Common stock - no par value		
Authorized - 160,000,000 shares; Issued - 68,730,731 shares in 2015 and 2014	570,025	574,643
Retained earnings	378,258	352,893
Accumulated other comprehensive loss	(17,219)	(21,409)
Treasury stock, at cost, 7,017,098 shares in 2015 and 7,274,184 shares in 2014	(118,052)	(122,050)
Total shareholders' equity	813,012	784,077
Total liabilities and shareholders' equity	$7,880,533	$7,217,821

See Notes to Consolidated Financial Statements.

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

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Interest income				
Loans, including fees	$58,694	$53,725	$167,744	$151,749
Investment securities				
Taxable	9,986	10,227	28,875	31,019
Tax-exempt	1,163	894	3,419	2,500
Total interest on investment securities	11,149	11,121	32,294	33,519
Other earning assets	(1,168)	(1,455)	(3,511)	(4,162)
Total interest income	68,675	63,391	196,527	181,106
Interest expense				
Deposits	4,861	4,218	14,302	11,140
Short-term borrowings	374	354	930	975
Long-term borrowings	281	456	876	1,505
Total interest expense	5,516	5,028	16,108	13,620
Net interest income	63,159	58,363	180,419	167,486
Provision for loan and lease losses	2,647	893	7,777	(524)
Net interest income after provision for loan and lease losses	60,512	57,470	172,642	168,010
Noninterest income				
Service charges on deposit accounts	4,934	5,263	14,260	15,172
Trust and wealth management fees	3,134	3,207	10,042	10,258
Bankcard income	2,909	2,859	8,501	8,101
Net gains from sales of loans	1,758	1,660	5,146	2,793
Net gains on sales of investment securities	409	0	1,503	50
FDIC loss sharing income	(973)	(192)	(2,323)	408
Accelerated discount on covered/formerly covered loans	3,820	789	10,006	2,425
Other	4,364	2,925	12,248	7,816
Total noninterest income	20,355	16,511	59,383	47,023
Noninterest expenses				
Salaries and employee benefits	27,768	28,686	82,160	79,562
Net occupancy	4,510	4,577	13,895	14,381
Furniture and equipment	2,165	2,265	6,537	6,325
Data processing	2,591	4,393	8,020	10,021
Marketing	810	939	2,671	2,555
Communication	531	541	1,659	1,726
Professional services	4,092	1,568	7,789	4,741
State intangible tax	579	648	1,733	1,936
FDIC assessments	1,103	1,126	3,307	3,334
Loss (gain) - other real estate owned	196	(589)	1,089	573
Loss sharing expense	574	1,002	1,451	4,036
Other	8,073	6,263	19,535	17,182

Total noninterest expenses	52,992	51,419	149,846	146,372
Income before income taxes	27,875	22,562	82,179	68,661
Income tax expense	9,202	7,218	26,936	22,260
Net income	$18,673	$15,344	$55,243	$46,401
Net earnings per common share - basic	$0.31	$0.26	$0.90	$0.80
Net earnings per common share - diluted	$0.30	$0.26	$0.89	$0.79
Cash dividends declared per share	$0.16	$0.15	$0.48	$0.45
Average common shares outstanding - basic	61,135,749	59,403,109	61,088,794	57,907,203
Average common shares outstanding - diluted	61,987,795	60,112,932	61,858,724	58,639,394

See Notes to Consolidated Financial Statements.

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

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Net income	$18,673	$15,344	$55,243	$46,401
Other comprehensive income (loss), net of tax:				
Unrealized gains (losses) on investment securities arising during the period	3,057	(256)	4,287	10,077
Change in retirement obligation	220	189	624	663
Unrealized gain (loss) on derivatives	128	760	(771)	(334)
Unrealized gain (loss) on foreign currency exchange	91	(12)	50	(13)
Other comprehensive income (loss)	3,496	681	4,190	10,393
Comprehensive income	$22,169	$16,025	$59,433	$56,794

See Notes to Consolidated Financial Statements.

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

	Common Stock	Common Stock	Retained	Accumulated other comprehensive	Treasury stock		
	Shares	Amount	Earnings	income (loss)	Shares	Amount	Total
Balance at January 1, 2014	68,730,731	$577,076	$324,192	$ (31,281)	(11,197,685)	$(187,826)	$682,161
Net income			46,401				46,401
Other comprehensive income (loss)				10,393			10,393
Cash dividends declared:							
Common stock at $0.45 per share			(26,475)				(26,475)
Purchase of common stock					(40,255)	(697)	(697)
Common stock issued in connection with business combinations		(946)			3,657,937	61,375	60,429
Excess tax benefit on share-based compensation		149					149
Exercise of stock options, net of shares purchased		(771)			36,830	616	(155)
Restricted stock awards, net of forfeitures		(4,191)			180,915	3,005	(1,186)
Share-based compensation expense		2,892					2,892
Balance at September 30, 2014	68,730,731	$574,209	$344,118	$ (20,888)	(7,362,258)	$(123,527)	$773,912
Balance at January 1, 2015	68,730,731	$574,643	$352,587	$ (21,409)	(7,274,184)	$(122,050)	$783,771
Net income			55,243				55,243
Other comprehensive income (loss)				4,190			4,190
Cash dividends declared:							
Common stock at $0.48 per share			(29,572)				(29,572)
Purchase of common stock					(148,935)	(2,783)	(2,783)
Warrant Exercises		(645)			39,217	658	13
		85					85

Excess tax benefit on share-based compensation							
Exercise of stock options, net of shares purchased		(195)			30,458	511	316
Restricted stock awards, net of forfeitures		(6,869)			336,346	5,612	(1,257)
Share-based compensation expense		3,006					3,006
Balance at September 30, 2015	68,730,731	$570,025	$378,258	$ (17,219)	(7,017,098)	$(118,052)	$813,012

See Notes to Consolidated Financial Statements.

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

	Nine months ended September 30,	
	2015	2014
Operating activities		
Net income	$55,243	$46,401
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	7,777	(524)
Depreciation and amortization	9,697	9,465
Stock-based compensation expense	3,006	2,892
Pension expense (income)	(900)	(853)
Net amortization of premiums/accretion of discounts on investment securities	5,874	5,523
Gains on sales of investment securities	(1,503)	(50)
Originations of loans held for sale	(197,621)	(93,561)
Net gains from sales of loans held for sale	(5,146)	(2,793)
Proceeds from sales of loans held for sale	187,364	85,977
Deferred income taxes	2,954	(20,137)
Decrease (increase) in interest receivable	(1,912)	(2,849)
Decrease (increase) in cash surrender value of life insurance	(4,889)	(4,608)
Decrease (increase) in prepaid expenses	(443)	(2,303)
Decrease (increase) in indemnification asset	3,735	20,931
(Decrease) increase in accrued expenses	(1,630)	(5,515)
(Decrease) increase in interest payable	706	(72)
Other	(4,561)	5,917
Net cash provided by (used in) operating activities	57,751	43,841
Investing activities		
Proceeds from sales of securities available-for-sale	68,615	92,573
Proceeds from calls, paydowns and maturities of securities available-for-sale	88,336	75,691
Purchases of securities available-for-sale	(375,244)	(142,307)
Proceeds from calls, paydowns and maturities of securities held-to-maturity	111,499	74,392
Purchases of securities held-to-maturity	(3,520)	(140,426)
Net decrease (increase) in interest-bearing deposits with other banks	(1,561)	3,465
Net decrease (increase) in loans and leases	(213,936)	(226,349)
Proceeds from disposal of other real estate owned	12,238	28,713
Purchases of premises and equipment	(6,371)	(7,591)
Net cash (paid) acquired from business combinations	(305,591)	34,300
Net cash provided by (used in) investing activities	(625,535)	(207,539)
Financing activities		
Net (decrease) increase in total deposits	425,686	126,905
Net (decrease) increase in short-term borrowings	102,125	95,663
Payments on long-term debt	(46,238)	(28,930)
Proceeds from issuance of long-term debt	120,000	0
Cash dividends paid on common stock	(29,282)	(25,717)
Treasury stock purchase	(2,783)	(697)

Proceeds from exercise of stock options	367	65
Excess tax benefit on share-based compensation	85	149
Net cash provided by (used in) financing activities	569,960	167,438
Cash and due from banks		
Net increase (decrease) in cash and due from banks	2,176	3,740
Cash and due from banks at beginning of period	110,122	117,620
Cash and due from banks at end of period	$112,298	$121,360

See Notes to Consolidated Financial Statements.

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FIRST FINANCIAL BANCORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2015
(Unaudited)

NOTE 1: BASIS OF PRESENTATION

The Consolidated Financial Statements of First Financial Bancorp., a bank holding company, principally serving Ohio, Indiana and Kentucky, include the accounts and operations of First Financial and its wholly-owned subsidiary, First Financial Bank, N.A. All significant intercompany transactions and accounts have been eliminated in consolidation. Certain reclassifications of prior periods' amounts, including covered loans and the related allowance for loan and lease losses in the Consolidated Balance Sheets have been made to conform to current year presentation. Such reclassifications had no effect on net earnings.

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

The preparation of financial statements in conformity with GAAP requires management to make estimates, assumptions and judgments that affect the amounts reported in the Consolidated Financial Statements and accompanying Notes. These estimates, assumptions and judgments are inherently subjective and may be susceptible to significant change. Actual realized amounts could differ materially from these estimates.

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

NOTE 2: RECENTLY ADOPTED AND ISSUED ACCOUNTING STANDARDS

In January 2014, the FASB issued an update (ASU 2014-01, Accounting for Investments in Qualified Affordable Housing Projects) that permits First Financial to make an accounting policy election to account for its investments in qualified
affordable housing projects using a proportional amortization method if certain conditions are met. Under the proportional
amortization method, First Financial would amortize the initial cost of the investment in proportion to the tax credits and other
tax benefits received and recognize the net investment performance in the income statement as a component of income tax
expense. The amended guidance requires disclosure of the nature of First Financial's investments in qualified affordable

housing projects, and the effect of the measurement of the investments in qualified affordable housing projects and the related
tax credits on First Financial’s financial position and results of operation. The provisions of this update became effective for the interim reporting period ended March 31, 2015. First Financial made the election to adopt the proportional amortization method during the first quarter 2015 and had $23.6 million of affordable housing commitments as of September 30, 2015. This update did not have a material impact on the Company's Consolidated Financial Statements.

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

In April 2014, the FASB issued an update (ASU 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity) which redefines what constitutes a discontinued operation. Under the revised standard, a discontinued operation is a component of an entity or group of components that has been disposed of by sale, disposed of other than by sale or is classified as held for sale, that represents a strategic shift that has or will have a major effect on an entity’s operations and financial results, or an acquired business or nonprofit activity that is classified as held for sale on the date of the acquisition. A strategic shift that has or will have a major effect on an entity’s operations and financial results could include the disposal of a major line of business, a major geographic area, a major equity method investment or other major parts of an entity. The new guidance eliminates the criteria prohibiting an entity from reporting a discontinued operation if it has certain continuing cash flows or involvement with the component after the disposal and requires additional disclosures for discontinued operations and new disclosures for individually material disposal transactions that do not meet the definition of a discontinued operation. The provisions of this update became effective for the interim reporting period ended March 31, 2015. This update did not have a material impact on the Company's Consolidated Financial Statements.

In May 2014, the FASB issued an update (ASU 2014-09, Revenue from Contracts with Customers) which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. Under the revised standard, an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU applies to all contracts with customers except those that are within the scope of other topics in the FASB Accounting Standards Codification. Certain of the ASU’s provisions also apply to transfers of nonfinancial assets, including in-substance nonfinancial assets that are not an output of an entity’s ordinary activities, such as sales of property, plant, and equipment; real estate; or intangible assets. The ASU also requires significantly expanded disclosures about revenue recognition. The provisions of ASU 2014-09 become effective for interim and annual reporting periods beginning after December 15, 2017. Early adoption is permitted beginning January 1, 2017. First Financial is currently evaluating the impact of this update on its Consolidated Financial Statements.

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

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

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

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In April 2015, the FASB issued an update (ASU 2015-03, Interest-Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs) that requires debt issuance costs to be presented as a deduction from the corresponding debt liability. Upon adoption, an entity must apply the new guidance retrospectively to all prior periods presented in the financial statements. The provisions of this update are effective for interim and annual periods beginning after December 15, 2015, with early adoption permitted. First Financial adopted this accounting standard during the third quarter of 2015 and recorded $1.7 million of deferred debt issuance costs as a reduction to long-term debt in the Consolidated Balance Sheets as of September 30, 2015. Management concluded that the debt issuance costs capitalized in prior periods was immaterial as a component of other assets, total assets, total long-term debt and total liabilities, and as such, the Company's prior periods have not been restated. The amount of unamortized debt issuance costs not reclassified was $0.1 million as of December 31, 2014.

In May 2015, the FASB issued an update (ASU 2015-07, Fair Value Measurement: Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share) which will eliminate the requirement to categorize investments whose fair values are measured at net asset value within the fair value hierarchy using the practical expedient. This update will require entities to disclose the fair values of such investments so that financial statement users can reconcile amounts reported in the fair value hierarchy table and the amounts reported on the balance sheet. The provisions of this update become effective for the interim and annual reporting periods beginning after December 15, 2015, with early adoption permitted. First Financial does not anticipate this update will have a material impact on its Consolidated Financial Statements.

In September 2015, the FASB issued an update (ASU 2015-16, Business Combinations: Simplifying the Accounting for Measurement-Period Adjustments) which eliminates the requirement for an acquirer in a business combination to account for measurement-period adjustments retrospectively. This update will require acquiring companies to recognize measurement-period adjustments during the period in which they determine the amounts, including the effect on earnings of any amounts they would have recorded in previous periods if the accounting had been completed at the acquisition date. The guidance in this ASU is effective for interim and annual reporting periods beginning after December 15, 2015 with early adoption permitted. First Financial does not anticipate this update will have a material impact on its Consolidated Financial Statements.

NOTE 3: INVESTMENTS

The following is a summary of held-to-maturity and available-for-sale investment securities as of September 30, 2015:

	Held-to-maturity				Available-for-sale			
(Dollars in thousands)	Amortized cost	Unrealized gain	Unrealized loss	Market value	Amortized cost	Unrealized gain	Unrealized loss	Market value
U.S. Treasuries	$0	$0	$0	$0	$98	$1	$0	$99
Securities of U.S. government agencies and corporations	15,968	222	0	16,190	8,717	247	0	8,964
Mortgage-backed securities	707,124	15,048	(520)	721,652	660,881	5,040	(6,879)	659,042
Obligations of state and other political subdivisions	28,138	168	(317)	27,989	75,845	2,311	(928)	77,228
Asset-backed securities	0	0	0	0	215,036	221	(1,801)	213,456
Other securities	4,805	0	(124)	4,681	110,981	919	(1,022)	110,878
Total	$756,035	$15,438	$(961)	$770,512	$1,071,558	$8,739	$(10,630)	$1,069,667

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

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

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The following table provides a summary of investment securities by estimated weighted average life as of September 30, 2015. Estimated lives on certain investment securities may differ from contractual maturities as issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Held-to-maturity		Available-for-sale	
(Dollars in thousands)	Amortized cost	Market value	Amortized cost	Market value
Due in one year or less	$4,473	$4,587	$22,066	$22,118
Due after one year through five years	534,431	543,735	667,783	666,906
Due after five years through ten years	217,131	222,190	334,447	332,881
Due after ten years	0	0	47,262	47,762
Total	$756,035	$770,512	$1,071,558	$1,069,667

The following tables provide the fair value and gross unrealized losses on investment securities in an unrealized loss position, aggregated by investment category and the length of time the individual securities have been in a continuous loss position:

	September 30, 2015					
	Less than 12 months		12 months or more		Total	
(Dollars in thousands)	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
Mortgage-backed securities	$216,209	$(856)	$257,294	$(6,543)	$473,503	$(7,399)
Obligations of state and other political subdivisions	1,268	(3)	36,309	(1,242)	37,577	(1,245)
Asset-backed securities	157,585	(1,781)	5,780	(20)	163,365	(1,801)
Other securities	37,492	(540)	25,483	(606)	62,975	(1,146)
Total	$412,554	$(3,180)	$324,866	$(8,411)	$737,420	$(11,591)

	December 31, 2014					
	Less than 12 months		12 months or more		Total	
(Dollars in thousands)	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
Securities of U.S. government agencies and corporations	$493	$(1)	$97	$0	$590	$(1)
Mortgage-backed securities	119,641	(420)	428,486	(13,780)	548,127	(14,200)
Obligations of state and other political subdivisions	12,746	(126)	37,516	(1,014)	50,262	(1,140)
Asset-backed securities	32,045	(103)	0	0	32,045	(103)
Other securities	12,831	(317)	30,005	(1,296)	42,836	(1,613)
Total	$177,756	$(967)	$496,104	$(16,090)	$673,860	$(17,057)

Gains and losses on debt securities are generally due to fluctuations in current market yields relative to the yields of the debt securities at their amortized cost. All securities with unrealized losses are reviewed quarterly to determine if any impairment is considered other than temporary, requiring a write-down to fair value. First Financial considers the percentage loss on a security, duration of the loss, average life or duration of the security, credit rating of the security and payment performance as well as the Company's intent and ability to hold the security to maturity when determining whether any impairment is other than temporary. At this time First Financial does not intend to sell, and it is not more likely than not that the Company will be required to sell debt securities temporarily impaired prior to maturity or recovery of the recorded value. First Financial had no other than temporary impairment related to its investment securities portfolio as of September 30, 2015 or December 31, 2014.

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

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NOTE 4: LOANS AND LEASES

First Financial offers clients a variety of commercial and consumer loan and lease products with various interest rates and payment terms. Lending activities are primarily concentrated in states where the Bank currently operates banking centers (Ohio, Indiana and Kentucky). Additionally, First Financial has two national lending platforms, one that provides equipment and leasehold improvement financing for franchisees in the quick service and casual dining restaurant sector and another that provides loans secured by commissions and cash collateral accounts exclusively to insurance agents and brokers. Commercial loan categories include commercial and industrial (commercial), commercial real estate, construction real estate and lease financing. Consumer loan categories include residential real estate, home equity, installment and credit card.

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

Purchased impaired loans are not classified as nonperforming assets as the loans are considered to be performing under FASB ASC Topic 310-30. Therefore, interest income, through accretion of the difference between the carrying value of the loans and the expected cash flows (accretable difference) is recognized on all purchased impaired loans. First Financial had purchased impaired loans totaling $207.8 million and $264.9 million, at September 30, 2015 and December 31, 2014, respectively. The outstanding balance of all purchased impaired loans, including all contractual principal, interest, fees and penalties, was $236.5 million and $314.5 million as of September 30, 2015 and December 31, 2014, respectively. These balances exclude contractual interest not yet accrued.

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

	Three months ended September 30,		Nine months ended September 30,	
(Dollars in thousands)	2015	2014	2015	2014
Balance at beginning of period	$78,945	$127,764	$106,622	$133,671
Reclassification from/(to) nonaccretable difference	76	(2,295)	(2,048)	19,864
Accretion	(4,945)	(8,158)	(17,046)	(26,808)
Other net activity [(1)]	(4,746)	(4,250)	(18,198)	(13,666)
Balance at end of period	$69,330	$113,061	$69,330	$113,061

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

First Financial regularly reviews its forecast of expected cash flows for purchased impaired loans. The Company recognized reclassifications from nonaccretable to accretable difference of $0.1 million for the third quarter of 2015, however, during the nine months ended September 30, 2015, the Company recognized reclassifications from accretable to nonaccretable difference of $2.0 million. During the third quarter of 2014, First Financial recognized $2.3 million of reclassifications from accretable to nonaccretable difference, while in the nine months ended September 30, 2014, the Company recognized reclassifications from nonaccretable to accretable difference of $19.9 million due to changes in the cash flow expectations related to certain loan pools. Reclassifications from nonaccretable to accretable difference can result in impairment and provision expense in the current period and reclassifications from accretable to nonaccretable difference can result in yield adjustments on the related loan pools on a prospective basis.

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

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The Company's loss sharing agreements with the FDIC related to non-single family loans expired effective October 1, 2014, and the ten year period of loss protection on all other covered loans and covered OREO expires October 1, 2019. Covered loans totaled $117.6 million as of September 30, 2015 and $135.7 million as of December 31, 2014.

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

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

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

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

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

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

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

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

	As of September 30, 2015				
		Real Estate			
(Dollars in thousands)	Commercial	Construction	Commercial	Leasing	Total
Pass	$1,571,656	$275,197	$2,081,930	$81,053	$4,009,836
Special Mention	40,433	130	20,414	1,626	62,603
Substandard	25,378	913	67,318	0	93,609
Doubtful	0	0	0	0	0
Total	$1,637,467	$276,240	$2,169,662	$82,679	$4,166,048

(Dollars in thousands)	Real Estate Residential	Installment	Home Equity	Other	Total
Performing	$497,643	$39,547	$457,893	$39,759	$1,034,842
Nonperforming	9,010	427	5,736	0	15,173
Total	$506,653	$39,974	$463,629	$39,759	$1,050,015

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	As of December 31, 2014				
(Dollars in thousands)	Commercial	Real Estate Construction	Commercial	Leasing	Total
Pass	$1,265,116	$195,787	$2,027,897	$75,839	$3,564,639
Special Mention	30,903	0	25,928	1,728	58,559
Substandard	19,095	1,784	86,842	0	107,721
Doubtful	0	0	0	0	0
Total	$1,315,114	$197,571	$2,140,667	$77,567	$3,730,919

(Dollars in thousands)	Real Estate Residential	Installment	Home Equity	Other	Total
Performing	$490,314	$46,806	$452,281	$38,475	$1,027,876
Nonperforming	11,580	514	6,346	0	18,440
Total	$501,894	$47,320	$458,627	$38,475	$1,046,316

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

Loan delinquency, including loans classified as nonaccrual, was as follows:

	As of September 30, 2015								
(Dollars in thousands)	30 – 59 days past due	60 – 89 days past due	> 90 days past due	Total past due	Current	Subtotal	Purchased impaired	Total	> 90 days past due and still accruing
Loans									
Commercial	$949	$887	$4,125	$5,961	$1,622,274	$1,628,235	$9,232	$1,637,467	$0
Real estate - construction	0	0	79	79	275,351	275,430	810	276,240	0
Real estate - commercial	1,094	1,120	14,510	16,724	2,018,164	2,034,888	134,774	2,169,662	0
Real estate - residential	1,964	391	2,365	4,720	442,154	446,874	59,779	506,653	0
Installment	20	50	257	327	37,531	37,858	2,116	39,974	0
Home equity	512	150	3,309	3,971	458,574	462,545	1,084	463,629	0
Other	684	131	58	873	121,565	122,438	0	122,438	58
Total	$5,223	$2,729	$24,703	$32,655	$4,975,613	$5,008,268	$207,795	$5,216,063	$58

	As of December 31, 2014								
(Dollars in thousands)	30 – 59 days past due	60 – 89 days past due	> 90 days past due	Total past due	Current	Subtotal	Purchased impaired	Total	> 90 days past due and still accruing
Loans									
Commercial	$1,002	$3,647	$2,110	$6,759	$1,290,975	$1,297,734	$17,380	$1,315,114	$0
Real estate - construction	276	0	223	499	195,773	196,272	1,299	197,571	0
Real estate - commercial	8,356	838	13,952	23,146	1,944,207	1,967,353	173,314	2,140,667	0
	1,198	344	4,224	5,766	426,908	432,674	69,220	501,894	0

Real estate - residential									
Installment	133	17	272	422	44,235	44,657	2,663	47,320	0
Home equity	697	466	4,079	5,242	452,357	457,599	1,028	458,627	0
Other	1,133	128	216	1,477	114,565	116,042	0	116,042	216
Total	$12,795	$5,440	$25,076	$43,311	$4,469,020	$4,512,331	$264,904	$4,777,235	$216

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Nonaccrual. Loans are classified as nonaccrual when, in the opinion of management, collection of principal or interest is doubtful or when principal or interest payments are 90 days or more past due. Generally, loans are classified as nonaccrual due to the continued failure to adhere to contractual payment terms by the borrower, coupled with other pertinent factors such as insufficient collateral value. The accrual of interest income is discontinued, and previously accrued but unpaid interest is reversed when a loan is classified as nonaccrual. Any payments received while a loan is on nonaccrual status are applied as a reduction to the carrying value of the loan. A loan may return to accrual status if collection of future principal and interest payments is no longer doubtful.

Purchased impaired loans are classified as performing, even though they may be contractually past due, as any nonpayment of contractual principal or interest is considered in the periodic re-estimation of expected cash flows and is included in the resulting recognition of current period loan loss provision or prospective yield adjustments.

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

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

First Financial had 271 TDRs totaling $33.8 million at September 30, 2015, including $20.2 million on accrual status and $13.6 million classified as nonaccrual. First Financial had an insignificant amount of commitments outstanding to lend additional funds to borrowers whose loan terms have been modified through TDRs at September 30, 2015. At September 30, 2015, the allowance for loan and lease losses included reserves of $2.4 million related to TDRs. For the three and nine months ended September 30, 2015, First Financial charged off $0.7 million and $2.5 million, respectively, for the portion of TDRs determined to be uncollectible. Additionally, at September 30, 2015, approximately $8.8 million of accruing TDRs have been performing in accordance with the restructured terms for more than one year.

First Financial had 262 TDRs totaling $28.2 million at December 31, 2014, including $15.9 million of loans on accrual status and $12.3 million classified as nonaccrual. First Financial had an insignificant amount of commitments outstanding to lend additional funds to borrowers whose loan terms had been modified through TDRs. At December 31, 2014, the allowance for loan and lease losses included reserves of $3.7 million related to TDRs. For the year ended December 31, 2014, First Financial charged off $1.0 million for the portion of TDRs determined to be uncollectible. At December 31, 2014, approximately $10.5 million of the accruing TDRs had been performing in accordance with the restructured terms for more than one year.

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The following tables provide information on loan modifications classified as TDRs during the three and nine months ended September 30, 2015 and 2014:

	Three months ended					
	September 30, 2015			September 30, 2014		
(Dollars in thousands)	Number of loans	Pre-modification loan balance	Period end balance	Number of loans	Pre-modification loan balance	Period end balance
Commercial	5	$ 171	$166	6	$ 3,712	$3,384
Real estate - construction	0	0	0	0	0	0
Real estate - commercial	2	2,159	2,000	2	375	373
Real estate - residential	6	920	901	7	322	264
Installment	2	50	50	3	6	6
Home equity	6	231	229	6	126	125
Total	21	$ 3,531	$3,346	24	$ 4,541	$4,152

	Nine months ended					
	September 30, 2015			September 30, 2014		
(Dollars in thousands)	Number of loans	Pre-modification loan balance	Period end balance	Number of loans	Pre-modification loan balance	Period end balance
Commercial	27	$ 1,686	$1,676	11	$ 3,938	$3,594
Real estate - construction	0	0	0	0	0	0
Real estate - commercial	14	17,499	13,734	11	2,583	2,453
Real estate - residential	9	1,282	1,228	30	1,712	1,527
Installment	9	96	96	6	21	19
Home equity	16	2,281	1,768	26	791	758
Total	75	$ 22,844	$18,502	84	$ 9,045	$8,351

The following table provides information on how TDRs were modified during the three and nine months ended September 30, 2015 and 2014.

	Three months ended		Nine months ended	
	September 30,		September 30,	
(Dollars in thousands)	2015	2014	2015	2014
Extended maturities	$2,166	$3,505	$12,827	$4,402
Adjusted interest rates	0	0	0	301
Combination of rate and maturity changes	0	402	1,219	1,643
Forbearance	0	0	260	320
Other (1)	1,180	245	4,196	1,685
Total	$3,346	$4,152	$18,502	$8,351

(1) Includes covenant modifications and other concessions, or combination of concessions, that do not consist of interest rate adjustments, forbearance and maturity extensions

First Financial considers repayment performance as an indication of the effectiveness of the Company's loan modifications. Borrowers classified as a TDR that are 90 days or more past due on any principal or interest payments, or who prematurely terminate a restructured loan agreement without paying off the contractual principal balance (for example, in a deed-in-lieu arrangement), are considered to be in payment default of the terms of the TDR agreement.

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

	Three months ended			
	September 30, 2015		September 30, 2014	
(Dollars in thousands)	Number of loans	Period end balance	Number of loans	Period end balance
Commercial	2	$344	0	$0
Real estate - construction	0	0	0	0
Real estate - commercial	0	0	0	0
Real estate - residential	0	0	1	1
Installment	0	0	0	0
Home equity	1	14	0	0
Total	3	$358	1	$1

	Nine months ended			
	September 30, 2015		September 30, 2014	
(Dollars in thousands)	Number of loans	Period end balance	Number of loans	Period end balance
Commercial	2	$344	1	$143
Real estate - construction	0	0	0	0
Real estate - commercial	4	1,146	0	0
Real estate - residential	1	73	3	28
Installment	0	0	1	0
Home equity	1	14	3	92
Total	8	$1,577	8	$263

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

(Dollars in thousands)	September 30, 2015	December 31, 2014
Impaired loans		
Nonaccrual loans (1)		
Commercial	$7,438	$6,627
Real estate-construction	79	223
Real estate-commercial	17,732	27,969
Real estate-residential	4,940	7,241
Installment	321	451
Home equity	5,203	5,958
Nonaccrual loans (1)	35,713	48,469
Accruing troubled debt restructurings	20,226	15,928
Total impaired loans	$55,939	$64,397

(1) Nonaccrual loans include nonaccrual TDRs of $13.6 million and $12.3 million as of September 30, 2015 and December 31, 2014, respectively.

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	Three months ended September 30,		Nine months ended September 30,	
(Dollars in thousands)	2015	2014	2015	2014
Interest income effect on impaired loans				
Gross amount of interest that would have been recorded under original terms	$852	$910	$2,750	$2,543
Interest included in income				
Nonaccrual loans	91	186	370	363
Troubled debt restructurings	168	110	436	321
Total interest included in income	259	296	806	684
Net impact on interest income	$593	$614	$1,944	$1,859

First Financial individually reviews all impaired commercial loan relationships greater than $250,000, as well as consumer loan TDRs greater than $100,000, to determine if a specific allowance is necessary based on the borrower’s overall financial condition, resources and payment record, support from guarantors and the realizable value of any collateral. 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.

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

	As of September 30, 2015					
(Dollars in thousands)	Current balance	Contractual principal balance	Related allowance	Average current balance	YTD interest income recognized	Quarterly interest income recognized
Loans with no related allowance recorded						
Commercial	$9,981	$11,848	$0	$8,981	$153	$47
Real estate - construction	79	383	0	187	0	0
Real estate - commercial	20,834	26,044	0	20,129	263	77
Real estate - residential	7,452	8,787	0	8,317	136	44
Installment	427	460	0	412	6	2
Home equity	5,635	7,503	0	5,725	58	19
Other	0	0	0	0	0	0
Total	44,408	55,025	0	43,751	616	189
Loans with an allowance recorded						
Commercial	868	868	478	1,513	16	6
Real estate - construction	0	0	0	0	0	0
Real estate - commercial	9,004	9,633	938	14,072	145	54
Real estate - residential	1,558	1,570	235	1,734	27	9
Installment	0	0	0	0	0	0
Home equity	101	101	2	101	2	1
Other	0	0	0	0	0	0
Total	11,531	12,172	1,653	17,420	190	70
Total						
Commercial	10,849	12,716	478	10,494	169	53
Real estate - construction	79	383	0	187	0	0
Real estate - commercial	29,838	35,677	938	34,201	408	131
Real estate - residential	9,010	10,357	235	10,051	163	53
Installment	427	460	0	412	6	2
Home equity	5,736	7,604	2	5,826	60	20
Other	0	0	0	0	0	0
Total	$55,939	$67,197	$1,653	$61,171	$806	$259

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(Dollars in thousands)	Current balance	Contractual principal balance	Related allowance	Average current balance	Interest income recognized
	As of and for the year December 31, 2014				
Loans with no related allowance recorded					
Commercial	$7,611	$9,284	$0	$7,146	$146
Real estate - construction	223	443	0	223	0
Real estate - commercial	19,285	23,631	0	15,653	285
Real estate - residential	9,561	10,867	0	9,485	182
Installment	514	577	0	513	8
Home equity	6,246	9,041	0	5,658	85
Other	0	0	0	0	0
Total	43,440	53,843	0	38,678	706
Loans with an allowance recorded					
Commercial	2,398	2,605	739	4,234	57
Real estate - construction	0	0	0	0	0
Real estate - commercial	16,439	17,662	4,002	11,471	187
Real estate - residential	2,019	2,080	310	2,088	40
Installment	0	0	0	0	0
Home equity	101	101	2	101	3
Other	0	0	0	0	0
Total	20,957	22,448	5,053	17,894	287
Total					
Commercial	10,009	11,889	739	11,380	203
Real estate - construction	223	443	0	223	0
Real estate - commercial	35,724	41,293	4,002	27,124	472
Real estate - residential	11,580	12,947	310	11,573	222
Installment	514	577	0	513	8
Home equity	6,347	9,142	2	5,759	88
Other	0	0	0	0	0
Total	$64,397	$76,291	$5,053	$56,572	$993

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

Changes in OREO were as follows:

	Three months ended September 30,		Nine months ended September 30,	
(Dollars in thousands)	2015 [(1)]	2014 [(1)]	2015 [(1)]	2014 [(1)]
Balance at beginning of period	$16,401	$32,809	$22,674	$46,926
Additions				
Commercial	178	883	2,745	6,211
Residential	1,405	292	3,210	1,926
Total additions	1,583	1,175	5,955	8,137
Disposals				
Commercial	(852)	(9,695)	(9,394)	(27,672)
Residential	(1,708)	(115)	(2,844)	(1,041)
Total disposals	(2,560)	(9,810)	(12,238)	(28,713)
Valuation adjustment				
Commercial	(183)	(1,490)	(963)	(3,496)
Residential	(54)	(188)	(241)	(358)
Total valuation adjustment	(237)	(1,678)	(1,204)	(3,854)
Balance at end of period	$15,187	$22,496	$15,187	$22,496

(1) Includes OREO subject to loss sharing agreements of $1.4 million and $11.2 million at September 30, 2015 and 2014, respectively.

FDIC indemnification asset. Changes in the balance of the FDIC indemnification asset and the related impact to the Consolidated Statements of Income are presented in the table that follows:

	Three months ended September 30,		Nine months ended September 30,		
(Dollars in thousands)	2015	2014	2015	2014	Affected Line Item in the Consolidated Statements of Income
Balance at beginning of period	$20,338	$30,420	$22,666	$45,091	
Adjustments not reflected in income					
Net FDIC claims (received) / paid	758	(1,423)	2,382	(7,422)	
Adjustments reflected in income					
Amortization	(1,192)	(1,486)	(3,562)	(4,215)	Interest income, other earning assets
FDIC loss sharing income	(973)	(192)	(2,323)	408	Noninterest income, FDIC loss sharing income
Offset to accelerated discount	0	(3,159)	(232)	(9,702)	Noninterest income, accelerated discount on covered loans
Balance at end of period	$18,931	$24,160	$18,931	$24,160	

The accounting for FDIC indemnification assets is closely related to the accounting for the underlying, indemnified assets as well as on-going assessment of the collectibility of the indemnification assets. The primary activities impacting the FDIC indemnification asset are FDIC claims, amortization, FDIC loss sharing income and accelerated discount.

FDIC claims - First Financial files quarterly certifications with the FDIC and submits claims for losses, valuation adjustments and collection expenses incurred, less recoveries of any previous amounts claimed that are reimbursable back to the FDIC, as allowed under the loss sharing agreements. Cash reimbursements are generally received within 30 days of filing and are recorded as a credit to the indemnification asset balance, thus reducing its carrying value.

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Amortization - As the yield on covered loans increased over time as a result of improvement in the expected cash flows on covered loans, the yield on the indemnification asset declined. The yield on the indemnification asset became negative in the first quarter of 2011 at which time the indemnification asset began to decline through monthly amortization at the negative yield.

FDIC loss sharing income - FDIC loss sharing income represents the proportionate share of credit costs on covered assets that First Financial expects to receive from the FDIC. Credit costs on covered assets include provision expense on covered loans, losses on covered OREO and other covered collection and asset resolution costs recorded as loss sharing expense under noninterest expenses in the Consolidated Statements of Income.

Offset to accelerated discount - Accelerated discounts on covered loans occur when covered loans prepay and represent the accelerated recognition of the remaining discount that would have been recognized over the life of the loan had the loan not prepaid. In conjunction with the recognition of accelerated discount, First Financial also recognizes a related offset through noninterest income and reduction to the indemnification asset for a portion of the discount representing expected credit loss included in the discount recorded at acquisition.

NOTE 5: ALLOWANCE FOR LOAN AND LEASE LOSSES

Loans and leases. For each reporting period, management maintains the ALLL at a level that it considers sufficient to absorb probable loan and lease losses inherent in the portfolio. Management determines the adequacy of the allowance based on historical loss experience as well as other significant factors such as composition of the portfolio, economic conditions, geographic footprint, the results of periodic internal and external evaluations of delinquent, nonaccrual and classified loans and any other adverse situations that may affect a specific borrower's ability to repay, including the timing of future payments. This evaluation is inherently subjective as it requires utilizing material estimates that may be susceptible to significant change. There were no material changes to First Financial's accounting policies or methodology related to the allowance for loan and lease losses during the first nine months of 2015.

The allowance is increased by provision expense and decreased by actual charge-offs, net of recoveries of amounts previously charged-off. First Financial's policy is to charge-off all or a portion of a loan when, in management's opinion, it is unlikely to collect the principal amount owed in full either through payments from the borrower or from the liquidation of collateral.

In the third quarter of 2015, First Financial closed its merger with Oak Street. Loans acquired in this transaction were recorded at estimated fair value at the acquisition date with no carryover of the related ALLL. See Note 15 - Business Combinations for further detail.

Covered/formerly covered loans. The majority of covered/formerly covered loans are purchased impaired loans, whereby First Financial is required to periodically re-estimate the expected cash flows on the loans. First Financial updated the valuations related to covered/formerly covered loans during the third quarter of 2015. First Financial recognized provision expense of $1.3 million and net charge-offs of $1.0 million during the third quarter of 2015, resulting in an ending allowance of $11.0 million as of September 30, 2015. First Financial recognized provision expense of $1.7 million and realized net charge-offs of $0.7 million for the first nine months of 2015. For the third quarter of 2014, First Financial recognized negative provision expense, or impairment recapture, on covered loans of $0.2 million and net charge-offs of $0.7 million, resulting in an ending allowance of $11.5 million. For the first nine months of 2014, the Company recognized negative provision expense on covered loans of $2.8 million and net charge-offs of $4.6 million.

First Financial recognized loss sharing expenses of $0.6 million and $1.0 million for the third quarters of 2015 and 2014, respectively. The Company also recognized losses on covered/formerly covered OREO of $0.1 million for the third quarter of 2015 and gains on covered OREO of $1.4 million for the third quarter of 2014. The net payable due to the FDIC under loss sharing agreements related to covered loan recoveries, gains/losses on covered OREO and loss sharing expenses of $1.0 million was recognized as negative FDIC loss sharing income during the third quarter of 2015. The net payable due to the FDIC under loss sharing agreements of $0.2 million for the third quarter of 2014, was recognized as negative FDIC loss sharing income and a corresponding decrease to the FDIC indemnification asset.

First Financial recognized loss sharing expenses of $1.5 million and $4.0 million for the nine months ended September 30, 2015 and 2014, respectively. First Financial also recognized losses on covered/formerly covered OREO of $0.5 million for the nine months ended September 30, 2015 and gains on covered/formerly covered OREO of $1.0 million for the nine months ended September 30, 2014. The net payable due to the FDIC under loss sharing agreements of $2.3 million for the first nine months of 2015 was recognized as negative loss sharing income. The receivable due from the FDIC under loss sharing

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agreements of $0.4 million for the first nine months of 2014, was recognized as loss sharing income and a corresponding increase to the FDIC indemnification asset.

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

	Three months ended September 30,		Nine months ended September 30,	
(Dollars in thousands)	2015	2014	2015	2014
Changes in the allowance for loan and lease losses on loans, excluding covered/formerly covered loans				
Balance at beginning of period	$42,128	$42,027	$42,820	$43,829
Provision for loan and lease losses	1,382	1,093	6,114	2,281
Loans charged-off	(2,385)	(1,816)	(9,200)	(6,427)
Recoveries	1,194	1,150	2,585	2,771
Balance at end of period	$42,319	$42,454	$42,319	$42,454
Changes in the allowance for loan and lease losses on covered/formerly covered loans				
Balance at beginning of period	$10,748	$12,425	$10,038	$18,901
Provision for loan and lease losses	1,265	(200)	1,663	(2,805)
Loans charged-off	(1,577)	(3,053)	(5,078)	(13,778)
Recoveries	577	2,363	4,390	9,217
Balance at end of period	$11,013	$11,535	$11,013	$11,535
Changes in the allowance for loan and lease losses on total loans				
Balance at beginning of period	$52,876	$54,452	$52,858	$62,730
Provision for loan and lease losses	2,647	893	7,777	(524)
Loans charged-off	(3,962)	(4,869)	(14,278)	(20,205)
Recoveries	1,771	3,513	6,975	11,988
Balance at end of period	$53,332	$53,989	$53,332	$53,989

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

Nine months ended September 30, 2015										
		Real Estate								
(Dollars in thousands)	Comm	Constr	Comm	Resid	Install	Home Equity	Other	Total	Covered/formerly covered	Grand Total
Allowance for loan and lease losses:										
Balance at beginning of period	$11,259	$1,045	$20,668	$2,828	$323	$4,260	$2,437	$42,820	$10,038	$52,858
Provision for loan and lease losses	5,034	540	(2,282)	1,324	77	905	516	6,114	1,663	7,777
Gross charge-offs	2,528	84	3,664	665	267	1,185	807	9,200	5,078	14,278
Recoveries	586	39	977	174	163	478	168	2,585	4,390	6,975
Total net charge-offs	1,942	45	2,687	491	104	707	639	6,615	688	7,303
Ending allowance for loan and lease losses	$14,351	$1,540	$15,699	$3,661	$296	$4,458	$2,314	$42,319	$11,013	$53,332
Ending allowance on loans individually evaluated for impairment	$478	$0	$938	$235	$0	$2	$0	$1,653	$0	$1,653
Ending allowance on loans collectively evaluated for impairment	13,873	1,540	14,761	3,426	296	4,456	2,314	40,666	11,013	51,679
Ending allowance for loan and lease losses	$14,351	$1,540	$15,699	$3,661	$296	$4,458	$2,314	$42,319	$11,013	$53,332
Loans										
Ending balance of loans individually evaluated for impairment	$7,651	$0	$22,287	$2,742	$0	$362	$0	$33,042	$0	$33,042

Ending balance of loans collectively evaluated for impairment	1,620,696	275,430	2,019,783	444,132	37,609	427,038	120,508	4,945,196	237,825	5,183,021
Total loans	$1,628,347	$275,430	$2,042,070	$446,874	$37,609	$427,400	$120,508	$4,978,238	$237,825	$5,216,063

	Twelve months ended December 31, 2014									
		Real Estate								
(Dollars in thousands)	Comm	Constr	Comm	Resid	Install	Home Equity	Other	Total	Covered/formerly covered	Grand Total
Allowance for loan and lease losses:										
Balance at beginning of period	$10,568	$824	$20,478	$3,379	$365	$5,209	$3,006	$43,829	$18,901	$62,730
Provision for loan and lease losses	871	221	1,325	181	23	565	183	3,369	(1,841)	1,528
Gross charge-offs	1,440	0	2,329	922	283	1,745	1,158	7,877	18,096	25,973
Recoveries	1,260	0	1,194	190	218	231	406	3,499	11,074	14,573
Total net charge-offs	180	0	1,135	732	65	1,514	752	4,378	7,022	11,400
Ending allowance for loan and lease losses	$11,259	$1,045	$20,668	$2,828	$323	$4,260	$2,437	$42,820	$10,038	$52,858
Ending allowance on loans individually evaluated for impairment	$739	$0	$4,002	$310	$0	$2	$0	$5,053	$0	$5,053
Ending allowance on loans collectively evaluated for impairment	10,520	1,045	16,666	2,518	323	4,258	2,437	37,767	10,038	47,805
Ending allowance for loan and lease losses	$11,259	$1,045	$20,668	$2,828	$323	$4,260	$2,437	$42,820	$10,038	$52,858
Loans - excluding										

covered loans										
Ending balance of loans individually evaluated for impairment	$6,122	$0	$25,938	$2,963	$0	$609	$0	$35,632	$0	$35,632
Ending balance of loans collectively evaluated for impairment	1,291,190	196,272	1,948,757	429,712	44,269	415,420	113,969	4,439,589	302,014	4,741,603
Total loans - excluding covered loans	$1,297,312	$196,272	$1,974,695	$432,675	$44,269	$416,029	$113,969	$4,475,221	$302,014	$4,777,235

NOTE 6: GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill. Assets and liabilities acquired in a business combination are recorded at their estimated fair values as of the acquisition date. The excess cost of the acquisition over the fair value of net assets acquired is recorded as goodwill. During the third quarter of 2015, First Financial recorded additions to goodwill resulting from the Oak Street acquisition. For further detail on the Oak Street acquisition, see Note 15 – Business Combinations.

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Changes in the carrying amount of goodwill for the quarter ended September 30, 2015 and the year ended December 31, 2014 are shown below.

(Dollars in thousands)	September 30, 2015	December 31, 2014
Balance at beginning of year	$137,739	$95,050
Goodwill resulting from business combinations	66,276	42,689
Balance at end of period	$204,015	$137,739

Goodwill is not amortized, but is measured for impairment on an annual basis as of October 1 of each year, or whenever events or changes in circumstances indicate that the fair value of a reporting unit may be below its carrying value. First Financial performed its most recent annual impairment test as of October 1, 2014 and no impairment was indicated. As of September 30, 2015, no events or changes in circumstances indicated that the fair value of a reporting unit was below its carrying value.

Other intangible assets. As of September 30, 2015 and December 31, 2014, First Financial has $7.7 million and $8.1 million, respectively, of other intangibles which are included in Goodwill and other intangibles in the Consolidated Balance Sheets and primarily consist of core deposit intangibles. Core deposit intangibles represent the estimated fair value of acquired customer deposit relationships. Core deposit intangibles are recorded at their estimated fair value as of the acquisition date and are then amortized on an accelerated basis over their estimated useful lives. Core deposit intangibles were $6.4 million and $7.7 million as of September 30, 2015 and December 31, 2014, respectively. First Financial's core deposit intangibles have an estimated weighted average remaining life of 5.9 years. Amortization expense was $0.4 million and $0.5 million for the three months ended September 30, 2015 and 2014, respectively. Amortization expense recognized on intangible assets for the nine months ended September 30, 2015 and 2014 was $1.3 million and $1.2 million, respectively.

NOTE 7: BORROWINGS

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

First Financial had $701.2 million in short-term borrowings with the FHLB at September 30, 2015 and $558.2 million as of December 31, 2014. These short-term borrowings are used to manage the Company's normal liquidity needs and support the Company's asset and liability management strategies.

First Financial has a $15.0 million short-term credit facility with an unaffiliated bank that matures on May 30, 2016. This facility can have a variable or fixed interest rate and provides First Financial additional liquidity, if needed, for various corporate activities, including the repurchase of First Financial shares and the payment of dividends to shareholders. As of September 30, 2015 and December 31, 2014, there was no outstanding balance. The credit agreement requires First Financial to comply with certain covenants including those related to asset quality and capital levels, and First Financial was in compliance with all covenants associated with this facility as of September 30, 2015 and December 31, 2014.

During the third quarter of 2015, First Financial issued $120.0 million of subordinated notes. The subordinated notes have a fixed interest rate of 5.125% payable semiannually and mature on August 25, 2025. These notes are not redeemable by the Company or callable by the holders of the notes prior to maturity. The subordinated notes will be treated as Tier 2 capital for regulatory capital purposes and are included in Long-term debt on the Consolidated Balance Sheets.

Long-term debt also includes $0.5 million and $22.5 million of FHLB long-term advances as of September 30, 2015 and December 31, 2014, respectively. These instruments are primarily utilized to reduce overnight liquidity risk and to mitigate interest rate sensitivity on the Consolidated Balance Sheets. As of December 31, 2014, First Financial also had $25.0 million in repurchase agreements recorded in Long-term debt on the Consolidated Balance Sheets which matured during the third quarter of 2015. Securities pledged as collateral in conjunction with the repurchase agreements were included within Investment securities on the Consolidated Balance Sheets.

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The following is a summary of First Financial's long-term debt:

	September 30, 2015			December 31, 2014		
(Dollars in thousands)	Amount	Average rate		Amount	Average rate	
Subordinated debt	$118,286	5.20	%	$0	0.00	%
FHLB advances	454	2.36	%	22,466	2.52	%
National market repurchase agreement	0	0.00	%	25,000	3.54	%
Capital loan with municipality	775	0.00	%	775	0.00	%
Total long-term debt	$119,515	5.15	%	$48,241	3.01	%

NOTE 8: ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

	Three months ended September 30, 2015				
	Total other comprehensive income				Total accumulated other comprehensive income
(Dollars in thousands)	Prior to Reclassification	Reclassification from	Pre-tax	Tax-effect	