



PERSONAL BANKING

BUSINESS SOLUTIONS

INSURANCE SERVICES

INVESTMENT MANAGEMENT

## FIRST FINANCIAL BANCORP PROFILE

First Financial Bancorp (Nasdaq: FFBC) is a \$3.9 billion publicly owned bank holding company that was founded in 1983 with headquarters in Hamilton, Ohio. Focusing on community banking, Bancorp and its regional banks have a growth-oriented management team led by Claude E. Davis, president and chief executive officer. Serving over 500,000 clients in Ohio, Michigan, Kentucky, and Indiana, Bancorp now has over 4,500 shareholders. Affiliates include an investment-advisor company and an operations service center. Insurance services are offered through Flagstone Insurance and Financial Services.

### Financial Highlights

	2004	2003	% CHANGE
(Dollars in thousands, except per share data)			
<b>Earnings</b>			
Net interest income	\$ 143,747	\$ 144,881	-0.78%
Net earnings	41,118	37,906	8.47%
<b>Per Share</b>			
Net earnings—basic	\$ 0.94	\$ 0.85	10.59%
Net earnings—diluted	0.94	0.85	10.59%
Cash dividends declared	0.60	0.60	0.00%
Book value (end of year)	8.50	8.34	1.92%
Market price (end of year)	17.50	15.95	9.72%
<b>Average</b>			
Total assets	\$3,904,332	\$3,838,688	1.71%
Deposits	2,927,580	2,946,849	-0.65%
Loans, net of unearned income	2,875,002	2,803,448	2.55%
Investment securities	749,150	744,201	0.67%
Shareholders' equity	366,859	369,239	-0.64%
<b>Ratios</b>			
Return on average assets	1.05%	0.99%	6.06%
Return on average shareholders' equity	11.21%	10.27%	9.15%
Average shareholders' equity to average assets	9.40%	9.62%	-2.29%
Net interest margin	3.96%	4.06%	-2.46%
Net interest margin (fully tax equivalent)	4.04%	4.16%	-2.88%

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As chairman of First Financial Bancorp, I am very pleased to preface the following in-depth message from our new president and chief executive officer, Claude Davis. Since joining our company in October of 2004, Claude has been working on new plans for the company and meeting with associates, shareholders, clients, analysts, regulators, and community leaders in all of our regions. He is using his strong and diverse background in leadership and financial management to plot a new course for First Financial Bancorp, an exciting course that will capitalize on the company's strengths, expand our business, and improve profitability.

*~ Bruce E. Leep, Chairman  
First Financial Bancorp*

## FELLOW SHAREHOLDERS,

My first months with First Financial Bancorp have been busy as I have traveled throughout our affiliate network, compiled information, evaluated the state of our company, and worked with our board and management team to formulate a new strategic plan.

As we move forward to a new phase for First Financial Bancorp, I am pleased to share the highlights of 2004 performance along with a new vision for the future of our company.

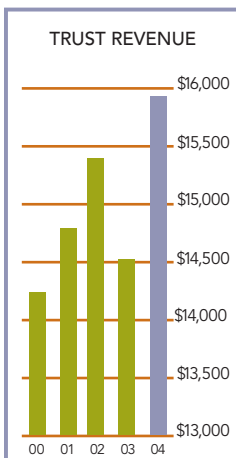
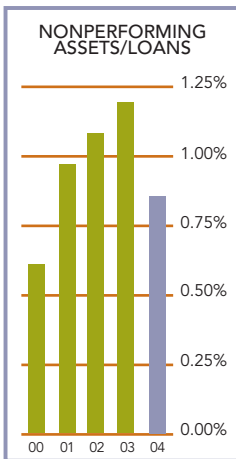
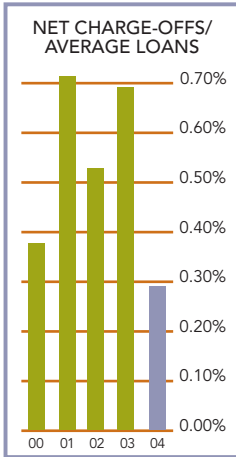
## 2004 Highlights

In 2004, First Financial posted a 10.59 percent increase in earnings per share over 2003, representing earnings per share of \$0.94 compared to \$0.85 in 2003. Our return on average assets improved to 1.05 percent while return on average shareholder's equity rose to 11.21 percent.

This improvement in 2004 is a result of initiatives we took to strengthen our operating performance and balance sheet, fulfill growth opportunities in targeted markets, and realize the rewards of economic recovery in some of our markets.

*Claude E. Davis  
President and CEO  
First Financial Bancorp*





Most noteworthy is the improvement in credit quality. In fact, our nonperforming assets to ending loans ratio of 0.83 percent was the lowest in three and a half years. Net charge-offs for 2004 were 0.29 percent and our reserve ratio remains strong at 1.61 percent. Given no dramatic changes in economic conditions, we expect stable to improving credit quality trends in 2005, enabling a more aggressive plan for growing quality loans.

Net interest income for 2004 showed a slight decline of 0.78 percent from 2003. Factors that affected this decline were modest growth in average deposit and loan balances, the strategic sale of \$28 million in retail real estate mortgages, and our decision to lengthen the maturities of certificates of deposit. The latter strategies will help position our balance sheet for future net interest income growth. Given the current rate environment, we anticipate that our net interest margin of 3.96 percent for 2004 will remain relatively stable in 2005.

Fee income from our trust and investment-management groups increased by 9.67 percent over 2003 due to year-over-year market value improvements, successful sales efforts, and service fee changes. These lines of business — along with our insurance agency — provide us an excellent platform for future growth.

In 2004, we also added new offices to our branch network. First Financial Bank opened a new banking center in Maineville, Ohio, and a full service “hub” in rapidly growing West Chester, Ohio. Client acceptance of these new banking centers has been gratifying, and we anticipate that our expansion in these markets will yield strong results for all of our product lines.

Construction is underway for Sand Ridge Bank’s new banking center in Lafayette, Indiana, and First Financial Bank’s new office in Florence, Kentucky.

### Strengths To Build On

Bancorp’s performance last year provides strong momentum for 2005. I am excited by the strengths of the organization and the firm foundation we have to build upon. Here’s a snapshot of our strengths:

- **Outstanding People** – Across our lines of business, we employ many people with extensive experience, strong commitment, and the desire to be part of a successful organization.

- *Excellent Market Position in Current Markets* – We are in good markets that offer us the growth opportunities we need to improve revenue. In several of our markets, we currently maintain a “top-three” market share position.
- *Strong Balance Sheet* – We are positioned to grow our assets and continue to pay a good dividend to our shareholders because of our strong balance sheet and capital position with an average equity-to-assets ratio of 9.40 percent and risk-based capital level of 14.48 percent.
- *Good Credit Quality* – We can now focus more aggressively on growing loans because credit quality is stable and improving.
- *Strong Fee-Income Base* – Our trust, brokerage, insurance, and merchant processing businesses are strong contributors to fee income and were responsible for \$23 million in total revenue in 2004.

### Strategic Plan

In preparation for this new phase, we have developed a new mission statement (see page 5), solidified our company’s core values (at right), written a strategic plan, and articulated our vision for the organization overall.

### Organizational Goals

The successful execution of our strategic plan should produce exciting results for our company. The goals we have established are:

- Top-quartile performance for all stakeholders of the company over the long term.
- Sustained and consistent excellence through a core community banking model.
- Commitment to growth.
- Effective management of all risks.

### Building a New Organizational Structure

A major element of our new plan for First Financial Bancorp is to form one banking company in multiple lines of business that is dedicated to relationship development

We expect each associate to know and embrace First Financial Bancorp’s core values and to use them as a basis for their relationships with each other, our clients, our shareholders, our communities, and our business partners.

#### INTEGRITY:

We steadfastly adhere to ethical principles and professional standards. This compels us to accept responsibility for doing what is right in all of our business relationships.

#### RESPECT:

We value the diversity and individuality of each associate and client. Because associates learn from each other, we encourage them to share their perspectives in order to foster growth, creativity, and innovation. In our relationships with clients, we strive to respond to them with a high level of consideration and appreciation.

#### RESPONSIVENESS:

Because we want to exceed expectations, we readily react to the needs and deadlines of our clients and co-workers.

#### COMMITMENT:

We are dedicated to doing whatever we can to meet the needs of our clients and other stakeholders. Loyalty and trust are values we adhere to as we work together as a team.

#### LEADERSHIP:

We believe that leadership should be encouraged and demonstrated at every level in our company as associates take responsibility for planning, communicating, and executing the actions necessary to serve all of our stakeholders in an exceptional manner.

#### EXCELLENCE:

Our business decisions and our service to every stakeholder should reflect the highest standards. This passion for excellence instills pride throughout the company and provides the strength we need to embrace change and resolve tough issues.



with our clients. By moving to one bank charter, we would expect to gain simplicity of process, greater efficiency, more fluid management of funding and capital in our markets, and a sharper focus on sales growth and client service.

Upon regulatory approval, our regional banks will begin operating as “One Company” under one charter with five business units. Here is a breakdown of how our company will look in the future:

- Three of the units will be our regional banks “doing-business-as” First Financial Bank, Community First Bank, and Sand Ridge Bank.
- We will organize our trust, brokerage, and private banking into a wealth-management line of business serving all bank markets.
- Our insurance business will operate as First Financial Insurance, changing its name from Flagstone.

Support functions will be aligned to support our combined company more effectively.

### **Business and Competitive Strategy**

Our restructured bank will serve communities with the local service and decision making of a community bank while providing the products, services, and support processes that are typical of a larger, more sophisticated financial institution.

We will leverage the strength of our people to execute a “people-led” strategy. Our associates will use their expertise in understanding the needs and dreams of their clients to provide the right product and service solutions.

To solidify our commitment to exceptional service, we will adopt a local-market focus in managing client relationships as we place decision making as close to clients as appropriate. Every distinct market within our network will be managed by a local market president.

Our target clients will be owner-operated businesses and commercial real-estate investors in our commercial business, high-net-worth clients in our investment-management business, and individual consumers who value our personalized approach in our retail banking business.

To sustain our product, delivery, and exceptional service commitments, we must develop efficient and effective support services that use “best-in-class” processes and technology.

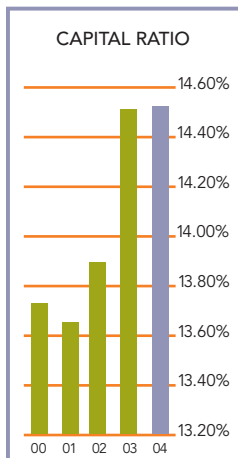
## Executing Plans for Growth

In order to make an immediate improvement in profitability, we must do more than change our organizational structure and get our expenses in line.

Here are some of the specific growth strategies we intend to pursue:

- **Aggressive Sales Culture** – We will re-energize associates in sales positions and recruit aggressive new sales staff. Our sales teams will have the necessary products, tools, and training to ensure success.
- **Commercial and Small Business Development** – To accelerate growth in this segment of our business, we intend to recruit business development specialists who can gather both loans and deposits within expanded product lines.
- **Retail Banking** – Because consumer deposit balances are the core of our business, we will continue our branch expansion in and near our current banking markets. Evaluation and upgrades for some branch facilities and attention to more effective retail merchandising will also be a focus.
- **Wealth Management** – With \$2.5 billion under management in our investment-management group and a strong and growing private banking unit, we will aggressively pursue growth opportunities in this line of business. The focus of our growth will be in adding sales staff to expand our business in existing markets and in the metropolitan areas near our current offices.
- **Insurance** – This line of business is an excellent source of non-equity intensive fee income with an operating profit margin of 31 percent. We will continue to grow by pursuing strategic acquisitions of agencies that are commercially focused and have owner-operators who would plan to continue working with us.
- **Metropolitan Market Branching** – Our current markets surround several dynamic metropolitan markets where we may pursue growth opportunities with targeted clients and targeted services.
- **Bank Acquisition** – In the future, we will consider strategic acquisitions that provide good market fill-in or allow us to enter new markets that we deem attractive.

We will  
exceed our clients'  
expectations and  
satisfy their  
financial needs by  
building long-term  
relationships using  
a client-centered,  
value-added  
approach.



### Financial Plan

In 2004, we achieved improvement in several areas of our financial performance. We need to improve further. The focus of our efforts to improve financial performance is in the following areas:

- Create growth in revenue that is reflective of our markets and a renewed focus to expand our sales force in existing and new markets.
- Improve our overall efficiency. Our efficiency ratio of nearly 66 percent is too high and needs to be reduced significantly through a combination of reduced costs and increased revenue.
- Evaluate our office network and determine which markets are good for the company long term and manage these banks to maximize our returns.

The successful implementation of our improvement efforts should produce financial returns in the near term that are more in line with our peer banks, and over the long term should produce a superior return for shareholders.

I have emphasized that a source of strength for our company is our capital position. With an average equity to assets ratio of 9.40 percent and a risk based capital level of 14.48 percent, both above peer averages, we have the flexibility to support our planned growth and also continue our past practice of a strong and increasing dividend level. In fact, on February 22, 2005, the board of directors declared a 16-cent per share dividend, our first increase since April of 2001.

### Raising Expectations

As we move forward, I would like to express my appreciation to our associates for their ongoing efforts and dedication.

My expectations are high — for myself and for everyone associated with First Financial Bancorp. All of us must be absolutely committed to one goal — improving our company's performance.

Claude E. Davis  
President and CEO





*Bruce E. Leep  
Chairman of the Board*

### Board of Directors

**Bruce E. Leep**, Chairman of the Board, First Financial Bancorp;  
Chairman of the Board, Sand Ridge Bank  
**Claude E. Davis**, President and Chief Executive Officer, First Financial Bancorp;  
Chairman of the Board, First Financial Bank  
**Don M. Cisle**, President, Don S. Cisle Contractor, Inc.  
**Corinne R. Finnerty**, Partner, McConnell & Finnerty, Attorneys-at-Law  
**Carl R. Fiora**, Retired President and Chief Executive Officer, Armco Steel Co., L.P.  
**Dr. James C. Garland**, President, Miami University  
**Murph Knapke**, Owner, Knapke Law Office, Attorney-at-Law  
**Stephen S. Marcum**, Partner, Parrish, Fryman & Marcum Co., L.P.A.  
**Barry S. Porter**, Retired Chief Financial Officer, The Ohio Casualty Corp.  
**Steven C. Posey**, President, Posey Management Corp.

### Directors Emeriti

Arthur W. Bidwell, Thomas C. Blake, Merle F. Brady, Don S. Cisle, Jr., Edward N. Dohn,  
Vaden Fitton, F. Elden Houts, Robert M. Jones, Charles T. Koehler, Joseph L. Marcum,  
Robert Q. Millan, Frank C. Neal, C. Wesley Rowles, Joel H. Schmidt, Perry D. Thatcher,  
Hon. C. William Verity, Jr.

### Senior Officers of Our Company

**Claude E. Davis**, President and Chief Executive Officer, First Financial Bancorp;  
Chairman of the Board, First Financial Bank  
**C. Douglas Lefferson**, Executive Vice President and Chief Financial Officer,  
First Financial Bancorp  
**C. Thomas Murrell, III**, Senior Vice President and Chief Credit Officer, First Financial Bancorp  
**Robert C. Oberg**, Senior Vice President and Chief Risk Officer, First Financial Bancorp  
**J. Franklin Hall**, First Vice President, Controller, and Director of Finance, First Financial Bancorp  
**Regina P. Brackett**, Vice President and Director of Human Resources, First Financial Bancorp  
**Cheryl R. Lipp**, Vice President and Director of Marketing, First Financial Bancorp  
**Jill L. Wyman**, Vice President and Sales Director, First Financial Bancorp  
**Mark W. Immelt**, President and Chief Executive Officer, First Financial Bank; President  
and Chief Executive Officer, First Financial Capital Advisors  
**Samuel J. Munafo**, President and Chief Executive Officer, Community First Bank & Trust  
**David S. Harvey**, President and Chief Executive Officer, Sand Ridge Bank  
**Mark A. Willis**, President and Chief Executive Officer, Flagstone Insurance and Financial Services  
**Rex A. Hockemeyer**, President and Chief Executive Officer, First Financial Bancorp Service Corp.



*From left to right: Davis, Lipp, Hall, Lefferson, Harvey, Willis, Hockemeyer, Munafo, Immelt, Oberg,  
Wyman, Murrell, and Brackett*

*Upon retiring in 1997, Dick Fitton said, "When I began my banking career, I knew that this was more than a job. This was an opportunity to learn and grow. I am proud to have played a small part in such a wonderful organization."*

On March 14, 2004, we were saddened to hear of the death of our founder and director emeritus, Richard J. Fitton. Dick retired in 1997 as chairman of the board of First Financial Bancorp, but his heart was always with us. In fact, he was once described as "uniquely selfless in his devotion to First Financial Bancorp."

During his 40 distinguished years with our company, Dick was a highly respected branch manager, executive vice president, president and chief executive officer, director, and chairman of the board. His vision led the board of directors and management to form First Financial Bancorp in 1983.

At the memorial service in Hamilton, Ohio, one of Dick's colleagues praised him as "a leader and a contributor to everything significant that happened in this community in the last 40 years." Certainly, he touched many aspects of community life including the Fitton Center for Creative Arts, the High Street underpass, the Hamiltonian Hotel, the Forest Run Wildlife Preserve, the Columbia Bridge, and the Hamilton campus of Miami University.

We lost a great leader and friend, but we gained a legacy of wisdom and generosity.



Management's Discussion and Analysis  
Notes to Consolidated Financial Statements

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

## FIRST FINANCIAL BANCORP

The following discussion and analysis is presented to facilitate the understanding of the financial position and results of operations of First Financial Bancorp (Bancorp). It identifies trends and material changes that occurred during the reporting periods and should be read in conjunction with the consolidated financial statements and accompanying notes. All dollar amounts, except per share data, are expressed in thousands of dollars.

Bancorp is a bank and savings and loan holding company headquartered in Hamilton, Ohio. As of December 31, 2004, Bancorp owned eight subsidiaries operating in western Ohio, Indiana, northern Kentucky, and southern Michigan. These subsidiaries include five commercial banks, one savings bank, a service corporation for Bancorp's subsidiaries, and a registered investment advisory company.

On January 25, 2001, Bancorp announced that its board of directors had approved a multi-year plan (Project Renaissance) to focus on regionalization and market expansions designed to increase long-term shareholder value. The end result of this multi-phased regionalization strategy was to have Bancorp's banking affiliates operate as four regional financial institutions on a common data processing system. All of the data processing conversions have been completed and three of the four regional financial institutions have been formed.

The first of Bancorp's new regional affiliates was formed in November of 2001 when four of the holding company's financial institutions in southeastern Indiana were merged under the new name, Heritage Community Bank, and converted to a common data processing system.

On July 19, 2002, First National Bank of Southwestern Ohio and Hebron Deposit Bank were merged and converted to the new system to form Bancorp's second new regional bank, known as First Financial Bank, National Association.

Designed to serve northwestern Indiana and southern Michigan, Bancorp's third regional financial institution was formed in November of 2002, when Bright National Bank, Flora, Indiana, and National Bank of Hastings, Hastings, Michigan, were merged into Sand Ridge Bank, Highland, Indiana, and converted to the new system.

As planned, the process of regionalization progressed on July 16, 2004, with the merger of The Clyde Savings Bank Company, Clyde, Ohio, and Indiana Lawrence Bank, North Manchester, Indiana, into Community First Bank & Trust, Celina, Ohio. Bancorp expects to complete its original plan for regionalization in the first quarter of 2005. Subject to regulatory approval, the plan calls for the merger of Citizens First State Bank, Hartford City, Indiana, into Community First Bank & Trust, headquartered in Celina, Ohio.

Additionally, Bancorp plans to merge its Columbus, Indiana-headquartered Heritage Community Bank affiliate into First Financial Bank, headquartered in Hamilton, Ohio. Subject to regulatory approval, this merger is expected to occur in the first quarter of 2005. While this was not included in Bancorp's original plan for regionalization, Bancorp has recently concluded that such a merger is the best strategic direction for the affiliates serving the contiguous markets of southeastern Indiana, southwestern Ohio, and northern Kentucky.

Bancorp's new strategic plan calls for operating as one company under one charter, upon regulatory approval. The three regional banks would begin "doing-business-as" First Financial Bank, Community First Bank & Trust, and Sand Ridge Bank. Bancorp will also organize its trust, investment, brokerage, and private banking into a wealth-management line of business. This will include Bancorp's family of proprietary mutual funds, The Legacy Funds Group, introduced in May 2002. Management intends to change the name of its insurance business from Flagstone Insurance and Financial Services (Flagstone) to First Financial Insurance. Non-client support functions will be aligned to support the combined company.

The major components of Bancorp's operating results for the past five years are summarized in Table 1 and discussed in greater detail on subsequent pages. For a thorough understanding of Bancorp's financial results and conditions, this discussion should be read in conjunction with the statistical data and consolidated financial statements on Pages 23 through 48.

### RECENT MERGERS, ACQUISITIONS AND DISPOSITIONS

During the third quarter of 2003, Bancorp's Community First affiliate sold its Chickasaw banking center to Osgood State Bank. The sale included \$14,000 in deposits. No loans were sold in this transaction. As a result of the sale, Bancorp recognized an after-tax gain of approximately one and a half cents per share in the third quarter of 2003.

On December 11, 2003, Bancorp's Heritage Community Bank affiliate completed the sale of its banking center in Sunman, Indiana, to FCN Bank, NA, Brookville, Indiana. Approximately \$39,755 in deposits and \$17,500 in loans were sold in addition to the facility and other selected assets. As a result of the sale, Bancorp recognized an after-tax gain of approximately six cents per share in the fourth quarter of 2003.

During December of 2003, Bancorp also executed its previously announced strategy to reduce nonperforming assets through a loan sale. Approximately \$17,700 in substandard loans, primarily from the Heritage Community Bank affiliate, were sold. Included in the recorded provision was the additional provision for loan loss expense which reflects the discount associated with the sale of loans of approximately five cents per share after tax in the fourth quarter of 2003. The additional provision expense accounts for the liquidity and risk characteristics of these particular commercial and commercial real estate loans.

In February of 2004, Flagstone, an affiliate of Bancorp's Heritage Community Bank, completed the purchase of two insurance agencies, Havens Insurance Services and White Insurance Services located in Highland, Indiana. This purchase, while not material from a financial perspective, expanded Flagstone's coverage into one of Bancorp's key markets. In February of 2003, Flagstone completed the cash purchase of the Wilson Lawson Meyers Insurance Agency of Connersville, Indiana. While the transaction was not material, the agency exceeded Bancorp's expectations from a financial perspective.

In the first quarter of 2004, Bancorp executed a strategy of selling approximately \$7,000 in mobile-home loans in a brokered sale. As a result of the planned sale, Bancorp accelerated the amortization of \$1,500 in loan premiums in the fourth quarter of 2003. The accelerated premium amortization associated with these loans resulted in approximately two cents per share after tax additional expense in the fourth quarter of 2003. These loans were originated through a third party in a program that was discontinued in November of 2001. Bancorp sold this portfolio because it did not fit with the company's desired risk profile due to the specialty nature of the loans, lack of continuation as a product strategy, and greater geographic distribution than a typical Bancorp portfolio. While the acceleration of the premium amortization negatively impacted 2003, it improved 2004 and should improve 2005 earnings by approximately one cent per share after tax per year.

On July 16, 2004, Bancorp's subsidiary, Community First Bank & Trust, completed the sale of its banking center in Kewanna, Indiana, to Community State Bank, Royal Center, Indiana. Approximately \$8,433 in deposits and \$3,650 in loans were sold in addition to the facility and selected assets. As a result of the sale, Bancorp recognized an after-tax gain of approximately one cent per share in the third quarter of 2004.

In 2004, Bancorp opened two new banking centers in growing markets, one of which was opened in the fourth quarter of 2004. Bancorp opened three banking centers in 2003, two of which were opened in the fourth quarter. Additionally, Bancorp plans to open two new banking centers in 2005 in growing markets.

TABLE 1 • FINANCIAL SUMMARY

	2004	2003	2002	2001	2000
(Dollars in thousands, except per share data)					
<b>Summary of operations</b>					
Interest income	\$ 202,977	\$ 208,289	\$ 241,008	\$ 289,745	\$ 313,303
Tax equivalent adjustment <sup>(1)</sup>	3,230	3,641	4,108	4,405	4,899
Interest income – tax equivalent <sup>(1)</sup>	206,207	211,930	245,116	294,150	318,202
Interest expense	59,230	63,408	78,251	126,780	145,424
<b>Net interest income – tax equivalent <sup>(1)</sup></b>	<b>\$ 146,977</b>	<b>\$ 148,522</b>	<b>\$ 166,865</b>	<b>\$ 167,370</b>	<b>\$ 172,778</b>
Interest income	\$ 202,977	\$ 208,289	\$ 241,008	\$ 289,745	\$ 313,303
Interest expense	59,230	63,408	78,251	126,780	145,424
<b>Net interest income</b>	<b>143,747</b>	<b>144,881</b>	<b>162,757</b>	<b>162,965</b>	<b>167,879</b>
Provision for loan losses	7,283	18,942	16,174	26,813	11,300
Noninterest income	60,042	62,212	56,699	54,242	48,401
Noninterest expenses	136,131	132,795	132,512	124,954	118,018
Income before income taxes	60,375	55,356	70,770	65,440	86,962
Income tax expense	19,257	17,450	22,535	22,131	28,740
<b>Net earnings</b>	<b>\$ 41,118</b>	<b>\$ 37,906</b>	<b>\$ 48,235</b>	<b>\$ 43,309</b>	<b>\$ 58,222</b>
<b>Per share data</b>					
<b>Net earnings–basic</b>	<b>\$ 0.94</b>	<b>\$ 0.85</b>	<b>\$ 1.05</b>	<b>\$ 0.91</b>	<b>\$ 1.19</b>
<b>Net earnings–diluted</b>	<b>\$ 0.94</b>	<b>\$ 0.85</b>	<b>\$ 1.05</b>	<b>\$ 0.91</b>	<b>\$ 1.19</b>
<b>Cash dividends declared</b>	<b>\$ 0.60</b>	<b>\$ 0.60</b>	<b>\$ 0.60</b>	<b>\$ 0.60</b>	<b>\$ 0.57</b>
Average common shares outstanding–basic (in thousands)	43,819	44,371	45,881	47,428	48,776
Average common shares outstanding–diluted (in thousands)	43,880	44,423	46,001	47,479	48,862
<b>Selected year-end balances</b>					
Total assets	\$ 3,916,671	\$ 3,956,062	\$ 3,729,952	\$ 3,854,794	\$ 3,932,512
Earning assets	3,590,535	3,618,406	3,407,769	3,505,791	3,604,916
Investment securities held-to-maturity	12,809	18,399	21,571	20,890	24,800
Investment securities available-for-sale	669,431	794,762	605,345	595,600	564,762
Loans, net of unearned income	2,895,326	2,799,624	2,748,088	2,872,249	3,008,066
Deposits	2,984,986	2,945,665	2,922,434	3,085,093	3,151,428
Noninterest-bearing demand deposits	443,902	414,785	422,453	448,330	419,878
Interest-bearing demand deposits	214,783	214,890	328,204	346,039	306,356
Savings deposits	1,021,260	1,010,643	841,336	782,640	739,376
Time deposits	1,305,041	1,305,347	1,330,441	1,508,084	1,685,818
Federal Home Loan Bank long-term debt	350,856	322,979	290,051	260,345	205,216
Other long-term debt	30,930	30,000	10,000	0	0
Shareholders' equity	371,455	366,483	377,603	384,543	395,132
<b>Ratios based on average balances</b>					
Loans to deposits	98.20%	95.13%	94.40%	93.71%	100.76%
Net charge-offs to loans	0.29%	0.69%	0.53%	0.71%	0.37%
Shareholders' equity to					
Total assets	9.40%	9.62%	10.34%	10.26%	9.62%
Deposits	12.53%	12.53%	13.03%	12.72%	12.45%
Return on assets	1.05%	0.99%	1.30%	1.12%	1.48%
Return on equity	11.21%	10.27%	12.54%	10.94%	15.34%
Net interest margin	3.96%	4.06%	4.71%	4.55%	4.59%
Net interest margin (tax equivalent basis) <sup>(1)</sup>	4.04%	4.16%	4.83%	4.67%	4.72%
Dividend payout	63.83%	70.59%	57.14%	65.93%	47.90%

(1) Tax equivalent basis was calculated using a 35.00% tax rate in all years presented.

## OVERVIEW OF OPERATIONS

**2004 vs. 2003.** Bancorp's net earnings increased 8.47% to \$41,118 in 2004, compared to net earnings of \$37,906 in 2003. Bancorp's diluted earnings per share increased 10.59% to \$0.94, from \$0.85 in 2003.

The 2004 earnings increased from 2003 as a result of the provision for loan loss expense being \$11,659 lower in 2004 than in 2003. This positive impact was offset by lower net interest income due to the low interest rate environment and resulting net interest margin compression. Net interest income, Bancorp's principal source of earnings, decreased \$1,134 or 0.78% in 2004 from 2003. Bancorp has continued its strategic decision to lengthen the maturity of its retail deposits, thus increasing interest expense and reducing net interest income. Lower interest rates resulted in lower loan yields in an environment in which it was increasingly difficult to lower rates on deposit accounts correspondingly. However, the increased volume of earning assets partially offset the effect of the rates. Refer to Table 2 for more detail and the Net Interest Income section that follows. Other factors offsetting the decrease in provision for loan loss expense were a decrease in noninterest income and an increase in noninterest expense.

Total assets at December 31, 2004, were \$3,916,671, a decrease of \$39,391 or 1.00% from year-end 2003. Total assets decreased as a result of investments declining by \$130,921, while total loans grew by \$95,622.

**2003 vs. 2002.** Bancorp's net earnings decreased 21.41% to \$37,906 in 2003, compared to net earnings of \$48,235 in 2002. Bancorp's diluted earnings per share decreased 19.05% to \$0.85, from \$1.05 in 2002.

The 2003 earnings decreased from 2002 primarily as the result of lower net interest income due to the low interest rate environment and resulting net interest margin compression. Lower interest rates resulted in lower loan and investment yields in an environment where it was increasingly difficult to lower rates on deposit accounts correspondingly. Net interest income decreased \$17,876 or 10.98% in 2003 from 2002. Included in this decrease is the non-recurring \$1,500 negative impact of accelerated amortization of loan premiums related to the mobile home loan sale in 2004. To a lesser extent, higher provision for loan loss expense also contributed

to lower earnings as Bancorp continued to be affected by an uncertain economy in some of its markets and certain credit risk administration deficiencies from prior years that management has addressed. The 2003 provision for loan loss expense includes approximately \$3,000 related to the sale of distressed commercial and commercial real estate loans. The unfavorable variances in net interest income and provision for loan loss expense were partially offset by noninterest income, which increased 9.72% or \$5,513 in 2003 from 2002. The increase in noninterest income was the result of gains on the sale of two banking centers and a non-recurring life insurance gain in 2003. Bancorp's noninterest expense remained flat year-over-year. Noninterest expense in 2003 was impacted by a severance payment of \$3,100, and 2002 had \$4,100 in non-recurring Project Renaissance expense.

Bancorp's return on equity for 2004 was 11.21%, which compares to 10.27% and 12.54% for 2003 and 2002, respectively. Bancorp's return on assets for 2004 was 1.05%. This compares with return on assets of 0.99% and 1.30% for 2003 and 2002, respectively.

## NET INTEREST INCOME

Net interest income, Bancorp's principal source of earnings, is the excess of interest received from earning assets over interest paid on interest-bearing liabilities. Bancorp's net interest income for the years 2000 through 2004 is shown in Table 1.

Interest income was \$202,977 in 2004, a decrease of \$5,312 or 2.55% from 2003. The decrease in interest income was primarily the result of the continued downward repricing of adjustable rate earning assets and replacement of assets in a low rate environment. The negative effect of the rates on earning assets was somewhat offset by an increase in the volume of earning assets, specifically an increase in loan volume.

Total interest expense was \$59,230 in 2004, a decrease of \$4,178 or 6.59% from 2003. The interest expense was primarily impacted by a decrease in the rate paid on interest-bearing liabilities. The average rate paid for deposits and borrowings decreased to 1.91% during 2004 from 2.09% during 2003.

Net interest income, the difference between total interest income and total interest expense, decreased \$1,134 or 0.78% as a result of the lower earning asset yields, which were not offset by corresponding decreases in funding costs.

TABLE 2 • VOLUME/RATE ANALYSIS—TAX EQUIVALENT BASIS <sup>(1)</sup>

	2004 change from 2003 due to			2003 change from 2002 due to		
	VOLUME	RATE	TOTAL	VOLUME	RATE	TOTAL
(Dollars in thousands)						
<b>Interest income</b>						
Loans	\$ 4,509	\$ (11,760)	\$ (7,251)	\$ 1,318	\$ (29,744)	\$ (28,426)
Investment securities <sup>(2)</sup>						
Taxable	761	2,408	3,169	5,473	(8,543)	(3,070)
Tax-exempt	(1,138)	(359)	(1,497)	(591)	(552)	(1,143)
Total investment securities interest <sup>(2)</sup>	(377)	2,049	1,672	4,882	(9,095)	(4,213)
Interest-bearing deposits with other banks	(22)	(19)	(41)	(128)	(71)	(199)
Federal funds sold and securities purchased under agreements to resell	(109)	6	(103)	(212)	(136)	(348)
<b>Total</b>	<b>4,001</b>	<b>(9,724)</b>	<b>(5,723)</b>	<b>5,860</b>	<b>(39,046)</b>	<b>(33,186)</b>
<b>Interest expense</b>						
Interest-bearing demand deposits	(268)	(54)	(322)	(695)	(960)	(1,655)
Savings deposits	357	(1,040)	(683)	1,226	(4,652)	(3,426)
Time deposits	(1,435)	(3,607)	(5,042)	(1,905)	(10,724)	(12,629)
Short-term borrowings	627	55	682	920	(823)	97
Federal Home Loan Bank long-term debt	1,319	(735)	584	2,843	(798)	2,045
Other long-term debt	548	55	603	748	(23)	725
<b>Total</b>	<b>1,148</b>	<b>(5,326)</b>	<b>(4,178)</b>	<b>3,137</b>	<b>(17,980)</b>	<b>(14,843)</b>
<b>Net interest income</b>	<b>\$ 2,853</b>	<b>\$ (4,398)</b>	<b>\$ (1,545)</b>	<b>\$ 2,723</b>	<b>\$ (21,066)</b>	<b>\$ (18,343)</b>

(1) Tax equivalent basis was calculated using a 35.00% tax rate.

(2) Includes both investment securities held-to-maturity and investment securities available-for-sale.

Interest income was \$208,289 in 2003, a decrease of \$32,719 or 13.58% from 2002. The decrease in interest income in 2003 was also primarily the result of continued downward repricing of adjustable rate earning assets and replacement of assets in a low rate environment. Total interest expense was \$63,408 in 2003, a decrease of \$14,843 or 18.97% from 2002. The interest expense was primarily impacted by a decrease in the rate paid on interest-bearing liabilities. The average rate paid for deposits and borrowings decreased to 2.09% during 2003 from 2.70% during 2002. Net interest income decreased \$17,876 or 10.98% during 2003 as a result of lower earning asset yields which were not offset by corresponding decreases in funding costs.

The interest rate spread and the net interest margin are two ratios frequently used to measure differences in net interest income. The interest rate spread (the average rate on earning assets minus the average rate on interest-bearing liabilities) was 3.67% for 2004, 3.75% for 2003, and 4.27% for 2002. The net interest margin (net interest income divided by average earning assets) decreased 10 basis points, to 3.96% in 2004 from 4.06% in 2003. As a result of the first quarter of 2004 sale of \$7,000 of mobile-home loans, Bancorp accelerated the amortization of \$1,500 in loan premiums in the fourth quarter of 2003. This acceleration negatively impacted the net interest margin by 4 basis points in 2003. The low interest rate conditions of 2003 driven by a 75 basis point reduction in rates initiated by the Federal Reserve since November of 2002, created an environment in which continued downward repricing of assets without a like decrease in deposit rates resulted in the decreasing or compression of the margin.

For analytical purposes, a section showing interest income on a tax equivalent basis is also presented in Table 1. The tax equivalent adjustment recognizes the income tax savings when comparing taxable and tax-exempt assets and assumes a 35.00% tax rate for all years presented. 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.

The amount of net interest income is determined by the volume and mix of earning assets, the rates earned on such earning assets, and the volume, mix, and rates paid for the deposits and borrowed money that support the earning assets.

Table 2 describes the extent to which changes in interest rates and changes in volume of earning assets and interest-bearing liabilities have affected Bancorp's net interest income on a tax equivalent basis during the years indicated. The combined effect of changes in volume and rate has been allocated proportionately to the change due to volume and the change due to rate. Table 2 should be read in conjunction with the Statistical Information shown on Page 23.

Nonaccruing loans were included in the daily average loan balances used in determining the yields in Table 2. Interest foregone on nonaccruing loans is disclosed in Note 9 of the Notes to Consolidated Financial Statements and is not considered to have a material effect on the reasonableness of these presentations. In addition, the amount of loan fees included in the interest income computation for 2004, 2003, and 2002 was \$5,923, \$6,534, and \$7,767, respectively.

## NONINTEREST INCOME AND NONINTEREST EXPENSES

A listing of noninterest income and noninterest expenses for 2004, 2003, and 2002 is reported in Table 3.

### NONINTEREST INCOME

**2004 vs. 2003.** Excluding securities gains, 2004 noninterest income decreased \$2,148 or 3.45% over 2003. This decrease was the result of the gain reported on the sale of two banking centers in 2003, partially offset by an increase in trust fees, additional life insurance income, and increased brokerage fees. Recapture of impairment reserve on the mortgage-servicing assets was \$1,268, compared with impairment charges of \$1,724 in 2003, a net change of \$2,992. This positive change was also offset by a decrease in gains on the sale of mortgage loans from \$5,171 to \$1,562 in 2004. Service charges on deposit accounts decreased \$575 or 2.96% in 2004 compared with 2003, partially impacted by the sale of deposits through branch sales. Trust revenues increased \$1,402 or 9.67% from the prior year.

**2003 vs. 2002.** Excluding securities gains, 2003 noninterest income increased \$5,578 or 9.85% over 2002. This increase was a result of approximately \$5,000 in gains from the sale of two banking centers in 2003. Also contributing to the increase was a non-recurring life insurance gain of \$1,500 due to the death of a retired senior executive officer of a Bancorp affiliate. Gains from sales of mortgage loans increased

TABLE 3 • NONINTEREST INCOME AND NONINTEREST EXPENSES

	2004		2003		2002	
	TOTAL	% CHANGE INCREASE (DECREASE)	TOTAL	% CHANGE INCREASE (DECREASE)	TOTAL	% CHANGE INCREASE (DECREASE)
(Dollars in thousands)						
<b>Noninterest income</b>						
Service charges on deposit accounts	\$ 18,847	(2.96%)	\$ 19,422	(0.73%)	\$ 19,565	(3.85%)
Trust revenues	15,902	9.67%	14,500	(5.75%)	15,385	4.17%
Bankcard interchange income	5,301	14.74%	4,620	7.19%	4,310	21.55%
Gains from sales of mortgage loans	1,562	(69.79%)	5,171	16.67%	4,432	51.31%
Other	18,428	(0.25%)	18,475	43.02%	12,918	4.62%
Subtotal	60,040	(3.45%)	62,188	9.85%	56,610	4.95%
Investment securities gains	2	N/M	24	N/M	89	N/M
<b>Total</b>	<b>\$ 60,042</b>	<b>(3.49%)</b>	<b>\$ 62,212</b>	<b>9.72%</b>	<b>\$ 56,699</b>	<b>4.53%</b>
<b>Noninterest expenses</b>						
Salaries and employee benefits	\$ 76,732	0.29%	\$ 76,508	6.83%	\$ 71,619	10.08%
Net occupancy	8,478	10.61%	7,665	(3.86%)	7,973	6.66%
Furniture and equipment	7,237	1.92%	7,101	(8.13%)	7,729	22.06%
Data processing	7,186	6.78%	6,730	(13.91%)	7,817	7.76%
Marketing	2,716	(0.59%)	2,732	32.04%	2,069	11.72%
Communication	2,811	(6.86%)	3,018	(9.31%)	3,328	36.39%
Professional services	5,474	17.34%	4,665	4.43%	4,467	35.08%
Amortization of intangibles	876	6.31%	824	(2.72%)	847	(68.04%)
Other	24,621	4.54%	23,552	(11.67%)	26,663	(6.72%)
<b>Total</b>	<b>\$ 136,131</b>	<b>2.51%</b>	<b>\$ 132,795</b>	<b>0.21%</b>	<b>\$ 132,512</b>	<b>6.05%</b>

N/M = Not meaningful

\$739 or 16.67% as a result of the low interest rate environment and continued high level of refinancing activity. The increased prepayment speeds on mortgages, however, also resulted in reduced other income due to mortgage-servicing asset impairment charges recorded in a valuation reserve. These impairment charges were \$1,227 higher than those recorded in 2002. Service charges on deposit accounts were relatively flat, decreasing \$143 or 0.73% in 2003 compared with 2002. Trust revenues decreased \$885 or 5.75% from the prior year.

#### NONINTEREST EXPENSES

**2004 vs. 2003.** Noninterest expenses increased \$3,336 or 2.51% in 2004 compared with 2003. Salaries and employee benefits increased slightly, \$224 or 0.29%. This category was impacted by the severance charge of \$3,100 in 2003 and the severance charges of \$1,195 in 2004. Net occupancy expenses increased \$813 or 10.61% due to increased building rent, depreciation, and related expenses. Data processing expense increased \$456 or 6.78% due to consolidation activities outside the scope of Project Renaissance. Professional services increased \$809 or 17.34% due to the search for a new chief executive officer and direct consulting expenses for Sarbanes-Oxley Section 404 internal control documentation and testing. Other noninterest expenses increased \$1,069 or 4.54% due to a \$322 charge associated with the planned merger of Heritage Community Bank into First Financial Bank.

**2003 vs. 2002.** Noninterest expenses increased slightly, \$283 or 0.21%, in 2003 compared with 2002. The category with the most significant increase was salary and employee benefits, increasing \$4,889 or 6.83% due primarily to a \$3,100 charge attributable to the Separation Agreement and Release for Bancorp's former chief executive officer, Stanley N. Pontius. Pension expense, included in employee benefits, was \$1,000 higher than 2002 as a result of pension investment performance and changes to interest rate assumptions due to a prolonged period of low interest rates. Bancorp did not fully realize personnel efficiencies associated with Project Renaissance as some of the staff attrition was offset by staff increases in risk management and credit control. In 2002, Project Renaissance expenses impacted the noninterest expenses categories of furniture and equipment, data processing, and other noninterest expense for a total of \$4,063. As a result of these higher-than-normal 2002 expenses, 2003 furniture and equipment expenses decreased \$628, data-processing expense decreased \$1,087, and other noninterest expenses decreased \$2,509 from 2002. The other expense category in 2003 also contained increased professional services costs related to the non-recurring events, such as the distressed loan sale.

#### INCOME TAXES

Bancorp's tax expense in 2004 totaled \$19,257 compared to \$17,450 in 2003 and \$22,535 in 2002, resulting in effective tax rates of 31.90%, 31.52%, and 31.84% in 2004, 2003, and 2002, respectively. The slight increase in 2004's effective tax rate is primarily due to a decrease in tax-exempt income.

Further analysis of income taxes is presented in Note 13 of the Notes to Consolidated Financial Statements.

#### LOANS

**2004 vs. 2003.** Loans, net of unearned income, increased \$95,702 or 3.42% during 2004 with average balances increasing \$71,554 or 2.55%. This increase was achieved even though Bancorp sold approximately \$46,000 in loan balances through branch sales, a distressed loan portfolio sale, and a mobile-home loan portfolio sale. Loan growth has been concentrated in the commercial real estate category as demand improved, primarily in the southwestern Ohio market.

Bancorp's loans cover a broad range of borrowers characteristic of the western Ohio, southern Michigan, northern Kentucky, and Indiana markets. There were no loan concentrations of multiple borrowers in similar activities at December 31, 2004, which exceeded 10.00% of total loans.

Bancorp's subsidiaries consist of community banks dedicated to meeting the financial needs of individuals and businesses living and operating in the communities they serve. Bancorp's loan portfolio is therefore primarily residential and commercial real estate mortgage loans, commercial loans, and installment loans.

At December 31, 2004, real estate mortgage loans were 53.17% of Bancorp's total loan portfolio, and installment loans were another 20.46% of the total loan portfolio. Commercial loans equaled 22.27% of the total portfolio; and real estate construction, credit card lending, and lease financing made up the remaining 4.10% of the portfolio.

**2003 vs. 2002.** Loans, net of unearned income, increased \$51,536 or 1.88% during 2003, with average balances increasing 0.64%. The increase in ending loan balances was achieved notwithstanding the \$35,000 of loans sold in December 2003, related to the sale of the Sunman, Indiana, banking center and the distressed loan sale. Real estate mortgage loan growth drove total loan growth in 2003. Bancorp monitors and manages interest rate risk and the overall loan portfolio mix as it has increased this portfolio. The uncertain economy led to weaker commercial loan demand in general and to Bancorp's tightening of credit underwriting guidelines. Installment loan balances continued to be impacted by competitive pricing from automobile manufacturers and the increased use of mortgage refinancings to consolidate consumer debt. Leasing balances will continue to decline as Bancorp has de-emphasized this business line.

At December 31, 2003, real estate mortgage loans were 52.37% of Bancorp's total loan portfolio and installment loans were another 20.00% of the total loan portfolio. Commercial loans equaled 23.80% of the total portfolio; and real estate construction, credit card lending, and lease financing made up the remaining 3.83% of the portfolio. In 2003, end-of-period commercial loans decreased \$24,341 or 3.52% from 2002 to 2003 partially due to a reclassification of approximately \$70,000 from commercial loans to real estate loans. Prior periods were not restated due to its immateriality to the total balance sheet and total loans. Real estate mortgage loans increased \$97,946 or 7.16% for the same period.

Real estate mortgage loans are generally considered to be the safest loan investments because of the overall stability in the market values of the real estate securing the loans. Installment loans include unsecured loans, second mortgage loans, secured lines of credit, secured and unsecured home improvement loans, automobile loans, student loans, and loans secured by savings, stocks, or life insurance. Bancorp subsidiaries offer a wide variety of commercial loans, including small-business loans, agricultural loans, equipment loans, and lines of credit.

TABLE 4 • LOAN PORTFOLIO

	December 31,				
	2004	2003	2002	2001	2000
	(Dollars in thousands)				
Commercial	\$ 644,933	\$ 666,315	\$ 690,656	\$ 804,683	\$ 787,436
Real estate—construction	91,475	73,260	89,674	75,785	97,571
Real estate—mortgage	1,539,398	1,466,153	1,368,207	1,346,235	1,438,339
Installment	592,402	560,061	556,975	588,549	618,489
Credit card	21,895	21,680	22,068	22,846	24,182
Lease financing	5,229	12,241	21,031	36,139	46,068
<b>Total</b>	<b>\$ 2,895,332</b>	<b>\$ 2,799,710</b>	<b>\$ 2,748,611</b>	<b>\$ 2,874,237</b>	<b>\$ 3,012,085</b>



**TABLE 5 • LOAN MATURITY/RATE SENSITIVITY**

December 31, 2004				
Maturity				
	WITHIN ONE YEAR	AFTER ONE BUT WITHIN FIVE YEARS	AFTER FIVE YEARS	TOTAL
(Dollars in thousands)				
Commercial	\$ 370,385	\$ 168,585	\$ 105,963	\$ 644,933
Real estate—construction	82,710	5,053	3,712	91,475
<b>Total</b>	<b>\$ 453,095</b>	<b>\$ 173,638</b>	<b>\$ 109,675</b>	<b>\$ 736,408</b>

Sensitivity to changes in interest rates		
	PREDETERMINED RATE	VARIABLE RATE
(Dollars in thousands)		
Due after one year but within five years	\$ 59,503	\$ 114,135
Due after five years	70,540	39,135
<b>Total</b>	<b>\$ 130,043</b>	<b>\$ 153,270</b>

Subject to Bancorp's guidelines and policy, credit underwriting and approval occur within the subsidiary originating the loan. Bancorp has established individual affiliate lending limits to handle the majority of customer requests in a timely manner at each subsidiary. Loan applications for principal amounts greater than a designated amount, which varies by subsidiary, require Bancorp approval. Any plans to purchase or sell a participation in a loan also require Bancorp approval.

Bancorp subsidiaries receive requests to renew maturing loans as a normal part of business. Such requests are especially common with commercial loans and with real estate loans that are scheduled to mature before being fully amortized. The requests are reviewed by the subsidiary's loan committee or by designated loan personnel, as appropriate, and may be approved, approved with modifications, or denied. Required modifications may include, among other items, a reduction in the loan balance, a change in the interest rate, an increase in collateral, or the initiation of monthly principal payments.

Table 5 indicates the contractual maturity of commercial loans and real estate construction loans outstanding at December 31, 2004. Loans due after one year are classified according to their sensitivity to changes in interest rates.

#### ASSET QUALITY

Bancorp's subsidiaries record a provision for loan loss expense (provision) in the Consolidated Statements of Earnings to provide for expected credit losses. Actual losses on loans and leases are charged against the allowance for loan losses (allowance), which is a reserve accumulated on the Consolidated Balance

Sheets through the provision. The recorded values of the loans and leases actually removed from the Consolidated Balance Sheets are referred to as charge-offs and, after netting out recoveries on previously charged-off assets, become net charge-offs. Bancorp's policy is to charge-off loans when, in management's opinion, collection of principal is in doubt. All loans charged-off are subject to continuous review and concerted efforts are made to maximize recovery.

Management records the provision in amounts sufficient to result in an allowance that will cover risks believed to be inherent in the loan portfolio of each subsidiary. Management's evaluation in establishing the provision includes such factors as historical loss and recovery experience, remaining life of the portfolio, estimated future loss for loans, known deterioration in loans, periodic external loan evaluations, prevailing economic conditions that might have an impact on the portfolio, lending personnel experience and changes, lending strategies, and ratios of delinquent and nonaccrual loans. The 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. The evaluation of these factors is completed by a group of senior officers from the risk management, credit administration, financial, and lending areas.

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

**TABLE 6 • NONPERFORMING ASSETS**

	December 31,				
	2004	2003	2002	2001	2000
(Dollars in thousands)					
Nonaccrual loans	\$ 20,102	\$ 25,980	\$ 21,456	\$ 24,628	\$ 17,346
Restructured loans	2,110	3,821	5,375	1,291	265
Other real estate owned (OREO)	1,730	3,207	2,792	2,338	1,075
<b>Total nonperforming assets</b>	<b>\$ 23,942</b>	<b>\$ 33,008</b>	<b>\$ 29,623</b>	<b>\$ 28,257</b>	<b>\$ 18,686</b>
Nonperforming assets as a percent of total loans plus OREO	0.83%	1.18%	1.08%	0.98%	0.62%
Accruing loans past due 90 days or more	\$ 2,053	\$ 1,872	\$ 6,818	\$ 4,728	\$ 2,414

**TABLE 7 • SUMMARY OF ALLOWANCE FOR LOAN LOSSES AND SELECTED STATISTICS**

	2004	2003	2002	2001	2000
	(Dollars in thousands)				
Transactions in the allowances for loan losses:					
Balance at January 1	\$ 47,771	\$ 48,177	\$ 46,784	\$ 39,349	\$ 39,340
Loans charged-off:					
Commercial	3,342	10,838	7,865	13,573	6,439
Real estate—construction	0	0	0	5	32
Real estate—mortgage	2,621	4,823	1,821	2,096	1,098
Installment and other consumer financing	6,743	7,248	8,340	7,450	5,881
Lease financing	168	397	1,847	508	194
Total loans charged-off	12,874	23,306	19,873	23,632	13,644
Recoveries of loans previously charged-off:					
Commercial	1,553	1,522	2,849	766	620
Real estate—construction	0	0	0	0	0
Real estate—mortgage	529	309	440	549	191
Installment and other consumer financing	2,394	2,023	1,742	1,440	1,474
Lease financing	62	104	61	37	68
Total recoveries	4,538	3,958	5,092	2,792	2,353
Net charge-offs	8,336	19,348	14,781	20,840	11,291
Allowance acquired through mergers	0	0	0	1,462	0
Provision for loan losses	7,283	18,942	16,174	26,813	11,300
<b>Balance at December 31</b>	<b>\$ 46,718</b>	<b>\$ 47,771</b>	<b>\$ 48,177</b>	<b>\$ 46,784</b>	<b>\$ 39,349</b>
Ratios:					
Net charge-offs as a percent of:					
Average loans outstanding	0.29%	0.69%	0.53%	0.71%	0.37%
Provision	114.46%	102.14%	91.39%	77.72%	99.92%
Allowance	17.84%	40.50%	30.68%	44.55%	28.69%
Allowance as a percent of:					
Year-end loans, net of unearned income	1.61%	1.71%	1.75%	1.63%	1.31%

**TABLE 8 • ALLOCATION OF THE ALLOWANCE FOR LOAN LOSSES**

	December 31,									
	2004		2003		2002		2001		2000	
	(Dollars in thousands)									
	Allowance	Percent of Loans to Total Loans	Allowance	Percent of Loans to Total Loans	Allowance	Percent of Loans to Total Loans	Allowance	Percent of Loans to Total Loans	Allowance	Percent of Loans to Total Loans
Balance at end of period applicable to:										
Commercial	\$ 11,780	23%	\$ 9,452	24%	\$ 15,729	25%	\$ 12,210	28%	\$ 11,061	26%
Real estate—construction	265	3%	27	3%	43	3%	445	3%	376	3%
Real estate—mortgage	17,174	53%	15,471	52%	13,702	50%	15,431	47%	8,853	48%
Installment and credit card	13,833	21%	10,996	21%	11,276	21%	11,804	21%	11,399	21%
Lease financing	252	0%	269	0%	441	1%	921	1%	756	2%
Unallocated	3,414	N/A	11,556	N/A	6,986	N/A	5,973	N/A	6,904	N/A
<b>Total</b>	<b>\$ 46,718</b>	<b>100%</b>	<b>\$ 47,771</b>	<b>100%</b>	<b>\$ 48,177</b>	<b>100%</b>	<b>\$ 46,784</b>	<b>100%</b>	<b>\$ 39,349</b>	<b>100%</b>

The estimate of losses inherent in the commercial portfolio is then adjusted for management's estimate of probable losses on specific exposures as well as trends in delinquent and nonaccrual loans and other factors such as prevailing economic conditions, lending personnel experience and changes, lending strategies, and other influencing factors as discussed earlier in the Asset Quality section.

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

The allowance for consumer loans which includes retail real estate, installment, home equity, credit card, consumer leasing, overdrafts, and student loans is established for each of the categories listed by estimating losses inherent in that particular category of consumer loans. The estimate of losses is based on historical loss rates and the estimated average life or contractual maturity of each portfolio. Consumer loans are evaluated as a group within each category (i.e., retail real estate, installment, etc.) because these loans are smaller and homogeneous.

The unallocated portion of the allowance consists of dollar amounts specifically set aside for certain general factors influencing the allowance. These factors include ratio trends, and other factors not already accounted for in the allowance estimates. Establishing percentages for these factors is largely subjective, but is supported by economic data and other information where appropriate. In late 2003, Bancorp had a detailed, independent third party review of its allowance methodology completed. While the methodology was sound, there were revisions that Bancorp wanted to incorporate, as a result of the study and its own continued improved risk management efforts, that further refined the process. In 2004, the unallocated portion decreased significantly, due to a more comprehensive and refined allowance model adopted in 2004. This enhancement established a method whereby national and economic factors, concentrations in market segments, loan documentation and analysis, and portfolio management could be assigned to specific loan categories. Given year-end levels of nonperforming assets and all other factors considered in the allowance, management believes the level of the unallocated is appropriate.

The level of nonaccrual and restructured loans and leases is an important element

in assessing asset quality. Loans are classified as nonaccrual when, in the opinion of management, collection of interest is doubtful. Loans are classified as restructured when management, to protect its investment, grants concessions to the debtor that it would not otherwise consider. Another element associated with asset quality is Other Real Estate Owned (OREO). OREO primarily represents properties acquired by Bancorp's subsidiaries through loan defaults by customers. See Table 6 for a summary of Bancorp's nonaccrual and restructured loans and OREO properties.

**2004 vs. 2003.** Total nonperforming assets, as shown in Table 6, decreased to \$23,942 at December 31, 2004, from \$33,008 at December 31, 2003, a 27.47% decrease. Nonperforming assets consist of nonaccrual loans, restructured loans, and other real estate owned. Nonaccrual loans decreased \$5,878 or 22.63% from 2003. Restructured loans decreased \$1,711, while OREO decreased \$1,477. Accruing loans past due 90 days or more increased to \$2,053 at year-end 2004 from \$1,872 in 2003. This overall improvement in credit quality was positively influenced by signs of economic recovery, strategies such as the fourth-quarter 2003 distressed loan sale, and improved credit risk and risk management disciplines. Given the current economic environment, Bancorp expects continued stable to improving credit quality trends through 2005, although moderate fluctuations could occur as Bancorp continues to work through expected credit issues.

Net charge-offs of \$8,336 in 2004 decreased \$11,012 from 2003, and the net charge-offs as a percent of average loans outstanding decreased to 0.29% from 0.69% as shown in Table 7. Decreases in commercial and commercial real estate loans charged-off and continued strong recoveries on commercial and consumer loans positively impacted net charge-offs for 2004. As Bancorp anticipated in 2003, installment and other consumer financing charge-offs decreased in 2004 from 2003. Bancorp anticipates the consumer trend will continue to stabilize in 2005. However, this assumption is dependent upon stable or improving economic conditions in Bancorp's markets in 2005.

The allowance at December 31, 2004, was \$46,718 or 1.61% of loans, net of unearned income, a decrease from the 1.71% reported for 2003. Provision for loan loss expense of \$7,283 was \$11,659 lower in 2004 than in 2003. This decrease was primarily due to the credit quality differences in 2004 and 2003 and the analysis of the overall risk associated with the loan portfolio. Overall, it is management's belief that the allowance for loan losses is adequate to absorb estimated probable credit losses.

TABLE 9 • INVESTMENT SECURITIES

	December 31, 2004							
	Maturing							
	WITHIN ONE YEAR		AFTER ONE BUT WITHIN FIVE YEARS		AFTER FIVE BUT WITHIN TEN YEARS		AFTER TEN YEARS	
AMOUNT	YIELD <sup>(1)</sup>	AMOUNT	YIELD <sup>(1)</sup>	AMOUNT	YIELD <sup>(1)</sup>	AMOUNT	YIELD <sup>(1)</sup>	
	(Dollars in thousands)							
<b>Held-to-Maturity</b>								
Mortgage-backed securities	\$ 11	0.00%	\$ 351	7.92%	\$ 195	12.49%	\$ 346	4.63%
Obligations of state and other political subdivisions	5,064	4.06%	2,104	7.33%	3,611	7.30%	1,127	7.79%
<b>Total</b>	<u>\$ 5,075</u>	<u>4.05%</u>	<u>\$ 2,455</u>	<u>7.41%</u>	<u>\$ 3,806</u>	<u>7.57%</u>	<u>\$ 1,473</u>	<u>7.05%</u>
<b>Available-for-Sale</b>								
Securities of other U.S. government agencies and corporations	\$ 42,848	2.19%	\$ 87,749	3.01%	\$ 5,234	5.16%	\$ 122	2.71%
Mortgage-backed securities	107	5.64%	8,271	3.56%	208,171	3.83%	167,309	4.97%
Obligations of state and other political subdivisions	7,226	8.09%	20,822	7.51%	42,316	7.52%	29,740	7.25%
Other securities	102	6.61%	0	0.00%	231	6.35%	49,183	4.69%
<b>Total</b>	<u>\$ 50,283</u>	<u>3.04%</u>	<u>\$ 116,842</u>	<u>3.82%</u>	<u>\$ 255,952</u>	<u>4.45%</u>	<u>\$ 246,354</u>	<u>5.18%</u>

(1) Tax equivalent basis was calculated using a marginal federal income tax rate of 35.00%.

**2003 vs. 2002.** Net charge-offs of \$19,348 in 2003 increased \$4,567 from 2002, and the net charge-offs as a percent of average loans outstanding increased to 0.69% from 0.53% as shown in Table 7. Net charge-offs increased as a result of continued weak economic conditions, higher than normal levels of charge-offs at Heritage Community Bank, the approximately \$3,000 effect of the distressed commercial and commercial real estate loan sale to account for the liquidity and risk characteristics of the loans sold, and a single large recovery in the fourth quarter of 2002. Installment and other consumer financing charge-offs remained high in 2003 due to record levels of bankruptcy and mortgage foreclosures in Bancorp's primary markets. However charge-offs in this category did decrease in 2003. The allowance at December 31, 2003, was \$47,771 or 1.71% of loans, net of unearned income, a slight decrease from the 1.75% reported for 2002. Provision for loan loss expense of \$18,942 was \$2,768 higher in 2003 than in 2002. Overall, it is management's belief that the allowance for loan losses is adequate to absorb estimated probable credit losses.

**2002 vs. 2001.** Net charge-offs of \$14,781 in 2002 decreased \$6,059 from 2001, decreasing their percentage to average loans to 0.53% in 2002 from 0.71% in 2001. Commercial loans charged-off increased significantly from 2000 to 2001 as a result of worsening economic factors in the Midwest and credit issues at Community First. In 2002, commercial charge-offs decreased substantially as credit issues stabilized compared with 2001. Installment and other consumer financing charge-offs continued to increase in 2002 as economic conditions, including record levels of bankruptcies, affected Bancorp's markets. The \$2,849 in commercial recoveries in 2002 includes a single recovery of \$1,432. The allowance at December 31, 2002, was \$48,177 or 1.75% of loans, net of unearned income, an increase from the 1.63% reported for 2001. Provision for loan loss expense of \$16,174 was \$10,639 less in 2002 than in 2001. The provision for loan loss expense was significantly less based on Bancorp's efforts to work through problem credits and a significant reduction in net charge-offs.

Nonaccrual and restructured loans and leases and OREO are discussed or summarized in Notes 1 and 9 of the Notes to Consolidated Financial Statements.

## INVESTMENT SECURITIES

Bancorp's investment securities decreased \$130,921 or 16.10% during 2004 to a balance of \$682,240. The decrease in 2004 was used primarily to fund increased loan demand and reduce the level of short-term borrowings. This decrease was experienced mostly in mortgage-backed securities where prepayments were not replaced. In 2003, investment securities increased \$186,245 or 29.71%. The increase during 2003 in investment securities was planned as a strategy to support net interest income given the limited growth opportunities in loan categories other than mortgages. The majority of the 2003 increase in the investment securities occurred in mortgage-backed securities which increased by \$182,765 from December 2002. These securities were purchased for the expected cash flows, liquidity, and overall expected returns. The future cash flows allowed for increases in loans as demand began to increase with an improving economy. In early 2004, growth in commercial loan balances and demand for commercial loans began to occur. Loan growth and demand continued through 2004 in the commercial real estate and installment loan categories. The investment portfolio's scheduled principal cash flow from maturities and anticipated calls combined with the mortgage-backed securities scheduled amortization and prepayments provided funding for this growth as expected. Bancorp follows a conservative investment policy, investing primarily for liquidity management purposes and interest rate risk management.

Securities issued by U.S. government agencies and corporations, primarily the Federal Home Loan Bank (FHLB), Federal Home Loan Mortgage Corporation (FHLMC), Federal National Mortgage Association (FNMA), Student Loan Marketing Association (SLMA), and Federal Farm Credit Bank represented 19.93% of the investment portfolio at December 31, 2004, and 19.06% at year-end 2003. Three structured notes were included in the U.S. government agencies and corporations securities category at December 31, 2004, with a book value of \$9,837. At December 31, 2003, Bancorp had one structured note with a book value of \$3,516. All U.S. government agencies and corporations securities were classified as available-for-sale at December 31, 2004, and 2003, and are available for liquidity management purposes. Due to the government guarantees, either expressed or implied, U.S. government agency and corporation obligations are considered to have low credit risk and high liquidity.

Investments in mortgage-backed securities (MBSs), including collateralized mortgage obligations (CMOs), made up 56.40% and 59.43% of the investment portfolio at December 31, 2004, and 2003, respectively. MBSs represent participations in pools of mortgage loans, the principal and interest payments of which are passed to the security investors. MBSs are subject to prepayment risk, especially during periods of decreasing interest rates. Prepayments of the underlying mortgage loans may shorten the lives of the securities, thereby affecting yields to maturity and market values. Bancorp invests primarily in MBSs issued by U.S. government agencies and corporations, such as Government National Mortgage Association (GNMA), FHLMC, and FNMA. Such securities, because of government agency guarantees, are considered to have low credit risk and high liquidity. Accordingly, about 99.77% of Bancorp's MBSs are classified as available-for-sale.

CMOs totaled \$10,957 at December 31, 2004, and \$16,759 at December 31, 2003, all of which were classified as available-for-sale. Decreases in CMOs occurred due to increased prepayment activity caused by the mortgage refinancing during 2003 and 2004. All of the CMOs held by Bancorp are rated AAA by Standard & Poor's Corporation or similar rating agencies. Bancorp did not own any interest-only securities, principal-only securities, or inverse floaters.

Securities of state and other political subdivisions made up 16.42% of Bancorp's investment portfolio at December 31, 2004, and 15.66% at year-end 2003. Increases in the composition of state and other political subdivisions were due to investments in local market area issues in these securities. The securities are diversified as to states and issuing authorities within states, thereby decreasing portfolio risk. About 89.37% of such investments at December 31, 2004, and 86.63% at December 31, 2003, were classified as available-for-sale.

The remaining 7.25% and 5.85% of Bancorp's investment portfolio at December 31, 2004, and 2003, respectively, termed "other securities," was primarily made up of stock ownership in the Indianapolis and Cincinnati District Federal Home Loan Banks, the Federal Reserve Bank, in taxable obligations of state and other political subdivisions, and CRA qualified mutual funds.

Table 9 sets forth the maturities of investment securities held-to-maturity and investment securities available-for-sale as of December 31, 2004, and the effective yields weighted for the scheduled maturity of each security. Tax equivalent adjustments, using a 35.00% rate, have been made in calculating yields on tax-exempt obligations of state and other political subdivisions.

At December 31, 2004, the market value of Bancorp's held-to-maturity investment securities portfolio exceeded the carrying value by \$367. The available-for-sale investment securities are reported at their market value of \$669,431, as required by SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." At December 31, 2003, the market value of Bancorp's held-to-maturity investment securities portfolio exceeded the carrying value by \$197. The available-for-sale investment securities are reported at their market value of \$794,762. See Note 8 of the Notes to Consolidated Financial Statements for additional information.

Bancorp's federal funds sold and securities purchased under agreements to resell increased from \$607 at December 31, 2003, to \$12,049 at December 31, 2004. Bancorp monitors this position as part of its asset/liability management.

## DERIVATIVES

In 2002, Bancorp began utilizing interest rate swap agreements to assist in effectively modifying its exposure to interest rate risk by converting certain fixed rate assets to a floating rate. The use of these interest rate swaps allows Bancorp's subsidiary banks to offer long-term fixed rate loans to commercial borrowers. The interest rate swaps allow Bancorp to convert the fixed interest rate to a variable rate that better suits its funding position. The swap agreements involve the receipt of floating rate amounts in exchange for fixed interest payments over the life of the agreements without an exchange of the underlying principal amount. As of December 31, 2004, Bancorp had interest rate swaps with a notional value of \$14,225, compared to a notional value of \$12,549 at December 31, 2003.

**TABLE 10 • MATURITIES OF TIME DEPOSITS  
GREATER THAN OR EQUAL TO \$100,000**

December 31, 2004 (Dollars in thousands)	
<b>Certificates of Deposit</b>	
Maturing in	
3 months or less	\$ 71,382
3 months to 6 months	28,625
6 months to 12 months	40,679
Over 12 months	234,353
<b>Total</b>	<b>\$ 375,039</b>
<b>IRAs</b>	
Maturing in	
3 months or less	\$ 3,609
3 months to 6 months	1,611
6 months to 12 months	3,032
Over 12 months	19,314
<b>Total</b>	<b>\$ 27,566</b>

## DEPOSITS

Bancorp's subsidiaries solicit deposits by offering a wide variety of savings and transaction accounts, including checking accounts, regular savings accounts, money market deposit accounts, and time deposits of various maturities and rates.

**2004 vs. 2003.** Total ending deposits for 2004 increased \$39,321 or 1.33%. Noninterest-bearing demand deposits increased \$29,117 or 7.02% and savings deposits increased \$10,617 or 1.05% largely due to sales and marketing efforts. Interest-bearing demand deposits decreased \$107 or 0.05% in 2004 and time deposits decreased \$306 or 0.02%.

Total average deposits for 2004 decreased \$19,269 or 0.65% over 2003 due to a decrease in interest-bearing demand deposits and time deposits. Average savings deposits increased by \$74,273 or 7.57% and noninterest-bearing deposits increased \$6,878 or 1.70%, while interest-bearing demand deposits decreased \$48,289 or 22.53% and time deposits decreased \$52,131 or 3.87%. The decrease is attributable to the sale of approximately \$39,755 in deposits due to the sale of the Sunman branch in the third quarter of 2003 and the sale of approximately \$8,433 in deposits due to the sale of the Kewanna branch in the third quarter of 2004.

Bancorp intentionally extended a portion of the time deposit base through the use of brokered certificates of deposit for longer term funding. These CDs are priced below the alternative in-market CDs of like terms, therefore allowing for a targeted approach to funding. Selected maturities and balances can be generated without exposing the deposit base to increased rates, resulting in lower marginal funding costs.

Table 10 shows the contractual maturity of time deposits of \$100 and over that were outstanding at December 31, 2004. These deposits represented 13.49% of total deposits.

**2003 vs. 2002.** Total ending deposits for 2003 increased \$23,231 or 0.79%. Bancorp's funding and pricing strategies resulted in continued planned runoff in certain time deposits. Savings deposits increased \$169,307 or 20.12% and interest-bearing demand deposits decreased \$113,314 or 34.53% in 2003, due in part to a change in internal accounting classification implemented as a method to reduce required reserves on interest-bearing demand deposits.

Total average deposits for 2003 decreased slightly, \$4,239 or 0.14% over 2002 due to the decrease in time deposits. Average savings deposits increased by \$139,918 or 16.64%, noninterest-bearing deposits decreased \$2,710 or 0.67%, and interest-bearing demand deposits decreased \$87,073 or 28.89%. Average savings and interest-bearing demand deposits were also affected by the accounting classification referenced above.

## BORROWINGS

Short-term borrowings decreased to \$145,144 at December 31, 2004, from \$258,909 at December 31, 2003. The strategy to decrease the investment securities provided cash flow to support loan growth and reduce the level of short-term borrowings. At December 31, 2003, short-term borrowings increased to \$258,909 from \$95,180 at December 31, 2002. During 2003, to fund the growth in the investment portfolio, Bancorp increased its short-term borrowings. This strategy generated future cash flows that would be reinvested at the current rates. The reinvestment supported loan growth in categories that would provide an increased spread over the future funding costs. Using the short-term borrowings market, primarily through the Federal Home Loan Bank and the Federal Funds market, the overall funding cost is minimized.

Long-term borrowings increased to \$350,856 at December 31, 2004, from \$322,979 at December 31, 2003. Long-term borrowings increased \$32,928 to \$322,979 at the end of 2003. The increase in long-term borrowings is associated with ongoing asset/liability management strategies that take into account the timing of maturities of assets and liabilities among many other factors. Increases in long-term borrowings provide some interest rate risk protection in funding to offset the growth in the longer term assets, primarily fixed rate residential mortgages.

Other long-term debt which appears on the balance sheet consists of junior subordinated debentures owed to two unconsolidated subsidiary trusts. In accordance with Financial Accounting Standards Board Interpretation No. 46 (FIN 46), Bancorp deconsolidated these two trusts effective January 1, 2004. Prior to January 1, 2004, Bancorp included corporation-obligated mandatorily redeemable capital securities (the "capital securities") of subsidiary trust or Trust Preferred Securities, in Other long-term debt on the balance sheet.

Capital securities were issued in the third quarter of 2003 by a statutory business trust, First Financial (OH) Statutory Trust II, and in the third quarter of 2002 by another statutory business trust, First Financial (OH) Statutory Trust I. Bancorp owns 100% of the common equity of both of the trusts. The trusts were formed with the sole purpose of issuing capital securities and investing the proceeds from the sale of such capital securities in the debentures. The debentures held by the trusts are the sole assets of the trusts. 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 Bancorp. The capital securities are subject to mandatory redemption, in whole or in part, upon repayment of the debentures. Bancorp 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. The debentures issued in 2003 are first redeemable, in whole or in part, by Bancorp on September 30, 2008, and mature on September 30, 2033. The amount outstanding, net of offering costs, as of December 31, 2004, is \$20,000. The debentures issued in 2002 are first redeemable, in whole or in part, by Bancorp on September 25, 2007, and mature on September 25, 2032. The amount outstanding, net of offering costs, as of December 31, 2004, is \$10,000. These funds were used to repurchase Bancorp stock and for other corporate purposes and as a means to diversify funding sources at the parent company level. See Note 12 of the Notes to Consolidated Financial Statements for additional information on borrowings.

## PENSION PLAN

Bancorp sponsors a non-contributory defined benefit pension plan covering substantially all employees. Plan assets are administered by the Trust Department of First Financial Bank, N.A. Plan assets primarily consist of equity and debt mutual funds, and money market funds. Approximately 98.95% of plan assets at December 31, 2004, were invested in the Legacy Funds for which First Financial Capital Advisors LLC serves as investment advisor. This pension plan does not own any shares of Bancorp common stock.

The significant assumptions used in the pension plan include the discount rate, expected return on plan assets, and the rate of compensation increase. An appropriate discount rate assumption is determined by comparisons to the average rate used

TABLE 11 • MARKET RISK DISCLOSURE

	Principal Amount Maturing In:						TOTAL	FAIR VALUE DECEMBER 31, 2004
	2005	2006	2007	2008	2009	THEREAFTER		
(Dollars in thousands)								
<b>Rate sensitive assets</b>								
Fixed interest rate loans	\$ 87,340	\$ 34,233	\$ 65,556	\$ 93,112	\$ 108,407	\$ 654,381	\$ 1,043,029	\$ 1,056,290
Average interest rate	5.41%	8.34%	7.66%	6.71%	6.11%	5.87%	6.12%	
Variable interest rate loans	528,079	50,123	24,672	19,454	31,939	1,198,030	1,852,297	1,863,184
Average interest rate	5.29%	5.37%	5.55%	6.01%	5.97%	5.73%	5.60%	
Fixed interest rate securities	55,358	56,511	20,695	15,327	20,226	495,065	663,182	663,546
Average interest rate	2.66%	2.86%	3.96%	3.85%	3.84%	4.10%	3.86%	
Variable interest rate securities	—	—	1,904	4,217	417	12,520	19,058	19,061
Average interest rate	—	—	3.32%	2.69%	2.78%	4.08%	3.67%	
Other earning assets	12,969	—	—	—	—	—	12,969	12,969
Average interest rate	2.00%	—	—	—	—	—	2.00%	
<b>Rate sensitive liabilities</b>								
Noninterest-bearing checking	443,902	—	—	—	—	—	443,902	443,902
Savings and interest-bearing checking	123,604	1,112,439	—	—	—	—	1,236,043	1,236,043
Average interest rate	0.50%	0.50%	—	—	—	—	0.50%	
Time deposits	584,114	296,517	193,632	103,420	66,393	60,965	1,305,041	1,298,447
Average interest rate	2.01%	2.63%	3.70%	3.56%	3.77%	3.61%	2.69%	
Fixed interest rate borrowings	7,000	45,695	34,000	62,253	23,500	178,408	350,856	360,131
Average interest rate	5.77%	3.94%	5.12%	4.85%	4.00%	4.94%	4.76%	
Variable interest rate borrowings	145,144	—	—	—	—	30,930	176,074	176,074
Average interest rate	1.94%	—	—	—	—	5.75%	2.61%	
<b>Interest rate derivatives</b>								
Interest Rate Swaps								
Fixed to variable	—	—	—	—	1,401	12,824	14,225	
Average pay rate (fixed)	—	—	—	—	5.63%	6.86%	6.74%	
Average receive rate (variable)	—	—	—	—	4.06%	4.89%	4.81%	

in available survey data of banks nationwide. The basis used to determine the overall expected long-term return on plan assets was based on the composition of plan assets and a consensus of estimates from similarly managed portfolios of expected future returns. As a test for reasonableness, the rate of compensation increase is compared to historical increases for plan participants.

Bancorp recorded pension expense in the Consolidated Statements of Earnings of \$4,692, \$4,168, and \$3,026 for 2004, 2003, and 2002, respectively. Cash contributions to fund the pension plan were \$6,696, \$6,777, and \$1,285 for 2004, 2003, and 2002, respectively. The unfunded pension losses net of tax recorded as accumulated comprehensive income in equity were \$5,320 at December 31, 2004, and \$4,171 at December 31, 2003.

If interest rates remain stable or rise modestly as some economists have projected for 2005, then it is likely the discount rate would not change significantly.

The expected return on plan assets remained the same in 2004 as in 2003 at 8.50%.

Along with the markets in general, fund performance improved in 2004. Bancorp will continue to monitor the return on plan assets, but does not anticipate a change for 2005.

## LIQUIDITY

Liquidity management is the process Bancorp uses to ensure that adequate liquid funds are available for the corporation and its subsidiaries. These funds are necessary in order for Bancorp and its subsidiaries to meet financial commitments on a timely basis. These commitments include withdrawals by depositors, funding credit obligations to borrowers, paying dividends to shareholders, paying operating expenses, funding capital expenditures, and maintaining deposit reserve requirements.

Liquidity is monitored and closely managed by the asset/liability committees at Bancorp's subsidiaries and by Bancorp's holding company asset/liability committee. Liquidity may be used to fund capital expenditures. Capital expenditures were \$13,696 for 2004, \$8,616 for 2003, and \$3,276 for 2002. Capital expenditures planned for the year 2005, consisting primarily of banking centers, are estimated to be \$3,897.

Bancorp subsidiaries' source of funding is predominantly deposits within each of their respective market areas. The deposit base is diversified among individuals, partnerships, corporations, and public entities. This diversification helps Bancorp avoid dependence on large concentrations of funds.

Liquidity is derived primarily from core deposit growth, principal and interest payments received on loans and investment securities, the sale and maturation of investment securities, net cash provided by operating activities, and access to other funding sources. The most stable source of liability-funded liquidity for both the long-term and short-term is deposit growth and retention in the core deposit base. In addition, Bancorp utilizes advances from the Federal Home Loan Bank (FHLB) as a funding source. At December 31, 2004, 2003, and 2002, total long-term borrowings from the FHLB were \$350,856, \$322,979, and \$290,051, respectively.

Bancorp's bank subsidiaries have pledged certain mortgage loans and certain investments to the FHLB. The total available remaining borrowing capacity from the FHLB at December 31, 2004, was \$244,142. The principal source of asset-funded liquidity is investment securities classified as available-for-sale, the market values of which totaled \$669,431 at December 31, 2004, a decrease of \$125,331 or 15.77% over 2003. Securities classified as held-to-maturity that are maturing within a short period of time can also be a source of liquidity. Securities classified as held-to-maturity and that are maturing in one year or less totaled \$5,075 at December 31, 2004. In addition, other types of assets – such as cash and due from banks, federal funds sold and securities purchased under agreements to resell, and loans and interest-bearing

TABLE 12 • CONTRACTUAL OBLIGATIONS

**Contractual Obligations**

Long-term debt obligations

Federal Home Loan Bank borrowings

Junior subordinated debentures owed

to unconsolidated subsidiary trust

Operating lease obligations

**Total**

TOTAL	Payments due by period			
	LESS THAN ONE YEAR	ONE TO THREE YEARS	THREE TO FIVE YEARS	MORE THAN FIVE YEARS
(Dollars in thousands)				
\$ 634,777	\$ 15,176	\$ 110,108	\$ 124,199	\$ 385,294
77,300	1,725	3,450	3,450	68,675
8,351	2,476	1,691	1,321	2,863
<u>\$ 720,428</u>	<u>\$ 19,377</u>	<u>\$ 115,249</u>	<u>\$ 128,970</u>	<u>\$ 456,832</u>

deposits with other banks maturing within one year – are sources of liquidity. Certain restrictions exist regarding the ability of Bancorp’s subsidiaries to transfer funds to Bancorp (see Note 5 of the Notes to Consolidated Financial Statements). Management is not aware of any other events or regulatory requirements which, if implemented, are likely to have a material effect on Bancorp’s liquidity. Bancorp has secured a \$50,000 line of credit with another financial institution. This line provides additional liquidity for Bancorp for various corporate activities. As of December 31, 2004, the outstanding balance was \$2,000. As of December 31, 2003, there was no outstanding balance. The outstanding balance of this line varies throughout the year depending on Bancorp’s cash needs. The average outstanding balance was \$710 for 2004, and \$19,153 for 2003.

**INTEREST RATE SENSITIVITY**

Table 11 details the maturities and yields of interest-bearing financial instruments at December 31, 2004, for the next five years and thereafter. Also included with each category is the fair value of those instruments. The values represent the contractual maturity of each instrument. For loan instruments without contractual maturities, such as credit card loans, management has allocated principal payments based upon historical trends of payment activity. When there is no set maturity, as in the case of some interest-bearing liabilities, management has allocated the amounts based upon its expectation of cash flows, incorporating internal core deposit studies, and current expectations of customer behavior. For loans, securities, and liabilities with contractual maturities, the table presents principal cash flows and related weighted-average interest rates by contractual maturities. Prior years’ interest rate sensitivity tables included expected scheduled amortizing loan payments. Due to a change in modeling, the scheduled principal payments are no longer included.

The data in Table 11 was aggregated by type of financial instrument: fixed and variable rate loans, fixed and variable rate investments, other earning assets, fixed and variable rate deposits, other fixed and variable rate interest-bearing liabilities, and interest rate swaps. Bancorp has no assets held for trading. Therefore, the table presents instruments entered into for purposes other than trading purposes. For interest rate swaps, the table includes notional amounts and weighted average interest rates by contractual maturity dates. The variable receive rates are tied to the London Inter-Bank Offered Rate (LIBOR) plus a spread.

The primary source of market risk for the financial instruments presented is interest rate risk. That is, the risk that an adverse change in market rates will adversely affect the market value of the instruments. Generally, the longer the maturity, the higher the interest rate risk exposure. While maturity information does not necessarily present all aspects of exposure, it may provide an indication of where risks are prevalent. Bancorp’s risk exposure can be characterized as asset sensitive. That is, as market rates fall, there are more assets repricing down to the new rates than the amount of liabilities that reprice. This exposure has impacted the net interest income over the last two years. Looking forward, Bancorp has some exposure to rising rates. While many market sensitive loans and investments are immediately repriceable with changes in market rates which would positively impact interest income, the non-maturity interest-bearing deposit account (savings, money market, and NOW accounts) rates may move differently from what is currently assumed in the modeling.

Within the interest rate risk exposure, a majority of Bancorp’s commercial loans reprice with the Prime Rate. Across the time horizon of the yield curve, other rate risk exposures occur with the U.S. Treasury CMT (constant maturity treasury) rates, as those rates are the primary index rates for adjustable rate mortgages, in the one, three, and five year periods. The deposit rates typically depend on local market conditions, somewhat influenced by national market rates. Borrowing rates are impacted by changes in LIBOR and the Federal Home Loan Bank advance rates for various term structures.

All banking institutions assume interest rate risk as an integral part of normal operations. Managing and measuring interest rate risk is a dynamic, multi-faceted process that ranges from reducing the exposure of Bancorp’s net interest margin to swings in interest rates, to assuring that there is sufficient capital and liquidity to support future balance sheet growth. Bancorp manages interest rate risk through the asset/liability committees of Bancorp’s subsidiaries. The asset/liability committees are comprised of bank officers from various disciplines. Each subsidiary committee establishes policies and rates which lead to the prudent investment of resources, the effective management of risks associated with changing interest rates, the existence of adequate liquidity, and the earning of an adequate return on shareholders’ equity. The management of the risk includes objectives to minimize the adverse changes to net interest income, typically exercised through adjusting rates paid on deposit accounts, managing the volume of assets generated, and monitoring loan rates. Long-term funding is used to fund longer-term assets that are generated within the loan and investment portfolios.

Bancorp has a holding company asset/liability committee, comprised of holding company officers and representatives of various subsidiaries with a variety of disciplines. The committee’s function is to develop policies and guidelines, monitor results, and initiate strategies for effective asset/liability management throughout Bancorp’s subsidiaries.

**CAPITAL**

Total shareholders’ equity at December 31, 2004, and 2003, was \$371,455 and \$366,483, respectively. The increase in shareholders’ equity for 2004 was the result of increased income and the reduction in the volume of treasury share repurchases. Total shareholders’ equity at year-end 2003 was less than 2002 primarily due to the purchase of treasury stock.

On January 25, 2000, the board of directors authorized Bancorp to repurchase from time to time the number of common shares necessary to satisfy any restricted stock awards or stock options that are granted from time to time under the 1999 Stock Incentive Option Plan for Officers and Employees and the 1999 Stock Option Plan for Non-Employee Directors. The total number of shares that can be repurchased over the life of the ten-year plan may not exceed 7,507,500 shares. Bancorp did not repurchase any shares under this program during 2004, 2003, or 2002.

On October 24, 2000, the board of directors authorized an additional program to repurchase up to 5.00% of Bancorp’s common shares outstanding. This share repurchase program is for general corporate purposes including future stock dividends. Under this program, Bancorp repurchased 567,495 shares in 2002 and 1,571,500 shares in 2001. The 2002 purchases completed the authorized repurchase activity for this plan.

On February 26, 2002, the board of directors authorized a stock repurchase program for up to 5.00% of Bancorp's common shares outstanding. This program provides shares for general corporate purposes including future stock dividends. Repurchase activity under this plan was 1,053,699 shares in 2003 and 1,272,205 shares in 2002. The shares repurchased in 2003 completed this program.

On February 25, 2003, Bancorp's board of directors authorized an additional stock repurchase program to repurchase up to 5.00% of its shares outstanding upon the completion of the February 26, 2002, program. Bancorp repurchased 177,001 shares under the 2003 plan during the year.

The dividend payout ratio was 63.83%, 70.59%, and 57.14%, for 2004, 2003, and 2002, respectively. The dividend payout is continually reviewed by management and the board of directors.

Bancorp has consistently maintained regulatory capital ratios at or above the "well-capitalized" standards. For further detail on capital ratios, see Note 14 of the Notes to Consolidated Financial Statements.

### **SUBSEQUENT EVENT**

In March of 2005, First Financial Bancorp signed an agreement to sell substantially all of the assets and certain liabilities of its Fidelity Federal Savings Bank subsidiary to Mutual Federal Savings Bank of Muncie, Indiana. Pending regulatory approval, the transaction is expected to close by late 2005.

### **CRITICAL ACCOUNTING POLICIES**

Bancorp's consolidated financial statements are prepared based on the application of accounting policies, the most significant of which are described in Note 1 of the Notes to Consolidated Financial Statements. These policies require estimates and assumptions. Changes in underlying factors, assumptions, or estimates in any of these areas could have a material impact on Bancorp's future financial condition and results of operations. In management's opinion, some of these areas have a more significant impact than others on Bancorp's financial reporting. For Bancorp, these areas currently include accounting for the allowance for loan losses, pension costs, and goodwill.

### **FORWARD-LOOKING STATEMENTS**

Certain statements contained in this report which are not statements of historical fact constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act (the Act). In addition, certain statements in future filings by Bancorp with the Securities and Exchange Commission, in press releases, and in oral and written statements made by or with the approval of Bancorp 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 Bancorp 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 which 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, 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; acts of terrorism and any governmental response to such acts; technological changes; mergers and acquisitions; the ability to increase market share and control expenses; the effect of changes in accounting policies and practices, that 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 Bancorp at managing the risks involved in the foregoing.

Such forward-looking statements speak only as of the date on which such statements are made, and Bancorp 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.



## STATISTICAL INFORMATION

	(Unaudited)									
	2004			2003			2002			
	BALANCE	INTEREST	YIELD	BALANCE	INTEREST	YIELD	BALANCE	INTEREST	YIELD	
<b>Daily average balances and interest rates: (Tax-equivalent basis; dollars in thousands)</b>										
<b>Earning assets</b>										
Loans <sup>(1)</sup>										
Commercial <sup>(2)</sup>	\$ 656,940	\$ 41,058	6.25%	\$ 688,879	\$ 42,807	6.21%	\$ 749,072	\$ 58,010	7.74%	
Real estate <sup>(2)</sup>	1,611,627	90,514	5.62%	1,521,359	93,021	6.11%	1,417,770	95,236	6.72%	
Installment and other consumer	597,819	40,410	6.76%	576,711	42,772	7.42%	590,580	52,921	8.96%	
Lease financing <sup>(2)</sup>	8,616	705	8.18%	16,499	1,338	8.11%	28,295	2,197	7.76%	
<b>Total loans</b>	<b>2,875,002</b>	<b>172,687</b>	<b>6.01%</b>	<b>2,803,448</b>	<b>179,938</b>	<b>6.42%</b>	<b>2,785,717</b>	<b>208,364</b>	<b>7.48%</b>	
Investment securities <sup>(3)</sup>										
Taxable	631,116	24,970	3.96%	610,343	21,801	3.57%	486,188	24,871	5.12%	
Tax-exempt <sup>(2)</sup>	118,034	8,407	7.12%	133,858	9,904	7.40%	141,636	11,047	7.80%	
<b>Total investment securities <sup>(3)</sup></b>	<b>749,150</b>	<b>33,377</b>	<b>4.46%</b>	<b>744,201</b>	<b>31,705</b>	<b>4.26%</b>	<b>627,824</b>	<b>35,918</b>	<b>5.72%</b>	
Interest-bearing deposits with other banks	6,522	100	1.53%	7,857	141	1.79%	14,202	340	2.39%	
Federal funds sold and securities purchased under agreements to resell	3,675	43	1.17%	12,998	146	1.12%	28,654	494	1.72%	
<b>Total earning assets</b>	<b>3,634,349</b>	<b>206,207</b>	<b>5.67%</b>	<b>3,568,504</b>	<b>211,930</b>	<b>5.94%</b>	<b>3,456,397</b>	<b>245,116</b>	<b>7.09%</b>	
<b>Nonearning assets</b>										
Allowance for loan losses	(48,198)			(48,600)			(48,341)			
Cash and due from banks	116,911			128,582			131,730			
Accrued interest and other assets	201,270			190,202			180,264			
<b>Total assets</b>	<b>\$ 3,904,332</b>			<b>\$ 3,838,688</b>			<b>\$ 3,720,050</b>			
<b>Interest-bearing liabilities</b>										
Deposits										
Interest-bearing demand	\$ 165,996	914	0.55%	\$ 214,285	1,236	0.58%	\$ 301,358	2,891	0.96%	
Savings	1,055,245	4,307	0.41%	980,972	4,990	0.51%	841,054	8,416	1.00%	
Time	1,295,532	33,118	2.56%	1,347,663	38,160	2.83%	1,402,037	50,789	3.62%	
<b>Total interest-bearing deposits</b>	<b>2,516,773</b>	<b>38,339</b>	<b>1.52%</b>	<b>2,542,920</b>	<b>44,386</b>	<b>1.75%</b>	<b>2,544,449</b>	<b>62,096</b>	<b>2.44%</b>	
Borrowed funds										
Short-term borrowings	205,677	2,506	1.22%	154,123	1,824	1.18%	90,188	1,727	1.91%	
Federal Home Loan Bank long-term debt	346,724	16,918	4.88%	320,107	16,334	5.10%	265,034	14,289	5.39%	
Other long-term debt	30,930	1,467	4.74%	19,315	864	4.47%	2,658	139	5.23%	
<b>Total borrowed funds</b>	<b>583,331</b>	<b>20,891</b>	<b>3.58%</b>	<b>493,545</b>	<b>19,022</b>	<b>3.85%</b>	<b>357,880</b>	<b>16,155</b>	<b>4.51%</b>	
<b>Total interest-bearing liabilities</b>	<b>3,100,104</b>	<b>59,230</b>	<b>1.91%</b>	<b>3,036,465</b>	<b>63,408</b>	<b>2.09%</b>	<b>2,902,329</b>	<b>78,251</b>	<b>2.70%</b>	
<b>Noninterest-bearing liabilities</b>										
Noninterest-bearing demand deposits	410,807			403,929			406,639			
Other liabilities	26,562			29,055			26,464			
<b>Shareholders' equity</b>	<b>366,859</b>			<b>369,239</b>			<b>384,618</b>			
<b>Total liabilities and shareholders' equity</b>	<b>\$ 3,904,332</b>			<b>\$ 3,838,688</b>			<b>\$ 3,720,050</b>			
<b>Net interest income and interest rate spread (fully tax equivalent)</b>	<b>\$ 146,977</b>	<b>3.76%</b>			<b>\$ 148,522</b>	<b>3.85%</b>			<b>\$ 166,865</b>	<b>4.39%</b>
<b>Net interest margin (fully tax equivalent)</b>			<b>4.04%</b>			<b>4.16%</b>			<b>4.83%</b>	
Interest income and yield	\$ 202,977	5.58%			\$ 208,289	5.84%			\$ 241,008	6.97%
Interest expense and rate	59,230	1.91%			63,408	2.09%			78,251	2.70%
<b>Net interest income and spread</b>	<b>\$ 143,747</b>	<b>3.67%</b>			<b>\$ 144,881</b>	<b>3.75%</b>			<b>\$ 162,757</b>	<b>4.27%</b>
<b>Net interest margin</b>			<b>3.96%</b>			<b>4.06%</b>			<b>4.71%</b>	

(1) Nonaccrual loans are included in average loan balances and loan fees are included in interest income.

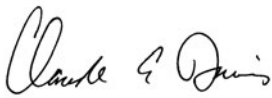
(2) Interest income on tax-exempt investments and on certain tax-exempt loans and leases has been adjusted to a tax-equivalent basis using a marginal federal income tax rate of 35.00%.

(3) Includes both investment securities held-to-maturity and investment securities available-for-sale.

## MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Bancorp's management is responsible for establishing and maintaining adequate internal control over financial reporting. Bancorp's internal control over financial reporting is a process designed under the supervision of Bancorp's chief executive officer and chief financial officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Any system of internal control, no matter how well designed, has inherent limitations, including the possibility that a control can be circumvented or overridden and misstatements due to error or fraud may occur and not be detected. Also, because of changes in conditions, internal control effectiveness may vary over time. Accordingly, even an effective system of internal control will provide only reasonable assurance with respect to financial statement preparation. As of December 31, 2004, Bancorp's management, including the chief executive officer and the chief financial officer, evaluated the effectiveness of Bancorp's internal controls over financial reporting, using as its framework for that evaluation the "Internal Control – Integrated Framework" published by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. Based upon that evaluation, management believes that Bancorp's internal control over financial reporting is effective based on those criteria.

Ernst & Young LLP, the independent registered public accounting firm that audited the consolidated financial statements included in this Form 10-K, has issued an attestation report on management's assessment of the effectiveness of Bancorp's internal control over financial reporting as of December 31, 2004. The report, which expresses an unqualified opinion on management's assessment and on the effectiveness of Bancorp's internal control over financial reporting as of December 31, 2004, is included in the information that follows under the heading "Report on Effectiveness of Internal Control Over Financial Reporting."



Claude E. Davis  
President & CEO  
March 4, 2005



C. Douglas Lefferson  
Executive Vice President & CFO  
March 4, 2005

## REPORTS OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

### REPORT ON EFFECTIVENESS OF INTERNAL CONTROL OVER FINANCIAL REPORTING

The Board of Directors and Shareholders  
First Financial Bancorp

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that First Financial Bancorp maintained effective internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). First Financial Bancorp's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

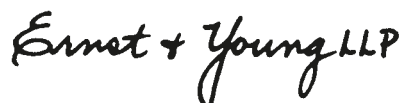
We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that First Financial Bancorp maintained effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, First Financial Bancorp maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of First Financial Bancorp as of December 31, 2004, and 2003, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2004 and our report dated March 4, 2005, expressed an unqualified opinion thereon.

The logo for Ernst & Young LLP, featuring the company name in a stylized, handwritten-style font.

Ernst & Young LLP  
Cincinnati, Ohio  
March 4, 2005

#### REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

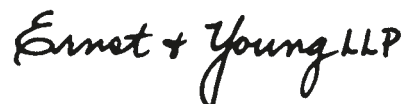
The Board of Directors and Shareholders  
First Financial Bancorp

We have audited the accompanying consolidated balance sheets of First Financial Bancorp and subsidiaries as of December 31, 2004, and 2003, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2004. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of First Financial Bancorp and subsidiaries at December 31, 2004, and 2003, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2004, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of First Financial Bancorp's internal control over financial reporting as of December 31, 2004, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 4, 2005, expressed an unqualified opinion thereon.

The logo for Ernst & Young LLP, featuring the company name in a stylized, handwritten-style font.

Ernst & Young LLP  
Cincinnati, Ohio  
March 4, 2005

## CONSOLIDATED BALANCE SHEETS

December 31,

**2004**                      **2003**

(Dollars in thousands)

	2004	2003
<b>Assets</b>		
Cash and due from banks	\$ 155,353	\$ 183,612
Interest-bearing deposits with other banks	920	5,014
Federal funds sold and securities purchased under agreements to resell	12,049	607
Investment securities held-to-maturity (market value of \$13,176 at December 31, 2004; \$18,596 at December 31, 2003)	12,809	18,399
Investment securities available-for-sale, at market value (cost of \$665,763 at December 31, 2004; \$784,115 at December 31, 2003)	669,431	794,762
<b>Loans</b>		
Commercial	644,933	666,315
Real estate—construction	91,475	73,260
Real estate—mortgage	1,539,398	1,466,153
Installment	592,402	560,061
Credit card	21,895	21,680
Lease financing	5,229	12,241
<b>Total loans</b>	<u>2,895,332</u>	<u>2,799,710</u>
<b>Less</b>		
Unearned income	6	86
Allowance for loan losses	46,718	47,771
Net loans	2,848,608	2,751,853
Premises and equipment	66,898	59,050
Goodwill	28,444	27,379
Other intangibles	7,855	7,530
Deferred income taxes receivable	6,357	6,227
Accrued interest and other assets	107,947	101,629
<b>Total assets</b>	<u>\$ 3,916,671</u>	<u>\$ 3,956,062</u>
<b>Liabilities</b>		
<b>Deposits</b>		
Noninterest-bearing	\$ 443,902	\$ 414,785
Interest-bearing	2,541,084	2,530,880
<b>Total deposits</b>	<u>2,984,986</u>	<u>2,945,665</u>
<b>Short-term borrowings</b>		
Federal funds purchased and securities sold under agreements to repurchase	61,199	106,692
Federal Home Loan Bank short-term borrowings	78,100	150,000
Other	5,845	2,217
<b>Total short-term borrowings</b>	<u>145,144</u>	<u>258,909</u>
Federal Home Loan Bank long-term debt	350,856	322,979
Other long-term debt	30,930	30,000
Accrued interest and other liabilities	33,300	32,026
<b>Total liabilities</b>	<u>3,545,216</u>	<u>3,589,579</u>
<b>Shareholders' equity</b>		
Common stock — no par value		
Authorized — 160,000,000 shares		
Issued — 48,558,614 shares in 2004 and 2003	395,521	395,752
Retained earnings	65,095	50,325
Accumulated comprehensive income	(3,123)	2,344
Restricted stock awards	(3,073)	(3,397)
Treasury stock, at cost, 4,881,378 and 4,619,596 shares	(82,965)	(78,541)
<b>Total shareholders' equity</b>	<u>371,455</u>	<u>366,483</u>
<b>Total liabilities and shareholders' equity</b>	<u>\$ 3,916,671</u>	<u>\$ 3,956,062</u>

See Notes to Consolidated Financial Statements.

## CONSOLIDATED STATEMENTS OF EARNINGS

Year Ended December 31,

	2004	2003	2002
	(Dollars in thousands, except per share data)		
<b>Interest income</b>			
Loans, including fees	\$ 172,406	\$ 179,771	\$ 208,131
Investment securities			
Taxable	24,970	21,801	24,871
Tax-exempt	5,458	6,430	7,172
Total investment securities interest	30,428	28,231	32,043
Interest-bearing deposits with other banks	100	141	340
Federal funds sold and securities purchased under agreements to resell	43	146	494
<b>Total interest income</b>	<b>202,977</b>	<b>208,289</b>	<b>241,008</b>
<b>Interest expense</b>			
Deposits	38,339	44,386	62,096
Short-term borrowings	2,506	1,824	1,727
Long-term borrowings	16,918	16,334	14,289
Other long-term debt	1,467	864	139
<b>Total interest expense</b>	<b>59,230</b>	<b>63,408</b>	<b>78,251</b>
<b>Net interest income</b>	<b>143,747</b>	<b>144,881</b>	<b>162,757</b>
Provision for loan losses	7,283	18,942	16,174
<b>Net interest income after provision for loan losses</b>	<b>136,464</b>	<b>125,939</b>	<b>146,583</b>
<b>Noninterest income</b>			
Service charges on deposit accounts	18,847	19,422	19,565
Trust revenues	15,902	14,500	15,385
Bankcard interchange income	5,301	4,620	4,310
Gains from sales of mortgage loans	1,562	5,171	4,432
Investment securities gains	2	24	89
Other	18,428	18,475	12,918
<b>Total noninterest income</b>	<b>60,042</b>	<b>62,212</b>	<b>56,699</b>
<b>Noninterest expenses</b>			
Salaries and employee benefits	76,732	76,508	71,619
Net occupancy	8,478	7,665	7,973
Furniture and equipment	7,237	7,101	7,729
Data processing	7,186	6,730	7,817
Marketing	2,716	2,732	2,069
Communication	2,811	3,018	3,328
Professional services	5,474	4,665	4,467
Amortization of intangibles	876	824	847
Other	24,621	23,552	26,663
<b>Total noninterest expenses</b>	<b>136,131</b>	<b>132,795</b>	<b>132,512</b>
<b>Income before income taxes</b>	<b>60,375</b>	<b>55,356</b>	<b>70,770</b>
Income tax expense	19,257	17,450	22,535
<b>Net earnings</b>	<b>\$ 41,118</b>	<b>\$ 37,906</b>	<b>\$ 48,235</b>
<b>Net earnings per share—basic</b>	<b>\$ 0.94</b>	<b>\$ 0.85</b>	<b>\$ 1.05</b>
<b>Net earnings per share—diluted</b>	<b>\$ 0.94</b>	<b>\$ 0.85</b>	<b>\$ 1.05</b>
<b>Average shares outstanding—basic</b>	<b>43,818,779</b>	<b>44,370,917</b>	<b>45,880,649</b>
<b>Average shares outstanding—diluted</b>	<b>43,880,412</b>	<b>44,422,852</b>	<b>46,000,801</b>

See Notes to Consolidated Financial Statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended December 31,

	2004	2003	2002
	(Dollars in thousands)		
<b>Operating activities</b>			
Net earnings	\$ 41,118	\$ 37,906	\$ 48,235
Adjustments to reconcile net earnings to net cash provided by operating activities			
Provision for loan losses	7,283	18,942	16,174
Provision for depreciation and amortization	8,543	12,614	9,172
Net amortization of premiums and accretion of discounts on investment securities	2,511	6,868	1,151
Deferred income taxes	3,225	1,369	(7,524)
Realized gains on investment securities	(2)	(24)	(89)
Originations of mortgage loans held for sale	(130,643)	(205,546)	(221,703)
Gains from sales of mortgage loans held for sale	(1,562)	(5,171)	(4,432)
Proceeds from sale of mortgage loans held for sale	131,120	208,426	223,893
Increase in cash surrender value of life insurance	(9,698)	(9,925)	(8,527)
Decrease in interest receivable	649	2,739	4,111
Decrease (increase) in prepaid expenses	230	(942)	(956)
Increase (decrease) in accrued expenses	1,501	(1,467)	8,807
Decrease in interest payable	(123)	(1,153)	(3,074)
Other	(897)	(2,878)	(1,101)
Net cash provided by operating activities	<u>53,255</u>	<u>61,758</u>	<u>64,137</u>
<b>Investing activities</b>			
Proceeds from sales of investment securities available-for-sale	4	43,492	0
Proceeds from calls, paydowns, and maturities of investment securities available-for-sale	201,069	425,006	242,076
Purchases of investment securities available-for-sale	(85,264)	(672,603)	(243,583)
Proceeds from calls, paydowns, and maturities of investment securities held-to-maturity	13,996	4,629	3,994
Purchases of investment securities held-to-maturity	(8,372)	(1,180)	(4,414)
Net decrease (increase) in interest-bearing deposits with other banks	4,094	(540)	9,197
Net (increase) decrease in federal funds sold and securities purchased under agreements to resell	(11,442)	27,684	(24,910)
Net (increase) decrease in loans and leases	(113,193)	(80,461)	98,621
Proceeds from disposal of other real estate owned	5,923	4,976	4,608
Recoveries from loans and leases previously charged-off	4,538	3,958	5,092
Purchases of premises and equipment	(13,696)	(8,616)	(3,276)
Net cash (used in) provided by investing activities	<u>(2,343)</u>	<u>(253,655)</u>	<u>87,405</u>
<b>Financing activities</b>			
Net increase (decrease) in total deposits	39,321	23,231	(162,659)
Net (decrease) increase in short-term borrowings	(113,765)	163,729	1,728
Proceeds from long-term borrowings	27,877	32,928	29,706
Proceeds from trust preferred securities	0	20,000	10,000
Cash dividends	(26,348)	(26,586)	(27,474)
Purchase of common stock	(6,265)	(19,714)	(32,910)
Proceeds from exercise of stock options	9	82	776
Net cash (used in) provided by financing activities	<u>(79,171)</u>	<u>193,670</u>	<u>(180,833)</u>
<b>(Decrease) increase in cash and cash equivalents</b>	<u>(28,259)</u>	<u>1,773</u>	<u>(29,291)</u>
Cash and cash equivalents at beginning of year	183,612	181,839	211,130
<b>Cash and cash equivalents at end of year</b>	<u>\$ 155,353</u>	<u>\$ 183,612</u>	<u>\$ 181,839</u>
<b>Supplemental disclosures</b>			
Interest paid	\$ 59,353	\$ 64,561	\$ 81,325
Income taxes paid	\$ 16,745	\$ 14,909	\$ 25,110
Recognition of deferred tax assets (liabilities) attributable to SFAS No. 115	\$ 2,660	\$ 2,859	\$ (3,685)
Acquisition of other real estate owned through foreclosure	\$ 4,617	\$ 5,619	\$ 5,667
Issuance of restricted stock awards	\$ 1,601	\$ 2,413	\$ 3,273

See Notes to Consolidated Financial Statements.

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	COMMON STOCK SHARES	COMMON STOCK AMOUNT	RETAINED EARNINGS	ACCUMULATED COMPREHENSIVE INCOME	RESTRICTED STOCK AWARDS	TREASURY STOCK SHARES	TREASURY STOCK AMOUNT	TOTAL
(Dollars in thousands)								
Balances at January 1, 2002	48,570,346	\$ 396,631	\$ 18,244	\$ 5,348	\$ (2,563)	(1,970,411)	\$ (33,117)	\$ 384,543
Net earnings			48,235					48,235
Unrealized holding gains on securities available for sale arising during the period				5,875				5,875
Unfunded pension losses, net of tax				(3,034)				(3,034)
Total comprehensive income								51,076
Cash dividends declared (Bancorp – \$0.60 per share)			(27,474)					(27,474)
Purchase of common stock						(1,839,700)	(32,910)	(32,910)
Exercise of stock options, net of shares purchased		(376)				66,835	1,152	776
Restricted stock awards, net	(11,732)	(3)			(3,273)	188,585	3,054	(222)
Amortization of restricted stock awards					1,814			1,814
Balances at December 31, 2002	48,558,614	396,252	39,005	8,189	(4,022)	(3,554,691)	(61,821)	377,603
Net earnings			37,906					37,906
Unrealized holding losses on securities available for sale arising during the period				(4,708)				(4,708)
Unfunded pension losses, net of tax				(1,137)				(1,137)
Total comprehensive income								32,061
Cash dividends declared (Bancorp – \$0.60 per share)			(26,586)					(26,586)
Purchase of common stock						(1,230,700)	(19,714)	(19,714)
Exercise of stock options, net of shares purchased		(251)				20,274	333	82
Restricted stock awards, net		(249)			(2,413)	145,521	2,661	(1)
Amortization of restricted stock awards					3,038			3,038
Balances at December 31, 2003	48,558,614	395,752	50,325	2,344	(3,397)	(4,619,596)	(78,541)	366,483
Net earnings			41,118					41,118
Unrealized holding losses on securities available for sale arising during the period				(4,318)				(4,318)
Unfunded pension losses, net of tax				(1,149)				(1,149)
Total comprehensive income								35,651
Cash dividends declared (Bancorp – \$0.60 per share)			(26,348)					(26,348)
Purchase of common stock						(358,999)	(6,265)	(6,265)
Exercise of stock options, net of shares purchased		(84)				5,671	93	9
Restricted stock awards, net		(147)			(1,601)	91,546	1,748	0
Amortization of restricted stock awards					1,925			1,925
Balances at December 31, 2004	48,558,614	\$ 395,521	\$ 65,095	\$ (3,123)	\$ (3,073)	(4,881,378)	\$ (82,965)	\$ 371,455

See Notes to Consolidated Financial Statements.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 1 • SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation - The consolidated financial statements of First Financial Bancorp. (Bancorp), a bank and savings and loan holding company, principally serving western Ohio, Indiana, northern Kentucky and southern Michigan, include the accounts and operations of Bancorp and its wholly owned subsidiaries. All significant intercompany transactions and accounts have been eliminated in consolidation. Certain reclassifications of prior years' amounts have been made to conform to current year presentation. Such reclassifications had no effect on net earnings.

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Interest on loans, securities, and other earning assets is recognized on the accrual basis.

All dollar amounts, except per share data, are expressed in thousands of dollars.

Investment securities - Statement of Financial Accounting Standards (SFAS) No. 115 classifies debt and equity securities in three categories: trading, held-to-maturity, and available-for-sale.

Management determines the appropriate classification of debt securities at the time of purchase and reevaluates such designation as of each balance sheet date. Debt securities are classified as held-to-maturity when Bancorp has the positive intent and ability to hold the securities to maturity. Held-to-maturity securities are stated at amortized cost. Debt securities not classified as held-to-maturity are classified as available-for-sale. Available-for-sale securities are stated at aggregate fair value, with the unrealized gains and losses, net of tax, reported as a separate component of shareholders' equity.

The amortized cost of debt securities classified as held-to-maturity or available-for-sale is adjusted for amortization of premiums and accretion of discounts to maturity, or in the case of mortgage-backed securities, over the estimated life of the security. Such amortization is included in interest income from investments. Interest and dividends are included in interest income from investments. Realized gains and losses, and declines in value judged to be other than temporary, are included in investment securities gains (losses). The cost of securities sold is based on the specific identification method.

Loans - Loan origination and commitment fees and certain direct loan origination costs are deferred, and the net amount amortized as an adjustment to the related loan's yield. The accrual of interest income is discontinued when the collection of a loan or interest, in whole or in part, is doubtful. This applies generally to all loans, including impaired loans. When interest accruals are suspended, interest income accrued in the current period is reversed and interest accrued in the prior year is charged to the allowance for loan losses.

Bancorp's subsidiaries sell certain mortgage loans immediately after origination on a flow basis. Due to Bancorp's policy of selling loans on a flow basis, loans held for sale are not material and therefore not disclosed separately on the Consolidated Balance Sheets. Loans held for sale are carried at the lower of cost or market value. Capitalized mortgage servicing rights (MSRs) are evaluated for impairment based on the fair value of those rights, using a disaggregated approach. MSRs are amortized on an accelerated basis over the estimated period of net servicing revenue.

Allowance for loan losses - The level of the allowance for loan losses (allowance) is 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.

A commercial loan is impaired when, based on current information and events, it is probable that Bancorp will be unable to collect all amounts due according to the contractual terms of the loan agreement.

Collection of all amounts due according to the contractual terms means that both the contractual interest payments and the contractual principal payments of a loan will be collected as scheduled in the loan agreement.

Bancorp applies normal loan review procedures in determining whether or not it is probable that it will be able to collect all amounts due according to the contractual terms of a loan.

An impairment loss is recognized if the present value of expected future cash flows from the loan are less than the recorded investment in the loan (recorded investment in the loan is the principal balance plus any accrued interest, net deferred loan fees or costs, and unamortized premium or discount, and does not reflect any direct write-down of the investment). The impairment loss is recognized through the use of a valuation allowance. Loans that are impaired are recorded at the present value of expected future cash flows discounted at the loan's effective interest rate or if the loan is collateral dependent, impairment measurement is based on the fair value of the collateral as a practicable expedient. Income recognition on impaired loans is based on the cash basis method.

The level of allowance maintained is believed by management to be adequate to cover losses inherent in the portfolio. The allowance is increased by provisions charged to expense and decreased by charge-offs, net of recoveries of amounts previously charged-off. The allowance for commercial loans, including time and demand notes, tax-exempt loans, commercial real estate, and commercial capital and operating leases begins with a process of estimating the probable losses inherent in the portfolio. The estimates for these commercial loans are established by category and based on Bancorp's internal system of credit risk ratings, historical loss data, and the estimated average expected life of the portfolio.

The estimate of losses inherent in the commercial portfolio may then be adjusted for management's estimate of probable losses on specific exposures as well as trends in delinquent and nonaccrual loans and other factors such as prevailing economic conditions, lending personnel experience and changes, lending strategies and other influencing factors as discussed in the Asset Quality section of Management's Discussion and Analysis. In the commercial portfolio, a specific allowance may be established based on the borrower's overall financial condition, resources and payment record, support from guarantors, and the realizable value of any collateral. This specific allowance is established for certain loans for which more specific information is available - typically larger balance non-homogenous exposures.

The allowance for consumer loans which includes retail real estate, installment, home equity, credit card, consumer leasing, overdrafts, and student loans is established for each of the categories listed by estimating losses inherent in that particular category of consumer loans. The estimate of losses is based on historical loss rates and the estimated average life or contractual maturity of each portfolio. Consumer loans are evaluated as a group within category (i.e., retail real estate, installment, etc.) because these loans are smaller and homogeneous.

The unallocated portion of the allowance consists partially of dollar amounts specifically set aside for certain general factors influencing the allowance. These factors include ratio trends and other factors not already accounted for in the allowance estimates. Establishing percentages for these factors is largely subjective, but supported by economic data and other information where appropriate.



Lease financing - Bancorp principally uses the finance method of accounting for direct lease contracts. Under this method of accounting, a receivable is recorded for the total amount of lease payments due and estimated residual values. Lease income, represented by the excess of the total contract receivable plus estimated equipment residual value over the cost of the related equipment, is recorded over the terms of the leases at a level rate of return on the unrecovered net investment.

Premises and equipment - Premises and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization are computed principally on the straight-line method over the estimated useful lives of the assets. Maintenance and repairs are charged to operations as incurred.

Other real estate owned - Other real estate owned represents properties acquired by Bancorp's subsidiaries through loan defaults by customers. The property is recorded at the lower of cost or fair value minus estimated costs to sell at the date acquired. Subsequently, the property is valued at the lower of the amount recorded when the property was placed into other real estate owned or fair value minus estimated costs to sell based on periodic valuations performed by management. An allowance for losses on other real estate owned may be maintained for subsequent valuation adjustments on a specific property basis. Any gains or losses realized at the time of disposal are reflected in income.

Trust Preferred Securities - In January of 2003, the Financial Accounting Standards Board issued Interpretation No. 46, "Consolidation of Variable Interest Entities, an interpretation of Accounting Research Bulletin No. 51" (FIN 46) which applies to variable interest entities created after January 31, 2003. Under the provisions of the interpretation (except in certain circumstances), Trust Preferred Securities, by design, are considered variable interest entities, with no variable interest holder being considered the primary beneficiary, thus requiring the reporting enterprise to deconsolidate the trust upon adoption of the interpretation. The interpretation could have allowed the parent to continue consolidating the trust. However, a revised interpretation was issued which has effectively removed the ability for a reporting enterprise to continue consolidating the trust. Therefore, Bancorp deconsolidated its two trusts effective January 1, 2004.

Income taxes - Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Bancorp and its subsidiaries file a consolidated federal income tax return. Each subsidiary provides for income taxes on a separate return basis, and remits to Bancorp amounts determined to be currently payable.

Earnings per share - Basic net income per common share is computed by dividing net income applicable to common stock by the weighted average number of shares of common stock outstanding during the period. Diluted net income per common share is computed by dividing net income applicable to common stock by the weighted average number of shares, nonvested stock, and dilutive common stock equivalents outstanding during the period. Common stock equivalents consist of common stock issuable under the assumed exercise of stock options granted under the Bancorp's stock plans, using the treasury stock method.

Cash flow information - For purposes of the statement of cash flows, Bancorp considers cash and due from banks as cash and cash equivalents.

Reporting comprehensive income - Comprehensive income is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from nonowner sources. Accumulated comprehensive income includes the unrealized holding gains from available-for-sale securities arising during the period which were \$2,197 and \$6,515 at December 31, 2004, and 2003, respectively, and unfunded pension losses, net of taxes, which were \$5,320 and \$4,171 at December 31, 2004, and 2003, respectively. While there was no income tax expense or benefit, there

was a deferred tax liability associated with available-for-sale securities of \$1,472 and \$4,132 as of December 31, 2004, and 2003, respectively. There was a deferred tax asset recorded for the unfunded pension losses of \$2,990 and \$2,295 as of December 31, 2004, and 2003, respectively.

Disclosure about segments and related information - Bancorp operates as one community banking segment in contiguous geographic markets.

Derivative Instruments - SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," was released in June, 1998, and is effective for all fiscal quarters of fiscal years beginning after January 1, 2001. SFAS No. 133 establishes accounting and reporting standards for derivative instruments and for hedging activities. Bancorp did not use derivative financial instruments until June 2002, at which time it adopted and follows the provisions of SFAS No. 133.

Intangible assets - SFAS No. 141, "Business Combination," and No. 142, "Goodwill and Other Intangible Assets," were issued in June of 2001 and are effective for fiscal years beginning after December 15, 2001. Under these rules, goodwill and intangible assets deemed to have indefinite lives, if any, will no longer be amortized but will be subject to annual impairment tests in accordance with the statements. Core deposit intangibles and mortgage servicing rights will continue to be amortized over their useful lives. Core deposit intangibles are being amortized over varying periods, none of which exceeds 10 years.

Since Bancorp was required to recognize an additional minimum liability for its pension accounting, it was required to recognize an intangible asset to the extent of its unrecognized prior service cost. Pursuant to SFAS No. 87 "Employers' Accounting for Pensions," this intangible is never amortized directly, but instead, the amounts are recalculated at each measurement date which is normally on an annual basis.

Pension - Bancorp sponsors a non-contributory defined benefit pension plan covering substantially all employees. In accordance with applicable accounting rules, Bancorp does not consolidate the assets and liabilities associated with the pension plan. At the end of 2004, Bancorp's fair value of the plan assets was less than its benefit obligation. Therefore, Bancorp recognized an accrued benefit liability. 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.

Employee Stock Options - Bancorp has elected to follow the intrinsic value method of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25), and related interpretations in accounting for its stock options. Bancorp's employee stock options have fixed terms and the exercise price of those stock options equals the market price of the underlying stock on the date of grant. Therefore, no compensation expense was recognized. SFAS No. 123, "Accounting for Stock-Based Compensation" was revised in 2004 and is effective for public entities as of the first interim period that begins after June 15, 2005. This statement supercedes APB 25 and applies to all awards granted after the required effective date and to awards modified, repurchased, or cancelled after that date. The cumulative effect of initially applying this Statement, if any, will be recognized as of the required effective date. As of the required effective date, all public entities that used the fair-value-based method for disclosure under SFAS No. 123 will apply this Statement using a modified version of prospective application. Under that transition method, compensation cost is recognized on or after the required effective date for the portion of outstanding awards for which the requisite service has not yet been rendered, based on the grant-date fair value of those awards calculated under SFAS No. 123 for pro forma disclosures. For periods before the required effective date, those entities may elect to apply a modified version of retrospective application under which financial statements for prior periods are adjusted on a basis consistent with the pro forma disclosures required for those periods by SFAS No. 123. Bancorp does not plan to adopt this Statement early. The effect of this statement on Bancorp's financial statements has not yet been determined.

## NOTE 2 • RESTRICTIONS ON CASH AND DUE FROM BANK ACCOUNTS

Bancorp's subsidiaries are required to maintain average reserve balances either in the form of vault cash or reserves held on deposit with the Federal Reserve Bank, Federal Home Loan Bank, or in pass-through reserve

accounts with correspondent banks. The average amounts of these required reserve balances for 2004 and 2003 were approximately \$27,987 and \$31,386, respectively.

## NOTE 3 • GOODWILL

SFAS No. 141, "Business Combination" and No. 142, "Goodwill and Other Intangible Assets" were issued in June of 2001, and are effective for fiscal years beginning after December 15, 2001. Under these rules, goodwill and intangible assets deemed to have indefinite lives, if any, will no longer be amortized but will be subject to annual impairment tests in accordance with the statements.

Bancorp applied these rules on accounting for goodwill and other intangible assets beginning in the first quarter of 2002. Application of the nonamortization provisions of the statement resulted in an increase in net income of \$1,172 (\$0.02 per share) per year. SFAS No. 142 prescribes testing

of goodwill for impairment using a two-step process. The first step is a screen for potential impairment, while the second step measures the amount of the impairment, if any. Bancorp performed the first of the required impairment tests of goodwill and indefinite-lived intangible assets as of January 1, 2002, and found no impairment was indicated. Therefore, the second step was not necessary. Goodwill and indefinite-lived intangible assets of each reporting unit must be tested for impairment at least annually. Bancorp has selected October 1 as its date for annual impairment testing. As of October 1, 2004, and 2003, respectively, Bancorp performed step one and concluded that no impairment of goodwill was indicated.

## NOTE 4 • MORTGAGE SERVICING RIGHTS

Changes in capitalized mortgage servicing rights are summarized as follows:

	2004	2003	2002
	(Dollars in thousands)		
Balance at beginning of year	\$ 3,722	\$ 4,707	\$ 4,138
Rights capitalized	1,085	2,291	2,242
Amortization	(1,553)	(1,552)	(1,176)
Impairment	1,268	(1,724)	(497)
<b>Balance at end of year</b>	<b>\$ 4,522</b>	<b>\$ 3,722</b>	<b>\$ 4,707</b>

The fair value of capitalized mortgage servicing rights was \$4,617, \$3,952, and \$4,707 at December 31, 2004, 2003, and 2002. Bancorp recognizes impairment charges in "other" in the noninterest income section of the Consolidated Statement of Earnings. In 2004, Bancorp recaptured \$1,268 of impairment reserves due to an increase in the estimated future value of servicing cash flows. Due to a decline in the estimated future value of servicing cash flow, Bancorp recognized impairment charges of \$1,724 and \$497 in 2003 and 2002, respectively, in a valuation reserve. Valuations are conducted regularly to determine the fair value and any possible impairment of the mortgage servicing right asset. Key assumptions include prepayment speeds, discount rates, inflation, and future operating costs.

Bancorp uses market based data for assumptions related to the valuation of mortgage servicing rights.

Mortgage loans serviced for others are not included in the accompanying Consolidated Balance Sheets. The unpaid principal balances of these loans totaled \$577,634, \$509,518, and \$542,288 at December 31, 2004, 2003, and 2002, respectively.

Custodial escrow balances maintained in connection with these mortgage loans serviced were approximately \$3,740, \$2,981, and \$3,380 at December 31, 2004, 2003, and 2002, respectively.

## NOTE 5 • RESTRICTIONS ON SUBSIDIARY DIVIDENDS, LOANS, OR ADVANCES

Dividends paid by Bancorp are mainly provided by dividends from its subsidiaries. However, certain restrictions exist regarding the ability of bank subsidiaries to transfer funds to Bancorp in the form of cash dividends, loans, or advances. The approval of the subsidiaries' respective primary federal

regulators is required for Bancorp's subsidiaries to pay dividends in excess of regulatory limitations. As of December 31, 2004, Bancorp's subsidiaries had retained earnings of \$140,602 of which \$10,548 was available for distribution to Bancorp as dividends without prior regulatory approval.

## NOTE 6 • FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

In the normal course of business, Bancorp offers a variety of financial instruments with off-balance-sheet risk to its customers to aid them in meeting their requirements for liquidity and credit enhancement. These financial instruments include standby letters of credit and commitments outstanding to extend credit. U.S. generally accepted accounting principles do not require these financial instruments to be recorded in the consolidated balance sheets, statements of earnings, changes in shareholders' equity, or cash flows. However, a discussion of these instruments follows.

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

**Standby letters of credit** - These transactions are conditional commitments issued by Bancorp to guarantee the performance of a customer to a third party. Bancorp's portfolio of standby letters of credit consists primarily of performance assurances made on behalf of customers who have a contractual commitment to produce or deliver goods or services. The risk to Bancorp arises from its obligation to make payment in the event of the customers'

contractual default. Bancorp has issued standby letters of credit aggregating \$43,453 and \$42,229 at December 31, 2004, and 2003, respectively.

Management conducts regular reviews of these instruments on an individual customer basis, and the results are considered in assessing the adequacy of Bancorp's allowance for loan losses. Management does not anticipate any material losses as a result of these letters of credit.

**Loan commitments** - Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Bancorp evaluates each customer's creditworthiness on an individual basis. The amount of collateral obtained, if deemed necessary by Bancorp 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. Bancorp had commitments outstanding to extend credit totaling \$508,950 and \$480,632 at December 31, 2004, and 2003, respectively. Management does not anticipate any material losses as a result of these commitments.

## NOTE 7 • ACCOUNTING FOR DERIVATIVES

In 2001, Bancorp's board of directors approved a policy authorizing the use of certain derivative products as a tool for the management of interest rate risk. Approved derivatives include interest rate caps, floors, and swaps. These instruments will allow Bancorp to meet the needs of its customers, yet reduce the interest rate risk associated with certain transactions. The use of these interest rate swaps allows Bancorp's subsidiary banks to offer a long term fixed rate loan to commercial borrowers. These instruments allow Bancorp to convert the fixed interest rate to a variable rate that better suits its funding position.

Bancorp follows the provisions of SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities" in accounting for its derivative activities. Bancorp has interest rate swaps that are accounted for as fair value hedges under SFAS No. 133. Bancorp utilizes interest rate swap agreements to effectively modify its exposure to interest rate risk by converting certain fixed rate assets to floating rate. The swap agreements involve the receipt of floating rate amounts in exchange for fixed interest payments over the life

of the agreements without an exchange of the underlying principal amount. The swaps are accounted for under the short-cut method. These contracts are designated as hedges of specific assets. The net interest receivable or payable on swaps is accrued and recognized as an adjustment to the interest income of the hedged asset. At December 31, 2004, and 2003, Bancorp had interest rate swaps with a notional value of \$14,225 and \$12,549, respectively. The fair value of the swaps was an unrealized loss of \$138 and \$121 at December 31, 2004, and 2003, respectively. This amount is included with other assets on the balance sheet. A corresponding fair value adjustment was also included on the balance sheet with the hedged item.

Bancorp is exposed to losses if a counterparty fails to make its payment under a contract in which Bancorp is in the receiving position. Although collateral or other security may not be obtained, Bancorp minimizes its credit risk by monitoring the credit standing of each counterparty and believes that each will be able to fully satisfy its obligation under the agreement.

## NOTE 8 • INVESTMENT SECURITIES

The following is a summary of investment securities as of December 31, 2004:

	HELD-TO-MATURITY				AVAILABLE-FOR-SALE			
	AMORTIZED COST	UNREALIZED GAINS	UNREALIZED LOSSES	MARKET VALUE	AMORTIZED COST	UNREALIZED GAINS	UNREALIZED LOSSES	MARKET VALUE
	(Dollars in thousands)							
Securities of U.S. government agencies and corporations	\$ 903	\$ 31	\$ 0	\$ 934	\$ 136,990	\$ 252	\$ (1,289)	\$ 135,953
Mortgage-backed securities					383,271	3,437	(2,850)	383,858
Obligations of state and other political subdivisions	11,906	353	(17)	12,242	96,213	3,955	(64)	100,104
Other securities	0	0	0	0	49,289	294	(67)	49,516
<b>Total</b>	<b>\$ 12,809</b>	<b>\$ 384</b>	<b>\$ (17)</b>	<b>\$ 13,176</b>	<b>\$ 665,763</b>	<b>\$ 7,938</b>	<b>\$ (4,270)</b>	<b>\$ 669,431</b>

## NOTE 8 • INVESTMENT SECURITIES - CONTINUED

The following is a summary of investment securities as of December 31, 2003:

	HELD-TO-MATURITY				AVAILABLE-FOR-SALE			
	AMORTIZED COST	UNREALIZED GAINS	UNREALIZED LOSSES	MARKET VALUE	AMORTIZED COST	UNREALIZED GAINS	UNREALIZED LOSSES	MARKET VALUE
	(Dollars in thousands)							
Securities of U.S. government agencies and corporations					\$ 153,772	\$ 1,306	\$ (96)	\$ 154,982
Mortgage-backed securities	\$ 1,380	\$ 73	\$ (1)	\$ 1,452	478,624	6,003	(2,731)	481,896
Obligations of state and other political subdivisions	17,019	125	0	17,144	104,531	5,791	(11)	110,311
Other securities	0	0	0	0	47,188	416	(31)	47,573
<b>Total</b>	<b>\$ 18,399</b>	<b>\$ 198</b>	<b>\$ (1)</b>	<b>\$ 18,596</b>	<b>\$ 784,115</b>	<b>\$ 13,516</b>	<b>\$ (2,869)</b>	<b>\$ 794,762</b>

The carrying value of investment securities as of December 31, 2002, by category was as follows: U.S. government agencies and corporations \$135,383, mortgage-backed \$308,021, obligations of state and other political subdivisions \$139,444, and other \$44,068.

During the year ended December 31, 2004, available-for-sale securities with a fair value at the date of sale of \$4 were sold with a gross realized gain of \$0 recorded.

During the year ended December 31, 2003, available-for-sale securities with a fair value at the date of sale of \$44,528 were sold. The gross realized losses on such sales were \$1,036.

During the year ended December 31, 2002, no available-for-sale securities were sold.

There were net investment gains after taxes of \$1, \$68, and \$58 for the years

ended December 31, 2004, 2003, and 2002, respectively. The applicable income tax effects were a benefit of \$1 for 2004 and \$44 for 2003, and an expense of \$31 for 2002.

The carrying value of investment securities pledged to secure public deposits and for other purposes as required by law amounted to \$391,275 at December 31, 2004.

The amortized cost and market value of investment securities, including mortgage-backed securities at December 31, 2004, by contractual maturity, are shown in the table below.

Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	HELD-TO-MATURITY		AVAILABLE-FOR-SALE	
	AMORTIZED COST	MARKET VALUE	AMORTIZED COST	MARKET VALUE
	(Dollars in thousands)			
Due in one year or less	\$ 5,075	\$ 5,080	\$ 50,441	\$ 50,283
Due after one year through five years	2,455	2,572	116,668	116,842
Due after five years through ten years	3,806	4,013	255,496	255,952
Due after ten years	1,473	1,511	243,158	246,354
<b>Total</b>	<b>\$ 12,809</b>	<b>\$ 13,176</b>	<b>\$ 665,763</b>	<b>\$ 669,431</b>

The following is the unrealized loss position of other-than-temporarily impaired securities as of December 31, 2004:

	LESS THAN 12 MONTHS		12 MONTHS OR MORE		TOTAL	
	FAIR VALUE	UNREALIZED LOSS	FAIR VALUE	UNREALIZED LOSS	FAIR VALUE	UNREALIZED LOSS
	(Dollars in thousands)					
Securities of U.S. government agencies and corporations	\$ 123,630	\$ 1,167	\$ 8,878	\$ 122	\$ 132,508	\$ 1,289
Mortgage-backed securities	119,435	1,039	80,859	1,811	200,294	2,850
Obligations of state and other political subdivisions	7,064	81	0	0	7,064	81
Other securities	1,403	6	1,799	61	3,202	67
<b>Total temporarily impaired securities</b>	<b>\$ 251,532</b>	<b>\$ 2,293</b>	<b>\$ 91,536</b>	<b>\$ 1,994</b>	<b>\$ 343,068</b>	<b>\$ 4,287</b>

The following is the unrealized loss position of other-than-temporarily impaired securities as of December 31, 2003:

	LESS THAN 12 MONTHS		12 MONTHS OR MORE		TOTAL	
	FAIR VALUE	UNREALIZED LOSS	FAIR VALUE	UNREALIZED LOSS	FAIR VALUE	UNREALIZED LOSS
	(Dollars in thousands)					
Securities of U.S. government agencies and corporations	\$ 21,404	\$ 96	\$ 21,404	\$ 96		
Mortgage-backed securities	202,214	2,729	\$ 222	\$ 3	\$ 202,436	2,732
Obligations of state and other political subdivisions	782	4	0	0	782	4
Other securities	1,236	6	475	32	1,711	38
<b>Total temporarily impaired securities</b>	<b>\$ 225,636</b>	<b>\$ 2,835</b>	<b>\$ 697</b>	<b>\$ 35</b>	<b>\$ 226,333</b>	<b>\$ 2,870</b>

## NOTE 8 • INVESTMENT SECURITIES - CONTINUED

Of the securities in an unrealized loss position less than twelve months at December 31, 2004, all 132 items were debt securities. The unrealized loss of \$2,293 represents 0.34% of amortized cost of the total portfolio. There were no common stock positions with an unrealized loss position of less than twelve months. Of the 132 items, 63 items with an unrealized loss of \$1,039 or 45.3% of the total unrealized losses, were AAA-rated federal agency mortgage-backed securities. U.S. government agencies totaled 44 items representing unrealized losses of \$1,167, or 50.89% of total unrealized losses. Of those with unrealized losses of greater than twelve months, 42 items had an unrealized loss of \$1,994, of those 40 were debt securities.

Of the 42 items, 32 were AAA-rated federal agency mortgage-backed securities with an unrealized loss of \$1,811, or 90.82% of total unrealized losses. All debt securities unrealized losses are due to increased market yields relative to the yields of the amortized cost. None of the unrealized losses are due to credit risk of the underlying security. Management has the intention of holding these securities to maturity, and expects to realize the full amortized cost. These stock issues are monitored for permanent impairment and written down accordingly. All debt security issues are believed to be temporarily impaired with no future write-down expected.

## NOTE 9 • LOANS

Information about nonaccrual and restructured loans at December 31 was as follows:

	2004	2003	2002
	(Dollars in thousands)		
Principal balance			
Nonaccrual loans	\$ 20,102	\$ 25,980	\$ 21,456
Restructured loans	2,110	3,821	5,375
<b>Total</b>	<u>\$ 22,212</u>	<u>\$ 29,801</u>	<u>\$ 26,831</u>
Interest income effect			
Gross amount of interest that would have been recorded at original rate	\$ 1,687	\$ 2,257	\$ 2,549
Interest included in income	627	1,118	744
<b>Net impact on interest income</b>	<u>\$ 1,060</u>	<u>\$ 1,139</u>	<u>\$ 1,805</u>

At December 31, 2004, there was \$67 in commitments outstanding to lend additional funds to borrowers with nonaccrual or restructured loans.

The balances of other real estate acquired through loan foreclosures, in-substance foreclosures, repossessions, or other workout situations, net of

the related allowance, totaled \$1,730, \$3,207, and \$2,792 at December 31, 2004, 2003, and 2002, respectively.

Changes in the allowance for loan losses for the three years ended December 31 were as follows:

	2004	2003	2002
	(Dollars in thousands)		
Balance at beginning of year	\$ 47,771	\$ 48,177	\$ 46,784
Provision for loan losses	7,283	18,942	16,174
Loans charged-off	(12,874)	(23,306)	(19,873)
Recoveries	4,538	3,958	5,092
<b>Balance at end of year</b>	<u>\$ 46,718</u>	<u>\$ 47,771</u>	<u>\$ 48,177</u>

The allowances for loan losses related to loans that are identified for evaluation in accordance with SFAS No. 114 are based on discounted cash flows using the loan's initial effective interest rate or the fair value of the collateral for certain collateral dependent loans.

At December 31, 2004, 2003, and 2002, the total recorded investment in loans that are considered to be impaired under SFAS No. 114 was \$3,202, \$3,126, and \$6,745, respectively, all of which had a related allowance for loan losses. The related allowance for loan losses on these impaired loans was

\$1,247 at December 31, 2004, \$1,213 at December 31, 2003, and \$1,131 at December 31, 2002. At December 31, 2004, 2003, and 2002, there were no impaired loans that did not have an allowance for loan losses. The average recorded investment in impaired loans during the year ended December 31, 2004, was approximately \$3,342 versus \$7,059 for the year ended December 31, 2003, and \$4,280 for the year ended December 31, 2002. For the years ended December 31, 2004, 2003, and 2002, Bancorp recognized interest income on those impaired loans of \$354, \$270, and \$84, respectively. Bancorp recognizes income on impaired loans using the cash-basis method.

## NOTE 10 • LEASE FINANCING

Leases included in the loan portfolio at December 31 were composed as follows:

	2004	2003
	(Dollars in thousands)	
Direct financing	\$ 3,982	\$ 8,560
Leveraged	<u>0</u>	<u>14</u>
Net rentals receivable	3,982	8,574
Estimated residual value of leased assets	1,682	4,838
Less unearned income	435	1,171
Investment in leases, net	<u>\$ 5,229</u>	<u>\$ 12,241</u>

Direct financing lease payments receivable as of December 31, 2004, for the next five years and thereafter are as follows:

	DIRECT FINANCING LEASES	
	(Dollars in thousands)	
2005	\$	2,404
2006		1,067
2007		408
2008		89
2009		14
Thereafter		0

## NOTE 11 • PREMISES AND EQUIPMENT

Premises and equipment at December 31 were summarized as follows:

	2004	2003
	(Dollars in thousands)	
Land and land improvements	\$ 17,461	\$ 15,899
Buildings	56,754	54,235
Furniture and fixtures	37,904	37,634
Leasehold improvements	6,532	7,613
Construction in progress	9,836	4,027
	<u>128,487</u>	<u>119,408</u>
Less accumulated depreciation and amortization	61,589	60,358
<b>Total</b>	<u>\$ 66,898</u>	<u>\$ 59,050</u>

Rental expense recorded under operating leases in 2004, 2003, and 2002, was \$1,522, \$1,420, and \$1,576, respectively.

Capital lease agreements for land and buildings at December 31, 2004, were immaterial.

As of December 31, 2004, future minimum lease payments for operating leases were \$2,476 for 2005, \$923 for 2006, \$768 for 2007, \$683 for 2008, \$638 for 2009, and \$2,863 after 2009.

## NOTE 12 • BORROWINGS

The following is a summary of short-term borrowings for the last three years:

	2004		2003		2002	
	AMOUNT	RATE	AMOUNT	RATE	AMOUNT	RATE
	(Dollars in thousands)					
At year end:						
Federal funds purchased and securities sold under agreements to repurchase	\$ 61,199	1.59%	\$ 106,692	0.60%	\$ 55,766	1.01%
Federal Home Loan Bank borrowings	78,100	2.20%	150,000	1.05%	0	0.00%
Other short-term borrowings	5,845	2.16%	2,217	1.00%	39,414	2.02%
Total	<u>\$ 145,144</u>	<u>1.94%</u>	<u>\$ 258,909</u>	<u>0.86%</u>	<u>\$ 95,180</u>	<u>1.37%</u>
Average for the year:						
Federal funds purchased and securities sold under agreements to repurchase	\$ 67,894	0.88%	\$ 61,575	0.84%	\$ 54,306	1.49%
Federal Home Loan Bank borrowings	127,993	1.39%	70,814	1.09%	6,944	1.88%
Other short-term borrowings	9,790	1.31%	21,734	2.44%	28,938	2.71%
Total	<u>\$ 205,677</u>	<u>1.22%</u>	<u>\$ 154,123</u>	<u>1.18%</u>	<u>\$ 90,188</u>	<u>1.91%</u>
Maximum month-end balances:						
Federal funds purchased and securities sold under agreements to repurchase	\$ 105,778		\$ 106,692		\$ 65,214	
Federal Home Loan Bank borrowings	181,900		150,000		42,200	
Other short-term borrowings	5,845		36,239		35,347	

## NOTE 12 • BORROWINGS - CONTINUED

Bancorp's policy regarding collateralization of repurchase agreements is to comply with all federal regulations.

At December 31, 2004, Bancorp had a short-term revolving line of credit with a financial institution of \$50,000. As of year end, the outstanding balance was \$2,000. The variable interest rate on this line of credit is the current federal funds rate plus a spread. The line of credit has several financial requirements including whereby Bancorp's affiliates must maintain a risk-based capital level of a well-capitalized institution. Bancorp must maintain an allowance for loan losses which matches or exceeds its level of nonperforming loans. Bancorp must maintain Tier I capital equal to \$335,000 at all times. Bancorp's borrowings must not exceed 35.00% of its Tier I capital. Bancorp's nonperforming assets must not exceed 2.50% of its consolidated loans plus other real estate owned. Finally, Bancorp's return on assets must be at least 0.90% for the four preceding quarters. Bancorp also had a Capital Structure Dividend covenant which states that it cannot pay dividends (or other distributions) in an amount exceeding 70.00% of net income for the prior year. Bancorp was also to be in compliance with other nonfinancial requirements, such as supplying call reports of the subsidiaries, audit reports, SEC filings, among other items to the lender. Various other covenants must also be followed. Bancorp was in compliance with these requirements as of December 31, 2004.

Federal Home Loan Bank Long-Term Debt - Long-term debt at December 31, 2004, totaled \$350,856 and consisted exclusively of Federal Home Loan Bank (FHLB) advances with rates ranging from 2.21% to 6.90%, with interest payable monthly. The long-term advances mature as follows: \$7,000 in 2005, \$45,695 in 2006, \$34,000 in 2007, \$62,253 in 2008, \$23,500 in 2009, and \$178,408 after 2009.

FHLB advances, both short-term and long-term, were secured by certain residential mortgage loans, as well as certain government and agency securities, with a book value of \$881,060 at December 31, 2004.

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. In accordance with Financial Accounting Standards Board Interpretation No. 46 (FIN 46), Bancorp deconsolidated these two trusts effective January 1, 2004. Prior to 2004, Bancorp included corporation-obligated mandatorily redeemable capital securities (the "capital securities") of subsidiary trust or Trust Preferred Securities, in other long-term debt on the balance sheet.

Capital securities were issued in the third quarter of 2003 by a statutory business trust, First Financial (OH) Statutory Trust II (Trust II), and in the third quarter of 2002 by another statutory business trust, First Financial (OH) Statutory Trust I (Trust I). Bancorp owns 100% of the common equity of both 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 trusts 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 Bancorp. The interest rate is variable and is subject to change every three months. The base index is three-month LIBOR (London Inter-Bank Offered Rate). On December 31, 2004, the rates on Trust I and Trust II were 5.95% and 5.65%, respectively. Bancorp has the option to defer interest for up to five years on the debentures. However, the covenants prevent the payment of dividends on 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. Bancorp has entered into agreements which, taken collectively, fully or unconditionally guarantee the capital securities subject to the terms of the guarantees. The debentures currently qualify as Tier I capital under Federal Reserve Board guidelines. The debentures issued in 2003 are first redeemable, in whole or in part, by Bancorp on September 30, 2008, and mature on September 30, 2033. The amount outstanding, net of offering costs, as of December 31, 2004, was \$20,000. The debentures issued in 2002 are first redeemable, in whole or in part, by Bancorp on September 25, 2007, and mature on September 25, 2032. The amount outstanding, net of offering costs, as of December 31, 2004, was \$10,000.

## NOTE 13 • INCOME TAXES

Income tax expense consisted of the following components:

	2004	2003	2002
	(Dollars in thousands)		
Current:			
Federal	\$ 14,755	\$ 14,490	\$ 29,861
State	1,972	2,221	1,799
Total	<u>16,727</u>	<u>16,711</u>	<u>31,660</u>
Deferred expense	2,530	739	(9,125)
<b>Income tax expense</b>	<u>\$ 19,257</u>	<u>\$ 17,450</u>	<u>\$ 22,535</u>

The difference between the federal income tax rates, applied to income before income taxes, and the effective rates were due to the following:

	2004	2003	2002
	(Dollars in thousands)		
Income taxes computed at federal statutory rate of 35.00%	\$ 21,131	\$ 19,375	\$ 24,770
State income taxes, net of federal tax benefit	1,282	1,444	1,169
Effect of tax-exempt interest	(3,088)	(3,158)	(3,143)
Other	(68)	(211)	(261)
<b>Income tax expense</b>	<u>\$ 19,257</u>	<u>\$ 17,450</u>	<u>\$ 22,535</u>

## NOTE 13 • INCOME TAXES - CONTINUED

SFAS No. 109, "Accounting for Income Taxes," requires that deferred tax assets and liabilities be carried at the enacted tax rate. The enacted tax rate was 35.00% for years ended December 31, 2004, 2003, and 2002.

The major components of the temporary differences that give rise to deferred tax assets and liabilities at December 31, 2004, and 2003, were as follows:

	2004	2003
	(Dollars in thousands)	
Deferred tax assets		
Allowance for loan losses	\$ 15,543	\$ 16,073
Mark to market adjustment	1,210	2,257
Other real estate owned	57	35
Postretirement benefits other than pension liability	686	733
Unfunded pension liability	2,990	2,295
Other	124	1,243
<b>Total deferred tax assets</b>	<b>20,610</b>	<b>22,636</b>
Deferred tax liabilities		
Tax greater than book depreciation	1,852	457
Leasing activities	2,352	3,566
Federal Home Loan Bank stock basis difference	3,208	2,888
Deferred loan fees	803	1,690
Pension liability	1,033	551
Other	3,533	3,125
<b>Total deferred tax liabilities</b>	<b>12,781</b>	<b>12,277</b>
Net deferred tax asset recognized through the statement of earnings	7,829	10,359
Net deferred tax liability from valuation adjustments of investment securities available-for-sale, recognized in equity section of balance sheet	(1,472)	(4,132)
<b>Total net deferred tax asset</b>	<b>\$ 6,357</b>	<b>\$ 6,227</b>

## NOTE 14 • RISK-BASED CAPITAL

The Federal Reserve established risk-based capital requirements for U.S. banking organizations which have been adopted by the Office of Thrift Supervision for savings and loan associations. Risk weights are assigned to on- and off-balance-sheet items in arriving at risk-adjusted total assets. Regulatory capital is divided by risk-adjusted total assets, with the resulting ratios compared to minimum standards to determine whether a bank has adequate capital.

Regulatory guidelines require a 4.00% Tier I capital ratio, an 8.00% total risk-based capital ratio, and a 4.00% leverage ratio. Tier I capital consists primarily of common shareholders' equity and trust preferred securities, net of intangibles. Total risk-based capital is Tier I capital plus Tier 2 supplementary

capital, which is primarily the allowance for loan losses subject to certain limits. The leverage ratio is a result of dividing Tier I capital by average total assets less certain intangibles.

While Bancorp's subsidiaries' ratios are well above regulatory requirements, management will continue to monitor the asset mix which affects these ratios due to the risk weights assigned various assets and the allowance for the loan losses which influences the total risk-based capital ratio.

The table below illustrates the risk-based capital calculations and ratios for the last two years.

	December 31,	
	2004	2003
	(Dollars in thousands)	
Tier 1 capital		
Shareholders' equity	\$ 371,455	\$ 366,483
Less certain intangibles	32,144	31,352
Less unrealized gains from available-for-sale securities	2,197	6,515
Add trust preferred securities	30,000	30,000
<b>Total Tier 1 capital</b>	<b>\$ 367,114</b>	<b>\$ 358,616</b>
Total risk-based capital		
Tier 1 capital	\$ 367,114	\$ 358,616
Qualifying allowance for loan losses	34,843	34,119
<b>Total risk-based capital</b>	<b>\$ 401,957</b>	<b>\$ 392,735</b>
<b>Risk-weighted assets</b>	<b>\$ 2,775,584</b>	<b>\$ 2,715,858</b>
<b>Risk-based ratios</b>		
Tier 1 capital	13.23%	13.20%
Total risk-based capital	14.48%	14.46%
Leverage	9.48%	9.42%



## NOTE 15 • EMPLOYEE BENEFIT PLANS

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

The following tables set forth information concerning amounts recognized in Bancorp's Consolidated Balance Sheets and Consolidated Statements of Earnings:

	December 31,	
	2004	2003
	(Dollars in thousands)	
<b>Change in benefit obligation</b>		
Benefit obligation at beginning of year	\$ 43,676	\$ 36,523
Service cost	3,405	2,938
Interest cost	2,822	2,585
Actuarial loss	2,871	5,054
Benefits paid	(3,121)	(3,424)
<b>Benefit obligation at end of year</b>	<u>49,653</u>	<u>43,676</u>
<b>Change in plan assets</b>		
Fair value of plan assets at beginning of year	24,974	18,897
Actual return on plan assets	1,500	2,724
Employer contributions	6,696	6,777
Benefits paid	(3,121)	(3,424)
Fair value of plan assets at end of year	<u>30,049</u>	<u>24,974</u>
Funded status	(19,604)	(18,702)
Unrecognized transition amount	(219)	(299)
Unrecognized prior service cost	184	330
Unrecognized actuarial loss	21,241	18,269
<b>Net amount recognized in the consolidated balance sheets</b>	<u>\$ 1,602</u>	<u>\$ (402)</u>
<b>Amounts recognized in statement of financial position</b>		
Accrued benefit liability	\$ (6,892)	\$ (7,198)
Intangible pension asset	184	330
Other comprehensive income, net of taxes	5,320	4,171
Deferred tax assets	2,990	2,295
<b>Net amount recognized</b>	<u>\$ 1,602</u>	<u>\$ (402)</u>

	December 31,	
	2004	2003
<b>Information for pension plans with an accumulated benefit obligation in excess of plan assets</b>		
Projected benefit obligation	\$ 49,653	\$ 43,676
Accumulated benefit obligation	36,941	32,172
Fair value of plan assets	30,049	24,974

	December 31,		
	2004	2003	2002
	(Dollars in thousands)		
<b>Components of net periodic benefit cost</b>			
Service cost	\$ 3,405	\$ 2,938	\$ 2,486
Interest cost	2,822	2,585	2,340
Expected return on assets	(2,431)	(2,057)	(2,203)
Amortization of transition asset	(80)	(80)	(80)
Amortization of unrecognized prior service cost	146	253	253
Amortization of actuarial loss	830	529	230
<b>Net periodic pension cost</b>	<u>\$ 4,692</u>	<u>\$ 4,168</u>	<u>\$ 3,026</u>

	2004	2003
<b>Additional information</b>		
Increase in minimum liability included in other comprehensive income, net of taxes	\$ 1,149	\$ 1,137

NOTE 15 • EMPLOYEE BENEFIT PLANS - CONTINUED

Weighted-average assumptions to determine:

**Benefit obligations**

Discount rate  
Rate of compensation increase

**Net periodic benefit cost**

Discount rate  
Expected return on plan assets  
Rate of compensation increase

December 31,	
2004	2003
6.25%	6.50%
3.50%	3.50%
6.50%	6.95%
8.50%	8.50%
3.50%	3.50%

The basis used to determine the overall expected long-term return on plan assets was based on the composition of plan assets and a consensus of estimates from similarly managed portfolios of expected future returns.

**Asset Category**

Equity securities  
Bond securities  
Other  
**Total**

Plan Assets at December 31,	
2004	2003
63.75%	61.85%
35.20%	36.70%
1.05%	1.45%
<u>100.00%</u>	<u>100.00%</u>

Plan assets are administered by the Trust Department of First Financial Bank, N.A. Plan assets primarily consist of equity and debt mutual funds and money market funds. The Legacy Multi-Cap Core Equity fund held 1,731,946 shares at December 31, 2004, with a fair value of \$19,155. During 2004, this fund purchased 377,333 shares and sold 137,739 shares. Dividends received were \$220 for 2004.

At December 31, 2004, the Legacy Core Bond Fund held assets with a notional value of \$5,022 and a fair value of \$10,578. During 2004, this fund purchased debt securities with a notional value of \$2,500 and sold debt securities with a notional amount of \$605. Interest income was \$425 for 2004.

Approximately 98.95% and 98.55% of plan assets at December 31, 2004, and 2003, respectively, were invested in the Legacy Funds for which First Financial Capital Advisors LLC, a wholly owned subsidiary of Bancorp, serves as investment advisor. This pension plan does not own any shares of Bancorp common stock.

Each funding policy provides an investment range that allows the investment manager the latitude to manage the account within certain pre-established parameters. Bancorp has chosen the Trust-Growth-Balanced Funding Policy which allows a range of 45% to 75% in equity securities and 35% to 55% in fixed income or bond securities.

Bancorp expects to contribute \$5,600 to its pension plan in 2005. These contributions will be required to meet ERISA's minimum funding standards and the estimated quarterly contribution requirements during this period.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

**RETIREMENT BENEFITS**

(Dollars in thousands)

2005	\$	3,315
2006		3,391
2007		3,602
2008		3,759
2009		3,909
Thereafter		24,953

Bancorp also sponsors a defined contribution 401(k) thrift plan which covers substantially all employees. Employees may contribute up to 50.00% of their base salaries into the plan, not to exceed \$13. Bancorp contributions are at the discretion of the board of directors. During 2004 and 2003, Bancorp contributed \$0.50 for each \$1.00 an employee contributed, up to a maximum Bancorp contribution of 3.00% of the employee's base salary. All Bancorp matching contributions vest immediately. Total Bancorp contributions to the 401(k) plan were \$1,001 during 2004, \$943 during 2003, and \$909 during 2002.

Bancorp provides life insurance to all full-time employees. Bank-owned life insurance balances were \$71,133 and \$61,435 at December 31, 2004, and 2003, respectively.

## NOTE 16 • POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

Some Bancorp subsidiaries maintain health care and, in limited instances, life insurance plans for current retired employees. Under the current policy, the health care plans are unfunded and pay medically necessary expenses incurred by retirees, after subtracting payments by Medicare or other providers and after stated deductibles have been met. Bancorp has reserved

the right to change or eliminate these benefit plans. Bancorp uses a December 31 measurement date for its other postretirement benefit plans.

The following table sets forth the funded status and amounts recognized in Bancorp's Consolidated Balance Sheets:

### Change in benefit obligation

Benefit obligation at beginning of year  
Interest cost  
Plan participants' contributions  
Actuarial loss  
Benefits paid

### Benefit obligation at end of year

Fair value of plan assets at beginning and end of year  
Funded status  
Unrecognized actuarial gain  
Unrecognized prior service cost

### Net postretirement liability recognized in the balance sheets

	2004	2003
	(Dollars in thousands)	
	\$ 1,361	\$ 1,318
	84	87
	47	43
	128	177
	(270)	(264)
	<u>1,350</u>	<u>1,361</u>
	0	0
	(1,350)	(1,361)
	(444)	(550)
	(11)	(14)
	<u>\$ (1,805)</u>	<u>\$ (1,925)</u>

### Components of net periodic postretirement benefit cost

Interest cost  
Amortization of unrecognized prior service cost  
Amortization of actuarial gain

### Net periodic benefit cost

	2004	2003
	\$ 84	\$ 87
	(4)	(4)
	(41)	(61)
	<u>\$ 39</u>	<u>\$ 22</u>

### Weighted-average assumptions to determine accumulated postretirement benefit obligation

Discount rate

	2004	2003
	6.25%	6.50%
	10.00%	9.00%
	5.00%	5.00%
	2010	2008

### Assumed health care cost trend rates at December 31,

Health care cost trend rate assumed for next year  
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)  
Year that the rate reaches the ultimate trend rate

Assumed health care trend rates have a significant effect on the amounts reported for health care plans. Since there are no new entrants to the health care plan, there is no effect on service or interest cost. However, a

one-percentage-point change in assumed health care trend rates would have the following effects:

### Effect on postretirement benefit obligation

One-Percentage-Point Increase	One-Percentage-Point Decrease
\$105	(\$95)

Bancorp's other postretirement benefit plan weighted average asset allocation at December 31, 2004, and 2003, by asset category was 100% invested in a federal money fund.

Bancorp expects to contribute approximately \$1,261 to its other postretirement plan in 2005.

On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act (the Act) of 2003 was enacted. Bancorp elected the deferral provided by Financial Staff Position No. 106-1. As stated above, there are no new entrants into the health care plan. Therefore, any measures of the net periodic postretirement benefit cost in the financial statements or the accompanying notes do not reflect the effects of the act on the plan.

## NOTE 17 • EARNINGS PER SHARE

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

	2004	2003	2002
	(Dollars in thousands, except per share data)		
Net income—numerator for basic and diluted earnings per share— income available to common shareholders	\$ 41,118	\$ 37,906	\$ 48,235
Denominator for basic earnings per share—weighted average shares	43,818,779	44,370,917	45,880,649
Effect of dilutive securities—employee stock options	61,633	51,935	120,152
Denominator for diluted earnings per share—adjusted weighted average shares	43,880,412	44,422,852	46,000,801
Basic earnings per share	\$ 0.94	\$ 0.85	\$ 1.05
Diluted earnings per share	\$ 0.94	\$ 0.85	\$ 1.05

## NOTE 18 • STOCK OPTIONS

The 1991 Stock Incentive Plan provides incentive stock options and stock awards to certain key employees and non-qualified stock options to directors of Bancorp who are not employees for up to 1,691,036 common shares of Bancorp. The options are not exercisable for at least one year from the date of grant and are thereafter exercisable for such periods (which may not exceed 10 years) as the board of directors, or a committee thereof, specifies, provided that the optionee has remained in the employment of Bancorp or its subsidiaries. The board or the committee may accelerate the exercise period for an option upon the optionee's disability, retirement, or death. All options expire at the end of the exercise period. Cancelled and expired options become available for issuance and are reflected in the available-for-future-grant figure. On April 27, 1999, the shareholders approved the 1999 Stock Incentive Plan which provides for 7,507,500 shares for similar options and awards.

Bancorp has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25), and related interpretations in accounting for its stock options because, as discussed below, the alternative fair value accounting provided for under SFAS No. 123, "Accounting for

Stock-Based Compensation," requires use of option valuation models that were not developed for use in valuing stock options. Under APB 25, because the exercise price of Bancorp's employee stock options equaled the market price of the underlying stock on the date of grant, no compensation expense was recognized.

Pro forma information regarding net income and earnings per share is required by SFAS No. 123 and has been determined as if Bancorp had accounted for its stock options under the fair value method of that statement.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because Bancorp's stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its stock options.

Activity in the above plan for 2004, 2003, and 2002 is summarized as follows:

	2004		2003		2002	
	NUMBER OF SHARES	WEIGHTED AVERAGE	NUMBER OF SHARES	WEIGHTED AVERAGE	NUMBER OF SHARES	WEIGHTED AVERAGE
Outstanding at beginning of year	1,570,700	\$ 17.45	1,587,755	\$ 17.55	1,597,360	\$ 17.53
Granted	173,489	17.20	210,652	16.42	250,402	17.52
Exercised	(16,757)	11.77	(42,479)	10.49	(78,386)	13.21
Cancelled	(317,706)	18.48	(185,228)	18.67	(181,621)	18.96
<b>Outstanding at end of year</b>	<b>1,409,726</b>	<b>\$ 17.26</b>	<b>1,570,700</b>	<b>\$ 17.45</b>	<b>1,587,755</b>	<b>\$ 17.55</b>
<b>Exercisable at end of year</b>	<b>1,246,737</b>	<b>\$ 17.27</b>	<b>1,379,211</b>	<b>\$ 17.60</b>	<b>1,339,603</b>	<b>\$ 17.55</b>
<b>Available for future grant</b>	<b>5,655,537</b>		<b>5,728,512</b>		<b>5,962,775</b>	

## NOTE 18 • STOCK OPTIONS – CONTINUED

The following table is a summary of information on currently outstanding and exercisable options as of December 31, 2004:

	Options Outstanding			Exercisable Options	
	SHARES	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE
<b>Range of Exercise Prices</b>			(Dollars in thousands)		
\$10.81 - \$13.15	66,871	1.5	\$ 11.49	66,871	\$ 11.49
\$15.37 - \$17.89	1,115,131	6.3	16.94	952,142	16.90
\$18.64 - \$22.57	<u>227,724</u>	4.0	20.53	<u>227,724</u>	20.53
\$10.81 - \$22.57	<u>1,409,726</u>	<u>5.7</u>	<u>\$ 17.26</u>	<u>1,246,737</u>	<u>\$ 17.27</u>

The following is a summary of activity in restricted stock for the years ended December 31,

	2004		2003		2002	
	NUMBER OF SHARES	WEIGHTED AVG GRANT PRICE	NUMBER OF SHARES	WEIGHTED AVG GRANT PRICE	NUMBER OF SHARES	WEIGHTED AVG GRANT PRICE
Outstanding at beginning of year	322,198	\$ 16.90	359,561	\$ 17.01	246,616	\$ 16.41
Granted	130,450	17.13	147,594	16.58	190,470	17.22
Vested	(104,751)	16.83	(181,748)	16.85	(63,908)	15.21
Cancelled	<u>(37,642)</u>	16.93	<u>(3,209)</u>	16.66	<u>(13,617)</u>	16.86
<b>Outstanding at end of year</b>	<u>310,255</u>	<u>\$ 16.95</u>	<u>322,198</u>	<u>\$ 16.90</u>	<u>359,561</u>	<u>\$ 17.01</u>

Restricted stock awards granted by the board of directors are forfeitable and subject to certain restrictions on the part of the recipient until ownership of the shares vests. The board or the committee, at its discretion, may accelerate the removal of any and all restrictions.

Restricted stock awards are recorded as deferred compensation, a component of stockholders' equity at the fair value of these awards at the date of grant and amortized on a straight-line basis to compensation expense over the specified vesting periods. Compensation expense related to restricted stock awards included in salaries and benefits was \$1,925, \$3,038, and \$1,590 in 2004, 2003, and 2002, respectively.

As permitted under SFAS No. 123, as amended by SFAS No. 148, Bancorp elected to apply the intrinsic value method in accounting for its stock-based compensation plans. Accordingly, compensation expense has not been recognized in the accompanying statements of earnings for its stock-based compensation plans, other than for restricted stock awards. Had compensation expense been recognized for the fair value of options awarded consistent with the methodology prescribed, pro forma net earnings and earnings per share would have been as follows for the years ended December 31,

	2004	2003	2002
	(Dollars in thousands, except per share data)		
Net earnings as reported	\$ 41,118	\$ 37,906	\$ 48,235
Add: restricted stock expense, net of taxes, included in net income	1,251	1,975	1,034
Less: total stock-based employee compensation expense determined under the fair value method of all awards, net of taxes	<u>1,517</u>	<u>2,347</u>	<u>1,978</u>
Pro forma net earnings	<u>\$ 40,852</u>	<u>\$ 37,534</u>	<u>\$ 47,291</u>
Earnings per share			
Basic – as reported	\$ 0.94	\$ 0.85	\$ 1.05
Basic – pro forma	<u>\$ 0.93</u>	<u>\$ 0.85</u>	<u>\$ 1.03</u>
Diluted – as reported	\$ 0.94	\$ 0.85	\$ 1.05
Diluted – pro forma	<u>\$ 0.93</u>	<u>\$ 0.84</u>	<u>\$ 1.03</u>

The fair value of stock options granted was estimated using the Black-Scholes option valuation model at the date of grant. The weighted average assumptions used in the computations are as follows:

	2004	2003	2002
Fair value of options granted	\$ 2.85	\$ 2.52	\$ 3.15
Dividend yield	<u>3.60%</u>	<u>3.66%</u>	<u>3.43%</u>
Volatility	<u>0.219</u>	<u>0.225</u>	<u>0.222</u>
Risk-free interest rate	<u>3.34%</u>	<u>3.02%</u>	<u>4.37%</u>
Expected life	<u>5.32</u>	<u>5.22</u>	<u>5.09</u>

## NOTE 19 • LOANS TO RELATED PARTIES

Loans to directors, executive officers, principal holders of Bancorp's common stock, and certain related persons totaled \$28,691, \$25,389, and \$48,555 at December 31, 2004, 2003, and 2002, respectively.

Beginning balance	
Additions	
Collected	
Charged-off	
<b>Ending balance</b>	
<b>Loans 90 days past due</b>	

Activity of these loans was as follows:

2004	2003	2002
(Dollars in thousands)		
\$ 25,389	\$ 48,555	\$ 37,177
9,003	9,844	29,946
5,701	33,010	18,568
0	0	0
<u>\$ 28,691</u>	<u>\$ 25,389</u>	<u>\$ 48,555</u>
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

Related parties of Bancorp, as defined above, were customers of and had transactions with subsidiaries of Bancorp in the ordinary course of business during the periods noted above. Additional transactions may be expected in the ordinary course of business in the future. All outstanding loans, commitments, financing leases, transactions in money market instruments

and deposit relationships included in such transactions were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others, and did not involve more than a normal risk of collectibility or present other unfavorable features.

## NOTE 20 • SHAREHOLDER RIGHTS PLAN

Bancorp has a "shareholder rights plan" under which the holders of Bancorp's common stock are entitled to receive one "right" per share held.

Under the plan, each "right" would be distributed only on the 20th business day after any one of the following events occurs: 1) A public announcement that a person or group has acquired 20 percent or more (an "acquiring person") of Bancorp's outstanding common shares, 2) The beginning of a tender offer or exchange offer that would result in a person or group owning 30 percent or more of the corporation's outstanding common shares, or 3) A declaration by the board of directors of a shareholder as an "adverse person." (An adverse person is a person who owns at least 10 percent of the common shares and attempts "greenmail," or is likely to cause a material adverse impact on the Bancorp – such as impairing customer relationships, harming the company's competitive position or hindering the board's ability to effect a transaction it deems to be in the shareholders' best interest.)

In the event of such a distribution, each "right" would entitle the holder to purchase, at an exercise price of \$38.96, one share of common stock of the corporation. Subject to the "exchange option" described below, if a person or group acquires 30 percent or more of Bancorp's outstanding common shares or is declared an "adverse person" by the board of directors of the corporation, each "right" would entitle the holder to purchase, at an exercise price of \$38.96, a number (to be determined under the plan) of shares of common stock of the corporation at a price equal to 50 percent of its then current market price. However, any "rights" held by an "acquiring person" or an "adverse person" could not be exercised.

Additionally, each "right" holder would be entitled to receive common stock of any acquiring company worth two times the exercise price of the "right,"

should either of the following happen after a person becomes an "acquiring person": 1) Bancorp is acquired in a merger or other transaction – other than a merger which the independent directors determine to be in the best interest of Bancorp and its shareholders, or 2) 50 percent or more of Bancorp's assets or earning power is sold or transferred.

At any time after any person becomes an "acquiring person" or an "adverse person," the plan gives Bancorp's board of directors the option (the "exchange option") to exchange all or part of the outstanding "rights" (except "rights" held by an "acquiring person" or an "adverse person") for shares of Bancorp's common stock at an exchange ratio of 0.8 shares of common stock per "right." In the event that Bancorp's board of directors adopts the "exchange option," each "right" would entitle the holder thereof to receive 0.8 shares of common stock per "right." Any partial exchange would be effected pro rata based on the number of "rights" held by each holder of "rights" included in the exchange.

Bancorp may redeem "rights" for \$0.01 per "right" at any time prior to the 20th business day following the date when a person acquires 20 percent of the outstanding shares. Bancorp may not redeem the "rights" when a holder has become an "adverse person."

The board's adoption of this "rights" plan has no financial effect on Bancorp, is not dilutive to Bancorp shareholders, is not taxable to the corporation or its shareholders, and will not change the way in which Bancorp common shares are traded. "Rights" are not exercisable until distributed; and all "rights" will expire at the close of business on December 6, 2008, unless earlier redeemed by Bancorp.

## NOTE 21 • DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used by Bancorp in estimating its fair value disclosures for financial instruments:

**Cash and short-term investments**—The carrying amounts reported in the balance sheet for cash and short-term investments, such as interest-bearing deposits with other banks and federal funds sold, approximated the fair value of those instruments.

**Investment securities (including mortgage-backed securities)**—Fair values for investment securities were based on quoted market prices, where available. If quoted market prices were not available, fair values were based on quoted market prices of comparable instruments. (Refer to Note 8 for further disclosure.)

**Loans**—For variable-rate loans that reprice frequently with no significant change in credit risk, fair values were based on carrying values. The fair values of other loans and leases, such as commercial real estate and consumer loans were estimated by discounting the future cash flows using the current rates at which similar loans and leases would be made to borrowers with similar credit ratings and for the same remaining maturities or repricing frequency. The carrying amount of accrued interest approximated its fair value.

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

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

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

**Commitments to extend credit and standby letters of credit**—Pricing of these financial instruments is based on the credit quality and relationship, fees, interest rates, probability of funding and compensating balance and other covenants or requirements. Loan commitments generally have fixed expiration dates, are variable rate, and contain termination and other clauses which provide for relief from funding in the event that there is a significant deterioration in the credit quality of the customer. Many loan commitments are expected to expire without being drawn upon. The rates and terms of the commitments to extend credit and the standby letters of credit are competitive with those in Bancorp's market area. The carrying amounts are reasonable estimates of the fair value of these financial instruments. Carrying amounts which are comprised of the unamortized fee income and, where necessary, reserves for any expected credit losses from these financial instruments, are immaterial. (Refer to Note 6 for additional information.)

**Derivative financial instruments**—Fair values for derivative financial instruments, specifically interest rate swaps, were determined using market quotes for those instruments.

Bancorp does not carry financial instruments which are held or issued for trading purposes.

The estimated fair values of Bancorp's financial instruments at December 31 were as follows:

	2004		2003	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
	(Dollars in thousands)			
<b>Financial assets</b>				
Cash and short-term investments	\$ 168,322	\$ 168,322	\$ 189,233	\$ 189,233
Investment securities held-to-maturity	12,809	13,176	18,399	18,596
Investment securities available-for-sale	669,431	669,431	794,762	794,762
<b>Loans</b>				
Commercial	644,933	648,448	666,315	666,370
Real estate—construction	91,475	91,707	73,260	73,335
Real estate—mortgage	1,539,398	1,558,449	1,466,153	1,468,786
Installment, net of unearned income	592,396	593,333	559,975	565,048
Credit card	21,895	21,895	21,680	21,493
Leasing	5,229	5,642	12,241	12,268
Less allowance for loan losses	46,718	—	47,771	—
Net loans	<u>2,848,608</u>	<u>2,919,474</u>	<u>2,751,853</u>	<u>2,807,300</u>
Mortgage servicing rights	4,522	4,617	3,722	3,952
Accrued interest receivable	19,554	19,554	20,203	20,203
<b>Financial liabilities</b>				
<b>Deposits</b>				
Noninterest-bearing	443,902	443,902	414,785	414,785
Interest-bearing demand	214,783	214,783	214,890	214,890
Savings	1,021,260	1,021,260	1,010,643	1,010,643
Time	<u>1,305,041</u>	<u>1,298,447</u>	<u>1,305,347</u>	<u>1,315,572</u>
Total deposits	2,984,986	2,978,392	2,945,665	2,955,890
Short-term borrowings	145,144	145,144	258,909	258,909
Federal Home Loan Bank long-term debt	350,856	360,131	322,979	346,975
Other long-term debt	30,930	30,930	30,000	30,000
Accrued interest payable	4,924	4,924	5,048	5,048
Derivative financial instruments	138	138	121	121

NOTE 22 • FIRST FINANCIAL BANCORP (PARENT COMPANY ONLY) FINANCIAL INFORMATION

**Balance Sheets**

	December 31,	
	2004	2003
	(Dollars in thousands)	
<b>Assets</b>		
Cash	\$ 25,077	\$ 28,345
Investment securities	3,302	5,405
Subordinated notes from subsidiaries	7,500	7,500
Investment in subsidiaries		
Commercial banks	304,922	293,450
Savings banks	9,515	9,582
Nonbanks	21,907	21,125
Total investment in subsidiaries	<u>336,344</u>	<u>324,157</u>
Loans		
Commercial	1,144	1,284
Real estate—mortgage	6,847	8,578
Total loans	<u>7,991</u>	<u>9,862</u>
Allowance for loan losses	1,896	2,118
Net loans	<u>6,095</u>	<u>7,744</u>
Bank premises & equipment	1,146	1,184
Other assets	35,324	33,243
<b>Total assets</b>	<u>\$ 414,788</u>	<u>\$ 407,578</u>
<b>Liabilities</b>		
Short-term borrowings	\$ 2,000	\$ 0
Subordinated debentures	30,930	30,930
Dividends payable	6,556	6,595
Other liabilities	3,847	3,570
<b>Total liabilities</b>	<u>43,333</u>	<u>41,095</u>
<b>Shareholders' equity</b>	<u>371,455</u>	<u>366,483</u>
<b>Total liabilities and shareholders' equity</b>	<u>\$ 414,788</u>	<u>\$ 407,578</u>

**Statements of Earnings**

	Year Ended December 31,		
	2004	2003	2002
	(Dollars in thousands)		
<b>Income</b>			
Interest income	\$ 839	\$ 971	\$ 1,278
Noninterest income	624	723	725
Investment securities losses	(3)	(3)	0
Dividends from subsidiaries	35,847	62,136	54,364
<b>Total income</b>	<u>37,307</u>	<u>63,827</u>	<u>56,367</u>
<b>Expenses</b>			
Interest expense	1,575	1,397	903
Provision for loan losses	0	(120)	0
Salaries and employee benefits	6,731	9,619	4,768
Miscellaneous professional services	1,481	1,286	726
Other	2,161	2,051	324
<b>Total expenses</b>	<u>11,948</u>	<u>14,233</u>	<u>6,721</u>
<b>Income before income taxes and equity in undistributed net earnings of subsidiaries</b>	<u>25,359</u>	<u>49,594</u>	<u>49,646</u>
Income tax benefit	(2,944)	(3,852)	(1,393)
<b>Income before equity in undistributed net earnings of subsidiaries</b>	<u>28,303</u>	<u>53,446</u>	<u>51,039</u>
Equity in undistributed net earnings of subsidiaries	12,815	(15,540)	(2,804)
<b>Net earnings</b>	<u>\$ 41,118</u>	<u>\$ 37,906</u>	<u>\$ 48,235</u>



NOTE 22 • FIRST FINANCIAL BANCORP (PARENT COMPANY ONLY) FINANCIAL INFORMATION – CONTINUED

Statements of Cash Flows

	Year Ended December 31,		
	2004	2003	2002
	(Dollars in thousands)		
<b>Operating activities</b>			
Net earnings	\$ 41,118	\$ 37,906	\$ 48,235
Adjustments to reconcile net earnings to net cash provided by operating activities			
Equity in undistributed net earnings of subsidiaries	(12,815)	15,540	2,804
Provision for allowance for loan losses	0	(120)	0
Provision for depreciation and amortization	2,145	3,225	1,980
Deferred income taxes	2,003	(551)	(2,176)
Decrease in dividends payable	(39)	(170)	(239)
Increase (decrease) in accrued expenses	119	643	(422)
Increase in other assets	(4,042)	(3,049)	(158)
Net cash provided by operating activities	<u>28,489</u>	<u>53,424</u>	<u>50,024</u>
<b>Investing activities</b>			
Capital contributions to subsidiaries	(4,750)	(620)	(510)
Purchase of investment securities	0	0	(2,016)
Maturities of investment securities	2,005	0	0
Net decrease in loans	1,595	4,806	1,025
Purchases of premises and equipment	(100)	(129)	(41)
Other	97	(179)	(202)
Net cash (used in) provided by investing activities	<u>(1,153)</u>	<u>3,878</u>	<u>(1,744)</u>
<b>Financing activities</b>			
Increase (decrease) in short-term borrowings	2,000	(30,500)	7,000
Issuance of subordinated debentures to non-bank subsidiary	0	20,620	10,310
Cash dividends	(26,348)	(26,586)	(27,474)
Purchase of common stock	(6,265)	(19,714)	(32,910)
Proceeds from exercise of stock options, net of shares purchased	9	82	776
Net cash used in financing activities	<u>(30,604)</u>	<u>(56,098)</u>	<u>(42,298)</u>
<b>(Decrease) increase in cash</b>	<u>(3,268)</u>	<u>1,204</u>	<u>5,982</u>
Cash at beginning of year	<u>28,345</u>	<u>27,141</u>	<u>21,159</u>
<b>Cash at end of year</b>	<u>\$ 25,077</u>	<u>\$ 28,345</u>	<u>\$ 27,141</u>

NOTE 23 • SUBSEQUENT EVENT

In March of 2005, First Financial Bancorp signed an agreement to sell substantially all of the assets and certain liabilities of its Fidelity Federal Savings Bank subsidiary to Mutual Federal Savings Bank of Muncie, Indiana. Pending regulatory approval, the transaction is expected to close by late 2005.

## QUARTERLY FINANCIAL AND COMMON STOCK DATA

(Unaudited)

### THREE MONTHS ENDED

	MARCH 31	JUNE 30	SEPTEMBER 30	DECEMBER 31
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(Dollars in thousands, except per share data)

### 2004

Interest income	\$ 50,823	\$ 50,126	\$ 51,151	\$ 50,877
Interest expense	<u>14,666</u>	<u>14,126</u>	<u>14,950</u>	<u>15,488</u>
Net interest income	36,157	36,000	36,201	35,389
Provision for loan losses	2,600	2,243	2,097	343
Noninterest income				
Investment securities gains (losses)	(2)	(1)	(8)	13
All other	14,443	14,906	16,024	14,667
Noninterest expenses	<u>33,244</u>	<u>33,389</u>	<u>34,442</u>	<u>35,056</u>
Income before income taxes	14,754	15,273	15,678	14,670
Income tax expense	<u>4,806</u>	<u>4,936</u>	<u>4,854</u>	<u>4,661</u>
<b>Net earnings</b>	<u>\$ 9,948</u>	<u>\$ 10,337</u>	<u>\$ 10,824</u>	<u>\$ 10,009</u>
Per share				
<b>Net earnings—basic</b>	<u>\$ 0.23</u>	<u>\$ 0.24</u>	<u>\$ 0.25</u>	<u>\$ 0.23</u>
<b>Net earnings—diluted</b>	<u>\$ 0.23</u>	<u>\$ 0.24</u>	<u>\$ 0.25</u>	<u>\$ 0.23</u>
<b>Cash dividends paid</b>	<u>\$ 0.15</u>	<u>\$ 0.15</u>	<u>\$ 0.15</u>	<u>\$ 0.15</u>
<b>Market price</b>				
High bid	<u>\$ 18.82</u>	<u>\$ 18.47</u>	<u>\$ 18.78</u>	<u>\$ 17.90</u>
Low bid	<u>\$ 16.29</u>	<u>\$ 15.61</u>	<u>\$ 16.71</u>	<u>\$ 16.90</u>

### 2003

Interest income	\$ 53,751	\$ 53,335	\$ 52,148	\$ 49,055
Interest expense	<u>16,515</u>	<u>16,156</u>	<u>15,775</u>	<u>14,962</u>
Net interest income	37,236	37,179	36,373	34,093
Provision for loan losses	3,214	3,942	4,364	7,422
Noninterest income				
Investment securities gains (losses)	28	(36)	28	4
All other	13,822	14,242	15,101	19,023
Noninterest expenses	<u>31,759</u>	<u>31,817</u>	<u>35,739</u>	<u>33,480</u>
Income before income taxes	16,113	15,626	11,399	12,218
Income tax expense	<u>5,482</u>	<u>5,016</u>	<u>3,575</u>	<u>3,377</u>
<b>Net earnings</b>	<u>\$ 10,631</u>	<u>\$ 10,610</u>	<u>\$ 7,824</u>	<u>\$ 8,841</u>
Per share				
<b>Net earnings—basic</b>	<u>\$ 0.24</u>	<u>\$ 0.24</u>	<u>\$ 0.18</u>	<u>\$ 0.20</u>
<b>Net earnings—diluted</b>	<u>\$ 0.24</u>	<u>\$ 0.24</u>	<u>\$ 0.18</u>	<u>\$ 0.20</u>
<b>Cash dividends paid</b>	<u>\$ 0.15</u>	<u>\$ 0.15</u>	<u>\$ 0.15</u>	<u>\$ 0.15</u>
<b>Market price</b>				
High bid	<u>\$ 17.19</u>	<u>\$ 17.00</u>	<u>\$ 16.60</u>	<u>\$ 16.92</u>
Low bid	<u>\$ 15.26</u>	<u>\$ 15.00</u>	<u>\$ 14.67</u>	<u>\$ 15.14</u>

First Financial Bancorp common stock trades on The Nasdaq Stock Market® under the symbol FFBC.

**FIRST FINANCIAL BANCORP****Assets: \$3.9 billion****Directors**

Bruce E. Leep, Chairman of the Board, First Financial Bancorp; Chairman of the Board, Sand Ridge Bank

Claude E. Davis, President and Chief Executive Officer, First Financial Bancorp; Chairman of the Board, First Financial Bank

Don M. Cisle, President, Don S. Cisle Contractor, Inc.

Corinne R. Finnerty, Partner, McConnell & Finnerty, Attorneys-at-Law

Carl R. Fiora, Retired President and Chief Executive Officer, Armco Steel Co., L.P.

Dr. James C. Garland, President, Miami University

Murph Knapke, Owner, Knapke Law Office, Attorney-at-Law

Stephen S. Marcum, Partner, Parrish, Fryman & Marcum Co., L.P.A.

Barry S. Porter, Retired Chief Financial Officer, The Ohio Casualty Corp.

Steven C. Posey, President, Posey Management Corp.

**Officers**

*President and Chief Executive Officer:* Claude E. Davis

*Executive Vice President:* C. Douglas Lefferson

*Senior Vice President:* C. Thomas Murrell, III, Robert C. Oberg

*First Vice President:* Gary A. Eppley, J. Franklin Hall

*Vice President:* Chris A. Bezold, Regina P. Brackett, Marilyn D. Burkhart, Terence M. Fitz, Elizabeth E. Fontaine, Stephen R. Foster, Michael C. Harris, Cheryl R. Lipp, James W. Manning, Janie McCauley, Lawrence P. Mulligan, Jr., Stephen C. Schatteman, Jill L. Wyman

**Location**

300 High Street, Hamilton, Ohio 45011

**SUBSIDIARIES OF THE CORPORATION****FIRST FINANCIAL BANK, NATIONAL ASSOCIATION****Assets: \$1.7 billion****Directors**

Claude E. Davis, Chairman of the Board, First Financial Bank; President and Chief Executive Officer, First Financial Bancorp

Mark W. Immelt, President and Chief Executive Officer, First Financial Bank

Don M. Cisle, President, Don S. Cisle Contractor, Inc.

Michael A. Conner, Chief Operating Officer, First Financial Bank

Corinne R. Finnerty, Partner, McConnell & Finnerty, Attorneys-at-Law

Carl R. Fiora, Retired President and Chief Executive Officer, Armco Steel Co., L.P.

Dr. James C. Garland, President, Miami University

Stephen S. Marcum, Partner, Parrish, Fryman & Marcum Co., L.P.A.

Barry S. Porter, Retired Chief Financial Officer, The Ohio Casualty Corp.

Steven C. Posey, President, Posey Management Corp.

Susan L. Purkrabek-Knust, Managing Member, K.P. Properties, LLC and Omega Warehouse Services, LLC

Herman R. Sanders, President and Manager, Butler County Lumber Co.

Ronald E. Watson, President, Watson Gravel

**Officers**

*President and Chief Executive Officer:* Mark W. Immelt

*Executive Vice President:* Patrick J. Hart

*Chief Operating Officer:* Michael A. Conner

*Senior Vice President:* Margaret A. Baker, Brendan J. Burns, John R. Kuczynski, Matthew Marro

*First Vice President:* Charles H. Barton, Kathy D. Carmack, Pamela R. Cottle, Vaden W. Fitton, Alan R. Flegal, Timothy A. Kemper, August J. Misericchi, David D. Schul, Patty K. Scott, Dennis G. Walsh

*Vice President:* Glenn E. Boone, Regina P. Brackett, Austin Correll, Fred G. DeBiasi, Alan B. Druso, Kelland L. Farler, Brenda L. Frazier, James H. Fuller, Jean E. Gaw, A. Scott Gullett, David L. Haft, Joseph Hojnacki, Gregory A. Kelly, M. Ryan Kirkham, Harry L. Korros, Keith A. Maurmeier, Brenda K. Morris, Tricia M. Neeley, Sara A. Pinkerton, Suzanne Puthoff, Jeffrey C. Roberts, R. Todd Slagle, Michele S. Stoffer, Mark D. Welch

**Locations**

4 South Main Street, Camden, Ohio 45311

10174 Colerain Avenue, Cincinnati, Ohio 45251

7521 Hamilton Avenue, Cincinnati, Ohio 45231

6880 Wooster Pike, Cincinnati, Ohio 45227

4601 Dixie Highway, Fairfield, Ohio 45014

6060 South Gilmore Road, Fairfield, Ohio 45014

5300 Pleasant Avenue, Fairfield, Ohio 45014

300 High Street, Hamilton, Ohio 45011\*

5971 Golf Club Lane, Hamilton, Ohio 45011

970 Main Street, Hamilton, Ohio 45013

2344 South Erie Highway, Hamilton, Ohio 45011

8211 Princeton-Glendale Road, Hamilton, Ohio 45011

855 Stahlheber Road, Hamilton, Ohio 45013

160 Berkeley Square, Hamilton, Ohio 45013

720 NW Washington Boulevard, Hamilton, Ohio 45013

100 North Commerce Street, Lewisburg, Ohio 45338

8601 Landen Drive, Maineville, Ohio 45039

6050 S. State Route 48, Maineville, Ohio 45039

1063 Reading Road, Mason, Ohio 45040

300 North Main Street, Middletown, Ohio 45042

815 South Breiel Boulevard, Middletown, Ohio 45044

1300 Sunset Street, Middletown, Ohio 45042

108 South Main Street, Monroe, Ohio 45050

225 Britton Lane, Monroe, Ohio 45050

25 West High Street, Oxford, Ohio 45056

475 McGuffey Avenue, Oxford, Ohio 45056

4079 Hamilton-Cleves Road, Ross, Ohio 45014

300 North Main Street, Seven Mile, Ohio 45062

885 West Central Avenue, Springboro, Ohio 45066

125 East State Street, Trenton, Ohio 45067

7795 Tylersville Road, West Chester, Ohio 45069

7237 Cincinnati-Dayton Road, West Chester, Ohio 45069

9120 Union Centre Boulevard, West Chester, Ohio 45069

6081 Limaburg Road, Burlington, Kentucky 41005

2652 Northbend Road, Hebron, Kentucky 41048

3010 First Street, Petersburg, Kentucky 41080

\*Main Office

**SAND RIDGE BANK****Assets: \$884 million****Directors**

Bruce E. Leep, Chairman of the Board, Sand Ridge Bank; Chairman of the Board, First Financial Bancorp

Ronnie J. Alting, Indiana State Senator

Claude E. Davis, President and Chief Executive Officer, First Financial Bancorp

David S. Harvey, President and Chief Executive Officer, Sand Ridge Bank

Richard E. Olszewski, President and Owner, K & L Inc.

Rhett L. Tauber, Partner, Tauber & Westland PC

Tom A. Van Prooyen, General Manager, Schepel Buick GMC

Samuel N. Van Til, Vice President, Strack & Van Til Supermarket, Inc.

Dale V. Zinn, Secretary, Zinn Kitchens

**Officers**

*President and Chief Executive Officer:* David S. Harvey

*Executive Vice President:* George J. Vande Werken

*Senior Vice President:* Scott S. Gyure, Bruce A. Hunt, Jay C. Reynolds, Terry L. Saxsma, Mark W. Sprenger, William M. Winterhaler, Thomas J. Young

*Vice President:* Walter J. Banke, Cheryl L. Barenie, Cortney H. Collison, Marjorie Dian, Paul L. Doherty, B. Wayne Hays, Timothy P. Kelly, Andrew S. Kyres, Ruth A. LaBuda, Patrick T. Leahy, Michelle M. Markley, Gregory S. McGandy, Eric G. Ross, Michael S. Schneider, Mary E. Shelton, Terri L. Sink, Michael T. Siwietz, Guy M. Staska, Margaret Van Gorp, Sandra G. Velasco

**Locations**

4 North Gate Plaza, Michigan Road, Burlington, Indiana 46915

215 East Main Street, Delphi, Indiana 46923

4 East Main Street, Flora, Indiana 46929

817 East Columbia Street, Flora, Indiana 46929

2635 169th Street, Hammond, Indiana 46323

2611 Highway Avenue, Highland, Indiana 46322\*

11890 S. Broadway, Crown Point, Indiana 46307

2750 45th Street, Highland, Indiana 46322

9632 Cline Avenue, Highland, Indiana 46322

1600 Sagamore Parkway South, Lafayette, Indiana 47903

302 Ferry Street, Lafayette, Indiana 47901

State Road 26 West, Rossville, Indiana 46065

450 West Lincoln Highway, Schererville, Indiana 46375

1650 US 41, Schererville, Indiana 46375

241 West State Street, Hastings, Michigan 49058

12850 West M-179 Highway, Wayland, Michigan 49348

**COMMUNITY FIRST BANK & TRUST****Assets: \$852 million****Directors**

Murph Knapke, Chairman of the Board, Community First; Attorney-at-Law, Owner, Knapke Law Office

Claude E. Davis, President and Chief Executive Officer, First Financial Bancorp

Samuel J. Munafo, President and Chief Executive Officer, Community First

Thomas Casaboro, President and Chief Executive Officer, CASA Restaurant Group

Ronald C. House, Farmer

William J. Kramer, President, Valco Steel Products, Inc.

Rodney L. Stoller, CPA, Arend, Laukhuf & Stoller

Alan B. Terrell, President, Rochester Telephone Company, Inc.

**Officers**

*President and Chief Executive Officer:* Samuel J. Munafo

*Executive Vice President:* Bryce L. Beckman, John C. Hoying, Scott A. Oboy, Howard A. Stammen

*Chief Operating Officer:* Phyllis S. Fiser, Michael R. Terrone

*Senior Vice President:* Marie J. Archer, Thomas R. Bolduc, Collin J. Bryan, Steven G. Hammer, Craig A. Kuhlman, Y. Jeannine Long

*First Vice President:* Linda G. Cooper, Ken Goettemoeller, Thomas C. Saddler, Rod L. Stover

*Vice President:* Annette Y. Ayres, Frederick C. Bouyack, George Brooks, Diana J. Cears, Dan R. Clark, T.F. "Bob" Fuller, Thomas M. Gauvey, Rick L. Greve, Marie C. Gross, Kathleen Hemmelgarn, Scott A. Hicks, Stephen Hull, Geoffrey L. Hyman, Edward Kaiser, Denis Knapschaefer, Kelly Lloyd, Todd L. Lybarger, Milton L. Miller, Michael J. Moore, Kent A. Phares, Douglas J. Rice, Corey Scarbrough, Dana L. Schultz, J. Susie Snep, Betty K. Strawn, Randy Swary, J. Chadwick Tranter, Mark Williams

**Locations**

327 South Main Street, Bryan, Ohio 43506

225 North Main Street, Celina, Ohio 45822\*

124 East Fayette Street, Celina, Ohio 45822

115 West Summit Street, Celina, Ohio 45822

137 West Buckeye Street, Clyde, Ohio 43410

1005 West McPherson Highway, Clyde, Ohio 43410

730 East Main Street, Coldwater, Ohio 45828

202 North Main Street, Delphos, Ohio 45833

220 North Wayne Street, Fort Recovery, Ohio 45846

2140 Enterprise Drive - Suite A, Fremont, Ohio 43420

201 North Main Street, Paulding, Ohio 45879

101 East Merrin Street, Payne, Ohio 45880

166 South Main Street, Rockford, Ohio 45882

153 East Spring Street, St. Marys, Ohio 45885

228 East South Street, St. Marys, Ohio 45885

1210 Celina Road, St. Marys, Ohio 45885

11230 State Route 364, St. Marys, Ohio 45885

102 East Main Street, Van Wert, Ohio 45891

113 East Central Street, Van Wert, Ohio 45891

1163 South Shannon Street, Van Wert, Ohio 45891

315 State Street, Willshire, Ohio 45898

6154 St. Joe Center Road, Fort Wayne, Indiana 46835

106 North Market Street, North Manchester, Indiana 46962

103 Heeter Street, North Manchester, Indiana 46962

Peabody Retirement Community, North Manchester, Indiana 46962

Timbercrest Retirement Community, North Manchester, Indiana 46962

729 Main Street, Rochester, Indiana 46975

520 East Ninth Street, Rochester, Indiana 46975

211 West Pearl Street, Union City, Indiana 47390

1307 North Cass Street, Wabash, Indiana 46992

1810 East Center Street, Warsaw, Indiana 46580

870 East Washington Street, Winchester, Indiana 47394

\*Main Office

**HERITAGE COMMUNITY BANK****Assets: \$254 million****Directors**

C. Douglas Lefferson, Chairman of the Board and Interim President and Chief Executive Officer, Heritage Community Bank; Executive Vice President and Chief Financial Officer, First Financial Bancorp

Harry R. Campbell, Owner, Campbell Auction Service

E. Michael Danner, Owner/Operator, Danner's Hardware

Corinne R. Finnerty, Partner, McConnell & Finnerty, Attorneys-at-Law

John G. Roeder, Superintendent, Sunman-Dearborn School Corporation

**Officers**

*Interim President and Chief Executive Officer:* C. Douglas Lefferson

*Senior Vice President:* David L. Mackey, Karen I. Miller, Stephen C. Schatteman

*Vice President:* Vickie Couch, Colleen G. Ervin, Gary Everroad, Deborah R. Harmon, John R. Klein, Jr., Gayle Rayles, Jason Schroer, John W. Stone, Patricia Whitcomb

**Locations**

616 Main Street, Brookville, Indiana 47012

10 South Main Street, Carthage, Indiana 46115

426 Washington Street, Columbus, Indiana 47201\*

1665 N. National Road, Columbus, Indiana 47201

630 Central Avenue, Connersville, Indiana 47331

State Road 250 & State Road 56, East Enterprise, Indiana 47019

310 North Main Street, Liberty, Indiana 47353

301 Demaree Drive, Madison, Indiana 47250

7 North 5th Street, North Vernon, Indiana 47265

2070 N. State Hwy. 7, North Vernon, Indiana 47265

327 North Main Street, Rushville, Indiana 46173

102 West Main Street, Vevay, Indiana 47043

804 West Main Street, Vevay, Indiana 47043

48 Brookville Street, West College Corner, Indiana 47003

**FIDELITY FEDERAL SAVINGS BANK****Assets: \$110 million****Directors**

Michael D. Pretorius, Chairman of the Board, President and Chief Executive Officer, Fidelity Federal

Harry J. Finch, President, Grant County Abstract Co., Inc.

Dr. J. Courtney Gorman, President, Gorman Center for Orthodontics

John C. Hoying, Executive Vice President, Community First

Terry T. Munday, Vice President, Indiana Wesleyan University

John R. Noblitt, Retired President, SCM Office Supplies Group

**Officers**

*President and Chief Executive Officer:* Michael D. Pretorius

*Vice President:* Michael A. Belcher, Sandra S. Holman, James L. Widner

**Locations**

200 East Main Street, Gas City, Indiana 46933

116 West 4th Street, Marion, Indiana 46952\*

1020 North Baldwin Avenue, Marion, Indiana 46952

**CITIZENS FIRST STATE BANK****Assets: \$94 million****Directors**

John D. Littler, Chairman of the Board, Citizens First; President, Littler Diecast Corporation

James M. Weiseman, President and Chief Executive Officer, Citizens First

Robert J. Barry, Attorney-at-Law, Barry, Basey & Barry

Robert C. Brown, Owner, Barnum-Brown Insurance Agency

John A. Miller, President, J.A. Miller & Son Oil

Arthur D. Needler, President, Needler Properties

Robert L. Wyne, Retired President and Chief Executive Officer, Citizens First

**Officers**

*President and Chief Executive Officer:* James M. Weiseman

*Senior Vice President:* Scott A. Green

*Vice President:* Shirley K. Miller, William D. Siewert, Debra L. Whitesell

*Chief Financial Officer:* Debra Crawford

**Locations**

101 West Washington Street, Hartford City, Indiana 47348\*

117 North Jefferson Street, Hartford City, Indiana 47348

218 South Main Street, Dunkirk, Indiana 47336

127 West Huntington Street, Montpelier, Indiana 47359

3360 North Morrison Road, Muncie, Indiana 47304

**FLAGSTONE INSURANCE AND FINANCIAL SERVICES**

(Heritage Community Bank Subsidiary)

**Directors**

Mark A. Willis, Chairman, President, and Chief Executive Officer, Flagstone Insurance

Claude E. Davis, President and Chief Executive Officer, First Financial Bancorp

Timothy R. Foley, President, ME Companies

J. Franklin Hall, First Vice President, Controller, and Director of Finance, First Financial Bancorp

David J. LaRue, President and Chief Operating Officer, Forest City Commercial Group, Inc.

C. Douglas Lefferson, Executive Vice President and Chief Financial Officer, First Financial Bancorp

Janie McCauley, Vice President and Associate General Counsel, First Financial Bancorp

John Reister, Partner, Millikin & Fitton Law Firm

\*Main Office

## Officers

*President and Chief Executive Officer:* Mark A. Willis, CPCU, CIC

*Vice President:* C. Douglas Lefferson, D. Bradley Wilson,  
Ted A. Havens, Thomas A. White

*Secretary:* Janie McCauley

*Treasurer:* J. Franklin Hall

## Locations

128 West Market Street, Celina, Ohio 45822

300 High Street, Hamilton, Ohio 45011\*

521 Central Avenue, Connersville, Indiana 47331

2809 Highway Avenue, Highland, Indiana 46322

9120 Union Centre Boulevard, West Chester, Ohio 45069

## FIRST FINANCIAL BANCORP SERVICE CORP.

### Directors

Claude E. Davis, President and Chief Executive Officer, First Financial Bancorp

David S. Harvey, President and Chief Executive Officer, Sand Ridge Bank

Rex A. Hockemeyer, President and Chief Executive Officer, Service Corp.

Mark W. Immelt, President and Chief Executive Officer, First Financial Bank

C. Douglas Lefferson, Interim President and Chief Executive Officer,  
Heritage Community Bank; Executive Vice President and Chief Financial Officer,  
First Financial Bancorp

Samuel J. Munafo, President and Chief Executive Officer,  
Community First Bank & Trust

### Officers

*President and Chief Executive Officer:* Rex A. Hockemeyer

*Executive Vice President:* Jerry L. Begley, Joseph M. Gallina

*Senior Vice President:* Linda L. Novitski

*Vice President:* Christopher J. Hart, Maureen R. Loos, Rae J. LoBuono, Donna J. Jordan

### Location

4400 Lewis Street, Middletown, Ohio 45044

## FIRST FINANCIAL CAPITAL ADVISORS LLC

### Directors

Mark W. Immelt, President and Chief Executive Officer, First Financial Bank

John R. Kuczynski, Senior Vice President, First Financial Bank

Patty K. Scott, First Vice President, First Financial Bank

Janie McCauley, Vice President and Associate General Counsel,  
First Financial Bancorp

### Officers

*President and Chief Executive Officer:* Mark W. Immelt

*First Vice President:* Dennis C. Dietz, Richard E. Titus

*Vice President:* Michael R. Scott

*Compliance Officer and Secretary:* Patty K. Scott

*Treasurer:* Glenn E. Boone

### Location

300 High Street, Hamilton, Ohio 45011

## SHAREHOLDER INFORMATION

Annual Meeting  
The Annual Meeting of Shareholders  
will be held at the  
Fitton Center for Creative Arts  
101 S. Monument Ave., Hamilton, Ohio 45011  
Tuesday, April 26, 2005, 10:00 a.m.

Form 10-K  
For copies of First Financial Bancorp's  
Form 10-K, write to:  
J. Franklin Hall  
First Vice President, Controller, and Director of Finance  
First Financial Bancorp  
300 High Street, P.O. Box 476  
Hamilton, OH 45012-0476  
1-513-867-5447  
1-513-867-3112 (FAX)  
frank.hall@ffbc-oh.com

Transfer Agent and Registrar  
Registrar and Transfer Company  
10 Commerce Drive  
Cranford, NJ 07016  
1-800-368-5948  
1-908-497-2312 (FAX)

Listed on  
The Nasdaq Stock Market®  
Common Stock Symbol: FFBC

[www.ffbc-oh.com](http://www.ffbc-oh.com)

FIRST FINANCIAL BANCORP | 300 HIGH STREET | HAMILTON, OH 45011

[www.ffbc-oh.com](http://www.ffbc-oh.com)