FIRST FINANCIAL BANCORP /OH/
Form 10-K
March 11, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2008

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES ACT OF 1934
Commission File Number 0-12379

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

Ohio (State or other jurisdiction of incorporation or organization)	31-1042001 (I.R.S. Employer Identification No.)
4000 Smith Road Cincinnati, Ohio (Address of principal executive offices)	45209 (Zip Code)

Registrant's telephone number, including area code: (513) 979-5837

Securities registered pursuant to Section 12(b) of the Act:
Common Shares, no par value
Name of exchange on which registered:
The Nasdaq Stock Market LLC
Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
¨ Yes x No

Indicated by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
¨ Yes x No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

x Yes ¨ No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (subpart 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.x

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

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). ¨Yes xNo

The aggregate market value of the voting stock held by non-affiliates of the registrant, computed by reference to the sales price of the last trade of such stock as of June 30, 2008, was $331,743,000. (The exclusion from such amount of the market value of the shares owned by any person shall not be deemed an admission by the registrant that such person is an affiliate of the registrant.)

As of February 23, 2009, there were issued and outstanding 37,480,901 common shares of the registrant.

Documents Incorporated by Reference:
Portions of the registrant’s Annual Report to Shareholders for the year ended December 31, 2008 are incorporated by reference into Parts I, II and IV.

Portions of the registrant’s definitive Proxy Statement for the Annual Meeting of Shareholders to be held on June 15, 2009 are incorporated by reference into Part III.

FORM 10-K CROSS REFERENCE INDEX

1

PART I

Item 1. Business.
First Financial Bancorp.
First Financial Bancorp., an Ohio corporation (First Financial), was formed in 1982. First Financial is a bank holding company headquartered in Cincinnati, Ohio.

First Financial engages in the business of commercial banking and other banking and banking-related activities through its wholly owned subsidiary, First Financial Bank, National Association (Bank). First Financial Capital Advisors LLC (FFCA) is First Financial’s registered investment advisory company and serves as investment advisor to The First Funds Group, First Financial’s proprietary mutual funds first introduced in May 2002 as The Legacy Funds Group and changed to The First Funds Group in May of 2007. FFCA also assists the Bank with the investment management of trust assets. Another subsidiary of First Financial is First Financial (OH) Statutory Trust II (Statutory Trust II) which was established to facilitate raising Tier I capital in the form of corporation-obligated mandatory redeemable capital securities of subsidiary trust—commonly referred to as Trust Preferred Securities. This subsidiary was deconsolidated effective January 1, 2004, in accordance with FASB Interpretation No. 46 “Consolidation of Variable Interest Entities.” Since it does not itself conduct any operating businesses, First Financial must depend largely upon its subsidiaries for funds with which to pay the expenses of its operation and, to the extent applicable, any dividends on its outstanding shares of common stock. For further information see Note 4 of the Notes to Consolidated Financial Statements appearing on page 29 of First Financial's Annual Report to Shareholders, which is incorporated by reference in response to this item. First Financial’s oldest subsidiary, First Financial Bank, was founded in 1863.

The range of banking services provided by First Financial includes commercial lending, real estate lending, and consumer financing. In addition, First Financial offers deposit products that include interest-bearing and noninterest-bearing accounts, including time deposits, and cash management services for commercial customers. A full range of trust and asset management services is also provided through First Financial’s Wealth Resource Group.

First Financial makes a variety of loans to individuals and businesses. The principal types of lending in which First Financial engages are commercial, real estate, and consumer. Real estate loans are loans secured by a mortgage lien on the real property of the borrower, which may either be residential property (one to four family residential housing units) or commercial property (owner-occupied and investor income producing real estate, such as apartments, shopping centers, office buildings).

Commercial loans are made to all types of businesses for a variety of purposes. First Financial works with businesses to meet their working capital needs while also providing long-term financing for their plans. Credit risk is managed through standardized loan policies, established and authorized credit limits, centralized portfolio management and the diversification of market area and industries. The overall strength of the borrower is evaluated through the credit underwriting process and includes a review of historical and projected cash flows, historical financial performance, financial strength of the principals and guarantors, and collateral values, where applicable.

Commercial real estate loans are secured by a mortgage lien on the real property. The credit underwriting for both owner-occupied and investor income producing real estate loans involves detailed market analysis, historical and projected cash flow analysis, appropriate equity margins, assessment of lessees and lessors, type of real estate and other analysis. Risk of loss is managed by adherence to standard loan policies that establish certain levels of performance prior to the extension of a loan to the borrower. Market diversification within First Financial’s service area, as well as a diversification by industry, are other means by which the risk of loss is managed by First

Financial. First Financial does not have a significant exposure to residential builders and developers.

The majority of residential real estate loans originated by Bank conform to secondary market underwriting standards and are sold within a short timeframe to a third-party strategic partner. The credit underwriting standards adhere to a certain level of documentation, verifications, valuation, and overall credit performance of the borrower. The underwriting of these loans includes an evaluation of these and other pertinent factors prior to the extension of credit. These underwriting standards help in the management of the credit risk elements and increase the marketability of the loans.

Consumer loans are primarily loans made to individuals. Types of loans include new and used vehicle loans, second mortgages on residential real estate, and unsecured loans. Risk elements in the consumer loan portfolio are primarily focused on the borrowers cash flow and credit history, key indicators of the ability to repay. Some security is provided through liens on automobile titles and second mortgage liens, where applicable. Consumer loans are generally

2

smaller dollar amounts than other types of lending and are made to a large number of customers. Both factors help provide diversification of the portfolio. Economic conditions that affect consumers in First Financial's markets have a direct impact on the credit quality of these loans. Higher levels of unemployment, lower levels of income growth and weaker economic growth are factors that may adversely impact consumer loan credit quality.

Home equity lines of credit consist mainly of revolving lines of credit secured by residential real estate. Home equity lines of credit are generally governed by the same lending policies and subject to the same credit risk as described previously for residential real estate loans.

First Financial has minimal foreign currency transactions or exposure to foreign currencies. Information regarding statistical disclosure required by the Securities and Exchange Commission's Industry Guide 3 is included in First Financial's Annual Report to Shareholders for the year ended December 31, 2008, and is incorporated herein by reference.

At December 31, 2008, First Financial and its subsidiaries employed 1,127 employees.

First Financial's executive office is located at 4000 Smith Road, Cincinnati, Ohio 45209, and the telephone number is (513) 979-5837. First Financial makes available, free of charge, its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports, as soon as reasonably practicable after filing with the Securities and Exchange Commission (SEC), through its website, www.bankatfirst.com under the "Investor Information" link, under "SEC Filings." Copies of such reports also can be found on the SEC's website at www.sec.gov.

Subsidiaries
The list of each of First Financial's subsidiaries can be found at Exhibit 21 of this Form 10-K.

In March of 2005, First Financial adopted a Strategic Plan which, among other actions, provided for the consolidation of its organization structure, whereby its subsidiary banks would be merged into a single bank charter: First Financial Bank. On August 19, 2005, that consolidation was completed.

First Financial initiated this plan to gain efficiencies through consolidation, to provide a corporate structure with a smaller number of subsidiaries that could be more easily managed, and to better position the company for growth; for instance, by reducing operational burdens and increasing its focus on customer sales and service.

On September 16, 2005, First Financial completed both the sale of substantially all of the assets of its wholly-owned subsidiary, Fidelity Federal Savings Bank and the consolidation of its operations center.

Market and Competitive Information
First Financial, through its regionalization efforts and Strategic Plan, has focused its subsidiary bank around nine distinct markets to deliver the community banking philosophy to its clients. First Financial serves a combination of metropolitan and non-metropolitan markets in Indiana, western Ohio, and northern Kentucky through its full-service banking centers. Market selection is based upon a number of factors, but markets are primarily chosen for their potential for growth, long-term profitability, and customer reach. First Financial's goal is to develop a competitive advantage through a local market focus; building long-term relationships with clients and helping them reach greater levels of financial success.

The company's markets support many different types of business activities, such as manufacturing, agriculture, education, healthcare, and service-based companies. Within these markets, growth is projected to continue in key demographic groups and populations. First Financial's market evaluation includes demographic measures such as income levels, median household income, and population growth within key segments. The Midwest markets that First Financial serves have historically not experienced the level of economic highs and lows seen in other sections of the country. Its markets are generally marked by less volatility in business activity, although material fluctuations may occur. Late in 2007, the overall national economy was negatively impacted by the deterioration of the subprime lending market, which quickly developed into a credit and liquidity crisis in certain sectors of the financial services industry. This has resulted in the implementation of a number of government sponsored programs designed to invest capital and liquidity into the financial services sector for the purposes of strengthening consumer confidence and stimulating lending activity. However, First Financial's strong liquidity and capital position combined with conservative lending practices should allow the company to mitigate significant macro-economic risk.

3

First Financial, as a mid-sized regional bank holding company, believes that it is well positioned to compete in these markets. Smaller than super-regional and multi-national bank holding companies, First Financial believes that it can meet the needs of its markets through a decision-making network of local management. First Financial believes that it is better positioned to compete for business than other smaller banks that may have size or geographic limitations. First Financial's strategy is to differentiate itself by providing superior customer service and delivering innovative products in its markets. First Financial's targeted customers include individuals and small to medium sized businesses within the geographic region of its subsidiary bank's banking center network. Through the delivery systems of banking centers, ATMs, internet banking, and telephone-based transactions, First Financial meets the needs of its customers in an ever-changing marketplace.

First Financial faces strong competition from financial institutions and other non-financial organizations. Its competitors include local and regional financial institutions, savings and loans, and bank holding companies, as well as some of the largest banking organizations in the United States. In addition, other types of financial institutions, such as credit unions, offer a wide range of loan and deposit services that are competitive with those offered by First Financial. The consumer is also served by brokerage firms and mutual funds that provide checking services, credit cards, and other services similar to those offered by First Financial. Major stores compete for loans by offering credit cards and retail installment contracts. It is anticipated that competition from other financial and non-financial services entities will continue and for certain products and services, intensify.

Regulation
First Financial Bank, as a national banking association, is subject to supervision and regular examination by the Office of the Comptroller of the Currency. All depository institutions and its deposits are insured up to the legal limits by the Deposit Insurance Fund (DIF) which is administered by the Federal Deposit Insurance Corporation (FDIC) and is subject to the provisions of the Federal Deposit Insurance Act (FDIA).

FDIC Deposit Insurance Assessments
As an institution with deposits insured by the DIF, First Financial Bank is subject to deposit insurance assessments. Under the provisions of the FDIA, the regular insurance assessments to be paid by insured institutions are specified in schedules issued by the FDIC that specify a target reserve ratio designed to maintain that ratio between 1.15% and 1.50% of estimated insured deposits.

Under the FDIA, the FDIC imposed deposit insurance assessments are based on one of four assessment categories depending on First Financial's capital classification under the prompt corrective action provisions. In December 2008, the FDIC approved a final rule on deposit assessment rates for the first quarter of 2009. The rule raised assessment rates uniformly by 7 basis points (annually) for the first quarter of 2009 only. The FDIC expects to issue another final rule during the first quarter of 2009 to change the way that the FDIC's assessment system differentiates for risk, make corresponding changes to assessment rates beginning with the second quarter of 2009, and make certain technical and other changes to the assessment rules. The increase in assessment rates effective January 1, 2009 will more than double First Financial's expected assessment for 2009's first quarter compared to the assessment rates throughout 2008. First Financial expects that assessment rates subsequent to the first quarter 2009 will continue to be significantly higher than in 2008.

In addition to the previously mentioned change in the general assessment rates, on February 27, 2009, the FDIC board agreed to impose an emergency special assessment of 20 basis points on all banks to restore the DIF to an acceptable level. The amount will be determined as of June 30, 2009 and payable on September 30, 2009. Since that date, federal legislation has been introduced that would increase the FDIC's line of credit with the Treasury from the current $30.0 billion to $100.0 billion. It is possible such action could reduce the special assessment for 2009. It is not possible to predict the outcome at this time.

Temporary Liquidity Guarantee Program

The FDIC announced a Temporary Liquidity Guarantee Program (“TLGP”), which temporarily guarantees the senior debt of all FDIC-insured institutions and certain holding companies, as well as deposits in noninterest-bearing deposit transaction accounts, for those institutions and holding companies who did not elect to opt out of the TLGP by December 5, 2008. First Financial chose to continue its participation in the TLGP and, thus, did not opt out.

As a bank holding company, First Financial is subject to the provisions of the Bank Holding Company Act of 1956, as amended (the BHCA) and is subject to supervision and examination by the Federal Reserve Board. The BHCA requires prior approval by the Federal Reserve Board of the acquisition of 5% or more of the voting stock or

4
substantially all the assets of any bank within the United States. In addition, subject to regulatory approval, First Financial can acquire thrift institutions. Acquisitions are subject to certain anti-competitive limitations.

The BHCA and the regulations of the Federal Reserve Board prohibit a bank holding company and its subsidiaries from engaging in certain tie-in arrangements in connection with any extension of credit, lease or sale of property, or furnishing of services. The BHCA also imposes certain restrictions upon dealings by affiliated banks with the holding company and among themselves, including restrictions on inter-bank borrowing and upon dealings in the securities or obligations of the holding company or other affiliates.

In addition, bank holding companies that satisfy certain requirements may elect to become financial holding companies. Financial holding companies are permitted to engage in certain activities that are “financial in nature” (e.g. insurance underwriting, securities brokerage, merchant banking) and that are not permitted for bank holding companies. First Financial’s current strategic plans do not include utilizing theses expanded activities and as a result it has not elected to become a financial holding company.

The earnings of banks, and, therefore, the earnings of First Financial (and its subsidiaries), are affected by the policies of regulatory authorities, including the Federal Reserve Board. An important function of the Federal Reserve Board is to regulate the national supply of bank credit in an effort to prevent recession and to restrain inflation. Among the procedures used to implement these objectives are open market operations in U.S. Government securities, changes in the discount rate on member bank borrowings, and changes in reserve requirements on member bank deposits.

These procedures are used in varying combinations to influence overall growth and distribution of bank loans, investments and deposits, and their use also may affect interest rates charged on loans or paid for deposits.

Monetary policies of the Federal Reserve Board have had a significant effect on the operating results of commercial banks in the past and are expected to continue to do so in the future.

Emergency Economic Stabilization Act – Capital Purchase Program
On October 14, 2008 the United States Department of the Treasury (the Treasury) announced the Capital Purchase Program (CPP) to encourage U.S. financial institutions to build capital to increase the flow of financing to U.S. businesses and consumers and to support the U.S. economy. The Program was designed to attract broad participation by healthy institutions and to do so in a way that attracts private capital to them as well. The purpose was to increase confidence in U.S. banks and increase the confidence of U.S. banks to deploy their capital. Increased confidence is expected to result in increased lending. The Program was instituted by the Treasury pursuant to the Emergency Economic Stabilization Act of 2008 (EESA) which provided up to $700 billion to the Treasury to buy mortgages and other assets from financial institutions, to invest and take equity positions in financial institutions, and to establish programs that will allow companies to insure their troubled assets. Under the Program, the Treasury was to purchase up to $250 billion of senior preferred shares (the Senior Preferred Shares) from qualifying financial institutions that meet the Program’s eligibility requirements and that elected to participate by November 14, 2008. On October 22, 2008 First Financial filed an application with respect to the Program and on October 30, 2008 the company was notified by the Treasury that it had received preliminary approval for the sale and issuance of up to $80,000 of Senior Preferred Shares to the Treasury. On December 23, 2008 the Treasury invested the $80,000 in First Financial. On February 17, 2009, the American Recovery and Reinvestment Act of 2009 (ARRA) was enacted. This resulted in a number of changes to the CPP, for both current and future participants, primarily in the areas of executive compensation and the ability of CPP recipient institutions to prepay the Senior Preferred Shares.

As an eligible institution, First Financial could sell an amount of Senior Preferred Shares to the Treasury equal to not less than 1% of the Bank’s risk-weighted assets and not more than 3% of the Bank’s risk-weighted assets. The $80,000 represented approximately 3.0% of the Bank's risk –weighted assets at September 30, 2008 and the Senior Preferred Shares have the following terms and conditions:

- a liquidation preference of $1,000 per share;
- qualify as Tier 1 capital;
- rank senior to the common shares;
- pay a cumulative dividend at a rate of 5% per annum for the first five years and will reset to a rate of 9% per annum after year five - the dividend will be payable quarterly in arrears;
- be non-voting, other than class voting rights on certain matters that could adversely affect the Senior Preferred Shares;

5

- the Senior Preferred Shares may be redeemed at par, subject to consultation with First Financial's primary regulator, the Office of the Comptroller of the Currency and with the approval of the Treasury; and
- the Treasury may also transfer the Senior Preferred Shares to a third party at any time.

In conjunction with the purchase of Senior Preferred Shares, the Treasury received a warrant to purchase common shares with an aggregate market price equal to 15% of the investment in the Senior Preferred Shares. The initial exercise price on the warrant, and the market price for determining the number of shares of common stock subject to the warrant, was the market price of the company's common shares at the time of issuance, calculated on a 20-trading-day trailing average, subject to customary anti-dilution adjustments. This resulted in Treasury acquiring a warrant to purchase 930,233 common shares at an exercise price of $12.90 per share. The warrant has a term of 10 years. The Treasury will agree not to exercise voting power with respect to any shares of common stock that it acquires upon exercise of the warrant. First Financial registered, pursuant to the Securities Act of 1933, Senior Preferred Shares issued by us and the related warrant and underlying common stock purchasable upon exercise. If the warrant was exercised, it would amount to approximately 2.5% of our currently issued and outstanding shares, which would dilute the relative equity interests of the current holders of our common shares. If the Senior Preferred Shares are prepaid, the Treasury will liquidate the warrant it holds at the then current market price.

To participate in the Program, we were required to meet certain appropriate standards for executive compensation and corporate governance, which were significantly amended by the Act, and now include the folllowing:

- ensuring that incentive compensation for senior executives does not encourage unnecessary and excessive risks that threaten the value of the company;
- Treasury shall review bonuses, retention awards, and other compensation paid to senior executives and the next twenty highly-compensated employees to determine whether any such payments were inconsistent with the Act, CPP or otherwise contrary to public interest;
- requiring a claw-back of any bonus or incentive compensation paid to a senior executive and any of the next twenty most highly-compensated employees based on statements of earnings, gains or other criteria that are later proven to be materially inaccurate;
- senior executive officers and the next five highest compensated employees cannot receive any severance payment for departure from the company for any reason;
- for the five most highly compensated employees, First Financial cannot pay or accrue any bonus unless in the form of restricted stock grants, subject to individual restrictions of one third of total compensation, and does not fully vest while the Senior Preferred Shares are held by Treasury;
- requires the Board of Directors to adopt a company-wide policy regarding excessive or luxury expenditures, or other activities considered not reasonable or in the normal course of business;
- requires non-binding annual proxy vote by shareholders to approve executive compensation;
- requires CEO and CFO annual certification of compliance, with potential criminal penalties for inaccuracy; and
- agreeing not to deduct for tax purposes executive compensation in excess of $500,000 for each senior executive.

The following are the general effects on holders of First Financial common stock from the issuance of Senior Preferred Shares to the Treasury under the Program:

§ Restrictions on Dividends. For as long as any Senior Preferred Shares are outstanding, no dividends may be declared or paid on junior preferred shares, preferred shares ranking pari passu with the Senior Preferred Shares, or common shares (other than in the case of pari passu preferred shares, dividends on a pro rata basis with the Senior Preferred Shares), nor may First Financial repurchase or redeem any junior preferred shares, preferred shares ranking pari passu with the Senior Preferred Shares or common shares, unless (i) in the case of cumulative Senior Preferred Shares, all accrued and unpaid dividends for all past dividend periods on the Senior Preferred Shares are fully paid; or (ii) in the case of non-cumulative Senior Preferred Shares, the full dividend for the latest completed dividend period has been declared and paid in full. In addition, the consent of the Treasury will be required for any increase in the per share dividends on common shares until the third anniversary of the date of the Senior Preferred Shares investment unless prior to such third anniversary, the Senior Preferred Shares are redeemed in whole or the Treasury has transferred all of the Senior Preferred Shares to third parties.

§ Repurchases. The Treasury's consent shall be required for any share repurchases (other than (i) repurchases of the Senior Preferred Shares and (ii) repurchases of junior preferred shares or common shares in connection with any benefit plan in the ordinary course of business consistent with past practice) until the third anniversary

6

of the date of the Treasury's investment unless prior to such third anniversary, the Senior Preferred Shares are redeemed in whole or the Treasury has transferred all of the Senior Preferred Shares to third parties. In addition, there shall be no share repurchases of junior preferred shares, preferred shares ranking pari passu with the Senior Preferred Shares, or common shares if prohibited as described under "Restrictions on Dividends" above.

§ Voting rights. The Senior Preferred Shares shall be non-voting, other than class voting rights on (i) any authorization or issuance of shares ranking senior to the Senior Preferred Shares, (ii) any amendment to the rights of Senior Preferred Shares, or (iii) any merger, exchange or similar transaction which would adversely affect the rights of the Senior Preferred Shares. If dividends on the Senior Preferred Shares are not paid in full for six dividend periods, whether or not consecutive, the Senior Preferred Shares will have the right to elect two directors. The right to elect directors will end when full dividends have been paid for four consecutive dividend periods.

As the Senior Preferred Shares are non-voting in accordance with the Program, the issuance of such Senior Preferred Shares did not dilute the relative voting power of the current holders of common stock, except for certain class of voting rights and the issuance of the warrants as described above. Current shareholders have no preemptive rights to acquire any additional shares of capital stock issued by First Financial and have no right to purchase a proportionate share, or any portion, of any shares of Preferred Stock issued.

Financial Stability Plan
On February 10, 2009, the Financial Stability Plan (FSP) was announced by the U.S. Treasury Department. The FSP is a comprehensive set of measures intended to shore up the financial system. The core elements of the plan include making bank capital injections, creating a public-private investment fund to buy troubled assets, establishing guidelines for loan modification programs and expanding the Federal Reserve lending program. The U.S. Treasury Department has indicated more details regarding the FSP are to be announced on a newly created government website, FinancialStability.gov. We do not expect to participate in the FSP, however, we continue to monitor these developments and assess their potential impact on our business.

Homeowner Affordability and Stability Plan
On February 18, 2009, the Homeowner Affordability and Stability Plan (HASP) was announced by the President of the United States. HASP is intended to support a recovery in the housing market and ensure that workers can continue to pay off their mortgages through the following elements:

- Provide access to low-cost refinancing for responsible homeowners suffering from falling home prices.
- A $75 billion homeowner stability initiative to prevent foreclosure and help responsible families stay in their homes.
- Support low mortgage rates by strengthening confidence in Fannie Mae and Freddie Mac.

We continue to monitor these developments and assess their potential impact on our business.

Strategic Usage of CPP Funds
First Financial is committed to the terms it agreed to in accepting the Treasury's investment, including:

- Expanding the flow of credit to U.S. consumers and businesses on competitive terms to promote the sustained growth and vitality of the U.S. economy; and
- Working diligently, under existing programs, to modify the terms of residential mortgages as appropriate to strengthen the health of the U.S. housing market.

The previously stated goals were those of First Financial before applying for and receiving the investment, and continue to be our goals.

First Financial has both a short and long-term plan for utilization of the CPP proceeds. In anticipation of the receipt of the $80.0 million in capital, First Financial began purchasing agency-guaranteed, mortgage-backed securities late in the fourth quarter of 2008. The investment portfolio specifically designated as the CPP Investment Portfolio totaled approximately $121.9 million at December 31, 2008. The ratio of investments to capital, or leverage on the CPP capital, was 1.5 times the proceeds received. First Financial has established an internal maximum leverage on the CPP Investment Portfolio not to exceed 5 times.

The advantage gained by investing in agency-guaranteed, mortgage-backed securities is two fold:

- It assists in expanding the availability of credit to borrowers by providing liquidity to the sellers of the securities so that they can continue originating and funding new mortgage loans.

7

- As additional lending opportunities become available, the cash flows from the CPP Investment Portfolio will provide sufficient liquidity and capital support for the redeployment into loans originated by First Financial.

Item 1A. Risk Factors.

Possible Additional Risks

The risks listed here are not the only risks we face. Additional risks that are not presently known, or that we presently deem to be immaterial, also could have a material adverse effect on our financial condition, results of operations, business, and prospects. (See also “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” for certain forward looking statements.)

Recent Market, Legislative, and Regulatory Events

Difficult market conditions have adversely affected our industry.
Dramatic decl