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FIRST FINANCIAL CORPORATION

ANNUAL REPORT

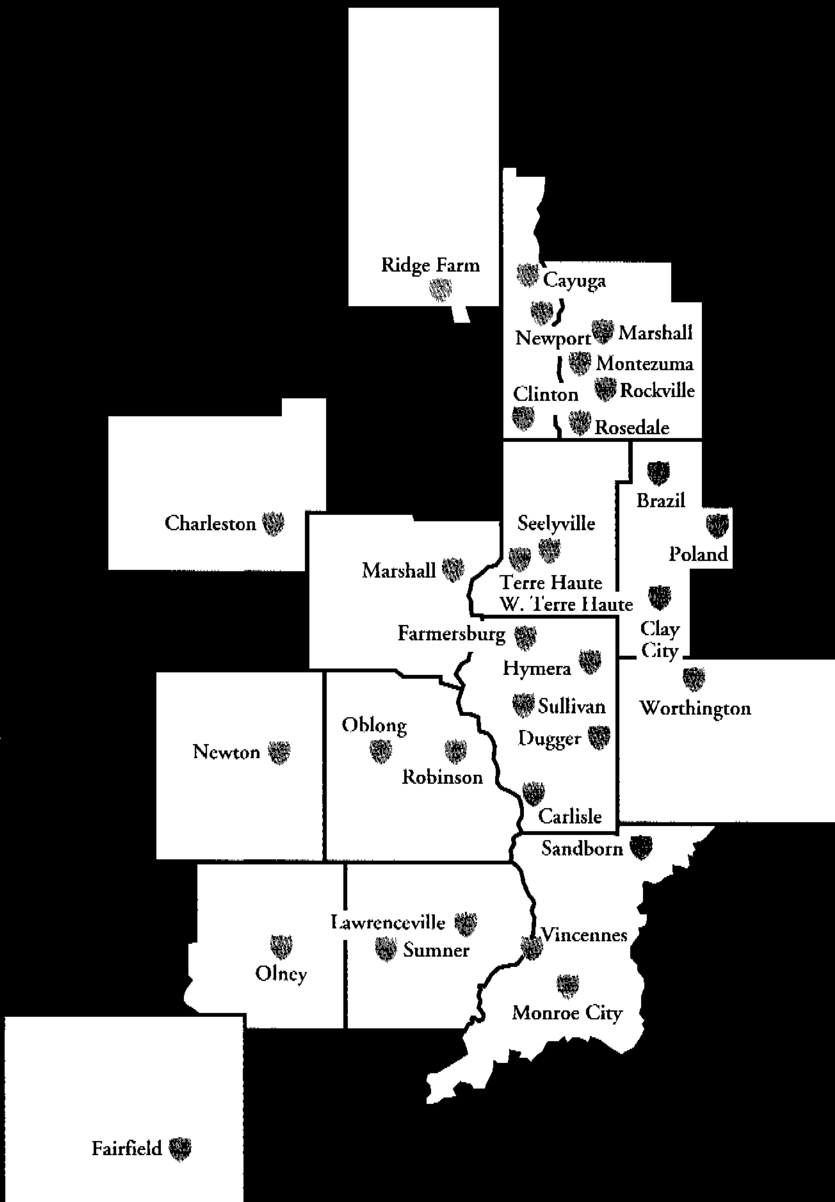
Filings Services
April 4, 2006
SNL Financial, LC
1-800-969-4121

SHAREHOLDER INFORMATION

The common stock of First Financial Corporation is traded over-the-counter under the NASDAQ National Market System symbol of THFF. A copy of form 10-K, as filed with the Securities and Exchange Commission, is available upon written request to:

Michael A. Carty
First Financial Corporation
P.O. Box 540
Terre Haute, IN 47808

WHERE WE ARE LOCATED



Serving Indiana and Illinois with 47 banking centers in 32 communities.

2005 FINANCIAL HIGHLIGHTS

(Dollar amounts in thousands, except per share amounts)

FOR THE YEAR

Net income	$ 23,054
Net income per share	1.72
Cash dividends declared	10,966
Cash dividends per share	.82

AT DECEMBER 31

Assets	$2,136,918
Deposits	1,464,918
Loans, net of unearned fees	1,395,741
Securities	536,291
Shareholders' equity	269,323
Book value per share	20.14
Number of shares outstanding (in thousands)	13,374
Number of employees (full-time equivalent)	808

LETTER TO SHAREHOLDERS

DONALD E. SMITH

NORMAN L. LOWERY

To our Shareholders and Friends:

In 2005 First Financial Corporation continued to pursue strategies that have sustained our long-term success. In particular, we laid the groundwork for expanding into new markets, completed the consolidation of our charters, focused on outstanding sales and service, and worked toward capturing more of each customer's business, all of which serves to create additional value for our shareholders.

2005 net income was $23.1 million. As the Federal Reserve continued to raise short-term rates, interest income for the year increased by $4.8 million over 2004. We were able to use these increases to our advantage as our net interest income rose by $2.8 million or 2.75% over the previous year. Our net interest margin for 2005 increased 12 basis points to 3.92%.

Non-interest income was $3.7 million less in 2005 than what was reported for 2004. However, in 2004 the Corporation realized a gain of $4.1 million on a life insurance benefit. When comparing all other non-interest income items except these life insurance proceeds, non-interest income for 2005 increased by $371 thousand. This increase was complemented by a $118 thousand reduction in non-interest expense, demonstrating the Corporations' commitment to operating efficiency.

There was less demand in 2005 for both consumer and commercial loans due to a sluggish economy in our market area. During the year we restructured our loan portfolio, an effort that allowed us to improve asset quality as well as reduce the time and resources allocated to underperforming credits.

The likelihood of continued Federal Reserve rate hikes in the coming year led us to further reduce our dependence on short-term overnight funding. In 2005 we replaced $19 million in wholesale funding with $22 million in deposit growth. We also continued our stock repurchase program, purchasing 203,700 shares of our stock.

The Corporation's financial performance allowed the Board of Directors to declare higher dividends to shareholders for the 17th consecutive year. In 2005 the cash dividend per share increased 3.80% to 82 cents per share from 79 cents the previous year. Shareholders' equity rose to $269.3 million.

A major factor in our ability to reduce non-interest expenses at a time when health insurance, utilities and other costs were rising sharply was the consolidation of our charters. In 2005 we completed a 24-month project to consolidate our nine banks under a single charter. This initiative, among other things, allowed us to standardize products, strengthen compliance and streamline operations. It has also positioned the Corporation to expand

into new markets, as ground was broken in 2005 for a new branch in Vincennes, Indiana, which opened in February 2006. We continue to evaluate opportunities for growth that will create value for our shareholders. A branch is proposed in Greencastle, Indiana, to be completed later this year.

First is a customer-centric company dedicated to the success of our customers. We continually seek to improve our products and services in an effort to provide our customers with additional benefits, greater convenience and better value.

Over the past year we concentrated on increasing the number of relationships we have with our customers. The more relationships we have with each customer, the better we can serve them by offering "one-stop shopping" for all their financial needs, from traditional banking services to investments and insurance. An area of emphasis was to introduce our customers to the array of insurance products offered through our Forrest Sherer subsidiary. This and similar efforts allow us to help our customers succeed financially with comprehensive, personalized solutions for saving, borrowing, investing and insuring their assets.

The First family takes pride in being engaged community partners in the markets we serve. We are actively involved in economic development in western Indiana and eastern Illinois. We have a long tradition of leadership in community service, both through corporate support for worthwhile programs and through employee involvement in hundreds of civic and charitable organizations. We are proud to provide job opportunities to the local citizenry and, in turn, to be a financial services company where customers know the people who serve them.

In 2005 we were saddened at the passing of two great friends of the Corporation: William "Bill" Niemeyer, who served on the Board of Directors of First Financial Corporation for 41 years, and Larry Schopmeyer, President of The Morris Plan Company and a member of our Community Region Board of Directors. Their wise counsel and unwavering support will be remembered and appreciated.

2005 was a year of transition for several of our bank boards. After 16 years as a director of First Financial Corporation, Chapman Root II retired in July. Samuel Deahl, D.D.S., a Marshall Region director for 18 years, retired in October and Elizabeth Schmidt, a Crawford Region director for 11 years, retired in December. We are grateful for the insight, resourcefulness and sound judgment they shared with us. During the year we welcomed Ronald K. Rich, Financial Representative with the Northwestern Mutual Financial Network, to the board of First Financial Corporation and Avery J. McKinney, President and Owner of A.M. Transport Services in Olney, to our Community Region board. Their knowledge and experience will be invaluable.

We are pleased to recognize each member of the First Financial Corporation board and our regional boards for their loyalty and leadership. On their behalf, we extend sincere appreciation to our employees, who provide the outstanding customer service that is our strongest competitive advantage. We are especially grateful to you, our shareholders, for your confidence in the Corporation's future.

Donald E. Smith
President & Chairman

Norman L. Lowery
Vice Chairman & CEO

Caring for our Communities

First Financial Corporation affiliates are located in 32 cities and towns in Indiana and Illinois. Each is unique, yet all share a sense of history, a desire to build for the future and a commitment to provide their citizens with

(above left) *Directors and guests of First Financial Corporation took part in a groundbreaking ceremony for the new Vincennes banking center in February.*

(above right) *First employees, family members and friends gathered at Saint Mary-of-the-Woods College in October for the annual Susan G. Komen Breast Cancer Foundation Race for the Cure. First Financial Corporation is a gold sponsor for the event.*

an environment where all can grow and prosper. The same is true for our Corporation. It is our history of working together to accomplish common goals and objectives that has helped us succeed both as a corporation and as a corporate citizen.

In 2005 we completed the unification of bank holdings when First Crawford State Bank and First Community Bank N.A. became First Financial Bank in February and September. Also in February, we broke ground for our newest First Financial banking center in Vincennes, Indiana. This state-of-the-art, full-service banking center totals over 4,000 square feet and includes five drive-up service lanes, a 24-hour FirstPlus ATM and a drive-up night drop box.

Agriculture has always been and remains a large part of life in Indiana and Illinois. First Financial Bank and our agri-business lenders are committed to providing the best in financial services for area farmers and farm-related businesses. First Financial Bank in Clay County sponsors an annual Farmer's Share Breakfast in conjunction with Ag Week, and bank personnel from Vigo and Sullivan counties worked with the Vigo County Soil and Water Conservation District to bring important information to area farmers about watershed conservation and the Conservation Security Program. The United States Department of Agriculture Rural Development program recognized the Olney Region of First Financial Bank as a million dollar lender for 2005. The guaranteed home loan program helps families purchase homes they might not be able to afford with conventional loans.

On April 28, a landmark was lost in Parke County when the Bridgeton Covered Bridge was destroyed by arson. As devastating as this act was to the small community of Bridgeton, citizens in Parke and surrounding counties, along with residents of the state and beyond, united to raise funds to rebuild the historic

bridge. First Financial Bank, Parke Region, was proud to play a part in the efforts by accepting contributions to the Bridgeton Covered Bridge Association, organizing a community document-shredding event at Rockville in August and holding a silent auction of birdhouses decorated by Parke County organizations in December.

All communities must deal with complex issues that affect the lives of their citizens and businesses. While the size and specifics of the issues may be different, the basic problems and solutions may be quite similar. In May First Financial

Bank hosted the annual Wabash Valley Mayors' Breakfast in Terre Haute. The gathering brings together area government and economic development leaders for a morning of fellowship and informal discussion.

Each year First Financial Corporation helps celebrate and support the arts in our communities. The Swope Art Museum in Terre Haute is the home of the Wabash Valley Juried Exhibition, one of the oldest juried exhibitions in the state. First Financial was pleased to underwrite the 2005 exhibition that received more than 500 entries from artists within a 150-mile radius of Terre Haute.

First Financial Bank was a sponsor when the Terre Haute Symphony Orchestra presented a concert in April honoring all veterans and celebrating the 60th anniversary of the end of World War II. The bank also participated in the Arts Illiana presentation of Live Music Lunch, a concert series in downtown Terre Haute on the Crossroads Plaza Stage. Fairbanks Park, located on the banks of the Wabash River in Terre Haute, was the site where many Valley residents relived memories from their younger days or just enjoyed the "oldies" at a sold-out concert by Herman's Hermits. The concert was presented by the Terre Haute Parks and Recreation Department with underwriting from First Financial.

In 2005 the devastation of the Gulf Coast by multiple hurricanes brought out the best in the citizens of our communities, state and nation. First Financial Bank, in cooperation with a local television station, raised over $100,000 for the victims of Hurricane Katrina. Collection sites were set up at all First banks as employees and local citizens came together to help those who had been affected by the storms.

First Financial Corporation is proud to sponsor many activities and events for children and their families, young adults and students of all ages, that are not only educational and recreational, but also offer opportunities for personal

(above left) *Donald E. Smith, chairman of First Financial Corporation, and Jeff Smith, board member of the Terre Haute Boys and Girls Club, present 200 tickets for an Indianapolis Colts game to Jimmy Smith, director of the Boys and Girls Club.*

(above center) *Area musicians entertain downtown as part of "Live Music Lunch," a midday concert series presented by Arts Illiana and sponsored by First Financial Bank.*

(above right) *To raise funds to rebuild the historic Bridgeton Covered Bridge in Parke County, First Financial Bank, Parke Region, auctioned birdhouses decorated and donated by local organizations. High bidder Shirley Fetter* (center) *accepts her birdhouse from First Financial Bank employees Linda Baird and Brenda Cooper.*

growth and development. The annual Terre Haute Boys & Girls Club First Fishing Club teaches children in their summer programs the art of fishing and gives them the opportunity to test their skills on private area lakes. First Financial has long had an interest in auto racing and our support of the Terre Haute Quarter Midget Association offers children an early start in the sport. The same is true of hunting. Each year First Financial sponsors hunter education classes for area youngsters. The classes are taught with assistance from state conservation officers and local volunteers.

(above left) *Employees of First Financial Bank, Marshall Region, lined the street in front of the bank to help welcome reserve troops home from Iraq.*

(above right) *In May local government and economic development leaders attended the annual Wabash Valley Mayors' Breakfast hosted by First Financial Bank. Among the guests were: Tom Fehrenbacher, mayor, Olney, Ill.; Joe Hayden, city councilman, Robinson, Ill.; Kevin Burke, mayor, Terre Haute, Ind.; Ken Smith, mayor, Marshall, Ill.; Mike Bledsoe, president, town board of Farmersburg, Ind.; Donald E. Smith, chairman, First Financial Corporation; Bernie Gray, mayor, Hutsonville, Ill.; Tim Boles, mayor, Sullivan, Ind.; Dorman Clark, mayor, Jasonville, Ind.; Ron Shepard, mayor, Clinton, Ind.; and Larry Natalie, president, town board of Fairview, Ind.*

The regions served by First Financial Corporation affiliates are home to many outstanding educational institutions. Over the years, the Corporation has provided scoreboards, advertising support and underwriting for projects, gifts-in-kind, and many volunteer hours to ensure that students are provided with the educational and extra-curricular activities that make their school experience complete. First Financial employees present programs in schools throughout our service area to help children learn important skills such as money management and budgeting. Hundreds of schoolchildren tour our banking centers each year.

Communities large and small have been affected by the problems caused by methamphetamine use and production. Members of the meth awareness study group of Leadership Wabash Valley Class XXVII used funds provided by First Financial Bank to print materials promoting meth awareness. The materials were distributed to area junior high school students.

In 2005 First Financial Bank marked 171 years of continuous service to west-central Indiana and east-central Illinois. This region has always been blessed with citizens who are dedicated to creating a better future for their families and communities. The directors and staff of First Financial Corporation take pride in being a part of this tradition and in providing both financial and human resources that help ensure the future we are building is secure.

FIVE YEAR COMPARISON OF SELECTED FINANCIAL DATA

(Dollar amounts in thousands, except per share amounts)	2005	2004	2003	2002	2001
BALANCE SHEET DATA:					
Total assets	$2,136,918	$2,183,992	$2,223,057	$2,169,748	$2,041,905
Securities	536,291	507,990	576,950	520,166	471,888
Loans, net of unearned fees	1,395,741	1,463,871	1,429,525	1,432,564	1,348,461
Deposits	1,464,918	1,443,121	1,479,347	1,434,654	1,313,656
Borrowings	370,090	438,013	451,862	457,645	480,674
Shareholders' equity	269,323	268,335	255,279	241,971	217,511
INCOME STATEMENT DATA:					
Interest income	121,647	116,888	122,661	136,262	144,673
Interest expense	47,469	44,686	48,225	58,086	74,125
Net interest income	74,178	72,202	74,436	78,176	70,548
Provision for loan losses	11,698	8,292	7,455	9,478	6,615
Other income	32,025	35,754	30,819	30,468	21,468
Other expenses	63,538	63,656	62,461	63,317	53,329
Net income	23,054	28,009	26,493	28,640	24,196
PER SHARE DATA:					
Net income	1.72	2.07	1.95	2.10	1.78
Cash dividends	.82	.79	.70	.62	.57
PERFORMANCE RATIOS:					
Net income to average assets	1.07%	1.28%	1.21%	1.30%	1.19%
Net income to average shareholders' equity	8.52	10.45	10.57	12.01	11.33
Average total capital to average assets	13.35	13.24	12.45	11.73	11.38
Average shareholders' equity to average assets	12.51	12.23	11.43	10.80	10.46
Dividend payout	47.57	38.13	35.88	29.57	32.28

CONSOLIDATED BALANCE SHEETS

(Dollar amounts in thousands, except per share data)	December 31, 2005	December 31, 2004
ASSETS		
Cash and due from banks	$ 78,201	$ 94,928
Federal funds sold	2,982	5,400
Securities available-for-sale	536,291	507,990
Loans, net of allowance of $16,042 in 2005 and $19,918 in 2004	1,379,699	1,443,953
Accrued interest receivable	12,537	12,016
Premises and equipment, net	31,270	31,154
Bank-owned life insurance	55,832	49,177
Goodwill	7,102	7,102
Other intangible assets	2,860	3,093
Other real estate owned	4,115	3,262
Other assets	26,029	25,917
TOTAL ASSETS	$2,136,918	$2,183,992
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest-bearing	$ 182,416	$ 145,852
Interest-bearing:		
Certificates of deposit of $100 or more	189,493	184,604
Other interest-bearing deposits	1,093,009	1,112,665
	1,464,918	1,443,121
Short-term borrowings	26,224	75,527
Other borrowings	343,866	362,486
Other liabilities	32,587	34,523
TOTAL LIABILITIES	1,867,595	1,915,657
Shareholders' equity		
Common stock, $.125 stated value per share,		
Authorized shares — 40,000,000		
Issued shares — 14,450,966		
Outstanding shares — 13,373,570 in 2005 and 13,535,770 in 2004	1,806	1,806
Additional paid-in capital	67,670	67,519
Retained earnings	223,710	211,623
Accumulated other comprehensive income	1,903	8,357
Less: Treasury shares at cost — 1,077,396 in 2005 and 915,196 in 2004	(25,766)	(20,970)
TOTAL SHAREHOLDERS' EQUITY	269,323	268,335
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$2,136,918	$2,183,992

See accompanying notes.

Consolidated Statements of Income

(Dollar amounts in thousands, except per share data)	Years Ended December 31, 2005	2004	2003
INTEREST AND DIVIDEND INCOME:			
Loans, including related fees	$ 96,388	$ 92,440	$ 96,536
Securities:			
Taxable	16,802	15,315	15,714
Tax-exempt	6,306	7,055	7,816
Other	2,151	2,078	2,595
Total Interest and Dividend Income	121,647	116,888	122,661
INTEREST EXPENSE:			
Deposits	27,184	23,695	26,925
Short-term borrowings	783	1,017	431
Other borrowings	19,502	19,974	20,869
Total Interest Expense	47,469	44,686	48,225
Net Interest Income	74,178	72,202	74,436
Provision for loan losses	11,698	8,292	7,455
Net Interest Income After Provision For Loan Losses	62,480	63,910	66,981
NON-INTEREST INCOME:			
Trust and financial services	3,626	3,918	3,762
Service charges and fees on deposit accounts	11,732	11,499	8,066
Other service charges and fees	6,440	6,794	8,063
Securities gains (losses)	571	(165)	237
Insurance commissions	5,995	6,142	6,282
Gain on sale of mortgage loans	1,289	806	2,027
Gain on life insurance benefit	–	4,113	–
Other	2,372	2,647	2,382
Total Non-Interest Income	32,025	35,754	30,819
NON-INTEREST EXPENSES:			
Salaries and employee benefits	38,617	37,876	36,696
Occupancy expense	3,796	3,904	3,830
Equipment expense	3,861	3,585	3,224
Other	17,264	18,291	18,711
Total Non-Interest Expense	63,538	63,656	62,461
Income Before Income Taxes	30,967	36,008	35,339
Provision for income taxes	7,913	7,999	8,846
Net Income	$ 23,054	$ 28,009	$ 26,493
EARNINGS PER SHARE:			
Basic and Diluted	$ 1.72	$ 2.07	$ 1.95
Weighted average number of shares outstanding (in thousands)	13,433	13,525	13,588

See accompanying notes.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Dollar amounts in thousands, except per share data)	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total
Balance, January 1, 2003	$ 903	$ 66,809	$178,209	$ 14,276	$(18,226)	$241,971
Comprehensive income:						
Net income	–	–	26,493	–	–	26,493
Other comprehensive income, net of tax:						
Change in net unrealized gains/losses on securities available-for-sale, net	–	–	–	(2,813)	–	(2,813)
Total comprehensive income						23,680
Two-for-one stock split (6,782,885 shares)	903	–	(903)	–	–	–
Contribution of 40,000 shares to ESOP	–	372	–	–	884	1,256
Treasury stock purchase (80,120 shares)	–	–	–	–	(2,123)	(2,123)
Cash dividends, $ .70 per share	–	–	(9,505)	–	–	(9,505)
Balance, December 31, 2003	1,806	67,181	194,294	11,463	(19,465)	255,279
Comprehensive income:						
Net income	–	–	28,009	–	–	28,009
Other comprehensive loss, net of tax:						
Change in net unrealized gains/losses on securities available-for-sale, net	–	–	–	(3,106)	–	(3,106)
Total comprehensive income						24,903
Contribution of 36,000 shares to ESOP	–	338	–	–	825	1,163
Treasury stock purchase (79,000 shares)	–	–	–	–	(2,330)	(2,330)
Cash dividends, $ .79 per share	–	–	(10,680)	–	–	(10,680)
Balance, December 31, 2004	1,806	67,519	211,623	8,357	(20,970)	268,335
Comprehensive income:						
Net income	–	–	23,054	–	–	23,054
Other comprehensive loss, net of tax:						
Change in net unrealized gains/losses on securities available-for-sale, net	–	–	–	(6,454)	–	(6,454)
Total comprehensive income	–	–	–	–	–	16,600
Contribution of 41,500 shares to ESOP	–	151	–	–	993	1,144
Treasury stock purchase (203,700 shares)	–	–	–	–	(5,789)	(5,789)
Cash dividends, $ .82 per share	–	–	(10,967)	–	–	(10,967)
Balance, December 31, 2005	$ 1,806	$ 67,670	$223,710	$ 1,903	$ (25,766)	$269,323

See accompanying notes.

Consolidated Statements of Cash Flows

(Dollar amounts in thousands, except per share data)	Years Ended December 31, 2005	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 23,054	$ 28,009	$ 26,493
Adjustments to reconcile net income to net cash provided by operating activities:			
Net (accretion) amortization on securities	(1,462)	2,092	558
Provision for loan losses	11,698	8,292	7,455
Securities (gains) losses	(571)	165	(237)
Depreciation and amortization	3,363	3,184	2,883
Provision for deferred income taxes	1,716	1,648	(252)
Net change in accrued interest receivable	(521)	1,057	2,126
Contribution of shares to ESOP	1,144	1,163	1,256
Gains on life insurance benefit	–	(4,113)	–
Other, net	592	1,842	5,126
Net Cash from Operating Activities	39,013	43,339	45,408
CASH FLOWS FROM INVESTING ACTIVITIES:			
Sales of securities available-for-sale	11,376	11,466	8,308
Calls, maturities and principal reductions on securities available-for-sale	373,741	105,945	189,049
Purchases of securities available-for-sale	(422,141)	(55,885)	(259,150)
Loans made to customers, net of repayments	49,806	(44,834)	(5,844)
Net change in federal funds sold	2,418	450	(5,800)
Purchase of bank-owned life insurance	(5,000)	–	–
Purchase of customer list	(338)	–	–
Proceeds from life insurance benefit	–	7,267	–
Additions to premises and equipment	(2,908)	(4,458)	(1,758)
Net Cash from Investing Activities	6,954	19,951	(75,195)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net change in deposits	21,797	(36,226)	44,693
Net change in other short-term borrowings	(49,303)	6,898	34,274
Dividends paid	(10,779)	(10,155)	(8,845)
Purchases of treasury stock	(5,789)	(2,330)	(2,123)
Proceeds from other borrowings	–	85,006	18,013
Repayments on other borrowings	(18,620)	(105,753)	(58,070)
Net Cash from Financing Activities	(62,694)	(62,560)	27,942
Net Change in Cash and Cash Equivalents	(16,727)	730	(1,845)
Cash and Cash Equivalents, Beginning of Year	94,928	94,198	96,043
Cash and Cash Equivalents, End of Year	$ 78,201	$ 94,928	$ 94,198
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid during the year for:			
Interest	$ 46,919	$ 44,979	$ 48,791
Income taxes	$ 5,413	$ 6,501	$ 8,016

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES:

BUSINESS

Organization: The consolidated financial statements of First Financial Corporation and its subsidiaries (the Corporation) include the parent company and its wholly-owned subsidiaries, First Financial Bank, N.A. of Vigo County, Indiana, The Morris Plan Company of Terre Haute (Morris Plan), First Financial Reinsurance Company, a corporation incorporated in the country of Turks and Caicos Islands (FFRC) and Forrest Sherer Inc., a full-line insurance agency headquartered in Terre Haute, Indiana. Inter-company transactions and balances have been eliminated.

First Financial Bank also has two investment subsidiaries, Portfolio Management Specialists A (Specialists A) and Portfolio Management Specialists B (Specialists B), which were established to hold and manage certain assets as part of a strategy to better manage various income streams and provide opportunities for capital creation as needed. Specialists A and Specialists B subsequently entered into a limited partnership agreement, Global Portfolio Limited Partners. Portfolio Management Specialists B also owns First Financial Real Estate, LLC. At December 31, 2005, $490.8 million of securities and loans were owned by these subsidiaries. Specialists A, Specialists B, Global Portfolio Limited Partners and First Financial Real Estate LLC are included in the consolidated financial statements.

The Corporation, which is headquartered in Terre Haute, Indiana, offers a wide variety of financial services including commercial, mortgage and consumer lending, lease financing, trust account services and depositor services through its three subsidiaries. The Corporation's primary source of revenue is derived from loans to customers, primarily middle-income individuals, and investment activities.

The Corporation operates 46 branches in west-central Indiana and east-central Illinois. First Financial Bank is the largest bank in Vigo County. It operates 12 full-service banking branches within the county; five in Clay County, Indiana; one in Greene County, Indiana; two in Knox County, Indiana; five in Parke County, Indiana; five in Sullivan County, Indiana; four in Vermillion County, Indiana; one in Clark County, Illinois; one in Coles County, Illinois; three in Crawford County, Illinois; one in Jasper County, Illinois; two in Lawrence County, Illinois; two in Richland County, Illinois; one in Vermilion County, Illinois; and one in Wayne County, Illinois. It also has a main office in downtown Terre Haute and an operations center/office building in southern Terre Haute.

Regulatory Agencies: First Financial Corporation is a multi-bank holding company and as such is regulated by various banking agencies. The holding company is regulated by the Seventh District of the Federal Reserve System. The national bank subsidiary is regulated by the Office of the Comptroller of the Currency. The state bank subsidiary is jointly regulated by the state banking organization and the Federal Deposit Insurance Corporation.

SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates: To prepare financial statements in conformity with U.S. generally accepted accounting principles, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and disclosures provided, and actual results could differ. The allowance for loan losses, carrying value of intangible assets, loan servicing rights and the fair values of financial instruments are particularly subject to change.

Cash Flows: Cash and cash equivalents include cash and demand deposits with other financial institutions. Net cash flows are reported for customer loan and deposit transactions and short-term borrowings.

Securities: The Corporation classifies all securities as "available for sale." Securities are classified as available for sale when they might be sold before maturity. Securities available for sale are carried at fair value with unrealized holdings gains and losses, net of taxes, reported in other comprehensive income within shareholders' equity.

Interest income includes amortization of purchase premium or discount. Premiums and discounts are amortized on the level yield method without anticipating prepayments. Mortgage-backed securities are amortized over the expected life. Realized gains and losses on sales are based on the amortized cost of the security sold. Declines in the fair value of securities below their cost that are other than temporary are reflected as realized losses. In estimating other-than-temporary losses, management considers: 1) the length of time and extent that fair value has been less than cost; 2) the financial condition and near term prospects of the issuer; and 3) the Corporation's ability and intent to hold the security for a period sufficient to allow for any anticipated recovery in fair value.

Loans: Loans that management has the intent and ability to hold for the foreseeable future until maturity or pay-off are reported at the principal balance outstanding, net of unearned interest, deferred loan fees and costs, and allowance for loan losses. Loans held for sale are reported at the lower of cost or market, on an aggregate basis.

Interest income is accrued on the unpaid principal balance and includes amortization of net deferred loan fees and costs over the loan term without anticipating prepayments. Interest income is not reported when full loan repayment is in doubt, typically when the loan is impaired or payments are significantly past due.

All interest accrued but not received for loans placed on nonaccrual is reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. In all cases, loans are placed on non-accrual or charged-off if collection of principal or interest is considered doubtful.

Allowance for Loan Losses: The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values,

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

economic conditions and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off. The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired or loans otherwise classified as substandard or doubtful. The general component covers non-classified loans and is based on historical loss experience adjusted for current factors.

A loan is impaired when full payment under the loan terms is not expected. Impairment is evaluated in total for smaller-balance loans of similar nature such as residential mortgages, consumer and credit card loans, and on an individual basis for other loans. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows, using the loan's existing rate, or at the fair value of collateral if repayment is expected solely from the collateral. Large groups of smaller balance homogeneous loans, such as consumer and residential real estate loans, are collectively evaluated for impairment and, accordingly, they are not separately identified for impairment disclosures.

Foreclosed Assets: Assets acquired through or instead of loan foreclosures are initially recorded at fair value when acquired, establishing a new cost basis. If fair value declines, a valuation allowance is recorded through expense. Costs after acquisition are expensed.

Premises and Equipment: Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed over the useful lives of the assets, which range from 3 to 33 years for furniture and equipment and 5 to 39 years for buildings and leasehold improvements.

Federal Home Loan Bank (FHLB) Stock: The Corporation is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB stock is carried at cost and periodically evaluated for impairment. Because this stock is viewed as a long-term investment, impairment is based on ultimate recovery of par value. Both cash and stock dividends are reported as income. FHLB stock is included with securities.

Servicing Rights: Servicing rights are recognized as assets for the allocated value of retained servicing rights on loans sold. Servicing rights are expensed in proportion to, and over the period of, estimated net servicing revenues. Impairment is evaluated based on the fair value of the rights, using groupings of the underlying loans as to loan type and interest rate, and then secondarily as to loan type and investor. Fair value is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market-based assumptions. Any impairment of a grouping is reported as a valuation allowance.

Servicing fee income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal or a fixed amount per loan and are recorded as income when earned. The amortization of mortgage servicing rights is netted against loan servicing fee income.

Bank-Owned Life Insurance: The Corporation has purchased life insurance policies on certain key executives. Bank-owned life insurance is recorded at its cash surrender value, or the amount that can be realized.

Goodwill and Other Intangible Assets: Goodwill results from business acquisitions and represents the excess of the purchase price over the fair value of acquired tangible assets and liabilities and identifiable intangible assets. Goodwill is assessed at least annually for impairment and any such impairment will be recognized in the period identified.

Other intangible assets consist of core deposit and acquired customer relationship intangible assets arising from the whole bank, insurance agency and branch acquisitions. They are initially measured at fair value and then are amortized on an accelerated method over their estimated useful lives, which are 12 and 10 years, respectively.

Long-Term Assets: Premises and equipment and other long-term assets are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value.

Benefit Plans: Pension expense is the net of service and interest cost, return on plan assets and amortization of gains and losses not immediately recognized. The amount contributed is determined by a formula as decided by the Board of Directors. Deferred compensation and supplemental retirement plan expense allocates the benefits over years of service.

Deferred Compensation Plan: A deferred compensation plan covers all directors. Under the plan, the Corporation pays each director, or their beneficiary, the amount of fees deferred plus interest over 10 years, beginning when the director achieves age 65. A liability is accrued for the obligation under these plans. The expense incurred for the deferred compensation for each of the last three years was $164 thousand, $160 thousand and $123 thousand, resulting in a deferred compensation liability of $2.2 million and $2.0 million as of year-end 2005 and 2004.

Long-Term Incentive Plan: A long-term incentive plan provides for the payment of incentive rewards as a 10-year annuity to all directors and certain key officers. The plan expires December 31, 2009, and compensation expense is recognized over the service period. Payments under the plan generally do not begin until the earlier of January 1, 2015, or the January 1 immediately following the year in which the participant reaches age 65. Compensation expense for each of the last three years was $1.6 million, $1.5 million and $1.5 million, resulting in a liability of $7.3 million and $5.5 million as of year-end 2005 and 2004.

Income Taxes: Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

Loan Commitments and Related Financial Instruments: Financial instruments include credit instruments, such as commitments to make loans and standby letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Earnings Per Share: Earnings per common share is net income divided by the weighted average number of common shares outstanding during the period. The Corporation does not have any potentially dilutive securities. Earnings and dividends per share are restated for stock splits and dividends through the date of issue of the financial statements.

Comprehensive Income: Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available for sale, which are also recognized as separate components of equity.

Loss Contingencies: Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount of range of loss can be reasonably estimated. Management does not believe there are currently such matters that will have a material effect on the financial statements.

Dividend Restriction: Banking regulations require maintaining certain capital levels and may limit the dividends paid by the bank to the holding company or by the holding company to shareholders.

Fair Value of Financial Instruments: Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or market conditions could significantly affect the estimates.

Operating Segment: While the Corporation's chief decision-makers monitor the revenue streams of the various products and services, the identifiable segments are not material and operations are managed and financial performance is evaluated on a corporate-wide basis. Accordingly, all of the Corporation's financial service operations are considered by management to be aggregated in one reportable operating segment, which is banking.

Adoption of New Accounting Standards: During 2005 the Corporation adopted SOP 03-3, which requires that a valuation allowance for loans acquired in a transfer, including in a business combination, reflect only losses incurred after acquisition and should not be recorded at acquisition. It applies to any loan acquired in a transfer that showed evidence of credit quality deterioration since it was made. This new standard had no effect on the Corporation's financial statements and results of operations.

In May of 2005, the FASB issued statement 154, "Accounting Changes and Error Corrections," that provides guidance on reporting of accounting changes and correction of errors made in fiscal years beginning after the date of this statement. First Financial Corporation has adopted statement 154. The adoption of this statement had no effect on the financial statements included herein.

In November of 2005, the FASB issued a staff position that amended FASB statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities." This amendment addresses the measurement, accounting and disclosures for securities that have been recognized to be other than temporarily impaired as well as those that have not been recognized as other-than-temporarily impaired. First Financial Corporation has adopted these amendments that have had no effect on the financial statements included herein.

Reclassifications: Some items in prior year financial statements were reclassified to conform to the current presentation.

2. FAIR VALUES OF FINANCIAL INSTRUMENTS:

Carrying amount is the estimated fair value for cash and due from banks, federal funds sold, short-term borrowings, Federal Home Loan Bank stock, accrued interest receivable and payable, demand deposits, short-term debt and variable-rate loans or deposits that reprice frequently and fully. Security fair values are based on market prices or dealer quotes, and if no such information is available, on the rate and term of the security and information about the issuer. For fixed-rate loans or deposits, variable rate loans or deposits with infrequent repricing or repricing limits, and for longer-term borrowings, fair value is based on discounted cash flows using current market rates applied to the estimated life and credit risk. Fair values for impaired loans are estimated using discounted cash flow analysis or underlying collateral values. Fair value of debt is based on current rates for similar financing.

The carrying amount and estimated fair value of financial instruments are presented in the table below and were determined based on the above assumptions:

	December 31,			
	2005		2004	
(Dollar amounts in thousands)	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and due from banks	$ 78,201	$ 78,201	$ 94,928	$ 94,928
Federal funds sold	2,982	2,982	5,400	5,400
Securities available-for-sale	536,291	536,291	507,990	507,990
Loans, net	1,379,699	1,371,835	1,443,953	1,448,791
Accrued interest receivable	12,537	12,537	12,016	12,016
Deposits	(1,464,918)	(1,469,670)	(1,443,121)	(1,449,322)
Short-term borrowings	(26,224)	(26,224)	(75,527)	(75,527)
Federal Home Loan Bank advances	(337,266)	(338,849)	(337,886)	(341,148)
Other borrowings	(6,600)	(6,600)	(24,600)	(24,600)
Accrued interest payable	(3,692)	(3,692)	(3,142)	(3,142)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. RESTRICTIONS ON CASH AND DUE FROM BANKS:

Certain affiliate banks are required to maintain average reserve balances with the Federal Reserve Bank that do not earn interest. The amount of those reserve balances was approximately $2.1 million and $33.2 million at December 31, 2005 and 2004, respectively.

4. SECURITIES:

The fair value of securities available-for-sale and related gross unrealized gains and losses recognized in accumulated other comprehensive income were as follows:

	December 31, 2005			
	Amortized	Unrealized		Fair
(Dollar amounts in thousands)	Cost	Gains	Losses	Value
U.S. Government sponsored entity mortgage-backed securities and agencies	$306,697	$ 787	$(6,081)	$301,403
Collateralized mortgage obligations	2,357	7	(4)	2,360
State and municipal	129,916	4,543	(414)	134,045
Corporate obligations	89,740	534	(50)	90,224
Equities	4,410	3,849	–	8,259
TOTAL	$533,120	$ 9,720	$(6,549)	$536,291

	December 31, 2004			
	Amortized	Unrealized		Fair
(Dollar amounts in thousands)	Cost	Gains	Losses	Value
U.S. Government sponsored entity mortgage-backed securities and agencies	$227,927	$ 2,573	$(1,472)	$229,028
Collateralized mortgage obligations	19,895	12	(41)	19,866
State and municipal	137,206	7,263	(175)	144,294
Corporate obligations	104,754	1,333	(10)	106,077
Equities	4,280	4,445	–	8,725
TOTAL	$494,062	$ 15,626	$(1,698)	$507,990

As of December 31, 2005, the Corporation does not have any securities from any issuer, other than the U.S. Government, with an aggregate book or fair value that exceeds ten percent of shareholders' equity.

Securities with a carrying value of approximately $54.7 million and $33.0 million at December 31, 2005 and 2004, respectively, were pledged as collateral for short-term borrowings and for other purposes.

Below is a summary of the gross gains and losses realized by the Corporation on investment sales during the years ended December 31, 2005, 2004 and 2003, respectively.

(Dollar amounts in thousands)	2005	2004	2003
Proceeds	$11,376	$11,466	$8,308
Gross gains	537	409	237
Gross losses	–	–	–

Additional gains of $34 thousand in 2005 and $47 thousand in 2004 resulted from redemption premiums on called securities.

The Corporation evaluates securities for other-than-temporary impairment on a quarterly basis. Factors considered include length of time impaired, reason for impairment, outlook and the Corporation's ability to hold the investment to allow for recovery of fair value. There were no securities considered to be other-than-temporarily impaired at December 31, 2005. At December 31, 2004, the Corporation had one security that it considered to be other-than-temporarily impaired, and the Corporation wrote down the value of the investment by $621 thousand to its fair value and subsequently sold the security.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Contractual maturities of debt securities at year-end 2005 were as follows. Securities not due at a single maturity or with no maturity date, primarily mortgage-backed and equity securities, are shown separately.

(Dollar amounts in thousands)	Available-for-Sale	
	Amortized Cost	Fair Value
Due in one year or less	$ 42,057	$ 42,304
Due after one but within five years	104,704	107,242
Due after five but within ten years	35,626	37,450
Due after ten years	45,973	46,095
	228,360	233,091
Mortgage-backed securities and equities	304,760	303,200
TOTAL	$533,120	$536,291

The following tables show the securities' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in continuous unrealized loss position, at December 31, 2005 and 2004.

(Dollar amounts in thousands)	December 31, 2005					
	Less Than 12 Months		More Than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government sponsored entity mortgage-backed securities and agencies	$206,666	$ (4,250)	$57,222	$(1,831)	$263,888	$(6,081)
Collateralized mortgage obligations	904	(2)	1,334	(2)	2,238	(4)
State and municipal obligations	14,509	(240)	8,994	(174)	23,503	(414)
Corporate obligations	698	(2)	950	(48)	1,648	(50)
Total temporarily impaired securities	$222,777	$(4,494)	$68,500	$(2,055)	$291,277	$(6,549)

(Dollar amounts in thousands)	December 31, 2004					
	Less Than 12 Months		More Than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government sponsored entity mortgage-backed securities and agencies	$ 72,754	$ (497)	$40,497	$ (975)	$113,251	$(1,472)
Collateralized mortgage obligations	17,059	(41)	–	–	17,059	(41)
State and municipal obligations	12,979	(110)	428	(65)	13,407	(175)
Corporate obligations	2,000	(5)	1,506	(5)	3,506	(10)
Total temporarily impaired securities	$104,792	$ (653)	$42,431	$(1,045)	$147,223	$(1,698)

These losses represent negative adjustments to market value relative to the rate of interest paid on the securities and not losses related to the creditworthiness of the issuer. Management has the intent and ability to hold for the foreseeable future and believes the value will recover as the securities approach maturity or market rates change.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. LOANS:

Loans are summarized as follows:

(Dollar amounts in thousands)	December 31, 2005	December 31, 2004
Commercial, financial and agricultural	$ 382,214	$ 401,724
Real estate - construction	31,918	32,810
Real estate - mortgage	707,008	753,826
Installment	272,062	272,261
Lease financing	2,845	3,658
Total gross loans	1,396,047	1,464,279
Less: unearned income	(306)	(408)
Allowance for loan losses	(16,042)	(19,918)
TOTAL	$1,379,699	$1,443,953

In the normal course of business, the Corporation's subsidiary banks make loans to directors and executive officers and to their associates. These related party loans are consistent with sound banking practices and are within applicable bank regulatory lending limitations. In 2005 the aggregate dollar amount of these loans to directors and executive officers who held office at the end of the year amounted to $34.1 million at the beginning of the year. During 2005, advances of $19.6 million, repayments of $30.5 million and changes to persons included of $(1.2) million were made with respect to related party loans for an aggregate dollar amount outstanding of $22.0 million at December 31, 2005.

Loans serviced for others, which are not reported as assets, total $416.6 million and $391.9 million at year-end 2005 and 2004.

Activity for capitalized mortgage servicing rights (included in other assets) and the related valuation allowance was as follows:

(Dollar amounts in thousands)	December 31, 2005	2004	2003
Servicing rights:			
Beginning of year	$ 2,960	$ 3,114	$ 2,548
Additions	735	631	1,961
Amortized to expense	(764)	(785)	(1,395)
End of year	$ 2,931	$ 2,960	$ 3,114
Valuation allowance:			
Beginning of year	$ –	$ 200	$ 500
Reductions credited to expense	–	(200)	(300)
End of year	$ –	$ –	$ 200

Third party valuations are conducted periodically for mortgage servicing rights. Based on these valuations, fair values approximate carrying values.

6. ALLOWANCE FOR LOAN LOSSES:

Changes in the allowance for loan losses are summarized as follows:

(Dollar amounts in thousands)	December 31, 2005	2004	2003
Balance at beginning of year	$ 19,918	$ 21,239	$21,249
Provision for loan losses	11,698	8,292	7,455
Recoveries of loans previously charged off	1,918	1,771	1,475
Loans charged off	(17,492)	(11,384)	(8,940)
BALANCE AT END OF YEAR	$ 16,042	$ 19,918	$21,239

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Impaired loans were as follows:

(Dollar amounts in thousands)	December 31, 2005	2004
Year-end loans with no allocated allowance for loan losses	$ 500	$ 2,582
Year-end loans with allocated allowance for loan losses	3,622	16,240
TOTAL	$ 4,122	$18,822
Amount of the allowance for loan losses allocated	$ 1,657	$ 6,331
Nonperforming loans:		
Loans past due over 90 days still on accrual	6,354	7,813
Non-accrual loans	8,464	19,862

Nonperforming loans include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

(Dollar amounts in thousands)	2005	2004	2003
Average of impaired loans during the year	$11,992	$14,794	$ 8,992
Interest income recognized during impairment	126	436	583
Cash-basis interest income recognized	11	315	–

It was not practicable to determine the amount of cash basis interest income recognized for 2003.

7. PREMISES AND EQUIPMENT:

Premises and equipment are summarized as follows:

(Dollar amounts in thousands)	December 31, 2005	2004
Land	$ 5,617	$ 5,617
Building and leasehold improvements	35,290	35,102
Furniture and equipment	29,887	27,928
	70,794	68,647
Less accumulated depreciation	(39,524)	(37,493)
TOTAL	$ 31,270	$ 31,154

Aggregate depreciation expense was $2.79 million, $2.62 million and $2.24 million for 2005, 2004 and 2003, respectively.

8. GOODWILL AND INTANGIBLE ASSETS:

The Corporation completed its annual impairment testing of goodwill during the second quarter of 2005. Management does not believe any amount of the goodwill is impaired.

Intangible assets subject to amortization at December 31, 2005 and 2004 are as follows:

	2005		2004	
(Dollar amounts in thousands)	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
Customer list intangible	$3,446	$1,692	$3,108	$1,390
Core deposit intangible	2,193	1,117	2,193	939
Non-compete agreements	500	470	500	379
	$6,139	$3,279	$5,801	$2,708

Aggregate amortization expense was $571 thousand, $558 thousand and $638 thousand for 2005, 2004 and 2003, respectively.

Estimated amortization expense for the next five years is as follows:

	In thousands
2006	$ 497
2007	425
2008	425
2009	425
2010	425

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. DEPOSITS

Scheduled maturities of time deposits for the next five years are as follows:

2006	$348,575
2007	166,817
2008	75,671
2009	32,139
2010	18,094

10. SHORT-TERM BORROWINGS

A summary of the carrying value of the Corporation's short-term borrowings at December 31, 2005 and 2004 is presented below:

(Dollar amounts in thousands)	2005	2004
Federal funds purchased	$19,032	$69,002
Repurchase agreements	5,579	5,597
Other short-term borrowings	1,613	928
	$26,224	$75,527

(Dollar amounts in thousands)	2005	2004
Average amount outstanding	$25,927	$ 71,745
Maximum amount outstanding at a month end	54,808	103,386
Average interest rate during year	3.16%	1.46%
Interest rate at year-end	3.77%	2.34%

Federal funds purchased are generally due in one day and bear interest at market rates. Other borrowings, primarily note payable–U.S. government, are due on demand, secured by a pledge of securities and bear interest at market rates.

Substantially all repurchase agreement liabilities represent amounts advanced by various customers. Securities are pledged to cover these liabilities, which are not covered by federal deposit insurance. The Corporation maintains possession of and control over these securities.

11. OTHER BORROWINGS:

Other borrowings at December 31, 2005 and 2004 are summarized as follows:

(Dollar amounts in thousands)	2005	2004
FHLB advances	$337,266	$337,886
Note payable to a financial institution	–	18,000
City of Terre Haute, Indiana economic development revenue bonds	6,600	6,600
TOTAL	$343,866	$362,486

The aggregate minimum annual payments of other borrowings are as follows:

2006	$ 8,665
2007	766
2008	52,632
2009	22,916
2010	257,594
Thereafter	1,293
	$343,866

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Corporation's subsidiary banks are members of the Federal Home Loan Bank (FHLB) and accordingly are permitted to obtain advances. The advances from the FHLB, aggregating $337.3 million at December 31, 2005, accrue interest, payable monthly, at annual rates, primarily fixed, varying from 3.28% to 6.60% with a weighed average rate of 5.46%. The advances are due at various dates through August 2017. FHLB advances are, generally, due in full at maturity. They are secured by eligible securities totaling $129.9 million and a blanket pledge on real estate loan collateral. Certain advances may be prepaid, without penalty, prior to maturity. The FHLB can adjust the interest rate from fixed to variable on certain advances, but those advances may then be prepaid, without penalty.

On December 31, 2004, the Corporation entered into a revolving credit loan agreement (Note) with a financial institution. The total principal amount of loans outstanding at one time under this Note could not exceed $20 million. The Note was paid off in the third quarter of 2005. The Note bore an interest rate equal to the average daily federal funds rate plus 0.875% and adjusted daily. The Note was unsecured but required the Corporation to meet certain financial covenants. The Corporation complied with all its debt covenants. These covenants included maintaining a primary capital-to-assets ratio higher than 6.2%, net income that exceeded a 0.6% return on average assets, an allowance for loan and lease losses that did not fall below .75% of gross loans and dividend declarations that were not in excess of 42% of net income.

The economic development revenue bonds (bonds) require periodic interest payments each year until maturity or redemption. The interest rate, which was 3.58% at December 31, 2005, and 2.0% at December 31, 2004, is determined by a formula which considers rates for comparable bonds and is adjusted periodically. The bonds are collateralized by a first mortgage on the Corporation's headquarters building. The bonds mature December 1, 2015, but bondholders may periodically require earlier redemption.

The debt agreement for the bonds requires the Corporation to meet certain financial covenants. These covenants require the Corporation to maintain a Tier I capital ratio of at least 6.2% and net income to average assets of 0.6%. At December 31, 2005 and 2004, the Corporation was in compliance with all of its debt covenants.

The Corporation maintains a letter of credit with another financial institution, which could be used to repay the bonds, should they be called. The letter of credit expired November 1, 2005, and was automatically extended for one year. Assuming redemption will be funded by the letter of credit, or by other similar borrowings, there are no anticipated principal maturities of the bonds within the next five years.

12. INCOME TAXES:

Income tax expense is summarized as follows:

(Dollar amounts in thousands)	2005	2004	2003
Federal:			
Currently payable	$ 6,202	$ 5,884	$ 8,046
Deferred	1,334	1,282	(544)
	7,536	7,166	7,502
State:			
Currently payable	(5)	467	1,052
Deferred	382	366	292
	377	833	1,344
TOTAL	$ 7,913	$ 7,999	$ 8,846

The reconciliation of income tax expense with the amount computed by applying the statutory federal income tax rate of 35% to income before income taxes is summarized as follows:

(Dollar amounts in thousands)	2005	2004	2003
Federal income taxes computed at the statutory rate	$10,839	$12,603	$12,369
Add (deduct) tax effect of:			
Tax exempt income	(2,902)	(4,889)	(3,738)
State tax, net of federal benefit	245	541	873
Affordable housing credits	(327)	(327)	(507)
Other, net	58	71	(151)
TOTAL	$ 7,913	$ 7,999	$ 8,846

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at December 31, 2005 and 2004, are as follows:

(Dollar amounts in thousands)	2005	2004
Deferred tax assets:		
Loan losses provision	$ 6,454	$ 7,927
Deferred compensation	4,012	3,417
Compensated absences	494	481
Post-retirement benefits	920	698
State net operating loss carry forward	78	243
Other	981	929
GROSS DEFERRED ASSETS	12,939	13,695
Deferred tax liabilities:		
Net unrealized gains on securities available-for-sale	(1,268)	(5,571)
Depreciation	(1,440)	(1,512)
Federal Home Loan Bank stock dividends	(1,519)	(1,221)
Mortgage servicing rights	(1,176)	(1,176)
Pensions	(2,394)	(2,048)
Other	(3,012)	(2,624)
GROSS DEFERRED LIABILITIES	(10,809)	(14,152)
NET DEFERRED TAX ASSETS (LIABILITIES)	$ 2,130	$ (457)

13. FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK:

The Corporation is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include conditional commitments and commercial letters of credit. The financial instruments involve to varying degrees, elements of credit and interest rate risk in excess of amounts recognized in the financial statements. The Corporation's maximum exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to make loans is limited generally by the contractual amount of those instruments. The Corporation follows the same credit policy to make such commitments as is followed for those loans recorded in the consolidated financial statements.

The Corporation's customers had unused lines of credit of $270.0 million and $245.9 million as of December 31, 2005 and 2004. In addition, the Corporation had outstanding commitments of $6.9 million and $5.3 million under commercial letters of credit as of December 31, 2005 and 2004, respectively. The majority of these commitments bear variable interest rates. The Corporation is exposed to credit loss in the event the counterparties to such agreements do not perform in accordance with the agreements.

Commitment and contingent liabilities are summarized as follows at December 31:

(Dollar amounts in thousands)	2005	2004
Home equity	$ 32,338	$ 32,523
Credit card lines	46,276	52,695
Commercial operating lines	24,270	15,937
Other commitments	169,226	147,871
	$272,110	$249,026
Commercial letters of credit	6,933	5,319

The majority of commercial operating lines and home equity lines are variable rate, while the majority of other commitments to fund loans are fixed rate. Since many commitments to make loans expire without being used, these amounts do not necessarily represent future cash commitments. Collateral obtained upon exercise of the commitment is determined using management's credit evaluation of the borrower, and may include accounts receivable, inventory, property, land and other items. The approximate duration of these commitments is generally one year or less.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. RETIREMENT PLANS:

Substantially all employees of the Corporation are covered by a retirement program that consists of a defined benefit plan and an employee stock ownership plan (ESOP). Plan assets consist primarily of the Corporation's stock and obligations of U.S. Government agencies. Benefits under the defined benefit plan are actuarially determined based on an employee's service and compensation, as defined, and funded as necessary.

Assets in the ESOP are considered in calculating the funding to the defined benefit plan required to provide such benefits. Any shortfall of benefits under the ESOP are to be provided by the defined benefit plan. The ESOP may provide benefits beyond those determined under the defined benefit plan. Contributions to the ESOP are determined by the Corporation's Board of Directors. The Corporation made contributions to the defined benefit plan of $1.41 million, $1.42 million and $1.55 million in 2005, 2004 and 2003. The Corporation contributed $1.14 million, $1.16 million and $1.26 million to the ESOP in 2005, 2004 and 2003.

The Corporation uses a measurement date of December 31, 2005.

Pension expense included the following components:

(Dollar amounts in thousands)	2005	2004	2003
Service cost – benefits earned	$ 2,725	$ 2,508	$ 2,166
Interest cost on projected benefit obligation	2,451	2,168	2,025
Expected return on plan assets	(3,285)	(2,799)	(2,334)
Net amortization and deferral	229	227	240
Total pension expense	$ 2,120	$ 2,104	$ 2,097

The following information sets forth the change in projected benefit obligation, reconciliation of plan assets, and the funded status of the Corporation's retirement program. Actuarial present value of benefits is based on service to date and present pay levels.

(Dollar amounts in thousands)	2005	2004
Change in benefit obligation:		
Benefit obligation at January 1	$42,820	$36,300
Service cost	2,725	2,508
Interest cost	2,451	2,168
Actuarial (gain) loss	(1,831)	3,102
Benefits paid	(3,624)	(1,258)
Benefit obligation at December 31	42,541	42,820
Reconciliation of fair value of plan assets:		
Fair value of plan assets at January 1	41,007	34,665
Actual return on plan assets	(5,445)	5,017
Employer contributions	2,550	2,583
Benefits paid	(3,624)	(1,258)
Fair value of plan assets at December 31	34,488	41,007
Funded status:		
Funded status at December 31	(8,053)	(1,813)
Unrecognized prior service cost	(158)	(177)
Unrecognized net actuarial cost	14,214	7,562
Prepaid pension asset recognized in the consolidated balance sheets	$ 6,003	$ 5,572

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The accumulated benefit obligation for the defined benefit pension plan was $34,206 and $37,202 at year-end 2005 and 2004.

Principal assumptions used:		
Discount rate	5.50%	5.75%
Rate of increase in compensation levels	3.75	3.75
Expected long-term rate of return on plan assets	8.00	8.00

The expected long-term rate of return was estimated using market benchmarks for equities and bonds applied to the plan's target asset allocation. Management estimated the rate by which plan assets would perform based on historical experience as adjusted for changes in asset allocations and expectations for future return on equities as compared to past periods.

Plan Assets — The Corporation's pension plan weighted-average asset allocation for the years 2005 and 2004 by asset category are as follows:

Asset Category	Pension Plan Target Allocation 2006	ESOP Target Allocation 2006	Pension Plan Percentage of Plan Assets at December 31, 2005	2004	ESOP Percentage of Plan Assets at December 31, 2005	2004
Equity securities	40-60%	100-100%	64%	63%	99%	99%
Debt securities	40-60	0-0	35	35	0	0
Other	0-0	0-0	1	2	1	1
TOTAL			100%	100%	100%	100%

The investment objective for the retirement program is to maximize total return without exposure to undue risk. Asset allocation favors equities, with a target allocation of approximately 88%. This target includes the Corporation's ESOP, which is 99% invested in corporate stock. Other investment allocations include fixed income securities and cash.

Equity securities include First Financial Corporation common stock in the amount of $22.1 million (64 percent of total plan assets) and $30.7 million (75 percent of total plan assets) at December 31, 2005 and 2004, respectively.

Contributions — The Corporation expects to contribute $1.5 million to its pension plan and $1.2 million to its ESOP in 2006.

Estimated Future Payments — The following benefit payments, which reflect expected future service, are expected:

	Pension Benefits (Dollar amounts in thousands)
2006	$ 436
2007	512
2008	595
2009	708
2010	853
2011–2015	6,725

Supplemental Executive Retirement Plan — The Corporation has established a Supplemental Executive Retirement Plan (SERP) for certain executive officers. The provisions of the SERP allow the Plan's participants who are also participants in the Corporation's defined benefit pension plan to receive supplemental retirement benefits to help recompense for benefits lost due to imposition of IRS limitations on benefits under the Corporation's tax qualified defined benefit pension plan. Expenses related to the plan were $193 thousand in 2005 and $187 thousand in 2004. There was no expense recorded in connection with this plan in years prior to 2004. The SERP has expected benefit payments of $618 thousand after five years, which reflects expected future service. The plan is unfunded and has a measurement date of December 31.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Corporation also provides medical benefits to its employees subsequent to their retirement. The Corporation uses a measurement date of December 31, 2005. Accrued post-retirement benefits as of December 31, 2005 and 2004 are as follows:

(Dollar amounts in thousands)	December 31, 2005	December 31, 2004
Change in benefit obligation:		
Benefit obligation at January 1	$ 6,021	$ 4,284
Service cost	141	83
Interest cost	319	243
Plan participants' contributions	143	119
Actuarial (gain) loss	(736)	1,681
Benefits paid	(388)	(389)
Benefit obligation at December 31	$ 5,500	$ 6,021
Reconciliation of funded status:		
Funded status	$ 5,500	$ 6,021
Unrecognized transition obligation	(482)	(543)
Unrecognized net gain (loss)	(2,726)	(3,712)
Accrued benefit cost	$ 2,292	$ 1,766

The post-retirement benefits paid in 2005 and 2004 of $388 thousand and $389 thousand, respectively, were fully funded by company and participant contributions. There were no other changes to plan assets in 2005 and 2004.

Weighted-average assumptions as of December 31:

	December 31, 2005	December 31, 2004
Discount rate	5.50%	5.50%
Initial weighted health care cost trend rate	7.50	7.50
Ultimate health care cost trend rate	5.00	5.00

Post-retirement health benefit expense included the following components:

(Dollar amounts in thousands)	Years Ended December 31, 2005	2004	2003
Service cost	$ 141	$ 83	$ 102
Interest cost	319	243	252
Amortization of transition obligation	60	60	60
Recognized actuarial loss	250	137	120
Net periodic benefit cost	$ 770	$ 523	$ 534

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in the assumed health care cost trend rates would have the following effects:

(Dollar amounts in thousands)	1% Point Increase	1% Point Decrease
Effect on total of service and interest cost components	$ 58	$ (42)
Effect on post-retirement benefit obligation	127	(113)

Contributions — The Corporation expects to contribute $294 thousand to its other post-retirement benefit plan in 2006.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Estimated Future Payments — The following benefit payments, which reflect expected future service, are expected:

	Post-Retirement Medical Benefits (Dollar amounts in thousands)
2006	$ 294
2007	312
2008	324
2009	338
2010	355
2011–2015	2,047

15. OTHER COMPREHENSIVE INCOME (LOSS):

Other comprehensive loss components and related taxes were as follows:

	December 31,		
(Dollar amounts in thousands)	2005	2004	2003
Unrealized holding gains and (losses) on securities available-for-sale	$(10,186)	$(5,347)	$(4,450)
Reclassification adjustments for (gains) and losses later recognized in income	(571)	165	(237)
Net unrealized gains and losses	(10,757)	(5,182)	(4,687)
Tax effect	4,303	2,076	1,874
Other comprehensive income (loss)	$ (6,454)	$(3,106)	$(2,813)

16. REGULATORY MATTERS:

The Corporation and its bank affiliates are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory—and possibly additional discretionary—actions by regulators that, if undertaken, could have a direct material effect on the Corporation's financial statements.

Further, the Corporation's primary source of funds to pay dividends to shareholders is dividends from its subsidiary banks and compliance with these capital requirements can affect the ability of the Corporation and its banking affiliates to pay dividends. At December 31, 2005, approximately $25.8 million of undistributed earnings of the subsidiary banks, included in consolidated retained earnings, were available for distribution to the Corporation without regulatory approval.

Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Corporation and Banks must meet specific capital guidelines that involve quantitative measures of the Corporation's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Corporation's and Banks' capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Corporation and Banks to maintain minimum amounts and ratios of Total and Tier I Capital to risk-weighted assets, and of Tier I Capital to average assets. Management believes, as of December 31, 2005 and 2004, that the Corporation meets all capital adequacy requirements to which it is subject.

As of December 31, 2005, the most recent notification from the respective regulatory agencies categorized the subsidiary banks as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the banks must maintain minimum total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the banks' category.

The following table presents the actual and required capital amounts and related ratios for the Corporation and the lead bank, First Financial Bank, N.A., at year end 2005 and 2004.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar amounts in thousands)	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total risk-based capital						
Corporation – 2005	$273,207	16.99%	$128,637	8.0%	N/A	N/A
Corporation – 2004	269,405	16.55%	130,239	8.0%	N/A	N/A
First Financial Bank – 2005	262,282	17.09%	122,804	8.0%	153,506	10.0%
First Financial Bank – 2004	243,390	17.09%	113,956	8.0%	142,445	10.0%
Tier I risk-based capital						
Corporation – 2005	$257,165	15.99%	$64,319	4.0%	N/A	N/A
Corporation – 2004	249,487	15.32%	65,120	4.0%	N/A	N/A
First Financial Bank – 2005	248,727	16.20%	61,402	4.0%	92,103	6.0%
First Financial Bank – 2004	227,880	16.00%	56,978	4.0%	85,467	6.0%
Tier I leverage capital						
Corporation – 2005	$257,165	11.89%	$86,532	4.0%	N/A	N/A
Corporation – 2004	249,487	11.42%	87,391	4.0%	N/A	N/A
First Financial Bank – 2005	248,727	11.94%	83,355	4.0%	104,194	5.0%
First Financial Bank – 2004	227,880	11.82%	77,143	4.0%	96,429	5.0%

17. PARENT COMPANY CONDENSED FINANCIAL STATEMENTS:

The parent company's condensed balance sheets as of December 31, 2005 and 2004, and the related condensed statements of income and cash flows for each of the three years in the period ended December 31, 2005, are as follows:

CONDENSED BALANCE SHEETS

(Dollar amounts in thousands)	December 31, 2005	2004
ASSETS		
Cash deposits in affiliated banks	$ 8,364	$ 9,710
Investments in subsidiaries	267,335	282,435
Land and headquarters building, net	6,244	6,156
Other	8,613	9,709
TOTAL ASSETS	$290,556	$308,010
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Borrowings	$ 10,636	$ 28,636
Dividends payable	5,603	5,414
Other liabilities	4,994	5,625
TOTAL LIABILITIES	21,233	39,675
Shareholders' equity	269,323	268,335
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$290,556	$308,010

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED STATEMENTS OF INCOME

(Dollar amounts in thousands)	Years Ended December 31, 2005	2004	2003
Dividends from subsidiaries	$33,828	$13,670	$12,418
Other income	1,013	967	1,006
Interest on borrowings	(943)	(703)	(663)
Other operating expenses	(3,017)	(2,931)	(2,759)
Income before income taxes and equity in undistributed earnings of subsidiaries	30,881	11,003	10,002
Income tax benefit	1,177	909	907
Income before equity in undistributed earnings of subsidiaries	32,058	11,912	10,909
Equity in undistributed earnings of subsidiaries	(9,004)	16,097	15,584
Net income	$23,054	$28,009	$26,493

CONDENSED STATEMENTS OF CASH FLOWS

(Dollar amounts in thousands)	Years Ended December 31, 2005	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$23,054	$28,009	$26,493
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for depreciation and amortization	258	206	215
Equity in undistributed earnings of subsidiaries	9,004	(16,097)	(15,584)
Contribution of shares to ESOP	1,144	1,163	1,256
Increase (decrease) in other liabilities	479	416	1,626
(Increase) decrease in other assets	(392)	869	852
NET CASH FROM OPERATING ACTIVITIES	33,547	14,566	14,858
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of furniture and fixtures	(325)	–	(34)
NET CASH FROM INVESTING ACTIVITIES	(325)	–	(34)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from borrowings	–	–	18,236
Principal payments on long-term borrowings	(18,000)	–	(19,500)
Purchase of treasury stock	(5,789)	(2,330)	(2,123)
Dividends paid	(10,779)	(10,155)	(8,845)
NET CASH FROM FINANCING ACTIVITIES	(34,568)	(12,485)	(12,232)
NET (DECREASE) INCREASE IN CASH	(1,346)	2,081	2,592
CASH, BEGINNING OF YEAR	9,710	7,629	5,037
CASH, END OF YEAR	$ 8,364	$ 9,710	$ 7,629
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	$ 938	$ 678	$ 663
Income taxes	$ 5,413	$ 6,501	$ 8,016

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

18. SELECTED QUARTERLY DATA (UNAUDITED)

	2005					
(Dollar amounts in thousands)	Interest Income	Interest Expense	Net Interest Income	Provision for Loan Losses	Net Income	Net Income Per Share
March 31	$29,365	$11,022	$18,343	$2,223	$ 6,311	$ .48
June 30	$29,776	$11,498	$18,278	$3,783	$ 4,992	$ .37
September 30	$30,893	$12,208	$18,685	$2,608	$ 6,323	$ .46
December 31	$31,613	$12,741	$18,872	$3,084	$ 5,428	$ .41

	2004					
(Dollar amounts in thousands)	Interest Income	Interest Expense	Net Interest Income	Provision for Loan Losses	Net Income	Net Income Per Share
March 31	$29,276	$11,343	$17,933	$1,923	$10,685	$ .79
June 30	$28,825	$11,072	$17,753	$1,923	$ 6,329	$ .47
September 30	$29,021	$11,174	$17,847	$2,223	$ 5,975	$ .44
December 31	$29,766	$11,097	$18,669	$2,223	$ 5,020	$ .37

In the first quarter of 2004, the Corporation realized $4.1 million of income from gain on a life insurance benefit.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON FINANCIAL STATEMENTS

To the Shareholders and Board of Directors of First Financial Corporation:

We have audited the accompanying consolidated balance sheets of First Financial Corporation as of December 31, 2005 and 2004, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2005. These financial statements are the responsibility of the Corporation'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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of First Financial Corporation as of December 31, 2005 and 2004, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of First Financial Corporation's internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control–Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report, dated February 21, 2006, expressed an unqualified opinion thereon.

Crowe Chizek and Company LLC

Indianapolis, Indiana
February 21, 2006

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Shareholders and Board of Directors of First Financial Corporation:

We have audited management's assessment, included in the accompanying "Report on Internal Control Over Financial Reporting," that First Financial Corporation (Corporation) maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in "Internal Control–Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). First Financial Corporation'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 Corporation'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 U.S. 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 U. S. 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 Corporation maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on criteria established in "Internal Control–Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also in our opinion, First Financial Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in "Internal Control–Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets as of December 31, 2005 and 2004, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2005 of First Financial Corporation and our report dated February 21, 2006 expressed an unqualified opinion.

Crowe Chizek and Company LLC

Indianapolis, Indiana
February 21, 2006

Management's Report on Internal Control Over Financial Reporting

The management of First Financial Corporation (the "Corporation") has prepared and is responsible for the preparation and accuracy of the consolidated financial statements and related financial information included in the Annual Report.

The management of the Corporation is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. The Corporation's internal control over financial reporting is 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. The Corporation's internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Corporation; (ii) 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 Corporation are being made only in accordance with authorizations of management and directors of the Corporation; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Corporation'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.

Management assessed the Corporation's system of internal control over financial reporting as of December 31, 2005, in relation to criteria for effective internal control over financial reporting as described in "Internal Control–Integrated Framework," issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management concluded that, as of December 31, 2005, its system of internal control over financial reporting is effective and meets the criteria of the "Internal Control–Integrated Framework."

Crowe Chizek and Company LLC, independent registered public accounting firm, has issued an attestation report dated February 21, 2006 on management's assessment of the Corporation's internal control over financial reporting.

Management's Discussion and Analysis

Management's discussion and analysis reviews the financial condition of First Financial Corporation at December 31, 2005 and 2004, and the results of its operations for the three years ended December 31, 2005. Where appropriate, factors that may affect future financial performance are also discussed. The discussion should be read in conjunction with the accompanying consolidated financial statements, related footnotes and selected financial data.

A cautionary note about forward-looking statements: In its oral and written communication, First Financial Corporation from time to time includes forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements can include statements about estimated cost savings, plans and objectives for future operations and expectations about performance, as well as economic and market conditions and trends. They often can be identified by the use of words such as "expect," "may," "could," "intend," "project," "estimate," "believe" or "anticipate." First Financial Corporation may include forward-looking statements in filings with the Securities and Exchange Commission, in other written materials such as this Annual Report and in oral statements made by senior management to analysts, investors, representatives of the media and others. It is intended that these forward-looking statements speak only as of the date they are made, and First Financial Corporation undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the forward-looking statement is made or to reflect the occurrence of unanticipated events.

By their nature, forward-looking statements are based on assumptions and are subject to risks, uncertainties and other factors. Actual results may differ materially from those contained in the forward-looking statement. The discussion in this "Management's Discussion and Analysis of Results of Operations and Financial Condition" lists some of the factors which could cause actual results to vary materially from those in any forward-looking statements. Other uncertainties which could affect First Financial Corporation's future performance include the effects of competition, technological changes and regulatory developments; changes in fiscal, monetary and tax policies; market, economic, operational, liquidity, credit and interest rate risks associated with First Financial Corporation's business; inflation; competition in the financial services industry; changes in general economic conditions, either nationally or regionally, resulting in, among other things, credit quality deterioration; and changes in securities markets. Investors should consider these risks, uncertainties and other factors in addition to those mentioned by First Financial Corporation in its other filings from time to time when considering any forward-looking statement.

Management's Discussion and Analysis

First Financial Corporation (the Corporation) is a financial services company. The Corporation, which is headquartered in Terre Haute, Ind., offers a wide variety of financial services including commercial, mortgage and consumer lending, lease financing, trust account services and depositor services through its three subsidiaries. At the close of business in 2005 the Corporation and its subsidiaries had 808 full-time equivalent employees.

First Financial Bank is the largest bank in Vigo County, Ind. It operates 12 full-service banking branches within the county; five in Clay County, Ind.; one in Greene County, Ind.; two in Knox County, Ind.; five in Parke County, Ind.; five in Sullivan County, Ind.; four in Vermillion County, Ind.; one in Clark County, Ill.; one in Coles County, Ill.; three in Crawford County, Ill.; one in Jasper County, Ill.; two in Lawrence County, Ill.; two in Richland County, Ill.; one in Vermilion County, Ill.; and one in Wayne County, Ill. In addition to its branches, it has a main office in downtown Terre Haute and a 50,000-square-foot commercial building on South Third Street in Terre Haute, which serves as the Corporation's operations center and provides additional office space. Morris Plan has one office and is located in Vigo County.

First Financial Bank and Morris Plan face competition from other financial institutions. These competitors consist of commercial banks, a mutual savings bank and other financial institutions, including consumer finance companies, insurance companies, brokerage firms and credit unions.

The Corporation's business activities are centered in west-central Indiana and east-central Illinois. The Corporation has no foreign activities other than periodically investing available funds in time deposits held in foreign branches of domestic banks.

Forrest Sherer, Inc. is a premier regional supplier of insurance, surety and other financial products. The Forrest Sherer brand is well recognized in the Midwest, with more than 62 professionals and over 85 years of successful service to both businesses and households in their market area. The agency has representation agreements with more than 40 regional and national insurers to market their products of property and casualty insurance, surety bonds, employee benefit plans, life insurance and annuities.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Management's Discussion and Analysis of Financial Condition and Results of Operations, as well as disclosures found elsewhere in this report are based upon First Financial Corporation's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires the Corporation to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, and expenses. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and goodwill. Actual results could differ from those estimates.

Allowance for loan losses. The allowance for loan losses represents management's estimate of losses inherent in the existing loan portfolio. The allowance for loan losses is increased by the provision for loan losses charged to expense and reduced by loans charged off, net of recoveries. The allowance for loan losses is determined based on management's assessment of several factors: reviews and evaluations of specific loans, changes in the nature and volume of the loan portfolio, current economic conditions and the related impact on segments of the loan portfolio, historical loan loss experience and the level of classified and nonperforming loans.

Loans are considered impaired if, based on current information and events, it is probable that the Corporation will be unable to collect the scheduled payments of principal or interest according to the contractual terms of the loan agreement. When a loan is deemed impaired, impairment is measured by using the fair value of underlying collateral, the present value of the future cash flows discounted at the effective interest rate stipulated in the loan agreement, or the estimated market value of the loan. In measuring the fair value of the collateral, management uses assumptions (e.g., discount rate) and methodologies (e.g., comparison to the recent selling price of similar assets) consistent with those that would be utilized by unrelated third parties.

Changes in the financial condition of individual borrowers, economic conditions, historical loss experience, or the condition of the various markets in which collateral may be sold may affect the required level of the allowance for loan losses and the associated provision for loan losses. Should cash flow assumptions or market conditions change, a different amount may be recorded for the allowance for loan losses and the associated provision for loan losses.

Goodwill. The carrying value of goodwill requires management to use estimates and assumptions about the fair value of the reporting unit compared to its book value. An impairment analysis is prepared on an annual basis. Fair values of the reporting units are determined by an analysis which considers cash flows streams, profitability and estimated market values of the business unit. The majority of the Corporation's goodwill is recorded at Forrest Sherer, Inc.

Management believes the accounting estimates related to the allowance for loan losses and the valuation of goodwill are "critical accounting estimates" because: (1) the estimates are highly susceptible to change from period to period because they require management to make assumptions concerning, among other factors, the changes in the types and volumes of the portfolios, valuation assumptions, and economic conditions, and (2) the impact of recognizing an impairment or loan loss could have a material effect on the Corporation's assets reported on the balance sheet as well as net income.

RESULTS OF OPERATIONS — SUMMARY FOR 2005

Net income for 2005 was $23.1 million, or $1.72 per share. This represents a 17.7% decrease in net income and a 16.9% decrease in earnings per share, compared to 2004. 2004 net income was favorably affected by $4.1 million in life insurance proceeds, which increased 2004 earnings per share by $ .30.

NET INTEREST INCOME

The principal source of the Corporation's earnings is net interest income, which represents the difference between interest earned on loans and investments and the interest cost associated with deposits and other sources of funding.

Net interest income increased $2 million to $74.2 million in 2005. Total average interest-earning assets decreased to $2.01 billion in 2005 from $2.04 billion in 2004. The tax-equivalent yield on these assets increased to 6.28% in 2005 from 6.00% in 2004. Total average interest-bearing liabilities of $1.74 billion in 2004 decreased to $1.71 billion in 2005. The average cost of these interest-bearing liabilities increased to 2.77% in 2005 from 2.56% in 2004.

The net interest margin increased from 3.81% in 2004 to 3.92% in 2005. This increase is primarily the result of the increased yield on earning assets having a larger impact than the increased cost of interest-bearing liabilities. Earning assets yields increased 28 basis points while the cost of interest-bearing liabilities increased by 21 basis points. The costs of funding earning assets were reduced as more funding was provided by lower cost deposits, including non-interest bearing deposits, than borrowings in 2005 compared to 2004.

The following table sets forth the components of net interest income due to changes in volume and rate. The table information compares 2005 to 2004 and 2004 to 2003.

	2005 Compared to 2004 Increase (Decrease) Due to				2004 Compared to 2003 Increase (Decrease) Due to			
(Dollar amounts in thousands)	Volume	Rate	Volume/ Rate	Total	Volume	Rate	Volume/ Rate	Total
Interest earned on interest-earning assets:								
Loans (1) (2)	$ (726)	$ 4,592	$ (37)	$ 3,829	$ 2,473	$ (7,717)	$ (194)	$ (5,438)
securities	(564)	2,129	(78)	1,487	(541)	147	(5)	(399)
Tax-exempt investment securities (2)	(835)	(947)	56	(1,726)	(1,593)	(413)	42	(1,964)
Federal funds sold	212	45	189	446	(25)	47	(24)	(2)
Total interest income	(1,913)	5,819	130	4,036	(314)	(7,936)	(181)	(7,803)
Interest paid on interest-bearing liabilities:								
Transaction accounts	206	2,804	149	3,159	460	(816)	(87)	(443)
Time deposits	16	314	–	330	(2,298)	(544)	55	(2,787)
Short-term borrowings	(653)	1,169	(750)	(234)	448	68	70	586
Other borrowings	(1,054)	614	(32)	(472)	(847)	(50)	2	(895)
Total interest expense	(1,485)	4,901	(633)	2,783	(2,237)	(1,342)	40	(3,539)
Net interest income	$ (428)	$ 918	$ 763	$ 1,253	$ 2,551	$ (6,594)	$ (221)	$ (4,264)

(1) For purposes of these computations, nonaccruing loans are included in the daily average loan amounts outstanding.

(2) Interest income includes the effect of tax equivalent adjustments using a federal tax rate of 35%.

RESULTS OF OPERATIONS — SUMMARY FOR 2005

PROVISION FOR LOAN LOSSES

The provision for loan losses charged to expense is based upon credit loss experience and the results of a detailed analysis estimating an appropriate and adequate allowance for loan losses. The analysis includes the evaluation of impaired loans as prescribed under Statement of Financial Accounting Standards (SFAS) Nos. 114 and 118, pooled loans as prescribed under SFAS No. 5, and economic and other risk factors as outlined in various Joint Interagency Statements issued by the bank regulatory agencies. For the year ended December 31, 2005, the provision for loan losses was $11.7 million, an increase of $3.4 million, or 41.1%, compared to 2004. The increase was the result of several components related to the analysis of the Corporation's Allowance for Loan and Lease Losses.

Although net charge-offs for 2005 were $15.6 million as compared to $9.6 million for 2004, classified credits were reduced by $12.5 million, or 17.3%, from prior year totals and nonperforming loans decreased by $13.2 million. During the year commercial and real estate credits were identified for sale and written down to realizable value. This caused both an increase in provision for loan losses as well as decreased nonperforming loans and classified credits. Changes in bankruptcy statutes increased the amount of charge-offs of consumer credits in the second half of 2005. At December 31, 2005, the resulting allowance for loan losses was $16.0 million or 1.15% of total loans, net of unearned income. A year earlier the allowance was $19.9 million or 1.36% of total loans.

NON-INTEREST INCOME

Non-interest income of $32.0 million decreased $3.8 million from the $35.8 million earned in 2004. Excluding the $4.1 million non-taxable gain on life insurance benefit realized in 2004, the non-interest income is up by $384 thousand. Increased gains on loan and security sales were partially offset by reduced income from insurance commissions and trust fees.

NON-INTEREST EXPENSES

Non-interest expenses totaled $63.5 million for 2005 compared to $63.7 million for 2004. Salaries and employee benefits increased $741 thousand or 2.0%. Occupancy expense decreased 2.8% or $108 thousand while equipment expense increased by 7.7% or $276 thousand. All other expenses decreased to $17.3 million from $18.3 million in 2004. Consolidation of affiliate banks, which has contributed to the control of non-interest expenses, was completed in the third quarter of 2005.

INCOME TAXES

The Corporation's federal income tax provision was $7.9 million in 2005 compared to a provision of $8.0 million in 2004. The overall effective tax rate in 2004 of 22.2% compares to a 2005 effective rate of 25.6%. The life insurance benefit received in 2004 was not subject to income tax, thereby reducing the effective tax rate.

COMPARISON OF 2004 TO 2003

Net income for 2004 was $28.0 million or $2.07 per share compared to $26.5 million in 2003 or $1.95 per share. This increased income was primarily the result of increased non-interest income in 2004 from a gain on life insurance benefit of $4.1 million. Total average interest-earning assets decreased $1.8 million in 2004 from $2.04 billion in 2003. The tax equivalent net interest margin decreased to 3.81% in 2004 from 4.02% in 2003. This decrease is primarily the result of funding costs decreasing at a slower rate than the yield on earning assets.

The provision for loan losses increased $837 thousand from $7.5 million in 2003 to $8.3 million in 2004, and net charge-offs increased $2.1 million from $7.5 million in 2003 to $9.6 million in 2004.

There was a $3.7 million improvement in net non-interest income and expense from 2003 to 2004. Non-interest expenses increased $1.2 million while non-interest income increased $4.9 million. The majority of this increase in non-interest income was the result of the gain on life insurance benefit of $4.1 million realized in 2004.

The provision for income taxes fell $847 thousand from 2003 to 2004, reducing the effective tax rate from 25.0% in 2003 to 22.2% in 2004. This decrease in the effective tax rate was the result of the increase in non-taxable income from the gain on life insurance benefit realized in 2004. Without this gain the effective tax rate would have been 25.1%.

FINANCIAL CONDITION — SUMMARY

The Corporation's total assets decreased 2.2% or $47.1 million at December 31, 2005, from a year earlier. Available-for-sale securities increased $28.3 million at December 31, 2005, from the previous year. Loans, net of unearned income, decreased by $68.3 million, to $1.40 billion. Deposits increased $21.8 million while borrowings decreased by $67.9 million.

Total shareholders' equity increased $988 thousand to $269.3 million at December 31, 2005. Net income was partially offset by higher dividends and the continued repurchase of corporate stock. The Corporation had higher purchases of treasury stock in 2005, acquiring 203,700 shares at a cost of $5.8 million compared to 79,000 shares during 2004 at a cost of $2.3 million. There were also 41,500 shares from the treasury with a value of $1.14 million that were contributed to the ESOP plan. Increased interest rates reduced other comprehensive income as the Corporation recorded a net unrealized loss on available-for-sale securities of $6.5 million. While this fluctuation in fair value decreased shareholders' equity, no loss is recognized in net income unless the security is actually sold or considered to be other-than-temporarily impaired.

Following is an analysis of the components of the Corporation's balance sheet.

SECURITIES

The Corporation's investment strategy seeks to maximize income from the investment portfolio while using it as a risk management tool and ensuring safety of principal and capital. During 2005 the portfolio's balance increased by 5.57%. During 2005 the Federal Reserve increased the fed funds rate by 2.00% to 4.25%. The average life of the portfolio was extended from 4.00 years to 4.36 years. The portfolio structure will continue to provide cash flows to be reinvested during 2006.

Year-end securities maturity schedules were comprised of the following:

	1 Year and Less		1 to 5 Years		5 to 10 Years		Over 10 Years		2005
(Dollar amounts in thousands)	Balance	Rate	Balance	Rate	Balance	Rate	Balance	Rate	Total
U.S. government sponsored entity mortgage-backed securities and agencies	$11,759	4.28%	$284,815	4.56%	$ 4,829	5.50%	–	–%	$301,403
Collateralized mortgage obligations[1]	2,215	4.22	145	9.73	–	–	–	–	2,360
States and political subdivisions	29,760	4.24	66,383	3.25	34,591	1.63	3,311	3.31	134,045
Corporate obligations	6,679	4.88	37,901	5.75	2,860	5.41	42,784	5.09	90,224
Total	50,413	4.33	389,244	4.45	42,280	2.33	46,095	4.96	528,032
Equities	–	–	–	–	–	–	8,259	–	8,259
TOTAL	$50,413		$389,244		$42,280		$54,354		$536,291

[1] Distribution of maturities is based on the estimated average life of the asset.

FINANCIAL CONDITION — SUMMARY

LOAN PORTFOLIO

Loans outstanding by major category as of December 31 for each of the last five years and the maturities at year-end 2005 are set forth in the following analyses.

(Dollar amounts in thousands)	2005	2004	2003	2002	2001
Loan Category					
Commercial, financial and agricultural	$ 382,214	$ 401,724	$ 374,638	$ 331,316	$ 302,496
Real estate - construction	31,918	32,810	35,361	42,930	34,610
Real estate - mortgage	707,008	753,826	766,911	789,618	757,345
Installment	272,062	272,261	248,290	268,067	249,710
Lease financing	2,845	3,658	4,884	1,281	5,023
TOTAL	$1,396,047	$1,464,279	$1,430,084	$1,433,212	$1,349,184

(Dollar amounts in thousands)	Within One Year	After One But Within Five Years	After Five Years	Total
Maturity Distribution				
Commercial, financial and agricultural	$197,534	$151,941	$ 32,739	$ 382,214
Real estate - construction	17,342	7,740	6,836	31,918
TOTAL	$214,876	$159,681	$ 39,575	414,132
Real estate - mortgage				707,008
Installment				272,062
Lease financing				2,845
TOTAL				$1,396,047
Loans maturing after one year with:				
Fixed interest rates		$ 59,011	$ 34,335	
Variable interest rates		100,670	5,240	
TOTAL		$159,681	$ 39,575	

FINANCIAL CONDITION — SUMMARY

ALLOWANCE FOR LOAN LOSSES

The activity in the Corporation's allowance for loan losses is shown in the following analysis:

(Dollar amounts in thousands)	2005	2004	2003	2002	2001
Amount of loans outstanding at December 31,	$1,396,047	$1,464,279	$1,430,084	$1,433,212	$1,349,184
Average amount of loans by year	$1,441,247	$1,452,572	$1,417,026	$1,432,290	$1,315,725
Allowance for loan losses at beginning of year	$ 19,918	$ 21,239	$ 21,249	$ 18,313	$ 19,072
Addition resulting from acquisition	–	–	–	1,711	–
Loans charged off:					
Commercial, financial and agricultural	6,093	4,080	2,253	4,627	4,079
Real estate - mortgage	2,590	623	1,101	892	557
Installment	8,809	6,680	5,586	4,619	4,395
Leasing	–	1	–	–	12
Total loans charged off	17,492	11,384	8,940	10,138	9,043
Recoveries of loans previously charged off:					
Commercial, financial and agricultural	284	452	432	840	819
Real estate - mortgage	343	37	166	110	60
Installment	1,291	1,281	877	935	790
Leasing	–	1	–	–	–
Total recoveries	1,918	1,771	1,475	1,885	1,669
Net loans charged off	15,574	9,613	7,465	8,253	7,374
Provision charged to expense	11,698	8,292	7,455	9,478	6,615
Balance at end of year	$ 16,042	$ 19,918	$ 21,239	$ 21,249	$ 18,313
Ratio of net charge-offs during period to average loans outstanding	1.08%	.66%	.53%	.58%	.56%

The allowance is maintained at an amount management believes sufficient to absorb probable incurred losses in the loan portfolio. Monitoring loan quality and maintaining an adequate allowance is an ongoing process overseen by senior management and the loan review function. On at least a quarterly basis, a formal analysis of the adequacy of the allowance is prepared and reviewed by management and the Board of Directors. This analysis serves as a point in time assessment of the level of the allowance and serves as a basis for provisions for loan losses. The loan quality monitoring process includes assigning loan grades and the use of a watch list to identify loans of concern.

The analysis of the allowance for loan losses includes the allocation of specific amounts of the allowance to individual problem loans, generally based on an analysis of the collateral securing those loans. Portions of the allowance are also allocated to loan portfolios, based upon a variety of factors including historical loss experience, trends in the type and volume of the loan portfolios, trends in delinquent and non-performing loans, and economic trends affecting our market. These components are added together and compared to the balance of our allowance at the evaluation date. The following table presents the allocation of the allowance to the loan portfolios at year-end.

FINANCIAL CONDITION — SUMMARY

(Dollar amounts in thousands)	Years Ended December 31, 2005	2004	2003	2002	2001
Commercial, financial and agricultural	$ 8,148	$11,840	$13,844	$12,993	$11,151
Real estate – mortgage	867	850	1,254	1,471	1,330
Installment	7,027	7,228	6,141	5,856	4,489
Leasing	–	–	–	15	17
Unallocated	–	–	–	914	1,326
TOTAL ALLOWANCE FOR LOAN LOSSES	$16,042	$19,918	$21,239	$21,249	$18,313

NONPERFORMING LOANS

Management monitors the components and status of nonperforming loans as a part of the evaluation procedures used in determining the adequacy of the allowance for loan losses. It is the Corporation's policy to discontinue the accrual of interest on loans where, in management's opinion, serious doubt exists as to collectibility. The amounts shown below represent non-accrual loans, loans which have been restructured to provide for a reduction or deferral of interest or principal because of deterioration in the financial condition of the borrower and those loans which are past due more than 90 days where the Corporation continues to accrue interest.

(Dollar amounts in thousands)	2005	2004	2003	2002	2001
Non-accrual loans	$ 8,464	$19,862	$ 8,429	$11,807	$ 8,854
Restructured loans	57	430	542	546	590
Accruing loans past due over 90 days	6,354	7,813	5,384	5,899	4,925
	$14,875	$28,105	$14,355	$18,252	$14,369

The ratio of the allowance for loan losses as a percentage of nonperforming loans was 108% at December 31, 2005, compared to 71% in 2004. The following loan categories comprise significant components of the nonperforming loans at December 31, 2005 and 2004:

(Dollar amounts in thousands)	2005		2004	
Non-accrual loans:				
1-4 family residential	$ 1,118	13%	$ 608	3%
Commercial loans	5,888	70	17,635	89
Installment loans	1,458	17	1,619	8
	$ 8,464	100%	$19,862	100%
Past due 90 days or more:				
1-4 family residential	$ 3,197	51%	$ 3,723	47%
Commercial loans	1,554	24	2,159	28
Installment loans	1,603	25	1,931	25
	$ 6,354	100%	$ 7,813	100%

Non-performing loans were significantly reduced during 2005 as a result of sales and charge-offs of commercial credits. This also reduced the amount of the allowance for loan losses allocated to commercial loans.

There are no material concentrations by industry within the nonperforming loans.

FINANCIAL CONDITION — SUMMARY

An element of the Corporation's asset quality management process is the ongoing review and grading of each affiliate's commercial loan portfolio. At December 31, 2005, approximately $52.0 million of commercial loans are graded doubtful or substandard, including $8.2 million of non-accrual and past-due commercial loans listed on the previous page. This compares to $56.5 million in 2004, which included $18.7 million of non-performing loans. The classification of these loans, however, does not imply that management expects losses on each of these loans, but believes that a higher level of scrutiny is prudent under the circumstances. Many of these loans are still accruing and are, generally, performing in accordance with their loan agreements. However, for reasons such as previous payment history, bankruptcy proceedings, industry concerns or information specific to that borrower, it is the opinion of management that these loans require close monitoring.

DEPOSITS

The information below presents the average amount of deposits and rates paid on those deposits for 2005, 2004 and 2003.

	2005		2004		2003	
(Dollar amounts in thousands)	**Amount**	**Rate**	**Amount**	**Rate**	**Amount**	**Rate**
Non-interest-bearing demand deposits	$ 153,027		$ 150,944		$ 177,712	
Interest-bearing demand deposits	294,344	.77%	259,859	.50%	231,590	.63%
Savings deposits	392,791	1.21%	392,635	.65%	357,989	.80%
Time deposits:						
$100,000 or more	185,436	3.11%	163,890	2.86%	197,946	2.87%
Other time deposits	457,685	3.11%	478,706	3.04%	517,364	3.27%
TOTAL	$1,483,283		$1,446,034		$1,482,601	

The maturities of certificates of deposit of $100 thousand or more outstanding at December 31, 2005, are summarized as follows:

3 months or less	$ 28,602
Over 3 through 6 months	22,312
Over 6 through 12 months	22,675
Over 12 months	115,904
TOTAL	$189,493

FINANCIAL CONDITION — SUMMARY

OTHER BORROWINGS

Advances from the Federal Home Loan Bank decreased to $337.3 million in 2005 compared to $337.9 million in 2004. The Asset/Liability Committee reviews these investments and funding sources and considers the related strategies on a weekly basis. See Interest Rate Sensitivity and Liquidity below for more information.

CAPITAL RESOURCES

Bank regulatory agencies have established capital adequacy standards which are used extensively in their monitoring and control of the industry. These standards relate capital to level of risk by assigning different weightings to assets and certain off-balance-sheet activity. As shown in the footnote to the consolidated financial statements ("Regulatory Matters"), the Corporation's capital exceeds the requirements to be considered well capitalized at December 31, 2005.

First Financial Corporation's objective continues to be to maintain adequate capital to merit the confidence of its customers and shareholders. To warrant this confidence, the Corporation's management maintains a capital position which they believe is sufficient to absorb unforeseen financial shocks without unnecessarily restricting dividends to its shareholders. The Corporation's dividend payout ratio for 2005 and 2004 was 47.6% and 38.1%, respectively. The Corporation expects to continue its policy of paying regular cash dividends, subject to future earnings and regulatory restrictions and capital requirements.

INTEREST RATE SENSITIVITY AND LIQUIDITY

First Financial Corporation has established risk measures, limits and policy guidelines for managing interest rate risk and liquidity. Responsibility for management of these functions resides with the Asset Liability Committee. The primary goal of the Asset Liability Committee is to maximize net interest income within the interest rate risk limits approved by the Board of Directors.

Interest Rate Risk: Management considers interest rate risk to be the Corporation's most significant market risk. Interest rate risk is the exposure to changes in net interest income as a result of changes in interest rates. Consistency in the Corporation's net interest income is largely dependent on the effective management of this risk.

The Asset Liability position is measured using sophisticated risk management tools, including earnings simulation and market value of equity sensitivity analysis. These tools allow management to quantify and monitor both short- and long-term exposure to interest rate risk. Simulation modeling measures the effects of changes in interest rates, changes in the shape of the yield curve and the effects of embedded options on net interest income. This measure projects earnings in the various environments over the next three years. It is important to note that measures of interest rate risk have limitations and are dependent on various assumptions. These assumptions are inherently uncertain and, as a result, the model cannot precisely predict the impact of interest rate fluctuations on net interest income. Actual results will differ from simulated results due to timing, frequency and amount of interest rate changes as well as overall market conditions. The Committee has performed a thorough analysis of these assumptions and believes them to be valid and theoretically sound. These assumptions are continuously monitored for behavioral changes.

The Corporation from time to time utilizes derivatives to manage interest rate risk. Management continuously evaluates the merits of such interest rate risk products but does not anticipate the use of such products to become a major part of the Corporation's risk management strategy.

The table on the following page shows the Corporation's estimated sensitivity profile as of December 31, 2005. The change in interest rates assumes a parallel shift in interest rates of 100 and 200 basis points. Given a 100 basis point increase in rates, net interest income would decrease .32% over the next 12 months and increase 2.26% over the following 12 months. Given a 100 basis point decrease in rates, net interest income would decrease 2.89% over the next 12 months and decrease 5.77% over the following 12 months. These estimates assume all rate changes occur overnight and management takes no action as a result of this change.

Financial Condition — Summary

Basis Point Interest Rate Change	Percentage Change In Net Interest Income		
	12 months	24 months	36 months
Down 200	-6.22%	-12.11%	-17.45%
Down 100	-2.89	-5.77	-8.50
Up 100	-0.32	2.26	5.14
Up 200	-5.44	-0.63	5.36

Typical rate shock analysis does not reflect management's ability to react and thereby reduce the effects of rate changes, and represents a worst-case scenario.

Liquidity Risk: Liquidity is measured by each bank's ability to raise funds to meet the obligations of its customers, including deposit withdrawals and credit needs. This is accomplished primarily by maintaining sufficient liquid assets in the form of investment securities and core deposits. The Corporation has $14.3 million of investments that mature throughout the coming 12 months. The Corporation also anticipates $71.9 million of principal payments from mortgage-backed securities. Given the current rate environment, the Corporation anticipates $18.5 million in securities to be called within the next 12 months.

CONTRACTUAL OBLIGATIONS, COMMITMENTS, CONTINGENT LIABILITIES AND OFF-BALANCE SHEET ARRANGEMENTS

The Corporation has various financial obligations, including contractual obligations and commitments, that may require future cash payments.

Contractual Obligations: The following table presents, as of December 31, 2005, significant fixed and determinable contractual obligations to third parties by payment date. Further discussion of the nature of each obligation is included in the referenced note to the consolidated financial statements.

(Dollar amounts in thousands)	Note Reference	Payments Due In: One Year or Less	One to Three Years	Three to Five Years	Over Five Years	Total
Deposits without a stated maturity		$823,190	$ –	$ –	$ –	$823,190
Consumer certificates of deposit		348,575	242,488	50,233	432	641,728
Short-term borrowings	10	26,224	–	–	–	26,224
Other borrowings	11	8,665	53,398	280,510	1,293	343,866

Commitments: The following table details the amount and expected maturities of significant commitments as of December 31, 2005. Further discussion of these commitments is included in Note 13 to the consolidated financial statements.

(Dollar amounts in thousands)	Total Amount Committed	One Year or Less	Over One Year
Commitments to extend credit:			
Unused loan commitments	$270,017	$144,962	$125,055
Commercial letters of credit	6,933	6,933	–

Commitments to extend credit, including loan commitments, standby and commercial letters of credit do not necessarily represent future cash requirements, in that these commitments often expire without being drawn upon.

OUTLOOK

The Corporation's primary market is west-central Indiana and east-central Illinois. Typically, this market does not expand or contract at rates that are experienced by both the state and national economies. This area continues to be driven primarily by the retail, higher education and health care industries. During 2005 the area's employment data were mixed. East-central Illinois generally experienced falling unemployment rates while west-central Indiana experienced rising rates. A number of projects remain under development; however, there are limited significant growth opportunities currently available.

CONSOLIDATED BALANCE SHEET – AVERAGE BALANCES AND INTEREST RATES

	December 31,								
	2005			2004			2003		
(Dollar amounts in thousands)	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
ASSETS									
Interest-earning assets:									
Loans (1) (2)	$1,441,247	96,957	6.73%	$1,452,572	93,128	6.41%	$1,417,026	98,565	6.96%
Taxable investment securities	387,269	16,802	4.39	402,063	15,315	3.81	416,403	15,714	3.77
Tax-exempt investments (2)	171,802	12,248	7.13	182,727	13,974	7.65	203,021	15,938	7.85
Federal funds sold	13,772	496	3.60	2,628	50	1.90	5,129	52	.99
Total interest-earning assets	2,014,090	126,503	6.28%	2,039,990	122,467	6.00%	2,041,579	130,269	6.38%
Non-interest earning assets:									
Cash and due from banks	74,005			77,443			80,261		
Premises and equipment, net	30,720			30,610			29,634		
Other assets	62,779			66,177			63,753		
Less allowance for loan losses	(18,298)			(22,052)			(22,242)		
TOTALS	$2,163,296			$2,192,168			$2,192,985		
LIABILITIES AND SHAREHOLDERS' EQUITY									
Interest-bearing liabilities:									
Transaction accounts	$ 687,135	7,031	1.02%	$ 652,494	3,872	.59%	$ 589,579	4,315	.73%
Time deposits	643,121	20,153	3.13	642,596	19,823	3.08	715,310	22,610	3.16
Short-term borrowings	25,766	783	3.04	71,926	1,017	1.41	35,262	431	1.22
Other borrowings	356,728	19,502	5.47	376,600	19,974	5.30	392,540	20,869	5.32
Total interest-bearing liabilities:	1,712,750	47,469	2.77%	1,743,616	44,686	2.56%	1,732,691	48,225	2.78%
Non interest-bearing liabilities:									
Demand deposits	153,027			150,944			177,712		
Other	26,942			29,519			30,441		
	1,892,719			1,924,079			1,940,844		
Shareholders' equity	270,577			268,089			252,141		
TOTALS	$2,163,296			$2,192,168			$2,192,985		
Net interest earnings		$ 79,034			$ 77,781			$ 82,044	
Net yield on interest-earning assets			3.92%			3.81%			4.02%

(1) For purposes of these computations, nonaccruing loans are included in the daily average loan amounts outstanding.

(2) Interest income includes the effect of tax equivalent adjustments using a federal tax rate of 35%.

MARKET AND DIVIDEND INFORMATION

At year-end 2005 shareholders owned 13,373,570 shares of the Corporation's common stock. The stock is traded over-the-counter under the NASDAQ National Market System with the symbol THFF. Such over-the-counter market quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

Historically, the Corporation has paid cash dividends semi-annually and currently expects that comparable cash dividends will continue to be paid in the future. The following table gives quarterly high and low trade prices and dividends per share during each quarter for 2005 and 2004.

	2005			2004		
	Trade Price		Cash Dividends Declared	Trade Price		Cash Dividends Declared
Quarter ended	High	Low		High	Low	
March 31	$34.48	$29.55		$31.49	$28.50	
June 30	$29.57	$25.39	$ .40	$32.43	$27.81	$ .39
September 30	$31.99	$25.70		$32.91	$30.38	
December 31	$28.29	$25.75	$ .42	$37.07	$30.72	$ .40

DIRECTORS

First Financial Corporation & First Financial Bank Terre Haute Region

W. Curtis Brighton
Executive Vice President & General Counsel
Hulman & Company
B. Guille Cox, Jr.
Attorney-at-Law
Thomas T. Dinkel
President
Sycamore Engineering, Inc.
Anton Hulman George
President
Indianapolis Motor Speedway Corporation
Gregory L. Gibson
President
ReTec Corporation
Norman L. Lowery
President & CEO
First Financial Bank
CEO
First Financial Corporation
Patrick O'Leary
President
Contract Services, LLC
Ronald K. Rich
Financial Representative
Northwestern Mutual Financial Network
Donald E. Smith
President & Chairman
First Financial Corporation
Virginia L. Smith
President
R.J. Oil Co., Inc.

First Financial Bank Ridge Farm Region

Morris A. Chesnut
Farmer
Rachel J. Heron
President & CEO, Retired
First Financial Bank, Ridge Farm
Kirk Woodyard
Farmer

First Financial Bank Marshall Region

Fred S. Barth
Owner, Retired
Fred Barth Ford-Mercury
Byron R. Calvert
Community President
William F. Meehling
Attorney-at-Law
George T. Mitchell, M.D.
General Practitioner
Norman P. Yeley
Farmer

First Financial Bank Citizens Region

Henry J. Antonini
Attorney-at-Law
Michael A. Carty
Senior Vice President
First Financial Bank
Robert DeVerter
Owner
DeVerter Brothers Funeral Home
Scott McCullough
Vice President
First Financial Bank
Danny F. Wesch
Farmer
Terri Williamson
Vice President
Branson Insurance Agency

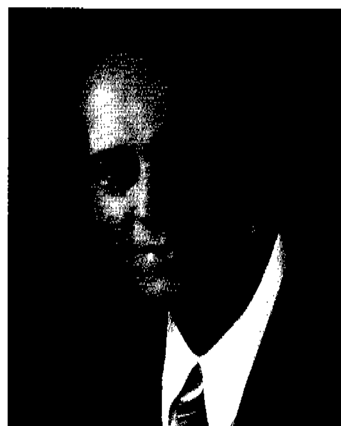
First Financial Bank Sullivan Region

Thomas S. Clary
Senior Vice President & Chief Credit Officer
First Financial Bank
Robert F. Dukes
Educator, Retired
Henry Smith
General Manager
500 Express
Robert E. Springer
Attorney-at-Law
V. Bruce Walkup
Community President

First Financial Bank Parke Region

James R. Bosley
Community President
Michael A. Carty
Senior Vice President
First Financial Bank
Thomas S. Clary
Senior Vice President & Chief Credit Officer
First Financial Bank
Charles A. Cooper
President, Retired
First Parke State Bank

In Memoriam



Larry Schopmeyer passed away on April 13, 2005. A member of the First family for 34 years, he was President of The Morris Plan and a member of the Community Region Board of Directors.

William "Bill" Niemeyer passed away on September 4, 2005. A member of the Board of Directors of First Financial Corporation and First Financial Bank since 1964, he served on the Executive Committee, Compensation and Employee Benefits Committee, Nominating Committee and Discount Committee.

First Financial Corporation and First Financial Bank

Seated: Ronald K. Rich, Patrick O'Leary, Donald E. Smith and Virginia Smith. *Standing:* Gregory L. Gibson, Norman L. Lowery, B. Guille Cox Jr., Tony George, Thomas T. Dinkel and W. Curtis Brighton.

First Financial Bank Clay Region

David L. Barr
President, Retired
Underwood Truck Lines, Inc.
Rodger McHargue
Vice President
First Financial Bank
Sam J. Emmert
President
Timberland Home Center, Inc.
Max Gibson
President, Majax Corporation
Robert A. Heaton
Financial Services Representative
Heaton Financial Services
James E. Pell
President, Pell Homes, Inc.
John P. Stelle
Honorable Judge, Retired
Clay County Superior Court

First Financial Bank Crawford Region

Jerry L. Bailey
Community President
W. J. Chamblin
Chairman & Owner
Bradford Supply Company
Norman D. Lowery
Private Banking Manager
First Financial Bank
Steven A. McGahey
President & Owner
Tempco Products Co., Inc.
V. Bruce Walkup
Community President
First Financial Bank, Sullivan

First Financial Bank Community Region

Norman D. Lowery
Private Banking Manager
First Financial Bank
Scott McCullough
Vice President
First Financial Bank
Avery J. McKinney
President & Owner
A.M. Transport Services, Inc.
V. Bruce Walkup
Community President
First Financial Bank, Sullivan
Jeffrey L. Wilson
Community President

The Morris Plan Company of Terre Haute

David L. Bailey
Vice President, Retired
Emmis Communications
Jeffrey G. Belskus
Executive Vice President & Chief Financial Officer
Hulman & Company
Executive Vice President & Chief Financial Officer
Indianapolis Motor Speedway
Thomas S. Clary
Senior Vice President & Chief Credit Officer
First Financial Bank
Mark J. Fuson
President & General Manager
Fuson Pontiac Buick Cadillac & GMC
Norman D. Lowery
Private Banking Manager
First Financial Bank
James F. Nasser
President
Jeffrey B. Smith
Property Manager
Princeton Mining Co.

Forrest Sherer Inc.

John W. Dinkel
President & CEO
Forrest Sherer, Inc.
J. Barton Douglas
Vice President, Surety
Forrest Sherer, Inc.
Norman L. Lowery
President & CEO
First Financial Bank
John S. Lukens
Executive Vice President & Chief Operating Office
Forrest Sherer, Inc.
Dennis S. Michael
Retired
Forrest Sherer, Inc.
Donald L. Miller
Vice President, Administration, & Chief Financial Officer
Forrest Sherer, Inc.
Jerry R. Mueller
Retired
Forrest Sherer, Inc.
Robert F. Prox III
Senior Vice President, Commercial Insurance
Forrest Sherer, Inc.

FIRST BANKING CENTER LOCATIONS

First Financial Bank N.A.
Vigo County

Terre Haute Main Office*
One First Financial Plaza
Sixth & Wabash
812-238-6000

Honey Creek Mall*
U.S. 41 South
812-238-6000

Indiana State University*
Hulman Memorial Union
812-238-6000

Industrial Park*
1749 East Industrial Drive
812-238-6000

Maple Avenue*
4065 Maple Avenue
812-238-6000

Meadows*
350 South 25th Street
812-238-6000

Plaza North*
Ft. Harrison & Lafayette
812-238-6000

Seelyville*
9520 East U.S. 40
812-238-6000

Southland*
3005 South Seventh Street
812-238-6000

Springhill*
4500 U.S. 41 South
812-238-6000

West Terre Haute*
309 National Avenue
812-238-6000

Westminster Village
1120 East Davis Drive
812-238-6000

The Morris Plan Company of Terre Haute
817 Wabash Avenue
812-238-6063

First Financial Bank N.A.
Clay County

Brazil*
7995 North State Road 59
812-443-4481

Brazil Downtown*
18 North Walnut
812-448-3357

Brazil Eastside*
2180 East National Avenue
812-448-8110

Clay City*
502-504 Main Street
812-939-2145

Poland*
8490 East State Road 42
812-986-2115

First Financial Bank N.A.
Greene County

Worthington*
9 North Commercial Street
812-875-3021

First Financial Bank N.A.
Knox County

Monroe City*
201 West First Street
812-743-5151

Sandborn
102 North Anderson Street
812-694-8462

Vincennes*
2707 North Sixth Street
812-882-4800

First Financial Bank N.A.
Parke County

Rockville*
1311 North Lincoln Road
765-569-3171

Rockville Downtown*
120 East Ohio Street
765-569-3442

Marshall
10 South Main Street
765-597-2261

Montezuma*
232 East Crawford Street
765-245-2706

Rosedale
62 East Central Street
765-548-2266

First Financial Bank N.A.
Sullivan County

Sullivan*
15 South Main Street
812-268-3331

Carlisle*
8571 Old US 41 South
812-398-4100

Dugger
8100 East Main Street
812-648-2251

Farmersburg*
819 West Main Street
812-696-2106

Hymera
102 South Main Street
812-383-4933

First Financial Bank N.A.
Vermillion County

Newport*
100 West Market Street
765-492-3321

Cayuga
211 Curtis Street
765-492-3391

Clinton*
221 South Main Street
765-832-3504

Clinton Crown Hill*
1775 East State Road 163
765-832-5546

First Financial Bank N.A.
Clark County

Marshall*
215 North Michigan
217-826-6311

First Financial Bank N.A.
Coles County

Charleston*
820 West Lincoln Avenue
217-345-4824

First Financial Bank N.A.
Crawford County

Robinson*
108 West Main Street
618-544-8666

Robinson Motor Bank*
(Drive-Through Only)
602 West Walnut Street
618-544-3355

Oblong*
301 East Main Street
618-592-4252

First Financial Bank N.A.
Jasper County

Newton*
601 West Jourdan Street
618-783-2022

First Financial Bank N.A.
Lawrence County

Lawrenceville*
1601 State Street
618-943-3323

Sumner
211 South Christy
618-936-2321

First Financial Bank N.A.
Richland County

Olney*
240 East Chestnut Street
618-395-8676

Olney*
1110 South West Street
618-395-2112

First Financial Bank N.A.
Vermilion County

Ridge Farm*
11 South State Street
217-247-2126

First Financial Bank N.A.
Wayne County

Fairfield*
303 West Delaware
618-842-2145

*FirstPlus 24-hour ATM available at these locations

First Financial Corporation
One First Financial Plaza
Terre Haute, Indiana 47807
812-238-6000

www.first-online.com