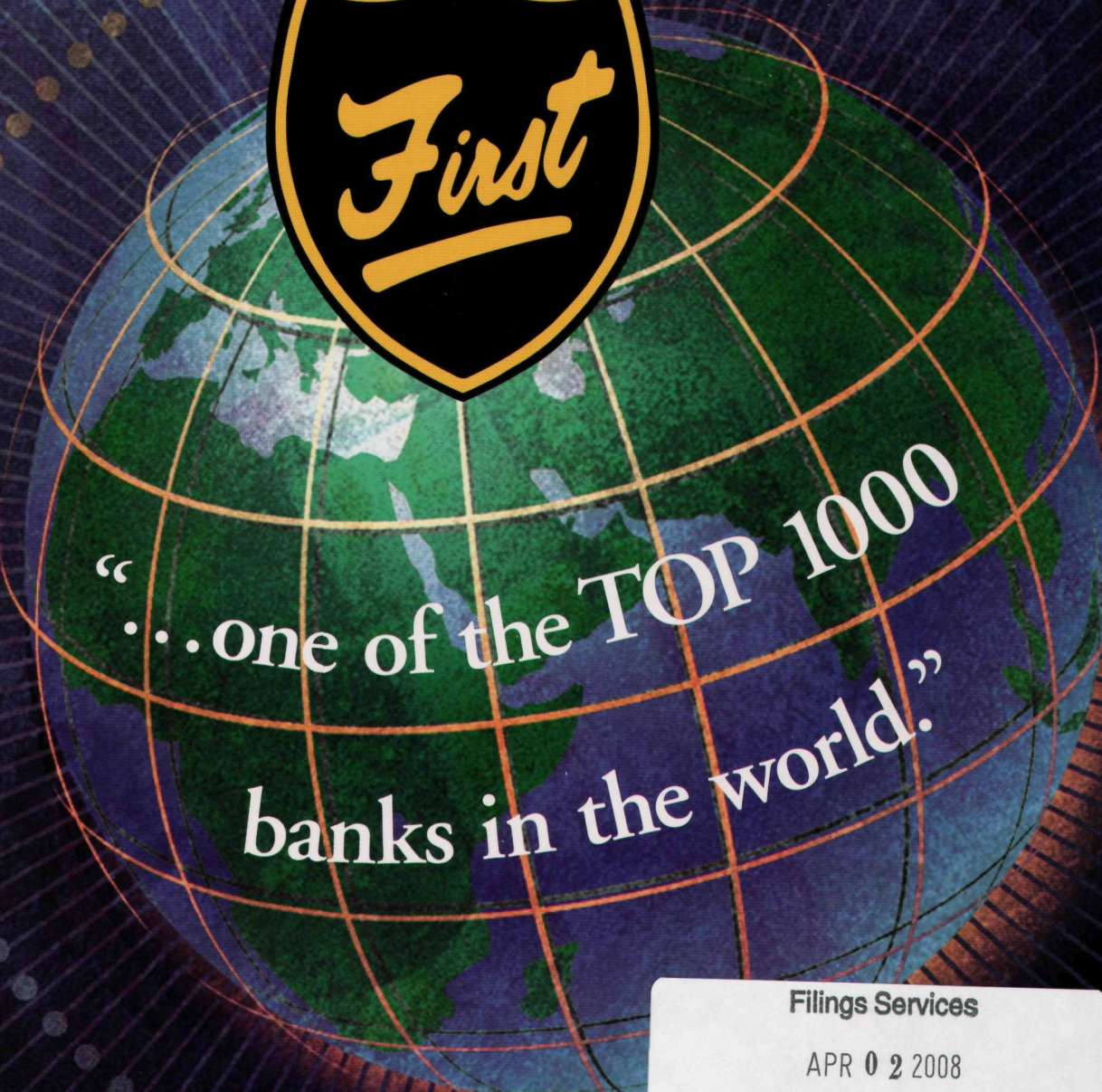


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2007

First Financial Corporation

ANNUAL REPORT



“...one of the TOP 1000
banks in the world.”

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Our Mission

The mission of First Financial Corporation is to be the FIRST choice for all your financial needs.

Our Vision

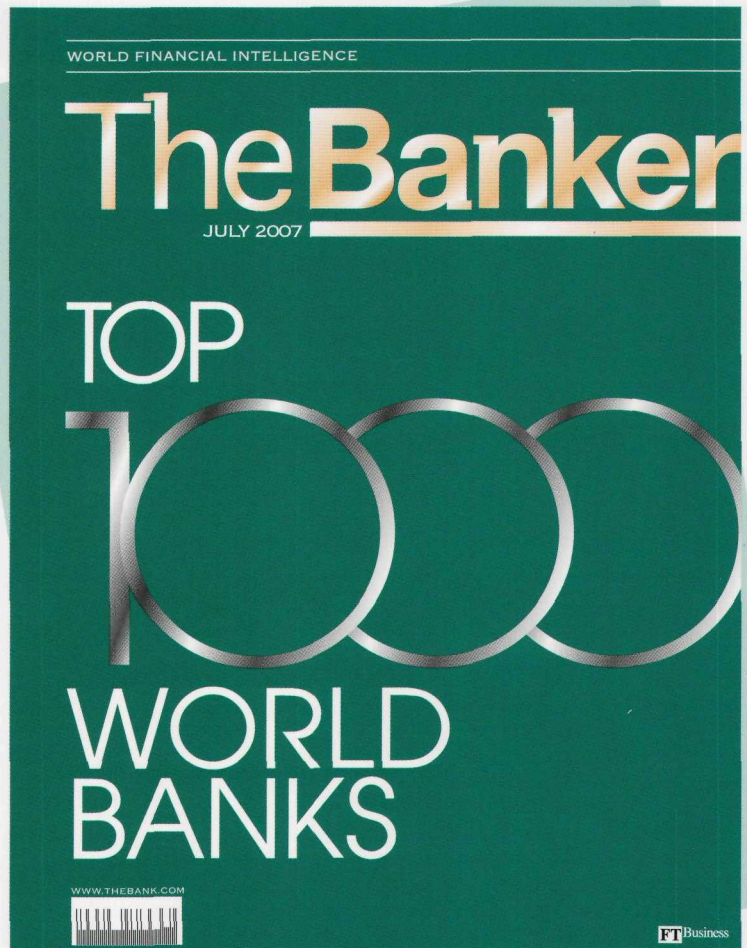
First Financial Corporation will strive to be the premier financial services organization providing the highest quality customer service in our market area. We will work consistently to provide an exceptional customer experience and to make customer satisfaction our number one priority.

To that end, we will employ and retain a well-trained, highly motivated work force whose focus is superior customer service. We will seek to understand customers as individuals, know them by name and develop long-term relationships with each one of them.

As an independent, locally managed organization, we will provide financial products, services, technologies and delivery channels that revolve around the needs of customers in the communities we serve. We will reinvest our customers' assets first and foremost within our market area.

We will maintain our long tradition of being an involved community partner, supporting programs and projects that contribute to the growth, vitality and quality of life in the communities we serve. We will encourage all of our employees to give their time, talents and leadership to local civic and charitable efforts and activities.

We will continue to earn the trust and respect of our customers, employees and shareholders by operating in a safe and sound manner that promotes long-term profitability, prudent growth and equitable return on investment.



About the Cover

In its July issue, *The Banker* magazine, an international trade publication based in London, ranked First Financial Bank as one of the top 1,000 banks in the world and one of the top 200 banks in the United States. The ranking was based on capital levels, return on assets, real profits growth and other performance factors. While we are pleased to be recognized globally, our proudest achievement is our 173-year history of continuous service to local communities.

Shareholder Information

The common stock of First Financial Corporation is traded on the NASDAQ Global under the symbol 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

Financial Highlights

	December 31,		
	2007	2006	% Change
<i>(Dollar amounts in thousands, except per share amounts)</i>			
FOR THE YEAR			
Net income	\$ 25,580	\$ 23,539	8.67%
Net income per share	1.94	1.77	9.60
Book value per share	21.49	20.44	5.14
Cash dividends per share	.87	.85	2.35
AT YEAR END			
Assets	\$2,231,562	\$2,175,998	2.55%
Deposits	1,529,721	1,502,682	1.80
Loans	1,443,067	1,392,755	3.61
Securities	586,633	559,053	4.93
Shareholders' equity	281,692	271,260	3.85



Letter to Shareholders



To our Shareholders and Friends:

In July we were pleased to learn *The Banker*, a magazine published in London, England, named First Financial Bank one of the top 200 banks in the United States and one of the top 1,000 banks worldwide. This ranking, which considered over 8,500 U.S. banks and thousands around the globe, was based on capital levels, return on assets, real profits growth and other performance factors. We greatly appreciate this recognition and welcome it as a tribute to our employees and commitment to putting our customers, communities and shareholders FIRST.

First For Our Customers

One characteristic that distinguishes First Financial Corporation from its competition is the experience our customers enjoy when they do business with us. We know if our customers see no difference between our company and the competition, if we add no value to their experience, there is no good reason for them to choose us the next time they need financial services. Simply interacting or meeting customer expectations is not enough, so in 2007 we launched "First Class Service," a corporate-wide initiative designed to engage our customers and make us the "First Choice" whenever they have additional financial needs. This employee-led initiative furthers our commitment to provide superior levels of service which cannot be easily duplicated and to deliver only the best, most efficient products and services.

In a fast-paced world, convenience is something we value highly. For that reason, our commitment is to be "Always Close to Home." Our 49 banking centers, 100 ATMs, and telephone and internet banking constitute the most extensive delivery system of any financial service provider in our markets. However, what was convenient yesterday may not be convenient tomorrow, so in late 2006, we introduced a new interactive website which allows our customers an easier and more efficient means to manage their accounts, pay bills, order checks, complete applications and check mortgage rates. For the banking convenience of our business customers, in 2007 we introduced e-Deposit, which allows them to make remote deposits without leaving their offices, saving both time and money.

First For Our Community

First Financial Corporation has built a reputation of leadership and community service. We take pride in being a good corporate citizen, stimulating growth through business and consumer lending, job creation, monetary donations and the annual contribution by our employees of thousands of hours to civic and charitable causes. Every year First Financial Corporation supports a variety of programs and events that make a difference in our communities. While the list is long, we are particularly proud of three that held special importance in 2007:

- First Financial is the primary sponsor of the Ivy Tech Community College Scholarship Golf Scramble. Since its inception, this event has raised over \$150,000 to fund scholarships for hundreds of students who might not otherwise have been able to afford a college education and serves to open the door to better jobs and a higher standard of living for them and their families.
- First Financial is a sponsor of Susan G. Komen for the Cure, an event that benefits breast cancer patient services, research, education and awareness. Last year's race raised \$115,000, the majority of which stays in our community to aid women fighting breast cancer.
- For the past 15 years, First Financial has underwritten the cost of Easter week meals at local soup kitchens and shelters. During that time, hundreds of our employees have served more than 30,000 meals to underprivileged children and adults.

First For Our Shareholders

First Financial Corporation's disciplined approach to the delivery of financial products and services and its attention to things that matter yielded positive results in 2007. Net income of \$25.6 million was an 8.7% increase over 2006. Earnings per share rose to \$1.94, an increase of 9.6%. Return on equity at year-end stood at 9.2%, up 7.35% from 2006, while return on assets remained a healthy 1.16%. At year end, the Corporation's assets were \$2.2 billion, a 2.6% increase over 2006.

In 2007 the Corporation also reduced its efficiency ratio to 58.4% from 61.3% the previous year. This improvement was achieved by increasing non-interest income 9.3%, while holding non-interest expense to a 0.11% increase. In a year in which many companies struggled with net-interest margins, ours remained unchanged at 3.92%.

Our style seeks quality and consistency in earnings. That has given us the ability to return capital to our shareholders and reward them with higher dividends for each of the past 19 years. The cash dividend declared by our Board of Directors in 2007 was \$0.87 per share, a 2.4% increase over 2006. Since 1983, the year the Corporation was formed, our annual compound rate of return has been 12.64%. An investment of \$1,000 in 1983 would have grown to \$14,787 on December 31, 2007.

There are many we must thank for the success First Financial enjoyed in 2007. We are grateful to our customers for the trust they place in our company and brand; to our directors for their vision and leadership; and to our dedicated employees for a job well done. We are especially grateful to you, our shareholders, for your continued support and confidence.



Norman L. Lowery

A handwritten signature in black ink that reads "Donald E. Smith".

Donald E. Smith
President and Chairman

A handwritten signature in black ink that reads "Norman L. Lowery".

Norman L. Lowery
CEO and Vice Chairman



First Financial strives to be a good citizen in the communities we serve. One way we demonstrate our commitment is through the generous support of local United Way campaigns and agencies. In 2007 our corporate and employee pledges and contributions totaled a record \$75,592.39, which benefited United Way organizations in many of the counties served by First affiliates.

“Hoosier hospitality” was extended to visitors from near and far through the use of the First motorcoach. Many of our communities have Rotary Clubs and many of our employees are members of Rotary International. When Japanese Rotarians traveling on an international exchange program visited with several clubs in Indiana, First was pleased to provide transportation for the group. In June, players from 23 schools in Indiana and Illinois participated in the Wabash Valley Football Coaches Association All-Star Game. The motorcoach was used to transport players from both the North and South teams to local hospitals where they visited with children in the pediatric units.



(above) The newest member of the First family of banks held a grand-opening celebration in February. Cutting the ribbon at the Greencastle, Ind., banking center are Steve Arnold, architect; Pat O’Leary, director, First Financial Corporation; Norman L. Lowery, president, First Financial Bank; Darrell and Jill Felling, the first customers of the bank; Vicki Lawson, banking center manager; Donald E. Smith, chairman, First Financial Corporation; Mark Boswell, commercial lending officer; and Rick Harruff, CDI.

(top of page) First Financial Corporation makes its motorcoach available to local organizations in need of transportation for special events. These players in the Wabash Valley Coaches Association All-Star game prepare to board the First motorcoach to visit hospitalized children.



(top right) Each year employees of First Financial Bank, The Morris Plan and Forrest Sherer Insurance volunteer for the annual First Gold Club AutumnFest picnic. Ready to serve lunch to the 900+ Gold Club members in attendance are Angela Propst, Jane Wheasler, Pat Ralston, Richard White, Amy Dunivan and Michelle Cunningham.

(right) Chief Jay Utz, Terre Haute Fire Department; Rick Burger; Duke Energy; and Donald E. Smith, First Financial Corporation, announce the availability of free smoke detectors at First banking centers in Vigo County.

(below) The annual Wabash Valley Mayors' Breakfast hosted by First Financial Bank has been a tradition in the area for 18 years.

In May First Financial hosts a breakfast for area mayors, public officials, community leaders and their guests. Held in Terre Haute, the annual event brings together local government, community and economic development leaders for informal conversation and fellowship.

The safety of members of our communities, whether customers or not, has always been of concern to the Corporation. In 2007 we continued to partner with WTHI-TV to make weather radios available in First Financial Bank branches for a nominal fee. And knowing that many of us need a little help programming anything electronic, members of the WTHI-TV Storm Team 10 were available to help with the process.

In June volunteers from First Financial Bank, Forrest Sherer Insurance and The Morris Plan served as escorts for athletes participating in the Indiana Special Olympics held at Indiana State University. First Financial Corporation has sponsored the Parade of Athletes during the opening ceremonies of the Indiana Special Olympics Summer Games for the past 19 years.

Another popular activity for First volunteers is the annual First Gold Club AutumnFest Picnic in September, which brings together First Gold Club members from Indiana and Illinois. Barbequed chicken, kettle-cooked ham and beans and all the trimmings were provided by First Financial Corporation and served to more than 900 club members by volunteers from First Financial affiliates. The event provides an opportunity for members (First Financial Bank customers age 50 or better) to visit





with friends and enjoy an afternoon devoted to music, lively games of bingo and freshly popped popcorn.

Identity theft and the disposal of sensitive personal papers are a problem for everyone. Many of us simply do not know where or how to go about disposing of these materials. In October First Financial Bank took steps to help citizens in the Terre Haute area with the problem of document disposal. With assistance from Data Management Shredding, individuals brought boxes and bags of personal papers to the parking lot at the First Meadows banking center where the materials were shredded free of charge.

October is also Fire Prevention Month and with the safety and security of our customers and neighbors in mind, First Financial Bank, in cooperation with Duke Energy and the Terre Haute Fire Department, made smoke detectors available to residents of Terre Haute and West Terre Haute at no cost.

Service to our customers...service to our communities...service to the public — these are the things that have made First Financial Corporation a premier financial institution in Indiana and Illinois. As long as we continue to identify and serve the needs of our customers and communities, First Financial Corporation and our affiliates will maintain our position as a leader in the state, the region, the nation and the world.



(above) Brenda Bonine, First Financial Bank United Way campaign coordinator, and Norman L. Lowery, president, First Financial Bank, present a check to Jim Bertoli, executive director of the United Way of the Wabash Valley. The check represented corporate and employee pledges and contributions for 2007.

(top of page) Employees from First Financial Bank, Forrest Sherer Insurance and The Morris Plan of Terre Haute give their time each year to escort Special Olympians during the opening ceremonies of the annual summer games on the Indiana State University campus.

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FIVE YEAR COMPARISON OF SELECTED FINANCIAL DATA

(Dollar amounts in thousands,
except per share amounts)

	2007	2006	2005	2004	2003
BALANCE SHEET DATA:					
Total assets	\$2,231,562	\$2,175,998	\$2,136,918	\$2,183,992	\$2,223,057
Securities	586,633	559,053	536,291	507,990	576,950
Loans, net of unearned fees*	1,443,067	1,392,755	1,395,741	1,463,871	1,429,525
Deposits	1,529,721	1,502,682	1,464,918	1,443,121	1,479,347
Borrowings	368,616	358,008	370,090	438,013	451,862
Shareholders' equity	281,692	271,260	269,323	268,335	255,279
INCOME STATEMENT DATA:					
Interest income	137,734	130,832	121,647	116,888	122,661
Interest expense	62,961	57,129	47,469	44,686	48,225
Net interest income	74,773	73,703	74,178	72,202	74,436
Provision for loan losses	6,580	6,983	11,698	8,292	7,455
Other income	31,497	28,826	32,025	35,754	30,819
Other expenses	64,726	64,656	63,538	63,656	62,461
Net income	25,580	23,539	23,054	28,009	26,493
PER SHARE DATA:					
Net income	1.94	1.77	1.72	2.07	1.95
Cash dividends	0.87	0.85	.82	.79	.70
PERFORMANCE RATIOS:					
Net income to average assets	1.16%	1.10%	1.07%	1.28%	1.21%
Net income to average shareholders' equity	9.20	8.57	8.52	10.45	10.57
Average total capital to average assets	13.35	13.56	13.35	13.24	12.45
Average shareholders' equity to average assets	12.64	12.79	12.51	12.23	11.43
Dividend payout	44.76	44.18	47.57	38.13	35.88

*2007 includes \$14,068 of credit card loans that are held-for-sale.

FIRST FINANCIAL CORPORATION

CONSOLIDATED BALANCE SHEETS

	December 31,	
(Dollar amounts in thousands, except per share data)	2007	2006
ASSETS		
Cash and due from banks	\$ 70,082	\$ 77,682
Federal funds sold	4,201	21,437
Securities available-for-sale	586,633	559,053
Loans, net of allowance of \$15,351 in 2007 and \$16,169 in 2006	1,413,648	1,376,586
Credit card loans held-for-sale	14,068	—
Accrued interest receivable	13,698	13,972
Premises and equipment, net	32,632	33,267
Bank-owned life insurance	59,950	57,905
Goodwill	7,102	7,102
Other intangible assets	1,937	2,363
Other real estate owned	1,472	3,194
Other assets	26,139	23,437
TOTAL ASSETS	\$2,231,562	\$2,175,998
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest-bearing	\$ 225,549	\$ 227,808
Interest-bearing:		
Certificates of deposit of \$100 or more	193,901	189,323
Other interest-bearing deposits	1,110,271	1,085,551
	1,529,721	1,502,682
Short-term borrowings	27,331	16,203
Other borrowings	341,285	341,805
Other liabilities	51,533	44,048
TOTAL LIABILITIES	1,949,870	1,904,738
Shareholders' equity		
Common stock, \$.125 stated value per share,		
Authorized shares — 40,000,000		
Issued shares — 14,450,966		
Outstanding shares — 13,136,359 in 2007 and 13,270,321 in 2006	1,806	1,806
Additional paid-in capital	68,212	68,003
Retained earnings	250,011	235,967
Accumulated other comprehensive income (loss)	(5,181)	(5,494)
Less: Treasury shares at cost — 1,314,607 in 2007 and 1,180,645 in 2006	(33,156)	(29,022)
TOTAL SHAREHOLDERS' EQUITY	281,692	271,260
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$2,231,562	\$2,175,998

See accompanying notes.

CONSOLIDATED STATEMENTS OF INCOME

(Dollar amounts in thousands, except per share data)	Years Ended December 31,		
	2007	2006	2005
INTEREST AND DIVIDEND INCOME:			
Loans, including related fees	\$ 104,950	\$ 99,850	\$ 96,388
Securities:			
Taxable	23,336	21,877	16,802
Tax-exempt	6,635	6,243	6,306
Other	2,813	2,862	2,151
TOTAL INTEREST AND DIVIDEND INCOME	<u>137,734</u>	<u>130,832</u>	<u>121,647</u>
INTEREST EXPENSE:			
Deposits	41,956	37,285	27,184
Short-term borrowings	1,611	746	783
Other borrowings	19,394	19,098	19,502
TOTAL INTEREST EXPENSE	<u>62,961</u>	<u>57,129</u>	<u>47,469</u>
NET INTEREST INCOME	<u>74,773</u>	<u>73,703</u>	<u>74,178</u>
Provision for loan losses	<u>6,580</u>	<u>6,983</u>	<u>11,698</u>
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	68,193	66,720	62,480
NON-INTEREST INCOME:			
Trust and financial services	3,697	3,766	3,626
Service charges and fees on deposit accounts	11,877	11,639	11,732
Other service charges and fees	5,783	5,279	6,440
Securities gains (losses)	211	6	571
Insurance commissions	6,541	6,323	5,995
Gain on sale of mortgage loans	816	191	1,289
Other	2,572	1,622	2,372
TOTAL NON-INTEREST INCOME	<u>31,497</u>	<u>28,826</u>	<u>32,025</u>
NON-INTEREST EXPENSES:			
Salaries and employee benefits	39,432	39,739	38,617
Occupancy expense	4,034	3,994	3,796
Equipment expense	4,322	4,305	3,861
Other	16,938	16,618	17,264
TOTAL NON-INTEREST EXPENSE	<u>64,726</u>	<u>64,656</u>	<u>63,538</u>
INCOME BEFORE INCOME TAXES	34,964	30,890	30,967
Provision for income taxes	<u>9,384</u>	<u>7,351</u>	<u>7,913</u>
NET INCOME	<u>\$ 25,580</u>	<u>\$ 23,539</u>	<u>\$ 23,054</u>
EARNINGS PER SHARE:			
BASIC AND DILUTED	<u>\$ 1.94</u>	<u>\$ 1.77</u>	<u>\$ 1.72</u>
Weighted average number of shares outstanding (in thousands)	<u>13,178</u>	<u>13,295</u>	<u>13,433</u>

See accompanying notes.

FIRST FINANCIAL CORPORATION

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 (Loss)	Treasury Stock	Total
Balance, January 1, 2005	\$ 1,806	\$ 67,519	\$211,623	\$ 8,357	\$(20,970)	\$268,335
Comprehensive income:						
Net income	-	-	23,054	-	-	23,054
Other comprehensive income, 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 36,000 shares to ESOP	-	151	-	-	993	1,144
Treasury stock purchases (79,000 shares)	-	-	-	-	(5,789)	(5,789)
Cash dividends, \$.79 per share	-	-	(10,967)	-	-	(10,967)
Balance, December 31, 2005	1,806	67,670	223,710	1,903	(25,766)	269,323
Comprehensive income:						
Net income	-	-	23,539	-	-	23,539
Other comprehensive loss, net of tax:						
Change in net unrealized gains/losses on securities available-for-sale, net	-	-	-	1,161	-	1,161
Total comprehensive income						24,700
Adjustment to initially apply SFAS No. 158, net of tax (Note 1)	-	-	-	(8,558)	-	(8,558)
Contribution of 34,000 shares to ESOP	-	333	-	-	831	1,164
Treasury stock purchases (137,249 shares)	-	-	-	-	(4,087)	(4,087)
Cash dividends, \$.85 per share	-	-	(11,282)	-	-	(11,282)
Balance, December 31, 2006	1,806	68,003	235,967	(5,494)	(29,022)	271,260
Comprehensive income:						
Net income	-	-	25,580	-	-	25,580
Other comprehensive loss, net of tax:						
Change in net unrealized gains/losses on securities available-for-sale, net	-	-	-	1,110	-	1,110
Change in unrealized gains/losses on retirement plans	-	-	-	(797)	-	(797)
Total comprehensive income						25,893
Adjustment to initially apply FIN No. 48, net of tax (Note 1)	-	-	(86)	-	-	(86)
Contribution of 41,000 shares to ESOP	-	209	-	-	1,033	1,242
Treasury stock purchases (174,962 shares)	-	-	-	-	(5,167)	(5,167)
Cash dividends, \$.87 per share	-	-	(11,450)	-	-	(11,450)
Balance, December 31, 2007	<u>\$ 1,806</u>	<u>\$ 68,212</u>	<u>\$250,011</u>	<u>\$ (5,181)</u>	<u>\$ (33,156)</u>	<u>\$281,692</u>

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31,

(Dollar amounts in thousands, except per share data)

	2007	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 25,580	\$ 23,539	\$ 23,054
Adjustments to reconcile net income to net cash provided by operating activities:			
Net (accretion) amortization on securities	(2,619)	(2,540)	(1,462)
Provision for loan losses	6,580	6,983	11,698
Securities (gains) losses	(211)	(6)	(571)
Depreciation and amortization	3,443	3,515	3,363
Provision for deferred income taxes	27	(3,579)	1,716
Net change in accrued interest receivable	274	(1,435)	(521)
Contribution of shares to ESOP	1,242	1,164	1,144
Gains on sales of other real estate	(116)	—	—
Other, net	1,302	9,688	592
NET CASH FROM OPERATING ACTIVITIES	<u>35,502</u>	<u>37,329</u>	<u>39,013</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Sales of securities available-for-sale	3,170	5,080	11,376
Calls, maturities and principal reductions on securities available-for-sale	94,587	157,031	373,741
Purchases of securities available-for-sale	(120,657)	(180,393)	(422,141)
Loans made to customers, net of repayments	(60,485)	(6,510)	49,806
Net change in federal funds sold	17,236	(18,455)	2,418
Purchase of bank-owned life insurance	—	—	(5,000)
Purchase of customer list	—	—	(338)
Sale of other real estate	4,322	—	—
Additions to premises and equipment	(2,382)	(5,015)	(2,908)
NET CASH FROM INVESTING ACTIVITIES	<u>(64,209)</u>	<u>(48,262)</u>	<u>6,954</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net change in deposits	27,039	37,764	21,797
Net change in other short-term borrowings	11,128	(10,021)	(49,303)
Dividends paid	(11,373)	(11,181)	(10,779)
Purchases of treasury stock	(5,167)	(4,087)	(5,789)
Proceeds from other borrowings	81,750	—	—
Repayments on other borrowings	(82,270)	(2,061)	(18,620)
NET CASH FROM FINANCING ACTIVITIES	<u>21,107</u>	<u>10,414</u>	<u>(62,694)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(7,600)	(519)	(16,727)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>77,682</u>	<u>78,201</u>	<u>94,928</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 70,082</u>	<u>\$ 77,682</u>	<u>\$ 78,201</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW AND NONCASH INFORMATION:			
Cash paid during the year for:			
Interest	<u>\$ 62,080</u>	<u>\$ 56,150</u>	<u>\$ 46,919</u>
Income taxes	<u>\$ 8,494</u>	<u>\$ 11,202</u>	<u>\$ 5,413</u>
Transfers from loans to loans held-for-sale	<u>\$ 14,608</u>	<u>—</u>	<u>—</u>

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 Reinsurance Company was dissolved during 2007 with no material impact to the financial statements of the Corporation.

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, 2007, \$531.0 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 four subsidiaries. The Corporation's primary source of revenue is derived from loans to customers, primarily middle-income individuals, and investment activities.

The Corporation operates 48 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; three in Knox County, Indiana; five in Parke County, Indiana; one in Putnam 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, 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 less estimated selling costs 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 separately when they are acquired through sales of loans. For sales of mortgage loans prior to January 1, 2007, a portion of the cost of the loan was allocated to the servicing right based on relative fair values. The Corporation adopted SFAS No. 156 on January 1, 2007, and for sales of mortgage loans beginning in 2007, servicing rights are initially recorded at fair value with the income statement effect recorded in gains on sales of loans. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on third-party valuations that incorporate assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, ancillary income, prepayment speeds and default rates and losses. All classes of servicing assets are subsequently measured using the amortization method, which requires servicing rights to be amortized into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying loans.

Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to carrying amount. Impairment is determined by stratifying rights into groupings based on predominant risk characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual grouping, to the extent that fair value is less than the carrying amount. If the Corporation later determines that all or a portion of the impairment no longer exists for a particular grouping, a reduction of the allowance may be recorded as an increase to income. Changes in valuation allowances are reported with Other Service Fees on the income statement. The fair values of servicing rights are subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses.

Servicing fee income, which is included in Other Service Fees on the income statement, is 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. Servicing fees totaled \$947 thousand, \$1.01 million and \$1.00 million for the years ended December 31, 2007, 2006 and 2005. Late fees and ancillary fees related to loan servicing are not material.

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. Income on the investments in life insurance is included in other interest income.

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 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Employee Stock Ownership Plan: Shares of treasury stock are issued to the ESOP and compensation expense is recognized based upon the total market price of shares when contributed.

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 \$177 thousand, \$201 thousand and \$164 thousand, resulting in a deferred compensation liability of \$2.3 million and \$2.2 million as of year-end 2007 and 2006.

Long-Term Incentive Plan: A long-term incentive plan provides for the payment of incentive rewards as a 15-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 \$2.0 million, \$1.7 million and \$1.6 million, resulting in a liability of \$11.3 million and \$9.4 million as of year-end 2007 and 2006.

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.

The Corporation adopted FASB Interpretation 48, "Accounting for Uncertainty in Income Taxes" (FIN 48), as of January 1, 2007. A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. The adoption of FIN 48 on January 1, 2007 reduced retained earnings and increased liabilities by \$86 thousand.

The Corporation recognizes interest and/or penalties related to income tax matters in income tax expense.

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.

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 or 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 operating results of significant segments are similar 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: In February 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 155, "Accounting for Certain Hybrid Financial Instruments" (SFAS No. 155), which permits fair value remeasurement for hybrid financial instruments that contain an embedded derivative that otherwise would require bifurcation. Additionally, SFAS No. 155 clarifies the accounting guidance for beneficial interests in securitizations. Under SFAS No. 155, all beneficial interests in a securitization will require an assessment in accordance with SFAS No. 133 to determine if an embedded derivative exists within the instrument. In January 2007, the FASB issued "Derivatives Implementation Group Issue B40, Application of Paragraph 13(b) to Securitized Interests in Prepayable Financial Assets" (DIG Issue B40). DIG Issue B40 provides an exemption from the embedded derivative test of paragraph 13(b) of SFAS No. 133 for instruments that would otherwise require bifurcation if the test is met solely because of a prepayment feature included within the securitized interest and prepayment is not controlled by the security holder. SFAS No. 155 and DIG Issue B40 are effective for fiscal years beginning after September 15, 2006. The adoption of SFAS No. 155 and DIG Issue B40 did not have a material impact on the Corporation's consolidated financial position or results of operations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In September 2006, the FASB Emerging Issues Task Force finalized Issue No. 06-5, "Accounting for Purchases of Life Insurance—Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4 (Accounting for Purchases of Life Insurance) (Issue)." This Issue requires that a policyholder consider contractual terms of a life insurance policy in determining the amount that could be realized under the insurance contract. It also requires that if the contract provides for a greater surrender value if all individual policies in a group are surrendered at the same time, that the surrender value be determined based on the assumption that policies will be surrendered on an individual basis. Lastly, the Issue requires disclosure when there are contractual restrictions on the Corporation's ability to surrender a policy. The adoption of EITF 06-5 on January 1, 2007 had no impact on the Corporation's financial conditions or results of operation.

Effect of Newly Issued But Not Yet Effective Accounting Standards: In September 2006, the FASB issued Statement No. 157, "Fair Value Measurements." This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This Statement establishes a fair value hierarchy about the assumptions used to measure fair value and clarifies assumptions about risk and the effect of a restriction on the sale or use of an asset. The standard is effective for fiscal years beginning after November 15, 2007. The impact of adoption is not expected to be material.

In February 2007, the FASB issued Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities." The standard provides companies with an option to report selected financial assets and liabilities at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. The new standard is effective for the Corporation on January 1, 2008. The Corporation did not elect the fair value option for any financial assets or financial liabilities as of January 1, 2008.

In September 2006, the FASB Emerging Issues Task Force finalized Issue No. 06-4, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements." This issue requires that a liability be recorded during the service period when a split-dollar life insurance agreement continues after participants' employment or retirement. The required accrued liability will be based on either the post-employment benefit cost for the continuing life insurance or based on the future death benefit depending on the contractual terms of the underlying agreement. This issue is effective for fiscal years beginning after December 15, 2007. There was no impact to the adoption of this issue as the Corporation has no split-dollar life insurance arrangements.

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 values of loans held for sale are based on market bids on the loans or similar loans. Fair value of debt is based on current rates for similar financing. The fair value of off-balance sheet items is not considered material.

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

(Dollar amounts in thousands)	December 31,			
	2007		2006	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and due from banks	\$ 70,082	\$ 70,082	\$ 77,682	\$ 77,682
Federal funds sold	4,201	4,201	21,437	21,437
Securities available-for-sale	586,633	586,633	559,053	559,053
Loans, net	1,427,716	1,427,272	1,376,586	1,366,848
Accrued interest receivable	13,698	13,698	13,972	13,972
Deposits	(1,529,721)	(1,536,205)	(1,502,682)	(1,506,761)
Short-term borrowings	(27,331)	(27,331)	(16,203)	(16,203)
Federal Home Loan Bank advances	(334,685)	(339,300)	(335,205)	(336,231)
Other borrowings	(6,600)	(6,600)	(6,600)	(6,600)
Accrued interest payable	(5,549)	(5,549)	(4,668)	(4,668)

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 \$9.3 million and \$7.4 million at December 31, 2007 and 2006, 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:

(Dollar amounts in thousands)	December 31, 2007			
	Amortized Cost	Unrealized		Fair Value
		Gains	Losses	
U.S. Government sponsored entities and entity mortgage-backed securities	\$288,742	\$ 2,181	\$(1,219)	\$289,704
Collateralized mortgage obligations	76,730	587	(143)	77,174
State and municipal	142,862	3,824	(171)	146,515
Corporate obligations	66,623	52	(1,219)	65,456
Equities	4,721	3,063	-	7,784
TOTAL	<u>\$579,678</u>	<u>\$ 9,707</u>	<u>\$(2,752)</u>	<u>\$586,633</u>

(Dollar amounts in thousands)	December 31, 2006			
	Amortized Cost	Unrealized		Fair Value
		Gains	Losses	
U.S. Government sponsored entities and entity mortgage-backed securities	\$283,968	\$ 914	\$(4,126)	\$280,756
Collateralized mortgage obligations	60,350	148	(438)	60,060
State and municipal	136,124	4,163	(217)	140,070
Corporate obligations	68,952	520	-	69,472
Equities	4,556	4,139	-	8,695
TOTAL	<u>\$553,950</u>	<u>\$ 9,884</u>	<u>\$(4,781)</u>	<u>\$559,053</u>

As of December 31, 2007, 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 \$71.6 million and \$51.4 million at December 31, 2007 and 2006, 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, 2007, 2006 and 2005, respectively.

(Dollar amounts in thousands)	2007	2006	2005
Proceeds	\$3,170	-	\$11,376
Gross gains	192	-	537
Gross losses	10	-	-

Additional gains of \$29 thousand in 2007 and \$6 thousand in 2006 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, 2007 or December 31, 2006.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Contractual maturities of debt securities at year-end 2007 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	\$ 14,128	\$ 14,184
Due after one but within five years	42,137	43,347
Due after five but within ten years	47,328	49,317
Due after ten years	<u>189,970</u>	<u>182,651</u>
	286,563	289,499
Mortgage-backed securities and equities	<u>293,115</u>	<u>297,134</u>
TOTAL	<u>\$579,678</u>	<u>\$586,633</u>

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, 2007 and 2006.

(Dollar amounts in thousands)	December 31, 2007					
	Less Than 12 Months		More Than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government entity						
mortgage-backed securities	\$ 226	\$ (1)	\$110,861	\$(1,218)	\$111,087	\$(1,219)
Collateralized mortgage obligations	21,680	(104)	5,377	(39)	27,057	(143)
State and municipal obligations	10,411	(61)	9,307	(110)	19,718	(171)
Corporate obligations	<u>29,795</u>	<u>(1,219)</u>	<u>—</u>	<u>—</u>	<u>29,795</u>	<u>(1,219)</u>
Total temporarily impaired securities	<u>\$ 62,112</u>	<u>\$(1,385)</u>	<u>\$125,545</u>	<u>\$(1,367)</u>	<u>\$187,657</u>	<u>\$(2,752)</u>

(Dollar amounts in thousands)	December 31, 2006					
	Less Than 12 Months		More Than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government entity						
mortgage-backed securities	\$ 47,001	\$ (183)	\$162,684	\$(3,943)	\$209,685	\$(4,126)
Collateralized mortgage obligations	14,138	(13)	29,740	(425)	43,878	(438)
State and municipal obligations	5,950	(62)	13,422	(155)	19,372	(217)
Corporate obligations	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total temporarily impaired securities	<u>\$ 67,089</u>	<u>\$(258)</u>	<u>\$205,846</u>	<u>\$(4,523)</u>	<u>\$272,935</u>	<u>\$(4,781)</u>

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.

FIRST FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. LOANS:

Loans are summarized as follows:

(Dollar amounts in thousands)	December 31,	
	2007	2006
Commercial, financial and agricultural	\$ 461,086	\$ 407,995
Real estate - construction	29,637	33,336
Real estate - residential	437,051	447,865
Real estate - commercial	236,304	244,124
Consumer	262,858	257,065
Lease financing	2,275	2,064
Total gross loans	1,429,211	1,392,989
Less: unearned income	(212)	(234)
Allowance for loan losses	(15,351)	(16,169)
TOTAL	\$1,413,648	\$1,376,586

The Corporation's credit card portfolio was reclassified to held-for-sale at December 31, 2007, which reduced the allowance for loan losses allocation for this type of loan by \$242 thousand.

In the normal course of business, the Corporation's subsidiary banks make loans to directors and executive officers and to their associates. In 2007 the aggregate dollar amount of these loans to directors and executive officers who held office at the end of the year amounted to \$24.3 million at the beginning of the year. During 2007, advances of \$30.4 million and repayments of \$18.0 million were made with respect to related party loans for an aggregate dollar amount outstanding of \$36.7 million at December 31, 2007.

Loans serviced for others, which are not reported as assets, total \$364.0 million and \$382.2 million at year-end 2007 and 2006. Custodial escrow balances maintained in connection with serviced loans were \$933 thousand and \$1.38 million at year-end 2007 and 2006.

Activity for capitalized mortgage servicing rights (included in other assets) was as follows:

(Dollar amounts in thousands)	December 31,		
	2007	2006	2005
Servicing rights:			
Beginning of year	\$ 2,319	\$ 2,931	\$ 2,960
Additions	218	114	735
Amortized to expense	(628)	(726)	(764)
End of year	\$ 1,909	\$ 2,319	\$ 2,931

Third party valuations are conducted periodically for mortgage servicing rights. Based on these valuations, fair values were approximately \$3.3 million and \$3.4 million at year end 2007 and 2006. There was no valuation allowance in 2007, 2006 or 2005.

6. ALLOWANCE FOR LOAN LOSSES:

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

(Dollar amounts in thousands)	December 31,		
	2007	2006	2005
Balance at beginning of year	\$ 16,169	\$16,042	\$19,918
Provision for loan losses	6,580	6,983	11,698
Recoveries of loans previously charged off	2,778	3,653	1,918
Loans charged off	(10,176)	(10,509)	(17,492)
BALANCE AT END OF YEAR	\$ 15,351	\$ 16,169	\$16,042

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Impaired loans were as follows:

(Dollar amounts in thousands)	December 31,	
	2007	2006
Year-end loans with no allocated allowance for loan losses	\$ —	\$ 503
Year-end loans with allocated allowance for loan losses	2,203	4,865
TOTAL	<u>\$ 2,203</u>	<u>\$ 5,368</u>
Amount of the allowance for loan losses allocated	\$ 729	\$ 2,480
Nonperforming loans:		
Loans past due over 90 days still on accrual	4,462	4,691
Non-accrual loans	7,971	9,893

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

(Dollar amounts in thousands)	2007	2006	2005
Average of impaired loans during the year	\$ 3,505	\$ 3,336	\$11,992
Interest income recognized during impairment	11	13	126
Cash-basis interest income recognized	1	—	11

7. PREMISES AND EQUIPMENT:

Premises and equipment are summarized as follows:

(Dollar amounts in thousands)	December 31,	
	2007	2006
Land	\$ 5,653	\$ 5,653
Building and leasehold improvements	38,948	38,047
Furniture and equipment	30,916	31,717
	<u>75,517</u>	<u>75,417</u>
Less accumulated depreciation	(42,885)	(42,150)
TOTAL	<u>\$ 32,632</u>	<u>\$ 33,267</u>

Aggregate depreciation expense was \$3.02 million, \$3.02 million and \$2.79 million for 2007, 2006 and 2005, respectively.

8. GOODWILL AND INTANGIBLE ASSETS:

The Corporation completed its annual impairment testing of goodwill during the second quarter of 2007 and 2006. Management does not believe any amount of goodwill is impaired.

Intangible assets subject to amortization at December 31, 2007 and 2006 are as follows:

(Dollar amounts in thousands)	2007		2006	
	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
Customer list intangible	\$3,446	\$2,303	\$3,446	\$1,997
Core deposit intangible	2,193	1,399	2,193	1,279
Non-compete agreements	500	500	500	500
	<u>\$6,139</u>	<u>\$4,202</u>	<u>\$6,139</u>	<u>\$3,776</u>

Aggregate amortization expense was \$426 thousand, \$497 thousand and \$571 thousand for 2007, 2006 and 2005, respectively.

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

	In thousands
2008	\$425
2009	425
2010	425
2011	245
2012	154

FIRST FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. DEPOSITS:

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

2008	\$513,361
2009	87,915
2010	27,931
2011	9,466
2012	9,713

10. SHORT-TERM BORROWINGS:

A summary of the carrying value of the Corporation's short-term borrowings at December 31, 2007 and 2006 is presented below:

(Dollar amounts in thousands)	2007	2006
Federal funds purchased	\$ 3,032	\$10,179
Repurchase agreements	22,656	5,407
Other short-term borrowings	<u>1,643</u>	<u>617</u>
	<u>\$27,331</u>	<u>\$16,203</u>

(Dollar amounts in thousands)	2007	2006
Average amount outstanding	\$32,042	\$ 15,691
Maximum amount outstanding at a month end	59,364	38,940
Average interest rate during year	5.03%	4.77%
Interest rate at year-end	4.57%	4.74%

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, 2007 and 2006 are summarized as follows:

(Dollar amounts in thousands)	2007	2006
FHLB advances	\$334,685	\$335,205
City of Terre Haute, Indiana economic development revenue bonds	<u>6,600</u>	<u>6,600</u>
TOTAL	<u>\$341,285</u>	<u>\$341,805</u>

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

2008	\$ 90,232
2009	47,416
2010	202,344
2011	634
2012	90
Thereafter	<u>569</u>
	<u>\$341,285</u>

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 \$334.7 million at December 31, 2007, and \$335.2 million at December 31, 2006, accrue interest, payable monthly, at annual rates, primarily fixed, varying from 3.6% to 6.6% in 2007 and 4.9% to 6.6% in 2006. 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 \$197.5 million at December 31, 2006, and \$203.6 million at December 31, 2007, and a blanket pledge on real estate loan collateral. Based on this collateral and the Corporation's holdings of FHLB stock, the Corporation is eligible to borrow up to \$428.8 million at year end 2007. 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.

The economic development revenue bonds (bonds) require periodic interest payments each year until maturity or redemption. The interest rate, which was 3.46% at December 31, 2007, and 3.97% at December 31, 2006, 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, 2007 and 2006, 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, 2007, 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)	2007	2006	2005
Federal:			
Currently payable	\$8,520	\$10,409	\$ 6,202
Deferred	242	(3,335)	1,334
	<u>8,762</u>	<u>7,074</u>	<u>7,536</u>
State:			
Currently payable	837	521	(5)
Deferred	(215)	(244)	382
	<u>622</u>	<u>277</u>	<u>377</u>
TOTAL	<u>\$ 9,384</u>	<u>\$ 7,351</u>	<u>\$ 7,913</u>

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)	2007	2006	2005
Federal income taxes computed at the statutory rate	\$12,238	\$10,812	\$10,839
Add (deduct) tax effect of:			
Tax exempt income	(3,263)	(3,056)	(2,902)
State tax, net of federal benefit	404	180	245
Affordable housing credits	(113)	(329)	(327)
Other, net	118	(256)	58
TOTAL	<u>\$ 9,384</u>	<u>\$ 7,351</u>	<u>\$ 7,913</u>

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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, 2007 and 2006, are as follows:

(Dollar amounts in thousands)	2007	2006
Deferred tax assets:		
Net unrealized losses on retirement plans	\$ 5,913	\$ 5,705
Loan losses provision	6,146	6,448
Deferred compensation	5,476	4,675
Compensated absences	520	513
Post-retirement benefits	1,172	1,068
Other	<u>1,036</u>	<u>1,025</u>
GROSS DEFERRED ASSETS	<u>20,263</u>	<u>19,434</u>
Deferred tax liabilities:		
Net unrealized gains on securities available-for-sale	(2,782)	(2,042)
Depreciation	(1,379)	(1,435)
Federal Home Loan Bank stock dividends	(751)	(751)
Mortgage servicing rights	(763)	(924)
Pensions	(2,369)	(2,361)
Other	<u>(2,138)</u>	<u>(1,281)</u>
GROSS DEFERRED LIABILITIES	<u>(10,182)</u>	<u>(8,794)</u>
NET DEFERRED TAX ASSETS (LIABILITIES)	<u>\$ 10,081</u>	<u>\$ 10,640</u>

Unrecognized Tax Benefits — A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

Balance at January 1, 2007	\$ 601
Additions based on tax positions related to the current year	290
Additions for tax positions of prior years	—
Reductions for tax positions of prior years	—
Reductions due to the statute of limitations	(88)
Settlements	<u>—</u>
Balance at December 31, 2007	<u>\$ 803</u>

Of this total, \$803 represents the amount of unrecognized tax benefits that, if recognized, would favorably affect the effective income tax rate in future periods. The Corporation does not expect the total amount of unrecognized tax benefits to significantly increase or decrease in the next 12 months.

The total amount of interest and penalties recorded in the income statement for the year ended December 31, 2007 was \$30, and the amount accrued for interest and penalties at December 31, 2007 was \$112.

The Corporation and its subsidiaries are subject to U.S. federal income tax as well as income tax of the states of Indiana and Illinois. The Corporation is no longer subject to examination by taxing authorities for years before 2004. We are currently under audit by the Internal Revenue Service for the 2004 and 2005 tax years. The anticipated effect on unrecognized tax benefits resulting from this audit cannot be determined at this time.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

(Dollar amounts in thousands)	2007	2006
Home equity	\$ 38,612	\$ 38,205
Credit card lines	48,523	46,238
Commercial operating lines	134,068	159,630
Other commitments	<u>54,453</u>	<u>51,018</u>
	\$275,656	\$295,091
Commercial letters of credit	17,336	17,289

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.

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 \$1.02 million, \$1.96 million and \$1.41 million in 2007, 2006 and 2005. The Corporation contributed \$1.24 million, \$1.16 million and \$1.14 million to the ESOP in 2007, 2006 and 2005.

The Corporation uses a measurement date of December 31, 2007.

Net periodic benefit cost and other amounts recognized in other comprehensive income included the following components:

(Dollar amounts in thousands)	2007	2006	2005
Service cost – benefits earned	\$ 3,073	\$ 2,919	\$ 2,725
Interest cost on projected benefit obligation	2,773	2,328	2,451
Expected return on plan assets	(3,644)	(2,793)	(3,285)
Net amortization and deferral	<u>444</u>	<u>744</u>	<u>229</u>
Net periodic pension cost	\$ 2,646	\$ 3,198	\$ 2,120
Net loss (gain) during the period	\$ 3,422	\$ –	\$ –
Amortization of prior service cost	18	–	–
Amortization of unrecognized gain (loss)	<u>(462)</u>	–	–
Total recognized in other comprehensive income	\$ 2,978	\$ –	\$ –
Total recognized net periodic pension cost and other comprehensive income	<u>\$ 5,624</u>	<u>\$ –</u>	<u>\$ –</u>

The estimated net loss and prior service costs for the defined benefit pension plan that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year are \$729 thousand and \$(18) thousand.

The information on the following page 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.

FIRST FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar amounts in thousands)	2007	2006
Change in benefit obligation:		
Benefit obligation at January 1	\$49,920	\$42,541
Service cost	3,073	2,919
Interest cost	2,773	2,328
Actuarial (gain) loss	(4,938)	3,602
Benefits paid	(1,384)	(1,470)
Benefit obligation at December 31	<u>49,444</u>	<u>49,920</u>
Reconciliation of fair value of plan assets:		
Fair value of plan assets at January 1	45,056	34,488
Actual return on plan assets	(5,136)	8,911
Employer contributions	2,267	3,127
Benefits paid	(1,384)	(1,470)
Fair value of plan assets at December 31	<u>40,803</u>	<u>45,056</u>
Funded status at December 31 (plan assets less benefit obligations)	<u>\$ (8,641)</u>	<u>\$ (4,864)</u>

Amounts recognized in accumulated other comprehensive income at December 31, 2007 and 2006 consist of:

(Dollar amounts in thousands)	2007	2006
Net loss (gain)	\$14,314	\$10,935
Prior service cost (credit)	(121)	(140)
	<u>\$14,193</u>	<u>\$10,795</u>

The accumulated benefit obligation for the defined benefit pension plan was \$40,298 and \$42,152 at year-end 2007 and 2006.

Principal assumptions used:	2007	2006
Discount rate	5.91%	5.50%
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 2007 and 2006 by asset category are as follows:

Asset Category	Pension Plan		Pension Plan		ESOP	
	Target Allocation	Target Allocation	Percentage of Plan		Percentage of Plan	
	2008	2008	Assets at December 31,		Assets at December 31,	
			2007	2006	2007	2006
Equity securities	50-60%	100-100%	60%	64%	100%	94%
Debt securities	30-40	0-0	39	35	0	0
Other	1-5	0-0	1	1	0	6
TOTAL			<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

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 100% 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 \$24.9 million (60 percent of total plan assets) and \$30.1 million (67 percent of total plan assets) at December 31, 2007 and 2006, respectively.

Contributions — The Corporation expects to contribute \$1.7 million to its pension plan and \$1.3 million to its ESOP in 2008.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	Pension Benefits
	(Dollar amounts in thousands)
2008	\$ 623
2009	706
2010	849
2011	964
2012	1,192
2013–2017	9,297

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 \$183 thousand in 2007 and \$199 thousand in 2006. The SERP has expected benefit payments \$138 thousand in five years and \$661 thousand after five years, which reflects expected future service. The plan is unfunded and has a measurement date of December 31. The amounts recognized in other comprehensive income in the current year are as follows:

(Dollar amounts in thousands)	2007	2006	2005
Net loss (gain) during the period	\$ (179)	\$ —	\$ —
Amortization of prior service cost	(74)	—	—
Amortization of unrecognized gain (loss)	17	—	—
Total recognized in other comprehensive income	<u>\$ (236)</u>	<u>\$ —</u>	<u>\$ —</u>

The Corporation has \$945 thousand and \$1.0 million recognized in the balance sheet as a liability at December 31, 2007 and 2006. Amounts recognized in accumulated other comprehensive income consist of \$114 thousand net gain and \$296 thousand in prior service cost at December 31, 2007 and \$165 thousand net gain and \$370 thousand in prior service cost at December 31, 2006. The estimated loss and prior service costs for the SERP that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year are \$(5) thousand and \$74 thousand.

The Corporation also provides medical benefits to its employees subsequent to their retirement. The Corporation uses a measurement date of December 31, 2007. During 2007 the Corporation changed the post-retirement medical plan from being self-insured to fully insured. Accrued post-retirement benefits as of December 31, 2007 and 2006 are as follows:

(Dollar amounts in thousands)	December 31,	
	2007	2006
Change in benefit obligation:		
Benefit obligation at January 1	\$ 5,592	\$ 5,500
Service cost	118	116
Interest cost	310	302
Plan participants' contributions	15	144
Actuarial (gain) loss	(1,786)	5
Benefits paid	(191)	(475)
Benefit obligation at December 31	<u>\$ 4,058</u>	<u>\$ 5,592</u>
Funded status at December 31	<u>\$ (4,058)</u>	<u>\$ (5,592)</u>

Amounts recognized in accumulated other comprehensive income consist of a net loss of \$531 thousand and \$361 thousand in transition obligation at December 31, 2007 and \$2.5 million net loss and \$422 thousand in transition obligation at December 31, 2006. The post-retirement benefits paid in 2007 and 2006 of \$191 thousand and \$475 thousand, respectively, were fully funded by company and participant contributions.

FIRST FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The estimated net loss and transition obligation for the post-retirement benefit plan that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is \$11 thousand and \$60 thousand.

Weighted-average assumptions as of December 31:

	December 31,	
	2007	2006
Discount rate	6.00%	5.75%
Initial weighted health care cost trend rate	9.00	9.50
Ultimate health care cost trend rate	5.00	5.00
Year in which the rate is assumed to stabilize and remain unchanged	2016	2016

Post-retirement health benefit expense included the following components:

(Dollar amounts in thousands)	Years Ended December 31,		
	2007	2006	2005
Service cost	\$ 118	\$ 116	\$ 141
Interest cost	310	302	319
Amortization of transition obligation	60	60	60
Recognized actuarial loss	172	240	250
Net periodic benefit cost	<u>\$ 660</u>	<u>\$ 718</u>	<u>\$ 770</u>
Net loss (gain) during the period	\$ (1,506)	\$ —	\$ —
Amortization of prior service cost	(60)	—	—
Amortization of unrecognized gain (loss)	(172)	—	—
Total recognized in other comprehensive income	<u>\$ (1,738)</u>	<u>\$ —</u>	<u>\$ —</u>
Total recognized net periodic benefit cost and other comprehensive income	<u>\$ (1,078)</u>	<u>\$ —</u>	<u>\$ —</u>

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	\$ 9	\$ (8)
Effect on post-retirement benefit obligation	163	(138)

Contributions — The Corporation expects to contribute \$185 thousand to its other post-retirement benefit plan in 2008.

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

Post-Retirement Medical Benefits	
(Dollar amounts in thousands)	
2008	\$ 165
2009	173
2010	182
2011	191
2012	201
2013–2017	1,123

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. OTHER COMPREHENSIVE INCOME (LOSS):

Other comprehensive income (loss) components and related taxes were as follows:

(Dollar amounts in thousands)	December 31,		
	2007	2006	2005
Unrealized holding gains and (losses) on securities available-for-sale	\$ 2,063	\$ 1,938	\$(10,186)
Reclassification adjustments for (gains) and losses later recognized in income	(211)	(6)	(571)
Net unrealized gains and losses	1,852	1,932	(10,757)
Tax effect	(742)	(771)	4,303
Other comprehensive income (loss)	<u>\$ 1,110</u>	<u>\$ 1,161</u>	<u>\$ (6,454)</u>
Unrecognized gains and (losses) on benefit plans	\$ (1,737)	\$ —	\$ —
Amortization of prior service cost included in net periodic pension cost	116	—	—
Amortization of unrecognized gains (losses) included in net periodic pension cost	617	—	—
Benefit plans, net	(1,004)	—	—
Tax effect	207	—	—
Other comprehensive income (loss)	<u>\$ (797)</u>	<u>\$ —</u>	<u>\$ —</u>

The following is a summary of the accumulated other comprehensive income balances, net of tax:

(Dollar amounts in thousands)	Balance at 12/31/06	Current Period Change	Balance at 12/31/07
Unrealized gains (losses) on securities available-for-sale	\$ 3,064	\$ 1,110	\$ 4,174
Unrealized loss on benefit plans	(8,558)	(797)	(9,355)
TOTAL	<u>\$ (5,494)</u>	<u>\$ 313</u>	<u>\$ (5,181)</u>

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, 2007, approximately \$24.2 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, 2007 and 2006, that the Corporation meets all capital adequacy requirements to which it is subject.

As of December 31, 2007, 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.

FIRST FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table presents the actual and required capital amounts and related ratios for the Corporation and First Financial Bank, N.A., at year end 2007 and 2006.

(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 – 2007	\$292,995	18.18%	\$128,965	8.00%	N/A	N/A
Corporation – 2006	283,226	17.78%	127,423	8.00%	N/A	N/A
First Financial Bank – 2007	281,819	18.13%	124,355	8.00%	155,443	10.00%
First Financial Bank – 2006	272,455	17.74%	122,834	8.00%	153,542	10.00%
Tier I risk-based capital						
Corporation – 2007	\$277,644	17.22%	\$64,483	4.00%	N/A	N/A
Corporation – 2006	267,057	16.77%	63,711	4.00%	N/A	N/A
First Financial Bank – 2007	269,412	17.33%	62,177	4.00%	93,266	6.00%
First Financial Bank – 2006	259,431	16.90%	61,417	4.00%	92,125	6.00%
Tier I leverage capital						
Corporation – 2007	\$277,644	12.44%	\$89,273	4.00%	N/A	N/A
Corporation – 2006	267,057	12.43%	85,919	4.00%	N/A	N/A
First Financial Bank – 2007	269,412	12.60%	85,499	4.00%	106,874	5.00%
First Financial Bank – 2006	259,431	12.48%	83,146	4.00%	103,932	5.00%

17. PARENT COMPANY CONDENSED FINANCIAL STATEMENTS:

The parent company's condensed balance sheets as of December 31, 2007 and 2006, and the related condensed statements of income and cash flows for each of the three years in the period ended December 31, 2007, are as follows:

CONDENSED BALANCE SHEETS

(Dollar amounts in thousands)	December 31,	
	2007	2006
ASSETS		
Cash deposits in affiliated banks	\$ 7,040	\$ 7,730
Investments in subsidiaries	281,510	270,693
Land and headquarters building, net	5,807	6,043
Other	9,035	9,120
TOTAL ASSETS	\$303,392	\$293,586
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Borrowings (including \$3.4 and \$4.0 million from subsidiary)	\$ 10,036	\$ 10,636
Dividends payable	5,785	5,708
Other liabilities	5,879	5,982
TOTAL LIABILITIES	21,700	22,326
Shareholders' equity	281,692	271,260
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$303,392	\$293,586

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED STATEMENTS OF INCOME

(Dollar amounts in thousands)	Years Ended December 31,		
	2007	2006	2005
Dividends from subsidiaries	\$16,500	\$14,192	\$33,828
Other income	1,026	984	1,013
Interest on borrowings	(655)	(615)	(943)
Other operating expenses	<u>(3,343)</u>	<u>(3,074)</u>	<u>(3,017)</u>
Income before income taxes and equity in undistributed earnings of subsidiaries	13,528	11,487	30,881
Income tax benefit	<u>1,230</u>	<u>1,121</u>	<u>1,177</u>
Income before equity in undistributed earnings of subsidiaries	14,758	12,608	32,058
Equity in undistributed (dividends in excess of) earnings of subsidiaries	<u>10,822</u>	<u>10,931</u>	<u>(9,004)</u>
Net income	<u>\$25,580</u>	<u>\$23,539</u>	<u>\$23,054</u>

CONDENSED STATEMENTS OF CASH FLOWS

(Dollar amounts in thousands)	Years Ended December 31,		
	2007	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$25,580	\$23,539	\$23,054
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for depreciation and amortization (Equity in undistributed earnings) dividends in excess of subsidiaries	260	260	258
Contribution of shares to ESOP	(10,822)	(10,931)	9,004
Increase (decrease) in other liabilities	1,242	1,164	1,144
(Increase) decrease in other assets	239	872	479
	<u>(41)</u>	<u>(227)</u>	<u>(392)</u>
NET CASH FROM OPERATING ACTIVITIES	16,458	14,677	33,547
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of furniture and fixtures	(8)	(43)	(325)
NET CASH FROM INVESTING ACTIVITIES	<u>(8)</u>	<u>(43)</u>	<u>(325)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Principal payments on long-term borrowings	(600)	-	(18,000)
Purchase of treasury stock	(5,167)	(4,087)	(5,789)
Dividends paid	(11,373)	(11,181)	(10,779)
NET CASH FROM FINANCING ACTIVITIES	<u>(17,140)</u>	<u>(15,268)</u>	<u>(34,568)</u>
NET (DECREASE) INCREASE IN CASH	(690)	(634)	(1,346)
CASH, BEGINNING OF YEAR	7,730	8,364	9,710
CASH, END OF YEAR	<u>\$ 7,040</u>	<u>\$ 7,730</u>	<u>\$ 8,364</u>
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	<u>\$ 657</u>	<u>\$ 612</u>	<u>\$ 938</u>
Income taxes	<u>\$ 8,494</u>	<u>\$11,202</u>	<u>\$ 5,413</u>

FIRST FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

18. SELECTED QUARTERLY DATA (UNAUDITED)

		2007					
(Dollar amounts in thousands)		Interest Income	Interest Expense	Net Interest Income	Provision for Loan Losses	Net Income	Net Income Per Share
March 31		\$33,622	\$15,165	\$18,457	\$1,690	\$6,423	\$.48
June 30		\$34,204	\$15,639	\$18,565	\$1,240	\$6,413	\$.49
September 30		\$34,915	\$16,166	\$18,749	\$1,575	\$6,362	\$.48
December 31		\$34,993	\$15,991	\$19,002	\$2,075	\$6,382	\$.49
		2006					
(Dollar amounts in thousands)		Interest Income	Interest Expense	Net Interest Income	Provision for Loan Losses	Net Income	Net Income Per Share
March 31		\$31,423	\$13,027	\$18,396	\$2,203	\$5,509	\$.41
June 30		\$32,777	\$14,266	\$18,511	\$ 645	\$6,425	\$.48
September 30		\$33,012	\$14,768	\$18,244	\$2,495	\$5,455	\$.41
December 31		\$33,620	\$15,068	\$18,552	\$1,640	\$6,150	\$.47

**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, 2007 and 2006, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2007. 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, 2007 and 2006, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2007, 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), First Financial Corporation's internal control over financial reporting as of December 31, 2007, 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 28, 2008, expressed an unqualified opinion thereon.

Crowe Chizek and Company LLC

Indianapolis, Indiana
February 28, 2008

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 First Financial Corporation's (Corporation) internal control over financial reporting as of December 31, 2007, 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, included in the accompanying "Management's Report on Internal Control Over Financial Reporting." Our responsibility is to express an opinion on 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, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, 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, First Financial Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, 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, 2007 and 2006, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2007 of First Financial Corporation and our report dated February 28, 2008 expressed an unqualified opinion.

Loewe Clifton and Company LLC

Indianapolis, Indiana
February 28, 2008

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, 2007, 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, 2007, 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 a report dated February 28, 2008 on 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, 2007 and 2006, and the results of its operations for the three years ended December 31, 2007. 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 2007 the Corporation and its subsidiaries had 790 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.; three in Knox County, Ind.; five in Parke County, Ind.; one in Putnam 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 60 professionals and over 86 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 reporting unit. The majority of the Corporation's goodwill is recorded at Forest 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 2007

Net income for 2007 was \$25.6 million, or \$1.94 per share. This represents an 8.7% increase in net income and a 9.6% increase in earnings per share, compared to 2006. Return on assets at December 31, 2007 increased 5.5% to 1.16% compared to 1.10% at December 31, 2006.

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 was increased in 2007 to \$74.8 million compared to \$73.7 million in 2006. Total average interest-earning assets grew to \$2.06 billion in 2007 from \$2.01 billion in 2006. The tax-equivalent yield on these assets increased to 6.98% in 2007 from 6.77% in 2006. Total average interest-bearing liabilities increased to \$1.65 billion in 2007 from \$1.64 billion in 2006. The average cost of these interest-bearing liabilities increased to 3.81% in 2007 from 3.48% in 2006.

The net interest margin decreased slightly from 3.93% in 2006 to 3.92% in 2007. This decrease is primarily the result of the increased costs of funding provided by interest-bearing liabilities. Earning asset yields increased 21 basis points while the rate on interest-bearing liabilities increased by 33 basis points.

The following table sets forth the components of net interest income due to changes in volume and rate. The table information compares 2007 to 2006 and 2006 to 2005.

(Dollar amounts in thousands)	2007 Compared to 2006 Increase (Decrease) Due to				2006 Compared to 2005 Increase (Decrease) Due to			
	Volume	Rate	Volume/ Rate	Total	Volume	Rate	Volume/ Rate	Total
Interest earned on interest-earning assets:								
Loans (1) (2)	\$ 1,808	\$ 3,459	\$ 62	\$ 5,329	\$(3,842)	\$ 7,662	\$ (304)	\$ 3,516
Taxable investment securities	698	940	30	1,668	1,875	2,878	321	5,074
Tax-exempt investment securities (2)	870	(290)	(20)	560	302	238	6	546
Federal funds sold	(70)	54	(5)	(21)	88	175	31	294
Total interest income	<u>3,306</u>	<u>4,163</u>	<u>67</u>	<u>7,536</u>	<u>(1,577)</u>	<u>10,953</u>	<u>54</u>	<u>9,430</u>
Interest paid on interest-bearing liabilities:								
Transaction accounts	(55)	1,853	(9)	1,789	(765)	5,138	(559)	3,814
Time deposits	(82)	2,980	(9)	2,889	801	5,276	210	6,287
Short-term borrowings	775	44	46	865	(304)	437	(170)	(37)
Other borrowings	42	254	1	297	(750)	360	(14)	(404)
Total interest expense	<u>680</u>	<u>5,131</u>	<u>29</u>	<u>5,840</u>	<u>(1,018)</u>	<u>11,211</u>	<u>(533)</u>	<u>9,660</u>
Net interest income	<u>\$ 2,626</u>	<u>\$ (968)</u>	<u>\$ 38</u>	<u>\$ 1,696</u>	<u>\$ (559)</u>	<u>\$ (258)</u>	<u>\$ 587</u>	<u>\$ (230)</u>

(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 2007

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, 2007, the provision for loan losses was \$6.6 million, a decrease of \$403 thousand, or 5.8%, compared to 2006. The decrease was the result of several components related to the analysis of the Corporation's Allowance for Loan and Lease Losses, including improving nonperforming and impaired loan trends.

Net charge-offs for 2007 were \$7.4 million as compared to \$6.8 million for 2006 and \$15.6 million for 2005. Delinquent loans as a percentage of total outstanding loans declined to 2.1% at December 31, 2007 compared to 2.3% at December 31, 2006. Non-accrual loans decreased 19.2% to \$8.0 million at December 31, 2007 from \$9.9 million at December 31, 2006. At December 31, 2007, the resulting allowance for loan losses was \$15.4 million or 1.07% of total loans, net of unearned income. A year earlier the allowance was \$16.2 million or 1.16% of total loans.

NON-INTEREST INCOME

Non-interest income of \$31.5 million increased \$2.7 million from the \$28.8 million earned in 2006. This increase was in all areas with the exception of brokerage fees. Gain on investment securities and mortgage sales accounted for 31% of the increase.

NON-INTEREST EXPENSES

Non-interest expenses remained stable at \$64.7 million for 2007 and 2006. Salaries and employee benefits decreased \$307 thousand while other expenses increased \$320 thousand. Occupancy and equipment expenses were relatively unchanged. Benefits of the consolidation of bank subsidiaries near the end of 2005 are still being realized.

INCOME TAXES

The Corporation's federal income tax provision was \$9.4 million in 2007 compared to a provision of \$7.4 million in 2006. The overall effective tax rate in 2007 of 26.8% compares to a 2006 effective rate of 23.8%. The Corporation had reduced amounts of tax-exempt income relative to the total income in 2007 compared to 2006.

COMPARISON OF 2006 TO 2005

Net income for 2006 was \$23.5 million or \$1.77 per share compared to \$23.1 million in 2005 or \$1.72 per share. This stable income was the result of a reduced provision for loan losses effectively offsetting the decrease in net interest and non-interest income combined with a slight increase in non-interest expense in 2006. Total average interest-earning assets were unchanged in 2006 compared to 2005. The tax equivalent net interest margin increased slightly to 3.93% in 2006 from 3.92% in 2005. This increase was primarily the result of increased funding provided by non-interest bearing liabilities.

The provision for loan losses decreased \$4.7 million from \$11.7 million in 2005 to \$7.0 million in 2006, and net charge-offs decreased \$8.8 million from \$15.6 million in 2005 to \$6.8 million in 2006.

Net non-interest income and expense declined \$4.3 million from 2005 to 2006. Non-interest expenses increased \$1.1 million while non-interest income decreased \$3.2 million. The decrease in non-interest income resulted primarily from reduced gains on sales of investment securities and loans in 2006.

The provision for income taxes fell \$562 thousand from 2005 to 2006, decreasing the effective tax rate from 25.6% in 2005 to 23.8% in 2006.

FINANCIAL CONDITION — SUMMARY

The Corporation's total assets increased 2.6% or \$55.6 million at December 31, 2007, from a year earlier. Available-for-sale securities increased \$27.6 million at December 31, 2007, from the previous year. Loans, net of unearned income, increased by \$36.2 million, to \$1.43 billion. Deposits increased \$27.0 million while borrowings increased by \$10.6 million.

Total shareholders' equity increased \$10.4 million to \$281.7 million at December 31, 2007. Net income was partially offset by higher dividends and the continued repurchase of corporate stock. The Corporation had increased purchases of treasury stock in 2007, acquiring 174,962 shares at a cost of \$5.2 million compared to 137,249 shares during 2006 at a cost of \$4.1 million. There were also 41,000 shares from the treasury with a value of \$1.24 million that were contributed to the ESOP plan. Restructuring of the investment portfolio with maturities and purchases increased other comprehensive income as the Corporation recorded a net unrealized gain on available-for-sale securities of \$1.1 million. Other comprehensive income was then reduced because of the increase in the unrealized loss on post-retirement benefits in accordance with SFAS No. 158.

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 2007 the portfolio's balance increased by 4.93%. During 2007 the Federal Reserve decreased the fed funds rate by 1.00% to 4.25%. The average life of the portfolio declined from 4.38 years in 2006 to 4.08 years in 2007. The portfolio structure will continue to provide cash flows to be reinvested during 2008.

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

(Dollar amounts in thousands)	1 Year and Less		1 to 5 Years		5 to 10 Years		Over 10 Years		2007 Total
	Balance	Rate	Balance	Rate	Balance	Rate	Balance	Rate	
U.S. government sponsored entity mortgage-backed securities and agencies	\$ 212	5.08%	\$ 1,366	4.60%	\$ 65,393	4.44%	\$222,733	5.26%	\$289,704
Collateralized mortgage obligations ⁽¹⁾	-	-	4	11.50	27	6.94	77,143	5.27	77,174
States and political subdivisions	6,933	5.49	43,192	7.37	49,290	7.54	47,100	6.19	146,515
Corporate obligations	7,048	6.40	-	-	-	-	58,408	5.07	65,456
Total	14,193	5.93	44,562	7.29	114,710	5.77	405,384	5.34	578,849
Equities	-	-	-	-	-	-	7,784	-	7,784
TOTAL	\$14,193		\$44,562		\$114,710		\$413,168		\$586,633

(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 2007 are set forth in the following analyses.

(Dollar amounts in thousands)	2007	2006	2005	2004	2003
Loan Category					
Commercial, financial and agricultural	\$ 461,086	\$ 407,995	\$ 382,214	\$ 401,724	\$ 374,638
Real estate - construction	29,637	33,336	31,918	32,810	35,361
Real estate - mortgage	673,355	691,989	707,008	753,826	766,911
Consumer	262,858	257,065	272,062	272,261	248,290
Lease financing	2,275	2,604	2,845	3,658	4,884
TOTAL	<u>\$1,429,211</u>	<u>\$1,392,989</u>	<u>\$1,396,047</u>	<u>\$1,464,279</u>	<u>\$1,430,084</u>
Credit card loans held-for-sale	<u>\$ 14,068</u>	—	—	—	—

(Dollar amounts in thousands)	Within One Year	After One But Within Five Years	After Five Years	Total
Maturity Distribution				
Commercial, financial and agricultural	\$ 223,954	\$ 193,781	\$ 43,351	\$ 461,086
Real estate - construction	12,869	7,441	9,327	29,637
TOTAL	<u>\$ 236,823</u>	<u>\$ 201,222</u>	<u>\$ 52,678</u>	490,723
Real estate - mortgage				673,355
Consumer				262,858
Lease financing				2,275
TOTAL				<u>\$1,429,211</u>
Credit card loans held-for-sale				<u>\$ 14,068</u>
Loans maturing after one year with:				
Fixed interest rates		\$ 73,688	\$ 42,213	
Variable interest rates		<u>127,534</u>	<u>10,465</u>	
TOTAL		<u>\$ 201,222</u>	<u>\$ 52,678</u>	

FIRST FINANCIAL CORPORATION

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)	2007	2006	2005	2004	2003
Amount of loans outstanding at December 31,	<u>\$1,429,211</u>	<u>\$1,392,989</u>	<u>\$1,396,047</u>	<u>\$1,464,279</u>	<u>\$1,430,084</u>
Average amount of loans by year	<u>\$1,409,051</u>	<u>\$1,384,138</u>	<u>\$1,441,247</u>	<u>\$1,452,572</u>	<u>\$1,417,026</u>
Allowance for loan losses at beginning of year	\$ 16,169	\$ 16,042	\$ 19,918	\$ 21,239	\$ 21,249
Loans charged off:					
Commercial, financial and agricultural	3,433	2,066	6,093	4,080	2,253
Real estate - mortgage	1,026	1,617	2,590	623	1,101
Consumer	5,712	6,826	8,809	6,680	5,586
Leasing	5	—	—	1	—
Total loans charged off	<u>10,176</u>	<u>10,509</u>	<u>17,492</u>	<u>11,384</u>	<u>8,940</u>
Recoveries of loans previously charged off:					
Commercial, financial and agricultural	389	1,262	284	452	432
Real estate - mortgage	139	187	343	37	166
Consumer	2,250	2,204	1,291	1,281	877
Leasing	—	—	—	1	—
Total recoveries	<u>2,778</u>	<u>3,653</u>	<u>1,918</u>	<u>1,771</u>	<u>1,475</u>
Net loans charged off	7,398	6,856	15,574	9,613	7,465
Provision charged to expense	6,580	6,983	11,698	8,292	7,455
Balance at end of year	<u>\$ 15,351</u>	<u>\$ 16,169</u>	<u>\$ 16,042</u>	<u>\$ 19,918</u>	<u>\$ 21,239</u>
Ratio of net charge-offs during period to average loans outstanding	<u>.53%</u>	<u>.50%</u>	<u>1.08%</u>	<u>.66%</u>	<u>.53%</u>

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,				
	2007	2006	2005	2004	2003
Commercial, financial and agricultural	\$10,090	\$ 9,043	\$ 8,148	\$11,840	\$13,844
Real estate – mortgage	1,245	1,364	867	850	1,254
Consumer	4,016	5,762	7,027	7,228	6,141
TOTAL ALLOWANCE FOR LOAN LOSSES	<u>\$15,351</u>	<u>\$16,169</u>	<u>\$16,042</u>	<u>\$19,918</u>	<u>\$21,239</u>

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)	2007	2006	2005	2004	2003
Non-accrual loans	\$ 7,971	\$ 9,893	\$ 8,464	\$19,862	\$ 8,429
Restructured loans	50	52	57	430	542
Accruing loans past due over 90 days	4,462	4,691	6,354	7,813	5,384
	<u>\$12,483</u>	<u>\$14,636</u>	<u>\$14,875</u>	<u>\$28,105</u>	<u>\$14,355</u>

The ratio of the allowance for loan losses as a percentage of nonperforming loans was 123% at December 31, 2007, compared to 110% in 2006. The following loan categories comprise significant components of the nonperforming loans at December 31, 2007 and 2006:

(Dollar amounts in thousands)	2007		2006	
Non-accrual loans:				
1-4 family residential	\$ 2,574	32%	\$ 1,598	16%
Commercial loans	3,938	50	6,551	66
Consumer loans	1,459	18	1,744	18
	<u>\$ 7,971</u>	<u>100%</u>	<u>\$ 9,893</u>	<u>100%</u>
Past due 90 days or more:				
1-4 family residential	\$ 1,230	28%	\$ 1,607	34%
Commercial loans	2,795	62	2,542	54
Consumer loans	437	10	542	12
	<u>\$ 4,462</u>	<u>100%</u>	<u>\$ 4,691</u>	<u>100%</u>

FIRST FINANCIAL CORPORATION

FINANCIAL CONDITION — SUMMARY

DEPOSITS

The information below presents the average amount of deposits and rates paid on those deposits for 2007, 2006 and 2005.

(Dollar amounts in thousands)	2007		2006		2005	
	Amount	Rate	Amount	Rate	Amount	Rate
Non-interest-bearing demand deposits	\$ 226,822		\$ 206,839		\$ 153,027	
Interest-bearing demand deposits	198,368	0.94%	201,928	1.14%	294,344	0.77%
Savings deposits	410,919	2.62%	410,458	1.87%	392,791	1.21%
Time deposits:						
\$100,000 or more	189,501	4.66%	188,572	4.27%	185,436	3.11%
Other time deposits	477,114	4.30%	480,116	4.01%	457,685	3.11%
TOTAL	<u>\$1,502,724</u>		<u>\$1,487,913</u>		<u>\$1,483,283</u>	

The maturities of certificates of deposit of \$100 thousand or more outstanding at December 31, 2007, are summarized as follows:

3 months or less	\$ 11,402
Over 3 through 6 months	35,587
Over 6 through 12 months	44,677
Over 12 months	<u>102,235</u>
TOTAL	<u>\$193,901</u>

FINANCIAL CONDITION — SUMMARY

OTHER BORROWINGS

Advances from the Federal Home Loan Bank decreased slightly to \$334.7 million in 2007 compared to \$335.2 million in 2006. 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, 2007.

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 2007 and 2006 was 44.8% and 44.2%, 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, 2007. 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 0.54% over the next 12 months and increase 0.93% over the following 12 months. Given a 100 basis point decrease in rates, net interest income would increase 0.27% over the next 12 months and decrease 1.31% 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	0.46%	-3.63%	-7.16%
Down 100	0.27	-1.31	-2.92
Up 100	-0.54	0.93	2.48
Up 200	-4.32	-1.59	2.51

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 the 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 \$13.8 million of investments that mature throughout the coming 12 months. The Corporation also anticipates \$66.9 million of principal payments from mortgage-backed securities. Given the current rate environment, the Corporation anticipates \$28.2 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, 2007, 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				Total
		One Year or Less	One to Three Years	Three to Five Years	Over Five Years	
Deposits without a stated maturity		\$881,114	\$ —	\$ —	\$ —	\$881,114
Consumer certificates of deposit		513,361	115,846	19,179	221	648,607
Short-term borrowings	10	27,331	—	—	—	27,331
Other borrowings	11	90,232	249,760	724	569	341,285

Commitments: The following table details the amount and expected maturities of significant commitments as of December 31, 2007. 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	\$275,656	\$178,285	\$97,371
Commercial letters of credit	17,336	13,685	3,651

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 2007 most of the Corporation's markets experienced stable labor market conditions. There are limited significant growth opportunities currently available.

2007 ANNUAL REPORT

CONSOLIDATED BALANCE SHEET – AVERAGE BALANCES AND INTEREST RATES

	December 31,								
	2007			2006			2005		
(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)	\$1,409,051	105,804	7.51%	\$1,384,138	100,475	7.26%	\$1,441,247	96,957	6.73%
Taxable investment securities	444,220	23,545	5.30	430,492	21,877	5.08	387,269	16,802	4.34
Tax-exempt investments (2)	188,012	13,354	7.10	176,044	12,794	7.27	171,802	12,248	7.13
Federal funds sold	14,756	768	5.20	16,203	788	4.87	13,772	496	3.60
Total interest-earning assets	<u>2,056,039</u>	<u>143,471</u>	<u>6.98%</u>	<u>2,006,877</u>	<u>135,934</u>	<u>6.77%</u>	<u>2,014,090</u>	<u>126,503</u>	<u>6.28%</u>
Non-interest earning assets:									
Cash and due from banks	61,655			66,302			74,005		
Premises and equipment, net	32,762			31,309			30,720		
Other assets	64,801			59,363			62,779		
Less allowance for loan losses	(15,665)			(16,533)			(18,298)		
TOTALS	<u>\$2,199,592</u>			<u>\$2,147,318</u>			<u>\$2,163,296</u>		
LIABILITIES AND SHAREHOLDERS' EQUITY									
Interest-bearing liabilities:									
Transaction accounts	\$ 609,287	12,634	2.07%	\$ 612,387	10,845	1.77%	\$ 687,135	7,031	1.02%
Time deposits	666,615	29,322	4.40	668,687	26,440	3.95	643,121	20,153	3.13
Short-term borrowings	32,140	1,611	5.01	15,759	746	4.73	25,766	783	3.04
Other borrowings	<u>343,767</u>	<u>19,394</u>	<u>5.64</u>	<u>343,014</u>	<u>19,098</u>	<u>5.57</u>	<u>356,728</u>	<u>19,502</u>	<u>5.47</u>
Total interest-bearing liabilities:	1,651,809	<u>62,961</u>	<u>3.81%</u>	1,639,847	<u>57,129</u>	<u>3.48%</u>	1,712,750	<u>47,469</u>	<u>2.77%</u>
Non interest-bearing liabilities:									
Demand deposits	226,822			206,839			153,027		
Other	<u>42,974</u>			<u>25,958</u>			<u>26,942</u>		
	1,921,605			1,872,644			1,892,719		
Shareholders' equity	<u>277,987</u>			<u>274,674</u>			<u>270,577</u>		
TOTALS	<u>\$2,199,592</u>			<u>\$2,147,318</u>			<u>\$2,163,296</u>		
Net interest earnings		<u>\$ 80,510</u>			<u>\$ 78,805</u>			<u>\$ 79,034</u>	
Net yield on interest-earning assets			<u>3.92%</u>			<u>3.93%</u>			<u>3.92%</u>

(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%.

FIRST FINANCIAL CORPORATION

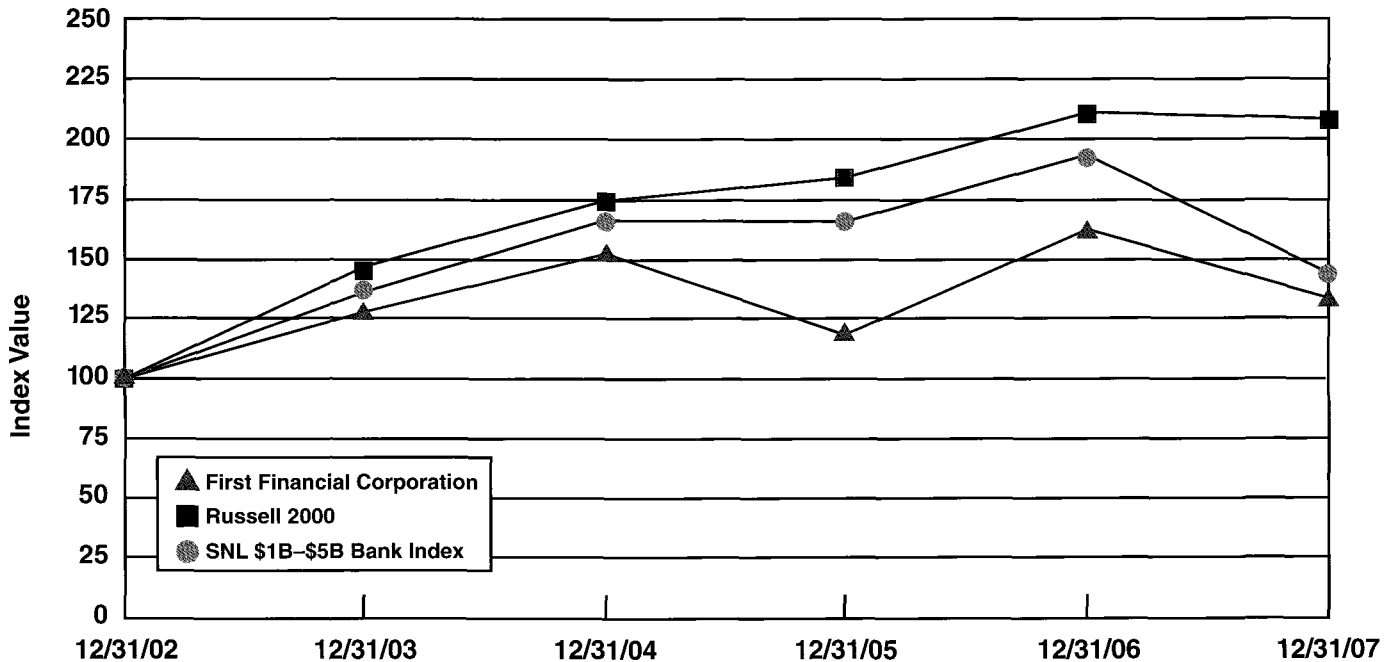
MARKET AND DIVIDEND INFORMATION

At year-end 2007 shareholders owned 13,136,359 shares of the Corporation's common stock. The stock is traded on the NASDAQ Global under the symbol THFF.

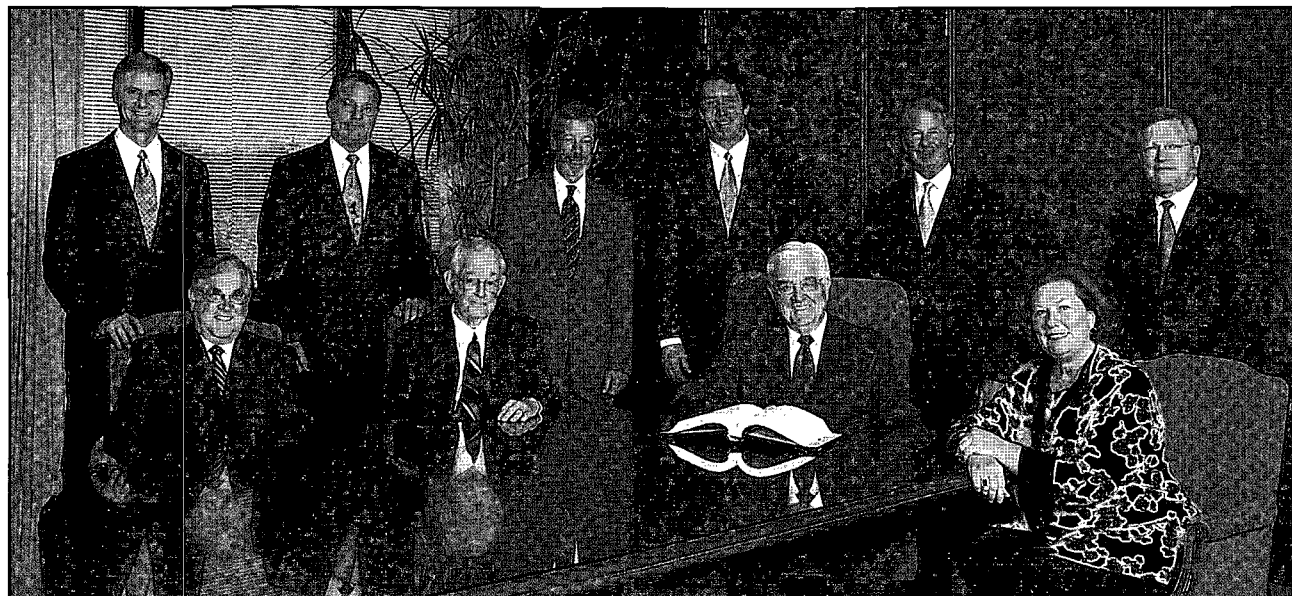
Historically, the Corporation has paid cash dividends semi-annually and currently expects that comparable cash dividends will continue to be paid in the future. The following table gives quarterly high and low trade prices and dividends per share during each quarter for 2007 and 2006.

Quarter ended	2007			2006		
	Trade Price		Cash Dividends Declared	Trade Price		Cash Dividends Declared
	High	Low		High	Low	
March 31	\$35.74	\$28.20		\$29.80	\$27.00	
June 30	\$32.45	\$27.26	\$.43	\$31.91	\$27.42	\$.42
September 30	\$32.78	\$23.48		\$33.45	\$28.21	
December 31	\$32.29	\$26.93	\$.44	\$35.92	\$31.50	\$.43

TOTAL RETURN PERFORMANCE



Directors



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 Corporation & First Financial Bank

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.

**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. Clay
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
Vice President
Princeton Mining Co.

Forrest Sherer Inc.

John W. Dinkel
Chairman of the Board
Forrest Sherer, Inc.

J. Barton Douglas
Vice President, Surety
Forrest Sherer, Inc.

Norman L. Lowery
President & CEO
First Financial Bank

John S. Lukens
President & CEO
Forrest Sherer, Inc.

Dennis S. Michael
Retired
Forrest Sherer, Inc.

Jerry R. Mueller
Retired
Forrest Sherer, Inc.

Robert F. Prox III
Senior Vice President,
Commercial Insurance
Forrest Sherer, Inc.

Community Directors

**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
Norman P. Yeley
Farmer

**First Financial Bank
Citizens Region**

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

**First Financial Bank
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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**

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

**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
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



Banking Center Locations

INDIANA

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. Putnam County

Greencastle*

101 South Warren Drive
765-653-4444

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

ILLINOIS

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. Vermillion 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



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