



# Risk Management

Tony Stollings  
EVP & Chief Risk Officer

**first**

first financial bancorp

Investor Day

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# The Role of Corporate Risk

- High level of involvement in risk-taking activities, providing credible challenge
- Provides an enterprise wide view of risk to management and the Board of Directors, including the Board's Risk Committee
- Leads discussion regarding development of the Company's risk appetite, provides on-going measurement of key risk indicators and bands of acceptable tolerance
- Works with lines of business to evaluate risk limits, loan portfolio product and industry concentrations, as well as geographic concentrations
- Provides oversight to ensure corporate functions and businesses soundly manage risk and comply with applicable laws and regulations
- Drives process to evaluate significant initiatives prior to implementation including technology, operations, legal and compliance
- Coordinates all regulatory agency activities related to examinations and the Company's on-going relationship with primarily the Federal Reserve and OCC
- Participates in due diligence and review of acquisition prospects

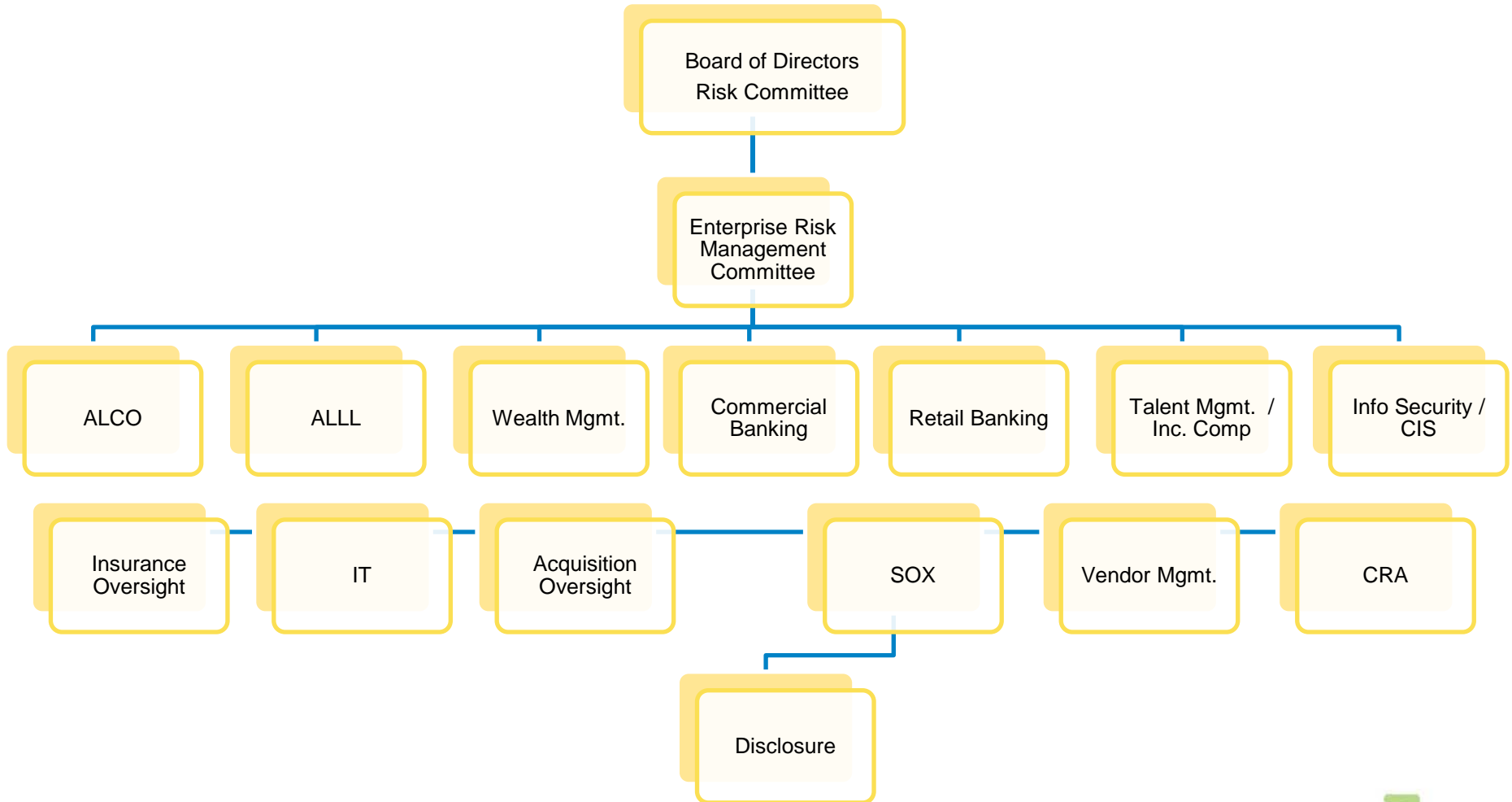
# Structurally Sound Risk Management

- First Financial's Risk Management includes enterprise oversight of credit, operational, market, technology, legal, strategic, regulatory and reputational risks
- Historically, risk management has been strong with appropriate "tone-at-the-top"
  - CRO role has existed since 2002 and is current member of the executive team
  - Culture of risk ownership and accountability is evident in the lines of business
  - Early problem identification and escalation is a key theme with appropriate actions taken
  - Track record reflects de-risking or eliminating portfolios, addressing issues and responding swiftly to change

# Enhanced and Strengthened Risk Management

- Established Board Risk Committee in 2010; previously combined with the Audit Committee
- Developed comprehensive playbook for enterprise risk management (“ERM”) clearly defining roles and responsibilities
- Risk appetite statement and metrics integrated into company and business line risk management; consistent with strategic objectives
- Evaluate, identify and mitigate risk through 14 risk committees, overseen by Enterprise Risk Management Committee (“ERMC”)
- Increased and upgraded Risk Management talent
- Brought loan review function in-house
- Continuing to invest in our risk infrastructure by implementing new ERM platform that is expected to provide further integration of risk disciplines, particularly in the areas of Key Risk Indicators (“KRIs”), SOX, Internal Audit, Corporate Policy and Regulatory Compliance

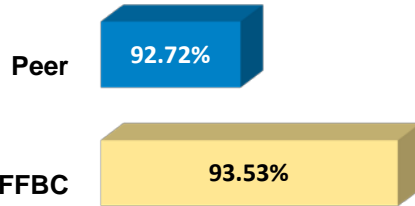
# Integrated Committee Structure



# Less Risk than Peers

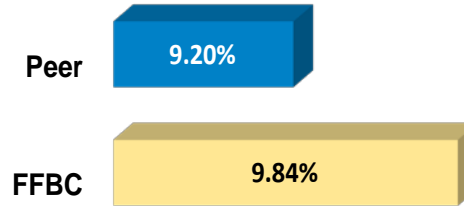
## Liquidity

Total avg deposits / Total avg liabilities



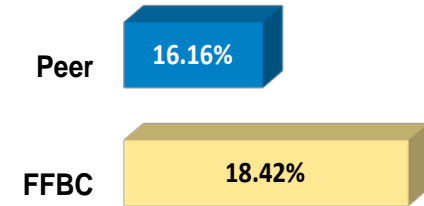
## GAAP Capital

Avg tangible equity / Avg tangible assets



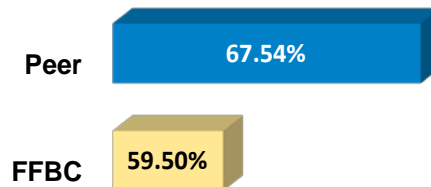
## Regulatory Capital

Total capital / Risk-weighted assets

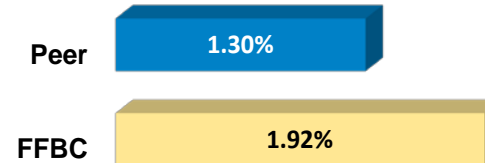


## Balance Sheet Risk & Return

Risk-weighted assets / Total assets



Return on avg risk-weighted assets

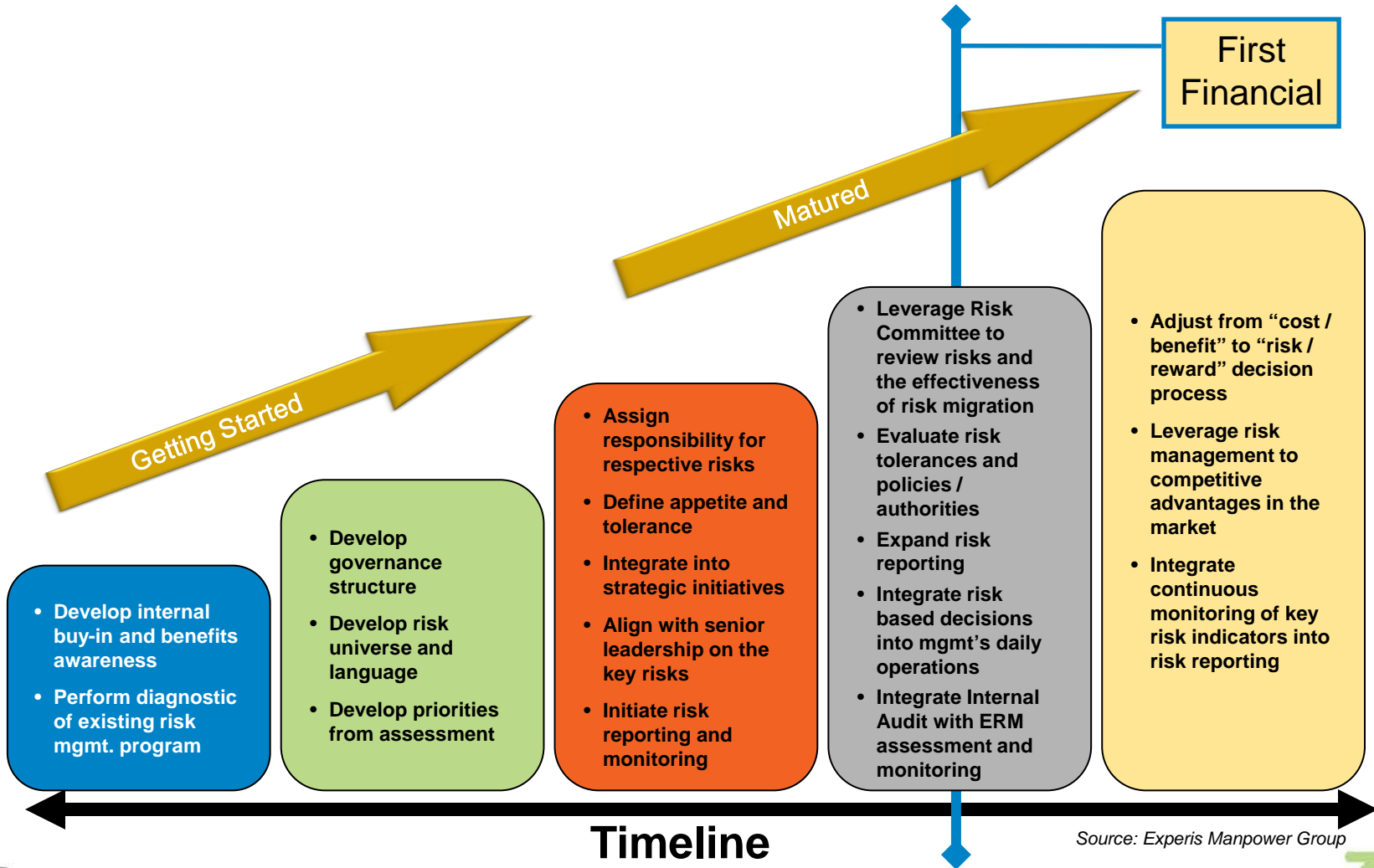


Note: FFBC information is as of June 30, 2012. Peer group comprised of the component banks within the KBW Regional Bank Index (49 total companies excluding First Financial); based on peer median financial data as of March 31, 2012.

# Current Environment

- Significantly expanded laws, rules and regulations
  - Dodd-Frank Wall Street Reform
  - Consumer Financial Protection Bureau
  - Basel III
- Strengthened regulatory risk functions through hiring of experienced compliance staff
- Compliance is factored into all risk assessments
- Heightened regulatory monitoring and reporting to management and Board
- Franchise finance is only national platform

# Risk Management Evolution





# Applying the Governance

**Board of Directors**



- Review risk policy, risk management structure, establish risk appetite and tolerances
- Understand and oversee overall risk profile and risk management structure
- Approve risk strategies
- Oversight / assessment of risk monitoring

**Risk Committee**



- Approve / oversee risk tolerances, initiatives and strategies
- Delegate and oversee authority and accountability for specific risk management
- Coordinate overall risk reporting and monitoring

**Risk Owners /  
Process Owners**



- Manage risks in accordance with tolerances and priorities
- Assist Risk Management with risk reporting
- Primary responsibility for identifying, managing and monitoring risks within their delegated authority

# Risk Committees

- Covers all major business functions and are made up of front line and senior business line managers
- Identify and document significant area risks
- Oversee the design, implementation and documentation of internal control structures
- Train employees on maintaining effective internal controls
- Keep risk and control documentation current and in compliance with the Company's ERM framework
- ERMC meets quarterly to evaluate enterprise-wide risk scorecards and the overall risk appetite
- ERMC works with the Risk Management Department to provide the Board Risk Committee with a Quarterly Risk Profile Report, complete with action plans for any risks that exceed the risk tolerance level of the organization

# Key Risk Indicators (“KRIs”)

- Help monitor identified risks and provide early warning as risk levels increase
- Risk committees have identified various KRIs used to monitor the execution of strategic initiatives
- Management has pre-determined certain acceptable ranges or thresholds for each KRI that will trigger actions to adjust strategies proactively to manage the risk
- This strategic monitoring of KRIs increases the likelihood that goals and objectives set by management are achieved as the related strategies and risks are managed more proactively when relevant KRIs have been identified

# Risk Assessment

Strategic Objective	Risk Discipline (1)	Risk (Event) Description (2)	Inherent Risk Assessment			Residual Risk Assessment				Risk Metrics			Losses? (13)	Issue? (14)
			Impact (3)	Likelihood (4)	Aggregate Rating (5)	Risk Response (6)	Effectiveness of Response (7)	Residual Risk Rating (8)	Direction of Risk (9)	Performance Metric (10)	Target (11)	Actual (12)		

- |                                   |                         |
|-----------------------------------|-------------------------|
| 1. Risk Discipline                | 8. Residual Risk Rating |
| 2. Risk Event or Description      | 9. Direction of Risk    |
| 3. Inherent Risk Impact           | 10. Metrics             |
| 4. Inherent Risk Likelihood       | 11. Target              |
| 5. Aggregate Inherent Risk Rating | 12. Actual              |
| 6. Risk Response                  | 13. Losses              |
| 7. Effectiveness of Risk Response | 14. Issue Determination |

# New Initiative Risk Assessment (“NIRA”)

- ERM helps ensure that First Financial continues to grow and prosper by appropriately managing emerging or increasing risk from:
  - New customers
  - New products, modified products or processes
  - Changing markets
  - New and changing systems
  - New lines of business
  - Changing regulatory rules and environment
- The NIRA is a tool to evaluate risks associated with new and/or significantly modified products and processes
  - Collaborative process that requires key areas to provide feedback and approve
  - Assists in the determination of the scope of the initiative, the relevant resources involved and the potential controls
  - Helps to highlight operational, financial or regulatory compliance obstacles that must be addressed

# Comprehensive ERM Roles

<p><i>Business Lines</i></p>	<p><b>Risk / Control Ownership</b></p> <ul style="list-style-type: none"> <li>▪ Execute risk assessments and identification of emerging risks</li> <li>▪ Implement actions to manage and treat risk</li> <li>▪ Comply with risk management process</li> </ul>
<p><i>Risk Management Department</i></p>	<p><b>Risk / Control Process Monitoring</b></p> <ul style="list-style-type: none"> <li>▪ Provide guidance and coordination among business lines</li> <li>▪ Identify enterprise trends, synergies and opportunities for change</li> <li>▪ Develops the framework and provides business lines with the tools to evaluate risks as corporate strategies are carried out in daily operations</li> <li>▪ Continue to educate all business partners on the value of ERM</li> <li>▪ Needs to be an active part of integrating risk activities with the business and aggregating risks from across the business units.</li> </ul>
<p><i>Internal Audit</i></p>	<p><b>Risk / Control Process Assurance</b></p> <ul style="list-style-type: none"> <li>▪ Provide oversight on risk management content / process</li> <li>▪ Provide assurance that risk management processes are adequate / appropriate</li> </ul>

# Building on a Core Competency

- Demonstrated performance in managing risk
- Uniform approach to risk across all lines of business
- Risk Management striving to become a competitive advantage
- Continuing to adjust based on the Company's priorities
- Evolving as more history is developed and relying on more granular information
- Combination of talent, culture and governance is key to strong risk results

# Biography

## Anthony M. Stollings

### Executive Vice President & Chief Risk Officer

Mr. Stollings joined First Financial in 2006 as its Senior Vice President, Chief Accounting Officer and Controller. In 2011, Mr. Stollings became the Chief Risk Officer and is responsible for the Company's enterprise risk management activities including credit, operational, regulatory and market risk. Prior to joining the Company, he served as the Chief Accounting Officer and Controller at Provident Financial Group, Inc. (Cincinnati, OH). He is a certified public accountant (inactive) and has more than 30 years experience within the financial services industry.