

FIRST FINANCIAL FUND INC
Form N-CSRS
December 06, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-CSR

**CERTIFIED SHAREHOLDER REPORT OF REGISTERED
MANAGEMENT INVESTMENT COMPANIES**

Investment Company Act file number 811-04605

First Financial Fund Inc.
(Exact name of registrant as specified in charter)

Fund Administrative Services
2344 Spruce Street, Suite A
Boulder, CO
(Address of principal executive offices)

80302
(Zip code)

Fund Administrative Services
2344 Spruce Street, Suite A
Boulder, CO 80302
(Name and address of agent for service)

Registrant's telephone number, including area code: (303) 444-5483

Date of fiscal year end: March 31, 2007

Date of reporting period: September 30, 2006

Item 1. Reports to Stockholders.

The Report to Stockholders is attached herewith.

2

Letter from the Adviser September 30, 2006**Dear Stockholders:**

The First Financial Fund (the "Fund") returned 2.2% on NAV for the semi-annual period ending September 30, 2006. Despite the impact of an inverted interest rate yield curve on bank net interest margins and increasing concern about future default rates in the sub-prime mortgage market, the Fund's defensive posture was not rewarded over the past six months. The U.S. economy had stronger than expected job growth while liquidity in the capital markets remains robust. While we are not pleased with our performance in the short-term, we continue to position the Fund for shareholder value over the long-term, and retain our defensive positioning in the face of a plethora of economic headwinds.

TOTAL RETURNS

As of September 30, 2006

	6 Mos	1 Yr	3 Yrs	5 Yrs	10 Yrs
First Financial Fund's NAV	2.2%	11.0%	18.0%	23.3%	17.6%
S&P 500 Index	4.1	10.8	12.3	7.0	8.6
NASDAQ Composite*	-3.1	5.8	8.8	9.0	6.5
NASDAQ Banks*	1.1	8.2	8.1	9.7	11.0
SNL Thrifts*	4.0	13.1	9.1	12.6	14.9
SNL Finance REIT*	10.6	15.6	10.5	20.3	10.4

Sources: Lipper Analytical Services, Inc. and Wellington Management Company, LLP

* Principal Only

Periods greater than one year are annualized

The strongest contributor to absolute performance during the period was MortgageIT (+36.0%). In July, the company announced it would be acquired by Deutsche Bank. Less credit-sensitive intermediary First Republic Bank (+13.3%) also contributed strongly to the Fund's performance. Another significant positive contributor was CCF Holding (+28.4%). Detractors from performance over the period included Aames Investment (-30.1%), Centennial Bank (-16.8%), and White Mountains (-15.3%). Looking across the sub-sectors, our Insurance names were the largest detractors to performance.

The Fund remains positioned primarily in Regional Banks (45%) as well as Thrift & Mortgage Finance names (18%). Among our largest additions to the Fund during the period were Aberdeen Asset Management and National Financial Partners. We eliminated First Community Bancorp and RAIT Investment Trust. Our top holdings include First Republic Bank, UBS, BankUnited Financial, First Regional Bancorp, and Downey Financial.

The predicted housing downturn is well on its way; some leading house price measures indicate zero home price appreciation compared to double-digit increases only a year ago. Consumption growth will slow with a lag. The recent drop in energy prices has been a welcome offsetting relief. However, looking out into next year, slowing employment and salary income will support real consumption spending growth of only 2%. Since household credit growth is decelerating as well, debt accumulation is unlikely to support spending growth beyond the gains in income.

The risk of a US recession is still present. Still, several factors make us believe that a hard landing can be prevented. A more benign energy price environment will push inflation lower in 2007, and modestly lower bond yields should help stabilize the housing market at one point. Lastly, the Fed will stand ready to cut policy rates if there is an unexpected deterioration in the labor market.

Looking ahead, we continue to be concerned with the slowing US economy, interest margins, vulnerable credit spreads, and the impact of the unfolding housing slump on consumer spending. Across several sub-sectors of Financials, we continue to invest primarily with an eye on the credit cycle.

We remain cautiously pessimistic and focused on well-managed companies, priced reasonably, that can navigate varied and difficult macro environments. Where appropriate we will diversify our risks both geographically, including investments outside of the U.S., and functionally, looking for financial companies outside of the bank and thrift industry. We want to invest where returns in financial services are the most promising.

We appreciate your support of the Fund.

Nicholas C. Adams

Edgar Filing: FIRST FINANCIAL FUND INC - Form N-CSRS

Portfolio of Investments as of September 30, 2006 (Unaudited)

FIRST FINANCIAL FUND, INC.

Shares	Description	Value (Note 1)
LONG TERM INVESTMENTS-91.2%		
DOMESTIC COMMON STOCKS-78.1%		
Banks & Thrifts-45.8%		
41,000	1st United Bancorp, Inc. (a)(b)	\$ 553,500
83,490	Alliance Bankshares Corporation	1,402,632
468,000	AmeriServ Financial, Inc. (a)	2,073,240
73,900	AmeriServ Financial, Inc. (a)	327,377
56,200	Bancorp Rhode Island, Inc.	2,486,850
251,735	Bancorp, Inc.	6,416,725
87,500	Bancshares of Florida, Inc.	1,844,500
88,600	Bank of America Corporation	4,746,302
10,200	Bank of Commerce Holdings	110,160
34,000	Bank of Marin	1,072,700
40,500	Bank of Oak Ridge	510,300
83,300	Bank of Virginia	649,740
369,500	BankAtlantic Bancorp, Inc. Class A	5,254,290
443,100	BankFinancial Corporation	7,749,819
57,000	BCB Bancorp, Inc.	854,430
114,000	Benjamin Franklin Bancorp, Inc.	1,589,160
32,700	Beverly National Corporation	768,450
142,100	Capital Corporation of the West	4,407,942
180,100	Cardinal Financial Corporation	1,973,896
85,000	Cardinal State Bank	1,041,250
42,350	Carolina Trust Bank	787,710
340,815	CCF Holding Company (c)	6,799,259
600,000	Centennial C Corporation (a)	5,808,000
15,600	City National Corporation	1,046,136
8,820	Coastal Banking Company, Inc.	186,543
58,300	Commerce Bancorp, Inc.	2,140,193
60,000	Community Bank (a)(b)	3,467,400
66,000	Community Bank of Orange, N.A. (a)	313,500
26,000	Community Capital Bancshares, Inc.	318,500
75,800	Connecticut Bank & Trust	601,094
9,100	Crescent Banking Company	409,500
86,913	Dearborn Bancorp, Inc.	2,066,791
97,200	FC Holdings, Inc. (a)(b)	972,000
79,300	FCB Bancorp, Inc. (a)(b)	1,568,713
100,000	Federal City National Bank (a)(b)	618,000
16,900	Fidelity Southern Corporation	305,890
39,700	First American International (a)(b)	1,052,050
33,599	First Citizens BancShares, Inc., Class A	6,420,769
5,830	First Financial Service Corporation	170,761
256,734	First Regional Bancorp (a)	8,746,927
375,775	First Republic Bank	15,992,984

Edgar Filing: FIRST FINANCIAL FUND INC - Form N-CSRS

234,400	First Security Group, Inc.	2,700,288
66,726	First Southern Bancorp (a)(d)	1,718,195
12,000	First Trust Bank	318,000
193,261	Florida Capital Group (a)(b)	2,203,175
71,468	FNB United Corporation	1,331,449
225,236	Gateway Financial Holdings	3,216,370
137,700	Great Florida Bank Class A (b)	2,203,200
15,300	Great Florida Bank Class B (a)(b)	244,800
95,600	Greene County Bancshares, Inc.	3,495,136
92,369	Greenville First Bancshares, Inc.	1,710,674
18,600	Heartland Financial USA, Inc.	477,648
33,527	Heritage Oaks Bancorp	546,490

Shares	Description	Value (Note 1)
Banks & Thrifts - continued		
27,800	Home Bancshares, Inc.	\$ 613,824
39,700	IBERIABANK Corporation	2,421,700
12,300	ICB Financial (a)(b)	309,960
138,600	LSB Bancshares, Inc.	2,363,130
222,800	MetroCorp Bancshares, Inc.	5,055,332
905,600	National Bancshares, Inc. (a)(b)	2,128,160
39,900	New England Bancshares, Inc. (a)	510,720
13,640	North Bay Bancorp	367,734
56,000	North Valley Bancorp	985,600
59,850	Northrim Bancorp, Inc.	1,580,040
54,208	Parkway Bank	669,469
28,200	Peapack-Gladstone Financial Corporation	690,054
130,500	Pennsylvania Commerce Bancorp	3,425,625
159,600	Pilot Bancshares, Inc. (a)	2,872,800
112,300	Republic Bancorp, Inc.	1,496,959
173,219	Republic First Bancorp, Inc.	2,296,884
20,630	SCBT Financial Corporation	771,562
195,700	Signature Bank	6,053,001
111,615	Southern Connecticut Bancorp, Inc.	792,467
302,900	Square 1 Financial, Inc. (a)(b)	2,695,810
80,151	Sterling Bank	897,691
29,500	SuffolkFirst Bank	324,500
16,819	Summit Bank Corporation	393,060
256,642	Sun Bancorp, Inc.	4,832,569
21,100	Team Financial, Inc.	316,711
101,100	Texas United Bancshares, Inc.	3,335,289
23,184	The Bank Holdings, Inc.	431,918
39,900	TIB Financial Corporation	1,274,007
71,900	Tidelands Bancshares, Inc. (a)	1,319,365
130,000	Transatlantic Bank (a)(b)	2,132,000
453,400	UCBH Holdings, Inc.	7,916,364
231,000	UMB Financial Corporation	8,447,670
72,900	UnionBanCal Corporation	4,439,610
30,700	UnionBancorp, Inc.	583,300

Edgar Filing: FIRST FINANCIAL FUND INC - Form N-CSRS

49,665	Valley Commerce Bancorp	993,300
169,299	Wainwright Bank & Trust Company	1,784,411
38,587	Westbank Corporation	880,169
36,700	Yardville National Bancorp	1,308,722
		205,502,895
Diversified Financial Services-5.9%		
56,200	Capital One Financial Corporation	4,420,692
25,000	CMET Financial Holdings, Inc. (a)(b)(d)	710,000
131,400	Delta Financial Corporation (a)	1,203,624
76,600	Delta Financial Corporation (a)	701,656
42,400	E*Trade Financial Corporation	1,014,208
60,000	Independence Financial Group, Inc. (a)(b)	600,000
93,615	Mackinac Financial Corporation (a)	988,574
116,000	Nasdaq Stock Market, Inc.	3,507,840
146,300	National Financial Partners Corporation	6,002,689
74,631	Peppercoin, Inc. (a)(b)	400,000

See accompanying notes to financial statements. 3

Edgar Filing: FIRST FINANCIAL FUND INC - Form N-CSRS

Portfolio of Investments as of September 30, 2006 (Unaudited)

FIRST FINANCIAL FUND, INC.

Shares	Description	Value (Note 1)
Diversified Financial Services - continued		
265,000	Resource Capital Corporation (a)(d)	\$ 4,094,250
700	Rush Financial Technologies (a)(b)	1,213,212
117,200	Technology Investment Capital Corporation	1,714,636
		26,571,381
Insurance-3.7%		
350,000	AmTrust Financial Services, Inc. (a)(b)(d)	2,625,000