FIRST FINANCIAL BANCORP /OH/
Form 10-Q
November 08, 2016
Table of Contents

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

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

For the quarterly period ended September 30, 2016

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	31-1042001
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
255 East Fifth Street, Suite 700 Cincinnati, Ohio	45202
(Address of principal executive offices)	(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 Data 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 7, 2016
Common stock, No par value	61,955,821

Table of Contents

FIRST FINANCIAL BANCORP.

INDEX

Table of Contents

Glossary of Abbreviations and Acronyms

First Financial 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/bps	Basis point(s)	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
Fair Value Topic	FASB ASC Topic 825, Financial Instruments		

Table of Contents

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

	September 30, 2016 (Unaudited)	December 31, 2015
Assets		
Cash and due from banks	$ 117,982	$ 114,841
Interest-bearing deposits with other banks	16,765	33,734
Investment securities available-for-sale, at fair value (amortized cost $1,110,784 at September 30, 2016 and $1,203,065 at December 31, 2015)	1,120,494	1,190,642
Investment securities held-to-maturity (fair value $645,751 at September 30, 2016 and $731,951 at December 31, 2015)	628,497	726,259
Other investments	51,170	53,725
Loans held for sale	17,414	20,957
Loans and leases		
Commercial and industrial	1,782,782	1,663,102
Lease financing	96,046	93,986
Construction real estate	380,349	311,712
Commercial real estate	2,468,083	2,258,297
Residential real estate	507,715	512,311
Home equity	463,702	466,629
Installment	47,825	41,506
Credit card	43,009	41,217
Total loans and leases	5,789,511	5,388,760
Less: Allowance for loan and lease losses	57,618	53,398
Net loans and leases	5,731,893	5,335,362
Premises and equipment	132,082	136,603
Goodwill and other intangibles	210,888	211,865
FDIC indemnification asset	13,287	17,630
Accrued interest and other assets	328,009	305,793
Total assets	$ 8,368,481	$ 8,147,411
Liabilities		
Deposits		
Interest-bearing	$ 1,494,529	$ 1,414,291
Savings	2,005,407	1,945,805
Time	1,346,736	1,406,124
Total interest-bearing deposits	4,846,672	4,766,220
Noninterest-bearing	1,492,011	1,413,404
Total deposits	6,338,683	6,179,624
Federal funds purchased and securities sold under agreements to repurchase	77,936	89,325
Federal Home Loan Bank short-term borrowings	848,300	849,100
Total short-term borrowings	926,236	938,425
Long-term debt	119,549	119,540
Total borrowed funds	1,045,785	1,057,965

Accrued interest and other liabilities	122,876	100,446
Total liabilities	7,507,344	7,338,035
Shareholders' equity		
Common stock - no par value		
Authorized - 160,000,000 shares; Issued - 68,730,731 shares in 2016 and 2015	569,199	571,155
Retained earnings	423,800	388,240
Accumulated other comprehensive loss	(17,522)	(30,580)
Treasury stock, at cost, 6,777,858 shares in 2016 and 7,089,051 shares in 2015	(114,340)	(119,439)
Total shareholders' equity	861,137	809,376
Total liabilities and shareholders' equity	$ 8,368,481	$ 8,147,411

See Notes to Consolidated Financial Statements.

1

Table of Contents

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

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Interest income				
Loans, including fees	$66,997	$ 58,694	$194,820	$167,744
Investment securities				
Taxable	10,326	9,986	32,405	28,875
Tax-exempt	1,083	1,163	3,401	3,419
Total interest on investment securities	11,409	11,149	35,806	32,294
Other earning assets	(1,081)	(1,168)	(3,323)	(3,511)
Total interest income	77,325	68,675	227,303	196,527
Interest expense				
Deposits	5,600	4,861	16,587	14,302
Short-term borrowings	1,368	374	3,591	930
Long-term borrowings	1,539	281	4,620	876
Total interest expense	8,507	5,516	24,798	16,108
Net interest income	68,818	63,159	202,505	180,419
Provision for loan and lease losses	1,687	2,647	7,379	7,777
Net interest income after provision for loan and lease losses	67,131	60,512	195,126	172,642
Noninterest income				
Service charges on deposit accounts	5,056	4,934	13,892	14,260
Trust and wealth management fees	3,236	3,134	9,959	10,042
Bankcard income	2,984	2,909	8,996	8,501
Client derivative fees	1,210	1,604	4,104	3,444
Net gains from sales of loans	2,066	1,758	5,093	5,146
Net gains on sales of investment securities	398	409	234	1,503
FDIC loss sharing income	(638)	(973)	(1,144)	(2,323)
Accelerated discount on covered/formerly covered loans	491	3,820	2,653	10,006
Other	2,146	2,760	8,868	8,804
Total noninterest income	16,949	20,355	52,655	59,383
Noninterest expenses				
Salaries and employee benefits	32,093	27,768	91,234	82,160
Net occupancy	4,543	4,510	13,991	13,895
Furniture and equipment	2,139	2,165	6,482	6,537
Data processing	2,828	2,591	8,311	8,020
Marketing	641	810	2,507	2,671
Communication	527	531	1,485	1,659
Professional services	1,460	4,092	4,572	7,789
State intangible tax	639	579	1,917	1,733
FDIC assessments	1,048	1,103	3,292	3,307
Loss (gain) - other real estate owned	(112)	196	(259)	1,089
Loss sharing expense	270	574	555	1,451
Other	5,029	8,073	17,151	19,535
Total noninterest expenses	51,105	52,992	151,238	149,846

Income before income taxes	32,975	27,875	96,543	82,179
Income tax expense	10,125	9,202	31,311	26,936
Net income	$22,850	$ 18,673	$65,232	$55,243
Net earnings per common share - basic	$0.37	$ 0.31	$1.07	$0.90
Net earnings per common share - diluted	$0.37	$ 0.30	$1.05	$0.89
Cash dividends declared per share	$0.16	$ 0.16	$0.48	$0.48
Average common shares outstanding - basic	61,280,283	61,135,749	61,170,845	61,088,794
Average common shares outstanding - diluted	62,086,067	61,987,795	61,962,961	61,858,724

See Notes to Consolidated Financial Statements.

Table of Contents

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

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Net income	$22,850	$18,673	$65,232	$55,243
Other comprehensive income (loss), net of tax:				
Unrealized gains (losses) on investment securities arising during the period	(162)	3,057	12,073	4,287
Change in retirement obligation	200	220	601	624
Unrealized gain (loss) on derivatives	128	128	384	(771)
Unrealized gain (loss) on foreign currency exchange	0	91	0	50
Other comprehensive income (loss)	166	3,496	13,058	4,190
Comprehensive income	$23,016	$22,169	$78,290	$59,433

See Notes to Consolidated Financial Statements.

Table of Contents

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, 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
Excess tax benefit on share-based compensation		85					85
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
Balance at January 1, 2016	68,730,731	$571,155	$388,240	$ (30,580)	(7,089,051)	$(119,439)	$809,376
Net income			65,232				65,232
Other comprehensive income (loss)				13,058			13,058
Cash dividends declared:							
Common stock at $0.48 per share			(29,672)				(29,672)
Warrant Exercises		(1,249)			74,079	1,249	0
Excess tax benefit on share-based compensation		225					225
Exercise of stock options, net of shares purchased		(328)			53,715	906	578
Restricted stock awards, net of forfeitures		(4,506)			183,399	2,944	(1,562)
Share-based compensation expense		3,902					3,902
Balance at September 30, 2016	68,730,731	$569,199	$423,800	$ (17,522)	(6,777,858)	$(114,340)	$861,137

See Notes to Consolidated Financial Statements.

4

Table of Contents

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

	Nine months ended September 30,	
	2016	2015
Operating activities		
Net income	$65,232	$55,243
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	7,379	7,777
Depreciation and amortization	9,753	9,697
Stock-based compensation expense	3,902	3,006
Pension expense (income)	(675)	(900)
Net amortization of premiums/accretion of discounts on investment securities	6,213	5,874
Net gains on sales of investment securities	(234)	(1,503)
Originations of loans held for sale	(172,950)	(197,621)
Net gains from sales of loans held for sale	(5,093)	(5,146)
Proceeds from sales of loans held for sale	181,263	187,364
Deferred income taxes	271	2,954
Bank owned life insurance income	(1,342)	(1,314)
Decrease (increase) in interest receivable	(1,183)	(1,912)
Decrease (increase) in indemnification asset	4,343	3,735
(Decrease) increase in interest payable	(1,480)	706
Decrease (increase) in other assets	(21,301)	(22,770)
(Decrease) increase in other liabilities	2,634	16,136
Net cash provided by (used in) operating activities	76,732	61,326
Investing activities		
Proceeds from sales of securities available-for-sale	206,909	68,615
Proceeds from calls, paydowns and maturities of securities available-for-sale	119,437	88,336
Purchases of securities available-for-sale	(225,117)	(375,244)
Proceeds from sales of securities held-to-maturity	4,862	0
Proceeds from calls, paydowns and maturities of securities held-to-maturity	89,529	111,499
Purchases of securities held-to-maturity	0	(3,520)
Net decrease (increase) in interest-bearing deposits with other banks	16,969	(1,561)
Net decrease (increase) in loans and leases	(406,005)	(213,936)
Proceeds from disposal of other real estate owned	6,908	12,238
Purchases of premises and equipment	(6,427)	(6,371)
Life insurance premium payments	(4,006)	(3,575)
Life insurance death benefits	5,006	0
Net cash (paid) acquired from business combinations	0	(305,591)
Net cash provided by (used in) investing activities	(191,935)	(629,110)
Financing activities		
Net (decrease) increase in total deposits	159,059	425,686
Net (decrease) increase in short-term borrowings	(12,189)	102,125
Payments on long-term debt	(86)	(46,238)
Proceeds from issuance of long-term debt	0	120,000

Cash dividends paid on common stock	(29,318)	(29,282)
Treasury stock purchase	0	(2,783)
Proceeds from exercise of stock options	653	367
Excess tax benefit on share-based compensation	225	85
Net cash provided by (used in) financing activities	118,344	569,960
Cash and due from banks		
Change in cash and due from banks	3,141	2,176
Cash and due from banks at beginning of period	114,841	110,122
Cash and due from banks at end of period	$117,982	$112,298

See Notes to Consolidated Financial Statements.

5

FIRST FINANCIAL BANCORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2016
(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 have been made to conform to current year presentation. Such reclassifications had no effect on net earnings.

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, 2015. 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, 2015 has been derived from the audited financial statements in the Company’s 2015 Form 10-K.

NOTE 2: RECENTLY ADOPTED AND ISSUED ACCOUNTING STANDARDS

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 became effective January 1, 2016. First Financial early adopted this accounting standard during the third quarter of 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.

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 requires 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 became effective January 1, 2016 and did not have a material impact on the Company's Consolidated Financial Statements.

In January 2016, the FASB issued an update (ASU 2016-01, Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities) which will require entities to measure many equity investments at fair value and recognize changes in fair value in net income. This update does not apply to equity investments that result in consolidation, those accounted for under the equity method and certain others, and will eliminate use of the available for sale classification for equity securities while providing a new measurement alternative for equity investments that do not have readily determinable fair values and do not qualify for the net asset value practical expedient. The guidance in this ASU will become effective for interim and annual reporting periods beginning after December 15, 2017, with early adoption permitted. First Financial does not anticipate this update will have a material impact on its Consolidated Financial Statements.

In February 2016, the FASB issued an update (ASU 2016-02, Leases) which will require lessees to record most leases on their balance sheet and recognize leasing expenses in the income statement. Operating leases, except for short-term leases that are subject to an accounting policy election, will be recorded on the balance sheet for lessees by establishing a lease liability and corresponding right-of-use asset. The guidance in this ASU will become effective for interim and annual reporting periods beginning after December 15, 2018, with early adoption permitted. First Financial is currently evaluating the impact of this update on its Consolidated Financial Statements.

In March 2016, the FASB issued an update (ASU 2016-05, Derivatives and Hedging: Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships) which clarifies that the novation of a derivative contract in a hedge accounting relationship does not, in and of itself, require de-designation of that hedge accounting relationship. In the event of a novation, hedge accounting relationships could continue if all other hedge accounting criteria are met, including the expectation that the hedge will be highly effective when the creditworthiness of the new counterparty to the derivative contract is considered. The guidance in this ASU will become effective for interim and annual reporting periods beginning after December 15, 2016, with early adoption permitted. First Financial does not anticipate this update will have a material impact on its Consolidated Financial Statements.

In March 2016, the FASB issued an update (ASU 2016-06, Derivatives and Hedging: Contingent Put and Call Options in Debt Instruments) which clarifies that an assessment of whether an embedded contingent put or call option is clearly and closely related to the debt host requires only an analysis of the four-step decision sequence in ASC 815-15-25-42. Entities are required to apply the guidance to existing debt instruments (or hybrid financial instruments that are determined to have a debt host) using a modified retrospective transition method as of the period of adoption. The guidance in this ASU will become effective for interim and annual reporting periods beginning after December 15, 2016, with early adoption permitted. First Financial does not anticipate this update will have a material impact on its Consolidated Financial Statements.

In March 2016, the FASB issued an update (ASU 2016-07, Investments-Equity Method and Joint Ventures: Simplifying the Transition to the Equity Method of Accounting) which will eliminate the requirement to retrospectively apply the equity method when an investment that had been accounted for utilizing another method qualifies for use of the equity method. The guidance in this ASU will become effective for interim and annual reporting periods beginning after December 15, 2016, with early adoption permitted. First Financial does not anticipate this update will have a material impact on its Consolidated Financial Statements.

In March 2016, the FASB issued an update (ASU 2016-09, Compensation-Stock Compensation: Improvements to Employee Share-Based Payment Accounting) which will require recognition of the income tax effects of share-based awards in the income statement when the awards vest or are settled (i.e., Additional Paid-in-Capital pools will be eliminated). The guidance in this ASU will become effective for interim and annual reporting periods beginning after December 15, 2016, with early adoption permitted. First Financial does not anticipate this update will have a material impact on its Consolidated Financial Statements.

In June 2016, the FASB issued an update (ASU 2016-13, Financial Instruments-Credit Losses: Measurement of Credit Losses on Financial Instruments) which significantly changes how entities are required to measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. This update will replace the current incurred loss approach for estimating credit losses with an expected loss model for instruments measured at amortized cost, including loans and leases. Expected credit losses are required to be based on amortized cost and reflect losses expected over the remaining contractual life of the asset. Management is expected to consider any available information relevant to assessing the collectability of contractual cash flows, such as information about past events, current conditions, voluntary prepayments and reasonable and supportable forecasts, when developing expected credit loss estimates.

In addition to the new framework for calculating the ALLL, this update requires allowances for available-for-sale debt securities rather than a reduction of the security's carrying amount under the current other-than-temporary impairment model. This update also simplifies the accounting model for purchased credit-impaired debt securities and loans and will require new and updated footnote disclosures.

The guidance in this ASU will become effective for interim and annual reporting periods beginning after December 15, 2019. Early adoption is permitted for all entities for interim and annual reporting periods beginning after December 15, 2018. First Financial is currently evaluating the impact of this update on its Consolidated Financial Statements.

In August 2016, the FASB issued an update (ASU 2016-15 Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments) which may change how an entity classifies certain cash receipts and cash payments on its statement of cash flows to reduce diversity in practice. The update also provides guidance on when an entity should separate cash flows and classify them into more than one class and when an entity should classify the aggregate of those cash flows into a single class based on the predominance principle. The guidance in this ASU will become effective for interim and annual reporting periods beginning after December 15, 2017, with early adoption permitted. First Financial does not anticipate this update will have a material impact on its Consolidated Financial Statements.

Table of Contents

NOTE 3: INVESTMENTS

For the three months ending September 30, 2016, proceeds on the sale of $99.4 million of available-for-sale securities resulted in gains of $0.8 million and losses of $0.5 million. For the comparable quarter in 2015, proceeds on the sale of $14.7 million of available-for-sale securities resulted in gains of $0.4 million and no losses. For the nine months ended September 30, 2016, proceeds on the sale of $206.9 million of available-for-sale securities resulted in gains of $1.2 million and losses of $1.0 million. For the nine months ended September 30, 2015, proceeds on the sale of $68.6 million of available-for-sale securities resulted in gains of $1.5 million and no losses. For the three and nine months ended September 30, 2016, the Company sold a single security classified as held-to-maturity to comply with regulatory ownership guidelines. The $4.9 million of proceeds from that sale resulted in a $44 thousand gain. No held-to-maturity securities were sold in 2015.

The following is a summary of held-to-maturity and available-for-sale investment securities as of September 30, 2016:

(Dollars in thousands)	Held-to-maturity Amortized cost	Unrecognized gain	Unrecognized loss	Fair value	Available-for-sale Amortized cost	Unrealized gain	Unrealized loss	Fair value
U.S. Treasuries	$0	$ 0	$ 0	$0	$98	$ 4	$ 0	$ 102
Securities of U.S. government agencies and corporations	13,811	389	0	14,200	7,471	226	0	7,697
Mortgage-backed securities	591,224	16,639	(337)	607,526	662,535	8,714	(2,241)	669,008
Obligations of state and other political subdivisions	23,462	563	0	24,025	119,168	3,574	(502)	122,240
Asset-backed securities	0	0	0	0	286,427	1,508	(1,944)	285,991
Other securities	0	0	0	0	35,085	935	(564)	35,456
Total	$628,497	$ 17,591	$ (337)	$645,751	$1,110,784	$ 14,961	$ (5,251)	$1,120,494

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

(Dollars in thousands)	Held-to-maturity Amortized cost	Unrecognized gain	Unrecognized loss	Fair value	Available-for-sale Amortized cost	Unrealized gain	Unrealized loss	Fair value
U.S. Treasuries	$0	$ 0	$ 0	$0	$98	$ 0	$ (1)	$97
Securities of U.S. government agencies and corporations	15,486	121	0	15,607	8,183	157	0	8,340
Mortgage-backed securities	678,318	7,452	(1,999)	683,771	775,285	2,708	(12,926)	765,067
Obligations of state and other political subdivisions	27,646	338	(99)	27,885	105,212	2,655	(730)	107,137
Asset-backed securities	0	0	0	0	236,411	35	(3,445)	233,001
Other securities	4,809	0	(121)	4,688	77,876	523	(1,399)	77,000
Total	$726,259	$ 7,911	$ (2,219)	$731,951	$1,203,065	$ 6,078	$ (18,501)	$1,190,642

The following table provides a summary of investment securities by contractual maturity or estimated weighted average life as of September 30, 2016. Estimated lives on amortizing investment securities may differ from contractual maturities as issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

(Dollars in thousands)	Held-to-maturity		Available-for-sale	
	Amortized cost	Fair value	Amortized cost	Fair value
Due in one year or less	$10,329	$10,396	$84,668	$84,666
Due after one year through five years	550,112	564,365	696,926	701,256
Due after five years through ten years	68,056	70,990	282,745	287,263
Due after ten years	0	0	46,445	47,309
Total	$628,497	$645,751	$1,110,784	$1,120,494

Table of Contents

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

	September 30, 2016					
	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	$97,408	$ (331)	$143,886	$ (2,247)	$241,294	$ (2,578)
Obligations of state and other political subdivisions	33,509	(100)	12,515	(402)	46,024	(502)
Asset-backed securities	51,613	(179)	100,822	(1,765)	152,435	(1,944)
Other securities	128	0	20,591	(564)	20,719	(564)
Total	$182,658	$ (610)	$277,814	$ (4,978)	$460,472	$ (5,588)

	December 31, 2015					
	Less than 12 months		12 months or more		Total	
(Dollars in thousands)	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
U.S. Treasuries	$97	$ (1)	$0	$0	$97	$ (1)
Mortgage-backed securities	500,768	(5,362)	246,523	(9,563)	747,291	(14,925)
Obligations of state and other political subdivisions	5,800	(65)	29,287	(764)	35,087	(829)
Asset-backed securities	189,066	(3,042)	17,144	(403)	206,210	(3,445)
Other securities	30,828	(592)	24,716	(928)	55,544	(1,520)
Total	$726,559	$ (9,062)	$317,670	$ (11,658)	$1,044,229	$ (20,720)

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, 2016 or December 31, 2015.

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

Table of Contents

NOTE 4: LOANS AND LEASES

First Financial offers clients a variety of commercial and consumer loan and lease products with various interest rates and payment terms. Lending activities are primarily concentrated in 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 primarily to insurance agents and brokers. Commercial loan categories include commercial and industrial, 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 $151.9 million and $191.6 million, at September 30, 2016 and December 31, 2015, respectively. The outstanding balance of all purchased impaired loans, including all contractual principal, interest, fees and penalties, was $166.4 million and $213.3 million as of September 30, 2016 and December 31, 2015, 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		Nine months ended	
	September 30,		September 30,	
(Dollars in thousands)	2016	2015	2016	2015
Balance at beginning of period	$56,819	$78,945	$64,857	$106,622
Reclassification from/(to) nonaccretable difference	36	76	3,756	(2,048)
Accretion	(3,399)	(4,945)	(11,364)	(17,046)
Other net activity [1]	(2,022)	(4,746)	(5,815)	(18,198)
Balance at end of period	$51,434	$69,330	$51,434	$69,330

[1] Includes the impact of loan repayments and charge-offs.

First Financial regularly reviews its forecast of expected cash flows for purchased impaired loans. Due to changes in the cash flow expectations related to certain loan pools, the Company recognized reclassifications from nonaccretable to accretable difference of $36 thousand for the third quarter of 2016 and $3.8 million for the nine months ended September 30, 2016. The Company recognized reclassifications from nonaccretable to accretable difference during the third quarter of 2015 of $0.1 million, however, during the nine months ended September 30, 2015, the Company recognized reclassifications to accretable from nonaccretable difference of $2.0 million. These reclassifications can result in impairment and provision expense in the current period or yield adjustments on the related loan pools on a prospective basis.

Covered loans. Loans acquired in FDIC-assisted transactions covered under loss sharing agreements whereby the FDIC will reimburse First Financial for the majority of any losses incurred are referred to as covered loans. Covered loans totaled $99.7 million as of September 30, 2016 and $113.3 million as of December 31, 2015. For a detailed discussion of covered loans, please refer to the Loans and Leases note in the Company's 2015 Annual Report on Form 10-K.

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

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

Table of Contents

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 highly questionable and improbable, on the basis of currently existing facts, conditions and values. 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 previously described are derived from standard regulatory rating definitions and 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, 2016				
	Commercial	Real Estate		Lease	
(Dollars in thousands)	and industrial	Construction	Commercial	financing	Total
Pass	$1,714,538	$380,199	$2,385,796	$95,157	$4,575,690
Special Mention	19,000	0	17,043	128	36,171
Substandard	49,244	150	65,244	761	115,399
Doubtful	0	0	0	0	0
Total	$1,782,782	$380,349	$2,468,083	$96,046	$4,727,260

(Dollars in thousands)	Residential real estate	Home equity	Installment	Other	Total
Performing	$498,429	$459,115	$47,441	$43,009	$1,047,994
Nonperforming	9,286	4,587	384	0	14,257
Total	$507,715	$463,702	$47,825	$43,009	$1,062,251

	As of December 31, 2015				
	Commercial	Real Estate		Lease	
(Dollars in thousands)	and industrial	Construction	Commercial	financing	Total
Pass	$1,596,415	$310,806	$2,179,701	$93,236	$4,180,158
Special Mention	27,498	128	19,903	0	47,529
Substandard	39,189	778	58,693	750	99,410

Doubtful	0	0	0	0	0
Total	$1,663,102	$311,712	$2,258,297	$93,986	$4,327,097

11

Table of Contents

(Dollars in thousands)	Residential real estate	Home equity	Installment	Other	Total
Performing	$ 503,317	$461,188	$ 41,253	$41,217	$1,046,975
Nonperforming	8,994	5,441	253	0	14,688
Total	$ 512,311	$466,629	$ 41,506	$41,217	$1,061,663

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, 2016								
(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 and industrial	$1,310	$3,811	$2,142	$7,263	$1,769,726	$1,776,989	$5,793	$1,782,782	$ 0
Construction real estate	0	0	0	0	379,661	379,661	688	380,349	0
Commercial real estate	1,811	7,693	6,095	15,599	2,360,738	2,376,337	91,746	2,468,083	0
Residential real estate	43	323	2,077	2,443	454,855	457,298	50,417	507,715	0
Home equity	151	204	1,907	2,262	459,672	461,934	1,768	463,702	0
Installment	97	14	217	328	46,034	46,362	1,463	47,825	0
Other	474	145	255	874	138,181	139,055	0	139,055	130
Total	$3,886	$12,190	$12,693	$28,769	$5,608,867	$5,637,636	$151,875	$5,789,511	$ 130

	As of December 31, 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 and industrial	$2,255	$2,232	$ 1,937	$6,424	$1,648,902	$1,655,326	$ 7,776	$1,663,102	$ 0
Construction real estate	0	17	0	17	310,872				