

FIRST FINANCIAL BANCORP /OH/

Form 10-Q

May 01, 2007

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

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

For the quarterly period ended March 31, 2007

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-12379  
FIRST FINANCIAL BANCORP.

(Exact name of registrant as specified in its charter)

Ohio

31-1042001

(I.R.S. Employer  
incorporation or organization)

(State or other jurisdiction of  
Identification No.)

300 High Street, Hamilton, Ohio

45011

(Address of principal executive offices)

(Zip Code)

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

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

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 April 27, 2007

Common stock, No par value

38,921,543

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

|  | March 31,<br>2007   | December 31,<br>2006 |
|--|---------------------|----------------------|
| <b>ASSETS</b>  |                     |                      |
| Cash and due from banks  | \$ 87,969           | \$ 119,407           |
| Federal funds sold   | 159,200             | 102,000              |
| Investment securities held-to-maturity<br>(market value \$7,925 at March 31, 2007 and \$8,154 at December 31, 2006)                | 7,769               | 7,995                |
| Investment securities available-for-sale, at market value<br>(cost \$326,243 at March 31, 2007 and \$324,922 at December 31, 2006) | 325,755             | 324,259              |
| Other investments  | 33,969              | 33,969               |
| Loans:   |                     |                      |
| Commercial   | 709,341             | 673,445              |
| Real estate construction   | 107,867             | 101,688              |
| Real estate commercial   | 647,126             | 623,603              |
| Real estate retail   | 604,213             | 628,579              |
| Installment  | 180,116             | 198,881              |
| Home equity  | 228,660             | 228,128              |
| Credit card  | 23,678              | 24,587               |
| Lease financing  | 732                 | 923                  |
| Total loans  | 2,501,733           | 2,479,834            |
| Less:  |                     |                      |
| Allowance for loan and lease losses  | 27,407              | 27,386               |
| Net loans  | 2,474,326           | 2,452,448            |
| Loans held for sale  | 0                   | 8,824                |
| Premises and equipment, net  | 79,553              | 79,609               |
| Goodwill   | 28,261              | 28,261               |
| Other intangibles  | 1,195               | 5,842                |
| Accrued interest and other assets  | 129,991             | 138,985              |
| <b>TOTAL ASSETS</b>  | <b>\$ 3,327,988</b> | <b>\$ 3,301,599</b>  |
| <b>LIABILITIES</b>   |                     |                      |
| Deposits:  |                     |                      |
| Interest-bearing   | \$ 627,996          | \$ 667,305           |
| Savings  | 564,340             | 526,663              |
| Time   | 1,218,823           | 1,179,852            |
| Total interest-bearing deposits  | 2,411,159           | 2,373,820            |

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|   |                     |                     |
|---|---------------------|---------------------|
| Noninterest-bearing   | 420,521             | 424,138             |
| Total deposits  | 2,831,680           | 2,797,958           |
| Short-term borrowings:  |                     |                     |
| Federal funds purchased and securities sold under agreements to repurchase    | 39,998              | 57,201              |
| Other   | 52,246              | 39,500              |
| Total short-term borrowings   | 92,244              | 96,701              |
| Federal Home Loan Bank long-term debt   | 60,298              | 63,762              |
| Other long-term debt  | 30,930              | 30,930              |
| Accrued interest and other liabilities  | 28,481              | 26,769              |
| <b>TOTAL LIABILITIES</b>  | <b>3,043,633</b>    | <b>3,016,120</b>    |
| <b>SHAREHOLDERS EQUITY</b>  |                     |                     |
| Common stock no par value   |                     |                     |
| Authorized - 160,000,000 shares   |                     |                     |
| Issued - 48,558,614 shares in 2007 and 2006                                   | 393,091             | 392,736             |
| Retained earnings   | 73,505              | 71,320              |
| Accumulated comprehensive income  | (13,121)            | (13,375)            |
| Treasury Stock, at cost 9,556,771 shares in 2007 and 9,313,207 shares in 2006 | (169,120)           | (165,202)           |
| <b>TOTAL SHAREHOLDERS EQUITY</b>  | <b>284,355</b>      | <b>285,479</b>      |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>                              | <b>\$ 3,327,988</b> | <b>\$ 3,301,599</b> |

See notes to consolidated financial statements.

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

|   | Three months ended<br>March 31, |           |
|---|---------------------------------|-----------|
|   | 2007                            | 2006      |
| Interest income                                     |                                 |           |
| Loans, including fees                               | \$ 45,064                       | \$ 42,857 |
| Investment securities                               |                                 |           |
| Taxable   | 3,891                           | 5,141     |
| Tax-exempt  | 909                             | 1,104     |
| Total investment securities interest                | 4,800                           | 6,245     |
| Federal funds sold                                  | 1,756                           | 1,582     |
| Total interest income                               | 51,620                          | 50,684    |
| Interest expense                                    |                                 |           |
| Deposits  | 19,009                          | 14,933    |
| Short-term borrowings                               | 996                             | 896       |
| Long-term borrowings                                | 559                             | 2,058     |
| Subordinated debentures and capital securities      | 653                             | 598       |
| Total interest expense                              | 21,217                          | 18,485    |
| Net interest income                                 | 30,403                          | 32,199    |
| Provision for loan losses                           | 1,356                           | 752       |
| Net interest income after provision for loan losses | 29,047                          | 31,447    |
| Noninterest income                                  |                                 |           |
| Service charges on deposit accounts                 | 4,744                           | 5,089     |
| Trust and wealth management fees                    | 4,160                           | 4,189     |
| Bankcard income                                     | 1,240                           | 1,123     |
| Net gains from sales of loans                       | 162                             | 245       |
| Gain on sale of mortgage servicing rights           | 1,061                           | 0         |
| Losses on sales of investment securities            | 0                               | (476)     |
| Other   | 3,377                           | 2,801     |
| Total noninterest income                            | 14,744                          | 12,971    |
| Noninterest expenses                                |                                 |           |
| Salaries and employee benefits                      | 18,961                          | 20,217    |
| Net occupancy                                       | 2,807                           | 2,839     |
| Furniture and equipment                             | 1,627                           | 1,480     |
| Data processing                                     | 845                             | 1,944     |
| Marketing   | 869                             | 683       |
| Communication                                       | 865                             | 667       |

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|                                    |            |            |
|------------------------------------|------------|------------|
| Professional services              | 1,006      | 1,590      |
| Amortization of intangibles        | 199        | 217        |
| Debt extinguishment                | 0          | 4,295      |
| Other                              | 4,031      | 4,945      |
| Total noninterest expenses         | 31,210     | 38,877     |
| Earnings before income taxes       | 12,581     | 5,541      |
| Income tax expense                 | 4,146      | 1,574      |
| Net earnings                       | \$ 8,435   | \$ 3,967   |
| Earnings per share basic           | \$ 0.22    | \$ 0.10    |
| Earnings per share diluted         | \$ 0.22    | \$ 0.10    |
| Cash dividends declared per share  | \$ 0.16    | \$ 0.16    |
| Average basic shares outstanding   | 39,121,105 | 39,560,109 |
| Average diluted shares outstanding | 39,135,637 | 39,612,496 |

See notes to consolidated financial statements.

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

|  | Three months ended<br>March 31, |           |
|--|---------------------------------|-----------|
|  | 2007                            | 2006      |
| Operating activities   |                                 |           |
| Net earnings   | \$ 8,435                        | \$ 3,967  |
| Adjustments to reconcile net cash provided by operating activities               |                                 |           |
| Provision for loan losses  | 1,356                           | 752       |
| Provision for depreciation and amortization                                      | 2,168                           | 1,975     |
| Stock-based compensation expense   | 436                             | 319       |
| Pension expense  | 699                             | 1,497     |
| Net amortization of premiums and accretion of discounts on investment securities | 33                              | (272)     |
| Losses on sales of investment securities   | 0                               | 476       |
| Originations of loans held for sale  | (28,405)                        | (18,559)  |
| Net gains from sales of loans held for sale                                      | (162)                           | (245)     |
| Proceeds from sales of loans held for sale                                       | 37,339                          | 18,622    |
| Deferred income taxes  | 0                               | (175)     |
| (Increase) decrease in interest receivable                                       | (1,283)                         | 1,418     |
| Decrease (increase) in cash surrender value of life insurance                    | 87                              | (852)     |
| Increase in prepaid expenses   | (1,238)                         | (1,040)   |
| Increase (decrease) in accrued expenses  | 1,230                           | (708)     |
| Increase (decrease) in interest payable  | 331                             | (60)      |
| Contribution to pension plan   | 0                               | (1,406)   |
| Other  | 15,259                          | 1,773     |
| Net cash provided by operating activities  | 36,285                          | 7,482     |
| Investing activities   |                                 |           |
| Proceeds from sales of securities available-for-sale                             | 0                               | 184,902   |
| Proceeds from calls, paydowns and maturities of securities available-for-sale    | 15,032                          | 32,331    |
| Purchases of securities available-for-sale                                       | (16,386)                        | (2,348)   |
| Proceeds from calls, paydowns and maturities of securities held-to-maturity      | 226                             | 2,323     |
| Net increase in federal funds sold   | (57,200)                        | (34,500)  |
| Net (increase) decrease in loans and leases                                      | (24,770)                        | 11,347    |
| Recoveries from loans and leases previously charged off                          | 818                             | 684       |
| Proceeds from disposal of other real estate owned                                | 380                             | 804       |
| Purchases of premises and equipment  | (1,528)                         | (2,500)   |
| Net cash (used in) provided by investing activities                              | (83,428)                        | 193,043   |
| Financing activities   |                                 |           |
| Net increase in total deposits   | 33,722                          | 24,965    |
| Net decrease in short-term borrowings  | (4,457)                         | (18,630)  |
| Payments on long-term borrowings   | (3,464)                         | (203,173) |
| Cash dividends   | (6,250)                         | (6,338)   |
| Purchase of common stock   | (3,930)                         | 0         |



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|   |           |            |
|---|-----------|------------|
| Proceeds from exercise of stock options             | 80        | 236        |
| Excess tax benefit on share-based compensation      | 4         | 49         |
| Net cash provided by (used in) financing activities | 15,705    | (202,891)  |
| Cash and cash equivalents:                          |           |            |
| Net decrease in cash and cash equivalents           | (31,438)  | (2,366)    |
| Cash and cash equivalents at beginning of period    | 119,407   | 163,281    |
| Cash and cash equivalents at end of period          | \$ 87,969 | \$ 160,915 |

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

|   | Three months ended<br>March 31, |           |
|---|---------------------------------|-----------|
|   | 2007                            | 2006      |
| Supplemental disclosures  |                                 |           |
| Interest paid   | \$ 20,887                       | \$ 18,545 |
| Income taxes paid   | \$ 0                            | \$ 0      |
| Recognition of deferred tax (liabilities) assets attributable to SFAS No. 115 | \$ (64)                         | \$ 670    |
| Acquisition of other real estate owned through foreclosure                    | \$ 718                          | \$ 316    |
| Issuance of restricted stock awards   | \$ 64                           | \$ 35     |

See notes to consolidated financial statements.

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

|  | Three months ended |                   |
|--|--------------------|-------------------|
|  | March 31,          |                   |
|  | 2007               | 2006              |
| Balances at January 1  | \$ 285,479         | \$ 299,881        |
| Net earnings   | 8,435              | 3,967             |
| Other comprehensive income, net of taxes:                      |                    |                   |
| Changes in unrealized losses on securities, available for sale | 111                | (1,134)           |
| Changes in employee benefit plans amortization                 | 143                | 0                 |
| Comprehensive income   | 8,689              | 2,833             |
| Cash dividends declared  | (6,250)            | (6,338)           |
| Purchase of common stock                                       | (3,930)            | 0                 |
| Excess tax benefit on share-based compensation                 | 4                  | 49                |
| Exercise of stock options, net of shares purchased             | 80                 | 221               |
| Restricted stock awards  | (153)              | (351)             |
| Share-based compensation expense                               | 436                | 319               |
| <b>Balances at March 31</b>                                    | <b>\$ 284,355</b>  | <b>\$ 296,614</b> |

See notes to consolidated financial statements.

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**FIRST FINANCIAL BANCORP. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 2007**

**(Unaudited, dollars in thousands, except per share data)**

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

**NOTE 1: BASIS OF PRESENTATION**

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

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates, assumptions, and judgments that affect the amounts reported in the financial statements and accompanying notes. Actual realized amounts could differ materially from those estimates. These interim financial statements have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X and serve to update the First Financial Bancorp. Annual Report on Form 10-K (Form 10-K) for the year ended December 31, 2006. These financial statements may not include all information and notes necessary to constitute a complete set of financial statements under U.S. generally accepted accounting principles applicable to annual periods and accordingly should be read in conjunction with the financial information contained in the Form 10-K. Management believes these unaudited consolidated financial statements reflect all adjustments of a normal recurring nature which are necessary for a fair presentation of the results for the interim periods presented. The results of operations for the interim periods are not necessarily indicative of the results that may be expected for the full year or any other interim period.

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

**NOTE 2: FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK**

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

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

Standby letters of credit are conditional commitments issued by First Financial to guarantee the performance of a client to a third party. First Financial's portfolio of standby letters of credit consists primarily of performance assurances made on behalf of clients who have a contractual commitment to produce or deliver goods or services. The risk to First Financial arises from its obligation to make payment in the event of the clients' contractual default and surfaces in the form of credit risk. First Financial had issued standby letters of credit aggregating \$21,421 and \$24,709 at March 31, 2007, and December 31, 2006, respectively.

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

Loan commitments are agreements to lend to a client as long as there is no violation of any condition established in the agreement. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without

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being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. First Financial evaluates each client's creditworthiness on an individual basis. The amount of collateral obtained, if deemed necessary by First Financial upon extension of credit, is based on management's credit evaluation of the counterparty. The collateral held varies, but may include securities, real estate, inventory, plant, or equipment. First Financial had commitments outstanding to extend credit totaling \$663,684 and \$633,104 at March 31, 2007, and December 31, 2006, respectively. Management does not anticipate any material losses as a result of these commitments.

**NOTE 3: COMPREHENSIVE INCOME**

First Financial discloses comprehensive income in the Consolidated Statements of Changes in Shareholders' Equity. Disclosure of the reclassification adjustments for the three months ended March 31, 2007, and 2006 are shown in the table below.

|   | Three months ended<br>March 31, |                 |
|---|---------------------------------|-----------------|
|   | 2007                            | 2006            |
| <b>Net Earnings</b>   | \$ 8,435                        | \$ 3,967        |
| Other comprehensive income, net of tax:                                 |                                 |                 |
| Unrealized holding gains (losses) arising during period                 | 111                             | (1,435)         |
| Employee benefit plans amortization                                     | 143                             | 0               |
| Less: Reclassification adjustment for (losses) included in net earnings | 0                               | 301             |
| Other comprehensive income  | 254                             | (1,134)         |
| <b>Comprehensive income</b>   | <b>\$ 8,689</b>                 | <b>\$ 2,833</b> |

At March 31, 2007, the pension and other postretirement losses, net of taxes, recorded as accumulated other comprehensive income (loss) are \$12,812.

**NOTE 4: DERIVATIVES**

The use of derivative instruments allows First Financial to meet the needs of its clients while managing the interest-rate risk associated with certain transactions. First Financial's board of directors has authorized the use of certain derivative products, including interest rate caps, floors, and swaps. Currently, First Financial utilizes interest rate swaps as a means to offer long-term fixed-rate loans to commercial borrowers while maintaining the variable-rate income that better suits First Financial's interest rate risk profile.

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

The net interest receivable or payable on the interest rate swaps is accrued and recognized as an adjustment to the interest income or interest expense of the hedged item. The fair value of the interest rate swaps is included within accrued interest and other assets on the Consolidated Balance Sheets. The corresponding fair-value adjustment is also included on the Consolidated Balance Sheets in the carrying value of the hedged item. Derivative gains and losses not effective in hedging the change in fair value of the hedged item would be recognized immediately in current earnings. The following table summarizes the derivative financial instruments utilized by First Financial and their balances:

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|  | March 31, 2007     |                         |          | December 31, 2006  |                         |          | March 31, 2006     |                         |         |
|--|--------------------|-------------------------|----------|--------------------|-------------------------|----------|--------------------|-------------------------|---------|
|  | Notional<br>Amount | Estimated<br>Fair Value |          | Notional<br>Amount | Estimated<br>Fair Value |          | Notional<br>Amount | Estimated<br>Fair Value |         |
|  |                    | Gain                    | (Loss)   |                    | Gain                    | (Loss)   |                    | Gain                    | (Loss)  |
| Fair Value Hedges                                  |                    |                         |          |                    |                         |          |                    |                         |         |
| Pay fixed interest<br>rate swaps                   | \$ 30,568          | \$ 460                  | \$ (230) | \$ 31,155          | \$ 557                  | \$ (200) | \$ 25,725          | \$ 832                  | \$ (23) |
| Matched Client<br>Hedges                           |                    |                         |          |                    |                         |          |                    |                         |         |
| Client interest rate<br>swaps                      | 24,673             | 699                     | 0        | 24,821             | 631                     | 0        | 0                  | 0                       | 0       |
| Client interest rate<br>swaps with<br>counterparty | 24,673             | 0                       | (699)    | 24,821             | 0                       | (631)    | 0                  | 0                       | 0       |
| Total  | \$ 79,914          | \$ 1,159                | \$ (929) | \$ 80,797          | \$ 1,188                | \$ (831) | \$ 25,725          | \$ 832                  | \$ (23) |

**NOTE 5: OTHER LONG-TERM DEBT**

Other long-term debt, which appears on the balance sheet, consists of junior subordinated debentures owed to two unconsolidated subsidiary trusts. Capital securities were issued in the third quarter of 2003 by First Financial (OH) Statutory Trust II and in the third quarter of 2002 by First Financial (OH) Statutory Trust I, both statutory business trusts. First Financial owns 100% of the common equity of both of the trusts. The trusts were formed with the sole purpose of issuing the capital securities and investing the proceeds from the sale of such capital securities in the debentures. The debentures held by the trust are the sole assets of each trust. Distributions on the capital securities are payable quarterly at a variable rate of interest, which is equal to the interest rate being earned by the trust on the debentures and are recorded as interest expense of First Financial. The interest rate is subject to change every three months, indexed to the three-month LIBOR (London Inter-Bank Offered Rate). First Financial has the option to defer interest for up to five years on the debentures. However, the covenants prevent the payment of dividends on First Financial's common stock if the interest is deferred. The capital securities are subject to mandatory redemption, in whole or in part, upon repayment of the debentures. First Financial has entered into agreements which, taken collectively, fully or unconditionally guarantee the capital securities subject to the terms of the guarantees. The debentures qualify as Tier I capital under Federal Reserve Board guidelines, but are limited to 25% of qualifying Tier I capital.

|   | Amount    | Rate  | Maturity<br>Date | Call Date |
|---|-----------|-------|------------------|-----------|
| First Financial (OH) Statutory Trust I  | \$ 10,000 | 8.75% | 9/25/32          | 9/25/07   |
| First Financial (OH) Statutory Trust II | \$ 20,000 | 8.45% | 9/30/33          | 9/30/08   |

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First Financial sponsors a non-contributory defined benefit pension plan covering substantially all employees. First Financial does not expect, nor is it required, to make any contributions to its pension plan in 2007 due to the improved funded status of the pension plan. The following table sets forth information concerning amounts recognized in First Financial's Consolidated Balance Sheets and Consolidated Statements of Earnings.

|                                    | Three months ended<br>March 31, |                 |
|------------------------------------|---------------------------------|-----------------|
|                                    | 2007                            | 2006            |
| Service cost                       | \$ 851                          | \$ 1,098        |
| Interest cost                      | 743                             | 744             |
| Expected return on plan assets     | (1,122)                         | (687)           |
| Amortization of transition asset   | (12)                            | (14)            |
| Amortization of prior service cost | 12                              | 14              |
| Amortization of actuarial loss     | 227                             | 342             |
| <b>Net periodic benefit cost</b>   | <b>\$ 699</b>                   | <b>\$ 1,497</b> |

Amount recognized in accumulated other comprehensive income (loss) for the period ending March 31, 2007:

|  |               |
|--|---------------|
| Amortization of unrecognized net (gain)/loss from prior years                          | \$ 227        |
| Amortization of prior service cost   | 12            |
| Amortization of unrecognized net asset at transition                                   | (12)          |
| Deferred taxes   | (83)          |
| <b>Total reduction in accumulated other comprehensive income (loss) for the period</b> | <b>\$ 144</b> |

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

|   | Three months ended<br>March 31, |              |
|---|---------------------------------|--------------|
|   | 2007                            | 2006         |
| Interest cost                                   | \$ 20                           | \$ 21        |
| Amortization of prior service cost              | (1)                             | (1)          |
| Amortization of actuarial gain                  | 0                               | (1)          |
| <b>Net periodic postretirement benefit cost</b> | <b>\$ 19</b>                    | <b>\$ 19</b> |

Amount recognized in accumulated other comprehensive income (loss) for the period ending March 31, 2007:

|   |               |
|---|---------------|
| Amortization of unrecognized net (gain)/loss from prior years                         | \$ 0          |
| Amortization of prior service cost  | (1)           |
| Amortization of unrecognized net asset at transition                                  | 0             |
| Deferred taxes  | 0             |
| <b>Total increase in accumulated other comprehensive income (loss) for the period</b> | <b>\$ (1)</b> |





**Table of Contents****NOTE 7: RECENTLY ISSUED ACCOUNTING STANDARDS**

First Financial adopted FASB Statement No. 156 (SFAS No. 156), Accounting for Servicing of Financial Assets an amendment of FASB Statement No. 140, effective January 1, 2007. SFAS No. 156 requires that all separately recognized servicing rights be initially measured at fair value, if practicable. For each class of separately recognized servicing assets and liabilities, First Financial must choose to report servicing assets and liabilities either at 1) fair value or 2) amortized cost (amortized cost is consistent with how First Financial has historically recognized servicing rights). Under the fair value approach, servicing assets and liabilities will be recorded at fair value at each reporting date with changes in fair value recorded in earnings in the period in which the changes occur. Under the amortized cost method, servicing assets and liabilities are amortized in proportion to and over the period of estimated net servicing income or net servicing loss and are assessed for impairment based on fair value at each reporting date. The adoption of SFAS No. 156 did not have a material impact on the Consolidated Financial Statements of First Financial. At March 31, 2007, First Financial had no servicing assets recorded on the Consolidated Financial Statements due to the third party sale of all servicing assets in the first quarter of 2007.

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

First Financial adopted EITF Issue No. 06-5, Accounting for Purchases of Life Insurance Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4, effective January 1, 2007. EITF Issue No. 06-5 includes various considerations regarding what should be included in the determination of the amount that could be realized under the insurance contracts. The adoption of EITF 06-5 did not have a material impact on the financial statements of First Financial.

In July of 2006, the Emerging Issues Task Force ( EITF ) of FASB issued a draft abstract for EITF Issue No. 06-4, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements. The EITF reached a consensus that for an endorsement split-dollar life insurance arrangement within the scope of this Issue, an employer should recognize a liability for future benefits. First Financial has purchased bank-owned life insurance on certain of its employees. The cash surrender value of these policies is carried as an asset on the Consolidated Balance Sheets in accrued interest and other assets. The carrying value was \$82,884 at March 31, 2007. These life insurance policies are generally subject to endorsement split-dollar life insurance arrangements. These arrangements were designed to provide a pre-and postretirement benefit for senior officers and directors of First Financial and its subsidiaries. First Financial is required to apply EITF Issue No. 06-4 beginning January 1, 2008, and is currently evaluating the effect the implementation of EITF Issue No. 06-4 will have on its Consolidated Financial Statements.

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

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

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**ITEM 2-MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS  
FIRST FINANCIAL BANCORP. AND SUBSIDIARIES**

**(Unaudited, dollars in thousands)**

**SELECTED QUARTERLY FINANCIAL DATA**

|  | 2007         |              | 2006         |              |              |
|--|--------------|--------------|--------------|--------------|--------------|
|  | Mar. 31      | Dec. 31      | Sep. 30      | Jun. 30      | Mar. 31      |
| Average Consolidated Balance Sheet Items:  |              |              |              |              |              |
| Loans less unearned income <sup>(1)</sup>  | \$ 2,490,252 | \$ 2,497,389 | \$ 2,580,005 | \$ 2,614,598 | \$ 2,596,755 |
| Investment securities                      | 367,407      | 381,985      | 370,095      | 380,532      | 497,528      |
| Other earning assets                       | 134,635      | 142,320      | 158,940      | 122,413      | 141,513      |
| Total earning assets                       | \$ 2,992,294 | \$ 3,021,694 | \$ 3,109,040 | \$ 3,117,543 | \$ 3,235,796 |
| Total assets                               | 3,299,346    | 3,332,388    | 3,426,417    | 3,428,839    | 3,545,412    |
| Noninterest-bearing deposits               | \$ 401,698   | \$ 418,009   | \$ 401,685   | \$ 424,227   | \$ 417,061   |
| Interest-bearing deposits                  | 2,406,913    | 2,392,092    | 2,492,898    | 2,477,026    | 2,486,336    |
| Total deposits                             | \$ 2,808,611 | \$ 2,810,101 | \$ 2,894,583 | \$ 2,901,253 | \$ 2,903,397 |
| Borrowings                                 | 181,613      | 192,811      | 200,856      | 202,792      | 313,743      |
| Shareholders' equity                       | 286,453      | 299,320      | 298,909      | 296,087      | 298,578      |
| Key Ratios:                                |              |              |              |              |              |
| Average equity to average total assets     | 8.68%        | 8.98%        | 8.72%        | 8.64%        | 8.42%        |
| Return on average total assets             | 1.04%        | 0.10%        | 1.40%        | 0.51%        | 0.45%        |
| Return on average equity                   | 11.94%       | 1.10%        | 16.09%       | 5.90%        | 5.39%        |
| Return on average tangible equity          | 13.31%       | 1.24%        | 18.20%       | 6.70%        | 6.12%        |
| Net interest margin                        | 4.12%        | 3.95%        | 3.93%        | 4.11%        | 4.04%        |
| Net interest margin (fully tax equivalent) | 4.20%        | 4.05%        | 4.01%        | 4.20%        | 4.12%        |

(1) Includes loans held for sale.

**SUMMARY****MARKET STRATEGY**

First Financial intends to concentrate future growth plans and capital investments in larger metropolitan markets. Smaller markets have historically provided stable, low-cost funding sources to First Financial and are an important

part of its funding plan. First Financial's historical strength in a number of these markets should enable it to retain market share.

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

As key components to executing its market strategy, First Financial completed the sale of ten and closure of seven banking centers in August of 2006. The sale of ten was completed in three separate transactions with total net gains of \$12,545 or \$0.20 in diluted earnings per share. Total deposits of \$108,629 were assumed and total loans of \$101,414 were sold. The deposits and loans of the seven closed banking centers were transferred to other existing banking centers.

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First Financial has 83 offices serving nine distinct markets with an average banking center deposit size of approximately \$36,000. The operating model to execute its strategic plan includes a structure where market presidents manage the distinct markets, with the authority to make decisions at the point of client contact.

**OVERVIEW OF OPERATIONS**

Net earnings for the first three months of 2007 were \$8,435 or \$0.22 in diluted earnings per share versus \$3,967 or \$0.10 for the first three months of 2006. The \$4,468 increase in net earnings was primarily due to decreased net interest income of \$1,796, increased noninterest income of \$1,773, and decreased noninterest expense of \$7,667. Compared to fourth quarter of 2006 net earnings of \$827 or \$0.02 in diluted earnings per share, first quarter of 2007 net earnings increased \$7,608 primarily due to increased noninterest income of \$1,840 and decreased noninterest expense of \$6,559. A detailed discussion of the first quarter of 2007 results of operations follows.

Return on average assets for the first quarter of 2007 was 1.04% compared to 0.45% for the same period in 2006.

Return on average shareholders' equity was 11.94% for the first three months of 2007, versus 5.39% for the comparable period in 2006.

**NET INTEREST INCOME**

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

|  | 2007         |              | 2006         |              |              |
|--|--------------|--------------|--------------|--------------|--------------|
|  | Mar. 31      | Dec. 31      | Sep. 30      | Jun. 30      | Mar. 31      |
| Interest income                              | \$ 51,620    | \$ 51,776    | \$ 52,324    | \$ 50,741    | \$ 50,684    |
| Interest expense                             | 21,217       | 21,672       | 21,501       | 18,794       | 18,485       |
| Net interest income                          | 30,403       | 30,104       | 30,823       | 31,947       | 32,199       |
| Tax equivalent adjustment to interest income | 576          | 712          | 586          | 696          | 661          |
| Net interest income (fully tax equivalent)   | \$ 30,979    | \$ 30,816    | \$ 31,409    | \$ 32,643    | \$ 32,860    |
| Average earning assets                       | \$ 2,992,294 | \$ 3,021,694 | \$ 3,109,040 | \$ 3,117,543 | \$ 3,235,796 |
| Net interest margin *                        | 4.12%        | 3.95%        | 3.93%        | 4.11%        | 4.04%        |
| Net interest margin (tax equivalent)         | 4.20%        | 4.05%        | 4.01%        | 4.20%        | 4.12%        |

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

assets.

Net interest income for the first quarter of 2007 was \$30,403 compared to \$32,199 in the first quarter of 2006, a decrease of \$1,796 or 5.58%. This decrease is due to a net decline in the level of earning assets, resulting primarily from the balance sheet restructure completed in the first quarter of 2006, the third quarter of 2006 sale of ten banking centers and their associated loans and deposits, and continued effects of increased rates on deposits.

Net interest income on a linked-quarter basis (first quarter of 2007 compared to fourth quarter of 2006) increased \$299 or 3.97% on an annualized basis. First Financial continues to experience a positive impact from a continued shift in asset mix, favorable impact from pricing changes of certain deposit products, offset by lower earning asset levels.

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First Financial's net interest margin increased to 4.12% in the first quarter of 2007 from 4.04% for the first quarter of 2006 and 3.95% for the linked-quarter. The first quarter of 2007 margin was positively impacted by the continued shift from lower yielding indirect installment and conforming mortgage loans to higher yielding commercial and commercial real estate loans, favorable impact from pricing changes in certain deposit products, combined with fewer days in the quarter. These benefits were partially offset by the planned reduction in earning assets and an increase in deposit costs. Approximately 10 basis points of the first quarter of 2007 net interest margin increase was due to the impact of an accrual of income to convert certain consumer loans from a cycle-date basis of income recognition to a calendar-month basis.

The primary risk to our margin remains unanticipated consumer and competitor behavior related to deposit products, specifically the consumer preference for higher-yielding money market accounts rather than more traditional transaction accounts, and the competitiveness in market pricing for both transaction and certificate of deposit accounts.

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

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## CONSOLIDATED AVERAGE BALANCE SHEETS AND NET INTEREST INCOME ANALYSIS

|                                     | March 31, 2007      |                     |                 | December 31, 2006   |                     |                 | March 31, 2006      |                     |                 |
|-------------------------------------|---------------------|---------------------|-----------------|---------------------|---------------------|-----------------|---------------------|---------------------|-----------------|
|                                     | Average<br>Balance  | Average<br>Interest | Average<br>Rate | Average<br>Balance  | Average<br>Interest | Average<br>Rate | Average<br>Balance  | Average<br>Interest | Average<br>Rate |
| <b>Earning Assets</b>               |                     |                     |                 |                     |                     |                 |                     |                     |                 |
| Investments:                        |                     |                     |                 |                     |                     |                 |                     |                     |                 |
| Federal funds sold                  | \$ 134,635          | \$ 1,756            | 5.29%           | \$ 142,320          | \$ 1,894            | 5.28%           | \$ 141,513          | \$ 1,582            | 4.53%           |
| Investment securities               | 367,407             | 4,800               | 5.30%           | 381,985             | 4,910               | 5.10%           | 497,528             | 6,245               | 5.09%           |
| Loans <sup>(1)</sup> :              |                     |                     |                 |                     |                     |                 |                     |                     |                 |
| Commercial loans                    | 686,947             | 13,982              | 8.25%           | 664,501             | 13,740              | 8.20%           | 580,681             | 10,964              | 7.66%           |
| Real estate<br>construction         | 100,192             | 2,028               | 8.21%           | 96,280              | 1,975               | 8.14%           | 85,672              | 1,537               | 7.28%           |
| Real estate<br>commercial           | 638,717             | 10,882              | 6.91%           | 627,885             | 10,588              | 6.69%           | 642,386             | 10,108              | 6.38%           |
| Real estate retail                  | 620,843             | 8,674               | 5.67%           | 645,449             | 8,978               | 5.52%           | 762,353             | 10,446              | 5.56%           |
| Installment                         | 189,479             | 2,889               | 6.18%           | 209,056             | 3,212               | 6.10%           | 287,182             | 4,215               | 5.95%           |
| Home equity                         | 229,435             | 5,376               | 9.50%           | 229,904             | 4,764               | 8.22%           | 214,675             | 4,022               | 7.60%           |
| Credit card                         | 23,809              | 804                 | 13.70%          | 23,249              | 675                 | 11.52%          | 21,748              | 599                 | 11.17%          |
| Lease financing                     | 830                 | 22                  | 10.75%          | 1,065               | 14                  | 5.22%           | 2,058               | 30                  | 5.91%           |
| Loan fees                           |                     | 407                 |                 |                     | 1,026               |                 |                     | 936                 |                 |
| Total loans                         | 2,490,252           | 45,064              | 7.34%           | 2,497,389           | 44,972              | 7.14%           | 2,596,755           | 42,857              | 6.69%           |
| Total earning assets                | 2,992,294           | 51,620              | 7.00%           | 3,021,694           | 51,776              | 6.80%           | 3,235,796           | 50,684              | 6.35%           |
| <b>Nonearning Assets</b>            |                     |                     |                 |                     |                     |                 |                     |                     |                 |
| Cash and due from<br>banks          | 94,384              |                     |                 | 106,010             |                     |                 | 123,129             |                     |                 |
| Allowance for loan<br>losses        | (27,770)            |                     |                 | (30,894)            |                     |                 | (42,402)            |                     |                 |
| Premises and<br>equipment           | 79,819              |                     |                 | 79,123              |                     |                 | 73,556              |                     |                 |
| Other assets                        | 160,619             |                     |                 | 156,455             |                     |                 | 155,333             |                     |                 |
| <b>Total assets</b>                 | <b>\$ 3,299,346</b> |                     |                 | <b>\$ 3,332,388</b> |                     |                 | <b>\$ 3,545,412</b> |                     |                 |
| <b>Interest-bearing liabilities</b> |                     |                     |                 |                     |                     |                 |                     |                     |                 |
| Deposits:                           |                     |                     |                 |                     |                     |                 |                     |                     |                 |
| Interest-bearing                    | \$ 646,548          | 3,302               | 2.07%           | \$ 669,076          | 4,061               | 2.41%           | \$ 726,700          | 3,202               | 1.79%           |
| Savings                             | 545,101             | 2,353               | 1.75%           | 526,550             | 2,380               | 1.79%           | 517,603             | 1,117               | 0.88%           |
| Time                                | 1,215,264           | 13,354              | 4.46%           | 1,196,466           | 12,908              | 4.28%           | 1,242,033           | 10,614              | 3.47%           |
| Short-term<br>borrowings            | 88,533              | 996                 | 4.56%           | 94,844              | 1,027               | 4.30%           | 97,414              | 896                 | 3.73%           |
|                                     | 93,080              | 1,212               | 5.28%           | 97,967              | 1,296               | 5.25%           | 216,329             | 2,656               | 4.98%           |

Long-term  
borrowings

**Total  
interest-bearing  
liabilities**

|           |        |       |           |        |       |           |        |       |
|-----------|--------|-------|-----------|--------|-------|-----------|--------|-------|
| 2,588,526 | 21,217 | 3.32% | 2,584,903 | 21,672 | 3.33% | 2,800,079 | 18,485 | 2.68% |
|-----------|--------|-------|-----------|--------|-------|-----------|--------|-------|

**Noninterest-bearing  
liabilities and  
shareholders equity**

Noninterest-bearing

demand

401,698

418,009

417,061

Other liabilities

22,669

30,156

29,694

Shareholders equity

286,453

299,320

298,578

**Total liabilities and**

**shareholders equity** \$ 3,299,346

\$ 3,332,388

\$ 3,545,412

**Net interest income**

\$ 30,403

\$ 30,104

\$ 32,199

**Net interest spread**

3.68%

3.47%

3.67%

Contribution of  
noninterest-bearing  
sources of funds

0.44%

0.48%

0.37%

**Net interest margin**

(2)

4.12%

3.95%

4.04%

(1) Nonaccrual loans and loans held for sale are included in average balances for each applicable loan category.

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





**Table of Contents****RATE/VOLUME ANALYSIS**

The impact of changes in the volume of interest-earning assets and interest-bearing liabilities and interest rates on net interest income is illustrated in the following table. As shown, the increase in market interest rates had a significant effect on First Financial's rates, impacting both interest income and interest expense for the quarter ended March 31, 2007, in comparison to the quarter-ended March 31, 2006. First Financial's adjustable and variable rate loans repriced upward more quickly than the increase in deposit costs. The decrease in volume on earning assets affected interest income more than the decrease in volume on interest-bearing liabilities affected interest expense, resulting in a decrease to net interest income.

|  | Linked Qtr. Income Variance |            |          | Comparable Qtr. Income Variance |            |            |
|--|-----------------------------|------------|----------|---------------------------------|------------|------------|
|  | Rate                        | Volume     | Total    | Rate                            | Volume     | Total      |
| Earning assets                           |                             |            |          |                                 |            |            |
| Investment securities                    | \$ 191                      | (\$ 301)   | (\$ 110) | \$ 255                          | (\$ 1,700) | (\$ 1,445) |
| Federal funds sold                       | 3                           | (141)      | (138)    | 264                             | (90)       | 174        |
| Gross loans <sup>(1)</sup>               | 1,225                       | (1,133)    | 92       | 4,134                           | (1,927)    | 2,207      |
| Total earning assets                     | 1,419                       | (1,575)    | (156)    | 4,653                           | (3,717)    | 936        |
| Interest-bearing liabilities             |                             |            |          |                                 |            |            |
| Total interest-bearing deposits          | (\$ 37)                     | (\$ 303)   | (\$ 340) | \$ 4,703                        | (\$ 627)   | \$ 4,076   |
| Borrowed funds                           |                             |            |          |                                 |            |            |
| Short-term borrowings                    | 64                          | (95)       | (31)     | 200                             | (100)      | 100        |
| Federal Home Loan Bank<br>long-term debt | 7                           | (57)       | (50)     | (390)                           | (1,109)    | (1,499)    |
| Other long-term debt                     | (19)                        | (15)       | (34)     | 55                              | 0          | 55         |
| Total borrowed funds                     | 52                          | (167)      | (115)    | (135)                           | (1,209)    | (1,344)    |
| Total interest-bearing liabilities       | 15                          | (470)      | (455)    | 4,568                           | (1,836)    | 2,732      |
| Net interest income <sup>(2)</sup>       | \$ 1,404                    | (\$ 1,105) | \$ 299   | \$ 85                           | (\$ 1,881) | (\$ 1,796) |

(1) Loans held for sale and nonaccrual loans are both included in gross loans.

(2) Not tax equivalent.

**NONINTEREST INCOME**

First quarter of 2007 noninterest income was \$14,744, an increase of \$1,773 or 13.67% from the first quarter of 2006. Included in the first quarter of 2007 was a \$1,061 gain on the sale of residential mortgage servicing rights, and the first quarter of 2006 included a \$476 loss on the sale of investment securities. Excluding the impact of these items, noninterest income increased \$236 or 1.76% primarily due to higher earnings of bank-owned life insurance investments, offset by lower service charge income on deposit accounts primarily due to the third quarter of 2006 banking center sales.

On a linked-quarter basis, total noninterest income increased \$1,840 or 14.26%. Excluding the \$1,061 gain on the sale of residential mortgage servicing rights discussed previously, noninterest income increased \$779 or 6.04% primarily due to higher earnings from bank-owned life insurance investments, offset by the seasonal decline in service charge income on deposit accounts.

**NONINTEREST EXPENSE**

Total noninterest expense decreased \$7,667 or 19.72% for the first quarter of 2007 compared to the first quarter of 2006. Excluding the effects of the first quarter of 2007 severance of \$933 primarily associated with First Financial's previously announced plans to outsource the origination, technology, and servicing aspects of its mortgage product and the first quarter of 2006 severance of \$155, losses on properties of \$354, and debt extinguishment expense of \$4,295 incurred due to the balance sheet restructure, noninterest expense decreased \$3,796 or 11.14%. This remaining decrease is due to lower salaries and benefits, primarily due to the \$1,013 reduction in pension and other retirement-related expenses as a result of a more favorable funded status of the pension plan and a \$734 reduction in salaries and incentive-based compensation resulting from reduced staffing levels. Decreases in data processing costs of \$1,099 were primarily due to the impact of First Financial's prior year technology upgrade in which the company moved from an out-sourced to an in-house data processing environment. Professional services decreased \$584 primarily due to

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higher first quarter of 2006 professional services, as well as legal expenses incurred in conjunction with the corporate reorganization.

On a linked-quarter basis, noninterest expense declined \$6,559 or 17.37% compared to the fourth quarter of 2006. Noninterest expense was significantly impacted during the fourth quarter of 2006 by the transition costs associated the First Financial's execution of its Strategic Plan. The first quarter of 2007 was less affected by similar transition costs. The fourth quarter of 2006 was impacted by the following transition costs:

Charges for the defined benefit pension plan associated with staff reductions of \$2,969, as well as severance charges of \$798

Technology consulting and early termination fees associated with the technology upgrade of \$1,476

Fixed asset signage losses associated with the brand initiative of \$835

The first quarter of 2007 was impacted by the previously mentioned severance charges of \$933, as well as decreases in pension and other retirement-related expenses of \$504 as a result of a more favorable funded status of the pension plan, increased salary and incentive-based compensation of \$991, decreases in data processing and communication expenses of \$1,068 primarily resulting from the impact of First Financial's prior year technology upgrade, and decreases in various other miscellaneous expenses of \$621 in the areas of training, marketing, and other expenses, none of which are individually significant.

**INCOME TAXES**

Income tax expense related to operating income for the first three months of 2007 was \$4,146 versus \$1,574 in 2006, with a tax benefit related to securities transactions of \$0 and \$175 for the three months ended March 31, 2007 and 2006, respectively.

First Financial's overall effective tax rates for the first three months of 2007 and 2006 were 32.95% and 28.41%, respectively. The 2007 increase in the effective rate is primarily due to decreased tax-exempt municipal income.

**ASSETS**

The overall decrease in the loan portfolio from 2006 is primarily due to the impact of several strategic decisions and sale transactions. In the third quarter of 2005, management made the strategic decision to exit the indirect installment loan business resulting in approximately \$164,000 in runoff since this decision was made, with first quarter of 2007 runoff of approximately \$14,000. Additionally, during 2005 First Financial made the decision to sell most of its mortgage loan production into the secondary market rather than retain the loans in its portfolio. Approximately \$102,000 has run off since this decision was made, with first quarter of 2007 runoff of approximately \$24,000. This strategy will continue with First Financial's recently announced plans to outsource the origination, technology, and servicing aspects of its mortgage product.

Since the third quarter of 2005, as a result of First Financial's decision to improve the Company's asset mix and lower its risk profile, approximately \$260,000 of loans have been sold through various strategic transactions. Included in this amount was approximately \$101,000 of loans sold in the third quarter of 2006 banking center sales and a combined total of approximately \$53,000 of problem loans sold in the third quarter of 2006 and the first quarter of 2007.

Management estimates the cumulative effect of these sales and exit strategies to be approximately \$526,000.

Average loans for the first quarter of 2007 decreased \$113,296 or 4.36% from the comparable period a year ago. Total period-end loans for the first quarter of 2007 decreased \$110,762 or 4.24% from the comparable period a year ago. Period-end commercial, commercial real estate, and construction loans, excluding the effects of the banking center and loan sales, increased from \$1,271,462 in the first quarter of 2006 to \$1,464,334 in the first quarter of 2007, an increase of \$192,872 or 15.17%.

On a linked-quarter basis, average outstanding loan balances decreased \$13,834 or 2.22% on an annualized basis. However, average commercial, commercial real estate, and construction loans increased \$39,031 or 11.28% on an annualized basis from the fourth quarter of 2006. On a linked-quarter basis, total period-end loans for the first quarter of 2007 increased \$21,899 or 3.52% on an annualized basis. Period-end commercial, commercial real estate, and construction loans increased from \$1,398,736 in the fourth



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quarter of 2006 to \$1,464,334 in the first quarter of 2007, an increase of \$65,598 or 18.76% on an annualized basis. During the first quarter of 2007, First Financial completed the previously announced sale of approximately \$15,000 in commercial, commercial real estate, residential real estate, and related installment loans that had been moved to loans held for sale with the related write-down of approximately \$4,375 recognized in the fourth quarter of 2006. The completion of the sale did not have a material financial impact on the first quarter.

Securities available for sale were \$325,755 at March 31, 2007, compared to \$324,259 at December 31, 2006. The combined investment portfolio was 11.04% and 11.09% of total assets at March 31, 2007 and December 31, 2006, respectively.

**DEPOSITS**

In total, deposit balances have remained relatively stable over the past year, excluding the banking center and related deposit sale. Competition for low cost deposits remains intense, and First Financial continues to expand its product offerings, primarily in the interest-bearing checking and savings account categories, to address runoff and balance migration in the most cost efficient manner. Time deposits have remained relatively flat with most comparative fluctuations related to non-retail activity such as public funds.

Average deposit balances for the first quarter decreased \$94,786 or 3.26% from the comparable period a year ago. The decrease was primarily a result of the sale of banking centers in the third quarter of 2006 which included approximately \$108,600 of actual deposit balances.

On a linked-quarter basis, average deposits decreased \$1,490 or 0.21% on an annualized basis. Average interest-bearing deposits increased \$14,821 or 2.48% and average noninterest-bearing deposits decreased \$16,311 or 15.61%, both on an annualized basis from the fourth quarter of 2006. The linked-quarter increase in time deposits is primarily due to the fluctuation in a large public funds relationship.

**ALLOWANCE FOR LOAN LOSSES**

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

The provision for loan losses for the first quarter of 2007 was \$1,356 compared to \$752 for the same period in 2006 and \$5,822 for the fourth quarter of 2006. First quarter of 2007 net charge-offs were \$1,335, an annualized 0.22% of average loans, compared to net charge-offs of \$2,581, an annualized 0.40% of average loans, in the first quarter of 2006. Fourth quarter of 2006 net charge-offs were \$10,324 including the \$4,375 impact from the transfer of approximately \$15,000 of loans to loans held for sale, an annualized 1.64% of average loans. Excluding the impact of the loan sale write-down, fourth quarter of 2006 net charge-offs were \$5,949 or an annualized 0.95% of average loans. This lower level of net charge-offs in the first quarter of 2007 is primarily due to lower commercial and commercial real estate loan charge-offs, excluding the impact of the fourth quarter of 2006 loan sale write-down.

The allowance to ending loans ratio as of March 31, 2007, was 1.10% versus 1.56% for the same quarter a year ago and 1.10% as of December 31, 2006. It is management's belief that the allowance for loan losses of \$27,407 is adequate to absorb probable credit losses inherent in the portfolio, and the changes in the allowance and the resultant provision are consistent with the internal assessment of the risk in the loan portfolios. First Financial does not have a concentration of credit in any particular industry. The table that follows indicates the activity in the allowance for loan and lease losses for the quarters presented.

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|   | Quarter Ended   |           |           |                 |           |
|---|-----------------|-----------|-----------|-----------------|-----------|
|   | 2007<br>Mar. 31 | Dec. 31   | Sep. 30   | 2006<br>Jun. 30 | Mar. 31   |
| <b>ALLOWANCE FOR LOAN AND LEASE LOSS ACTIVITY</b>               |                 |           |           |                 |           |
| Balance at beginning of period                                  | \$ 27,386       | \$ 31,888 | \$ 30,085 | \$ 40,656       | \$ 42,485 |
| Provision for loan losses                                       | 1,356           | 5,822     | 2,888     | 360             | 752       |
| Gross charge-offs   |                 |           |           |                 |           |
| Commercial  | 746             | 5,675     | 1,238     | 3,521           | 1,516     |
| Commercial real estate  | 146             | 1,099     | 119       | 5,818           | 276       |
| Retail real estate  | 116             | 2,729     | 111       | 1,910           | 202       |
| Installment   | 741             | 776       | 391       | 562             | 891       |
| Home equity   | 139             | 331       | 78        | 11              | 209       |
| All other   | 265             | 306       | 220       | 189             | 171       |
| Total gross charge-offs <sup>(1)</sup>                          | 2,153           | 10,916    | 2,157     | 12,011          | 3,265     |
| Recoveries  |                 |           |           |                 |           |
| Commercial  | 269             | 206       | 458       | 476             | 188       |
| Commercial real estate  | 58              | 20        | 129       | 57              | 50        |
| Retail real estate  | 18              | 4         | 130       | 78              | 10        |
| Installment   | 346             | 292       | 315       | 425             | 350       |
| Home equity   | 76              | 1         | 0         | 0               | 0         |
| All other   | 51              | 69        | 40        | 44              | 86        |
| Total recoveries  | 818             | 592       | 1,072     | 1,080           | 684       |
| Total net charge-offs   | 1,335           | 10,324    | 1,085     | 10,931          | 2,581     |
| Ending allowance for loan losses                                | \$ 27,407       | \$ 27,386 | \$ 31,888 | \$ 30,085       | \$ 40,656 |
| <b>NET CHARGE-OFFS TO AVERAGE LOANS AND LEASES (ANNUALIZED)</b> |                 |           |           |                 |           |
| <sup>(1)</sup>  |                 |           |           |                 |           |
| Commercial  | 0.28%           | 3.27%     | 0.48%     | 1.95%           | 0.93%     |
| Commercial real estate  | 0.06%           | 0.69%     | (0.01%)   | 3.55%           | 0.14%     |
| Retail real estate  | 0.06%           | 1.66%     | (0.01%)   | 0.99%           | 0.10%     |
| Installment   | 0.85%           | 0.92%     | 0.13%     | 0.21%           | 0.76%     |
| Home equity   | 0.11%           | 0.57%     | 0.13%     | 0.02%           | 0.39%     |
| All other   | 0.70%           | 0.78%     | 0.60%     | 0.54%           | 0.31%     |
| Total net charge-offs <sup>(1)</sup>                            | 0.22%           | 1.64%     | 0.17%     | 1.68%           | 0.40%     |

<sup>(1)</sup> December 31, 2006 and June 30, 2006 charge-offs include \$4,375 and \$8,356,

respectively, in  
loans held for  
sale  
write-downs to  
the lower of cost  
or estimated fair  
market value.

**NONPERFORMING/UNDERPERFORMING ASSETS**

Total underperforming assets, which includes nonaccrual loans, restructured loans, other real estate owned, and loans 90 days or more past due and still accruing, decreased \$19,804 to \$14,106 at the end of the first quarter of 2007 from \$33,910 at the end of the first quarter of 2006. The decrease in underperforming assets is due to a decrease in nonaccrual loans of \$16,073 primarily attributable to the impact of the problem loan sale transactions involving assets with significant credit deterioration and improved credit management processes. A large percentage of the underperforming loans are secured by real estate and this collateral has been appropriately considered in establishing the allowance for loan and lease losses at March 31, 2007. The ratio of nonperforming assets to ending loans decreased from 1.25% at the end of the first quarter of 2006 to 0.56% at the end of the first quarter of 2007.

On a linked-quarter basis, total underperforming assets increased \$755 of which nonaccrual loans increased \$529 primarily due to one commercial real estate relationship. The ratio of nonperforming assets to ending loans increased from 0.53% at the end of the fourth quarter of 2006 to 0.56% at the end of the first quarter of 2007.



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Accruing loans, including loans impaired under FASB Statement No. 114, are transferred to nonaccrual status when, in the opinion of management, the collection of principal or interest is doubtful. This generally occurs when a loan becomes 90 days past due as to principal or interest unless the loan is both well secured and in the process of collection.

At March 31, 2007, and 2006, the recorded investment in loans that are considered to be impaired under FASB Statement No. 114 was \$2,911 and \$2,979, respectively. The related allowance for loan losses on these impaired loans was \$1,219 at March 31, 2007, and \$1,184 at March 31, 2006. At March 31, 2007, and 2006, there were no impaired loans that did not have an allowance for loan losses. The average recorded investment in impaired loans for the quarters ended March 31, 2007, and 2006, was approximately \$3,894 and \$3,024. For the quarter ended March 31, 2007, First Financial recognized interest income on those impaired loans of \$21 compared to \$38 for the same period in 2006. First Financial recognizes income on impaired loans using the cash basis method.

The table that follows shows the categories that are included in nonperforming and underperforming assets as of March 31, 2007, as well as related credit quality ratios.

|   | Quarter Ended   |           |                 |           |           |
|---|-----------------|-----------|-----------------|-----------|-----------|
|   | 2007<br>Mar. 31 | Dec. 31   | 2006<br>Sep. 30 | Jun. 30   | Mar. 31   |
| Nonaccrual loans                        |                 |           |                 |           |           |
| Commercial                              | \$ 2,529        | \$ 2,610  | \$ 8,056        | \$ 4,301  | \$ 6,325  |
| Commercial real estate                  | 4,947           | 4,102     | 4,487           | 3,107     | 9,605     |
| Retail real estate                      | 1,311           | 1,482     | 3,604           | 2,362     | 8,110     |
| Installment                             | 920             | 1,328     | 1,619           | 1,529     | 1,789     |
| Home equity                             | 1,038           | 698       | 854             | 831       | 747       |
| All other                               | 20              | 16        | 72              | 72        | 262       |
| Total nonaccrual loans                  | 10,765          | 10,236    | 18,692          | 12,202    | 26,838    |
| Restructured loans                      | 588             | 596       | 603             | 610       | 3,293     |
| Total nonperforming loans               | 11,353          | 10,832    | 19,295          | 12,812    | 30,131    |
| Other real estate owned (OREO)          | 2,672           | 2,334     | 2,859           | 2,277     | 2,675     |
| Total nonperforming assets              | 14,025          | 13,166    | 22,154          | 15,089    | 32,806    |
| Accruing loans past due 90 days or more | 81              | 185       | 788             | 758       | 1,104     |
| Total underperforming assets            | \$ 14,106       | \$ 13,351 | \$ 22,942       | \$ 15,847 | \$ 33,910 |
| Allowance for loan and lease losses to  |                 |           |                 |           |           |
| Nonaccrual loans                        | 254.59%         | 267.55%   | 170.60%         | 246.56%   | 151.49%   |
| Nonperforming assets                    | 195.42%         | 208.01%   | 143.94%         | 199.38%   | 123.93%   |
| Total ending loans                      | 1.10%           | 1.10%     | 1.27%           | 1.15%     | 1.56%     |
| Nonaccrual loans to total loans         | 0.43%           | 0.41%     | 0.74%           | 0.47%     | 1.03%     |
| Nonperforming assets to                 |                 |           |                 |           |           |
| Ending loans, plus OREO                 | 0.56%           | 0.53%     | 0.88%           | 0.58%     | 1.25%     |
| Total assets, plus OREO                 | 0.42%           | 0.40%     | 0.67%           | 0.44%     | 0.94%     |

**LIQUIDITY AND CAPITAL RESOURCES**

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

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

Capital expenditures such as banking center expansions and technology investments were \$1,528 and \$2,500 for the first three months of 2007 and 2006, respectively. In addition, remodeling is a planned and ongoing process given the 83 offices of First Financial and its subsidiaries. Material commitments for capital expenditures as of March 31, 2007, were approximately \$2,255. Management believes that First Financial has sufficient liquidity to fund its future capital expenditure commitments.

The principal source of asset-funded liquidity is marketable investment securities, particularly those of shorter maturities. The market value of investment securities classified as available-for-sale totaled \$325,755 at March 31, 2007. Securities classified as held-to-maturity that are maturing within a short period of time are also a source of liquidity. Securities classified as held-to-maturity that are maturing in one year or less totaled \$2,878 at March 31, 2007. In addition, other types of assets such as cash and due from banks, federal funds sold and securities purchased under agreements to resell, as well as loans and interest-bearing deposits with other banks maturing within one year, are sources of liquidity. Overnight federal funds sold totaled \$159,200 at March 31, 2007.

Certain restrictions exist regarding the ability of First Financial's subsidiaries to transfer funds to First Financial in the form of cash dividends, loans, or advances. The approval of the subsidiaries' respective primary federal regulators is required for First Financial's subsidiaries to pay dividends in excess of regulatory limitations. As of March 31, 2007, the subsidiary bank's dividend capacity to First Financial was \$1,023 without prior regulatory approval. Management is not aware of any other events or regulatory requirements that, if implemented, are likely to have a material effect on First Financial's liquidity.

First Financial Bancorp maintains a \$75,000 short-term revolving credit facility with an unaffiliated bank. This facility provides additional liquidity for First Financial for various corporate activities, including the repurchase of First Financial shares and the payment of dividends to shareholders. As of March 31, 2007, the outstanding balance was \$52,246 compared to an outstanding balance of \$47,000 at March 31, 2006, and \$39,500 at December 31, 2006. The outstanding balance of this line varies throughout the year depending on First Financial's cash needs. First Financial entered into the current facility during the first quarter of 2007 for a period of one year, and the credit agreement requires First Financial to maintain certain covenants including covenants related to asset quality and capital levels. The Corporation was in full compliance with all material covenants as of March 31, 2007. First Financial Bancorp makes quarterly interest payments on its junior subordinated debentures owed to two unconsolidated subsidiary trusts with interest expense totaling \$653 and \$598 for the quarters ending March 31, 2007, and 2006, respectively.

**CAPITAL ADEQUACY**

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

Quantitative measures established by regulation to ensure capital adequacy require First Financial to maintain minimum amounts and ratios (set forth in the following table) of Total and Tier 1 capital (as defined by the regulations) to risk-weighted assets and of Tier 1 capital to average assets. Management believes, as of March 31, 2007, that First Financial met all capital adequacy requirements to which it was subject. At March 31, 2007, and December 31, 2006, the most recent regulatory notifications categorized First Financial as well-capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized, First Financial must maintain minimum Total risk-based, Tier 1 risk-based, and Tier 1 leverage

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ratios as set forth in the table. There have been no conditions or events since those notifications that management believes has changed the institution's category.

First Financial's Tier I capital is comprised of total shareholders' equity plus junior subordinated debentures, less unrealized gains and losses and any amounts resulting from the application of SFAS No. 158 Employers' Accounting for Defined Benefit Pension and other Postretirement Plans, that is recorded within accumulated other comprehensive income (loss), intangible assets, and any valuation related to mortgage servicing rights. Total risk-based capital consists of Tier I capital plus qualifying allowance for loan and lease losses and gross realized gains on equity securities.

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

The following table illustrates the actual and required capital amounts and ratios as of March 31, 2007 and the year ended December 31, 2006.

|  | Actual    |        | For Capital Adequacy Purposes |       | To Be Well Capitalized Under Prompt Corrective Action Provisions |        |
|--|-----------|--------|-------------------------------|-------|--|--------|
|  | Amount    | Ratio  | Amount                        | Ratio | Amount   | Ratio  |
| <b>March 31, 2007</b>                  |           |        |                               |       |  |        |
| Total capital to risk-weighted assets  |           |        |                               |       |  |        |
| Consolidated                           | \$325,550 | 12.64% | \$206,017                     | 8.00% | N/A  | 10.00% |
| First Financial Bank                   | 339,743   | 13.37% | 203,229                       | 8.00% | \$254,037  | 10.00% |
| Tier 1 capital to risk-weighted assets |           |        |                               |       |  |        |
| Consolidated                           | 298,020   | 11.57% | 103,009                       | 4.00% | N/A  | 6.00%  |
| First Financial Bank                   | 305,168   | 12.01% | 101,615                       | 4.00% | 152,422  | 6.00%  |
| Tier 1 capital to average assets       |           |        |                               |       |  |        |
| Consolidated                           | 298,020   | 9.08%  | 130,796                       | 4.00% | N/A  | 5.00%  |
| First Financial Bank                   | 305,168   | 9.40%  | 129,433                       | 4.00% | 161,791  | 5.00%  |
| <b>December 31, 2006</b>               |           |        |                               |       |  |        |
| Total capital to risk-weighted assets  |           |        |                               |       |  |        |
| Consolidated                           | \$326,779 | 12.81% | \$204,120                     | 8.00% | N/A  | 10.00% |
| First Financial Bank                   | 330,128   | 13.14% | 200,921                       | 8.00% | \$251,151  | 10.00% |
| Tier 1 capital to risk-weighted assets |           |        |                               |       |  |        |
| Consolidated                           | 299,199   | 11.73% | 102,060                       | 4.00% | N/A  | 6.00%  |
| First Financial Bank                   | 295,595   | 11.77% | 100,460                       | 4.00% | 150,690  | 6.00%  |
| Tier 1 capital to average assets       |           |        |                               |       |  |        |
| Consolidated                           | 299,199   | 8.76%  | 136,120                       | 4.00% | N/A  | 5.00%  |
| First Financial Bank                   | 295,595   | 8.76%  | 134,457                       | 4.00% | 168,072  | 5.00%  |

**CRITICAL ACCOUNTING POLICIES**

The accounting and reporting policies of First Financial comply with U.S. generally accepted accounting principles and conform to general practices within the banking industry. These policies require estimates and assumptions. Changes in underlying factors, assumptions, or estimates in any of these areas could have a material impact on First Financial's future financial condition and results of operations. In management's opinion, some of these areas have a

more significant impact than others on First Financial's financial reporting. For First Financial, these areas currently include accounting for the allowance for loan losses, pension costs, and goodwill.

Allowance for loan and lease losses The level of the allowance for loan and lease losses (allowance) is

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based upon management's evaluation of the loan and lease portfolios, past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay (including the timing of future payments), the estimated value of any underlying collateral, composition of the loan portfolio, economic conditions, and other pertinent factors. This evaluation is inherently subjective, as it requires material estimates including the amounts and timing of future cash flows expected to be received on impaired loans that may be susceptible to significant change. Loans are charged off when management believes that full collectibility of the loan is unlikely. Allocation of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, is deemed to be uncollectible. The allowance is increased by provisions charged to expense and decreased by charge-offs, net of recoveries of amounts previously charged-off. Changes in the adequacy of the allowance can result from changes in economic events, changes in the creditworthiness of the borrowers, or changes in collateral values. The effect of these changes is reflected in the allowance when known. The level of allowance maintained is believed by management to be adequate to cover losses inherent in the portfolio. Though management believes the allowance for loan losses to be adequate as of March 31, 2007, ultimate losses may vary from current estimates.

**Pension** First Financial sponsors a non-contributory defined benefit pension plan covering substantially all employees. The measurement of the accrued benefit liability and the annual pension expense involves actuarial and economic assumptions. The assumptions used in pension accounting relate to the discount rates, the expected return on plan assets, and the rate of compensation increase.

**Goodwill and other intangible assets** Goodwill and intangible assets deemed to have indefinite lives, if any, are not amortized, but are subject to annual impairment tests. Core deposit intangibles are amortized on a straight-line basis over their useful lives. Core deposit intangibles are being amortized over varying periods, none of which exceeds 10 years.

**ACCOUNTING AND REGULATORY MATTERS**

Note 7 to the Consolidated Financial Statements discusses new accounting standards adopted by First Financial during 2007 and the expected impact of accounting standards recently issued but not yet required to be adopted. To the extent the adoption of new accounting standards materially affects financial condition, results of operations, or liquidity, the impacts are discussed in the applicable section(s) the Management's Discussion and Analysis and Notes to the Consolidated Financial Statements.

**FORWARD LOOKING INFORMATION**

Certain statements contained in this report that are not statements of historical fact constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act (the Act). In addition, certain statements in future filings by First Financial with the Securities and Exchange Commission, in press releases, and in oral and written statements made by or with the approval of First Financial which are not statements of historical fact constitute forward-looking statements within the meaning of the Act. Examples of forward-looking statements include, but are not limited to, projections of revenues, income or loss, earnings or loss per share, the payment or non-payment of dividends, capital structure and other financial items, statements of plans and objectives of First Financial or its management or board of directors, and statements of future economic performances and statements of assumptions underlying such statements. Words such as believes, anticipates, intends, and other similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements. Forward-looking statements involve risks and uncertainties that may cause actual results to differ materially from those in such statements. Factors that could cause actual results to differ from those discussed in the forward-looking statements include, but are not limited to, management's ability to effectively execute its business plan; the strength of the local economies in which operations are conducted; the effects of and changes in policies and laws of regulatory agencies; inflation, interest rates, market and monetary fluctuations; technological changes; mergers and acquisitions; the ability to increase market share and control expenses; the effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies as well as the Financial Accounting Standards Board and the Securities and Exchange Commission; the costs and effects of litigation and of unexpected or adverse outcomes in such litigation; and the success of First Financial at managing the risks involved in the foregoing.

In addition, please refer to our Annual Report on Form 10-K for the year ended December 31, 2006, as well as our other filings with the Commission, for a more detailed discussion of these risks and uncertainties and other factors. Such forward-looking statements speak only as of the date on which such statements are made, and First Financial undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made to reflect the occurrence of unanticipated events.

**Table of Contents****ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

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

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

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

Presented below is the impact on First Financial's net interest income as of March 31, 2007, assuming immediate, parallel shifts in the yield curve:

|                | -200 basis<br>points | -100 basis<br>points | +100 basis<br>points | +200 basis<br>points |
|----------------|----------------------|----------------------|----------------------|----------------------|
| March 31, 2007 | (8.27%)              | (2.77%)              | 2.09%                | 3.62%                |

Modeling the sensitivity of net interest income to changes in market interest rates is highly dependent on numerous assumptions incorporated into the modeling process. Market based prepayment speeds are factored into the analysis for loan and securities portfolios. Rate sensitivity for transactional deposit accounts is modeled based on both historical experience and external industry studies.

Additional interest rate scenarios are modeled utilizing most-likely interest rates over the next twelve months. Based on this scenario, First Financial has a neutral rate risk position of a negative 0.60% when compared to a base-case scenario with interest rates held constant.

First Financial uses economic value of equity sensitivity analysis to understand the impact of long-term cash flows, earnings, and capital. Economic value of equity is based on discounting the cash flows for all balance sheet instruments under different interest-rate scenarios. Deposit premiums are based on external industry studies and utilizing historical experience. Presented below is the change in First Financial's economic value of equity position as of March 31, 2007, assuming immediate, parallel shifts in the yield curve:

|                | -200 basis<br>points | -100 basis<br>points | +100 basis<br>points | +200 basis<br>points |
|----------------|----------------------|----------------------|----------------------|----------------------|
| March 31, 2007 | (23.45%)             | (9.09%)              | 5.39%                | 8.09%                |

See also Item 2-Management's Discussion and Analysis of Financial Condition and Results of Operations Net Interest Income.



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**ITEM 4. CONTROLS AND PROCEDURES**

**Disclosure Controls and Procedures**

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

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

**Changes in Internal Control over Financial Reporting**

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

**Table of Contents****PART II-OTHER INFORMATION**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(c) The following table shows the total number of shares repurchased in the first quarter of 2007.

**Issuer Purchases of Equity Securities**

| Period                                  | (a)<br>Total<br>Number<br>of Shares<br>Purchased<br>(1) | (b)<br>Average<br>Price<br>Paid<br>Per<br>Share | (c)<br>Total Number<br>of Shares<br>Purchased as<br>Part of Publicly<br>Announced<br>Plans (2) | (d)<br>Maximum<br>Number<br>of Shares that<br>may<br>yet be<br>purchased<br>Under the Plans |
|---|---|---|--|---|
| January 1 through<br>January 31, 2007   | 87,025  | \$ 16.48  | 80,000   | 6,889,105   |
| February 1 through<br>February 28, 2007 | 76,000  | 16.48   | 76,000   | 6,813,105   |
| March 1 through<br>March 31, 2007       | 88,000  | 15.44   | 88,000   | 6,725,105   |
| Total                                   | 251,025   | \$ 16.11  | 244,000  | 6,725,105   |

(1) The number of shares purchased in column (a) and the average price paid per share in column (b) include the purchase of shares other than through publicly announced plans. The shares purchased other than through publicly announced plans were purchased pursuant to First Financial's Thrift Plan, Director Fee Stock Plan,

1999 Stock  
Option Plan for  
Non-Employee  
Directors and  
1999 Stock  
Incentive Plan  
for Officers and  
Employees.

(The last two  
plans are  
referred to  
hereafter as the  
Stock Option  
Plans.) The  
following tables  
show the  
number of  
shares  
purchased  
pursuant to  
those plans and  
the average  
price paid per  
share. The  
purchases for  
the Thrift Plan  
and the Director  
Fee Stock Plan  
were made in  
open-market  
transactions.  
Under the Stock  
Option Plans,  
shares were  
purchased from  
plan participants  
at the then  
current market  
value in  
satisfaction of  
stock option  
exercise prices.

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| Period                                     | (a)<br>Total<br>Number<br>of Shares<br>Purchased | (b)<br>Average<br>Price Paid<br>Per Share |
|--|--|---|
| <b>First Financial Bancorp Thrift Plan</b> |  |   |
| January 1 through<br>January 31, 2007      | 0  | \$ 0.00                                   |
| February 1 through<br>February 28, 2007    | 0  | 0.00                                      |
| March 1 through<br>March 31, 2007          | 0  | 0.00                                      |
| Total                                      | 0  | \$ 0.00                                   |
| <b>Director Fee Stock Plan</b>             |  |   |
| January 1 through<br>January 31, 2007      | 2,073  | \$ 16.22                                  |
| February 1 through<br>February 28, 2007    | 0  | 0.00                                      |
| March 1 through<br>March 31, 2007          | 0  | 0.00                                      |
| Total                                      | 2,073  | \$ 16.22                                  |
| <b>Stock Option Plans</b>                  |  |   |
| January 1 through<br>January 31, 2007      | 4,952  | \$ 16.26                                  |
| February 1 through<br>February 28, 2007    | 0  | 0.00                                      |
| March 1 through<br>March 31, 2007          | 0  | 0.00                                      |
| Total                                      | 4,952  | \$ 16.26                                  |

- (2) First Financial has two publicly announced stock repurchase plans under which it is currently authorized to purchase shares of its common stock. Neither of

the plans expired during this quarter. The table that follows provides additional information regarding those plans.

|  | Announcement<br>Date | Total Shares<br>Approved for<br>Repurchase | Expiration<br>Date |
|--|----------------------|--|--------------------|
|  | 2/25/2003            | 2,243,715                                  | None               |
|  | 1/25/2000            | 7,507,500                                  | None               |

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Item 6. Exhibits

(a) Exhibits:

- 3.1 Articles of Incorporation, as amended as of April 27, 1999, and incorporated herein by reference to Exhibit 3 to the Form 10-Q for the quarter ended June 30, 1999. File No. 000-12379.
- 3.2 Amended and Restated Regulations, as amended as of April 22, 2003, and incorporated herein by reference to Exhibit 3.2 to the Form 10-Q for the quarter ended June 30, 2003. File No. 000-12379.
- 4.1 Rights Agreement between First Financial Bancorp. and First National Bank of Southwestern Ohio dated as of November 23, 1993, and incorporated herein by reference to Exhibit 4 to the Form 10-K for year ended December 31, 1998. File No. 000-12379.
- 4.2 First Amendment to Rights Agreement dated as of May 1, 1998, and incorporated herein by reference to Exhibit 4.1 to the Form 10-Q for the quarter ended March 31, 1998. File No. 000-12379.
- 4.3 Second Amendment to Rights Agreement dated as of December 5, 2003, and incorporated herein by reference to Exhibit 4.1 to First Financial's Form 8-K filed on December 5, 2003. File No. 000-12379.
- 4.4 No instruments defining the rights of holders of long-term debt of First Financial are filed herewith. Pursuant to (b)(4)(iii) of Item 601 of Regulation S-K, First Financial agrees to furnish a copy of any such agreements to the Securities and Exchange Commission upon request.
- 10.1 Agreement between Mark W. Immelt and First Financial Bancorp. dated August 4, 2000, and incorporated herein by reference to Exhibit 10.3 to the Form 10-Q for the quarter ended September 30, 2000. File No. 000-12379.
- 10.2 Amendment to Employment Agreement between Mark W. Immelt and First Financial Bancorp. dated May 20, 2003, and incorporated herein by reference to Exhibit 10.4 to the Form 10-Q for the quarter ended June 30, 2003. File No. 000-12379.
- 10.3 Agreement between Charles D. Lefferson and First Financial Bancorp. dated August 4, 2000, and incorporated herein by reference to Exhibit 10.5 to the Form 10-K for the year ended December 31, 2002. File No. 000-12379.
- 10.4 Amendment to Employment Agreement between Charles D. Lefferson and First Financial Bancorp. dated May 23, 2003, and incorporated herein by reference to Exhibit 10.5 to the Form 10-Q for the quarter ended June 30, 2003. File No. 000-12379.
- 10.5 Agreement between C. Thomas Murrell, III and First Financial Bancorp. dated April 30, 2003, and incorporated herein by reference to Exhibit 10.6 to the Form 10-Q for the quarter ended June 30, 2003. File No. 000-12379.
- 10.6 First Financial Bancorp. 1991 Stock Incentive Plan, dated September 24, 1991, and incorporated herein by reference to a Registration Statement on Form S-8, Registration No. 33.46819.
- 10.7 First Financial Bancorp. Dividend Reinvestment and Share Purchase Plan, dated April 24, 1997, and incorporated by reference to a Registration Statement on Form S-3, Registration No. 333-25745.

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- 10.8 First Financial Bancorp. 1999 Stock Incentive Plan for Officers and Employees, dated April 27, 1999, and incorporated herein by reference to a Registration Statement on Form S-3, Registration No. 333-86781.
- 10.9 First Financial Bancorp. 1999 Non-Employee Director Stock Plan, as dated April 27, 1999 and amended and restated as of April 25, 2006, and incorporated herein by reference to Exhibit 10.11 to the Form 10-Q for the quarter ended March 31, 2006. File No. 001-12379.
- 10.10 First Financial Bancorp. Director Fee Stock Plan amended and restated effective April 20, 2004, and incorporated herein by reference to Exhibit 10.12 to the Form 10-Q for the quarter ended June 30, 2004. File No. 000-12379.
- 10.11 Form of Executive Supplemental Retirement Agreement, incorporated herein by reference to Exhibit 10.11 to the Form 10-K for the year ended December 31, 2002. File No. 000-12379.
- 10.12 Form of Endorsement Method Split Dollar Agreement, incorporated herein by reference to Exhibit 10.12 to the Form 10-K for the year ended December 31, 2002. File No. 000-12379.
- 10.13 First Financial Bancorp. Deferred Compensation Plan, effective June 1, 2003, and incorporated herein by reference to Exhibit 10.1 to the Form 10-Q for the quarter ended June 30, 2003. File No. 000-12379.
- 10.14 Form of Stock Option Agreement for Incentive Stock Options, incorporated herein by reference to Exhibit 10.1 to the Form 8-K filed on January 27, 2005. File No. 000-12379.
- 10.15 Form of Stock Option Agreement for Nonqualified Stock Options, incorporated herein by reference to Exhibit 10.2 of the Form 8-K filed on January 27, 2005. File No. 000-12379.
- 10.16 Form of First Financial Bancorp. 1999 Stock Incentive Plan for Officers and Employees Agreement for Restricted Stock Award, incorporated herein by reference to Exhibit 10.3 to the Form 8-K filed on January 27, 2005. File No. 000-12379.
- 10.17 Terms of First Financial Bancorp. Performance Incentive Compensation Plan, incorporated herein by reference to the Form 8-K filed on January 27, 2005. File No. 000-12379.
- 10.18 First Financial Bancorp. Schedule of Directors Fees and incorporated by reference to Exhibit 10.1 to the form 8-K filed on November 9, 2005. File No. 000-12379.
- 10.19 Form of Stock Option Agreement for Incentive Stock Options, incorporated herein by reference to Exhibit 10.1 to the Form 8-K filed on April 22, 2005. File No. 000-12379.
- 10.20 Form of Stock Option Agreement for Nonqualified Stock Options, incorporated herein by reference to Exhibit 10.2 of the Form 8-K filed on April 22, 2005. File No. 000-12379.
- 10.21 Form of Agreement for Restricted Stock Award, incorporated herein by reference to Exhibit 10.3 to the Form 8-K filed on April 22, 2005. File No. 000-12379.
- 10.22 Severance Agreement and Release between C. Thomas Murrell and First Financial Bancorp. dated December 4, 2005, and incorporated by reference to Exhibit 10.27 to the Form 10-K for the year ended December 31, 2005. File No. 000-12379.

10.23 Severance Agreement and Release between Rex A. Hockemeyer and First Financial Bancorp. dated January 28, 2006, and incorporated by reference to Exhibit 10.28 to the Form 10-K for the year ended December 31, 2005. File No. 000-12379.



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- 10.24 Terms of First Financial Bancorp. Short-Term Incentive Plan, incorporated herein by reference to the Form 8-K filed on April 28, 2005. File No. 000-12379.
- 10.25 Severance Agreement and Release between Mark Immelt and First Financial Bancorp. dated June 30, 2006, incorporated herein by reference to the Form 10-Q for the quarter ended June 30, 2006. File No. 000-12379.
- 10.26 Form of Agreement for Restricted Stock Award for Non-Employee Directors dated April 25, 2006, incorporated herein by reference to the Form 10-Q for the quarter ended June 30, 2006. File No. 000-12379.
- 10.27 Amended and Restated Employment and Non-Competition Agreement between Claude E. Davis and First Financial Bancorp. dated August 22, 2006, and incorporated herein by reference to Exhibit 10.1 to First Financial Bancorp s Form 8-K filed on August 28, 2006. File No. 000-12379.
- 10.28 First Financial Bancorp. Severance Pay Plan as approved January 1, 2007, incorporated herein by reference to the Form 10-K filed on February 27, 2007. File No. 000-12379.
- 14 First Financial Bancorp. Code of Business Conduct and Ethics as approved January 23, 2007, incorporated herein by reference to Exhibit 14 to the Form 10-K for the year ended December 31, 2006. File No. 000-12379.
- 31.1 Certification by Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification by Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Periodic Financial Report by Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Periodic Financial Report by Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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**SIGNATURES**

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

FIRST FINANCIAL BANCORP.  
(Registrant)

/s/ J. Franklin Hall

/s/ Anthony M. Stollings

J. Franklin Hall  
Senior Vice President and  
Chief Financial Officer

Anthony Stollings  
Senior Vice President and Controller  
(Chief Accounting Officer)

Date  
5/1/07

Date  
5/1/07