

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

FORM 10-K

[X] **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)**
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended:
September 30, 2008

Commission File Number: 0-17122

FIRST FINANCIAL HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

57-0866076
(I.R.S. Employer Identification No.)

34 Broad Street, Charleston, South Carolina
(Address of principal executive offices)

29401
(Zip Code)

Registrant's telephone number, including area code: (843) 529-5933

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, par value \$.01 per share
(Title of Class)

The Nasdaq Stock Market LLC
(Name of Each Exchange on Which registered)

Securities registered pursuant to Section 12(g) of the Act: none

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
YES ☐ NO ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
YES ☐ NO ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ☒ NO ☐

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

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

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐ Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):
YES ☐ NO ☒

The aggregate market value of the common stock held by nonaffiliates of the registrant, based on the closing sales price of the registrant's common stock as quoted on The NASDAQ Global Select Market on March 31, 2008, was \$273,618,930 (11,663,211 shares at \$23.46 per share). It is assumed for purposes of this calculation that none of the registrant's officers, directors and 5% shareholders are affiliates.

As of November 30, 2008 there were issued and outstanding 11,705,220 shares of the registrant's common stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Definitive Proxy Statement for the 2009 Annual Meeting of Shareholders. (Part III)

FIRST FINANCIAL HOLDINGS, INC.
2008 ANNUAL REPORT ON FORM 10-K
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PART I

Item 1. BUSINESS

General

First Financial Holdings, Inc. (the “Company” which may be referred to as “First Financial”, we, us, or our) is a Delaware corporation, a savings and loan holding company and a financial holding company under the Gramm-Leach-Bliley Act. The Company was incorporated in 1987. We operate principally through First Federal Savings and Loan Association of Charleston (“First Federal”), a federally-chartered stock savings and loan association. Our assets are approximately \$3.0 billion as of September 30, 2008.

Our subsidiaries provide a full range of financial services designed to meet the financial needs of our customers, including the following:

- banking
- cash management
- retail investment services
- mortgage banking
- insurance, and
- trust and investment management services.

Based on asset size, First Federal is the largest financial institution headquartered in the Charleston, South Carolina metropolitan area and the third largest financial institution headquartered in South Carolina. We currently conduct business through 38 full service retail branch sales offices, 16 in-store (Wal-Mart Supercenters, Kroger Grocery stores and Lowes Grocery stores) retail branch sales offices, and four limited service branches located in the following counties: Charleston (20), Berkeley (3), Dorchester (6), Hilton Head area of Beaufort County (3), Georgetown (3), Horry (18), and Florence (4) in South Carolina and the Sunset Beach area of Brunswick County, North Carolina (1).

Primarily we act as a financial intermediary by attracting deposits from the general public and using those funds, together with borrowings and other funds, to originate first mortgage loans on residential properties located in our primary market areas. We also make construction, consumer, non-residential mortgage and commercial business loans and invest in mortgage-backed securities, federal government and agency obligations, money market obligations and certain corporate obligations. Through subsidiaries of First Financial or subsidiaries of First Federal, we also engage in full-service brokerage activities, property, casualty, life and health insurance sales, third party administrative services, trust and fiduciary services, reinsurance of private mortgage insurance, premium finance activities and certain passive investment activities. Banking and insurance operations constitute the two reportable segments of our business operations. For segmented financial information regarding our banking and insurance operations, see Note 24 of Notes to Consolidated Financial Statements contained in Item 8.

First Federal is a member of the Federal Home Loan Bank System and its deposits are insured by the Federal Deposit Insurance Corporation (“FDIC”) up to applicable limits. First Federal is subject to comprehensive regulation, examination and supervision by the Office of Thrift Supervision (“OTS”) and the FDIC.

Subsidiary Activities of First Federal

The Carolopolis Corporation

The Carolopolis Corporation was incorporated in 1976 for the principal purpose of land acquisition and development and construction of various projects for resale. Development activities began in 1981 and ended in 1989. Carolopolis had been inactive for a number of years until 1996 when a lower tier corporation of Carolopolis was formed to operate and market for resale a commercial real estate property acquired through foreclosure by First Federal. Carolopolis is currently inactive.

Broad Street Holdings

Broad Street Holdings was incorporated in 1998 as the holding company for Broad Street Investments, Inc., which was also formed in 1998. Broad Street Investments has been organized as a real estate investment trust to hold real estate-related assets. Effective September 30, 2008, both of these subsidiaries were dissolved.

First Reinsurance Holdings

First Reinsurance Holdings was incorporated in 1998 as the holding company for First Southeast Reinsurance Company, Inc., a company also organized in 1998 and domiciled in Vermont. First Southeast Reinsurance reinsures mortgage insurance originated through mortgage insurance companies in connection with real estate loans originated by First Federal.

First Southeast Fiduciary & Trust

First Southeast Fiduciary & Trust Services, Inc. was incorporated in 1998 for the purpose of extending trust and other asset management services in a fiduciary capacity to customers of First Federal. Assets under management totaled \$131.3 million at September 30, 2008. Effective September 30, 2008, this subsidiary was dissolved and all operations were moved to First Federal.

Port City Ventures

Port City Ventures, LLC was incorporated in 2002 to hold the general partner's interest in the limited partnership called North Central Apartments, LP, a low-income senior citizen housing development. North Central received approval in October 2003 for low income housing tax credits from the South Carolina State Housing Finance and Development Authority. We utilize these credits when we file our consolidated tax returns.

Great Atlantic Mortgage

Great Atlantic Mortgage was incorporated in 2005 as a joint venture with a local real estate firm to originate mortgages. In early fiscal 2007 these operations were discontinued and Great Atlantic Mortgage is no longer active.

Atlantic Acceptance Corporation

Atlantic Acceptance Corporation was purchased by the Kimbrell Insurance Group, Inc. in 2004. In October 2007, this subsidiary became a subsidiary of First Federal. Atlantic Acceptance Corporation is an insurance premium finance company.

Subsidiary Activities of First Financial

Insurance Operations

First Southeast Insurance Services

First Southeast Insurance Services also referred to as FSIs, formerly known as the Magrath Insurance Agency ("The Agency"), was purchased by Peoples Federal Savings and Loan Association of South Carolina in 1986. In 1988, the agency purchased two smaller insurance agencies. First Financial acquired Peoples Federal in 1992. During 1995 the Epps-McLendon Agency in Lake City, South Carolina was purchased. In 1995 the Adams Insurance Agency in Charleston, South Carolina, which had been purchased by First Federal in 1990, was purchased from a subsidiary of First Federal. During 2000, the operations of Associated Insurors of Myrtle Beach, South Carolina were acquired. Subsequent purchases have included the Hilton Head, Bluffton and Ridgeland operations of Kinghorn Insurance in 2001, Johnson Insurance Associates and Benefit Administrators of Columbia, South Carolina in 2002, Woodruff & Company, Inc. of Columbia, South Carolina in 2003, Employer Benefit Strategies Inc. of Summerville, South Carolina in 2006, Peoples Insurance Agency of Beaufort, South Carolina in 2007, and Somers-Pardue Agency of Burlington, North Carolina in 2008. Also during 2003, Benefit Administrators, Inc., an affiliate of Johnson Insurance, a subsidiary of First Southeast Insurance Services, purchased third party health benefit administration relationships with a group of accounts located in the southeast from MCA Administrators, Inc., based in Pittsburgh, Pennsylvania.

Kimbrell Insurance Group, Inc.

Kimbrell Insurance Group, Inc. was incorporated in January 2004 as the holding company for the operations of The Kimbrell Company, Inc., The Kimbrell Company, Inc./Florida (merged into The Kimbrell Company, Inc.), Preferred Markets, Inc., Preferred Markets, Inc./Florida (merged into Preferred Markets, Inc.) and Atlantic Acceptance Corporation, which were purchased in 2004. The Kimbrell companies are a managing general agency specializing in placing coverage within the non-standard insurance market. Non-standard markets offer coverage to customers that have unusual or high-risk exposures. The Preferred Markets companies are a managing general agency specializing in placing coverage in standard insurance markets. Atlantic Acceptance Corporation is an insurance premium finance company. Beginning October 1, 2007 Atlantic Acceptance Corporation became a subsidiary of First Federal.

First Southeast Investor Services

Founded in 1998 and incorporated in South Carolina, First Southeast Investor Services is a registered broker dealer with the Financial Industry Regulatory Authority (FINRA), formerly the National Association of Security Dealers, Inc. (NASD). First Southeast Investor Services offers a variety of investment products and services in strategically located offices throughout First Financial's market area and other selected markets within South Carolina and North Carolina.

Competition

We face strong competition in attracting savings deposits and originating real estate and other loans. The competition among the various financial institutions is based upon a variety of factors including the following:

- interest rates offered on deposit accounts,
- interest rates charged on loans,
- credit and service charges,
- the quality of services rendered,
- the convenience of banking facilities and other channels, and
- in the case of loans to large commercial borrowers, relative lending limits.

Direct competition for savings deposits principally comes from commercial banks and other savings institutions. Indirectly, we face competition from credit unions and for investors' funds from short term money market securities and other corporate and government securities. Additionally, money market, stock and fixed-income mutual funds have attracted an increasing share of household savings. Competition for loans principally comes from commercial banks, mortgage-banking companies, insurance companies, developers, tract builders and other institutional lenders. We compete for loans principally through the interest rates and loan fees charged and the efficiency and quality of the services provided to borrowers, developers, real estate brokers and home builders.

The banking industry continues to consolidate, which presents opportunities for First Financial to gain new business. However, consolidation may further intensify competition if additional financial services companies enter our market areas through acquisition of local financial institutions.

Size gives larger banks certain advantages in competing for business from large commercial customers. These advantages include higher lending limits and the ability to offer services in other areas of South Carolina and North Carolina. As a result, we concentrate our efforts on small- to medium-sized businesses and individuals. We believe we compete effectively in this market segment by offering quality and personalized service.

Employees

At September 30, 2008, First Financial employed 915 full-time equivalent employees compared to 873 full-time equivalent employees at September 30, 2007. We provide our full-time employees and certain part-time employees with a comprehensive program of benefits, including medical and dental benefits, life insurance, long-term disability coverage, a profit-sharing plan and a 401(k) plan. Our employees are not represented by a collective bargaining agreement. Management considers its employee relations to be excellent.

How We Are Regulated

The following is a brief description of certain laws and regulations which are applicable to First Financial and First Federal.

Legislation is introduced from time to time in the U.S. Congress that may affect the operations of First Financial and First Federal. In addition, the regulations governing us may be amended from time to time by the respective regulators. Any such legislation or regulatory changes in the future could adversely affect us. We cannot predict whether any such changes may occur.

Regulation of First Federal

As a federally-chartered, federally-insured financial institution, First Federal is subject to regulation and oversight by the Office of Thrift Supervision, as its primary federal regulator, and the Federal Deposit Insurance Corporation, as its insurer of its deposits. First Federal must file reports with the Office of Thrift Supervision and the Federal Deposit Insurance Corporation concerning its activities and financial condition in addition to obtaining regulatory approvals prior to entering into certain transactions such as mergers with, or acquisitions of, other financial institutions. There are periodic examinations by the Office of Thrift Supervision and, under certain circumstances, the Federal Deposit Insurance Corporation to evaluate First Federal's safety and soundness and compliance with various regulatory requirements. This regulatory structure is intended primarily for the protection of the insurance fund and depositors.

The Office of Thrift Supervision regularly examines First Federal and prepares a report that details its findings and notes any deficiencies in First Federal's operations. The report is submitted to First Federal's Board of Directors for its review and consideration. The Federal Deposit Insurance Corporation, as the insurer of First Federal's deposits, also has the authority to examine First Federal. First Federal's relationship with its depositors and borrowers also is regulated to a great extent by both federal and state laws, especially in matters such as the ownership of savings accounts and the form and content of First Federal's mortgage requirements. Any change in these regulations, whether by the Federal Deposit Insurance Corporation, the Office of Thrift Supervision or Congress, could have a material adverse impact on the operations of First Financial and First Federal.

Recent Legislative and Regulatory Initiatives to Address Financial and Economic Crises. The Congress, Treasury Department and the federal banking regulators, including the FDIC, have taken broad action since early September to address volatility in the U.S. banking system.

In October 2008, the Emergency Economic Stabilization Act of 2008 ("EESA") was enacted. The EESA authorizes the Treasury Department to purchase from financial institutions and their holding companies up to \$700 billion in mortgage loans, mortgage-related securities and certain other financial instruments, including debt and equity securities issued by financial institutions and their holding companies in a troubled asset relief program ("TARP"). The purpose of TARP is to restore confidence and stability to the U.S. banking system and to encourage financial institutions to increase their lending to customers and to each other. The Treasury Department has allocated \$250 billion towards the TARP Capital Purchase Program ("CPP"). Under the CPP, Treasury will purchase debt or equity securities from participating institutions. The TARP also will include direct purchases or guarantees of troubled assets of financial institutions. Participants in the CPP are subject to executive compensation limits and are encouraged to expand their lending and mortgage loan modifications.

On December 5, 2008, as part of the TARP CPP, First Financial entered into a Letter Agreement and Securities Purchase Agreement (collectively, the "Purchase Agreement") with the Treasury Department, pursuant to which First Financial sold (i) 65,000 shares of First Financial's Fixed Rate Cumulative Perpetual Preferred Stock, Series A (the "Series A Preferred Stock") and (ii) a warrant (the "Warrant") to purchase 483,391 shares of First Financial's common stock ("the "Common Stock"), par value \$0.01 per share, for an aggregate purchase price of \$65 million in cash.

The Series A Preferred Stock will qualify as Tier 1 capital and will be entitled to cumulative dividends at a rate of 5% per annum for the first five years, and 9% per annum thereafter. The Series A Preferred Stock may be redeemed by First Financial after three years. Prior to the end of three years, the Series A Preferred Stock may be

redeemed by First Financial only with proceeds from the sale of qualifying equity securities of First Financial. The Warrant has a 10-year term and is immediately exercisable upon its issuance, with an exercise price, subject to anti-dilution adjustments, equal to \$20.17 per share of the common stock. Please see the 8-K filed on December 5, 2008, for additional information.

EESA also increased FDIC deposit insurance on most accounts from \$100,000 to \$250,000. This increase is in place until the end of 2009 and is not covered by deposit insurance premiums paid by the banking industry.

Following a systemic risk determination, the FDIC established a Temporary Liquidity Guarantee Program ("TLGP") on October 14, 2008. The TLGP includes the Transaction Account Guarantee Program ("TAGP"), which provides unlimited deposit insurance coverage through December 31, 2009 for noninterest-bearing transaction accounts (typically business checking accounts) and certain funds swept into noninterest-bearing savings accounts. Institutions participating in the TAGP pay a 10 basis points fee (annualized) on the balance of each covered account in excess of \$250,000, while the extra deposit insurance is in place. The TLGP also includes the Debt Guarantee Program ("DGP"), under which the FDIC guarantees certain senior unsecured debt of FDIC-insured institutions and their holding companies. The unsecured debt must be issued on or after October 14, 2008 and not later than June 30, 2009, and the guarantee is effective through the earlier of the maturity date or June 30, 2012. The DGP coverage limit is generally 125% of the eligible entity's eligible debt outstanding on September 30, 2008 and scheduled to mature on or before June 30, 2009 or, for certain insured institutions, 2% of their liabilities as of September 30, 2008. Depending on the term of the debt maturity, the nonrefundable DGP fee ranges from 50 to 100 basis points (annualized) for covered debt outstanding until the earlier of maturity or June 30, 2012. The TAGP and DGP are in effect for all eligible entities, unless the entity opted out on or before December 5, 2008. We will participate in the TAGP and have opted out of the DGP.

Office of Thrift Supervision. The Office of Thrift Supervision has extensive enforcement authority over all savings institutions and their holding companies, including First Federal and First Financial. This enforcement authority includes, among other things, the ability to assess civil money penalties, issue cease-and-desist or removal orders and initiate injunctive actions. In general, these enforcement actions may be initiated for violations of laws and regulations, and unsafe or unsound practices. Other actions or inaction may provide the basis for enforcement action, including misleading or untimely reports filed with the Office of Thrift Supervision. Except under certain circumstances, public disclosure of final enforcement actions by the Office of Thrift Supervision is required.

In addition, the investment, lending and branching authority of First Federal is prescribed by federal laws and it is prohibited from engaging in any activities not permitted by these laws. For example, no savings institution may invest in non-investment grade corporate debt securities. In addition, the permissible level of investment by federal institutions in loans secured by non-residential real property may not exceed 400% of total capital, except with approval of the Office of Thrift Supervision. Federal savings institutions are also generally authorized to branch nationwide. First Federal is in compliance with these restrictions.

All savings institutions are required to pay assessments to the Office of Thrift Supervision to fund the agency's operations. The general assessments, paid on a semi-annual basis, are determined based on the savings institution's total assets, including consolidated subsidiaries. First Federal's annual Office of Thrift Supervision assessment for the fiscal year ended September 30, 2008 was \$501 thousand.

Federal law provides that savings institutions are generally subject to the national bank limit on loans to one borrower. A savings institution may not make a loan or extend credit to a single or related group of borrowers in excess of 15% of its unimpaired capital and surplus. An additional amount may be lent, equal to 10% of unimpaired capital and surplus, if secured by specified readily marketable collateral. At September 30, 2008, First Federal's limit on loans to one borrower was \$35.8 million. At September 30, 2008, First Federal's largest loan commitment to a related group of borrowers was \$29.9 million, which was performing in accordance with its terms. Of this commitment, \$29.2 million has been disbursed.

The Office of Thrift Supervision, as well as the other federal banking agencies, has adopted guidelines establishing safety and soundness standards on such matters as loan underwriting and documentation, asset quality, earnings, internal controls and audit systems, interest rate risk exposure and compensation and other employee benefits. Any institution that fails to comply with these standards must submit a compliance plan.

Federal Home Loan Bank System. First Federal is a member of the Federal Home Loan Banks of Atlanta and Boston, which are two of 12 regional Federal Home Loan Banks that administer home financing credit for depository institutions. Each Federal Home Loan Bank serves as a reserve or central bank for its members within its assigned region. It is funded primarily from proceeds derived from the sale of consolidated obligations of the Federal Home Loan Bank System. It makes loans or advances to members in accordance with policies and procedures, established by the Board of Directors of the Federal Home Loan Bank, which are subject to the oversight of the Federal Housing Finance Board. All advances from the Federal Home Loan Bank are required to be fully secured by sufficient collateral as determined by the Federal Home Loan Bank. At September 30, 2008, First Federal had \$818.0 million of outstanding advances from the Federal Home Loan Bank of Atlanta under an available credit facility of \$1.2 billion, which is limited to available collateral.

As a member, First Federal is required to purchase and maintain stock in the FHLB of Atlanta and Boston. At September 30, 2008, First Federal had \$41.8 million in Federal Home Loan Bank of Atlanta and Boston stock, which was in compliance with this requirement. In the past, First Federal has received dividends on its Federal Home Loan Bank stock. The average dividend yield for fiscal 2008 and 2007 was 4.50% and 5.94%, respectively. There can be no guarantee of future dividends.

Insurance of Accounts and Regulation by the FDIC. First Federal's deposits are insured up to applicable limits by the Deposit Insurance Fund of the Federal Deposit Insurance Corporation. The Deposit Insurance Fund is the successor to the Bank Insurance Fund and the Savings Association Insurance Fund, which were merged effective March 31, 2006. As insurer, the Federal Deposit Insurance Corporation imposes deposit insurance premiums and is authorized to conduct examinations of and to require reporting by Federal Deposit Insurance Corporation-insured institutions. It also may prohibit any Federal Deposit Insurance Corporation-insured institution from engaging in any activity the Federal Deposit Insurance Corporation determines by regulation or order to pose a serious risk to the insurance fund. The Federal Deposit Insurance Corporation also has the authority to initiate enforcement actions against savings institutions, after giving the Office of Thrift Supervision an opportunity to take such action, and may terminate the deposit insurance if it determines that the institution has engaged in unsafe or unsound practices or is in an unsafe or unsound condition.

Under regulations effective January 1, 2007, the Federal Deposit Insurance Corporation adopted a new risk-based premium system that provides for quarterly assessments based on an insured institution's ranking in one of four risk categories based upon supervisory and capital evaluations. Institutions are assessed at annual rates ranging from 5 to 43 basis points, respectively, depending on each institution's risk of default as measured by regulatory capital ratios and other supervisory measures. Under a proposal announced by the Federal Deposit Insurance Corporation on October 7, 2008, the assessment rate schedule would be raised uniformly by seven basis points (annualized) beginning on January 1, 2009. Beginning with the second quarter of 2009, base assessment rates before adjustments would range from 10 to 45 basis points, and further changes would be made to the deposit insurance assessment system, including requiring riskier institutions to pay a larger share. The proposal would impose higher assessment rates on institutions with a significant reliance on secured liabilities and on institutions which rely significantly on brokered deposits (but, for well-managed and well-capitalized institutions, only when accompanied by rapid asset growth). The proposal would reduce assessment rates for institutions that hold long-term unsecured debt and, for smaller institutions, high levels of Tier 1 (defined below) capital.

Federal Deposit Insurance Corporation insured institutions are required to pay a Financing Corporation assessment, in order to fund the interest on bonds issued to resolve thrift failures in the 1980s. For the quarterly period ended September 30, 2008, the Financing Corporation assessment equaled 1.10 basis points for each \$100 in domestic deposits. These assessments, which may be revised based upon the level of deposits, will continue until the bonds mature in the years 2017 through 2019.

The Federal Deposit Insurance Corporation may terminate the deposit insurance of any insured depository institution, including First Federal, if it determines after a hearing that the institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the Federal Deposit Insurance Corporation or the Office of Thrift Supervision. It also may suspend deposit insurance temporarily during the hearing process for the permanent termination of insurance, if the institution has no tangible capital. If insurance of accounts is terminated, the

accounts at the institution at the time of the termination, less subsequent withdrawals, shall continue to be insured for a period of six months to two years, as determined by the Federal Deposit Insurance Corporation. Management of First Federal is not aware of any practice, condition or violation that might lead to termination of First Federal's deposit insurance.

Capital Requirements. The Office of Thrift Supervision requires all savings associations, including First Federal, to meet three minimum capital standards:

- (1) a tangible capital ratio requirement of 1.5% of total assets, as adjusted under Office of Thrift Supervision regulations;
- (2) a leverage ratio requirement of 3% of core capital to adjusted total assets, if a savings association has been assigned the highest composite rating of 1 under the Uniform Financial Institutions Ratings System (the minimum leverage capital ratio for any depository institution that does not have a composite examination rating of 1 is 4%, unless a higher leverage capital ratio is warranted by the particular circumstances or risk profile of the depository institution) and is not anticipating or expecting significant growth and have well-diversified risks; and
- (3) a risk-based capital ratio requirement of 8% of core and supplementary capital to total risk-weighted assets of which at least half must be core capital.

In determining compliance with the risk-based capital requirement, a savings association must compute its risk-weighted assets by multiplying its assets and certain off-balance sheet items by risk-weights, which range from 0% for cash and obligations issued by the U.S. Government or its agencies to 100% for consumer and commercial loans, as assigned by the Office of Thrift Supervision capital regulation based on the risks that the Office of Thrift Supervision believes are inherent in the type of asset.

The Office of Thrift Supervision is authorized to impose capital requirements in excess of these standards on individual associations on a case-by-case basis. The Office of Thrift Supervision and Federal Deposit Insurance Corporation are authorized, and under certain circumstances required, to take certain actions against savings associations that fail to meet their capital requirements. The Office of Thrift Supervision is generally required to take action to restrict the activities of an "undercapitalized association" (generally defined to be one with less than either a 4% core capital ratio, a 4% Tier 1 risk-based capital ratio or an 8% risk-based capital ratio). Any such association must submit a capital restoration plan and until such plan is approved by the Office of Thrift Supervision may not increase its assets, acquire another institution, establish a branch or engage in any new activities, and generally may not make capital distributions. The Office of Thrift Supervision is authorized to impose the additional restrictions that are applicable to significantly undercapitalized associations.

For several years, the U.S. bank regulators have been preparing to implement a new framework for risk-based capital adequacy developed by the Basel Committee on Banking Supervision, sometimes referred to as "Basel II." In July 2007, the U.S. bank regulators announced an agreement reflecting their current plan for implementing the most advanced approach under Basel II for banks with over \$250 billion in assets or over \$10 billion in foreign exposure. The agreement also provides that the regulators will propose rules permitting smaller financial institutions, such as First Federal, to choose between the current method of calculating risk-based capital ("Basel I") and the "standardized" approach under Basel II. The standardized approach under Basel II would lower risk weightings for certain categories of assets (including mortgages) from the weightings reflected in Basel I, but would also require an explicit capital charge for operational risk, which is not required by Basel I. In connection with comments received on the prior proposal, in July 2008, the U.S. bank regulators proposed a new rule, which includes the previously mentioned methods to calculate risk-based capital, but for institutions using the "standardized" framework, modifies the method for determining the leverage ratio requirement.

See Note 22 of the Notes to Consolidated Financial Statements contained in Item 8 of this document for First Federal's capital position relative to its applicable regulatory capital requirements.

Prompt Corrective Action. The Office of Thrift Supervision is required to take certain supervisory actions against undercapitalized savings institutions, the severity of which depends upon the institution's degree of undercapitalization. Generally, an institution that has a ratio of total capital to risk-weighted assets of less than 8%,

a ratio of Tier I (core) capital to risk-weighted assets of less than 4%, or a ratio of core capital to total assets of less than 4% (3% or less for institutions with the highest examination rating) is considered to be “undercapitalized.” An institution that has a total risk-based capital ratio less than 6%, a Tier I capital ratio of less than 3% or a leverage ratio that is less than 3% is considered to be “significantly undercapitalized” and an institution that has a tangible capital to assets ratio equal to or less than 2% is deemed to be “critically undercapitalized.” Subject to a narrow exception, the Office of Thrift Supervision is required to appoint a receiver or conservator for a savings institution that is “critically undercapitalized.” Office of Thrift Supervision regulations also require that a capital restoration plan be filed with the Office of Thrift Supervision within 45 days of the date a savings institution receives notice that it is “undercapitalized,” “significantly undercapitalized” or “critically undercapitalized.” Compliance with the plan must be guaranteed by any parent holding company in an amount of up to the lesser of 5% of the institution’s assets or the amount which would bring the institution into compliance with all capital standards. In addition, numerous mandatory supervisory actions become immediately applicable to an undercapitalized institution, including, but not limited to, increased monitoring by regulators and restrictions on growth, capital distributions and expansion. The Office of Thrift Supervision also could take any one of a number of discretionary supervisory actions, including the issuance of a capital directive and the replacement of senior executive officers and directors.

At September 30, 2008, First Federal was categorized as “well capitalized” under the prompt corrective action regulations of the Office of Thrift Supervision.

Standards for Safety and Soundness. The federal banking regulatory agencies have prescribed, by regulation, guidelines for all insured depository institutions relating to: (i) internal controls, information systems and internal audit systems; (ii) loan documentation; (iii) credit underwriting; (iv) interest rate risk exposure; (v) asset growth; (vi) asset quality; (vii) earnings; and (viii) compensation, fees and benefits. The guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. If the Office of Thrift Supervision determines that First Federal fails to meet any standard prescribed by the guidelines, the Office of Thrift Supervision may require First Federal to submit to it an acceptable plan to achieve compliance with the standard. Office of Thrift Supervision regulations establish deadlines for the submission and review of such safety and soundness compliance plans. We are not aware of any conditions relating to these safety and soundness standards that would require us to submit a plan of compliance to the Office of Thrift Supervision.

Qualified Thrift Lender Test. All savings institutions, including First Federal, are required to meet a qualified thrift lender test to avoid certain restrictions on their operations. This test requires a savings institution to have at least 65% of its total assets as defined by regulation, in qualified thrift investments on a monthly average for nine out of every 12 months on a rolling basis. As an alternative, the savings institution may maintain 60% of its assets in those assets specified in Section 7701(a)(19) of the Internal Revenue Code. Under either test, such assets primarily consist of residential housing related loans and investments.

A savings institution that fails to meet the qualified thrift lender test is subject to certain operating restrictions and may be required to convert to a national bank charter. As of September 30, 2008, First Federal maintained 83.8% of its portfolio assets in qualified thrift investments and, therefore, met the qualified thrift lender test.

Limitations on Capital Distribution. Office of Thrift Supervision regulations impose various restrictions on savings institutions with respect to the ability of First Federal to make distributions of capital, which include dividends, stock redemptions or repurchases, cash-out mergers and other transactions charged to the capital account. First Federal must file a notice or application with the Office of Thrift Supervision before making any capital distribution. First Federal generally may make capital distributions during any calendar year in an amount up to 100% of net income for the year-to-date plus retained net income for the two preceding years, so long as it is well-capitalized after the distribution. If First Federal, however, proposes to make a capital distribution when it does not meet the requirements to be adequately capitalized (or will not following the proposed capital distribution) or that will exceed these net income limitations, it must obtain Office of Thrift Supervision approval prior to making such distribution. The Office of Thrift Supervision may object to any distribution based on safety and soundness concerns.

First Financial is not subject to Office of Thrift Supervision regulatory restrictions on the payment of dividends. Dividends from First Financial, however, may depend, in part, upon its receipt of dividends from First Federal.

Privacy Standards. The Gramm-Leach-Bliley Financial Services Modernization Act of 1999, which was enacted in 1999, modernized the financial services industry by establishing a comprehensive framework to permit affiliations among commercial banks, insurance companies, securities firms and other financial service providers. First Federal is subject to Office of Thrift Supervision regulations implementing the privacy protection provisions of this Act. These regulations require First Federal to disclose its privacy policy, including identifying with whom it shares "non-public personal information," to customers at the time of establishing the customer relationship and annually thereafter.

Anti-Money Laundering and Customer Identification. Congress enacted the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "USA Patriot Act") on October 26, 2001 in response to the terrorist events of September 11, 2001. The USA Patriot Act gives the federal government new powers to address terrorist threats through enhanced domestic security measures, expanded surveillance powers, increased information sharing, and broadened anti-money laundering requirements. Recently, Congress re-enacted certain expiring provisions of the USA Patriot Act.

Regulation of First Financial

General. First Financial is a registered unitary savings and loan holding company subject to regulatory oversight of the Office of Thrift Supervision. Accordingly, First Financial is required to file reports with the Office of Thrift Supervision and is subject to regulation and examination by the Office of Thrift Supervision. In addition, the Office of Thrift Supervision has enforcement authority over First Financial and its non-savings association subsidiaries, which also permits the Office of Thrift Supervision to restrict or prohibit activities that are determined to be a serious risk to the subsidiary savings association.

Mergers and Acquisitions. Federal law and Office of Thrift Supervision regulations issued thereunder generally prohibit a savings and loan holding company without the prior approval of the Office of Thrift Supervision, from acquiring control of a savings association or its subsidiary, or acquiring more than 5% of the voting stock of any other savings institution or savings and loan holding company or controlling the assets thereof. Office of Thrift Supervision regulations also prohibit, among other things, any director or officer of a savings and loan holding company, or any individual who owns or controls more than 25% of the voting shares of such holding company, from acquiring control of any savings institution not a subsidiary of such savings and loan holding company, unless the Office of Thrift Supervision approves the acquisition.

Activities Restrictions. As a unitary savings and loan holding company, First Financial generally is not subject to activity restrictions. First Financial and its non-savings institution subsidiaries are subject to statutory and regulatory restrictions on their business activities specified by federal regulations, which include performing services and holding properties used by a savings institution subsidiary, activities authorized for savings and loan holding companies as of March 5, 1987, and non-banking activities permissible for bank holding companies pursuant to the Bank Holding Company Act of 1956 or authorized for financial holding companies pursuant to the Gramm-Leach-Bliley Financial Services Modernization Act of 1999.

If First Federal fails the qualified thrift lender test, within one year First Financial must register as, and will become subject to, the significant activity restrictions applicable to bank holding companies (see "Regulation of First Federal – Qualified Thrift Lender Test" for information regarding First Federal's qualified thrift lender test).

Sarbanes-Oxley Act of 2002. The Sarbanes-Oxley Act of 2002 was signed into law on July 30, 2002 in response to public concerns regarding corporate accountability in connection with certain accounting scandals. The stated goals of the Sarbanes-Oxley Act are to increase corporate responsibility, to provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies and to protect investors by improving the accuracy and reliability of corporate disclosures pursuant to the securities laws.

The Sarbanes-Oxley Act generally applies to all companies, both U.S. and non-U.S., that file or are required to file periodic reports with the Securities and Exchange Commission, under the Securities Exchange Act of 1934 ("Exchange Act").

The Sarbanes-Oxley Act includes very specific additional disclosure requirements and new corporate governance rules, requires the SEC and securities exchanges to adopt extensive additional disclosure, corporate governance and related rules and mandates. The Sarbanes-Oxley Act represents significant federal involvement in

matters traditionally left to state regulatory systems, such as the regulation of the accounting profession, and to state corporate law, such as the relationship between a board of directors and management and between a board of directors and its committees.

Regulation of Insurance Activities

We conduct insurance agency and brokerage activities through FSIs and Kimbrell and their subsidiaries. Our insurance entities are required to be licensed by or to have received approvals from the insurance department of the states in which we operate. Licensing requirements also generally apply to the individual employees of these entities who engage in agency and brokerage activities. Our insurance operations depend on the good standing under the licenses and approvals pursuant to which the insurance entities operate. Licensing laws and regulations vary from jurisdiction to jurisdiction. Generally, the insurance regulatory authorities are vested with relatively broad discretion as to the granting, renewing and revoking of licenses and approvals.

Lending Activities

General

Generally, all markets continue to be adversely impacted by current economic conditions. Unemployment is rising. Certain areas are hindered by falling values (5-7%) and loan demand is soft. However, the markets served by the Company are attractive to retirees, a trend that will continue.

Part of our asset and liability management is maintaining a diversified loan portfolio to spread risk and reduce exposure to economic downturns that may occur in different segments of the economy, geographic locations or in particular industries. At September 30, 2008, our net loan portfolio totaled approximately \$2.3 billion, or 78.5% of our total assets. Because lending activities comprise such a significant source of revenue, our main objective is to adhere to sound lending practices. Management also emphasizes lending in the local markets we serve. Our principal lending activity is the origination of loans secured by single-family residential real estate. However, we have, in recent years, focused more heavily on the origination of consumer and commercial business loans, land loans and non-residential real estate loans. Although federal regulations allow us to originate loans nationwide, the majority of loans are originated to borrowers in our local market areas of Charleston, Dorchester, Berkeley, Georgetown, Horry, Florence and Beaufort Counties in South Carolina and Brunswick County in North Carolina. Our manufactured housing lending activities have expanded to Alabama, Florida, Georgia, North Carolina, Tennessee and Virginia.

We operate a correspondent lending program where we purchase first mortgage loans originated by unaffiliated mortgage lenders and brokers in South Carolina and North Carolina. These loans are subject to our underwriting standards and are accepted for purchase only after approval by our underwriters. Loans funded through the correspondent program totaled \$55.2 million in fiscal 2008.

Several years ago, we established a department to originate manufactured home loans and credit cards. During fiscal 2008, we funded approximately \$46.5 million in originations of manufactured home loans, substantially all of which were closed through this department.

We originate both fixed-rate and adjustable-rate loans. Generally, we sell and retain the servicing on agency qualifying fixed-rate mortgage loans. Other loans may be sold with servicing released. A large percentage of single-family loans are made pursuant to guidelines that will permit the sale of these loans in the secondary market to government agencies or private investors. Our primary single-family product is the conventional mortgage loan. However, loans are also originated that are either partially guaranteed by the Veterans Administration ("VA") or fully insured by the Federal Housing Administration ("FHA").

The following table summarizes outstanding loans by collateral type for real estate secured loans and by borrower type for all other loans. Collateral type represents the underlying assets securing the loan, rather than the purpose of the loan.

LOAN PORTFOLIO COMPOSITION
(dollars in thousands)

	2008	2007	September 30, 2006	2005	2004
Real Estate Loans					
Real estate - residential mortgages (1-4 family)	\$ 888,016	\$ 870,009	\$ 889,305	\$ 910,847	\$ 979,342
Real estate - residential construction	91,646	110,375	117,916	91,889	77,971
Commercial secured by real estate including multi-family	371,675	294,232	283,016	261,106	223,994
Land	260,263	231,415	206,858	127,314	101,263
Subtotal, Real Estate Loans	1,611,600	1,506,031	1,497,095	1,391,156	1,382,570
Commercial Business Loans	88,694	81,846	82,316	70,602	57,594
Mobile Home Loans	222,375	199,349	173,801	156,545	143,502
Consumer Loans					
Home equity loans	321,952	263,922	252,393	229,483	189,232
Credit cards	16,125	14,775	13,334	12,481	11,747
Other consumer loans	139,244	138,719	119,807	100,624	91,370
Subtotal, Consumer Loans	477,321	417,416	385,534	342,588	292,349
Total Loans Receivable, Gross	2,399,990	2,204,642	2,138,746	1,960,891	1,876,015
Allowance for loan losses	(23,990)	(15,428)	(14,681)	(14,155)	(14,799)
Loans in process	(53,398)	(56,485)	(69,043)	(68,958)	(48,423)
Net deferred loan costs and discounts	1,935	1,729	1,129	952	738
Total Loans Receivable, Net	<u>\$ 2,324,537</u>	<u>\$ 2,134,458</u>	<u>\$ 2,056,151</u>	<u>\$ 1,878,730</u>	<u>\$ 1,813,531</u>
Loans held for sale	<u>\$8,731</u>	<u>\$6,311</u>	<u>\$4,978</u>	<u>\$9,659</u>	<u>\$4,054</u>

Percentage of Loans Receivable, Net

Real Estate Loans

Real estate - residential mortgages (1-4 family)	38.2 %	40.8 %	43.3 %	48.5 %	54.0 %
Real estate - residential construction	3.9	5.2	5.7	4.9	4.3
Commercial secured by real estate including multi-family	16.0	13.8	13.8	13.9	12.4
Land	11.2	10.8	10.1	6.8	5.6

Commercial Business Loans

3.8	3.8	4.0	3.8	3.2
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Mobile Home Loans

9.6	9.3	8.5	8.3	7.9
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Consumer Loans

Home equity loans	13.9	12.4	12.3	12.2	10.4
Credit cards	0.7	0.7	0.6	0.7	0.6
Other consumer loans	6.0	6.4	5.8	5.4	5.1

Total Loans Receivable, Gross

103.2	103.2	104.0	104.4	103.5
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Allowance for loan losses	(1.0)	(0.7)	(0.7)	(0.8)	(0.8)
Loans in process	(2.3)	(2.6)	(3.4)	(3.7)	(2.7)
Net deferred loan costs and discounts	0.1	0.1	0.1	0.1	0.0

Total Loans Receivable, Net

100.0 %	100.0 %	100.0 %	100.0 %	100.0 %
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The following table shows, at September 30, 2008, the dollar amount of adjustable-rate loans and fixed-rate (predetermined rate) loans in our portfolio based on their contractual terms to maturity. The amounts in the table do not include adjustments for deferred loan fees and discounts and allowances for loan losses. Demand loans, loans having no stated schedule of repayment and no stated maturity, and overdrafts are reported as due in one year or less. Contractual principal repayments of loans do not necessarily reflect the actual term of our loan portfolios. The average life of mortgage loans is substantially less than their contractual terms because of loan prepayments. The average life of mortgage loans tends to increase when current market rates on mortgage loans substantially exceed rates on existing mortgage loans. Correspondingly, when market rates on mortgages decline below rates on existing mortgage loans, the average life of these loans tends to be reduced.

SELECTED LOAN MATURITIES AND INTEREST SENSITIVITY (dollars in thousands)

Consolidated	One Year or Less	After One Year Through Five Years	Over Five Years	Total
Real estate mortgages				
Floating or adjustable interest rates	\$ 163,720	\$ 46,476	\$ 532,571	\$ 742,767
Predetermined interest rates	120,320	213,718	490,128	824,166
Consumer loans				
Floating or adjustable interest rates	17,219	5,539	304,368	327,126
Predetermined interest rates	26,263	36,034	310,272	372,569
Commercial financial and agricultural				
Floating or adjustable interest rates	36,651	6,051	3,050	45,752
Predetermined interest rates	6,179	28,863	7,901	42,943
Total of loans with:				
Floating or adjustable interest rates	\$ 217,590	\$ 58,066	\$ 839,989	\$ 1,115,645
Predetermined interest rates	\$ 152,762	\$ 278,615	\$ 808,301	\$ 1,239,678

The total amount of loans in the above table due after September 30, 2009, which have fixed or predetermined interest rates is \$1.09 billion, while the total amount of loans due after such date which have floating or adjustable interest rates is \$898.1 million.

Residential Mortgage Lending

At September 30, 2008, one- to four-family residential mortgage loans, including residential construction loans, totaled \$988.4 million, or 42.4% of total net loans receivable. We offer adjustable-rate mortgage loans ("ARMs") and fixed-rate mortgage loans with terms generally ranging from 10 to 30 years.

Traditional types of ARMs we currently offer have up to 30-year terms and interest rates which adjust annually after being fixed for a period of three, five, seven, or ten years in accordance with a designated index. ARMs may be originated with a 1% or 2% cap on any increase or decrease in the interest rate per year, with a 4%, 5% or 6% limit on the amount by which the interest rate can increase or decrease over the life of the loan.

We currently emphasize the origination of ARMs rather than long-term, fixed-rate mortgage loans for inclusion in our loan portfolio. In order to encourage the origination of ARMs with interest rates which adjust annually, we may offer a rate of interest on these loans below the fully-indexed rate for the initial period of the loan. These loans are underwritten on the basis of the fully-indexed rate. We presently offer single-family ARMs indexed to the one-year constant maturity treasury index or to a six month or one year LIBOR rate. While these loans are expected to adjust more quickly to changes in market interest rates, they may not adjust as rapidly as changes occur in our cost of funds.

Generally, we require private mortgage insurance on mortgage loans exceeding an 80% loan-to-value ratio. Private mortgage insurance protects us against losses of at least 20% of the mortgage loan amount. Properties securing real estate loans made by us may be appraised either by appraisers we employ or by independent appraisers we select. Loans are usually originated pursuant to guidelines which will permit the sale of these loans in the secondary market.

Construction loans are made to finance the construction of individual owner-occupied houses with up to 90% loan to value ratios. These construction loans are generally structured to be converted to permanent loans at the end of the construction phase. As a part of our lending program, we also offer speculative construction loans with 80% loan to value ratios to qualified builders. Under both programs loan proceeds are disbursed in increments as construction progresses and as inspection justify. In all cases, these loans were inspected by First Federal in-house personnel or contracted to engineers or qualified construction management specialists. The disbursements are calculated on a percentage of completion basis, always retaining sufficient funds to complete the project. Our construction loan portfolio is spread throughout our market areas served without a concentration in one particular market. In addition, we have only one builder with what we consider a large exposure in number of loans; 13 loans totaling \$2.1 million. Other builders may have larger loans by dollar amount, but not in the number of loans outstanding. In the first quarter of fiscal 2008, management made the decision to significantly cut back on any new speculative construction loans and by early second quarter decided to stop making this type of loan. The majority of new construction loans made in 2008 were made for the construction of individually owner occupied houses. Presently, we have approximately 20 speculative contractors who generated 37 loans totaling \$14.5 million during fiscal 2008. At September 30, 2008, 35 of these 37 loans were performing and two loans totaling \$792 thousand were not performing. The three largest builders by dollar volume received loans of \$5.6 million to construct three homes in fiscal 2008. These construction loans are generally at a competitive fixed rate of interest for one- or two-year periods. As noted below, we also offer lot loans intended for residential use, which may be on a fixed-rate or adjustable-rate basis.

Commercial Real Estate, Multi-family and Land Lending

At September 30, 2008, our commercial real estate and multi-family portfolio totaled \$371.7 million, or 16.0% of total net loans. Loans made with land as security totaled \$260.3 million, or 11.2% of total net loans. Land loans include both residential lot financing and loans secured by land used for business purposes. We believe these loans are well disbursed throughout our branch footprint as we do not have a significant amount of loans secured by commercial real estate or by five or more family properties outside of our market area. Owner occupied commercial property total \$172.2 million, or 46% of that portfolio segment. The commercial property portfolio (not including unfunded loan commitments) is divided between office space (\$73.4 million or 20%), warehouses (\$43.7 or 12%), churches (\$40.8 million or 11%), retail (\$31.6 million or 8%), hotel (\$27.6 million or 7%) and other categories (\$154.6 million or 42%) of commercial property.

Loans secured by land (not including unfunded commitments) are divided between residential lots (\$112.8 million or 46%), commercial lots (\$54.1 million or 22%), acquisition and development projects (\$47.1 million or 19%), and raw land (\$36.9 million or 15%).

Commercial Real Estate loans as defined by Interagency Agency Guidance on Concentrations in Commercial Real Estate issued in 2006 total \$484.1 million or 203% of capital. Construction loans total \$144.9 million or 61% of capital. Both categories are significantly below the levels the Guidance refers to as “high risk indicators”.

Interest rates charged on permanent commercial real estate loans are determined by market conditions existing at the time of the loan commitment. Generally, loans have adjustable rates and the rate may be fixed for three to five years determined by market conditions, collateral and the relationship with the borrower. The amortization of the loans may vary but will not usually exceed 20 years. Terms are based either on the prime lending rate or LIBOR as the interest rate index or we may fix the rate of interest for a three year to five year period. Business loans to owner-users secured by these types of collateral are generally made on an adjustable rate basis.

Commercial real estate and multi-family loans are generally considered to be riskier than one- to four-family first mortgage loans because they typically have larger balances and are more likely to be affected by adverse conditions in the economy. Commercial and multi-family real estate loans also involve a greater degree of risk than one- to four-family residential mortgage loans because they usually have unpredictable cash flows and are more difficult to evaluate and monitor. For example, repayment of multi-family loans is dependent, in large part, on sufficient cash flow from the property to cover operating expenses and debt service. Rental income might not rise sufficiently over time to meet increases in the loan rate at repricing, or increases in operating expense (i.e., utilities, taxes). As a result, impaired loans are difficult to identify early. Because payments on loans secured by income properties often depend upon the successful operation and management of the properties, repayment of such loans may be affected by factors outside the borrower’s control, such as adverse conditions in the real estate market or the economy or changes in government regulation. If the cash flow from the project is reduced (for example, if leases are not obtained or renewed), the borrower’s ability to repay the loan and the value of the security for the loan may be impaired. In addition, many of our commercial real estate loans are not fully amortizing and contain large balloon payments upon maturity. Such balloon payments may require the borrower to either sell or refinance the underlying property in order to make the payment. Our commercial and multifamily construction loans are subject to similar risks as our residential construction loans, described above.

Because our loan portfolio contains a significant number of commercial and multi-family real estate loans with relatively large balances, the deterioration of one or a few of these loans may cause a significant increase in nonperforming loans. An increase in nonperforming loans could cause an increase in the provision for loan losses and an increase in loan charge-offs which could adversely impact our results of operations and financial condition.

Compared to one- to four-family first mortgage loans, land loans may involve larger loan balances to single borrowers, and the payment experience may be dependent on the successful development of the land and the sale of the lots. These risks can be significantly impacted by supply and demand conditions.

Commercial Business Lending

We are permitted under federal law to make secured or unsecured loans for commercial, corporate business and agricultural purposes including issuing letters of credit. The aggregate amount of these loans outstanding generally may not exceed 20% of our assets, provided that amounts in excess of 10% of total assets may be used only for small business loans.

Our commercial business loans are generally made on a secured basis with terms that do not exceed five years. These loans typically have interest rates that change at periods ranging from 30 days to one year based either on prime lending rate or LIBOR as the interest rate index or to a fixed rate at the time of commitment for a period not exceeding five years. At September 30, 2008, our commercial business loans outstanding, which were secured by non-real estate collateral or were unsecured, totaled \$88.7 million, which represented 3.8% of total net loans receivable. We generally obtain personal guarantees when arranging business financing.

Repayment of our commercial business loans is often dependent on cash flow of the borrower, which may be unpredictable, and collateral securing these loans may fluctuate in value. Our commercial business loans are primarily made based on the cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. Most often, this collateral is accounts receivable, inventory, equipment or real estate. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers. Other collateral securing loans may depreciate over time, may be difficult to appraise and may fluctuate in value based on the success of the business.

Consumer Lending

Federal regulations permit us to make secured and unsecured consumer loans up to 35% of assets. In addition, First Federal has lending authority above the 35% category for certain consumer loans, such as home equity loans, property improvement loans, mobile home loans and loans secured by savings accounts. Our consumer loans totaled \$699.7 million at September 30, 2008, or 20.5% of total net loans. The largest component of consumer lending is comprised of single-family home equity lines of credit and other equity loans, currently totaling \$322.0 million, or 46.0% of all consumer loans, at September 30, 2008. Mobile home loans comprised \$222.4 million, or 31.8% of all consumer loans at September 30, 2008. Other consumer loans primarily consist of loans secured by boats, automobiles, other security and credit cards.

Consumer loans may entail greater risk than one- to four-family first mortgage loans, particularly in the case of consumer loans that are unsecured or secured by rapidly depreciating assets. In these cases, any repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance as a result of damage, loss or depreciation. The remaining deficiency often does not warrant further substantial collection efforts against the borrower beyond obtaining a deficiency judgment. In addition, consumer loan collections are dependent on the borrower's continuing financial stability, and thus, are more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy. Additionally, in times of economic distress there could be lay-offs or loss of pay that may cause us to lose accounts to foreclosure, repossession and charge offs. Furthermore, the application of various federal and state laws, including federal and state bankruptcy and insolvency laws, may limit the amount that can be recovered on these loans.

A significant portion of our consumer loan portfolio is in mobile home loans. Mobile home lending involves additional risks as a result of higher loan-to-value ratios. Mobile home lending may also involve higher loan amounts than other types of consumer loans. Mobile home loan customers have historically been more adversely impacted by weak economic conditions, loss of employment and increases in other household costs. Consequently, mobile home loans bear a higher rate of interest, have a higher probability of default and may involve higher delinquency rates and greater servicing costs relative to loans to more creditworthy borrowers. In addition, the values of mobile homes decline over time and higher levels of inventories of repossessed and used mobile homes may affect the values of collateral and result in higher charge-offs and provisions for loan losses. Our mobile home customers are typically blue collar workers and therefore the current economic climate is having a more adverse impact than in previous years. We are seeing an increase in unemployment, as well as, a cut back in work hours in various areas of employment. Although in recent years the level of default on mobile homes has decreased we anticipate a moderate increase in fiscal year 2009. While we expect the total outstanding balance of mobile homes to continue to grow over time, we do not anticipate that the mobile home portfolio will represent a significantly greater proportion of the portfolio than is currently the case.

Loan Sales and Servicing

While we originate adjustable-rate loans for our own portfolio, fixed-rate loans are generally made on terms that will permit them to be sold in the secondary market. We participate in secondary market activities by selling whole loans and participations in loans to the Federal Home Loan Bank (“FHLB”) of Boston, the Federal National Mortgage Association (“Fannie Mae”), the Federal Home Loan Mortgage Corporation (“Freddie Mac”) and other institutional and private investors. This practice enables us to satisfy the demand for these loans in our local communities, to meet asset and liability management objectives and to develop a source of fee income through loan servicing. At September 30, 2008, the principal balance of loans serviced for others was \$1.04 billion.

Based on the current level of market interest rates and other factors, we intend to sell selected current originations of conforming 30-year and 15-year conventional fixed-rate mortgage loans. Our policy with respect to the sale of fixed-rate loans is dependent to a large extent on the general level of market interest rates. We may also sell adjustable-rate loans depending on market conditions at the time of origination. Sales of residential loans totaled \$203.0 million in fiscal 2008, \$174.7 million in fiscal 2007 and \$180.1 million in fiscal 2006.

Investment Activities

First Federal is required under federal regulations to maintain adequate liquidity to ensure safe-and-sound operations. Investment decisions are made by authorized officers of First Financial and First Federal within policies established by both Boards of Directors.

At September 30, 2008, our investment and mortgage-backed securities portfolio totaled approximately \$412.1 million, which included stock in the FHLB of Atlanta of \$41.8 million. Investment securities included U.S. Government and agency obligations, corporate bonds and state and municipal obligations approximating \$19.1 million. Mortgage-backed securities totaled \$351.1 million as of September 30, 2008. See Note 1 of Notes to Consolidated Financial Statements, contained in Item 8 of this document for a discussion of our accounting policy for investment and mortgage-backed securities. See Notes 5 and 6 of the Notes to Consolidated Financial Statements for additional information regarding investment and mortgage-backed securities and FHLB of Atlanta stock.

We achieve the objectives of our investment policies through investing in U.S. Government, federal agency, state and municipal obligations and corporate debt securities, mortgage-backed securities, collateralized debt obligations, short-term money market instruments, mutual funds, loans and other investments as authorized by OTS regulations and specifically approved by the Boards of Directors of First Financial and First Federal. Our investment portfolio guidelines specifically identify those securities eligible for purchase and describe the operations and reporting requirements of the Investment Committee, which executes investment policy. Our primary objective in the management of the investment portfolio is to maintain a portfolio of high quality, highly liquid investments with returns competitive with short-term treasury or agency securities and highly rated corporate securities.

As a member of the FHLB System, First Federal is required to maintain an investment in the common stock of the FHLB of Atlanta and the FHLB of Boston. See “How We Are Regulated – Regulation of First Federal – Federal Home Loan Bank System.” The stock of the FHLB of Atlanta and Boston is redeemable at par value.

Securities may differ in terms of default risk, interest rate risk, liquidity risk and expected rate of return. Default risk is the risk that an issuer will be unable to make interest payments, or to repay the principal amount on schedule. We may invest in U.S. Government and federal agency obligations. U.S. Treasury obligations are regarded as free of default risk. The credit quality of corporate debt varies widely. We principally invest in corporate debt securities rated in one of the four highest categories by two nationally recognized investment rating services.

Our investment in mortgage-backed securities serves several primary functions. First, we may securitize whole loans for mortgage-backed securities issued by federal agencies to use as collateral for certain of our borrowings and to secure public agency deposits. Second, we may periodically securitize loans with federal agencies to reduce our credit risk exposure and to reduce regulatory risk-based capital requirements. Third, we acquire mortgage-backed securities from time to time to meet earning asset growth objectives and provide additional interest income when necessary to augment lower loan originations and replace loan portfolio runoff.

The following table sets forth the amortized cost and fair value of our investment and mortgage-backed securities, by type of security, as of September 30, 2008, 2007 and 2006.

INVESTMENT AND MORTGAGE-BACKED SECURITIES PORTFOLIO
(dollars in thousands)

	At September 30,					
	2008		2007		2006	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Securities Available for Sale:						
U.S. Treasury and U.S. Government						
agencies and corporations	\$ 6,007	\$ 6,122	\$ 6,015	\$ 6,072	\$ 7,246	\$ 7,270
State and municipal obligations	450	419	450	451	450	453
Corporate debt and other securities	18,908	10,554	17,701	17,436	18,001	17,939
Mutual funds					3,733	3,733
Mortgage-backed securities	368,153	351,109	298,009	297,011	301,194	296,493
Total securities available for sale	<u>\$ 393,518</u>	<u>\$ 368,204</u>	<u>\$ 322,175</u>	<u>\$ 320,970</u>	<u>\$ 330,624</u>	<u>\$ 325,888</u>
Securities Held to Maturity						
State and municipal obligations	<u>\$ 2,043</u>	<u>\$ 1,819</u>	<u>\$ 2,042</u>	<u>\$ 2,032</u>		

The following table provides information regarding the contractual maturities and weighted average yields of our investment and mortgage-backed securities held as of September 30, 2008.

MATURITY AND YIELD SCHEDULE AS OF SEPTEMBER 30, 2008

(dollars in thousands)

Available for Sale - Amortized Cost

	Within One year	After One But Within Five Years	After Five But Within Ten Years	After Ten Years	Total
U.S. Treasury and U.S. Government agencies and corporations	\$ 6,007				\$ 6,007
State and municipal obligations				\$ 450	450
Corporate debt and other securities			\$ 1,008	17,900	18,908
Mortgage-backed securities	8	\$ 3,715	23,068	341,362	368,153
	<u>\$ 6,015</u>	<u>\$ 3,715</u>	<u>\$ 24,076</u>	<u>\$ 359,712</u>	<u>\$ 393,518</u>

Weighted Average Yield

U.S. Treasury and U.S. Government agencies and corporations	3.40 %				3.40 %
State and municipal obligations (1)				6.85 %	6.85
Corporate debt and other securities			5.64 %	4.53	4.59
Mortgage-backed securities	(2.73)	4.48 %	4.50	5.06	5.02
	<u>3.39 %</u>	<u>4.48 %</u>	<u>4.55 %</u>	<u>5.04 %</u>	<u>4.98 %</u>

Held to Maturity - Amortized Cost

State and municipal obligations		\$ 2,043	\$ 2,043
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Weighted Average Yield

State and municipal obligations (1)		6.52 %	6.52 %
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(1) Coupon Rate

Insurance Activities

First Southeast Insurance Services, Inc. ("FSIs") operates as an independent insurance agency and brokerage through twelve offices, eight located throughout the coastal region of South Carolina, one office in Florence County, South Carolina and one office each in Columbia, South Carolina; Charlotte, North Carolina; and Burlington, North Carolina with revenues consisting principally of commissions paid by insurance companies. The Kimbrell Insurance Group, Inc. ("Kimbrell") operates as a managing general agency and brokerage through its primary office, located in Horry County, South Carolina, with revenues consisting principally of commissions paid by insurance companies. No single customer accounts for a significant amount of the revenues of either reportable segment. We evaluate performance based on budget to actual comparisons and segment profits. The accounting policies of the reportable segments are the same as those described in Note 1.

Total insurance segment revenues for fiscal 2008 were \$24.8 million and consist principally of commissions paid by insurance companies. Commission income also includes contingency commissions, which is income received from insurance companies based on the growth, volume or profitability of insurance policies written with companies in prior periods. Contingency income, which totaled \$3.2 million in fiscal 2008, \$2.9 million in fiscal 2007 and \$3.1 million in fiscal 2006 has generally been received in the first calendar quarter of each year as the measurement criteria is calculated on a full calendar year basis. Certain insurance carriers have altered the structure of contingent commission agreements to make the payments to agencies on a quarterly basis. Still others have changed to a supplemental commission structure where a fixed percentage of premium is paid annually to the agency based on past years' results. Because of the structure of these supplemental commission agreements, the additional commission can be predicted and accrued on a monthly basis although payment is still received in the first calendar quarter. These developments will lessen the seasonality of this income stream although we still expect the first calendar quarter to be the period where the largest part of this income will be recorded.

Commission revenues are subject to fluctuations based on the premium rates established by insurance companies. Contingency commissions can also be significantly affected by the loss experience of FSIns's and Kimbrell's customers. Over the past years, the price of commercial property and casualty insurance has declined in inland markets and that trend continued in fiscal 2008 and also included coastal property premium. The declines in market pricing in conjunction with the declining economy has resulted in lower payroll and receipts, which are common bases of premium for commercial insureds, and has slowed the growth of insurance commissions. Additionally, the willingness of insurance companies to write business and homeowners property insurance in coastal market places, the renewal of business with existing customers, and economic and competitive market conditions also may impact the revenues of FSIns and Kimbrell. Insurance revenues accounted for approximately 16.1% for fiscal 2008, 16.2% for fiscal 2007 and 15.8% for fiscal 2006 of total revenues of First Financial.

Through its relationship with these affiliates, First Federal markets FSIns's insurance products and services to its customers. Additionally, First Federal employees refer retail and business customers to FSIns. FSIns utilizes Kimbrell for placement of some insurance products. For more information on insurance revenue, see Note 1 of the Notes to Consolidated Financial Statements contained in Item 8 of this document.

Sources of Funds

Deposits have historically been our primary source of funds for lending and investing activities. The amortization and scheduled payment of loans and mortgage-backed securities and maturities of investment securities provide a stable source of funds, while deposit fluctuations and loan prepayments are significantly influenced by the interest rate environment and other market conditions. FHLB advances and short-term borrowings provide supplemental liquidity sources based on specific needs or if management determines that these are the best sources of funds to meet current requirements.

Deposits

We offer a number of deposit products, including non-interest-bearing checking accounts, interest-bearing checking accounts, savings accounts, money market accounts, individual retirement accounts ("IRAs") and certificate accounts, which generally range in maturity from three months to five years. Deposit account terms vary, with the principal differences being the minimum balance required, the time period the funds must remain on deposit and the interest rate. For a schedule of the dollar amounts in each major category of our deposit accounts, see Note 13 of the Notes to Consolidated Financial Statements contained in Item 8 of this document.

We are subject to fluctuations in deposit flows because of the influence of general interest rates, money market conditions and competitive factors. The Asset and Liability Committee of First Federal meets frequently and makes changes relative to the mix, maturity and pricing of assets and liabilities in order to minimize the impact on earnings from external conditions. Deposits are attractive sources of liquidity because of their stability, generally lower cost than other funding sources and the ability to provide fee income through service charges and cross-sales of other services.

Our deposits are obtained primarily from residents of South Carolina. Brokered deposits totaled \$79.3 million at September 30, 2008. Our principal methods to attract and retain deposit accounts include the offering of a wide variety of services and accounts, competitive interest rates, and convenient office locations and service hours.

Jumbo Certificates of Deposit

We do not rely significantly on large denomination time deposits. The following table indicates the amount of our jumbo certificates of deposit by time remaining until maturity as of September 30, 2008. Jumbo certificates of deposit require minimum deposits of \$100,000 and have negotiable interest rates and terms.

JUMBO CERTIFICATES OF DEPOSITS
(dollars in thousands)

Maturity Period

Three months or less	\$	58,184
Over three through six months		25,733
Over six through twelve months		17,885
Over twelve months		3,627
Total	\$	<u>105,429</u>

Borrowings

We rely upon advances from the FHLB of Atlanta to supplement our supply of lendable funds and to meet deposit withdrawal requirements. The FHLB of Atlanta serves as our primary borrowing source. Advances from the FHLB of Atlanta are typically secured by our stock in the FHLB of Atlanta and a portion of our first mortgage and certain second mortgage loans. Interest rates on advances vary from time to time in response to general economic conditions. Advances must be fully collateralized and limits are established for First Federal. Currently, the FHLB of Atlanta has granted First Federal a limit on FHLB of Atlanta advances of 40% of First Federal's assets, or \$1.2 billion.

At September 30, 2008, we had advances totaling \$818.0 million from the FHLB of Atlanta at a weighted average rate of 3.93%. At September 30, 2008, the original maturity of our FHLB advances ranged from one month or less to ten years.

During April 2007, we entered into a loan agreement with another bank for a \$25.0 million line of credit. In April 2008, the Board of First Financial approved expanding the line from \$25 million to \$35 million, changing the interest rate from 100 basis points to 150 basis points over the three month LIBOR and extending the maturity from April 2009 to June 2010. At September 30, 2008, the outstanding balance on this line was \$28.0 million.

For more information on borrowings, see Notes 14, 15 and 16 of the Notes to Consolidated Financial Statements.

Long-term debt

Our long-term debt totaled \$46.4 million at September 30, 2008 and is primarily related to the issuance of trust preferred securities. See Note 16 of the Notes to Consolidated Financial Statements.

The following table sets forth certain information regarding our borrowings at the end of and during the periods indicated:

BORROWINGS
(dollars in thousands)

		At or For the Year Ended September 30,					
		2008		2007		2006	
Weighted Average Rate Paid On (at end of period):							
FHLB advances		3.93	%	5.07	%	4.76	%
Securities sold under agreements to repurchase						5.32	
Bank line of credit		4.29		6.70			
Other borrowings		2.71		2.70		2.69	
Junior subordinated debt		7.00		7.00		7.00	
Maximum Amount of Borrowings Outstanding at month end (during period):							
FHLB advances		\$	818,000	\$	554,000	\$	517,000
Securities sold under agreements to repurchase					65,785		130,591
Bank line of credit			28,000		5,000		
Other borrowings			815		820		826
Junior subordinated debt			45,000		45,000		45,000
Approximate Average Amount of Borrowings:							
FHLB advances			713,334		483,033		476,570
Securities sold under agreements to repurchase					37,339		74,309
Bank line of credit			12,694		274		
Other borrowings			813		818		823
Junior subordinated debt			45,000		45,000		45,000
Approximate Weighted Average Rate Paid On (during period):							
FHLB advances		4.06	%	5.00	%	4.73	%
Securities sold under agreements to repurchase					5.46		4.71
Bank line of credit		5.01		6.70			
Other borrowings		2.71		2.70		0.61	
Junior subordinated debt		7.00		7.00		7.00	

Asset and Liability Management

Our profitability is affected by fluctuations in interest rates. Management's goal is to maintain a reasonable balance between exposure to interest rate fluctuations and earnings. A sudden and substantial increase in interest rates may adversely impact our earnings to the extent that the interest rates on interest-earning assets and interest-bearing liabilities do not change at the same speed, to the same extent or on the same basis. We monitor the impact of changes in interest rates on net interest income using several tools. One measure of our exposure to differential changes in interest rates between assets and liabilities is shown in our Interest Rate Sensitivity Analysis Table. See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations – Asset and Liability Management."

We perform analyses assuming that interest rates increase or decrease by specified amounts in equal increments over the next four quarters. Combined with internal assumptions of new business activity and assumptions of changes in product pricing relative to rate changes, the table below shows the effect of the analyses from a base rate scenario assuming no change in rates and a gradual increase and decrease from the base rate scenario.

NET INTEREST INCOME AT RISK ANALYSIS

Increase (Decrease) in Rate		Annualized Hypothetical Gradual Percentage Change In Net Interest Income September 30,			
		2008		2007	
2.00	%	(3.61)	%	(5.08)	%
1.00		(1.91)		(2.50)	
Flat (Base Case)					
(1.00)		1.36		1.94	

Another measure, required to be performed by OTS-regulated institutions, is the test specified by Office of Thrift Supervision Thrift Bulletin No. 13A, "Interest Rate Risk Management." This test measures the impact on net portfolio value of an immediate change in interest rates in 100 basis point increments. Net portfolio value is defined as the net present value of assets, liabilities and off-balance sheet contracts. The following tables show the results of our internal calculations, based on the information and assumptions produced for the analysis, over a twelve-month period.

NET INTEREST INCOME AT RISK ANALYSIS

Increase (Decrease) in Rate		Annualized Hypothetical Immediate Percentage Change In Net Interest Income September 30,			
		2008		2007	
2.00	%	(4.80)	%	(9.03)	%
1.00		(3.02)		(4.27)	
Flat (Base Case)					
(1.00)		0.31		1.83	

ECONOMIC VALUE OF EQUITY RISK ANALYSIS

Increase (Decrease) in Rate		Annualized Hypothetical Immediate Percentage Change In Economic Value of Equity September 30,			
		2008		2007	
2.00	%	(7.14)	%	(8.00)	%
1.00		(0.69)		(1.79)	
Flat (Base Case)					
(1.00)		(8.30)		(5.42)	

Computation of prospective effects of hypothetical interest rate changes are based on numerous assumptions, including relative levels of market interest rates, loan prepayments and deposit decay rates, and should not be relied upon as indicative of actual results. Further, the computations do not contemplate any actions that we could undertake in response to changes in interest rates.

Rate/Volume Analysis

For our rate/volume analysis and information regarding our yields and costs and changes in net interest income, refer to Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Net Interest Income.”

Other Considerations

Our disclosure and analysis in this report contains forward-looking information that involves risks and uncertainties. Our forward-looking statements express our current expectations or forecasts of possible future results or events, including projections of future performance, statements of management’s plans and objectives, future contracts, and forecasts of trends and other matters. You can identify these statements by the fact that they do not relate strictly to historic or current facts and often use words such as “anticipate”, “estimate”, “expect”, “believe”, “will likely result”, “outlook”, “project” and other words and expressions of similar meaning. These forward-looking statements relate to, among others, expectations of the business environment in which First Financial operates, projections of future performance, including operating efficiencies, perceived opportunities in the market, potential future credit experience, and statements regarding First Financial’s mission and vision. These forward-looking statements are based upon current management expectations, and may, therefore, involve risks and uncertainties. Management’s ability to predict results or the effect of future plans or strategies is inherently uncertain. First Financial’s actual results, performance or achievements may differ materially from those suggested, expressed or implied by forward-looking statements due to a wide range of factors including, but not limited to, the general business environment, general economic conditions nationally and in the State of South Carolina, interest rates, the South Carolina real estate market, the demand for mortgage loans, the credit risk of lending activities, including changes in the level of and trend of loan delinquencies and charge-offs, results of examinations by our banking regulators, competitive conditions between banks and non-bank financial services providers, regulatory changes and other risks. No assurance can be given that the results in any forward-looking statements will be achieved and actual results could be affected by one or more factors, which could cause them to differ materially. For these statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act.

Available Information

All of First Financial’s electronic filings with the SEC, including our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and other documents filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, are accessible at no cost on First Financial’s web site, www.firstfinancialholdings.com. In addition, through this same link, First Financial makes available its Corporate Code of Business Conduct and Ethics, Nominating and Corporate Governance Committee Charter and Audit Committee Charter. First Financial’s filings are also available through the SEC’s website at www.sec.gov

Executive Officers of the Registrant

The following table sets forth certain information with respect to the executive officers of First Financial and First Federal. The individuals listed below are executive officers of First Financial and First Federal, as indicated.

Name	Age ¹	Position
A. Thomas Hood	62	President and Chief Executive Officer of the Company and President and Chief Executive Officer of First Federal
R. Wayne Hall	58	Executive Vice President and Chief Financial Officer of the Company and First Federal
John L. Ott, Jr.	60	Executive Vice President of the Company and Executive Vice President/Retail Banking Division of First Federal
Charles F. Baarcke, Jr.	61	Executive Vice President of the Company and Executive Vice President/Lending Division of First Federal

¹ At September 30, 2008.

The following is a description of the principal occupation and employment of the executive officers of First Financial and First Federal during at least the past five years.

A. Thomas Hood has been the President and Chief Executive Officer of the Company since July 1, 1996. Mr. Hood had served as Executive Vice President and Chief Operating Officer of the Company from February 1, 1995 through June 30, 1996. Mr. Hood served as Treasurer of the Company and its Chief Financial Officer from 1984 until 1996. Mr. Hood was named President and Chief Executive Officer of First Federal effective February 1, 1995. Prior to that time, he had been Executive Vice President and Treasurer of First Federal since 1984. As President and Chief Executive Officer of the Company and of First Federal, Mr. Hood is responsible for the daily business operations of the Company and of First Federal under policies and procedures established by the Board of Directors. Mr. Hood joined First Federal in 1975.

R. Wayne Hall became Executive Vice President, Principal Financial Officer, Principal Accounting Officer and Chief Financial Officer of the Company and First Federal on May 1, 2007. Mr. Hall has been employed by the Company since December 1, 2006, holding the position of Executive Vice President, Financial Management. Mr. Hall is responsible for First Financial's treasury, finance, accounting, risk management, banking operations, information technology and investor relations functions. Prior to joining First Financial on December 1, 2006, Mr. Hall had over 20 years of financial institution experience having served in senior financial positions as Executive Vice President and Chief Risk Officer of Provident Bank, Baltimore, Maryland. He joined Provident Bank in 1986 and remained there until November of 2006.

John L. Ott, Jr. is the Executive Vice President of the Company and First Federal and is responsible for directing and coordinating all retail banking operations, special savings and retirement programs and the sale of non-deposit investment products. He joined First Federal in 1971 and prior to becoming Executive Vice President of Retail Banking in January 2004, he was the Senior Vice President for Retail Banking.

Charles F. Baarcke, Jr. is the Executive Vice President of the Company and First Federal. He is responsible for all lending, loan servicing and sales. He joined First Federal in 1975 and prior to becoming Executive Vice President and Chief Lending Officer in January 2004, he was the Senior Vice President of Lending Operations.

Pursuant to the Company's Bylaws, executive officers are elected by the Board of Directors on an annual basis.

Item 1A. RISK FACTORS

An investment in our common stock is subject to risks inherent in our business. Before making an investment decision, you should carefully consider the risks and uncertainties described below together with all of the other information included in this report. In addition to the risks and uncertainties described below, other risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition and results of operations. The value or market price of our common stock could decline due to any of these identified or other risks, and you could lose all or part of your investment.

Risks Related to Our Business

Our business may be adversely affected by downturns in the local economies on which we depend or by natural disasters occurring in our market area that could adversely impact our results of operations and financial condition.

Our business is directly affected by market conditions, trends in industry and finance, legislative and regulatory changes, and changes in governmental monetary and fiscal policies and inflation, all of which are beyond our control. In 2007, the housing and real estate sectors experienced an economic slowdown that has continued into 2008. A sustained weakness or weakening in business and economic conditions generally or specifically in the principal markets in which we do business could have one or more of the following adverse impacts on our business:

- A decrease in the demand for loans and other products and services offered by us;
- A decrease in the value of our loans held for sale;

- An increase or decrease in the usage of unfunded commitments; or
- An increase in the number of our customers and counterparties who become delinquent, file for protection under bankruptcy laws or default on their loans or other obligations to us. An increase in the number of delinquencies, bankruptcies or defaults could result in a higher level of nonperforming assets, net charge-offs, provision for loan losses, and valuation adjustments on loans held for sale.

Downturns in the real estate markets in our primary market area could adversely impact our business.

Our business activities and credit exposure are primarily concentrated in our local market areas of Charleston, Dorchester, Berkeley, Georgetown, Horry, Florence and Beaufort counties in South Carolina and Brunswick County in North Carolina. Our residential loan portfolio, and our commercial real estate and multi-family loan portfolio and a certain number of our other loans have been affected by the downturn in the residential real estate market. We anticipate that further declines in the real estate markets in our primary market area will hurt our business. As of September 30, 2008, substantially all of our loan portfolio consisted of loans secured by real estate located in South Carolina and North Carolina. If real estate values continue to decline the collateral for our loans will provide less security. As a result, our ability to recover on defaulted loans by selling the underlying real estate will be diminished, and we would be more likely to suffer losses on defaulted loans. The events and conditions described in this risk factor could therefore have a material adverse effect on our business, results of operations and financial condition.

FDIC insurance premiums may increase materially.

The FDIC insures deposits at FDIC insured financial institutions, including First Federal. The FDIC charges the insured financial institutions premiums to maintain the Deposit Insurance Fund at a certain level. Current economic conditions have increased bank failures and expectations for further failures, in which case the FDIC ensures payments of deposits up to insured limits from the Deposit Insurance Fund. In October 2008, the FDIC issued a proposed rule that would increase premiums paid by insured institutions and make other changes to the assessment system. Increases in deposit insurance premiums could adversely affect our net income.

Concern of customers over deposit insurance may cause a decrease in deposits at First Federal.

With recent increased concerns about bank failures, customers increasingly are concerned about the extent to which their deposits are insured by the FDIC. Customers may withdraw deposits from First Federal in an effort to ensure that the amount they have on deposit at First Federal is fully insured. Decreases in deposits may adversely affect our funding costs and net income.

We may suffer losses in our loan portfolio despite our underwriting practices.

We seek to mitigate the risks inherent in our loan portfolio by adhering to specific underwriting practices. Although we believe that our underwriting criteria are appropriate for the various kinds of loans we make, we may incur losses on loans that meet our underwriting criteria, and these losses may exceed the amounts set aside as reserves in our allowance for loan losses.

Changes in interest rates could impact our financial condition and results of operations.

Like other financial institutions, our earnings are significantly dependent on our net interest income. Our primary source of income is net interest income, which is the difference between interest earned on loans and investments and the interest paid on deposits and borrowings. We expect that we will periodically experience “gaps” in the interest rate sensitivities of our assets and liabilities, meaning that either our interest-bearing liabilities will be more sensitive to changes in market interest rates than our interest-earning assets, or vice versa. In either event, if market interest rates should move contrary to our position, this “gap” would work against us, and our earnings may be negatively affected.

For example, in the event of a decrease in interest rates, our net interest income will be positively affected because our interest-bearing liabilities currently reprice faster than our interest-bearing assets. Although our asset-liability management strategy is designed to control our risk from changes in market interest rates, we may not be able to prevent changes in interest rates from having a material adverse effect on our results of operations and financial condition.

Changes in the level of interest rates also may negatively affect our ability to originate loans, the value of our assets and our ability to realize gains from the sale of our assets, all of which ultimately affect our earnings. A decline in the market value of our assets may limit our ability to borrow additional funds or result in our lenders requiring additional collateral from us under our loan agreements. As a result, we could be required to sell some of our loans and investments under adverse market conditions, upon terms that are less favorable to us, in order to maintain our liquidity. If those sales are made at prices lower than the amortized costs of the investments, we will incur losses.

For further information on our interest rate risks, see the discussion included in “Asset and Liability Management” below.

Decreases in interest rates may adversely affect the value of our servicing asset.

Decreases in interest rates lead to increases in the prepayment of mortgages by borrowers, which may reduce the value of our servicing asset. The servicing asset is the estimated present value of the fees we expect to receive on mortgages we service over their expected term. If prepayments increase above expected levels, the value of the servicing asset decreases because the amount of future fees expected to be received by us decreases. We may be required to recognize this decrease in value by taking a charge against our earnings, which would cause our profits to decrease. We have experienced an increase in prepayments of mortgages at times in the past as interest rates have decreased dramatically, which has impacted the value of our servicing asset. We believe, based on historical experience, that the amount of prepayments and related charges should decrease if interest rates increase.

We are subject to risks in servicing loans for others.

We are also affected by mortgage loan delinquencies and defaults on mortgage loans that we service for third parties. Under certain types of servicing contracts, we, as servicer, must forward all or part of the scheduled payments to the owner of the mortgage loan, even when mortgage loans usually require us, as servicer, to advance mortgage and hazard insurance and tax payments on schedule even though sufficient escrow funds may not be available. We will generally recover our advances from the mortgage owner or from liquidation proceeds when the mortgage loan is foreclosed upon. However, in the interim, we must absorb the cost of funds advanced during the time the advance is outstanding. We must also bear the increased costs of attempting to collect on delinquent and defaulted mortgage loans, but these costs can be offset by the collection of late fees which are retained by the servicer. In addition, if a default is not cured, the mortgage loan will be repaid as a result of foreclosure proceedings. As a consequence, we are required to forego servicing income from the time the loan becomes delinquent, and into the future.

The fiscal and monetary policy of the federal government and its agencies could have a material adverse effect on our earnings.

The Federal Reserve regulates the supply of money and credit in the United States. Its policies determine in large part the cost of funds for lending and investing and the return earned on those loans and investments, both of which affect the net interest margin. They also can materially decrease the value of financial instruments we hold, such as debt securities and Mortgage Servicing Rights. Its policies also can adversely affect borrowers, potentially increasing the risk that they may fail to repay their loans. Changes in Federal Reserve Board policies are beyond our control and difficult to predict; consequently, the impact of these changes on our activities and results of operations is difficult to predict.

If our allowance for loan losses is not sufficient to cover actual loan losses, our earnings will decrease.

Like all financial institutions, every loan we make carries a risk that it will not be repaid in accordance with its terms or that any collateral securing it will not be sufficient to assure repayment. This risk is affected by, among other things:

- Cash flow of the borrower and/or the project being financed;
- In the case of a collateralized loan, the changes and uncertainties as to the future value of the collateral;
- The credit history of a particular borrower;
- Changes in economic and industry conditions; and
- The duration of the loan.

Regulatory agencies, as an integral part of their examination process, review our loans and allowance for loan losses. Although we believe our loan loss allowance is adequate to absorb probable losses in our loan portfolio, we cannot predict these losses or whether our allowance will be adequate or that regulators will not require us to increase this allowance. Any of these occurrences could materially and adversely affect our business, financial condition, prospects and profitability.

We may be required to make further increases in our provisions for loan losses and to charge off additional loans in the future, which could adversely affect our results of operations.

We seek to mitigate the risks inherent in our loan portfolio by adhering to specific underwriting practices. Although we believe that our underwriting criteria are appropriate for the various kinds of loans we make, we may incur losses on loans that meet our underwriting criteria, and these losses may exceed the amounts set aside as reserves in our allowance for loan losses.

We are exposed to credit risk in our lending activities.

There are inherent risks associated with our lending and trading activities. Loans to individuals and business entities, our single largest asset group, depend for repayment on the willingness and ability of borrowers to perform as contracted. A material adverse change in the ability of a significant portion of our borrowers to meet their obligation to us, due to changes in economic conditions, interest rates, natural disaster, acts of war, or other causes over which we have no control, could adversely impact the ability of borrowers to repay outstanding loans or the value of the collateral securing these loans, and could have a material adverse impact on our earnings and financial condition.

Hurricanes, earthquakes and other natural disasters may adversely affect loan portfolios and operations and increase the cost of doing business.

Large scale natural disasters may significantly affect loan portfolios by damaging properties pledged as collateral and by impairing the ability of certain borrowers to repay their loans. The ultimate impact of a natural disaster on future financial results is difficult to predict and will be affected by a number of factors, including the extent of damage to the collateral, the extent to which damaged collateral is not covered by insurance, the extent to which unemployment and other economic conditions caused by the natural disaster adversely affect the ability of borrowers to repay their loans, and the cost of collection and foreclosure moratoriums, loan forbearances and other accommodations granted to borrowers and other clients.

We rely on other companies to provide key components of our business infrastructure.

Third parties provide key components of the business infrastructure such as internet connections and network access. Any disruption in internet, network access or other voice or data communication services provided by these third parties or any failure of these third parties to handle current or higher volumes of use could adversely affect the ability to deliver products and services to clients and otherwise to conduct business. Technological or financial difficulties of a third party service provider could adversely affect the business to the extent those difficulties result in the interruption or discontinuation of services provided by that party. We may not be insured against all types of losses as a result of third party failures and our insurance coverage may be inadequate to cover all losses resulting

from system failures or other disruptions. Failures in the business infrastructure could interrupt the operations or increase the costs of doing business.

Our real estate lending also exposes us to the risk of environmental liabilities.

In the course of our business, we may foreclose and take title to real estate, and could be subject to environmental liabilities with respect to these properties. We may be held liable to a governmental entity or to third persons for property damage, personal injury, investigation and clean-up costs incurred by these parties in connection with environmental contamination, or may be required to investigate or clean up hazardous or toxic substances, or chemical releases at a property. The costs associated with investigation or remediation activities could be substantial. In addition, as the owner or former owner of a contaminated site, we may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from the property. If we ever become subject to significant environmental liabilities, our business, financial condition and results of operations could be materially and adversely affected.

Our funding sources may prove insufficient to replace deposits and support our future growth.

We rely on customer deposits and advances from the FHLB and other borrowings to fund our operations. Although we have historically been able to replace maturing deposits and advances if desired, no assurance can be given that we would be able to replace such funds in the future if our financial condition or the financial condition of the FHLB or market conditions were to change. Our financial flexibility will be severely constrained if we are unable to maintain our access to funding or if adequate financing is not available to accommodate future growth at acceptable interest rates. Finally, if we are required to rely more heavily on more expensive funding sources to support future growth, our revenues may not increase proportionately to cover our costs. In this case, our profitability would be adversely affected.

Although we consider such sources of funds adequate for our liquidity needs, we may seek additional debt in the future to achieve our long-term business objectives. Additional borrowings, if sought, may not be available to us or, if available, may not be available on favorable terms. If additional financing sources are unavailable or are not available on reasonable terms, our growth and future prospects could be adversely affected.

Competition with other financial institutions could adversely affect our profitability.

The banking and financial services industry is very competitive. Legal and regulatory developments have made it easier for new and sometimes unregulated competitors to compete with us. Consolidation among financial service providers has resulted in fewer, very large national and regional banking and financial institutions holding a large accumulation of assets. These institutions generally have significantly greater resources, a wider geographic presence or greater accessibility. Our competitors sometimes are also able to offer more services, more favorable pricing or greater customer convenience than we do. In addition, our competition has grown from new banks and other financial services providers that target our existing or potential customers. As consolidation continues among large banks, we expect additional institutions to try to exploit our market.

Technological developments have allowed competitors including some non-depository institutions, to compete more effectively in local markets and have expanded the range of financial products, services and capital available to our target customers. If we are unable to implement, maintain and use such technologies effectively, we may not be able to offer products or achieve cost-efficiencies necessary to compete in our industry. In addition, some of these competitors have fewer regulatory constraints and lower cost structures.

We may elect or be compelled to seek additional capital in the future, but that capital may not be available when it is needed.

We are required by federal regulatory authorities to maintain adequate levels of capital to support our operations. In addition, we may elect to raise additional capital to support our business or to finance acquisitions, if any, or we may otherwise elect to raise additional capital. In that regard, a number of financial institutions have recently raised considerable amounts of capital as a result of a deterioration in their results of operations and financial condition arising from the turmoil in the mortgage loan market, deteriorating economic conditions,

declines in real estate values and other factors. Should we be required by regulatory authorities to raise additional capital, we may seek to do so through the issuance of, among other things, our common stock or preferred stock.

Our ability to raise additional capital, if needed, will depend on conditions in the capital markets, economic conditions and a number of other factors, many of which are outside our control, and on our financial performance. Accordingly, we cannot assure you of our ability to raise additional capital if needed or on terms acceptable to us. If we cannot raise additional capital when needed, it may have a material adverse effect on our financial condition, results of operations and prospects.

Risks Related to the U.S. Financial Industry

There can be no assurance that recently enacted legislation and other measures undertaken by the Treasury, the Federal Reserve and other governmental agencies will help stabilize the U.S. financial system or improve the housing market.

On October 3, 2008, President Bush signed into law the Emergency Economic Stabilization Act of 2008 (the “EESA”), which, among other measures, authorized the Treasury Secretary to establish the Troubled Asset Relief Program (“TARP”). EESA gives broad authority to Treasury to purchase, manage, modify, sell and insure the troubled mortgage related assets that triggered the current economic crisis as well as other “troubled assets.” EESA includes additional provisions directed at bolstering the economy, including:

- Authority for the Federal Reserve to pay interest on depository institution balances;
- Mortgage loss mitigation and homeowner protection;
- Temporary increase in Federal Deposit Insurance Corporation (“FDIC”) insurance coverage from \$100,000 to \$250,000 through December 31, 2009; and
- Authority to the Securities and Exchange Commission (the “SEC”) to suspend mark-to-market accounting requirements for any issuer or class of category of transactions.

Pursuant to the TARP, the Treasury has the authority to, among other things, purchase up to \$700 billion (of which \$250 billion is currently available) of mortgages, mortgage-backed securities and certain other financial instruments from financial institutions for the purpose of stabilizing and providing liquidity to the U.S. financial markets. Shortly following the enactment of EESA, the Treasury created a capital purchase program, pursuant to which it is providing access to capital to financial institutions through a standardized program to acquire preferred stock (accompanied by warrants) from eligible financial institutions that will serve as Tier I capital.

EESA also contains a number of significant employee benefit and executive compensation provisions, some of which apply to employee benefit plans generally, and others which impose on financial institutions that participate in the TARP program restrictions on executive compensation.

EESA followed, and has been followed by, numerous actions by the Federal Reserve, Congress, Treasury, the SEC and others to address the current liquidity and credit crisis that has followed the sub-prime meltdown that commenced in 2007. These measures include homeowner relief that encourage loan restructuring and modification; the establishment of significant liquidity and credit facilities for financial institutions and investment banks; the lowering of the federal funds rate, including two 50 basis point decreases in October of 2008; emergency action against short selling practices; a temporary guaranty program for money market funds; the establishment of a commercial paper funding facility to provide back-stop liquidity to commercial paper issuers; coordinated international efforts to address illiquidity and other weaknesses in the banking sector.

In addition, the Internal Revenue Service (“IRS”) has issued an unprecedented wave of guidance in response to the credit crisis, including a relaxation of limits on the ability of financial institutions that undergo an “ownership change” to utilize their pre-change net operating losses and net unrealized built-in losses. The relaxation

of these limits may make significantly more attractive the acquisition of financial institutions whose tax basis in their loan portfolios significantly exceeds the fair market value of those portfolios.

On October 14, 2008, the FDIC announced the establishment of a temporary liquidity guarantee program to provide full deposit insurance for all non-interest bearing transaction accounts and guarantees of certain newly issued senior unsecured debt issued by FDIC-insured institutions and their holding companies. Insured institutions are automatically covered by this program for the period commencing October 14, 2008 and will continue to be covered as long as they do not opt out of the program by December 5, 2008. Under the program, the FDIC will guarantee timely payment of newly issued senior unsecured debt issued on or before June 30, 2009. The debt includes all newly issued unsecured senior debt (*e.g.*, promissory notes, commercial paper and inter-bank funding). The aggregate coverage for an institution may not exceed 125% of its debt outstanding on September 30, 2008 that was scheduled to mature before June 30, 2009, or, for certain insured institutions, 2% of liabilities as of September 30, 2008. The guarantee will extend to June 30, 2012 even if the maturity of the debt is after that date. First Federal will participate in the transaction account guarantee program and has opted out of the debt guarantee program.

The actual impact that EESA and such related measures undertaken to alleviate the credit crisis will have generally on the financial markets, including the extreme levels of volatility and limited credit availability currently being experienced, is unknown. The failure of such measures to help stabilize the financial markets and a continuation or worsening of current financial market conditions could materially and adversely affect our business, financial condition, results of operations, access to credit or the trading price of our common stock. Finally, there can be no assurance regarding the specific impact that such measures may have on us—or whether (or to what extent) we will be able to benefit from such programs.

Difficult market conditions have adversely affected our industry.

We are particularly exposed to downturns in the U.S. housing market. Dramatic declines in the housing market over the past year, with falling home prices and increasing foreclosures, unemployment and under-employment, have negatively impacted the credit performance of mortgage loans and securities and resulted in significant write-downs of asset values by financial institutions, including government-sponsored entities, major commercial and investment banks, and regional financial institutions such as our Company. Reflecting concern about the stability of the financial markets generally and the strength of counterparties, many lenders and institutional investors have reduced or ceased providing funding to borrowers, including to other financial institutions. This market turmoil and tightening of credit have led to an increased level of commercial and consumer delinquencies, lack of consumer confidence, increased market volatility and widespread reduction of business activity generally. The resulting economic pressure on consumers and lack of confidence in the financial markets have adversely affected our business, financial condition and results of operations. We do not expect that the difficult conditions in the financial markets are likely to improve in the near future. A worsening of these conditions would likely exacerbate the adverse effects of these difficult market conditions on us and others in the financial institutions industry. In particular, we may face the following risks in connection with these events:

- We expect to face increased regulation of our industry. Compliance with such regulation may increase our costs and limit our ability to pursue business opportunities.
- Our ability to assess the creditworthiness of our customers may be impaired if the models and approaches we use to select, manage and underwrite our customers become less predictive of future behaviors.
- The process we use to estimate losses inherent in our credit exposure requires difficult, subjective and complex judgments, including forecasts of economic conditions and how these economic predictions might impair the ability of our borrowers to repay their loans, which may no longer be capable of accurate estimation which may, in turn, impact the reliability of the process.
- Our ability to borrow from other financial institutions on favorable terms or at all could be adversely affected by further disruptions in the capital markets or other events, including actions by rating agencies and deteriorating investor expectations.
- Competition in our industry could intensify as a result of the increasing consolidation of financial services companies in connection with current market conditions.

- We may be required to pay significantly higher deposit insurance premiums because market developments have significantly depleted the insurance fund of the Federal Deposit Insurance Corporation and reduced the ratio of reserves to insured deposits.

Current levels of market volatility are unprecedented.

The capital and credit markets have been experiencing volatility and disruption for more than a year. In recent months, the volatility and disruption has reached unprecedented levels. In some cases, the markets have produced downward pressure on stock prices and credit availability for certain issuers without regard to those issuers' underlying financial strength. If current levels of market disruption and volatility continue or worsen, our ability to access capital may be adversely affected which, in turn, could adversely affect our business, financial condition and results of operations.

Regulation by federal and state agencies could adversely affect the business, revenue and profit margins.

We are heavily regulated by federal and state agencies. This regulation is to protect depositors, the Federal Deposit Insurance Fund and the banking system as a whole. Congress and state legislatures and federal and state regulatory agencies continually review banking laws, regulations, and policies for possible changes. Changes to statutes, regulations, or regulatory policies, including interpretation or implementation of statutes, regulations, or policies, could affect us adversely, including limiting the types of financial services and products we may offer and/or increasing the ability of nonbanks to offer competing financial services and products. Also, if we do not comply with laws, regulations, or policies, we could receive regulatory sanctions and damage to our reputation.

Company Risks

Acquisitions may disrupt our business and adversely affect our operating results.

We expect to continue to grow by acquiring insurance agencies or assets of insurance agencies, other financial institutions, related businesses or branches of other financial institutions that we believe provide a strategic fit with our business. To the extent that we grow through acquisitions, we may not be able to adequately or profitably manage this growth. Acquiring other insurance agencies or assets of insurance agencies, banks, businesses or branches involves risks commonly associated with acquisitions, including:

- Potential exposure to unknown or contingent liabilities of insurance agencies or assets of insurance agencies, financial institutions, businesses or branches we acquire;
- Exposure to potential asset quality issues of the acquired insurance agencies or assets of insurance agencies, financial institutions, businesses or branches;
- Difficulty and expense of integrating the operations and personnel of insurance agencies or assets of insurance agencies, financial institutions, businesses or branches we acquire;
- Potential diversion of our management's time and attention;
- The possible loss of key employees and customers of the insurance agencies or assets of insurance agencies, financial institutions, businesses, or branches we acquire;
- Difficulty in estimating the value of the insurance agencies or assets of insurance agencies, financial institutions, businesses or branches to be acquired; and
- Potential changes in banking, insurance or tax laws or regulations that may affect the insurance agencies, financial institutions or businesses to be acquired.

Loss of key personnel may hurt our operations.

We are dependent on a limited number of key management personnel. The loss of our president and chief executive officer and other senior officers, because of death or other reasons, could have a material adverse impact on our operations because other officers may not have the experience and expertise to readily replace these individuals. As a result, the Board of Directors may have to search outside of our business structure for qualified permanent replacements. This search may be prolonged and we cannot assure you that we would be able to locate and hire qualified replacements. We do not have any plans to obtain a "key man" life insurance policy for any of our officers, or other employees.

Our accounting policies and methods are key to how we report financial condition and results of operations. They may require management to make estimates about matters that are uncertain.

Accounting policies and methods are fundamental to how we record and report the financial condition and results of operations. Management must exercise judgment in selecting and applying many of these accounting policies and methods so they comply with United States Generally Accepted Accounting Principles.

Management has identified certain accounting policies as being critical because they require management's judgment to ascertain the valuations of assets, liabilities, commitments and contingencies. A variety of factors could affect the ultimate value that is obtained either when earning income, recognizing an expense, recovering an asset, or reducing a liability. We have established control procedures that are intended to ensure these critical accounting estimates are well controlled and applied consistently. In addition, the policies and procedures are intended to ensure that the process for changing methodologies occurs in an appropriate manner. Because of the uncertainty of estimates about these matters, we cannot guarantee that we will not be required to adjust accounting policies or restate prior period financial statements.

Our stock price can be volatile.

Our stock price can fluctuate widely in response to a variety of factors including:

- Variations in our quarterly operating results;
- Changes in market valuations of companies in the financial services industry;
- Fluctuations in stock market prices and volumes;
- Issuances of shares of common stock or other securities in the future;
- The addition or departure of key personnel;
- Seasonal fluctuations;
- Changes in financial estimates or recommendations by securities analysts regarding First Financial or shares of our common stock; and
- Announcements by us or our competitors of new services or technology, acquisitions, or joint ventures.

General market fluctuations, industry factors, and general economic and political conditions and events, such as terrorist attacks, economic slowdowns or recessions, interest rate changes, credit loss trends, or currency fluctuations, also could cause our stock price to decrease regardless of operating results.

Our disclosure controls and procedures may not prevent or detect all errors or acts of fraud.

Our disclosure controls and procedures are designed to reasonably assure that information required to be disclosed by First Financial in reports we file or submit under the Securities and Exchange Act of 1934 is accumulated and communicated to management, and recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms. We believe that any disclosure controls and procedures or internal controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistakes. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by an unauthorized override of the controls. Accordingly, because of the inherent limitations in our control system, misstatements due to error or fraud may occur and not be detected.

We rely on dividends from subsidiaries for most of our revenue.

First Financial is a separate and distinct legal entity from its subsidiaries. We receive substantially all of our revenue from dividends from our subsidiaries. These dividends are the principal source of funds to pay dividends on our common stock and interest and principal on our debt. Various federal and/or state laws and regulations limit the amount of dividends that First Federal or other subsidiaries may pay us. Also, our right to participate in a distribution of assets upon a subsidiary's liquidation or reorganization is subject to the prior claims of the subsidiary's creditors. In the event First Federal is unable to pay dividends to us, we may not be able to service our debt, pay obligations or pay dividends on our common stock. The inability to receive dividends from First Federal could have a material adverse effect on our business, financial condition and results of operations

Changes in accounting standards may affect our reported performance.

Our accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. From time to time there are changes in the financial accounting and reporting standards that govern the preparation of our financial statements. These changes can be difficult to predict and can materially impact how we report and record our financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retroactively, resulting in restating prior period financial statements.

Our information systems may experience an interruption or breach in security.

We rely heavily on communications and information systems to conduct our business. Any failure, interruption or breach in security of these systems could result in failures or disruptions in our customer relationship management, general ledger, deposit, loan and other systems. While we have policies and procedures designed to prevent or limit the effect of the failure, interruption or security breach of our information systems, there can be no assurance that any such failures, interruptions or security breaches will not occur or, if they do occur, that they will be adequately addressed. The occurrence of any failures, interruptions or security breaches of our information systems could damage our reputation, result in a loss of customer business, subject us to additional regulatory scrutiny, or expose us to civil litigation and possible financial liability, any of which could have a material adverse effect on our financial condition and results of operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The First Federal Corporate Center is located at 2440 Mall Drive, Charleston, South Carolina. We currently occupy this one-story building as our corporate offices and the adjacent four-story building, 2430 Mall Drive, has been completely renovated during fiscal 2008 and is now available for lease. At present, 24.2% of the building is under long-term lease and a First Federal affiliate, First Southeast Insurance Services, occupies 3.4% of the space.

First Federal's designated home office is located in leased space at 34 Broad St. in downtown Charleston, South Carolina. There are 37 traditional branches owned by First Federal and six are leased properties on which First Federal has constructed banking offices. In addition, we have 16 in-store facilities in leased space located in Wal-Mart Supercenters and food stores. Most of our leases include various renewal or purchase options.

After various operations were consolidated into other First Federal facilities, the regional operations center located in Conway, South Carolina was sold during fiscal 2008.

During fiscal 2008, two older branches in Florence, South Carolina were combined and moved into a more efficient new facility in the same geographic market. One of the old branches was sold and the lease on the other was terminated. Also, as a result of the proposed new road construction, a branch in Charleston, South Carolina was closed with termination of the lease and relocated to a new facility in a major growth area just a short distance away.

FSIns, Kimbrell and their affiliates lease space for certain insurance operations in Murrells Inlet, Hilton Head, Bluffton, Ridgeland, Beaufort and Columbia, South Carolina and Charlotte, North Carolina. Somers Pardue Insurance Services was acquired in fiscal 2008 and operates in a leased property located in Burlington, North Carolina. In addition, First Federal leases properties in several locations for off-site ATM facilities. First Federal also owns land purchased for potential future branch locations.

We evaluate on a continuing basis the suitability and adequacy of all of our facilities, including branch offices and service facilities, and have active programs of relocating, remodeling or closing any as necessary to maintain efficient and attractive facilities. We believe our present facilities are adequate for our operating purposes.

At September 30, 2008, the total book value of the premises and equipment we own was \$78.7 million. Reference is made to Note 20 of the Notes to Consolidated Financial Statements contained in Item 8 of this document for information relating to minimum rental commitments under our leases for office facilities and to Note 9 for further details on our properties.

ITEM 3. LEGAL PROCEEDINGS

We are subject to various legal proceedings and claims, which arise in the ordinary course of business. We vigorously defend any litigation, and, in the opinion of management based on consultation with external legal counsel, any outcome of such litigation would not materially affect our consolidated financial position or results of operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year ended September 30, 2008.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market for Common Stock and Related Matters

	High	Low	Cash Dividend Declared
2008			
First Quarter	\$ 33.79	\$ 24.77	\$ 0.255
Second Quarter	28.02	20.20	0.255
Third Quarter	25.75	16.07	0.255
Fourth Quarter	42.61	15.12	0.255
2007			
First Quarter	\$ 41.50	\$ 33.50	\$ 0.250
Second Quarter	39.96	32.62	0.250
Third Quarter	35.95	32.40	0.250
Fourth Quarter	33.99	26.49	0.250

Stock Prices and Dividends

The table above shows the high and low sales prices of the Company's common stock and the cash dividend declared during each quarter of the fiscal years ended September 30, 2008 and 2007.

Our common stock is traded in the NASDAQ Global Select Market under the symbol "FFCH." Trading information in newspapers is provided on the NASDAQ Stock Market quotation page under the listing, "FstFinHldg" or a similar variation. As of September 30, 2008, there were 2,104 stockholders of record.

We have paid a quarterly cash dividend since February 1986. The amount of the dividend to be paid is determined by the Board of Directors and is dependent upon our earnings, financial condition, capital position and such other factors as the Board may deem relevant. The dividend rate has been increased 20 times with the most recent dividend paid in November 2008, at \$.255 per share. Cash dividends per share totaled \$1.02 in fiscal 2008 and \$1.00 in fiscal 2007. These dividends per share amounted to 52.6% for fiscal 2008 and 47.62% for fiscal 2007 of basic net income per common share.

Please refer to Item 1. "Business - How We Are Regulated – Regulation of First Federal – Limitations on Capital Distributions" for information with respect to the regulatory restrictions on First Federal's ability to pay dividends to First Financial.

Equity Compensation Plan Information

Equity compensation plan information is provided under Item 12 of this report.

Issuer Purchases of Equity Securities

On January 29, 2007, we announced a stock repurchase program to acquire up to 600,000 shares of common stock. During fiscal 2007, we purchased 498,200 shares under this repurchase plan. The program expired on March 31, 2008.

On June 20, 2008, we announced a stock repurchase plan which expires on September 30, 2009. This plan allows for the repurchase of 350,000 shares or approximately 3% of shares outstanding. During fiscal 2008, there were no shares purchased under this repurchase plan.

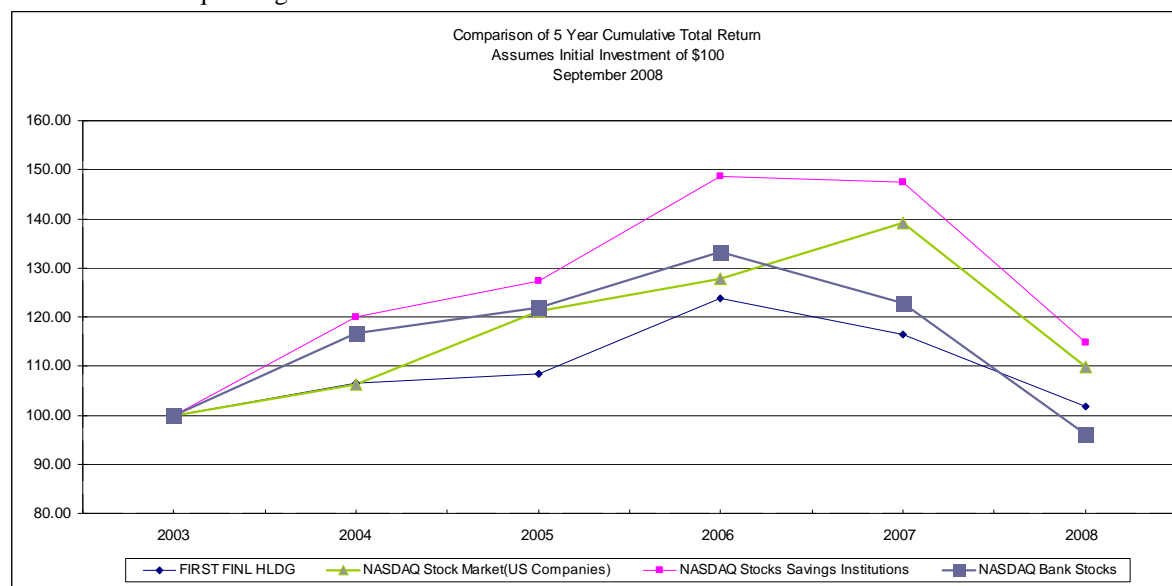
The Company's stock option plans contain provisions which allow employees and directors to use shares they own as part or full payment when exercising outstanding options. For the fiscal year ended September 30, 2008, 7,433 shares were repurchased under these provisions which included 4,730 shares repurchased during the quarter ended September 30, 2008. These shares are not part of our publicly announced repurchase program.

ISSUER PURCHASES OF EQUITY SECURITIES

For the Three Months Ended September 30, 2008			
Total Number of Shares Purchased	Average Price paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan	Maximum Number of Shares that May Yet Be Purchased Under Announced Plan
07/01/2008 thru 07/31/2008	-	-	350,000
08/01/2008 thru 08/31/2008	-	-	350,000
09/01/2008 thru 09/30/2008	\$ 23.96	-	350,000
<u>4,730</u>		<u>-</u>	

Stock Performance Graph

The following graph shows a five year comparison of cumulative total returns for the Company, the Center for Research in Security Prices ("CRSP") Index for Nasdaq Stock Market (U.S. Companies) and CRSP Peer Group Indices for Nasdaq Savings Institutions and Bank Stocks. *



CRSP Total Returns Index for:	2003	2004	2005	2006	2007	2008
FIRST FINANCIAL HOLDINGS, INC	100.00	106.49	108.29	123.79	116.52	101.73
NASDAQ Stock Market (US Companies)	100.00	106.23	121.26	127.87	139.16	109.75
NASDAQ Stocks Savings Institutions (SIC 6030-6039 US Companies)	100.00	120.04	127.43	148.65	147.53	114.80
NASDAQ Bank Stocks (SIC 6020-6029, 6710-6719 US & Foreign)	100.00	116.71	121.96	133.30	122.90	96.17

Notes:

- A. The lines represent monthly index levels derived from compounded daily returns that include all dividends.
- B. The indices are reweighted daily, using the market capitalization on the previous day.
- C. If the monthly interval, based on the fiscal year-end, is not a trading day, the preceding day is used.
- D. The index level for all series was set to \$100.0 on 9/30/2002.

*Source: Center for Research in Security Prices (CRSP), the University of Chicago Graduate School of Business.
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ITEM 6. SELECTED FINANCIAL DATA

	At or For the Year Ended September 30,				
	2008	2007	2006	2005	2004
	(dollars in thousands, except share data)				
Summary of Operations					
Interest income	\$ 174,772	\$ 168,044	\$ 151,340	\$ 130,776	\$ 126,593
Interest expense	83,408	85,214	71,615	54,318	49,991
Net interest income	91,364	82,830	79,725	76,458	76,602
Provision for loan losses	(16,939)	(5,164)	(4,894)	(4,826)	(5,675)
Net interest income after provision for loan losses	74,425	77,666	74,831	71,632	70,927
Non-interest income	62,882	53,217	51,955	49,245	42,175
Non-interest expense	(100,310)	(90,436)	(83,936)	(80,052)	(74,764)
Income before income tax	36,997	40,447	42,850	40,825	38,338
Income tax expense	(14,359)	(15,375)	(15,221)	(14,600)	(13,784)
Net income	\$ 22,638	\$ 25,072	\$ 27,629	\$ 26,225	\$ 24,554
Per Common Share					
Net income	\$ 1.94	\$ 2.10	\$ 2.30	\$ 2.14	\$ 1.97
Net income, diluted	1.94	2.07	2.27	2.09	1.92
Book value	15.69	15.96	15.29	14.12	13.43
Dividends	1.02	1.00	0.96	0.92	0.88
Dividend payout ratio	52.58 %	47.62 %	41.74 %	42.99 %	44.67 %
At September 30,					
Assets	\$ 2,973,994	\$ 2,711,370	\$ 2,658,128	\$ 2,522,405	\$ 2,442,313
Loans receivable, net	2,324,537	2,134,458	2,056,151	1,878,730	1,813,531
Loans held for sale	8,731	6,311	4,978	9,659	4,054
Mortgage-backed securities	351,110	297,011	296,493	341,533	346,847
Investment securities and FHLB stock	60,969	55,629	55,368	53,188	62,826
Deposits	1,851,102	1,854,051	1,823,028	1,657,072	1,520,817
Borrowings	893,205	606,207	580,968	628,055	705,654
Stockholders' equity	183,478	185,715	183,765	171,129	165,187
Number of offices	58	55	52	49	47
Full-time equivalent employees	915	873	847	791	792
Selected Ratios:					
Return on average equity	12.16 %	13.99 %	15.76 %	15.48 %	14.86 %
Return on average assets	0.79	0.94	1.06	1.06	1.01
Net interest margin	3.41	3.36	3.35	3.32	3.38
Efficiency ratio	64.33	67.16	64.68	63.83	63.22
Average equity as a percentage of average assets	6.50	6.99	6.75	6.82	6.82
Asset Quality Ratios:					
Allowance for loan losses to loans	1.02 %	0.72 %	0.70 %	0.74 %	0.81 %
Allowance for loan losses to nonperforming loans	116.27	251.43	389.94	252.72	174.06
Nonperforming assets to loans and real estate and other assets acquired in settlement of loans	1.07	0.36	0.27	0.39	0.69
Nonperforming assets to total assets	0.84	0.28	0.21	0.29	0.51
Net charge-offs to average loans	0.37	0.21	0.22	0.29	0.32

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

General

The information presented in the following discussion of financial results of First Financial is largely indicative of the activities of our operating subsidiary, First Federal, which comprises the substantial majority of our consolidated net income, revenues and assets. Another growing segment is our insurance activities. The following discussion should be read in conjunction with the Selected Consolidated Financial Data contained in Item 6 of this report and the Consolidated Financial Statements and accompanying notes contained in Item 8 of this report.

Our net income was \$22.6 million in fiscal 2008 compared with \$25.1 million in fiscal 2007, decreasing by 9.7%. Our net income was \$27.6 million in fiscal 2006, decreasing by 9.3% in 2007. Basic earnings per share in 2008 decreased to \$1.94 from \$2.10 in 2007 and diluted earnings per share in 2008 decreased to \$1.94 from \$2.07. Basic earnings per share in 2007 decreased to \$2.10 from \$2.30 in 2006 and diluted earnings per share in 2007 decreased to \$2.07 from \$2.27. Net earnings resulted in a return on average equity of 12.16% for fiscal 2008, 13.99% for fiscal 2007 and 15.76% for fiscal 2006. The return on average assets was 0.79% for the year ended September 30, 2008, 0.94% for the year ended September 30, 2007, and 1.06% for the year ended September 30, 2006.

Total revenues (net interest income and non-interest income) in fiscal 2008 were \$154.2 million, increasing by \$18.2 million, or 13.4%, from fiscal 2007. Non-interest income increased \$9.7 million or 18.2% from fiscal 2007 to fiscal 2008. This increase was primarily attributable to increases in commissions on insurance, service charges and fees on deposits and mortgage banking income. For fiscal year 2008, our net interest margin increased to 3.41% compared with a net interest margin of 3.36% for fiscal 2007. Average earning assets increased by \$214.0 million, an increase of 8.7%.

Total revenues (including net interest income and non-interest income) were \$136.0 million in fiscal 2007, increasing by \$4.4 million, or 3.3%, from fiscal 2006. Our revenues increased in fiscal 2007 as a result of several factors. The largest increase in total revenues was in ATM and debit card fees which increased \$1.3 million, or 28.0%, from fiscal 2006. This increase was principally attributable to the increase in new branches and the growth of new checking accounts and the increase in ATM and debit cards associated with the new accounts.

On June 20, 2008, we announced a new stock repurchase plan which expires on September 30, 2009. This plan allows for the repurchase of 350,000 shares or approximately 3% of shares outstanding. During fiscal 2008, there were no shares purchased under this repurchase plan.

On January 29, 2007, we announced the approval of a new stock repurchase program to acquire up to 600,000 shares of our common stock. During fiscal 2007, we purchased 498,200 shares under this repurchase plan. The program expired March 31, 2008. The majority of shares repurchased in fiscal 2007 were part of the repurchase plan. Average diluted shares for fiscal 2007 declined 100,379 shares due principally to the execution of the stock repurchase plan.

On April 29, 2005, we announced the approval of a new stock repurchase program to acquire up to 625,000 shares of common stock, which expired on June 30, 2006. During fiscal 2006 we repurchased 247,893 total shares while in fiscal 2005 we repurchased 338,035 total shares. The majority of shares repurchased in fiscal 2006 and 2005 were part of the repurchase plan. Average diluted shares for fiscal year 2006 declined by 338,416 shares as a result of the execution of stock repurchase programs and the adoption of *Statement of Financial Accounting Standards No. 123 (revised 2004)*, "Share-Based Payment."

Critical Accounting Policies

Our accounting policies are discussed in Item 8, Note 1 of the Notes to Consolidated Financial Statements. Of these significant accounting policies, we have determined that accounting for allowance for loan losses, income taxes, mortgage servicing rights and accounting for acquisitions are deemed critical because of the valuation techniques used, and the sensitivity of these financial statement amounts to the methods, assumptions and estimates

underlying these balances. Accounting for these critical areas requires the most subjective and complex judgments, and could be subject to revision as new information becomes available.

As explained in Note 1 and Note 8 of Notes to the Consolidated Financial Statements, under Item 8 of this Form 10-K, the allowance for loan losses represents management's estimate of probable credit losses inherent in the loan portfolio. This estimate is based on the current economy's impact on the timing and expected amounts of future cash flows on impaired loans, as well as historical loss experience associated with homogenous pools of loans. Our assessments may be impacted in future periods by changes in economic conditions, the impact of regulatory examinations, and the discovery of information with respect to borrowers, which is not known to management at the time of the issuance of the consolidated financial statements. For additional discussion concerning our allowance for loan losses and related matters, see "Financial Position – Allowance for Loan Losses."

Accounting for mortgage servicing rights is more fully discussed in Note 1 and Note 11 of the Notes to Consolidated Financial Statements, under Item 8 of this form 10-K, and is another area heavily dependent on current economic conditions, especially the interest rate environment, and Management's estimates. We continue to utilize the expertise of a third party consultant to determine this asset's value. The consultant utilizes estimates for the amount and timing of mortgage loan repayments, estimated prepayment rates, credit loss experience, costs to service loans and discount rates to determine an estimate of the fair value of our mortgage servicing rights asset. Management believes that the modeling techniques and assumptions used by the consultant are reasonable.

We use derivatives as part of our interest rate management activities. Changes in the fair value of derivatives are reported in current earnings or other comprehensive income depending on the purpose for which the derivative is held and whether the derivative qualifies for hedge accounting. We do not currently engage in any activities that we attempt to qualify for hedge accounting treatment under Statement of Financial Accounting Standards No. 133, *"Accounting for Derivative Instruments and Hedging Activities"* ("SFAS 133"). All changes in the fair value of derivative instruments are recorded as non-interest income in the Consolidated Statements of Operations. During fiscal 2007, a strategy was implemented which utilized a portfolio of derivative instruments, such as interest rate future contracts and exchange-traded option contracts, to achieve a fair value return that would substantially offset the changes in fair value of MSRs attributable to interest rates.

The income tax amounts disclosed in Note 17 of the Notes to Consolidated Financial Statements reflect the current period income tax expense for all periods shown, as well as future tax liabilities associated with differences in the timing of expenses and income recognition for book and tax accounting purposes. The income tax returns, usually filed nine months after year-end, are subject to review and possible revision by the tax authorities up until the statute of limitations has expired. These statutes usually expire three years after the time the respective tax returns have been filed.

Acquisitions by us are made through the use of the purchase method of accounting and are more fully discussed in Note 2 of the Notes to Consolidated Financial Statements. We rely heavily on third party expertise in the valuing of acquisitions and to help identify intangibles. Management relies on historical as well as pro-forma balance sheet and income statement information to determine these values. These estimated fair values are subject to change as economic and market specific conditions change.

We test goodwill annually for impairment in accordance with Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets". Potential impairment of goodwill exists when the carrying amount of a reporting unit exceeds its fair value. The fair value for each reporting unit is computed using one or a combination of the following three methods: income, market value, or cost method. We use the cost method to determine if goodwill is impaired. The cost method assumes the net assets of recent business combinations accounted for under the purchase method of accounting will be recorded at fair value if no event or circumstance has occurred triggering a decline in value. To the extent a reporting unit's carrying amount exceeds its fair value, an indication exists that the reporting unit's goodwill may be impaired and a second step of impairment test will be performed. For additional discussion, see Note 1 and Note 10 of the Notes to the Consolidated Financial Statements. Impairment of goodwill was not required based on the most current analysis.

Acquisitions

One of our long-term stated objectives is the diversification of our revenue sources. Increasingly, we have sought to achieve this objective through either the purchase of insurance agencies or assets of insurance agencies. We also believe these acquisitions present significant cross-sales opportunities and provide us with the ability to offer an expanded menu of products to customers.

Financial Position

At September 30, 2008, our assets totaled \$3.0 billion, increasing by 9.7%, or \$262.6 million, from September 30, 2007. Growth in our assets reflected an increase in all areas of the loan portfolio except residential construction. The decline in residential construction loans is attributable to the oversupply of housing in our market, along with our decision to halt speculative construction lending during fiscal 2008. The more significant changes in assets during fiscal 2008 were attributable to increases of \$192.5 million in net loans receivable and loans held for sale, \$54.1 million in mortgage-backed securities available for sale, \$12.2 million in investment in FHLB stock, \$13.6 million in goodwill and intangibles, net, which were offset by decreases of \$14.4 million in cash and cash equivalents and a decrease in investments available for sale, at fair value of \$6.9 million.

Investment Securities and Mortgage-backed Securities

At September 30, 2008, available for sale securities totaled \$368.2 million compared to \$321.0 million at September 30, 2007. At September 30, 2008, held to maturity investments totaled \$2.0 million compared to \$2.0 million at September 30, 2007. Purchases of available for sale and held to maturity securities totaled \$148.0 million during the year ended September 30, 2008. Declines in the fair value of available-for-sale securities below their cost that are other than temporary resulted in write-downs of the individual securities to their fair value through other comprehensive income. We determined that one investment in our investment portfolio at September 20, 2008, was other than temporarily impaired and we recorded a \$486 thousand charge against earnings. It is likely that we will maintain investment and mortgage backed securities at 15-20% of assets, slightly adding to the portfolio.

Our primary objective in the management of the investment and mortgage-backed securities portfolio is to maintain a portfolio of high quality investments with returns competitive with short-term U.S. Treasury or agency securities and highly rated corporate securities. First Federal is required to maintain an adequate amount of liquidity to ensure safe and sound operations. First Federal has maintained balances in short-term investments and mortgage-backed securities based on a continuing assessment of cash flows, the level of loan production, current interest rate risk strategies and the assessment of the potential future direction of market interest rate changes.

The credit market turmoil has impacted both the liquidity and pricing of our entire investment portfolio. We currently have enough deposit and borrowing capacity where funding the investment portfolio is not a material issue. As of September 30, 2008, only one of our securities has had its credit rating changed to below investment grade.

Loans Receivable

Compared with balances on September 30, 2007, net loans receivable increased by \$190.1 million during fiscal 2008. Loans held for sale increased \$2.4 million to \$8.7 million at September 30, 2008. Residential construction loan portfolio balances were lower in fiscal 2008 than in fiscal 2007 while all other categories of loan portfolio balances increased.

Our markets are experiencing slower growth conditions, higher inventories of homes for resale and slowing housing appreciation. Our loan portfolio consists of residential real estate mortgage and construction loans, commercial and multifamily real estate mortgage loans, home equity, mobile home and other consumer loans, credit card receivables and commercial business loans. We believe that over time the increase in commercial and multifamily real estate mortgage loans, consumer and commercial business loans and lower levels of single-family mortgage loans will have a positive effect on the overall yield of the loan portfolio. However, these loans generally have higher credit risks than single-family residential loans.

Asset Quality

We believe we maintain a conservative philosophy regarding our lending mix as well as our underwriting guidelines. We also maintain loan quality monitoring policies and systems that require detailed monthly and quarterly analyses of delinquencies, nonperforming loans, real estate owned and other repossessed assets. Reports of such loans and assets by various categories are reviewed by management and the Board of Directors of First Federal. The majority of our loan originations are in coastal South Carolina and North Carolina and inland in Florence County, South Carolina.

As a result of management's ongoing review of the loan portfolio, loans are classified as non-accruing when uncertainty exists about the ultimate collection of principal and interest under the original terms. We closely monitor trends in problem assets which include non-accrual loans, accruing loans 90 days or more delinquent, renegotiated loans, and real estate and other assets acquired in the settlement of loans. Renegotiated loans are those loans where we have agreed to modifications of the terms of the loan such as changes in the interest rate charged and/or other concessions. We had no renegotiated loans (troubled debt restructurings) during the periods reported. The following table illustrates trends in problem assets and other asset quality indicators over the past five years.

PROBLEM ASSETS (dollars in thousands)

	At September 30,										
	2008		2007		2006		2005		2004		
Non-accrual loans	\$	20,557	\$	6,087	\$	3,684	\$	5,556	\$	8,439	
Accruing loans 90 days or more delinquent		76		49		64		45		63	
Renegotiated loans											
Real estate and other assets acquired in settlement of loans		4,286		1,513		1,920		1,755		4,003	
	\$	24,919	\$	7,649	\$	5,668	\$	7,356	\$	12,505	
Nonperforming assets as a percent of loans receivable and real estate and other											
assets acquired in settlement of loans		1.07	%	0.36	%	0.27	%	0.39	%	0.69	%
Nonperforming assets as a percent of total assets		0.84		0.28		0.21		0.29		0.51	
Allowance for loan losses as a percent of problem loans		116.27		251.43		389.94		252.72		174.06	
Net charge-offs to average loans outstanding		0.37		0.21		0.22		0.29		0.32	

Problem assets were \$24.9 million at September 30, 2008, or .84% of assets and 1.07% of loans receivable and real estate and other assets acquired in settlement of loans. At September 30, 2007, problem assets were \$7.6 million, or .28% of assets and .36% of loans receivable and real estate and other assets acquired in settlement of loans. Loans on non-accrual increased \$14.5 million to \$20.6 million at September 30, 2008 from \$6.1 million at September 30, 2007. This increase was principally related to single family and commercial loans. Real estate and other assets in settlement of loans increased to \$4.3 million from \$1.5 million at September 30, 2007. Our problem assets are spread throughout our market areas served without a concentration in one particular market. Our problem assets are made up primarily of single family loans, construction loans, land loans, commercial business loans and equity access lines. Single family loans accounted for approximately \$7.2 million of problem assets, construction loans accounted for approximately \$5.1 million of problem assets, land loans accounted for approximately \$1.6 million of problem assets, commercial business loans accounted for \$3.2 million of problem assets and equity access lines accounted for \$1.1 million of problem assets.

Real estate conditions remained soft in fiscal 2008 and we do not expect a significant change until late fiscal 2009 or beyond. While we believe our markets will outperform other national markets, we expect that credit quality trends will result in an increase in problem credits during fiscal 2009. We are closely monitoring market conditions, delinquencies and particularly certain riskier segments of our portfolio and will seek resolution of any problem credits. The Company believes based on information known and available currently, the probable losses related to problem assets are adequately reserved in the allowance for loan losses.

Allowance for Loan Losses

The allowance is maintained at a level sufficient to provide for estimated probable losses in the loan portfolio at each reporting date. We review the adequacy of the allowance no less frequently than each quarter, utilizing our internal portfolio analysis system. The factors that are considered in a determination of the level of the allowance are our assessment of current economic conditions, the composition of the loan portfolio, previous loss experience on certain types of credit, a review of specific high-risk sectors of the loan portfolio and selected individual loans, and concentrations of credit. The value of the underlying collateral is also considered during such reviews.

Our methodology for assessing the adequacy of the allowance establishes both an allocated and an unallocated component. To determine the adequacy of the allowance and the need for potential changes to the allowance, we conduct a formal analysis quarterly to assess the risk within the loan portfolio. This assessment includes analyses of historical performance, past due trends, the level of nonperforming loans, reviews of certain impaired loans, loan activity since the last quarter, consideration of current economic conditions, and other pertinent information. Loans are assigned ratings, either individually for larger credits or in homogeneous pools, based on an internally developed grading system. The resulting conclusions are reviewed and approved by senior management.

The allocated component of the allowance for single family loans is currently based on the last three-year average loss rates and also contains a component based on management's assessment of qualitative factors. The allocated components for commercial real estate, multi-family loans, land loans, construction loans and commercial business loans are based principally on current loan grades, the last three-year average loss rates and an allocation attributable to qualitative factors. Included in these factors are economic and market conditions, concentrations of credit, asset quality indicators and lending policies and personnel. The allocated component for consumer loans is also based on three-year average loss rates and also includes an allocation based on qualitative factors. Qualitative factors are adjusted based on management's judgment.

The unallocated component of the allowance exists to mitigate the imprecision inherent in management's estimates of expected credit losses and includes its judgmental determination of the amounts necessary for concentrations, economic uncertainties and other subjective factors that may not have been fully considered in the allocated allowance. The relationship of the unallocated component to the total allowance may fluctuate from period to period. Although management has allocated the majority of the allowance to specific loan categories, the evaluation of the allowance is considered in its entirety.

The allocation of the allowance to the respective loan classifications is not necessarily indicative of future losses or future allocations. Should our loan portfolio increase substantially, should current loss experience continue in future periods, or should classified and delinquent loans increase or economic conditions deteriorate, then our provision for loan losses may increase in future periods. The entire allowance is available to absorb losses in the loan portfolio.

Assessing the adequacy of the allowance is a process that requires considerable judgment. Our judgments are based on numerous assumptions about current events, which we believe to be reasonable, but which may or may not be valid. Thus, there can be no assurance that loan losses in future periods will not exceed the current allowance amount or that future increases in the allowance will not be required. No assurance can be given that our ongoing evaluation of the loan portfolio in light of changing economic conditions and other relevant circumstances will not require significant future additions to the allowance, thus adversely affecting our operating results.

The allowance is also subject to examination and adequacy testing by regulatory agencies, which may consider such factors as the methodology used to determine adequacy and the size of the allowance relative to that of peer institutions, and other adequacy tests. These regulatory agencies could require us to adjust our allowance based on information available to them at the time of their examination.

The allowance totaled \$24.0 million or 1.02% of loans at September 30, 2008 and \$15.4 million or .72% of loans at September 30, 2007. During fiscal 2008, we increased the allowance by \$8.6 million in connection with increases in certain types of classified loans, changes in the growth and composition of the loan portfolio and the level of charge-offs. The ratio of the allowance to nonperforming loans, which include nonaccrual loans and accruing loans 90 days or more delinquent, was 1.16 times at September 30, 2008 and 2.51 times at September 30,

2007. Nonperforming loans increased to \$20.6 million as of September 30, 2008 from \$6.1 million at September 30, 2007. See "Asset Quality" above. Our analysis of allowance adequacy includes an impairment analysis for selected nonperforming commercial loans. Based on the current economic environment and other factors, management believes that the allowance at September 30, 2008 is adequate to provide for estimated probable losses in our loan portfolio.

Our mobile home loan portfolio is 9.6% of the net loan portfolio at September 30, 2008 compared to 9.3% of the net loan portfolio at September 30, 2007. Mobile home lending involves additional risks as a result of higher loan-to-value ratios usually associated with these types of loans. Consequently, mobile home loans bear a higher rate of interest, have a higher probability of default and may involve higher delinquency rates. See "Lending Activities – Consumer Lending."

The following two tables set forth the changes in the allowance and an allocation of the allowance by loan category at the dates indicated. Management believes that the allowance can be allocated by category only on an approximate basis. The allocation of the allowance to each category is not necessarily indicative of future losses and does not restrict the use of the Allowance to absorb losses in any category.

ALLOWANCE FOR LOAN LOSSES (dollars in thousands)

	At or For the Year Ended September 30,				
	2008	2007	2006	2005	2004
Balance, beginning of period	\$ 15,428	\$ 14,681	\$ 14,155	\$ 14,799	\$ 14,957
Loans charged-off:					
Real estate loans	2,267	461	721	769	962
Commercial business loans	731	273	152	586	618
Mobile home loans	2,083	1,921	2,306	2,781	2,587
Consumer loans	4,159	2,383	1,946	2,061	2,320
Total charge-offs	9,240	5,038	5,125	6,197	6,487
Recoveries:					
Real estate loans	16	95	51	43	60
Commercial business loans	63	55	30	134	142
Mobile home loans	108	93	210	132	68
Consumer loans	676	378	466	418	384
Total recoveries	863	621	757	727	654
Net charge-offs	8,377	4,417	4,368	5,470	5,833
Provision for loan losses	16,939	5,164	4,894	4,826	5,675
Balance, end of period	\$ 23,990	\$ 15,428	\$ 14,681	\$ 14,155	\$ 14,799
Balance as a percent of loans:	1.02 %	0.72 %	0.70 %	0.74 %	0.81 %
Net charge-offs as a percent of average net loans:	0.37 %	0.21 %	0.22 %	0.29 %	0.32 %

	At September 30,				
	2008	2007	2006	2005	2004
Allowance for loan losses applicable to:					
Real estate loans	\$ 12,829	\$ 5,906	\$ 6,124	\$ 5,677	\$ 5,490
Commercial business loans	798	1,232	1,584	1,334	1,069
Mobile home loans	3,172	4,345	3,757	3,534	3,883
Consumer loans	6,486	3,440	2,959	2,839	3,498
Unallocated	705	505	257	771	859
Total	<u>\$ 23,990</u>	<u>\$ 15,428</u>	<u>\$ 14,681</u>	<u>\$ 14,155</u>	<u>\$ 14,799</u>
Percent of loans to total net loans:					
Real estate loans	69.3 %	70.6 %	72.9 %	74.1 %	76.3
Commercial business loans	3.8	3.8	4.0	3.8	3.2
Mobile home loans	9.6	9.3	8.5	8.3	7.9
Consumer loans	<u>20.5</u>	<u>19.5</u>	<u>18.6</u>	<u>18.2</u>	<u>16.1</u>
Total Loans Receivable, Gross	103.2	103.2	104.0	104.4	103.5
Allowance for loan losses	(1.0)	(0.7)	(0.7)	(0.8)	(0.8)
Loans in process	(2.3)	(2.6)	(3.4)	(3.7)	(2.7)
Net deferred loan costs and discounts	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>	<u>0.0</u>
Total Loans Receivable, Net	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0</u>

Deposits

Retail deposits have traditionally been our primary source of funds and also provide a customer base for the sale of additional financial products and services. Business deposits have in the past been a less significant source of funding. We have set strategic targets for net growth in retail and business transaction accounts annually and in numbers of households served. We believe that our future focus must be on increasing the number of available opportunities to provide a broad array of products and services to retail consumers and to commercial customers. We continue to proactively seek development of new business relationships through a comprehensive officer calling program. During fiscal 2008 and in past years, we have emphasized growing core deposits, particularly money market, checking and other such products with the goal of reducing our cost of funds.

Our total deposits decreased \$2.9 million during the year ended September 30, 2008. Our deposit composition at September 30, 2008, 2007 and 2006 was as follows:

DEPOSITS (dollars in thousands)

	At September 30,					
	2008		2007		2006	
	Balance	Percent of Total	Balance	Percent of Total	Balance	Percent of Total
Checking accounts	\$ 474,300	25.62 %	\$ 456,045	24.60 %	\$ 474,705	26.04 %
Statement and other accounts	129,466	6.99	133,201	7.18	148,752	8.16
Money market accounts	345,328	18.66	381,040	20.55	373,675	20.50
Certificate accounts	902,008	48.73	883,765	47.67	825,896	45.30
Total deposits	<u>\$ 1,851,102</u>	<u>100.00 %</u>	<u>\$ 1,854,051</u>	<u>100.00 %</u>	<u>\$ 1,823,028</u>	<u>100.00 %</u>

Core deposits, which include checking accounts, statement and other accounts and money market accounts, declined by \$21.2 million in fiscal 2008, or 2.2%, and certificate of deposit balances increased by \$18.2 million, or

2.1%. More attractive certificates of deposit rates contributed to the decrease in the core deposits and the offsetting increase in certificates of deposit balances. While overall deposits decreased, checking accounts increased by \$18.3 million or 4.0%. Core deposits now comprise 51.3% of all deposit balances at September 30, 2008. Deposits, as a percentage of liabilities, were 66.3% at September 30, 2008 and 73.4% at September 30, 2007. We expect to maintain a significant portion of our deposits in core account relationships; however, future growth in deposit balances may be achieved primarily through specifically targeted programs offering higher yielding investment alternatives to consumers. The liquidity crisis has caused major competitors to aggressively compete in the retail certificate market requiring us to raise our deposit rates in order to maintain overall deposits. Our average cost of deposits for the twelve months ended September 30, 2008 was 2.72% compared to 3.03% for the twelve months ended September 30, 2007.

Short term funding costs should eventually return to more normal levels once the impact of the Federal Reserves new liquidity initiatives revive the short-term credit markets (LIBOR and Commercial Paper). Therefore, they may remain abnormally high relative to the Federal Funds Rate during the first half of fiscal 2009 eventually returning to normal during the second half of the year.

Brokered deposits were \$79.3 million at September 30, 2008, \$6.9 million at September 30, 2007 and \$7.4 million at September 30, 2006. In relation to total deposits, this represents 4.28% at September 30 2008, .37% at September 30, 2007 and .41% at September 30, 2006. Severe pricing competition from major competitors made brokered deposits a less expensive alternative to retail certificates of deposit. We expect to achieve future growth in brokered deposits as they become an additional source of liquidity.

Borrowings

Borrowings increased \$287.0 million during the current year to \$893.2 million as of September 30, 2008. Borrowings as a percentage of total liabilities, was approximately 32.0% at the end of fiscal 2008 and 24.0% at the end of fiscal 2007. Borrowings from the FHLB of Atlanta increased \$264.0 million and other short-term borrowings increased \$23.0 million from fiscal 2008 to fiscal 2007. Our balance sheet growth was funded by the increase in borrowings. Additionally, advances were a less expensive alternative to certificates of deposit in a the current highly competitive retail market.

Our average cost of FHLB of Atlanta advances, reverse repurchase agreements and other borrowings decreased from 5.23% during the year ended September 30, 2007 to 4.09% during the year ended September 30, 2008. Approximately \$393 million in FHLB of Atlanta advances mature within one year. Other advances are subject to call during the next year but, based on current market interest rates, it is likely that these calls will not be exercised by the FHLB of Atlanta. See Item 8, Note 14 of the Notes to Consolidated Financial Statements.

In accordance with Financial Interpretation Number ("FIN") 46R, we did not include the trust subsidiary, First Financial Capital Trust I, in our consolidated financial statements at September 30, 2008 and 2007. The trust subsidiary was formed to raise capital by issuing preferred securities to investors. We own 100% of the junior subordinated debt of the capital trust. During 2004, this transaction increased our long-term debt by \$46.4 million, decreased debt outstanding on a line of credit with another bank by \$24.1 million and increased cash by \$22.3 million. Costs associated with the debt amounted to \$1.4 million, which are included in other assets. Our full and unconditional guarantee for the preferred securities remains in effect.

During April 2007, we entered into a loan agreement with another bank for a \$25.0 million line of credit. In April 2008, the Board of First Financial approved expanding the line from \$25 million to \$35 million, changing the interest rate from 100 basis points to 150 basis points over the three month LIBOR and extending the maturity from April 2009 to June 2010. At September 30, 2008, the outstanding balance on this line was \$28.0 million.

Capital Resources

Our average stockholders' equity was \$186.2 million, or 6.50% of average assets during fiscal 2008, and during fiscal 2007, average stockholders' equity was \$187.1 million, or 6.99% of average assets. The Consolidated Statements of Stockholders' Equity and Comprehensive Income contained in Item 8 detail the changes in stockholders' equity during the year. Total equity capital decreased from \$185.7 million at September 30, 2007 to \$183.5 million at September 30, 2008. At September 30, 2008, additional paid-in capital increased by \$2.2 million

and retained income increased by \$10.5 million, however these increases were offset by a \$14.8 million increase in accumulated other comprehensive loss. The majority of this loss is made up of \$14.7 million of unrealized net losses on securities available for sale. Our ratio of total capital to total assets was 6.17% at September 30, 2008 compared to 6.85% at September 30, 2007. Our tangible capital ratio at September 30, 2008 was 5.01% compared with 6.07% at September 30, 2007.

Recent common stock repurchases included the purchase of approximately 7,000 shares in fiscal 2008, 554,000 shares in fiscal 2007 and 248,000 shares in fiscal 2006. The dollar amount of such purchases totaled \$190 thousand in fiscal 2008, \$17.0 million in fiscal 2007 and \$7.5 million in fiscal 2006.

During fiscal 2008, our cash dividend payout was 52.58% of per share earnings compared with a payout ratio of 47.62% in fiscal 2007. In November 2007, we increased our cash dividend by 2.0% to \$.255 per share on a quarterly basis. The dividend has not changed since that time.

Accumulated other comprehensive loss at September 30, 2008 of \$16.0 million was comprised of the after tax effect of unrealized losses on securities available for sale of \$15.5 million and a cumulative effect of change for SFAS 158, net of taxes, of \$500 thousand. At September 30, 2007 accumulated other comprehensive loss was the after tax effect of unrealized losses on securities available for sale of \$736 thousand.

First Federal is required to meet the regulatory capital requirements of the OTS, which currently include several measures of capital. Under current regulations, First Federal meets all requirements including those to be categorized as well-capitalized under risk-based capital guidelines. Current capital distribution regulations of the OTS allow the greatest flexibility to well-capitalized institutions.

Asset and Liability Management

Asset/liability management is the process by which we are constantly changing the mix, maturity and pricing of assets and liabilities in an attempt to reduce a materially adverse impact on earnings resulting from the direction, frequency and magnitude of change in market interest rates. Although the net interest income of any financial institution is perceived as being vulnerable to fluctuations in interest rates, management has attempted to minimize this vulnerability.

Working principally through the Asset and Liability Committee of First Federal, we have established policies and we monitor results to minimize interest rate risk. We utilize measures such as static and dynamic gap, which are measurements of the differences between interest-sensitive assets and interest-sensitive liabilities repricing for a particular time period including modeling that includes and excludes loan prepayment assumptions. More important may be the process of evaluating how particular assets and liabilities are affected by changes in interest rates or selected indices as they reprice. Asset/liability modeling is performed by management to assess varying interest rate and balance sheet mix assumptions.

We may adjust our interest rate sensitivity position primarily through decisions on the pricing, maturity and marketing of particular deposit and loan products and by decisions regarding the structure and maturities of FHLB advances and other borrowings. We continue to emphasize adjustable-rate mortgage real estate lending and short-term consumer and commercial business lending to accomplish our objectives.

The following table sets forth in summary form the repricing attributes of our interest-earning assets and interest-bearing liabilities as of September 30, 2008. The time periods in the table represent the time period before an asset or liability matures or can be repriced.

INTEREST RATE SENSITIVITY ANALYSIS AT SEPTEMBER 30, 2008
(dollars in thousands)

	Interest Rate Sensitivity Period					
	3 Months	4-6 Months	7-12 Months	13 Months - 2 years	Over 2 Years	Total
Interest-earning assets:						
Loans (1)	\$ 606,549	\$ 159,542	\$ 407,058	\$ 293,117	\$ 885,608	\$ 2,351,874
Mortgage-backed securities (2)	79,110	31,144	57,295	75,480	125,123	368,152
Interest-earning deposits, investments and FHLB stock	23,549	3,100	4,008	200	47,882	78,739
Total interest-earning assets	709,208	193,786	468,361	368,797	1,058,613	2,798,765
Interest-bearing liabilities:						
Deposits:						
Checking accounts (3)	4,270	4,270	8,541	4,390	277,148	298,619
Savings accounts (3)	9,464	9,464	18,928	17,879	73,731	129,466
Money market accounts (3)	52,326	52,326	104,652	67,235	68,789	345,328
Certificate accounts	362,078	168,094	175,832	116,781	79,223	902,008
Total deposits	428,138	234,154	307,953	206,285	498,891	1,675,421
Borrowings (4)	421,000			125,000	347,205	893,205
Total interest-bearing liabilities	849,138	234,154	307,953	331,285	846,096	2,568,626
Current period gap	\$ (139,930)	\$ (40,368)	\$ 160,408	\$ 37,512	\$ 212,517	\$ 230,139
Cumulative gap	\$ (139,930)	\$ (180,298)	\$ (19,890)	\$ 17,622	\$ 230,139	
Percent of total assets	(4.71%)	(6.06%)	(0.67%)	0.59%	7.74%	

Assumptions:

- (1) Fixed-rate loans are shown in the time frame corresponding to contractual principal amortization schedules. Adjustable-rate loans are shown in the time frame corresponding to the next contractual interest rate adjustment date. The fixed and variable rate loans shown also take into account the Company's estimates of prepayments of fixed and adjustable rate loans.
- (2) Mortgage-backed securities are shown at repricing dates but also include prepayment estimates.
- (3) Decay rates approximate 5.7% in the first year and 1.5% in the second year for checking accounts, 29.2% in the first year and 13.8% in the second year for savings accounts and 60.6% in the first year and 19.5% in the second year for money market accounts.
- (4) Borrowings include fixed-rate FHLB of Atlanta advances at the earlier of maturity date or expected call dates. For purposes of the table above, the Company has assumed under current interest rates that certain advances with call provisions will extend and certain advances will be called.

Based on our September 30, 2008 dynamic gap position, which considers expected prepayments of loans and mortgage-backed securities, in a one-year time period \$1.371 billion in interest-earning assets will reprice and approximately \$1.391 billion in interest-bearing liabilities will reprice. This current dynamic gap position results in a negative one-year gap position of \$19.9 million, or .67% of assets. Our one year dynamic gap position at September 30, 2007 was a negative one-year gap position of \$130.7 million, or 4.82% of assets. The above table does not take into consideration the repricing dynamics in adjustable-rate loans, such as minimum and maximum annual and lifetime interest rate adjustments and also the index utilized and whether the index is a current or lagging index. Included in the above numbers are our estimates of prepayments of fixed-rate loans and mortgage-backed securities in a one-year period and our expectation that under current interest rates, certain advances of the FHLB of Atlanta will not be called. Also included in the above table are our estimates of core deposit decay rates, based on recent studies and regression analysis of our core deposits.

Under normal economic conditions, a negative gap would suggest that net interest income would increase if market rates declined. A rise in market rates would normally have a detrimental effect on net interest income based on a negative gap. The opposite would generally occur when an institution has a positive gap position. As market interest rates declined and steepened during 2008, our portfolio rebalancing into higher yielding commercial and consumer products combined with our negative gap, greatly improve our interest margin and net interest income.

Derivatives and Hedging Activities

Derivative transactions may be used by us to better manage our interest rate sensitivity to reduce risks associated with our lending, deposit taking and borrowing activities. We recognize all derivatives as either assets or

liabilities on the consolidated statement of financial condition and report these instruments at fair value with realized and unrealized gains and losses included in earnings.

By using derivative instruments, we are exposed to credit and market risk. Credit risk is the risk due to uncertainty in a counterparty's ability to meet its obligations. We minimize the credit risk in derivative instruments by entering into transactions with high-quality counterparties as evaluated by management. Market risk is the adverse effect on the value of a financial instrument from a change in interest rates or implied volatility of interest rates. We manage the market risk associated with interest rate contracts by establishing and monitoring limits as to the types and degree of risk that may be undertaken. The market risk associated with derivatives used for interest rate risk management activity is fully incorporated into our interest rate sensitivity analysis.

The fair value of our derivative assets related to commitments to originate fixed rate loans held for sale and forward sales commitments was not significant at September 30, 2008. During the quarter ended March 31, 2007 we began using free standing derivatives (economic hedges) to hedge the risk of changes in fair value of MSRs, with the resulting gain or loss reflected in income. Our derivative and hedging activities are discussed in further detail in Note 20 of the Notes to Consolidated Financial Statements and currently consist of forward sales contracts to purchase mortgage-backed securities to hedge the risk in entering into commitments to originate fixed-rate residential loans that will be sold.

Off-Balance Sheet Arrangements

In the normal course of operations, we engage in a variety of financial transactions that, in accordance with generally accepted accounting principles, are not recorded in the financial statements, or are recorded in amounts that differ from the notional amounts. These transactions involve, to varying degrees, elements of credit, interest rate, and liquidity risk. Such transactions are used by us for general corporate purposes or for customer needs. Corporate purpose transactions are used to help manage credit, interest rate, and liquidity risk or to optimize capital. Customer transactions are used to manage customers' requests for funding.

Our off-balance sheet arrangements, which principally include lending commitments and derivatives, are described below.

Lending Commitments

Lending commitments include loan commitments, standby letters of credit, unused business and consumer credit card lines, and documentary letters of credit. These instruments are not recorded in the consolidated statement of financial condition until funds are advanced under the commitments. We provide these lending commitments to customers in the normal course of business.

For commercial customers, loan commitments generally take the form of revolving credit arrangements to finance customers' working capital requirements. For retail customers, loan commitments are generally lines of credit secured by residential property. At September 30, 2008, commercial and retail loan commitments totaled \$130.8 million, and standby letters of credit totaled \$2.3 million. Standby letters of credit are conditional commitments to guarantee performance, typically of a contract or the financial integrity of a customer, to a third party. Unused business, personal and credit card lines, which totaled \$332.4 million at September 30, 2008, are generally for short-term borrowings.

We apply essentially the same credit policies and standards as we do in the lending process when making these commitments. See Note 20 of the Notes to Consolidated Financial Statements in Item 8 of this document for additional information regarding lending commitments.

Derivatives

In accordance with SFAS No. 133, "*Accounting for Derivative Instruments and Hedging Activities*", we record derivatives at fair value, as either assets or liabilities, on the consolidated balance sheets. Derivative transactions are measured in terms of the notional amount, but this amount is not recorded on the balance sheet and is not, when viewed in isolation, a meaningful measure of the risk profile of the instrument. The notional amount is not exchanged, but is used only as the basis upon which interest and other payments are calculated. See Note 20 of the

Notes to Consolidated Financial Statements in Item 8 of this document for additional information regarding derivatives.

In addition to our commitments and derivatives of the types described above, at September 30, 2008, our off balance sheet arrangements include a \$1.4 million interest in First Financial Capital Trust I (representing all of the common securities of the trust), which in March 2004 issued \$45.0 million of capital securities. In connection therewith, we issued \$46.4 million of junior subordinated debentures to the Trust. See Note 16 of the Notes to Consolidated Financial Statements in Item 8 of this document.

Liquidity

Our desired level of liquidity is determined by management in conjunction with the Asset and Liability Committee of First Federal and officers of other affiliates. The level of liquidity is based on management's strategic direction, commitments to make loans and the Committee's assessment of First Federal's ability to generate funds. Historically, sources of liquidity have included net deposits to savings accounts, amortizations and prepayments of loans, FHLB advances, reverse repurchase agreements and sales/repayments/amortization of securities and loans held for sale.

Proper liquidity management is crucial to ensure that we are able to take advantage of new business opportunities as well as meet the demands of our customers. In this process, the focus is on assets and liabilities and on the manner in which they combine to provide adequate liquidity to meet our needs. The table below summarizes future contractual obligations as of September 30, 2008.

Contractual Obligations

CONTRACTUAL OBLIGATIONS **(dollars in thousands)**

	At September 30, 2008					
	Payments Due by Period					
	Within One Year	Over One to Two Years	Over Two to Three Years	Over Three to Five Years	After Five Years	Total
Certificate accounts	\$ 637,486	\$ 126,772	\$ 86,833	\$ 50,882	\$ 35	\$ 902,008
Borrowings	393,000	153,000	75,000	25,005	247,200	893,205
Purchases	1,770					1,770
Operating leases	1,977	1,492	1,232	1,972	3,777	10,450
Total contractual obligations	\$ 1,034,233	\$ 281,264	\$ 163,065	\$ 77,859	\$ 251,012	\$ 1,807,433

Our most stable and traditional source of funding has been the attraction and retention of deposit accounts, the success of which we believe is based primarily on the strength and reputation of First Federal, effective marketing and rates paid on deposit accounts. First Federal has a major market share of deposits in Charleston, Berkeley and Dorchester Counties and a significant share of deposits in Georgetown, Horry and Florence Counties. As a relatively new entrant into Beaufort County, South Carolina and Brunswick County, North Carolina, we hold a small market share. By continuing to promote innovative new products, pricing competitively and encouraging the highest level of quality in customer service, we continue to successfully meet challenges from competitors, many of which are non-banking entities offering investment products.

Other primary sources of funds include borrowings from the FHLB of Atlanta, principal repayments on loans and mortgage-backed securities, reverse repurchase agreements and sales of loans. To minimize vulnerability, we have back-up sources of funds available, including excess borrowing capacity with the FHLB of Atlanta and securities available for sale. The FHLB of Atlanta has a general policy of limiting borrowing capacity to a percent of assets, regardless of the level of advances that could be supported by available collateral for such advances. This

policy serves to define an upper limit for FHLB advances for First Federal of approximately \$1.2 billion at September 30, 2008, based on our current approved limit.

During fiscal year 2008, we experienced a net cash outflow from investing activities of \$315.5 million, consisting principally of purchases of \$145.6 million in mortgage-backed securities available for sale, \$2.4 million in net purchases of investment securities available for sale, a net purchase of \$12.2 million in FHLB stock, an increase of \$213.1 million in net loans, \$18.3 million in purchases of insurance subsidiaries and net purchase of office properties and equipment of \$9.1 million. This was partially offset by the proceeds from sales and repayments on mortgage-backed securities available for sale of \$75.8 million as well as proceeds from sales and maturity of investments available for sale of \$1.9 million, and sales of real estate owned of \$5.2 million. During fiscal 2008 significant operating activities included \$203.4 million of residential loans originated for sale with sales of \$203.0 million. Financing activities included net deposit loss of \$2.9 million, and net borrowings of \$287.0 million during fiscal 2008.

Due to higher originations, proceeds from the sale of loans, was \$203.0 million in fiscal 2008 compared with \$174.7 million in fiscal 2007. Based on recent asset/liability management objectives and low historical interest rates, we expect to continue our strategy of selling selected longer-term, fixed-rate loans in fiscal 2009. Management, however, anticipates the volume of loan sales may improve during fiscal 2009 if refinancing activity increases during the year. We may increase our holdings of investments and mortgage-backed securities during fiscal 2009 as we expect loan portfolio growth to be below historical levels.

Parent Company Liquidity

As a holding company, First Financial conducts its business through its subsidiaries. Potential sources for the payment of principal and interest on our borrowings and for the periodic repurchase programs include: (i) dividends from First Federal and other subsidiaries; (ii) payments from existing cash reserves and sales of marketable securities; and (iii) interest on our investment securities. As of September 30, 2008, we had cash reserves and existing marketable securities of \$7.7 million compared with \$6.0 million at September 30, 2007.

First Federal's ability to pay dividends and make other capital contributions to First Financial is restricted by regulation and may require regulatory approval. Such distributions may also depend on First Federal's ability to meet minimum regulatory capital requirements in effect during the period. Current OTS regulations permit institutions meeting certain capital requirements and subject to "normal supervision" to pay out 100% of net income for the year-to-date plus retained net income for the two preceding years, so long as it is well-capitalized after the distribution. First Federal is currently subject to "normal supervision" as to the payment of dividends.

Results of Operations

Net Interest Income

Our largest component of operating earnings is net interest income. One of our strategic initiatives has been to reduce our reliance on net interest income through expansion of other sources of revenues. Net interest income totaled \$91.4 million in fiscal 2008 compared with \$82.8 million in fiscal 2007 and \$79.7 million in fiscal 2006. Net interest income represented approximately 59.2% of the net revenues in fiscal 2008 compared with 60.9% in fiscal 2007 and 60.5% in fiscal 2006. The level of net interest income is determined by balances of interest-earning assets and interest-bearing liabilities and successfully managing the net interest margin. Changes in interest rates paid on assets and liabilities, the rate of growth of the asset and liability base, the ratio of interest-earning assets to interest-bearing liabilities and management of the balance sheet's interest rate sensitivity all factor into changes in net interest income.

Net interest income increased 10.3% to \$91.4 million in fiscal 2008 compared to an increase in net interest income of 3.9% in fiscal 2007 and an increase of 4.3% in fiscal 2006. The net interest margin increased in fiscal 2008 to 3.41% from 3.36% in fiscal 2007. While there was a 29 basis point decrease in the yield on earning assets, the net interest margin benefited from a 36 basis point decrease in the average cost of interest bearing liabilities. Average earning assets increased \$214.0 million during fiscal 2008, which was a contributing factor in the level of net interest income.

The net interest margin increased to 3.36% in 2007 from 3.35% in fiscal 2006. Our average cost of interest-bearing liabilities increased to 3.53% in fiscal 2007 from 3.05% in fiscal 2006. Average yields on interest-earning assets increased from 6.35% in fiscal 2006 to 6.82% in fiscal 2007.

More competitive pricing on deposits and a very competitive lending environment will be factors influencing the net interest margin during fiscal 2009.

Average Yields and Rates

AVERAGE YIELDS AND RATES (dollars in thousands)

The following table sets forth certain information relating to categories of our interest earning assets and interest bearing liabilities for the periods indicated. All average balances are computed on a monthly basis. Non-accruing loans have been included in the table as loans carrying a zero yield.

	Year Ended September 30,								
	2008			2007			2006		
	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost
Interest-earning assets:									
Loans ¹	\$ 2,248,516	\$ 153,540	6.83 %	\$ 2,114,467	\$ 151,724	7.18 %	\$ 1,995,795	\$ 134,416	6.73 %
Mortgage-backed securities	353,809	17,560	4.96	283,958	12,505	4.40	326,212	13,410	4.11
Investment securities	63,681	3,434	5.39	56,005	3,349	5.98	52,597	3,110	5.91
Other interest-earning assets ²	10,578	238	2.25	8,163	466	5.71	8,456	404	4.78
Total interest-earning assets	2,676,584	174,772	6.53	2,462,593	168,044	6.82	2,383,060	151,340	6.35
Non-interest-earning assets	186,537			214,770			215,220		
Total assets	<u>\$ 2,863,121</u>			<u>\$ 2,677,363</u>			<u>\$ 2,598,280</u>		
Interest-bearing liabilities:									
Deposit accounts:									
Checking accounts	\$487,182	\$ 2,051	0.42	\$ 474,998	846	0.18	\$ 500,511	1,100	0.22
Savings accounts	130,327	697	0.53	141,107	772	0.55	159,024	870	0.55
Money market accounts	370,692	10,869	2.93	375,018	14,244	3.80	328,502	10,125	3.08
Certificate accounts	872,166	37,029	4.25	859,278	40,131	4.67	766,214	30,313	3.96
Total deposits	1,860,367	50,646	2.72	1,850,401	55,993	3.03	1,754,251	42,408	2.42
FHLB advances	713,334	28,957	4.06	483,033	24,127	5.00	476,570	22,561	4.73
Other borrowings	60,338	3,805	6.31	83,426	5,094	6.11	119,320	6,646	5.57
Total interest-bearing liabilities	2,634,039	83,408	3.17	2,416,860	85,214	3.53	2,350,141	71,615	3.05
Non-interest-bearing liabilities	42,863			73,390			72,855		
Total liabilities	2,676,902			2,490,250			2,422,996		
Stockholders' equity	186,219			187,113			175,284		
Total liabilities and stockholders' equity	<u>\$ 2,863,121</u>			<u>\$ 2,677,363</u>			<u>\$ 2,598,280</u>		
Net interest income/gross margin		<u>\$ 91,364</u>	3.36 %		<u>\$ 82,830</u>	3.29 %		<u>\$ 79,725</u>	3.30 %
Net yield on average interest-earning assets			3.41 %			3.36 %			3.35 %
Percent of average interest-earning assets to average interest-bearing liabilities			101.62 %			101.89 %			101.40 %

¹ Average balances of loans include non-accrual loans.

² Includes interest-earning deposits, which are classified as cash equivalents in the Company's Consolidated Statements of Financial Condition contained in Item 8 herein.

Rate/Volume Analysis

The following table presents the dollar amount of changes in interest income and interest expense attributable to changes in volume and the amount attributable to changes in rate. The combined effect of changes in both volume and rate has been allocated proportionately to the change as a result of volume and rate.

RATE/VOLUME ANALYSIS

(dollars in thousands)

	Year Ended September 30, 2008 versus 2007 Increase (Decrease)			Year Ended September 30, 2007 versus 2006 Increase (Decrease)		
	Due to			Due to		
	Volume	Rate	Net	Volume	Rate	Net
Interest income:						
Loans	\$ 9,336	\$ (7,520)	\$ 1,816	\$ 8,189	\$ 9,119	\$ 17,308
Mortgage-backed securities	3,340	1,715	5,055	(1,818)	913	(905)
Investment securities	475	(389)	86	202	37	239
Other interest-earning assets	84	(312)	(228)	(14)	76	62
Total interest income	13,235	(6,506)	6,729	6,559	10,145	16,704
Interest expense:						
Deposit accounts						
Checking accounts	23	1,182	1,205	(56)	(198)	(254)
Savings accounts	(51)	(24)	(75)	(98)		(98)
Money market accounts	(162)	(3,213)	(3,375)	1,554	2,565	4,119
Certificate accounts	588	(3,689)	(3,101)	3,965	5,853	9,818
Total deposits	398	(5,744)	(5,346)	5,365	8,220	13,585
Borrowings	8,526	(4,985)	3,541	(1,847)	1,861	14
Total interest expense	8,924	(10,729)	(1,805)	3,518	10,081	13,599
Net interest income	\$ 4,311	\$ 4,223	\$ 8,534	\$ 3,041	\$ 64	\$ 3,105

Provision for Loan Losses

The provision for loan losses is a charge to earnings in a given period to maintain the allowance for loan losses at an adequate level. Our provision for loan losses was \$16.9 million in fiscal 2008 compared to \$5.2 million in fiscal 2007 and \$4.9 million in fiscal 2006. The provision was significantly higher in fiscal 2008 than in fiscal 2007 as a result of increased real estate, commercial business and consumer loan charge-offs and as a result of incremental changes in components of the loan portfolio along with changes in the components of classified credits. As a result, the allowance for loan losses was \$24.0 million at September 30, 2008 and \$15.4 million at September 30, 2007. This represented 1.02% of loans at the end of fiscal 2008 and .72% of loans at the end of fiscal 2007.

Net charge-offs in fiscal 2008 totaled \$8.4 million, or .37% of average loans, compared with \$4.3 million in fiscal 2007, or .21% of average loans. Net loan charge-offs of \$4.3 million in 2006 resulted in charge-offs to average loans of .22%. Charge-offs increased from fiscal 2007 to fiscal 2008 in all categories. Charge-offs decreased slightly from fiscal 2006 to fiscal 2007 as a result of decreasing levels of real estate and mobile home loan charge-offs offset by increases in commercial business and consumer loan charge-offs.

Non-Interest Income

The following table presents a comparative summary of the major components of non-interest income for years ended September 30.

NON-INTEREST INCOME (dollars in thousands)

	Years Ended September 30,					
	2008		2007		2006	
	Amount	% Change	Amount	% Change	Amount	% Change
Net gain (loss) on sale of investment and mortgage-backed securities	\$ 750	181.95 %	\$ 266	5220.00 %	\$ 5	(108.93) %
Brokerage fees	2,923	14.58	2,551	(8.14)	2,777	4.95
Commissions on insurance	23,773	13.94	20,865	6.42	19,607	4.90
Other agency income	1,057	(10.50)	1,181	(0.34)	1,185	(10.36)
Service charges and fees on deposit accounts	23,901	10.83	21,566	6.41	20,266	34.63
Mortgage banking income	7,456	75.23	4,255	(14.71)	4,989	13.80
Gains on disposition of assets	1,052	357.39	230	(76.74)	989	(50.08)
Other	1,970	(14.46)	2,303	7.77	2,137	(36.08)
Total non-interest income	\$ 62,882	18.16 %	\$ 53,217	2.43 %	\$ 51,955	9.69 %

Non-interest income increased by \$9.7 million, or 18.2%, in fiscal 2008 to \$62.9 million from \$53.2 million in fiscal 2007. Principal increases in fiscal 2008 included higher insurance revenues, increasing \$2.9 million, higher service charges and fees on deposits, increasing \$2.3 million and an increase of \$3.2 million in mortgage banking income. Insurance revenues are now the single largest source of other revenues and growth in insurance revenues in fiscal 2008 was principally attributable to expansion in the overall agency system including the acquisition of the Somers-Pardue agency during fiscal 2008. Contingent performance-based insurance revenues totaled approximately \$3.2 million in fiscal 2008, \$2.9 million in fiscal 2007 and \$3.1 million in fiscal 2006, comprising 13.3% of insurance revenues in fiscal 2008, 13.7% of insurance revenues in fiscal 2007, and 14.4% of insurance revenues in fiscal 2006.

Although revenues from non-banking activities have expanded in recent years, service charges and fees on deposit accounts remain a significant component of non-interest income. Comprising 38.0% of non-interest income in fiscal 2008, 40.5% in fiscal 2007 and 39.0% in fiscal 2006, service charges and fees on deposit accounts increased to \$23.9 million in fiscal 2008 from \$21.6 million in fiscal 2007. We have expanded sales efforts to increase checking accounts and business checking relationships.

Mortgage banking income was \$7.5 million in fiscal 2008, \$4.3 million in fiscal 2007 and \$5.0 million during 2006. As a result of adopting SFAS No. 156, "Accounting for Servicing of Financial Assets – an amendment of FASB Statement No. 140" on October 1, 2006, all separately recognized MSRs created in the securitization or sale of loans after September 30, 2006 are recognized initially at fair value and will be reported in the Consolidated Statement of Operations for the reporting period as a change in the fair value of mortgage servicing rights. During fiscal 2008, we recognized in earnings \$2.7 million in net gains on free standing derivatives used to economically hedge the MSR, offset by a decrease in MSR values of \$475 thousand. During fiscal 2007, we recognized earnings of \$134 thousand in net losses on free standing derivatives used to economically hedge the MSR, offset by an increase in MSR values of \$724 thousand. During fiscal 2006, the amortization of servicing rights totaled \$1.9 million and impairment recovery was \$561 thousand. Our adoption of SFAS 156 on October 1, 2006 and the subsequent election to carry the MSR at fair value resulted in no further amortization of servicing rights.

Gains on dispositions of assets were \$1.1 million for fiscal 2008 and \$230 thousand for fiscal 2007. The majority of the gains in fiscal 2008 and 2007 were for excess properties not expected to be used for branch operations.

Non-Interest Expense

In the more competitive financial services market of recent years, management recognizes that there are operational costs which continue to increase as a result of the present operating climate for regulated financial institutions. The technical and operating environment for financial institutions continues to require a well-trained and motivated staff, superior operating systems and sophisticated marketing efforts. Non-interest expense as a percent of average assets provides management with a more comparable picture as company assets continue to grow.

NON-INTEREST EXPENSE (dollars in thousands)

	Years Ended September 30,					
	2008		2007		2006	
	Amount	% Change	Amount	% Change	Amount	% Change
Salaries and employee benefits	\$ 65,282	11.27 %	\$ 58,669	7.36 %	\$54,648	8.57 %
Occupancy costs	8,243	24.29	6,632	15.26	5,754	9.96
Marketing	2,408	6.50	2,261	(3.91)	2,353	19.20
Furniture and equipment expense	5,876	8.69	5,406	9.66	4,930	(1.48)
Amortization of intangibles	617	33.84	461	(3.15)	476	(1.65)
Other	17,884	5.16	17,007	7.81	15,775	13.23
Total non-interest expense	\$100,310	10.92 %	\$ 90,436	7.74 %	\$83,936	7.86 %

Comparison of Non-Interest Expense

We expand our scope of financial services by building and refurbishing branch bank sales offices, by expanding our in-store banking offices and by targeting growth in non-bank services through acquisitions and organic growth of insurance, brokerage and trust services. We also must continually make strategic investments in staff training, in product and service offerings and in technology systems that will support our operations in a safe and secure environment.

Total non-interest expenses increased \$9.9 million, or 10.9%, during fiscal 2008. During fiscal 2007, total non-interest expenses increased by \$6.5 million, or 7.7%. During fiscal 2008, we opened two in-store offices in Lowes Grocery Stores and one traditional office, we relocated one office and closed one office, while in 2007 we opened two in-store sales offices in Wal-Mart Supercenters and a Kroger Grocery Store and one traditional office. Additionally, during fiscal 2006, we opened two in-store sales offices in Wal-Mart Supercenters. Salaries and employee benefits increased \$6.6 million, or 11.3% during fiscal 2008, following an increase of \$4.0 million, or 7.4% in fiscal 2007. These increases are principally attributable to staffing for in-store expansion and growth in banking and insurance sales staff, specifically the acquisition of the Somers-Pardue agency. Our full time equivalent staff numbered 915 at September 30, 2008 compared with 873 at September 30, 2007 and 847 at September 30, 2006.

Occupancy costs of \$8.2 million increased by 24.3% during fiscal 2008. This increase was attributable to financial center office expansion and the reduction of rental income as a result of the major renovations of the building adjacent to the operations center in Charleston.

Furniture and equipment costs of \$5.9 million increased by 8.7% during fiscal 2008. This increase was attributable to the major renovations of the operations center in Charleston, the operations center in the north region and the expansion of branch sales offices. Furniture and equipment expense for fiscal 2007 increased slightly from fiscal 2006.

Other non-interest expenses increased \$877 thousand, or 5.2%, in fiscal 2008. This increase is partially attributable to an increase in internet banking costs and an increase in our FDIC assessment. See Note 3 of the Notes to Consolidated Financial Statements in Item 8 of this document for additional information regarding Other Expenses. Other non-interest expenses increased \$1.2 million, or 7.8%, in fiscal 2007. This was attributable to the overall growth of the branch network and the support services necessary to support that growth. Other expense categories such as marketing expenditures and the amortization of intangibles have not varied materially between fiscal 2008 and the previous two fiscal years.

During fiscal 2007, the FDIC reinstated deposit insurance assessments for the purpose of increasing reserve ratios of the Deposit Insurance Fund. As an eligible institution, we received a one-time credit of \$1.6 million. In 2008 we exhausted our credit and will begin to incur assessments at the full rate for our institution. We anticipate that with the changes announced by the FDIC for calendar year 2009 that our assessment base will be in the range of 12 to 14 basis points of total deposits for the first quarter and 8 to 21 basis points quarterly thereafter.

Our efficiency ratio was 64.3% in fiscal 2008, 67.2% in fiscal 2007, and 64.7% in fiscal 2006. First Federal's efficiency ratio was 58.5% in fiscal 2008, 61.21% in fiscal 2007, and 58.04% in fiscal 2006. Management continues to target lower expense ratios as an important strategic goal. During the past five years, we have increased our acquisitions of companies that generate higher levels of non-interest revenues. Insurance agencies have higher efficiency ratios than traditional banking operations.

Income Tax Expense

Income taxes totaled \$14.4 million in fiscal 2008, \$15.4 million in fiscal 2007, and \$15.2 million in fiscal 2006. Our effective tax rate was 38.8% in fiscal 2008, 38.0% in fiscal 2007 and 35.5% in fiscal 2006. In fiscal 2007, due to state tax legislation affecting the treatment of dividends paid by Real Estate Investment Trusts, the Company recorded an additional tax provision of \$931 thousand net of federal tax benefit, thereby causing the effective tax rate to increase to 38.0% for fiscal 2007. Without the additional tax provision, the effective tax rate for the Company would have been 35.7%.

We continually monitor and evaluate the potential impact of current events and circumstances on the estimates and assumptions used in the analysis of our income tax positions and, accordingly, our effective tax rate may fluctuate in the future.

Regulatory and Accounting Issues

Fair Value Measurements

In September 2006, the FASB issued SFAS No. 157, "*Fair Value Measurements*" ("SFAS 157"). This Statement defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. We are analyzing SFAS 157 and its impact on our consolidated financial condition and results of operations.

The Fair Value Option for Financial Assets and Financial Liabilities

In February 2007, the FASB issued SFAS No. 159, "*The Fair Value Option for Financial Assets and Financial Liabilities-Including an amendment of FASB Statement No. 115*" ("SFAS 159"), which permits companies to choose to measure many financial instruments and certain other items at fair value. Subsequent changes in fair value of these financial assets and liabilities would be recognized in earnings when they occur. The objective of SFAS 159 is to improve financial reporting by providing companies with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS 159 is effective for fiscal years beginning after November 15, 2007, with earlier adoption permitted. Management is currently evaluating the impact and timing of the adoption of SFAS 159 on our consolidated financial position, results of operations or cash flows.

Business Combinations

In December 2007, the FASB issued SFAS No. 141 (revised 2007), “*Business Combinations*” (“SFAS 141R”). SFAS 141R broadens the guidance of SFAS 141, extending its applicability to all transactions and other events in which one entity obtains control over one or more other businesses. It broadens the fair value measurement and recognition of assets acquired, liabilities assumed, and interests transferred as a result of business combinations. SFAS 141R expands on required disclosures to improve the statement users’ abilities to evaluate the nature and financial effects of business combinations. SFAS 141R is effective for the first annual reporting period beginning on or after December 15, 2008. The Company does not expect the adoption of SFAS 141R to have a material effect on its consolidated financial condition, results of operations, or cash flows, except as it relates to potential future acquisitions.

Noncontrolling Interests in Consolidated Financial Statements

In December 2007, the FASB issued SFAS No. 160, “*Non-controlling Interests in Consolidated Financial Statements*” (“SFAS 160”). SFAS No. 160 amends ARB 51 to establish accounting and reporting standards for the non-controlling (minority) interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a non-controlling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements and establishes a single method of accounting for changes in a parent’s ownership interest in a subsidiary that do not result in deconsolidation. SFAS No. 160 is effective for fiscal years beginning on or after December 15, 2008 (as of October 1, 2009 for the Company). The Company has not yet determined the impact, if any, that SFAS No. 160 will have on its consolidated financial condition, results of operations and cash flows.

Disclosures about Derivative Instruments and Hedging Activities

In March of 2008, the FASB issued Statement of Financial Accounting Standards No. 161, “*Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133*” (“SFAS 161”). SFAS 161 requires entities to provide greater transparency about how and why the entity uses derivative instruments, how the instruments and related hedged items are accounted for under SFAS 133, and how the instruments and related hedged items affect the financial position, results of operations, and cash flows of the entity. SFAS 161 is effective for fiscal years beginning after November 15, 2008. We are currently evaluating the impact, if any, that SFAS 161 will have on our consolidated financial statements.

Hierarchy of Generally Accepted Accounting Principles

In May 2008, the FASB issued Statement of Financial Accounting Standards No. 162, “*Hierarchy of Generally Accepted Accounting Principles*” (“SFAS 162”). This statement is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements of nongovernmental entities that are presented in conformity with GAAP. This statement will be effective 60 days following the U.S. Securities and Exchange Commission’s approval of the Public Company Accounting Oversight Board amendment to AU Section 411, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles*. We believe that SFAS 162 will have no effect on our financial statements.

Impact of Inflation and Changing Prices

The Consolidated Financial Statements contained in Item 8 of this document and related data have been prepared in accordance with generally accepted accounting principles which require the measurement of financial position and operating results in terms of historical dollars, without considering changes in the relative purchasing power of money over time because of inflation.

Unlike most industrial companies, virtually all of the assets and liabilities of a financial institution are monetary. As a result, interest rates have a more significant impact on a financial institution’s performance than the effect of general levels of inflation. Interest rates do not necessarily move in the same direction or in the same magnitude as the price of goods and services since such prices are affected by inflation. We are committed to continuing to actively manage the gap between our interest-sensitive assets and interest-sensitive liabilities.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

See Item 1, “Business – Asset and Liability Management” and Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Asset/Liability Management.”

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
First Financial Holdings, Inc

We have audited the accompanying consolidated statement of financial condition of First Financial Holdings, Inc. (a Delaware corporation) and Subsidiaries as of September 30, 2008, and the related consolidated statements of operations, stockholders' equity and comprehensive income, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our 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 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 audit provides 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 Holdings, Inc. and Subsidiaries as of September 30, 2008, and the results of their operations and their cash flows for the year ended September 30, 2008 in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), First Financial Holding, Inc's internal control over financial reporting as of September 30, 2008, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated December 12, 2008, expressed an unqualified opinion.

As discussed in Note 1 to the consolidated financial statements, effective October 1, 2007, the Company adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," and, effective January 1, 2008, the provisions of SEC Staff Accounting Bulletin No. 109, "Restatement of SAB No. 105, Application of Accounting Principles to Loan Commitments."

/s/ GRANT THORNTON LLP

Raleigh, North Carolina
December 12, 2008

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
First Financial Holdings, Inc.

We have audited First Financial Holdings, Inc.'s (a Delaware corporation) internal control over financial reporting as of September 30, 2008, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). First Financial Holdings, Inc.'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 First Financial Holdings, Inc.'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, 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 generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

In our opinion, First Financial Holdings, Inc. maintained, in all material respects, effective internal control over financial reporting as of September 30, 2008, based on criteria established in *Internal Control—Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statement of financial condition of First Financial Holdings, Inc. and Subsidiaries as of September 30, 2008, and the related consolidated statements of operations, stockholders' equity and comprehensive income, and cash flows for the year ended September 30, 2008, and our report dated December 12, 2008, expressed an unqualified opinion and contains an explanatory paragraph relating to the adoption of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" and SEC Staff Accounting Bulletin No. 109, "Restatement of SAB No. 105, Application of Accounting Principles to Loan Commitments."

/s/ GRANT THORNTON LLP

Raleigh, North Carolina
December 12, 2008

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
First Financial Holdings, Inc. and Subsidiaries:

We have audited the accompanying consolidated statements of financial condition of First Financial Holdings, Inc. and Subsidiaries (the Company) as of September 30, 2007, and the related consolidated statements of operations, stockholders' equity and comprehensive income, and cash flows for each of the years in the two-year period ended September 30, 2007. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 the Company as of September 30, 2007, and the results of their operations and their cash flows for each of the years in the two-year period ended September 30, 2007, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, the Company adopted the provisions of Statement of Financial Accounting Standards No. 123R, *Share-Based Payment*, effective October 1, 2005, Statement of Financial Accounting Standards No. 156, *Accounting for Servicing of Financial Assets – an amendment of FASB Statement No. 140*, effective October 1, 2006, and Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)*, effective September 30, 2007.

/s/ KPMG LLP

Raleigh, North Carolina
December 14, 2007

FIRST FINANCIAL HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(in thousands, except share data)

	September 30, 2008	September 30, 2007
ASSETS		
Cash and cash equivalents	\$ 62,949	\$ 77,334
Investments available for sale, at fair value	17,095	23,959
Investments held to maturity	2,043	2,042
Investment in capital stock of FHLB	41,832	29,628
Mortgage-backed securities available for sale, at fair value	351,109	297,011
Loans receivable, net of allowance of \$23,990 and \$15,428	2,324,537	2,134,458
Loans held for sale	8,731	6,311
Residential mortgage servicing rights	12,550	12,831
Accrued interest receivable	12,035	11,538
Office properties and equipment, net	78,738	74,303
Real estate and other assets acquired in settlement of loans	4,286	1,513
Goodwill, net	27,892	21,679
Intangible assets, net	8,349	948
Other assets	21,848	17,815
Total assets	<u>\$ 2,973,994</u>	<u>\$ 2,711,370</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposit accounts		
Noninterest-bearing	\$ 175,681	\$ 199,005
Interest bearing	1,675,421	1,655,046
Total deposits	1,851,102	1,854,051
Advances from FHLB	818,000	554,000
Other short-term borrowings	28,813	5,815
Long-term debt	46,392	46,392
Advances by borrowers for taxes and insurance	5,152	5,805
Outstanding checks	11,872	13,854
Accounts payable and other liabilities	29,185	45,738
Total liabilities	<u>2,790,516</u>	<u>2,525,655</u>
Commitments and contingencies (Notes 16 and 20)		
Stockholders' equity:		
Serial preferred stock, authorized 3,000,000 shares--none issued		
Common stock, \$.01 par value, authorized 24,000,000 shares, issued 16,621,485 and 16,557,695 shares at September 30, 2008 and September 30, 2007, respectively	166	165
Additional paid-in capital	58,338	56,106
Retained income, substantially restricted	244,327	233,820
Accumulated other comprehensive loss, net of income taxes	(15,966)	(1,179)
Treasury stock at cost, 4,929,972 and 4,922,539 shares at September 30, 2008 and September 30, 2007, respectively	(103,387)	(103,197)
Total stockholders' equity	<u>183,478</u>	<u>185,715</u>
Total liabilities and stockholders' equity	<u>\$ 2,973,994</u>	<u>\$ 2,711,370</u>

See accompanying notes to consolidated financial statements.

FIRST FINANCIAL HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

	Years Ended September 30,		
	2008	2007	2006
Interest Income			
Interest and fees on loans	\$ 153,540	\$ 151,724	\$ 134,416
Interest on mortgage-backed securities	17,560	12,505	13,410
Interest and dividends on investments	3,434	3,349	3,110
Other	238	466	404
Total interest income	174,772	168,044	151,340
Interest Expense			
Interest on deposits			
Checking accounts	2,051	846	1,100
Statement and other accounts	697	772	870
Money market accounts	10,869	14,244	10,125
Certificate accounts	37,029	40,131	30,313
Total interest on deposits	50,646	55,993	42,408
Interest on FHLB advances	28,957	24,127	22,561
Interest on borrowed money	3,805	5,094	6,646
Total interest expense	83,408	85,214	71,615
Net interest income	91,364	82,830	79,725
Provision for loan losses	16,939	5,164	4,894
Net interest income after provision for loan losses	74,425	77,666	74,831
Non-Interest Income			
Net gain on sale of investment and mortgage-backed securities	750	266	5
Brokerage fees	2,923	2,551	2,777
Commissions on insurance	23,773	20,865	19,607
Other agency income	1,057	1,181	1,185
Service charges and fees on deposit accounts	23,901	21,566	20,266
Mortgage banking income	7,456	4,255	4,989
Gains on disposition of assets	1,052	230	989
Other	1,970	2,303	2,137
Total non-interest income	62,882	53,217	51,955
Non-Interest Expense			
Salaries and employee benefits	65,282	58,669	54,648
Occupancy costs	8,243	6,632	5,754
Marketing	2,408	2,261	2,353
Furniture and equipment expense	5,876	5,406	4,930
Amortization of intangibles	617	461	476
Other	17,884	17,007	15,775
Total non-interest expense	100,310	90,436	83,936
Income before income taxes	36,997	40,447	42,850
Income tax expense	14,359	15,375	15,221
Net income	\$ 22,638	\$ 25,072	\$ 27,629
Earnings Per Common Share			
Basic	\$ 1.94	\$ 2.10	\$ 2.30
Diluted	1.94	2.07	2.27
Average Number of Shares Outstanding			
Basic	11,664	11,929	12,024
Diluted	11,692	12,089	12,190

See accompanying notes to consolidated financial statements.

FIRST FINANCIAL HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME
(in thousands)

	Common Stock		Additional	Retained	Accumulated Other Comprehensive	Treasury Stock		Total
	Shares	Amount	Paid-in Capital	Income	Loss	Shares	Amount	
Balance at September 30, 2005	16,265	\$ 163	\$ 48,298	\$ 204,600	\$ (3,232)	4,149	\$ (78,700)	\$ 171,129
Net income				27,629				27,629
Other comprehensive income:								
Unrealized net gain on securities available for sale, net of tax of \$215					339			339
Total comprehensive income								27,968
Common stock issued pursuant to stock option and employee benefit plans	153	1	3,518					3,519
Stock option tax benefit			223					223
Cash dividends (\$.96 per share)				(11,540)				(11,540)
Treasury stock purchased						248	(7,534)	(7,534)
Balance at September 30, 2006	16,418	164	52,039	220,689	(2,893)	4,397	(86,234)	183,765
Net income				25,072				25,072
Other comprehensive income:								
Unrealized net gain on securities available for sale, net of tax of \$1,374					2,157			2,157
Total comprehensive income								27,229
Cumulative effect of change for SFAS 158, net of tax of \$249					(443)			(443)
Common stock issued pursuant to stock option and employee benefit plans	140	1	3,958					3,959
Stock option tax benefit			109					109
Cash dividends (\$1.00 per share)				(11,941)				(11,941)
Treasury stock purchased						526	(16,963)	(16,963)
Balance at September 30, 2007	16,558	165	56,106	233,820	(1,179)	4,923	(103,197)	185,715
Net income				22,638				22,638
Other comprehensive income:								
Unrealized net loss on securities available for sale, net of tax of \$9,378					(14,729)			(14,729)
Total comprehensive income								7,909
Change related to employee benefit plans					(58)			(58)
Common stock issued pursuant to stock option and employee benefit plans	64	1	2,169					2,170
Stock option tax benefit			63					63
Cumulative effect of adoption of FIN 48				(240)				(240)
Cash dividends (\$1.02 per share)				(11,891)				(11,891)
Treasury stock purchased						7	(190)	(190)
Balance at September 30, 2008	16,622	\$ 166	\$ 58,338	\$ 244,327	\$ (15,966)	4,930	\$ (103,387)	\$ 183,478

See accompanying notes to consolidated financial statements.

FIRST FINANCIAL HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Years Ended September 30,		
	2008	2007	2006
Operating Activities			
Net income	\$ 22,638	\$ 25,072	\$ 27,629
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation	5,705	5,404	4,870
Amortization of intangibles	617	461	476
Gain on sale of loans, net	(2,088)	(1,852)	(2,200)
Gain on sale of investments and mortgage-backed securities, net	(750)	(266)	(5)
Gain on sale of property and equipment, net	(1,052)	(230)	(989)
(Gain) loss on sale of real estate owned, net	(9)	51	(36)
Stock compensation expense	829	838	829
Tax benefit resulting from stock options	63	109	223
Amortization of unearned (discounts) premiums on investments, net	(242)	444	1,230
Increase in net deferred loan costs and discounts	(206)	(601)	(175)
(Increase) decrease in receivables and other assets	(1,931)	(2,871)	233
Provision for loan losses	16,939	5,164	4,894
Write downs of real estate and other assets acquired in settlement of loans	18	21	56
Deferred income taxes	(13,503)	(2,540)	(1,881)
Capitalized mortgage servicing rights	(2,390)	(2,280)	
Decrease in fair value of mortgage servicing rights	2,671	2,292	
Impairment recovery loss from write-down of mortgage servicing rights			(561)
Origination of loans held for sale	(203,350)	(174,200)	(173,180)
Proceeds from sales of loans held for sale	203,018	174,719	180,061
Increase (decrease) in accounts payable and other liabilities	5,406	(3,867)	5,733
Net cash provided by operating activities	32,383	25,868	47,207
Investing Activities			
Proceeds from maturity of investments available for sale	1,179	8,479	8,132
Proceeds from sales of investment securities available for sale	750	2,973	19,555
Net purchases of investment securities available for sale	(2,389)	(5,891)	(29,253)
Net purchases of investment securities held to maturity		(2,042)	
Purchase of FHLB stock	(12,204)	(3,655)	(808)
Increase in loans, net	(213,099)	(87,440)	(188,407)
Loan participations purchased	(1,661)		(337)
Proceeds from sales of mortgage-backed securities available for sale			3,314
Repayments on mortgage-backed securities available for sale	75,754	73,312	87,641
Purchases of mortgage-backed securities available for sale	(145,644)	(70,603)	(44,171)
Proceeds from sales of real estate owned	5,166	4,905	4,198
Purchase of insurance subsidiaries and performance payments	(18,193)	(382)	(204)
Net purchase of office properties and equipment	(9,088)	(23,397)	(8,084)
Net cash used in investing activities	(319,429)	(103,741)	(148,424)
Financing Activities			
Net (decrease) increase in checking, passbook and money market accounts	(21,192)	(26,846)	51,711
Net increase in certificates of deposit	18,243	57,869	114,245
Net proceeds of FHLB advances	264,000	89,000	13,000
Net decrease in securities sold under agreements to repurchase		(68,755)	(60,082)
Net Increase (decrease) in other borrowings	22,998	4,994	(5)
(Increase) decrease in advances by borrowers for taxes and insurance	(653)	64	(72)
Change related to employee benefit plans	(58)	(443)	
Proceeds from exercise of stock options	1,341	3,121	2,690
Tax benefit resulting from stock options	63	109	223
Dividends paid	(11,891)	(11,941)	(11,540)
Treasury stock purchased	(190)	(16,963)	(7,534)
Net cash provided by financing activities	272,661	30,209	102,636
Net (decrease) increase in cash and cash equivalents	(14,385)	(47,664)	1,419
Cash and cash equivalents at beginning of period	77,334	124,998	123,579
Cash and cash equivalents at end of period	\$ 62,949	\$ 77,334	\$ 124,998
Supplemental disclosures:			
Cash paid during the period for:			
Interest	\$ 84,419	\$ 84,634	\$ 67,864
Income taxes	20,666	17,440	15,327
Loans foreclosed	9,687	5,443	5,420
Loans securitized into mortgage-backed securities			2,221
Unrealized (loss) gain on securities available for sale, net of income tax	(14,729)	2,157	339

See accompanying notes to consolidated financial statements.

FIRST FINANCIAL HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2008, 2007 and 2006

(All Dollar Amounts, Except Per Share And Where Otherwise Indicated, In Thousands.)

NOTE 1. Summary of Significant Accounting Policies

First Financial Holdings, Inc. (the “Company”, which may be referred to in this document as “First Financial”, we, us or our) is incorporated under the laws of the State of Delaware and is a unitary savings and loan holding company. Prior to the consolidation of our federally insured subsidiary, Peoples Federal Savings and Loan Association (“Peoples Federal”), into our other federally insured subsidiary, First Federal Savings and Loan Association of Charleston (“First Federal”), on August 30, 2002, we had been a multiple thrift holding company since October 9, 1992 when Peoples Federal was acquired. Prior to that date, First Financial was a unitary savings and loan holding company with First Federal as its only subsidiary.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of First Financial, its wholly-owned thrift subsidiary, First Federal, and our other wholly-owned subsidiaries, First Southeast Insurance Services, Inc., Kimbrell Insurance Group, Inc. and First Southeast Investor Services, Inc. Our consolidated financial statements also include the assets and liabilities of service corporations and operating subsidiaries majority-owned by First Federal and our other wholly-owned subsidiaries and variable interest entities where First Financial is the primary beneficiary. All significant inter-company accounts and transactions have been eliminated in consolidation. We operate as two business segments; banking and insurance. Beginning in fiscal year 2004, the insurance segment met the criteria for a reportable segment under Statement of Financial Accounting Standards (“SFAS”) No. 131, “Disclosures about Segments of an Enterprise and Related Information.”

Accounting Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Reclassifications

Certain amounts previously presented in the consolidated financial statements for prior periods have been reclassified to conform to current classifications. All such reclassifications had no effect on the prior years’ net income or retained income as previously reported.

Investments in Debt and Equity Securities

Our investments in debt securities principally consist of U.S. Treasury securities and mortgage-backed securities we purchased or created when we exchange pools of loans for mortgage-backed securities. We classify our investments in debt securities as held to maturity securities, trading securities and available for sale securities as applicable.

Debt securities are designated as held to maturity if we have the intent and the ability to hold the securities to maturity. Held to maturity securities are carried at amortized cost, adjusted for the amortization of any related premiums or the accretion of any related discounts into interest income using a methodology which approximates a level yield of interest over the estimated remaining period until maturity. Unrealized losses on held to maturity securities, reflecting a decline in value judged by us to be other than temporary, are charged to income in the Consolidated Statements of Operations.

Debt and equity securities that are purchased and held principally for the purpose of selling in the near term are reported as trading securities. Trading securities are carried at fair value with unrealized holding gains and losses included in earnings.

We classify debt and equity securities as available for sale when at the time of purchase we determine that such securities may be sold at a future date or if we do not have the intent or ability to hold such securities to maturity. Securities designated as available for sale are recorded at fair value. Changes in the fair value of debt and equity securities available for sale are included in stockholders’ equity as unrealized gains or losses, net of the related tax effect. Unrealized losses on available for sale securities, reflecting a decline in value judged to be other than temporary, are charged to income in the Consolidated Statements of Operations. Realized gains or losses on available for sale securities are computed on the specific identification basis.

FIRST FINANCIAL HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2008, 2007 and 2006

Controlling Financial Interest

We determine whether we have a controlling financial interest in an entity by first evaluating whether the entity is a voting interest entity or a variable interest entity ("VIE") under accounting principles generally accepted in the United States of America. Voting interest entities are entities in which the total equity investment at risk is sufficient to enable each entity to finance itself independently and provides the equity holders with the obligation to absorb losses, the right to receive residual returns and the right to make decisions about the entity's activities. We consolidate voting interest entities in which we have all, or at least a majority of, the voting interest. As defined in applicable accounting standards, VIEs are entities that lack one or more of the characteristics of a voting interest entity described above. A controlling financial interest in an entity is present when an enterprise has a variable interest, or combination of variable interests, that will absorb a majority of the entity's expected losses, receive a majority of the entity's expected residual returns, or both. The enterprise with a controlling financial interest, known as the primary beneficiary, consolidates the VIE. FFSL I LLC qualifies as a VIE (variable interest entity) of First Federal as First Federal is the primary beneficiary, therefore, FFSL I LLC is combined into the accounts of First Federal. North Central Apartments, LP qualifies as a VIE (variable interest entity) of First Federal as First Federal is the primary beneficiary, therefore, North Central Apartments, LP is combined into the accounts of First Federal. First Financial's wholly-owned trust subsidiary, formed to issue trust securities, First Financial Capital Trust I, is a VIE (variable interest entity) for First Financial and is not the primary beneficiary. Accordingly, the accounts of this entity are not included in our consolidated financial statements.

Loans Receivable and Loans Held for Sale

Our real estate loan portfolio consists primarily of long-term loans secured by first mortgages on single-family residences, other residential property, commercial property and land. The adjustable-rate mortgage loan is our primary loan product for portfolio lending purposes. Our consumer loans include home equity lines of credit, auto loans, marine loans, manufactured housing loans, credit card receivables and loans on various other types of consumer products. We also make shorter term commercial business loans on a secured and unsecured basis.

Fees are charged for originating loans at the time the loan is granted. Loan origination fees received, if any, are deferred and offset by the deferral of certain direct expenses associated with loans originated. The net deferred fees or costs are recognized as yield adjustments by applying the interest method.

Interest on loans is accrued and credited to income based on the principal amount and contract rate on the loan. The accrual of interest is discontinued when, in the opinion of management, there is an indication that the borrower may be unable to meet future payments as they become due, generally when a loan is 90 days past the contractual due date. When interest accrual is discontinued, all unpaid accrued interest is reversed. While a loan is on non-accrual status, no interest is recognized. Loans are returned to accrual status only when the loan is brought current and ultimate collectibility of principal and interest is no longer in doubt.

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated market value in the aggregate. Net unrealized losses are provided for in a valuation allowance by charges to operations.

Allowance for Loan Losses

We provide for loan losses on the allowance method. Accordingly, all loan losses are charged to the related allowance and all recoveries are credited to the allowance. Additions to the allowance for loan losses are provided by charges to operations based on various factors which, in management's judgment, deserve current recognition in estimating losses. Such factors considered by management include the fair value of the underlying collateral, growth and composition of the loan portfolios, loss experience, delinquency trends and economic conditions. Management evaluates the carrying value of loans periodically and the allowance is adjusted accordingly. While management uses the best information available to make evaluations, future adjustments to the allowance may be necessary if economic conditions differ substantially from the assumptions used in making the evaluations. The allowance for loan losses is subject to periodic evaluation by various regulatory authorities and may be subject to adjustment upon their examination.

SFAS No. 114, "Accounting by Creditors for Impairment of a Loan," as amended by SFAS No. 118, "Accounting by Creditors for Impairment of a Loan -- Income Recognition and Disclosure," requires that all creditors value all loans for which it is probable that the creditor will be unable to collect all amounts due according to the terms of the loan agreement at the loan's fair value. Fair value may be determined based upon the present value of expected cash flows, market price of the loan, if available, or the value of the underlying collateral. Expected cash flows are required to be discounted at the loan's effective interest rate. SFAS No. 114 was amended by SFAS No. 118 to allow a creditor to use existing methods for recognizing interest income on an impaired loan and by requiring additional disclosures about how a creditor recognizes interest income related to impaired loans.

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We consider a loan to be impaired when, based upon current information and events, it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement on a timely basis. Our impaired loans include loans identified as impaired through review of the non-homogeneous portfolio and troubled debt restructurings. Specific valuation allowances are established on impaired loans for the difference between the loan amount and the fair value less estimated selling costs. Impaired loans may be left on accrual status during the period we are pursuing repayment of the loan. Such loans are placed on non-accrual status at the point either: (1) they become 90 days delinquent; or (2) we determine the borrower is incapable of, or has ceased efforts toward, continuing performance under the terms of the loan. Impairment losses and adjustments to impaired losses are recognized through an increase in the allowance for loan losses and a corresponding charge to the provision for loan losses. Adjustments to impairment losses due to changes in the fair value of the collateral properties for impaired loans are included in the provision for loan losses. When an impaired loan is either sold, transferred to real estate owned or written down, any related valuation allowance is charged off.

Increases to the allowance for loan losses are charged by recording a provision for loan losses. Charge-offs to the allowance are made when all, or a portion, of the loan is confirmed as a loss based upon management's review of the loan or through possession of the underlying security or through a troubled debt restructuring transaction. Recoveries are credited to the allowance.

Transfer of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over the transferred assets is deemed to be surrendered when: (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity. We review all sales of loans by evaluating specific terms in the sales documents. We believe that each of the criteria discussed above to qualify for sales treatment has been met as loans have been transferred for cash and the notes and mortgages for all loans in each sale are endorsed and assigned to the transferee. As stated in the commitment document, we have no recourse with these loans except in the case of fraud. In certain sales, we may retain the mortgage servicing rights and in other programs may retain potential loss exposure from the credit enhancement obligation, both of which are evaluated and appropriately measured at date of sale.

We may package mortgage loans as securities to investors in accordance with Statement of Financial Accounting Standards No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities—a replacement of FASB Statement No. 125," ("SFAS 140"). We receive 100% of the securities backed by the mortgage loans, which are federal agency guaranteed. The securitizations are not accounted for as sales transactions. The mortgage-backed securities are classified as available-for-sale on the Company's books and subsequently, if sold, the gain or loss on the sale of these securities is reported as a gain or loss on the sale of investments and mortgage-backed securities.

Office Properties and Equipment

Office properties and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is provided generally on the straight-line method over the estimated life of the related asset for financial reporting purposes. Estimated lives range up to 39 years for buildings and improvements and up to ten years for furniture, fixtures and equipment. Maintenance and repairs are charged to expense as incurred. Improvements, which extend the useful lives of the respective assets, are capitalized.

Real Estate

Real estate acquired through foreclosure is carried at the lower of cost or fair value, adjusted for net selling costs. Fair values of real estate owned are reviewed regularly and write-downs are recorded through earnings when it is determined that the carrying value of real estate exceeds the fair value less estimated costs to sell. Costs relating to the development and improvement of such property are capitalized, whereas those costs relating to holding the property are charged to expense.

Intangible Assets

Intangible assets include goodwill and other identifiable assets, such as customer lists, resulting from our acquisitions. Customer list intangibles are amortized on a straight-line basis over an estimated useful life of seven to fifteen years and evaluated for impairment whenever events or changes in circumstances indicate the carrying amount of the assets may not be recoverable. Goodwill is not amortized but tested annually for impairment or at any time an event occurs or circumstances change that may trigger a decline in the value of the reporting unit. Examples

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of such events or circumstances include adverse change in legal factors, business climate, unanticipated competition, change in regulatory environment, or loss of key personnel.

We test for impairment in accordance with SFAS No. 142, *“Goodwill and Other Intangible Assets.”* Potential impairment of goodwill exists when the carrying amount of a reporting unit exceeds its fair value. The fair value for each reporting unit is computed using one or a combination of the following three methods: income, market value, or cost method. The income method uses a discounted cash flow analysis to determine fair value by considering a reporting unit’s capital structure and applying a risk-adjusted discount rate to forecast earnings based on a capital asset pricing model. The market value method uses recent transaction analysis or publicly traded comparable analysis for similar assets and liabilities to determine fair value. The cost method assumes the net assets of a recent business combination accounted for under the purchase method of accounting will be recorded at fair value if no event or circumstance has occurred triggering a decline in the value. To the extent a reporting unit’s carrying amount exceeds its fair value, an indication exists that the reporting unit’s goodwill may be impaired, and a second step of impairment test will be performed. In the second step, the implied fair value of the reporting unit’s goodwill, determined by allocating the reporting unit’s fair value to all of its assets (recognized and unrecognized) and liabilities as if the reporting unit had been acquired in a business combination at the date of the impairment test. If the implied fair value of reporting unit goodwill is lower than its carrying amount, goodwill is impaired and is written down to the implied fair value. The loss recognized is limited to the carrying amount of goodwill. Once an impairment loss is recognized, future increases in fair value will not result in the reversal of previously recognized losses.

Mortgage Servicing Rights

In March 2006, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards No. 156, *“Accounting for Servicing of Financial Assets”* (“SFAS 156”), that amends accounting and reporting standards for servicing assets and liabilities under SFAS 140. Specifically, SFAS 156 requires that all separately recognized servicing assets and servicing liabilities be initially measured at fair value, if practicable. For subsequent measurement purposes, SFAS 156 permits an entity to choose to measure servicing assets and liabilities either based on fair value or lower of cost or market (“LOCOM”). We elected to adopt SFAS 156 effective October 1, 2006, utilizing the fair value measurement option for residential mortgage servicing rights. Adopting the fair value measurement method did not result in a cumulative-effect adjustment to retained earnings as the carrying value of the asset at adoption approximated fair value.

Derivative Financial Instruments and Hedging Activities

We use derivatives as part of our interest rate management activities. Prior to the implementation of SAB 105, we recognized a servicing value at the time the mortgage loan commitment was made. After implementation, we recognize the servicing value when the loan is sold. SFAS No. 133, *“Accounting for Derivative Instruments and Hedging Activities,”* as amended by SFAS Nos. 137, 138 and 149, establishes accounting and reporting standards for derivatives and hedging activities. SFAS No. 133 requires an entity to recognize all derivatives as either assets or liabilities in the balance sheet, and to measure those instruments at fair value. Changes in the fair value of those derivatives are reported in current earnings or other comprehensive income depending on the purpose for which the derivative is held and whether the derivative qualifies for hedge accounting. We do not currently engage in any activities that qualify for hedge accounting under SFAS No. 133. All changes in the fair value of derivative instruments are recorded as non-interest income in the Consolidated Statements of Operations.

Securities Sold Under Agreements to Repurchase

We enter into sales of securities under agreements to repurchase (reverse repurchase agreements). These reverse repurchase agreements are treated as financings. The obligations to repurchase securities sold are reflected as a liability and the securities underlying the agreements continue to be reflected as assets in the Consolidated Statements of Financial Condition.

Comprehensive Income

SFAS No. 130, *“Reporting Comprehensive Income,”* establishes standards for the reporting and presentation of comprehensive income and its components in a full set of financial statements. Comprehensive income consists of net income and net unrealized gains (losses) on securities and is presented in the statements of stockholders’ equity and comprehensive income. The statement requires only additional disclosures in the consolidated financial statements; it does not affect our results of operations.

Our other comprehensive income (loss) for the years ended September 30, 2008, 2007 and 2006 and accumulated other comprehensive income (loss) as of September 30, 2008, 2007 and 2006 are comprised of unrealized gains and losses on certain investments in debt and equity securities and cumulative effect of adoption of

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SFAS 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" ("SFAS No. 158").

Other comprehensive income (loss) for the years ended September 30, 2008, 2007 and 2006 follows:

	Years Ended September 30,		
	2008	2007	2006
Unrealized holding gains (losses) arising during period, net of tax	\$ (14,567)	\$ 2,322	\$ 342
Less: reclassification adjustment for realized gains (losses), net of tax	162	165	3
Unrealized gains (losses) on securities available for sale, net of applicable income taxes	\$ (14,729)	\$ 2,157	\$ 339
Change related to employee benefit plans	\$ (58)	\$ (443)	

Share Based Payment Arrangements

Effective October 1, 2005, we adopted the provisions of SFAS 123 Revised, "Share-based Payment", ("SFAS 123(R)") which requires the expensing of share-options as they are granted or exercised. See Footnote 18, Share-Based Payment Arrangements, for more details.

Earnings Per Share

Basic earnings per share ("EPS") excludes dilution and is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity.

Commission Revenue Recognition

First Southeast Insurance Services, Inc.'s commission revenues are recognized at the later of the billing or the effective date of the related insurance policies. Commission revenues related to installment premiums are recognized periodically as billed. Contingent commissions are recognized as revenue when received or when determinable. A contingent commission is a commission paid by an insurance carrier that is based on the overall profit and/or volume of the business placed with that insurance carrier. Commission on premiums billed directly by insurance carriers relate to a large number of small premium transactions, whereby the billing and policy issuance process is controlled entirely by the insurance carrier. The income effects of subsequent premium adjustments are recorded when the adjustments become known. Producer commission is deducted from gross revenues in the determination of Kimbrell's total revenues. Producer commission represents commissions paid to sub-brokers related to the placement of certain business by Kimbrell. This commission is recognized in the same manner as commission revenues.

Income Taxes

Because some income and expense items are recognized in different periods for financial reporting purposes and for purposes of computing currently payable income taxes, a provision or credit for deferred income taxes is made for such temporary differences at currently enacted income tax rates applicable to the period in which realization or settlement is expected. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

Fair Value of Financial Instruments

SFAS No. 107, "Disclosures about Fair Values of Financial Instruments," requires disclosures about the fair value of all financial instruments whether or not recognized in the balance sheet, for which it is practicable to estimate that value. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized through immediate settlement of the instrument. SFAS No. 107 excludes certain financial instruments and all non-financial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of First Financial.

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Risks and Uncertainties

In the normal course of its business, we encounter two significant types of risk: economic and regulatory. There are three main components of economic risk: interest rate risk, credit risk and market risk. We are subject to interest rate risk to the degree that our interest-bearing liabilities mature or reprice at different speeds, or on different indexes, than our interest-earning assets. Credit risk is the risk of default on our loan portfolio that results from borrowers' inability or unwillingness to make contractually required payments. Market risk reflects changes in the value of collateral underlying loans receivable, the valuation of real estate we hold, and the valuation of loans held for sale, investments and mortgage-backed securities available for sale and mortgage servicing rights.

We are subject to the regulations of various government agencies. These regulations can and do change significantly from period to period. We also undergo periodic examinations by the regulatory agencies, which may subject us to further changes with respect to asset valuations, amounts of required loss allowances and operating restrictions resulting in the regulators' judgments based on information available to them at the time of their examination.

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the dates of the Consolidated Statements of Financial Condition and the Consolidated Statements of Operations for the periods covered. Actual results could differ significantly from those estimates and assumptions.

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

Accounting for Uncertainty in Income Taxes

In June 2006, the FASB issued FASB Interpretation No. 48, "*Accounting for Uncertainty in Income Taxes*" ("FIN 48"). This Interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, "*Accounting for Income Taxes*". This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. This Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The provisions of FIN 48 were adopted October 1, 2007. Additional disclosures required by FIN 48 are included in Note 17 of the Notes to Consolidated Financial Statements.

SAB No. 109, Restatement of SAB No. 105, Application of Accounting Principles to Loan Commitments

In November 2007, SEC Staff Accounting Bulletin No. 109, "*Restatement of SAB 105, Application of Accounting Principles to Loan Commitments*" ("SAB 109"), was issued to provide guidance on written loan commitments that are accounted for at fair value through earnings under generally accepted accounting principles. Staff Accounting Bulletin No. 105, "*Application of Accounting Principles to Loan Commitments*" ("SAB 105") stated that in measuring the fair value of a derivative loan commitment, using expected net future cash flows would be inappropriate. SAB 109 supersedes SAB 105 and states that expected net future cash flows related to the associated servicing of the loan should be included in the measurement of all written loan commitments accounted for at fair value. The adoption of SAB 109 is required for derivative loan commitments issued or modified in fiscal quarters beginning after December 15, 2007. We applied the provisions of SAB 109 in the quarter ended March 31, 2008 with fair value of servicing rights on loan commitments of \$442 thousand recorded in mortgage banking income (see Note 17).

NOTE 2. Acquisitions

On April 10, 2008, First Financial Holdings, Inc. acquired the assets of Somers-Pardue Agency ("Somers-Pardue"), an independent insurance agency based in Burlington, North Carolina. Somers-Pardue is a general insurance agency. The acquisition was \$18.8 million of which \$6.2 million was recorded as goodwill and \$8.0 million was recorded as an intangible. In addition, the principal of Somers-Pardue has a right to receive future payments of \$7.3 million based on financial performance.

On October 6, 2006, First Financial Holdings, Inc. acquired the assets of Peoples Insurance Agency ("Peoples"), an independent insurance agency based in Beaufort, South Carolina. Peoples is a general insurance agency. The Company acquired assets consisting of \$29 thousand in cash, \$166 thousand recorded as goodwill, \$71 thousand recorded as an intangible and \$66 thousand in net payables was assumed.

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On June 27, 2006, First Financial Holdings, Inc. acquired the assets of Employer Benefits Strategies, Inc. ("EBSI"), an independent insurance agency based in Summerville, South Carolina. EBSI specializes in group health, life, disability and voluntary benefits coverage. The Company acquired assets consisting of \$35 thousand in cash with \$319 thousand recorded as goodwill and \$36 thousand recorded as intangibles. In addition, the principal of EBSI has a right to receive future payments of \$260 thousand based on financial performance.

On January 29, 2004, First Financial Holdings, Inc. acquired the following companies: The Kimbrell Company, Inc.; The Kimbrell Company, Inc./Florida; Preferred Markets, Inc.; Preferred Markets, Inc./Florida; and Atlantic Acceptance Corporation. The Kimbrell companies are a managing general agency specializing in placing coverage within the non-standard insurance market. Non-standard markets offer coverage to customers that have unusual or high-risk exposures. The Preferred Markets companies are a managing general agency specializing in placing coverage in standard insurance markets. Atlantic Acceptance Corporation is an insurance premium finance company. The acquisition was accounted for using the purchase method of accounting, and accordingly, the assets and liabilities of the Kimbrell companies were recorded at their estimated fair values as of the merger date. First Financial acquired tangible assets of \$4.4 million, assumed liabilities totaling \$4.4 million, recorded goodwill of \$5.2 million and recorded a customer list intangible of \$908 thousand. The customer list intangibles are amortized on a straight-line basis over its estimated useful life of up to fifteen years. In addition, the principals of the Kimbrell companies have a right to receive future payments based on financial performance through calendar year 2008, which if earned in full and paid would increase goodwill by \$2.4 million. Of this, \$498 thousand was paid and added to goodwill during fiscal 2005, there were no payments in fiscal 2006, \$105 thousand was paid and added to goodwill during fiscal 2007, and there were no payments in fiscal 2008. The results of all acquisitions have been included in our consolidated financial statements since the respective acquisition dates. The pro forma impact of these purchases as though they had been acquired at the beginning of the periods presented would not have a material effect on the results of operations as reported.

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NOTE 3. Supplemental Financial Information to Consolidated Statements of Income

The following presents the details for other income and other expenses included in non-interest income and non-interest expense for the years ended September 30:

	Years Ended September 30,		
	2008	2007	2006
Other Income			
Other income			
Credit card fee income	\$ 858	\$ 796	\$ 759
Real estate operations, net	(528)	(641)	(607)
Trust revenues	973	1,077	830
Other	667	1,071	1,155
Total other income	<u>\$ 1,970</u>	<u>\$ 2,303</u>	<u>\$ 2,137</u>
Non-Interest Expense			
Other expense			
Communications expense	\$ 1,465	\$ 1,397	\$ 1,245
Postage	1,576	1,603	1,362
Courier expense	690	679	623
Office supplies	512	533	448
Printing and forms	535	586	652
Travel and accommodations	601	846	647
Legal and auditing	1,456	1,158	1,236
Management and consulting fees	778	634	755
Directors' fees	348	508	586
Other	9,923	9,063	8,221
Total non-interest expense	<u>\$ 17,884</u>	<u>\$ 17,007</u>	<u>\$ 15,775</u>

NOTE 4. Cash and Cash Equivalents

Cash and cash equivalents consist of the following:

	September 30,	
	2008	2007
Cash working funds	\$ 31,122	\$ 30,949
Non-interest-earning demand deposits	5,376	8,260
Deposits in transit	17,214	26,190
Interest-earning deposits	9,237	11,935
Total	<u>\$ 62,949</u>	<u>\$ 77,334</u>

We consider all highly liquid investments with a maturity of 90 days or less at the time of purchase to be cash equivalents.

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NOTE 5. Securities

The amortized cost, gross unrealized gains, gross unrealized losses and fair value of investment securities available for sale and held to maturity and mortgage-backed securities available for sale are as follows:

September 30, 2008				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Securities available for sale				
U.S. Treasury securities and obligations of U.S. government agencies and corporations	\$ 6,007	\$ 115		\$ 6,122
State and municipal obligations	450		\$ 31	419
Corporate securities	18,908		8,354	10,554
	25,365	115	8,385	17,095
Mortgage-backed securities:				
FHLMC	31,421	584		32,005
FNMA	31,411	97	34	31,474
GNMA	60,048	719	44	60,723
CMOs	150,725	121	6,753	144,093
Non-Agency MBSs	94,548		11,734	82,814
	368,153	1,521	18,565	351,109
Total	\$ 393,518	\$ 1,636	\$ 26,950	\$ 368,204
Securities held to maturity				
State and municipal obligations	\$ 2,043	\$ -	\$ 224	\$ 1,819

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September 30, 2007				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Securities available for sale				
U.S. Treasury securities and obligations of U.S. government				
agencies and corporations	\$ 6,015	\$ 57		\$ 6,072
State and municipal obligations	450	1		451
Corporate securities	17,701	6	\$ 271	17,436
	24,166	64	271	23,959
Mortgage-backed securities:				
FHLMC	20,150	108		20,258
FNMA	45,473	20	250	45,243
GNMA	75,332	7	82	75,257
CMOs	62,331	142	341	62,132
Non-Agency MBSs	94,723	197	799	94,121
	298,009	474	1,472	297,011
Total	\$ 322,175	\$ 538	\$ 1,743	\$ 320,970

Securities held to maturity

State and municipal obligations	\$ 2,042	\$ 4	\$ 14	\$ 2,032
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The amortized cost and fair value of investment and mortgage-backed securities available for sale at September 30, 2008 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

September 30, 2008			
	Amortized Cost		Fair Value
Securities available for sale			
Due within one year	\$ 6,007	\$	6,122
Due after five years through ten years	1,008		848
Due after ten years	18,350		10,125
	25,365		17,095
Mortgage-backed securities	368,153		351,109
Total	\$ 393,518	\$	368,204
Securities held to maturity			
Due after ten years	\$ 2,043	\$	1,819

Proceeds from the sale of investment and mortgage-backed securities available for sale totaled \$750 thousand in fiscal 2008 resulting in a gross realized gain of \$750 thousand. Proceeds from the sale of investment and mortgage-backed securities available for sale totaled \$3.0 million in fiscal 2007 resulting in a gross realized gain of \$266 thousand. Proceeds from the sale of investment and mortgage-backed securities available for sale totaled \$22.9 million in fiscal 2006 resulting in a gross realized gain of \$5 thousand.

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Gross unrealized losses on investment securities and the fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at September 30, 2008 and 2007, are as follows:

	Less than 12 Months			12 Months or Longer			Total		
	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses
Securities available for sale									
September 30, 2008									
U.S. Government agency									
mortgage-backed securities	7	\$ 29,260	\$ 110				7	\$ 29,260	\$ 110
Collateral mortgage obligations	11	124,316	6,753				11	124,316	6,753
Other mortgage-backed securities	10	59,205	8,204	8	\$ 23,610	\$ 3,529	18	82,815	11,733
Corporate securities	7	3,080	2,948	11	4,986	5,406	18	8,066	8,354
Total temporarily impaired	35	\$ 215,861	\$ 18,015	19	\$ 28,596	\$ 8,935	54	\$ 244,457	\$ 26,950
Securities held to maturity									
Municipal obligations	2	\$ 1,819	\$ 224				2	\$ 1,819	\$ 224
Securities available for sale									
September 30, 2007									
U.S. Government agency									
mortgage-backed securities	4	\$ 23,007	\$ 1	13	\$ 92,605	\$ 331	17	\$ 115,612	\$ 332
Collateral mortgage obligations	1	12,319	26	4	21,304	315	5	33,623	341
Other mortgage-backed securities	2	10,576	71	10	44,061	728	12	54,637	799
Corporate securities	9	8,046	37	2	2,178	234	11	10,224	271
Total temporarily impaired	16	\$ 53,948	\$ 135	29	\$ 160,148	\$ 1,608	45	\$ 214,096	\$ 1,743
Securities held to maturity									
Municipal obligations	1	\$ 886	\$ 14				1	\$ 886	\$ 14

At September 30, 2008, we had 56 individual investments that were in an unrealized loss position. The unrealized losses on investments in U.S. Treasury, U.S. Government agencies and mortgage-backed securities summarized above were attributable to market turmoil and liquidity. The unrealized losses on the corporate securities is due to credit quality, as well as, liquidity. As of September 30, 2008, 14 of our 19 corporate securities were placed on credit watch by S&P. We have the intent and the ability to hold these investments until a market price recovery or maturity, and therefore these investments are not considered impaired on an other-than-temporary basis.

We did determine that one investment was other than temporarily impaired at September 30, 2008, and recorded a charge to earnings of \$486 thousand to write it down to fair value. We principally invest in corporate debt securities rated in one of the four highest categories by two nationally recognized investment rating services.

NOTE 6. Federal Home Loan Bank Capital Stock

First Federal, as a member institution of the Federal Home Loan Banks of Atlanta and Boston, is required to own capital stock in the FHLB of Atlanta and Boston based generally upon a membership-based requirement and an activity based requirement. FHLB capital stock is pledged to secure FHLB advances. No ready market exists for this stock and it has no quoted market value. However, redemption of this stock has historically been at par value. The carrying value (which approximates fair value) of this stock was \$41.8 million at September 30, 2008 and \$29.6 million at September 30, 2007.

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NOTE 7. Earnings per Share

Basic and diluted earnings per share have been computed based upon net income as presented in the accompanying Consolidated Statements of Operations divided by the weighted average number of common shares outstanding or assumed to be outstanding as summarized below:

	Years Ended September 30,		
	2008	2007	2006
Weighted average number of common shares used in basic EPS	11,664,116	11,928,547	12,024,226
Effect of dilutive stock options	28,150	160,640	165,340
Weighted average number of common shares and dilutive potential common shares used in diluted EPS	11,692,266	12,089,187	12,189,566

There were 769,484 option shares for fiscal year 2008, 477,079 option shares for fiscal year 2007 and 128,217 option shares for fiscal 2006, that were excluded from the calculation of diluted earnings per share at some time during the period because the exercise prices were greater than the average market price of the common shares, and therefore would have been anti-dilutive.

NOTE 8. Loans Receivable

Loans receivable consisted of the following:

	September 30,	
	2008	2007
Real estate - residential mortgages (1-4 family)	\$ 888,016	\$ 870,009
Real estate - residential construction	91,646	110,375
Commercial secured by real estate including multi-family	371,675	294,232
Commercial financial and agricultural	88,694	81,846
Land	260,263	231,415
Home equity loans	321,952	263,922
Mobile home loans	222,375	199,349
Credit cards	16,125	14,775
Other consumer loans	139,244	138,719
	<u>2,399,990</u>	<u>2,204,642</u>
Less:		
Allowance for loan losses	23,990	15,428
Loans in process	53,398	56,485
Net deferred loan costs and discounts on loans	(1,935)	(1,729)
	<u>75,453</u>	<u>70,184</u>
Total	<u>\$ 2,324,537</u>	<u>\$ 2,134,458</u>

Residential real estate loans are net of whole loans and participation loans sold and serviced for others in the amount of \$1.0 billion at September 30, 2008 and \$1.0 billion at September 30, 2007.

Non-accrual loans and loans 90 days past due and still accruing are summarized as follows:

	September 30,	
	2008	2007
Non-accrual loans	\$ 20,557	\$ 6,087
Loans past due 90 days and still accruing	76	49
Total	<u>\$ 20,633</u>	<u>\$ 6,136</u>

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Interest income related to non-accrual and renegotiated loans that would have been recorded if such loans had been current in accordance with their original terms amounted to \$1.5 million for the year ended September 30, 2008, \$424 thousand for the year ended September 30, 2007 and \$284 thousand for the year ended September 30, 2006. Recorded interest income on these loans was \$586 thousand for fiscal 2008, \$109 thousand for fiscal 2007, and \$83 thousand for fiscal 2006.

An analysis of changes in the allowance for loan losses is as follows:

	Years Ended September 30,		
	2008	2007	2006
Balance, beginning of period	\$ 15,428	\$ 14,681	\$ 14,155
Charge-offs	(9,240)	(5,038)	(5,125)
Recoveries	863	621	757
Net charge-offs	(8,377)	(4,417)	(4,368)
Provision for loan losses	16,939	5,164	4,894
Balance, end of period	\$ 23,990	\$ 15,428	\$ 14,681

Impaired loans totaled \$6.0 million at September 30, 2008 and \$2.9 million at September 30, 2007. The impaired loans at September 30, 2008 are carried at or below fair value. The average recorded investment in impaired loans was \$2.8 million for the year ended September 30, 2008, \$1.3 million for the year ended September 30, 2007 and \$871 thousand for the year ended September 30, 2006. No interest income was recognized on loans while categorized as impaired loans in fiscal 2008, 2007 or 2006.

During fiscal 2008 and 2007, we did not securitize any portfolio loans. During fiscal 2006, we securitized \$2.2 million of portfolio loans and reclassified them as securities available for sale. In accordance with SFAS No. 140, no gain was recognized related to the securitization.

We principally originate residential and commercial real estate loans throughout our primary market area located in the coastal region of South Carolina and Florence County. Although the coastal region has a diverse economy, much of the area is heavily dependent on the tourism industry and industrial and manufacturing companies. A substantial portion of our debtors' ability to honor their contracts is dependent upon the stability of the real estate market and these economic sectors.

Residential one-to-four family real estate loans amounted to \$896.7 million at September 30, 2008 and \$876.3 million at September 30, 2007.

Commercial real estate loans including multi-family residential loans totaled \$371.7 million at September 30, 2008 and \$294.2 million at September 30, 2007. Land and lot loans totaled \$260.3 million at September 30, 2008 and \$231.4 million at September 30, 2007. These loans include amounts used for acquisition, development and construction as well as permanent financing of commercial income-producing properties. Such loans generally are associated with a higher degree of credit risk than residential one-to-four family loans due to the dependency on income production or future development and sale of real estate.

Management closely monitors its credit concentrations and attempts to diversify the portfolio within its primary market area. Currently, there are no borrowers which exceed the general regulatory limitation of 15 percent of First Federal's capital. The maximum amount outstanding to any one borrower was \$29.9 million at September 30, 2008 and \$21.2 million at September 30, 2007.

NOTE 9. Office Properties and Equipment

Office properties and equipment are summarized as follows:

	September 30,	
	2008	2007
Land	\$ 25,253	\$ 25,416
Buildings and improvements	51,178	46,603
Furniture and equipment	34,473	32,732
Leasehold improvements	8,446	6,259
	119,350	111,010
Less, accumulated depreciation and amortization	(40,612)	(36,707)
Total	\$ 78,738	\$ 74,303

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NOTE 10. Goodwill and Intangible Assets

The following summarizes the carrying amount of goodwill related to insurance operations acquired:

	September 30,	
	2008	2007
Balance at beginning of year	\$ 21,679	\$ 21,368
Goodwill acquired during year	6,213	311
Balance at end of year	<u>\$ 27,892</u>	<u>\$ 21,679</u>

The following summarizes the carrying amount of customer list intangibles related to insurance operations acquired:

	September 30,	
	2008	2007
Customer list	\$ 11,734	\$ 3,716
Less accumulated amortization	(3,385)	(2,768)
Balance at end of year	<u>\$ 8,349</u>	<u>\$ 948</u>

Goodwill increased during fiscal 2008 as a result of the purchase of assets of Somers-Pardue Agency, Burlington, North Carolina for \$18.8 million of which \$292 thousand was recorded as cash, \$1.6 million in net receivables, \$6.2 million was recorded as goodwill, \$8.0 million as an intangible, \$4.0 million as a deferred tax asset and \$1.3 million in net payables were assumed.

Goodwill increased during fiscal 2007 as a result of the purchase of assets of Peoples Insurance Agency, Beaufort, South Carolina for \$200 thousand of which \$29 thousand was recorded as cash, \$166 thousand was recorded as goodwill, \$71 thousand was recorded as an intangible and \$66 thousand in net payables was assumed. Goodwill also increased as a result of \$105 thousand in performance based payments to principals of Atlantic Acceptance Corporation and \$40 thousand in performance based payments to principals of Employer Benefit Strategies, Inc.

Amortization of intangibles was \$617 thousand in fiscal 2008, \$461 thousand in fiscal 2007 and \$476 thousand in fiscal 2006. We expect to record amortization expense related to intangibles of \$727 thousand for fiscal 2009, \$652 thousand for fiscal 2010, \$632 thousand for fiscal 2011, \$625 thousand for fiscal 2012, \$625 thousand for fiscal 2013 and an aggregate of \$5.1 million for all years thereafter.

NOTE 11. Mortgage Servicing Rights

Our portfolio of residential mortgages serviced for others was \$1.0 billion at September 30, 2008 and \$1.0 billion at September 30, 2007. Effective October 1, 2006, we adopted SFAS 156 and elected the fair value measurement method for mortgage servicing rights ("MSRs"). The fair value measurement method requires MSRs to be recorded initially at fair value, if practicable, and at each subsequent reporting date. In accordance with SFAS 156, changes in fair value are recorded in earnings during the period in which they occur.

The amount of contractually specified servicing fees earned by the Company during the twelve months ended September 30, 2008 were \$2.7 million and for the twelve months ended September 30, 2007 were \$2.5 million. We report contractually specified servicing fees in mortgage banking income in the consolidated statements of operations.

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Changes in fair value of capitalized MSR's for the twelve months ended September 30, 2008 and 2007 are as follows:

	September 30,	
	2008	2007
Balance at beginning of period	\$ 12,831	\$ 12,843
Additions		
Servicing assets that resulted from transfers of financial assets	2,390	2,280
Change in fair value:		
Due to change in valuation inputs or assumptions	(1,234)	(584)
Due to change in decay	(1,430)	(1,698)
Other	(7)	(10)
Balance at end of period	<u>\$ 12,550</u>	<u>\$ 12,831</u>

We determine fair value by estimating the present value of the asset's future cash flows utilizing market-based prepayment rates, discount rates, and other assumptions validated through comparison to trade information, industry surveys, and with the use of independent third party appraisals. Risks inherent in the MSR's valuation include higher than expected prepayment rates and/or delayed receipt of cash flows.

During the quarter ended March 31, 2007 we began using free standing derivatives (economic hedges) to hedge the risk of changes in fair value of MSR's, with the resulting gain or loss reflected in income. During the twelve months ended September 30, 2008, we recognized in earnings \$2.7 million in net gains on free standing derivatives used to economically hedge the MSR's. These net gains are recorded in loan servicing operations, net, in the Consolidated Statements of Operations.

As a result of the implementation of SAB 109, the Company was able to recognize into mortgage banking income approximately \$442 thousand of future capitalized value of the mortgage servicing asset in the quarter ended March 31, 2008.

A summary of our MSR's and related characteristics and the sensitivity of the current fair value of residential mortgage servicing rights to an immediate 25 and 50 basis point market interest rate changes as of the date indicated are included in the accompanying table.

	Residential Mortgage Servicing Rights For the year ended September 30, 2008 (dollars in thousands)
Fair Value of Residential Mortgage Servicing Rights	\$ 12,550
Composition of Residential Loans Serviced for Others:	
Fixed-rate mortgage loans	97.9%
Adjustable-rate mortgage loans	2.1%
Total	100.0%
Constant Prepayment Rate (CPR)	9.3%
Weighted Average Portfolio Rate	5.9%
Discount rate	10.5%
Fair Market Value Change as assumptions change	
.50	7.3%
.25	4.0%
Flat (Base Case)	
(.25)	-4.4%
(.50)	-10.0%

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NOTE 12. Real Estate and Other Assets Acquired in Settlement of Loans

Our real estate and other assets acquired in settlement of loans are summarized as follows:

	September 30,	
	2008	2007
Real estate acquired in settlement of loans	\$ 3,384	\$ 709
Other assets acquired in settlement of loans	902	804
Total	<u>\$ 4,286</u>	<u>\$ 1,513</u>

Real estate operations (included in other income) are summarized as follows:

	Years Ended September 30,		
	2008	2007	2006
Gains (losses) on sale of real estate	\$ 9	\$ (51)	\$ 36
Provision charged as a write-down to real estate	(18)	(21)	(56)
Expenses	(519)	(572)	(592)
Rental income		3	5
Total	<u>\$ (528)</u>	<u>\$ (641)</u>	<u>\$ (607)</u>

NOTE 13. Deposit Accounts

The deposit balances and related rates were as follows:

	September 30,			
	2008		2007	
	Balance	Weighted Average Rate	Balance	Weighted Average Rate
Non-interest-bearing demand accounts	\$ 175,681		\$ 199,005	
Interest-bearing checking accounts	298,619	0.64 %	257,040	0.45 %
Statement and other accounts	129,466	0.45	133,201	0.55
Money market accounts	<u>345,328</u>	<u>2.38</u>	<u>381,040</u>	<u>3.98</u>
	<u>949,094</u>	<u>1.13</u>	<u>970,286</u>	<u>1.76</u>
Certificate accounts:				
Fixed-rate	880,815	3.72	850,580	4.83
Variable-rate	<u>21,193</u>	<u>2.15</u>	<u>33,185</u>	<u>4.17</u>
	<u>902,008</u>	<u>3.68</u>	<u>883,765</u>	<u>4.80</u>
Total	<u>\$ 1,851,102</u>	<u>2.37 %</u>	<u>\$ 1,854,051</u>	<u>3.21 %</u>

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Scheduled maturities of certificate accounts were as follows:

	September 30,	
	2008	2007
Within one year	\$ 637,486	\$ 725,398
Over one to two years	126,772	81,439
Over two to three years	86,833	22,617
Over three to four years	27,757	24,629
Over four to five years	23,125	29,620
Thereafter	35	62
Total	<u>\$ 902,008</u>	<u>\$ 883,765</u>

We have pledged certain interest-earning deposits and investment and mortgage-backed securities available for sale with a fair value of \$115.7 million at September 30, 2008 and \$97 million at September 30, 2007, to secure deposits by various entities.

Time deposits with balances equal to or exceeding \$100 thousand totaled \$343.2 million at September 30, 2008 and \$344.2 million at September 30, 2007.

NOTE 14. Advances From Federal Home Loan Bank

Advances from the FHLB of Atlanta consisted of the following:

Maturity	September 30,			
	2008		2007	
	Balance	Weighted Average Rate	Balance	Weighted Average Rate
One year	\$ 393,000	3.25 %	\$ 254,000	5.16 %
Two years	125,000	6.31		
Three years	75,000	3.50	125,000	6.31
Four years	25,000	4.68		
Five years			25,000	4.68
Seven years	50,000	3.41		
Eight years	75,000	4.13	50,000	3.41
Nine years	25,000	4.53	75,000	4.13
Ten years	50,000	3.47	25,000	4.53
Total	<u>\$ 818,000</u>	<u>3.93 %</u>	<u>\$ 554,000</u>	<u>5.07 %</u>

As collateral for our advances, we have pledged, in the form of blanket liens, eligible single-family loans, home equity lines of credit, second mortgages and specific securities in the amount of \$1.09 billion as of September 30, 2008. At September 30, 2007, we have pledged, in the form of blanket liens, eligible single-family loans, home equity lines of credit and second mortgages, in the amount of \$991.2 million. In addition, all of our FHLB stock is pledged as of September 30, 2008 and 2007. Advances are subject to prepayment penalties. Certain of the advances are subject to calls at the option of the FHLB of Atlanta, as follows: \$250 million callable in fiscal 2009, with a weighted average rate of 4.70% and \$50 million callable in fiscal 2011, with a weighted average rate of 3.47%. During fiscal 2008, the FHLB did not exercise any of the call provisions. During fiscal 2007, the FHLB exercised the call provisions on a \$25 million advance with a rate of 3.67% and a second \$25 million advance with a rate of 3.51%. Call provisions are more likely to be exercised by the FHLB when market interest rates rise.

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NOTE 15. Other Short-term Borrowings

Borrowings and their related weighted average interest rates were:

	September 30,					
	2008			2007		
	Balance	Rate		Balance	Rate	
Bank Line of Credit	\$ 28,000	4.29	%	\$ 5,000	6.70	%
Other borrowings	813	2.71		815	2.70	
	<u>\$ 28,813</u>	<u>4.25</u>	<u>%</u>	<u>\$ 5,815</u>	<u>6.14</u>	<u>%</u>

Securities sold under agreements to repurchase are agreements in which we acquire funds by selling securities to another party under a simultaneous agreement to repurchase the same securities at a specified price and date.

The Company has a \$35 million funding line of credit with another bank. At September 30, 2008, \$28 million had been drawn down on the line. The rate on the line is indexed to LIBOR.

Other borrowings consist of notes payable by our subsidiaries. One subsidiary has multiple notes payable to a South Carolina non-profit organization with balances totaling \$813 thousand at September 30, 2008 and 2007. Repayment terms are based on cash flows of the underlying project. The remaining \$2 thousand at September 30, 2007 represents a subsidiary's loan secured by property and equipment with another bank, which was paid off during fiscal 2008.

NOTE 16. Debt Associated With Trust Preferred Securities

On March 19, 2004, First Financial Capital Trust I ("the Capital Trust I"), a wholly owned subsidiary of the Company as of that date, issued and sold \$45 million aggregate liquidation amount of 7.0% capital securities, Series A (liquidation amount \$1,000 per capital security) of the Capital Trust I, referred to as the capital securities.

The Capital Trust I is a statutory business trust created for the purposes of: issuing and selling the capital securities; using the proceeds from the sale of the capital securities and common securities to acquire \$46.4 million of junior subordinated deferrable interest debt securities, referred to as the junior subordinated debt securities, issued by the Company; and engaging in only those other activities necessary, advisable or incidental to the above. The junior subordinated debt securities will be the sole assets of the Capital Trust I, and payments under the junior subordinated debt securities will be the sole revenues of the Trust. The Company owns all of the common securities of the Trust. The Company's obligations under the junior subordinated debt securities are unsecured and subordinated to payment of the Company's senior and subordinated debt.

Distributions are payable quarterly in arrears beginning on July 7, 2004, and upon redemption, at a fixed annual rate equal to 7% of the aggregate liquidation amount of the capital securities. The Company has the right, subject to events of default relating to the junior subordinated debt securities, to defer interest payments on the junior subordinated debt securities for up to 20 consecutive quarterly periods. All such extensions will end on an interest payment date and will not extend beyond April 6, 2034, the stated maturity date of the junior subordinated debt securities, or beyond any optional redemption date or special event redemption date.

The Company may redeem all or part of the junior subordinated debt securities at any time on or after April 7, 2009. In addition, the junior subordinated debt securities may be redeemed in whole, but not in part, at any time prior to April 7, 2009 if certain tax events occur, there is a change in the way the capital securities would be treated for regulatory capital purposes or there is a change in the Investment Company Act of 1940 that requires the Trust to register under that law.

In September 2004, First Financial Capital Trust I exchanged its 7% Capital Securities, Series B (liquidation amount \$1,000 per capital security) which are registered under the Securities Act of 1933 for any and all of its outstanding 7% Capital Securities, Series A (liquidation amount \$1,000 per capital security).

Debt issuance costs, net of amortization, from debt associated with trust preferred securities totaled \$ 1.4 million at September 30, 2008 and \$ 1.5 million at September 30, 2007 and are included in other assets on the consolidated balance sheet. Amortization of debt issuance costs from debt associated with trust preferred securities totaled \$55 thousand for fiscal 2008 and \$53 thousand for fiscal 2007. See Footnote 1, Principles of Consolidation, for further discussion.

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NOTE 17. Income Taxes

Income tax expense attributable to continuing operations is comprised of the following:

Years Ended September 30,	Federal	State	Total
2008			
Current	\$ 26,288	\$ 1,574	\$ 27,862
Deferred	(13,100)	(403)	(13,503)
Total	\$ 13,188	\$ 1,171	\$ 14,359
2007			
Current	\$ 15,773	\$ 2,142	\$ 17,915
Deferred	(2,557)	17	(2,540)
Total	\$ 13,216	\$ 2,159	\$ 15,375
2006			
Current	\$ 16,889	\$ 213	\$ 17,102
Deferred	(2,067)	186	(1,881)
Total	\$ 14,822	\$ 399	\$ 15,221

A reconciliation from expected federal tax expense of 35% to consolidated effective income tax expense for the periods indicated follows:

	Years Ended September 30,		
	2008	2007	2006
Expected federal income tax expense	\$ 12,949	\$ 14,157	\$ 14,998
Increases (reductions) in income taxes resulting from:			
Tax exempt income	(125)	(108)	(64)
State income tax expense, net of federal income tax effect	1,570	1,404	260
Other, net	(35)	(78)	27
Total	\$ 14,359	\$ 15,375	\$ 15,221
Effective tax rate	38.8%	38.0%	35.5%

As a result of tax legislation in the Small Business Job Protection Act of 1996, Peoples Federal and First Federal were required for the year ended September 30, 1997 to recapture bad debt tax reserves in excess of pre-1988 base year amounts of approximately \$1.5 million over an eight year period and to change their overall tax method of accounting for bad debts to the specific charge-off method. This legislation allows First Federal to defer recapture of this amount for the 1998 and 1997 tax years provided the “residential loan requirement” is met for both years. First Federal met this requirement for the year ended September 30, 1998, suspending the six-year recapture for the 1997 tax year. First Federal has recorded the related deferred tax liability in other liabilities.

Recent state legislation amended the corporate tax law, retroactive to January 1, 2007, affecting the treatment of dividends paid by Real Estate Investment Trusts (REITS). As a result of the enactment of this legislation, in fiscal 2007, the Company recorded an additional tax provision of \$931 thousand net of the federal tax benefit, thereby reducing diluted earnings per share and increasing the effective tax rate to approximately 38.0%.

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The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are presented below.

	September 30,	
	2008	2007
Deferred tax assets:		
Loan loss allowances deferred for tax purposes	\$ 9,339	\$ 5,980
Expenses deducted under economic performance rules	624	426
Net operating loss carryforward	103	111
Post retirement benefits	705	383
SFAS 158		249
Unrealized loss on securities available for sale	9,846	468
Other	1,150	1,229
Total gross deferred tax assets	<u>21,767</u>	<u>8,846</u>
Deferred tax liabilities:		
FHLB stock dividends deferred for tax purposes	1,704	1,704
Loan fee income adjustments for tax purposes	3,582	3,500
Expenses deducted under economic performance rules	838	837
Excess carrying value of assets acquired for financial reporting purposes over tax basis	11,219	7,361
Book over tax basis on intangibles	(5,461)	1,393
Book over tax basis in subsidiary	-	6,646
Other	(95)	58
Total gross deferred tax liabilities	<u>11,787</u>	<u>21,499</u>
Net deferred asset (liability)	<u>\$ 9,980</u>	<u>\$ (12,653)</u>

A portion of the change in the net deferred tax liability relates to unrealized gains and losses on securities available for sale. The related current period tax expense of \$9.1 million has been recorded directly to stockholders' equity. The balance of the change in the net deferred tax liability results from current period deferred tax benefit of \$13.5 million.

Under SFAS No. 109, deferred tax assets or liabilities are initially recognized for differences between the financial statement carrying amount and the tax basis of assets and liabilities which will result in future deductible or taxable amounts and operating loss and tax credit carryforwards. A valuation allowance is then established, as applicable, to reduce the deferred tax asset to the level at which it is "more likely than not" that the tax benefits will be realized. Realization of tax benefits of deductible temporary differences and operating loss or credit carryforwards depends on having sufficient taxable income of an appropriate character within the carryback and carryforward periods. Sources of taxable income that may allow for the realization of tax benefits include (1) taxable income in the current year or prior years that is available through carryback, (2) future taxable income that will result from the reversal of existing taxable temporary differences, and (3) taxable income generated by future operations. There was no valuation allowance for deferred tax assets as of September 30, 2008 and 2007. It is management's belief that realization of the deferred tax asset is more likely than not.

The consolidated financial statements at September 30, 2008 and 2007 did not include a tax liability of \$8.5 million related to the base year bad debt reserve amounts since these reserves are not expected to reverse until indefinite future periods, and may never reverse. Circumstances that would require an accrual of a portion or all of this unrecorded tax liability are failure to meet the tax definition of a bank, dividend payments in excess of current year or accumulated tax earnings and profits, or other distributions in dissolution, liquidation or redemption of First Federal's stock.

NOTE 18. Share-Based Payment Arrangements

At September 30, 2008, we had several share-based payment plans for employees, which are described below. Prior to October 1, 2005, we had elected to continue using the fair value method of valuation as presented under Accounting Principles Board ("APB") Opinion 25. Effective October 1, 2005, we adopted the provisions of

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SFAS 123 (R). The total compensation cost of share-based payment plans during the twelve months ended September 30, 2008 was \$829 thousand and for the twelve months ended September 30, 2007 was \$838 thousand. The amount of related income tax benefit recognized in income during the twelve months ended September 30, 2008 was \$4 thousand and for the twelve months ended September 30, 2007 was \$95 thousand resulting in a \$825 thousand reduction in net income for 2008 and \$743 thousand for 2007.

Employee Share Option Plans

At the January 25, 2007 annual meeting, shareholders ratified the adoption of the 2007 Equity Incentive Plan ("2007 EIP"). The plan allows us to issue Qualified and Non-qualified Stock Options as well as Restricted Stock Awards and Stock Appreciation Rights. Share option grants, stock appreciation rights and restricted stock awards are granted with an exercise price equal to the market price of First Financial Holdings, Inc. at the date of grant. The share option awards, stock appreciation rights and restricted awards generally become exercisable in full at the time of the grant or at such other times and in such installments as may be specified in the agreement. The 2007 EIP provides for accelerated vesting if there is a change in control, as defined in the plan. Share options granted under the plan that remain outstanding totaled 251,231 at September 30, 2008. The Plan has 423,769 option and stock appreciation right shares and 225,000 restricted stock award shares available for grant at September 30, 2008.

Our 1990 Stock Option and Incentive Plan, 1997 Stock Option and Incentive Plan, 2001 Stock Option Plan and 2005 Stock Option Plan (collectively, the "Plans"), all of which were shareholder-approved, allowed for the grant of tax-qualified incentive share options or non-qualified share options to its employees. Share option awards were granted with an exercise price equal to the market price of First Financial Holdings, Inc.'s shares at the date of grant; these share option awards generally vest based on five years or less continuous service or they were awarded based on previous service to the Company. Share options were granted with varying contractual terms but the maximum term is a ten year term. Share options granted under the Plans that remain outstanding totaled 558,285 at September 30, 2008. Although the 1997 Plan, the 2001 Plan and the 2005 Plan have an aggregate of 61,425 shares available for grant at September 30, 2008, upon ratification of the 2007 EIP, all grants will use shares available from the 2007 EIP.

The 1994 Directors Stock Option-for-Fees Plan and the 2004 Directors Stock Option-for-Fees Plan (collectively, the "Director Plans"), which were shareholder approved, permit the grant of non-qualified share options to directors based on a calculated value of deferred directors' fees and the market price of our common stock on the first day of each fiscal year. These share options vest over the term of the service period related to the deferred director's fees, which generally is one year. The maximum term of the share options awarded is ten years under the Director Plans. The Director Plans provides for accelerated vesting if there is a change in control (as defined in the Director Plans). Share options granted under the Director Plans that remain outstanding totaled 76,228 at September 30, 2008. The 2004 Stock Option-for-Fees Plan has 126,604 shares available for grant at September 30, 2008. However, as of the ratification of the 2007 EIP the shares available for the Director Plans will not be used as all future grants will use shares available from the 2007 EIP.

Compensation cost is measured using the fair value method for employee awards. The fair value of each share option award is estimated on the date of grant using the Black-Scholes option pricing model based on assumptions noted in the following table. Expected volatilities are based on historical volatility of our common shares. The expected term of stock options granted differs for certain groups of employees exhibiting different post-vesting behaviors. For share options under the Plans, we are basing the expected term on the simplified method which is the simple average between contractual term and vesting period. For share options under the Director Plans, the expected term is based on the term of each option which is also the date that the related deferred compensation is payable per election of individual directors. The risk-free rate is based on the expected term of share options and the applicable U.S. Treasury yield curve in effect at the time of grant. During May of fiscal 2007, options for 108,000 shares were issued which will vest based on the attainment of certain three year goals for the consolidated efficiency ratio. The first determination period was the twelve months ended March 31, 2008. We did not attain the first year goal, however attainment of subsequent year goals can be retroactively applied. A summary of assumptions used to determine the fair value of options granted during the twelve months ended September 30, 2008 and 2007 is presented below:

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	September 30, 2008	September 30, 2007
Expected volatility	34.5% - 40.5%	31.4% - 35.6%
Weighted-average volatility	35.4%	32.6%
Expected dividends	3.85%	2.68%
Expected term (years)	3.75	1.0 - 7
Risk-free rate	3.2% - 3.5%	4.5% - 4.8%

A summary of stock option activity under the 2007 EIP, Plans and Director Plans as of September 30, 2008 and changes during the twelve months then ended is presented below:

	Number of Shares	Weighted- Average Exercise Price (\$)	Weighted- Average Remaining Contractual Term (Years)	Aggregate Intrinsic value (\$000)
Outstanding at October 1, 2007	881,303	27.30		
Granted	134,120	27.33		
Exercised	(64,071)	18.31		
Forfeited or expired	(65,608)	28.83		
Outstanding at September 30, 2008	885,744	27.85	2.93	989
Exercisable at September 30, 2008	593,154	26.74	3.36	920

Stock options outstanding and exercisable as of September 30, 2008, are as follows:

	Options Outstanding			Options Exercisable	
	Number of Option Shares Outstanding	Weighted- Average Remaining Contractual Life (in yrs)	Weighted- Average Exercise Price	Number of Option Shares Outstanding	Weighted- Average Exercise Price
Range of Exercise Prices Low/High Outstanding					
\$10.13 / \$13.63	13,601	1.64	\$ 12.54	13,601	\$ 12.54
\$14.00 / \$16.88	33,629	2.05	14.67	33,629	14.67
\$17.00 / \$19.25	56,287	0.73	18.00	56,287	18.00
\$20.77 / \$23.90	114,802	3.83	23.24	105,363	23.26
\$24.55 / \$28.50	240,539	2.00	26.73	99,413	25.84
\$29.35 / \$31.90	96,637	2.12	30.86	58,852	30.51
\$32.28 / \$38.71	330,249	4.07	33.03	226,009	32.60
	885,744	2.93	\$ 27.85	593,154	\$ 26.74

The weighted-average grant-date fair value of share options granted during the twelve months ended September 30, 2008 was \$6.21. The total intrinsic value of share options exercised during the twelve months ended September 30, 2008 was \$427 thousand.

As of September 30, 2008, there was \$1.3 million of total unrecognized compensation cost related to nonvested share-based compensation arrangements (share options) granted under the Share Plans and at September 30, 2007 there was \$1.5 million of total unrecognized compensation costs. That cost is expected to be recognized over a weighted-average period of .9 years at September 30, 2008 and 1.4 years at September 30, 2007. The total original fair-value of shares vested during the twelve months ended September 30, 2008 was \$500 thousand and \$429 thousand at September 30, 2007. The total compensation costs recognized during the twelve months ended

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September 30, 2008 was \$829 thousand and \$838 thousand for the twelve months ended September 30, 2007, as the cost is generally recognized over the service period on a straight line basis.

The 2004 Employee Stock Purchase Plan, which was approved by shareholders, allowed employees to purchase our stock at a discounted price. Purchases were made subject to various guidelines which allowed the plan to qualify as an employee stock purchase plan under Section 423 of the Internal Revenue Code of 1986. Certain provisions of the 2004 Employee Stock Purchase Plan require it be compensatory under SFAS 123(R). A total of 3,014 shares were issued to employees at a discounted price during the quarter ended December 30, 2005. The Board of Directors suspended this plan, effective January 1, 2006.

Cash received from share option exercises totaled \$1.3 million during the twelve months ended September 30, 2008 and \$3.1 million for the twelve months ended September 30, 2007. The actual tax benefit realized for the tax deductions from option exercises totaled \$63 thousand for the twelve months ended September 30, 2008 and \$109 for the twelve months ended September 30, 2007. We issue shares upon exercise of share options from newly issued shares that have been reserved for the various plans.

Performance Equity Plan for Non-Employee Directors

On January 27, 2005, the shareholders approved the Performance Equity Plan for Non-Employee Directors (the "PEP Plan"). The purpose of the PEP Plan is to provide non-employee directors with an opportunity to increase their equity interest in First Financial if First Financial and First Federal attain specific financial criteria. Performance targets for the 2007 year resulted in the awarding of 0 shares in the year 2008 to the directors serving First Financial and the subsidiaries and 3,385 shares awarded in the year 2007 for targets in 2006. A maximum of 60,000 shares are reserved for issuance under the PEP Plan. As of September 30, 2008, 52,803 shares were available for future issuance.

NOTE 19. Benefit Plans

Sharing Thrift Plan

We have established the Sharing Thrift Plan which includes a deferred compensation plan (under Section 401(k) of the Internal Revenue Code) for all employees. Prior to January 1, 2006, the deferrals were only Regular 401(k) deferrals. Beginning July 1, 2006, Roth 401(k) deferrals were also allowed under plan provisions. The Plan permits eligible participants to contribute up to limitations prescribed by law. We will match the employee's contribution up to 5% of the employee's salary based on the attainment of certain profit goals. The Plan, under an annual election made by First Financial, also provides for a safe harbor contribution of up to 4%.

Our matching contribution charged to expense was \$1.6 million for the year ended September 30, 2008, \$1.6 million for the year ended September 30, 2007 and \$1.5 million for the year ended September 30, 2006.

The Sharing Thrift Plan provides that all employees who have completed a year of service with First Financial are entitled to receive a Profit Sharing Contribution dependent on the profitability of First Financial. Employees become vested in Profit Sharing Contributions made to their accounts over a six-year period or upon their earlier death, disability or retirement at age 65 or over. Employees are able to direct the investment of Profit Sharing Contributions made to their accounts to any of the Plan investment funds. Expenses related to the Plan during fiscal 2008 totaled \$1.5 million, fiscal 2007 totaled \$1.5 million and fiscal 2006 totaled \$1.5 million.

Other Postretirement Benefits

In the past we sponsored postretirement benefit plans that provided health care, life insurance and other postretirement benefits to retired employees. The health care plans generally include participant contributions, co-insurance provisions, limitations on our obligation and service-related eligibility requirements. We pay these benefits as they are incurred. Postretirement benefits for employees hired after January 1, 1989 and those electing early retirement or normal retirement after January 1, 1999, were substantially curtailed.

In October 2007 we offered an early retirement program to full-time employees who met certain age and service criteria. The early retirement program was accepted by 26 employees in a number of positions and markets. The pre-tax expense related to this program recorded in the December 2007 quarter, as a one-time charge, was \$1.76 million which included \$412 thousand of health care benefits.

On December 8, 2003, the President signed the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act") into law. The Act introduces a voluntary prescription drug benefit under Medicare as well as a federal subsidy to sponsors of retiree health care plans that provide at least an actuarially equivalent benefit. The

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Financial Accounting Standards Board (FASB) issued a Staff Position, FAS 106-2, on May 9, 2004, which was effective for the first interim or annual reporting period beginning after June 15, 2004. We adopted FAS 106-2 effective July 1, 2004. We have determined that the drug benefit under our postretirement benefit plan is actuarially equivalent to Medicare part D and that it will qualify for the subsidy starting in 2006. The impact was a reduction in our accumulated postretirement benefit obligation of \$361 thousand.

Effective September 30, 2007, the Company adopted SFAS No. 158, “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans” (“SFAS No. 158”), an amendment of SFAS Nos. 87, 88, 106 and 132(R). This statement requires employers to recognize the funded status of their defined benefit pension and other postretirement benefit plans measured as the difference between the fair value of plan assets and the benefit obligation in the Statements of Condition with a corresponding adjustment of Other Comprehensive Income (“OCI”), net of tax. For defined benefit pension plans, the projected benefit obligation is used to determine the funded status of the plan, while all other plans use the accumulated benefit obligation to make the funded status determination. The Company only has “Other Postretirement Benefits”.

SFAS No. 158 requires that, at the time of initial application, delayed gains and losses and prior service costs shall be recognized as a component of other comprehensive income (loss), net of tax. The initial application of SFAS No. 158 will have no affect on the net periodic benefit cost. Amounts initially recognized as a component of other comprehensive income (loss), net of tax, will be recognized as a component of periodic benefit cost in the future which is consistent with current practice under SFAS Nos. 87 and 106. Actuarial gains and losses that arise in subsequent periods but not included in net periodic benefit costs will be recognized in OCI.

The adoption of SFAS No. 158 had no effect on the Company’s Consolidated Statement of Operations for the year ended September 30, 2008 or any prior year presented. Below is a summary presentation of the incremental adjustments for the other postretirement benefit plans made to individual line items of the Company’s Consolidated Statements of Condition for September 30, 2008 upon the adoption of SFAS No. 158:

	Before Application of SFAS No. 158	Adjustments	After Application of SFAS No. 158
Other Assets			
Deferred income taxes		\$ 310	\$ 310
Other Liabilities			
Accrued benefit plan liability	\$ 959	810	1,769
Net accumulated other comprehensive loss	\$ (959)	\$ (500)	\$ (1,459)

The following tables set forth the activity for each benefit plan’s projected benefit obligation, plan assets and funded status for the periods indicated:

	September 30,	
	2008	2007
Change in benefit obligation:		
Benefit obligation at October 1	\$ 1,676	\$ 1,667
Interest cost	113	89
Plan participants’ contribution	433	8
Actuarial loss (gains)	(74)	118
Benefit payments	(370)	(230)
less: Medicare D Subsidy Receivable	34	24
Benefit obligation at September 30	\$ 1,812	\$ 1,676
Change in plan assets:		
Fair value of plan assets at October 1	\$ -	\$ -
Employer contributions	349	222
Plan participants’ contributions	21	8
Benefit payments	(370)	(230)
Fair value of plan assets at September 30	\$ -	\$ -

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The weighted average assumptions used in determining the actuarial present value of the projected benefit obligation at September 30, 2008 and 2007 are as follows:

	Postretirement Benefits	
	2008	2007
Discount rate	7.43%	6.00%

Components of Net Periodic Benefit Expense

The actuarially estimated net benefit cost for the years ended September 30 includes the following components:

	Postretirement Benefits	
	2008	2007
Service cost - benefits earned during the year	\$ 9	\$ 3
Interest cost on projected benefit obligation	112	89
Net amortization and deferral of loss (gain)	79	79
Net pension cost included in employee benefit expense	\$ 200	\$ 171

The Company revises the rates applied in the determination of the actuarial present value of the projected benefit obligation to reflect the anticipated performance of the plan and changes in compensation levels.

Benefit Payments

Presented below are the estimated future benefit payments:

	Post-Retirement Benefits
2009	\$ 289
2010	178
2011	180
2012	187
2013	191
2014-2018	894

NOTE 20. Commitments and Contingencies

Loan Commitments

Outstanding commitments on mortgage loans not yet closed, including commitments issued to correspondent lenders, amounted to approximately \$67.1 million at September 30, 2008. These were principally single-family loan commitments. Outstanding undisbursed closed construction loans amounted to \$61.1 million. Other loan commitments totaled \$2.6 million at September 30, 2008.

Commitments to extend credit are agreements to lend to borrowers as long as there is no violation of any condition established by the commitment letter. Commitments generally have fixed expiration dates or other termination clauses. The majority of the commitments will be funded within a 12 month period. We evaluate each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies but primarily consists of residential or income producing commercial properties.

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We originate and service mortgage loans. All of our loan sales have been without provision for recourse. Unused lines of credit on equity loans, credit cards, other consumer and commercial loans and standby letters of credit amounted to \$334.8 million at September 30, 2008, \$365.6 million at September 30, 2007 and \$345.7 million at September 30, 2006.

Standby letters of credit represent our obligation to a third party contingent upon the failure of our customer to perform under the terms of an underlying contract with the third party or obligate us to guarantee or stand as surety for the benefit of the third party. The underlying contract may entail either financial or nonfinancial obligations and may involve such things as the customer's delivery of merchandise, completion of a construction contract, release of a lien, or repayment of an obligation. Under the terms of a standby letter, drafts will generally be drawn only when the underlying event fails to occur as intended. We can seek recovery of the amounts paid from the borrower. In addition, some of these standby letters of credit are collateralized. Commitments under standby letters of credit are usually for one year or less. As of September 30, 2008, we believe there is no current liability associated with these standby letters of credit. The maximum potential amount of undiscounted future payments related to standby letters of credit at September 30, 2008 was \$2.3 million.

Derivative Instruments

We use derivatives as part of our interest rate management activities. Changes in the fair value of derivatives are reported in current earnings or other comprehensive income depending on the purpose for which the derivative is held and whether the derivative qualifies for hedge accounting. We do not currently engage in any activities that we attempt to qualify for hedge accounting treatment under Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). All changes in the fair value of derivative instruments are recorded as non-interest income in the Consolidated Statements of Operations. As part of our risk management strategy in the mortgage banking area, various derivative instruments such as interest rate lock commitments and forward sales contracts are utilized. Rate lock commitments are residential mortgage loan commitments with customers, which guarantee a specified interest rate for a specified period of time. Forward contracts are agreements to purchase or sell loans, securities or other money market instruments at a future specified date at a specified price or yield. First Financial's obligations under forward contracts consist of commitments to deliver mortgage loans in the secondary market at a future date and commitments to sell "to be issued" mortgage-backed securities. The commitments to originate fixed rate conforming loans totaled \$20.7 million at September 30, 2008. It is anticipated 65% of these loans will close totaling \$13.5 million. The fair value of the \$13.5 million is a liability of \$16 thousand at September 30, 2008. The off-balance sheet obligations under the above derivative instruments totaled \$20.6 million at September 30, 2008 with a fair value adjustment of an asset of \$137 thousand.

Late in the second quarter of fiscal 2007, a strategy was implemented which utilized a portfolio of derivative instruments, such as interest rate future contracts and exchange-traded option contracts, to achieve a fair value return that would substantially offset the changes in fair value of MSRs attributable to interest rates. Changes in the fair value of these derivative instruments are recorded in noninterest income in loan servicing operations, net and are offset by the changes in the fair value of the MSRs. During the fiscal year ended September 30, 2008, gross MSRs values decreased \$1.2 million due to interest rate movements, while hedge gains totaled \$2.7 million. The notional value of our off-balance sheet positions as of September 30, 2008 totaled \$87 million with a fair value of a liability of \$749 thousand.

Lease Commitments

We occupy office space and land under leases expiring on various dates through 2034. Minimum rental commitments under non-cancelable operating leases are as follows:

	September 30, 2008
One year	\$ 1,977
Two years	1,492
Three years	1,232
Four years	1,123
Five years	849
Thereafter	3,777
Total	<u>\$ 10,450</u>

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Rental expenses under operating leases were \$2.0 million for the year ended September 2008, \$2.1 million for the year ended September 2007 and \$1.9 million for the year ended September 2006.

NOTE 21. Loan Sales

First Federal had loan and participation sales of approximately \$200.9 million during the fiscal year ended September 30, 2008 and \$172.9 million in the fiscal year ended September 30, 2007. During the June 2008 quarter we began selling loans to the FHLB of Boston. Approximately, \$58.3 million of loan sales in fiscal 2008 were to the FHLB of Boston and \$81.9 million were to the FHLB of Atlanta, while \$118.1 million of loan sales in fiscal 2007 were to the FHLB of Atlanta.

We currently transfer closed mortgage loans to the FHLB of Boston for cash pursuant to a Participating Financial Institution Agreement (the "Agreement") between the Federal Home Loan Bank of Boston and First Federal which establishes the general terms and conditions for the origination and subsequent purchase, servicing and credit enhancement and loss treatment of receivables under the program and pursuant to the Mortgage Partnership Finance Origination ("MPF") and Servicing Guides ("the Guides"). The transfers are intended to be true sales and accordingly, the Federal Home Loan Bank of Boston receives full ownership rights to the mortgages and is free to sell, assign or otherwise transfer the mortgage without constraint. Prior to the June 2008 quarter, we transferred closed mortgage loans to the FHLB of Atlanta. The FHLB of Atlanta discontinued the MPF program during the second quarter of fiscal 2008.

The credit risk is shared between First Federal and the FHLB by structuring the potential loss exposure into several layers. The initial layer of losses (after any primary mortgage insurance coverage) on loans delivered under a Master Commitment is absorbed by a "first loss" account ("FLA") established by the FHLB. Additional credit enhancement in the form of a supplemental mortgage insurance policy is obtained by First Federal with the FHLB as loss payee to cover the second layer of losses which exceed the deductible of the supplemental mortgage insurance policy. Losses on the pool of loans in excess of the FLA and the supplemental mortgage insurance coverage would be paid from the First Federal's credit enhancement obligation for the Master Commitment (generally 20 basis points). The FHLB will absorb all losses in excess of the First Federal's credit enhancement obligation. The MPF program requires AA pool policy insurers, as there are none, this program has been suspended.

Upon completion of a transfer of loans to the FHLB, First Federal recognizes the fair value of the future cash flows from credit enhancement fees, reduced by the costs of pool insurance. First Federal recognizes at fair value its recourse obligation due to the credit enhancement obligation. When applying sales accounting treatment to the sales under the Agreement, these respective fair values enter into First Federal's gain or loss on the sales under SFAS 140. Thereafter, the credit enhancement asset and the recourse obligation are reduced through normal amortization methods. As a practical matter and based upon the fact that the credit enhancement fees cannot be separated from the recourse obligation, a net asset has been established. To date, First Federal has not incurred any actual losses associated with its credit enhancement obligation of 20 basis points as outlined above. Any losses to date have been immaterial and were out of the FLA.

Prior to October 1, 2006, servicing of the loans sold to FHLB of Atlanta were retained by First Federal and were appropriately accounted for under the provisions of SFAS 140, with a periodic impairment valuation conducted quarterly. Effective October 1, 2006, we elected the fair value method of accounting for the measurement of servicing assets and liabilities in accordance with the provisions of SFAS 156. Loans were also sold to Federal Home Loan Mortgage Corporation ("FHLMC"), Federal National Mortgage Association ("FNMA"), CitiMortgage, JP Morgan Chase and South Carolina Housing Authority. We retained all servicing of loans sold except for sales to CitiMortgage, JPMorgan Chase Bank and South Carolina State Housing Authority.

Note 22. Stockholders' Equity, Dividend Restrictions and Other Regulatory Matters

Our ability to pay dividends depends primarily on the ability of First Federal and our other subsidiaries to pay dividends to us. First Federal is 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 First Federal's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, First Federal must meet specific capital guidelines that involve quantitative measures of its assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. First Federal's capital amounts and classifications 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 First Federal to maintain minimum amounts and ratios (set forth in the table below) of tangible and core capital (as defined in the regulations)

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to total assets (as defined), and of risk-based capital (as defined) to risk-based assets (as defined). Management believes, as of September 30, 2008, that First Federal meets all capital adequacy requirements to which it is subject.

As of September 30, 2008, First Federal was categorized as well-capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized First Federal must maintain minimum total risk-based, Tier I risk-based, and Tier I core ("leverage") ratios as set forth in the table. There are no conditions or events since that date that management believes have changed the institution's category.

First Federal's actual capital amounts and ratios at September 30, 2008 and 2007 are presented in the following table:

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of September 30, 2008						
Tangible capital (to Total Assets)	\$ 215,844	7.32 %	\$ 43,876	1.50 %		
Core capital (to Total Assets)	215,844	7.32	117,937	4.00	\$ 147,421	5.00 %
Tier I capital (to Risk-based Assets)	215,844	9.75			131,735	6.00
Risk-based capital (to Risk-based Assets)	235,961	10.75	175,647	8.00	219,559	10.00
As of September 30, 2007						
Tangible capital (to Total Assets)	\$ 197,125	7.38 %	\$ 40,054	1.50 %		
Core capital (to Total Assets)	197,125	7.38	106,858	4.00	\$ 133,573	5.00 %
Tier I capital (to Risk-based Assets)	197,125	9.75			120,061	6.00
Risk-based capital (to Risk-based Assets)	209,849	10.49	160,081	8.00	200,102	10.00

The Office of Thrift Supervision's capital distribution regulations specify the conditions relative to an institution's ability to pay dividends. The regulations permit institutions meeting fully phased-in capital requirements and subject only to normal supervision to pay out 100% of net income for the year-to-date plus retained net income for the two preceding years, so long as it is well capitalized after the distribution, without supervisory approval.

We may not declare or pay a cash dividend on, or purchase, any of our common stock, if the effect thereof would cause the capital of First Federal to be reduced below the minimum regulatory capital requirements.

Under Delaware law, we may declare and pay dividends on our common stock either out of our surplus, as defined under Delaware law, or, if there is no surplus, out of our net profits for the fiscal year in which the dividend is declared and/or the preceding fiscal year.

First Federal is required by bank regulatory agencies to maintain certain minimum balances of cash or non-interest bearing deposits with the Federal Reserve. The required balance at September 30, 2008 and September 30, 2007 was \$0.

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NOTE 23. Fair Value of Financial Instruments

The following table sets forth the fair value of our financial instruments:

	September 30,			
	2008		2007	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial instruments:				
Assets:				
Cash and cash equivalents	\$ 62,949	\$ 62,949	\$ 77,334	\$ 77,334
Investments available for sale	17,095	17,095	23,959	23,959
Investments held to maturity	2,043	1,819	2,042	2,032
Investment in capital stock of FHLB	41,832	41,832	29,628	29,628
Mortgage-backed securities available for sale	351,109	351,109	297,011	297,011
Loans receivable, net	2,333,268	2,345,496	2,140,769	2,138,788
Liabilities:				
Deposits:				
Demand deposits, savings accounts and money market accounts	949,094	949,094	970,286	970,286
Certificate accounts	902,008	904,175	883,765	883,062
Advances from FHLB	818,000	831,972	554,000	561,144
Other borrowings	28,813	28,675	5,815	5,603
Long-term debt	46,392	31,922	46,392	41,667

Our financial instruments for which fair value approximates the carrying amount at September 30, 2008, include cash and cash equivalents and investment in the capital stock of the FHLB. The fair value of investments, mortgage-backed securities and long-term debt is estimated based on bid prices published in financial newspapers or bid quotations received from independent securities dealers.

Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type such as single-family residential, multi-family, non-residential, commercial and consumer. Each loan category is further segmented into fixed- and adjustable-rate interest terms and by performing and nonperforming categories.

The fair value of performing loans, except single-family residential mortgage loans, is calculated by discounting scheduled cash flows through the estimated maturity using estimated market discount rates that reflect the credit and interest rate risk inherent in the loan. The estimate of maturity is based on our historical experience with repayments for each loan classification, modified, as required, by an estimate of the effect of current economic and lending conditions. For performing single-family residential mortgage loans, fair value is derived from quoted market prices for securities backed by similar loans, adjusted for differences between the market for the securities and the loans being valued and an estimate of credit losses inherent in the portfolio.

Under SFAS No. 107, the fair value of deposits with no stated maturity, such as regular savings accounts, checking and NOW accounts and money market accounts, is equal to the amount payable on demand. The fair value of certificate accounts is estimated using the rates currently offered for deposits of similar remaining terms. No value has been estimated for our long-term relationships with customers (commonly known as the core deposit intangible) since such intangible asset is not a financial instrument pursuant to the definitions contained in SFAS No. 107. The fair values of FHLB advances are estimated based on current rates for borrowings with similar terms.

Management uses its best judgment in estimating the fair value of non-traded financial instruments but there are inherent limitations in any estimation technique. For example, liquid markets do not exist for many categories of loans we hold. By definition, the function of a financial intermediary is, in large part, to provide liquidity where organized markets do not exist. Therefore, the fair value estimates presented here are not necessarily indicative of the amounts which we could realize in a current transaction.

The information presented is based on pertinent information available to management as of September 30, 2008. Although management is not aware of any factors, other than changes in interest rates, which

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would significantly affect the estimated fair values, the current estimated fair value of these instruments may have changed significantly since that point in time.

NOTE 24. Business Segments

We have two principal operating segments, banking and insurance, which are evaluated regularly by management and the Board of Directors in deciding how to allocate resources and assess performance. Both of these segments are reportable segments by virtue of exceeding certain quantitative thresholds.

First Federal, our primary operating segment, engages in general banking business focusing on mortgage, consumer and commercial lending to small and middle market businesses and consumers in its markets. First Federal also provides demand transaction accounts and time deposit accounts to businesses and individuals. First Federal offers products and services primarily to customers in its market areas, consisting of counties in Coastal South Carolina and North Carolina from the Hilton Head area of Beaufort County to the Sunset Beach area of Brunswick County and Florence County. Revenues for First Federal are derived primarily from interest and fees on loans, interest on investment securities, service charges on deposits and other customer service fees.

First Southeast Insurance Services, Inc. operates as an independent insurance agency and brokerage through twelve offices, eight located throughout the coastal region of South Carolina, one office in Florence County, South Carolina and one office each in Columbia, South Carolina; Charlotte, North Carolina; and Burlington, North Carolina with revenues consisting principally of commissions paid by insurance companies. The Kimbrell Insurance Group, Inc. operates as a managing general agency and brokerage through its primary office, located in Horry County, South Carolina, with revenues consisting principally of commissions paid by insurance companies. No single customer accounts for a significant amount of the revenues of either reportable segment. We evaluate performance based on budget to actual comparisons and segment profits. The accounting policies of the reportable segments are the same as those described in Note 1.

Segment information is shown in the tables below. The "Other" column includes all other business activities that did not meet the quantitative thresholds and therefore are not shown as a reportable segment. Certain passive activities of First Financial are also included in the "Other" column.

Year Ended September 30, 2008

	Banking	Insurance Activities	Other	Total
Interest income	\$ 174,621	\$ 120	\$ 31	\$ 174,772
Interest expense	79,652	372	3,384	83,408
Net interest income	94,969	(252)	(3,353)	91,364
Provision for loan losses	16,939			16,939
Other income	35,404	138	2,510	38,052
Commissions on insurance and other agency income	298	24,698	(166)	24,830
Non-interest expenses	76,308	18,422	4,963	99,693
Amortization of intangibles	10	607		617
Income tax expense	14,177	2,132	(1,950)	14,359
Net income	<u>\$ 23,237</u>	<u>\$ 3,423</u>	<u>\$ (4,022)</u>	<u>\$ 22,638</u>

September 30, 2008

Total assets	\$ 2,921,325	\$ 54,520	\$ (1,851)	\$ 2,973,994
Loans	\$ 2,333,268			\$ 2,333,268
Deposits	\$ 1,864,797		\$(13,695)	\$ 1,851,102

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Year Ended September 30, 2007

	Banking	Insurance Activities	Other	Total
Interest income	\$ 167,366	\$ 605	\$ 73	\$ 168,044
Interest expense	82,191	225	2,798	85,214
Net interest income	85,175	380	(2,725)	82,830
Provision for loan losses	5,088	76		5,164
Other income	28,459	184	2,528	31,171
Commissions on insurance and other agency income	303	21,893	(150)	22,046
Non-interest expenses	68,913	16,572	4,490	89,975
Amortization of intangibles		461		461
Income tax expense	14,983	1,925	(1,533)	15,375
Net income	<u>\$ 24,953</u>	<u>\$ 3,423</u>	<u>\$ (3,304)</u>	<u>\$ 25,072</u>

September 30, 2007

Total assets	\$ 2,670,249	\$ 39,334	\$ 1,787	\$ 2,711,370
Loans	\$ 2,137,366	\$ 3,403		\$ 2,140,769
Deposits	\$ 1,862,277		\$ (8,226)	\$ 1,854,051

Year Ended September 30, 2006

	Banking	Insurance Activities	Other	Total
Interest income	\$ 150,504	\$ 562	\$ 274	\$ 151,340
Interest expense	68,468	196	2,951	71,615
Net interest income	82,036	366	(2,677)	79,725
Provision for loan losses	4,849	45		4,894
Other income	28,652	225	2,286	31,163
Commissions on insurance and other agency income	247	20,674	(129)	20,792
Non-interest expenses	63,613	15,609	4,714	83,936
Amortization of intangibles		476		476
Income tax expense	14,906	2,020	(1,705)	15,221
Net income	<u>\$ 27,567</u>	<u>\$ 3,115</u>	<u>\$ (3,529)</u>	<u>\$ 27,153</u>

September 30, 2006

Total assets	\$ 2,610,837	\$ 43,770	\$ 3,521	\$ 2,658,128
Loans	\$ 2,056,020	\$ 5,109		\$ 2,061,129
Deposits	\$ 1,831,555		\$ (8,527)	\$ 1,823,028

NOTE 25. First Financial Holdings, Inc. (Parent Company Only) Condensed Financial Information

At fiscal year end 2008 and 2007, our principal asset was our investment in our subsidiaries, and our principal source of income was dividends and equity in undistributed earnings from our subsidiaries. The following is our condensed financial information.

FIRST FINANCIAL HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2008, 2007 and 2006

Statements of Financial Condition

	September 30,	
	2008	2007
Assets		
Cash and cash equivalents	\$ 6,901	\$ 5,216
Investments available for sale	775	775
Mortgage-backed securities available for sale, at fair value	24	34
Office properties and equipment, net	-	13
Investment in subsidiaries	248,757	226,151
Advances to / receivables from subsidiaries	13	3,204
Other	3,034	2,974
Total assets	\$ 259,504	\$ 238,367
Liabilities and Stockholders' Equity		
Accrued expenses	\$ 1,634	\$ 1,260
Other borrowed money	28,000	5,000
Long-term debt	46,392	46,392
Stockholders' equity	183,478	185,715
Total liabilities and stockholders' equity	\$ 259,504	\$ 238,367

Statements of Operations

	Years Ended September 30,		
	2008	2007	2006
Income			
Increase (decrease) of equity in undistributed earnings of subsidiaries	\$ 12,959	\$ 8,811	\$ 8,932
Dividend income	13,950	19,650	22,400
Interest income	85	417	430
Net gain on sale of investments	-	237	
Other income	320	337	327
Total income	27,314	29,452	32,089
Expenses			
Interest expense	3,468	3,170	3,150
Salaries and employee benefits	2,094	1,766	2,096
Stockholder relations and other	1,257	1,030	1,036
Total expense	6,819	5,966	6,282
Net income before tax	20,495	23,486	25,807
Income tax benefit	(2,143)	(1,586)	(1,822)
Net income	\$ 22,638	\$ 25,072	\$ 27,629

FIRST FINANCIAL HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2008, 2007 and 2006

Statements of Cash Flows

	Years Ended September 30,		
	2008	2007	2006
Operating Activities			
Net income	\$ 22,638	\$ 25,072	\$ 27,629
Adjustments to reconcile net income to net cash provided by operating activities			
Increase of equity in undistributed earnings of subsidiaries	(12,959)	(8,811)	(8,932)
Depreciation	13	32	33
Amortization of issuance cost, trust preferred	55	53	53
Stock option compensation expense	829	838	829
Tax benefit resulting from stock options	25	10	37
(Increase) decrease in other assets	(116)	(91)	409
Cumulative effect of FIN 48	(240)		
Increase (decrease) in accrued expenses	337	(23)	(635)
Net cash provided by operating activities	10,582	17,080	19,423
Investing Activities			
Repayments on mortgage-backed securities	10	12	11
Equity investments in subsidiaries	(24,363)		
Net sale (purchase) of investments available for sale		6,646	(2,184)
Decrease (increase) in line of credit to affiliate	3,195	1,845	(1,775)
Net cash (used by) provided by investing activities	(21,158)	8,503	(3,948)
Financing Activities			
Net increase in other borrowings	23,000	5,000	
Proceeds from exercise of stock options	1,317	3,111	2,876
Tax benefit from exercise of stock options	25	10	37
Dividends paid	(11,891)	(11,941)	(11,540)
Treasury stock purchased	(190)	(16,963)	(7,534)
Net cash provided by (used in) financing activities	12,261	(20,783)	(16,161)
Net increase (decrease) in cash and cash equivalents	1,685	4,800	(686)
Cash and cash equivalents at beginning of period	5,216	416	1,102
Cash and cash equivalents at end of period	\$ 6,901	\$ 5,216	\$ 416
Supplemental disclosures:			
Cash paid during the period for:			
Interest	\$ 3,225	\$ 3,150	\$ 3,150
Income taxes	20,666	17,440	15,285
Unrealized net (loss) gain on securities available for sale, net of income tax		(20)	19

NOTE 26. Dividend Reinvestment and Direct Purchase Plan

We have a dividend Reinvestment and Direct Purchase Plan, as amended December 1, 1998, for which shares are purchased only on the open market. At September 30, 2008, 634,078 shares had been purchased or transferred to the Plan and remain in the Plan.

FIRST FINANCIAL HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2008, 2007 and 2006

NOTE 27. Quarterly Results (Unaudited):

Summarized below are selected financial data regarding results of operations for the periods indicated:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
2008					
Total interest income	\$ 44,362	\$ 43,810	\$ 43,229	\$ 43,371	\$ 174,772
Net interest income	21,059	22,141	24,009	24,155	91,364
Provision for loan losses	3,247	3,567	4,907	5,218	16,939
Income before income taxes	4,812	12,313	9,775	10,097	36,997
Net income	2,897	7,530	5,902	6,309	22,638
Earnings per common share:					
Basic	\$ 0.25	\$ 0.65	\$ 0.51	\$ 0.54	\$ 1.94
Diluted	0.25	0.64	0.51	0.54	1.94
2007					
Total interest income	\$ 41,185	\$ 41,388	\$ 42,540	\$ 42,931	\$ 168,044
Net interest income	20,702	20,455	20,981	20,692	82,830
Provision for loan losses	852	1,072	1,391	1,849	5,164
Income before income taxes	9,002	11,742	10,308	9,395	40,447
Net income	5,843	7,540	6,498	5,191	25,072
Earnings per common share:					
Basic	\$ 0.49	\$ 0.63	\$ 0.55	\$ 0.44	\$ 2.10
Diluted	0.48	0.62	0.54	0.44	2.07

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Management's Report on Internal Control Over Financial Reporting. The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) of the Exchange Act. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of published financial statements in accordance with generally accepted accounting principles.

The Company's management, with the participation of the Company's Chairman and Chief Executive Officer and Executive Vice President and Chief Financial Officer, has assessed the effectiveness of the Company's internal control over financial reporting based on the framework in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, the Company's management has concluded that, as of September 30, 2008, the Company's internal controls over financial reporting were effective based on that framework.

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

Grant Thornton LLP, the Company's independent registered public accounting firm, issued a report on the effectiveness of the Company's internal control over financial reporting as of September 30, 2008, which is included herein.

Attestation Report of Independent Registered Public Accounting Firm. The attestation report required under this Item 9A is contained in Item 8 of Part II of this Annual Report on Form 10-K under the heading "Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting."

Changes in Internal Control over Financial Reporting. There were no changes in the Company's internal control over financial reporting that occurred during the quarter ended September 30, 2008 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

There was no information required to be disclosed by the Company in a report on form 8-K during the fourth quarter of fiscal 2008 that was not so disclosed.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS OF THE REGISTRANT AND CORPORATE GOVERNANCE

The information required by this item contained under the sections captioned “Proposal I—Election of Directors” and “Meetings and Committees of the Board of Directors and Corporate Governance Matters” in the Company’s definitive proxy statement for its annual meeting of stockholders to be held in January 2009, a copy of which has been filed with the SEC, the “Proxy Statement”, is incorporated in this document by reference.

Executive Officers. For Information concerning the Company’s executive officers, see Part 1 Item 1 - Business – Executive Officers of the Registrant.

Audit Committee Financial Expert. The Audit Committee of the Company is composed of Directors Ronnie M. Givens (Chairman), Paul G. Campbell, Jr., Thomas J. Johnson, D. Kent Sharples and James C. Murray. The Board has selected the Audit Committee members based on its determination that they are qualified to oversee the accounting and financial reporting processes of the Company and audits of the Company’s financial statements. Each member of the Audit Committee is “independent” as defined in the NASDAQ Stock Market listing standards for audit committee members.

The Board of Directors has determined that Ronnie M. Givens qualifies as a financial expert within the meaning of SEC rules and regulations and has designated Mr. Givens as the Audit Committee financial expert. Director Givens is independent as that term is used in Schedule 14A promulgated under the Exchange Act.

Code of Ethics. The Company has adopted a “Code of Business Conduct and Ethics”, applicable to corporate and affiliate directors, officers and employees, including special ethical obligations of senior financial officers. A copy may be obtained at the Company’s internet website: www.firstfinancialholdings.com.

Compliance with Insider Reporting. The information contained under the section captioned “Section 16(a) Beneficial Ownership Reporting Compliance” is included in the Company’s Proxy Statement and is incorporated in this document by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated by reference to the Sections captioned “Director’s Compensation” and “Executive Compensation – Compensation Discussion and Analysis” of the Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Equity Compensation Plan Information.

The following table summarizes share and exercise price information about our equity compensation plan as of September 30, 2008:

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans ¹
Equity compensation plans approved by security holders	885,744	\$ 27.84570	701,572
Equity compensation plans not approved by security holders	-		-
Total	885,744	\$ 27.84570	701,572

¹ Of these remaining securities, 225,000 are available for restricted stock awards.

All securities remaining available for future issuance under Equity Compensation Plans are from the 2007 EIP and the PEP Plan as previously discussed.

(a) Security Ownership of Certain Beneficial Owners

Information required by this item is incorporated in this document by reference to the Section captioned “Security Ownership of Certain Beneficial Owners and Management” of the Proxy Statement.

(b) Security Ownership of Management.

Information required by this item is incorporated in this document by reference to the Sections captioned “Proposal I - Election of Directors” and “Security Ownership of Certain Beneficial Owners and Management”.

(c) Changes in Control

We are not aware of any arrangements, including any pledge by any person of securities of the Company, the operation of which may at a subsequent date result in a change of control of the Company.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item is incorporated in this document by reference to the Sections captioned “Proposal I - Election of Directors” and “Meetings and Committees of the Board of Directors and Corporate Governance Matters” of the Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this item is incorporated in this document by reference to the Sections captioned “Audit Committee Matters” and “Auditing and Related Fees” of the Proxy Statement.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

1. Consolidated Financial Statements and Report of Independent Registered Public Accounting Firm - see Item 8 for reference.

All other schedules have been omitted, as the required information is either inapplicable or included in the Notes to Consolidated Financial Statements.

2. Listing of Exhibits

Exhibit No.	Description of Exhibit	Location
3.1	Amendment to Registrant's Certificate of Incorporation	Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended December 31, 1997.
3.2	Amendment to Registrant's Bylaws	Incorporated by reference to the Registrant's Form 8-K filed October 26, 2007
4	The Registrant hereby agrees to furnish to the Commission, upon request, the instruments defining the rights of the holders of each issue of long-term debt of the Registrant and its consolidated subsidiaries	N/A
10.9	1996 Performance Equity Plan for Non-Employee Directors	Incorporated by reference to the Registrant's Proxy Statement for the Annual Meeting of Stockholders held on January 22, 1997.
10.11	1997 Stock Option and Incentive Plan	Incorporated by reference to the Registrant's Preliminary Proxy Statement for the Annual Meeting of Stockholders held on January 28, 1998.
10.16	2001 Stock Option Plan	Incorporated by reference to the Registrant's Proxy Statement for the Annual Meeting of Stockholders held on January 31, 2001.
10.17	2004 Outside Directors Stock Options-For-Fees Plan	Incorporated by reference to the Registrant's Proxy Statement for the Annual Meeting of Stockholders held on January 29, 2004.
10.18	2004 Employee Stock Purchase Plan	Incorporated by reference to the Registrant's Proxy Statement for the Annual Meeting of Stockholders held on January 29, 2004.
10.19	2005 Stock Option Plan	Incorporated by reference to the Registrant's Proxy Statement for the Annual Meeting of Stockholders held on January 27, 2005.

Exhibit No.	Description of Exhibit	Location
10.20	2005 Performance Equity Plan for Non-employee Directors	Incorporated by reference to the Registrant's Proxy Statement for the Annual Meeting of Stockholders held on January 27, 2005.
10.21	Employment Agreement with R. Wayne Hall	Incorporated by reference to the registrant's Current Report on Form 8-K filed on October 19, 2006.
10.22	Form of Agreement for A. Thomas Hood, Susan E. Baham, Charles F. Baarcke, Jr., John L. Ott, Jr., and Clarence A. Elmore	Incorporated by reference to the Registrant's Annual Report on Form 10-K for the year ended September 30, 2006.
10.23	2007 Equity Incentive Plan	Incorporated by reference to the Registrant's Proxy Statement for the Annual Meeting of Stockholders held on January 25, 2007.
10.24	First Financial Holdings, Inc. 2007 Equity Incentive Plan Form of Incentive Stock Option Agreement	Incorporated by reference to the Registrant's Current Report on Form 8-K filed on May 31, 2007.
10.25	First Financial Holdings, Inc. 2007 Equity Incentive Plan Form of Incentive Stock Option Agreement for Performance	Incorporated by reference to the Registrant's Current Report on Form 8-K filed on May 31, 2007.
10.26	First Financial Holdings, Inc. 2007 Equity Incentive Plan Form of Non-Qualified Stock Option Agreement	Incorporated by reference to the Registrant's Current Report on Form 8-K filed on May 31, 2007.
10.27	First Financial Holdings, Inc. 2007 Equity Incentive Plan Form of Restricted Stock Option Agreement	Incorporated by reference to the Registrant's Current Report on Form 8-K filed on May 31, 2007.
10.28	Registration Statement Under the Securities Act of 1933	Incorporated by reference to the Registrant's Registration Statement on Form S-3 filed on October 24, 2008
21	Subsidiaries of the Registrant	Filed herewith
23	Consent of Independent Registered Public Accounting Firm	Filed herewith
31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by the Chief Executive Officer	Filed herewith
31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by the Chief Financial Officer	Filed herewith
32	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by the Chief Executive Officer and Chief Financial Officer	Filed herewith

Copies of exhibits are available upon written request to Dorothy B. Wright, Corporate Secretary, First Financial Holdings, Inc., P.O. Box 118068, Charleston, S.C. 29423-8068

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FIRST FINANCIAL HOLDINGS, INC.

Date: December 12, 2008

By: /s/ A. Thomas Hood
A. Thomas Hood
President and Chief Executive Officer
(Duly Authorized Representative)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

By: /s/ A. Thomas Hood
A. Thomas Hood
Director (Principal Executive Officer)

By: /s/ James C. Murray
James C. Murray
Director

Date: December 12, 2008

Date: December 12, 2008

By: /s/ R. Wayne Hall
R. Wayne Hall
Executive Vice President
(Principal Financial and Accounting Officer)

By: /s/ Paul G. Campbell, Jr.
Paul G. Campbell, Jr.
Director

Date: December 12, 2008

Date: December 12, 2008

By: /s/ Paula Harper Bethea
Paula Harper Bethea
Director

By: /s/ Thomas J. Johnson
Thomas J. Johnson
Director

Date: December 12, 2008

Date: December 12, 2008

By: /s/ Ronnie M. Givens
Ronnie M. Givens
Director

By: /s/ D. Kent Sharples
D. Kent Sharples
Director

Date: December 12, 2008

Date: December 12, 2008

By: /s/ James L. Rowe
James L. Rowe
Director

By: /s/ Henry M. Swink
Henry M. Swink
Director

Date: December 12, 2008

Date: December 12, 2008

Exhibit 21

PARENT

First Financial Holdings, Inc.

Subsidiaries (a)	Percentage of Ownership	Jurisdiction or State of Incorporation
First Federal Savings and Loan Association of Charleston	100%	United States
First Southeast Insurance Services, Inc.	100%	South Carolina
Kimbrell Insurance Group, Inc.	100%	South Carolina
First Southeast Investor Services, Inc.	100%	South Carolina
Kinghorn Insurance Services, Inc (c)	100%	South Carolina
The Carolopolis Corporation (b)	100%	South Carolina
Johnson Insurance Associates, Inc. (c)	100%	South Carolina
Benefit Administrators, Inc. (c)	100%	South Carolina
First Southeast Reinsurance Co., Inc. (e)	100%	Vermont
First Reinsurance Holdings, Inc. (b)	100%	South Carolina
Peoples Financial Corporation of the Pee Dee (b)	100%	South Carolina
Edisto Corporation of Oristo (b)	100%	South Carolina
The Kimbrell Company, Inc. (d)	100%	South Carolina
Preferred Markets, Inc. (d)	100%	South Carolina
Atlantic Acceptance Corporation (b)	100%	South Carolina
Port City Ventures, LLC (b)	100%	South Carolina
Great Atlantic Mortgage (f)	51%	Delaware

- (a) The Operations of the Company's wholly-owned subsidiaries are included in the Company's consolidated financial statements.
- (b) Second-tier subsidiaries of the registrant. Wholly-owned by First Federal Savings and Loan Association of Charleston.
- (c) Second-tier subsidiaries of the registrant. Wholly-owned by First Southeast Insurance Services, Inc.
- (d) Second-tier subsidiaries of the registrant. Wholly-owned by Kimbrell Insurance Group, Inc.
- (e) Third-tier subsidiary of the registrant. Wholly-owned by First Reinsurance Holdings, Inc.
- (f) Second-tier subsidiaries of the registrant. Majority-owned by First Federal Savings and Loan Association of Charleston.

Exhibit 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have issued our reports dated December 12, 2008, with respect to the consolidated financial statements (which expressed an unqualified opinion and contains an explanatory paragraph relating to the adoption of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" and SEC Staff Accounting Bulletin No. 109, "Restatement of SAB No. 105, Application of Accounting Principles to Loan Commitments.") and regarding the effectiveness of internal control over financial reporting, included in the Annual Report of First Financial Holdings, Inc. on Form 10-K for the year ended September 30, 2008. We hereby consent to the incorporation by reference of said reports in the Registration Statements of First Financial Holdings, Inc. on Forms S-8 (File No. 333-57855, No. 333-67387, No. 333-60038, No. 333-119289, and No. 333-143011) and on Form S-3 (File No. 333-154722).

/s/ GRANT THORNTON LLP

Raleigh, North Carolina
December 12, 2008

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors

First Financial Holdings, Inc. and Subsidiaries:

We consent to the incorporation by reference in the registration statements (Nos. 333-57855, 333-67387, 333-60038, 333-119289, 333-143011) on Form S-8 and the registration statement (No. 333-154722) on Form S-3 of First Financial Holdings, Inc. and subsidiaries of our report dated December 14, 2007, with respect to the consolidated statements of financial condition of First Financial Holdings, Inc. and subsidiaries as of September 30, 2007, and the related consolidated statements of operations, stockholders' equity and comprehensive income, and cash flows for each of the years in the two-year period ended September 30, 2007, which appears in the September 30, 2008 annual report on Form 10-K of First Financial Holdings, Inc.

Our report refers to the fact that First Financial Holdings, Inc. adopted the provisions of Statement of Financial Accounting Standards No.123R, *Share-Based Payment*, effective October 1, 2005, Statement of Financial Accounting Standards No. 156, *Accounting for Servicing of Financial Assets – an amendment of FASB Statement No. 140*, effective October 1, 2006, and Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)*, effective September 30, 2007.

/s/ KPMG LLP

Raleigh, North Carolina

December 14, 2007

EXHIBIT 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO
Rules 13a-15e and 15d-15e under the
Securities Exchange Act of 1934

I, A. Thomas Hood, certify that:

1. I have reviewed this Annual Report on Form 10-K of First Financial Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 12, 2008

/s/ A. Thomas Hood
A. Thomas Hood
Chief Executive Officer
First Financial Holdings, Inc.

EXHIBIT 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO
Rules 13a-15e and 15d-15e under the
Securities Exchange Act of 1934

I, R. Wayne Hall, certify that:

1. I have reviewed this Annual Report on Form 10-K of First Financial Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 12, 2008

/s/ R. Wayne Hall
R. Wayne Hall
Chief Financial Officer
(principal financial officer)
First Financial Holdings, Inc.

Exhibit 32

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
OF FIRST FINANCIAL HOLDINGS, INC.
PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the accompanying Annual Report on Form 10-K of First Financial Holdings, Inc. (the "Corporation") for the year ended September 30, 2008 (the "Report"). A. Thomas Hood, President and Chief Executive Officer of the Corporation and R. Wayne Hall, Chief Financial Officer of the Corporation, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- the Report fully complies with the requirements of Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended, and
- the information contained in the report fairly presents, in all material respects, the Corporation's financial condition and results of operations as of the dates and for the periods presented in the financial statements included in the Report.

By: /s/ A. Thomas Hood
A. Thomas Hood
Chief Executive Officer

By: /s/ R. Wayne Hall
R. Wayne Hall
Chief Financial Officer

Dated: December 12, 2008

Dated: December 12, 2008