PUTNAM MUNICIPAL OPPORTUNITIES TRUST
Form N-CSR
June 28, 2011

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: (811-07626)

Exact name of registrant as specified in charter: Putnam Municipal Opportunities Trust

Address of principal executive offices: One Post Office Square, Boston, Massachusetts 02109

Name and address of agent for service: Beth S. Mazor, Vice President
One Post Office Square
Boston, Massachusetts 02109

Copy to: John W. Gerstmayr, Esq.
Ropes & Gray LLP
800 Boylston Street
Boston, Massachusetts 02199-3600

Registrants telephone number, including area code: (617) 292-1000

Date of fiscal year end: April 30, 2011

Date of reporting period: May 1, 2010 - April 30, 2011

Item 1. Report to Stockholders:

The following is a copy of the report transmitted to stockholders pursuant to Rule 30e-1 under the Investment Company Act of 1940:

Putnam Municipal Opportunities Trust

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Message from the Trustees

Dear Fellow Shareholder:

Financial markets and economies around the world continue to show improvement and resilience in the face of many headwinds. While energy and commodity prices have been volatile, suggesting inflationary pressures, corporate profits are strong, merger-and-acquisition activity is recovering, and stock values and dividends are rising.

Putnam believes that markets will remain unsettled over the next several months, roiled by civil unrest in the Middle East and North Africa, sovereign debt issues in Europe, and the lingering economic impact of the disasters in Japan. Volatility often leads to opportunity, however, and Putnam's active, research-intensive investment approach is well suited to uncovering opportunities in this environment.

In developments affecting oversight of your fund, we wish to thank Richard B. Worley and Myra R. Drucker, who have retired from the Board of Trustees, for their many years of dedicated and thoughtful leadership.

On behalf of the Trustees, we also would like to thank you for your support and patience during your fund's recent proxy contest. We sent numerous communications asking for your vote, and we are pleased to report that at the fund's annual meeting held May 25, 2011, your fund's current Board of Trustees received overwhelming support from shareholders and will continue in office to oversee your fund's operation. In addition, Putnam also will continue to serve as your fund's investment manager. You can remain confident in our independence and our commitment to serving your interests.

About the fund

Potential for income exempt from federal income tax

Investing in municipal bonds through a fund such as Putnam Municipal Opportunities Trust can help address a significant challenge: taxes on your investment income. While the stated yields on municipal bonds are usually lower than those of taxable bonds, the income most of these bonds pay has the advantage of being exempt from federal tax.

Municipal bonds are typically issued by states and local municipalities to raise funds for building and maintaining public facilities. The bonds are backed by the issuing city or town, by revenues collected from usage fees, or by state tax revenues. Depending on the type of backing, the bonds will have varying degrees of credit risk, which is the risk that the issuer will not be able to repay the bond.

Many municipal bonds are not rated by independent rating agencies such as Standard & Poor's and Moody's. This is primarily because many issuers decide not to pursue a rating that might be below investment grade. As a result, the fund's managers must conduct additional research to determine whether these bonds are prudent investments.

Once the fund has invested in a bond, the managers continue to monitor developments that affect the overall bond market, the sector, and the issuer of the bond.

The goal of this in-depth research and active management is to stay a step ahead of the industry and pinpoint opportunities for investors.

Consider these risks before investing: Lower-rated bonds may offer higher yields in return for more risk. Funds that invest in bonds are subject to certain risks including interest-rate risk, credit risk, and inflation risk. As interest rates rise, the prices of bonds fall. Long-term bonds are more exposed to interest-rate risk than short-term bonds. Unlike bonds, bond funds have ongoing fees and expenses. The fund uses leverage, which involves risk and may increase the volatility of the fund's net asset value. The fund's shares trade on a stock exchange at market prices, which may be lower than the fund's net asset value.

How do closed-end funds differ from open-end funds?

More assets at work While open-end funds need to maintain a cash position to meet redemptions, closed-end funds are not subject to redemptions and can keep more of their assets invested in the market.

Traded like stocks Closed-end fund shares are traded on stock exchanges, and their market prices fluctuate in response to supply and demand, among other factors.

Net asset value vs. market price Like an open-end fund's net asset value (NAV) per share, the NAV of a closed-end fund share is equal to the current value of the fund's assets, minus its liabilities, divided by the number of shares outstanding. However, when buying or selling closed-end fund shares, the price you pay or receive is the market price. Market price reflects current market supply and demand and may be higher or lower than the NAV.

Data are historical. Past performance does not guarantee future results. More recent returns may be less or more than those shown. Investment return and net asset value will fluctuate, and you may have a gain or a loss when you sell your shares. Performance assumes reinvestment of distributions and does not account for taxes. Fund returns in the bar chart are at NAV. See pages 5 and 11–12 for additional performance information, including fund returns at market price. Index and Lipper results should be compared with fund performance at NAV. Lipper calculates performance differently than the closed-end funds it ranks, due to varying methods for determining a fund's monthly reinvestment NAV.

Interview with your fund's portfolio manager

Thalia Meehan, CFA

Municipal bonds were in the news often over the past 12 months. How would you describe the investment environment for municipal bonds during Putnam Municipal Opportunities Trusts fiscal year?

The first half of the funds fiscal year was relatively stable as the gains that characterized the municipal bond market in the early months of 2010 continued through the end of October. During this time, investors continued to allocate money out of cash and other safe assets and into longer-term and higher-risk investments, while strong demand from yield-hungry investors pushed bond prices higher in the more credit-sensitive sectors of the municipal bond market.

In early November, however, the Federal Reserve announced it would purchase $600 billion in Treasury bonds over the next several months in a second round of quantitative easing measures, designed in part to keep yields low and encourage investor risk taking. Around this time, data also began to suggest that the U.S. economic recovery was gathering strength. Treasury market yields jumped higher, which in turn put pressure on interest rates in the municipal bond market.

In addition, after the November mid-term elections, investor uncertainty grew over the possibility of pending tax-rate increases and the expiration of the Build America Bonds or BABs program, which had played a key role in lending stability to the municipal bond market over the past two years. This uncertainty, coupled with dire media coverage of state budget challenges and predictions of widespread defaults, led to a broad sell-off in municipal bonds. In the first few months of 2011, the municipal bond

This comparison shows your funds performance in the context of broad market indexes for the 12 months ended 4/30/11. See pages 4 and 1112 for additional fund performance information. Index descriptions can be found on page 13.

market has been far more stable, but there is still a significant amount of investor uncertainty surrounding a number of issues, from interest rates to the potential for tax reform.

Although the fund trailed its benchmark during this period, I am pleased to report that it did outperform the average return of its Lipper peer group for the 12 months ended April 30, 2011.

You mentioned the recent increase in Treasury rates. How has that affected the municipal bond market?

By way of background, when interest rates increase, the prices of existing bonds generally decline as the fixed interest rates they offer become less attractive to investors. So when interest rates in the Treasury market change, the rest of the taxable fixed-income market generally moves with them.

Municipal bonds relation to Treasuries is a little more complex. Because municipal bonds offer tax-exempt income, their yields generally are lower than those of comparable Treasuries, whose interest is taxed as ordinary income. Over the long term, municipal bonds have offered yields between 85% and 100% of comparable Treasuries, broadly speaking. Since 2008, however, amid forced selling and some unusual supply-and-demand characteristics, yields in the municipal market have often been at 100% or more of Treasuries. That ratio continues to hover at or above the 100% threshold today for 30-year maturities. We believe that if interest rates continue to rise, municipal bonds wont necessarily decline to the same degree as taxable bonds, given the positive supply technicals in the municipal market.

Credit qualities are shown as a percentage of portfolio value as of 4/30/11. A bond rated Baa or higher (MIG3/VMIG3 or higher, for short-term debt) is considered investment grade. The chart reflects Moodys ratings;

percentages may include bonds or derivatives not rated by Moodys but rated by Standard & Poors or, if unrated by S&P, by Fitch, and then included in the closest equivalent Moodys rating. Ratings will vary over time. Credit qualities are included for portfolio securities and are not included for derivative instruments and cash. The fund itself has not been rated by an independent rating agency.

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What effect has recent legislation both enacted and proposed had on the tax-exempt bond market?

It has been a very busy period from a policy perspective. First, at the end of 2010, the popular BABs program expired. The program was authorized by the 2009 stimulus bill that allowed states and municipalities to issue bonds in the taxable market by offering an accompanying subsidy payment to the municipal issuer from the federal government. Issuers in all 50 states participated in the BABs program, and, despite some speculation that the program might be extended, it was allowed to expire on December 31, 2010.

The expiration of the BABs program caused a significant spike in supply at the end of 2010. To lock in the federal subsidy BABs offered, many states pushed up new issuance into the fourth quarter of 2010 issuance that was originally slated for 2011. Because excess supply can lead to lower prices when demand fails to keep pace, some investors worried that the expiration of BABs would translate into significantly higher tax-free issuance in 2011, undermining price stability. We believed the first few months of 2011 would bring lighter issuance, and, in fact, issuance year to date has been even lower than expected, which has helped price stability recently.

Speculation about changes to tax policy also has affected the market. Given the ongoing struggle to reduce the federal deficit, a number of proposals are now on

Top ten state allocations are shown as a percentage of the funds portfolio value as of 4/30/11. Investments in Puerto Rico represented 4.7% of portfolio value. Holdings will vary over time. State concentrations listed after the portfolio schedule in the Financial Statements section of this shareholder report are inclusive of tender option bonds and exclusive of insured status and any interest accruals and may differ from the summary information above.

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the table. Simplification of the tax code is one possibility, with changes to a number of the existing marginal rates. In a market dominated by individual investors, the relative attractiveness of municipal bonds is driven in large part by income tax rates, and any changes to those rates could affect investors decisions as they reexamine their portfolios.

Investors also should be aware that there are a number of proposals under consideration in Washington, D.C., that could affect the way that municipal bonds are issued in the future. For example, one proposal suggests replacing traditional tax-exempt bonds with tax credit bonds. It is very important to note that no current proposal would affect the tax-exempt nature of currently outstanding bonds, which is to say they would be grandfathered. It is difficult to say how these proposals will fare as part of the overall attempts to reduce the federal deficit, but the debate could add to investor uncertainty.

How did you position the portfolio during the funds fiscal year?

For much of the period, we positioned the portfolio to benefit from improving fundamentals in the municipal bond market. While we felt that many states budget challenges were significant, we were confident that conditions were improving along with the broader economy. Against this backdrop, we believed that essential service revenue bonds remained attractive, and we held an overweight position in A- and Baa-rated securities relative to the fund's benchmark. During the second half of the reporting period, which included the municipal bond market sell-off, this detracted from returns relative to the benchmark, as lower-rated securities lagged the overall market's returns.

This chart shows how the fund's top weightings have changed over the past six months. Weightings are shown as a percentage of net assets. Summary information may differ from the portfolio schedule included in the financial statements due to the inclusion of derivative securities and the exclusion of as-of trades, if any, and the use of different classifications of securities for presentation purposes. Holdings will vary over time. Sector concentrations listed after the portfolio schedule in the Financial Statements section of this shareholder report are exclusive of insured status and any interest accruals, and may differ from the summary information above.

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Within our credit positioning strategy, the fund's overweight exposure to California state general obligation bonds helped relative returns. Our holdings in Puerto Rico bonds, on the other hand, detracted from results. Puerto Rico securities tend to be highly liquid, heavily traded positions in the municipal bond market, and the territory's bonds generally lagged the market during the fund's fiscal year.

We continued to limit the fund's exposure to local general obligation bonds, or "G.O.s," which are securities issued at the city or county level that are not tied to any particular revenue stream. We believe that as the federal government looks to reduce transfer payments to the states, and as states, in turn, seek to close their deficits by reducing spending, these types of bonds are at risk for downgrades or other headline-driven price volatility. Unlike state general obligation bonds, local G.O.s rely more on property tax revenue rather than on income or sales taxes. With real estate prices still under pressure in many markets, property taxes have been slower to recover than other tax sources. For those reasons, limiting our exposure in this area of the market generally has been beneficial.

How does the fund use leverage?

Leverage generally involves borrowing funds and investing the proceeds with the expectation of producing a return that exceeds the cost of borrowing. Unlike open-end funds, closed-end funds are permitted to engage in investment leverage by issuing preferred shares. We employ this form of investment leverage, which offers opportunities for increased investment yield and amplifies common shareholders' exposure to the effects of investment gains and losses.

What is your outlook for the municipal bond market?

We believe that while the financial challenges faced by many states remain significant, the likelihood of a default at the state level is quite remote. Debt service for states is normally a small part of their budgets. Nonetheless, debt service payments generally are one of the first expenses states pay. For example, debt service payments in California are second only to education expenses. While some states will continue to wrestle with large pension deficits, we believe that the fiscal condition of most state governments gradually will continue to improve along with the broader U.S. economy.

Still, various factors will continue to affect the municipal bond market's supply-and-demand balance. Although we expect overall supply to contract in 2011 compared with last year — and although it has been lighter than expected year to date — an uptick in issuance could put pressure on yield levels.

Moreover, there is increased uncertainty surrounding the future of tax rates. Although the Bush-era tax rates were extended in December 2010 for another two years, legislators are now discussing a tax code overhaul, and it's unclear what future rates will be, particularly for top income earners. In addition to the uncertainty at the federal level, state budget shortfalls and pension liabilities could increase pressure to raise state income taxes. Additionally, government policymakers are showing increased interest in states' financial conditions, which could spur more media attention and add volatility to the municipal bond market.

All in all, we anticipate that price volatility in the municipal bond market could continue over the short term, but for investors with longer time horizons, we believe that our actively managed approach remains a prudent way to generate attractive total returns in the tax-free bond market.

Thank you, Thalia, for bringing us up to date.

The views expressed in this report are exclusively those of Putnam Management. They are not meant as investment advice.

Please note that the holdings discussed in this report may not have been held by the fund for the entire period. Portfolio composition is subject to review in accordance with the funds investment strategy and may vary in the future. Current and future portfolio holdings are subject to risk.

Portfolio Manager **Thalia Meehan** is Team Leader of Tax Exempt Fixed Income at Putnam. She holds a B.A. from Williams College. A CFA charterholder, Thalia joined Putnam in 1989 and has been in the investment industry since 1983.

In addition to Thalia, your fund is managed by Paul Drury and Susan McCormack.

IN THE NEWS

Citing the United Statess burgeoning federal deficit, Standard & Poors (S&P) recently lowered its long-term outlook for U.S. Treasuries from stable to negative. While maintaining its AAA rating for U.S. debt, S&P said the change to a negative outlook means that there is a one-in-three chance for a ratings downgrade over the next 24 months. If a downgrade were to take place, it could raise borrowing costs for both the U.S. government and American consumers. S&Ps negative outlook will likely put increased pressure on Washington lawmakers to reach a bipartisan solution to reduce the federal deficit and restore fiscal discipline. While the U.S. downgrade is unprecedented, it is important to note that S&P downgraded the outlook for the United Kingdom, another AAA-rated country, to negative in May 2009, and restored the stable outlook in 2010 once the country addressed its deficit.

Your funds performance

This section shows your funds performance, price, and distribution information for periods ended April 30, 2011, the end of its most recent fiscal year. In accordance with regulatory requirements for mutual funds, we also include performance as of the most recent calendar quarter-end. Performance should always be considered in light of a funds investment strategy. Data represent past performance. Past performance does not guarantee future results. More recent returns may be less or more than those shown. Investment return, net asset value, and market price will fluctuate, and you may have a gain or a loss when you sell your shares.

Fund performance Total return for periods ended 4/30/11

	Barclays Capital	Lipper General Municipal Debt Funds (leveraged

	NAV	Market price	Municipal Bond Index	closed-end) category average*
Annual average				
Life of fund (since 5/28/93)	5.60%	4.96%	5.45%	5.45%
10 years	65.84	51.73	62.23	67.23
Annual average	5.19	4.26	4.96	5.25
5 years	19.24	25.48	24.72	16.41
Annual average	3.58	4.64	4.52	3.04
3 years	11.89	19.32	14.71	12.14
Annual average	3.82	6.06	4.68	3.85
1 year	0.68	1.02	2.20	0.10

Performance assumes reinvestment of distributions and does not account for taxes.

Index and Lipper results should be compared to fund performance at net asset value. Lipper calculates performance differently than the closed-end funds it ranks, due to varying methods for determining a fund's monthly reinvestment NAV.

* Over the 1-year, 3-year, 5-year, 10-year, and life-of-fund periods ended 4/30/11, there were 73, 70, 70, 51, and 38 funds, respectively, in this Lipper category.

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Fund price and distribution information For the 12-month period ended 4/30/11

Distributions	
Number	12
Income [1]	$0.7956
Capital gains [2]	—
Total	**$0.7956**

Distributions — Preferred shares	Series B (3,417 shares)	Series C (3,737 shares)

Income [1]	$104.00	$103.95
Capital gains [2]	—	—
Total	**$104.00**	**$103.95**

Share value	**NAV**	**Market price**
4/30/10	$11.99	$11.43
4/30/11	11.26	10.77
Current yield (end of period)		
Current dividend rate [3]	7.07%	7.39%
Taxable equivalent [4]	10.88%	11.37%

The classification of distributions, if any, is an estimate. Final distribution information will appear on your year-end tax forms.

[1] For some investors, investment income may be subject to the federal alternative minimum tax. Income from federally exempt funds may be subject to state and local taxes.

[2] Capital gains, if any, are taxable for federal and, in most cases, state purposes.

[3] Most recent distribution, excluding capital gains, annualized and divided by NAV or market price at end of period.

[4] Assumes maximum 35% federal tax rate for 2011. Results for investors subject to lower tax rates would not be as advantageous.

Fund performance as of most recent calendar quarter
Total return for periods ended 3/31/11

	NAV	**Market price**
Annual average		
Life of fund (since 5/28/93)	5.48%	4.99%
10 years	59.56	53.99
Annual average	4.78	4.41
5 years	16.04	25.28
Annual average	3.02	4.61

3 years	10.94	21.42
Annual average	3.52	6.68
1 year	0.19	1.03

Terms and definitions

Important terms

Total return shows how the value of the fund's shares changed over time, assuming you held the shares through the entire period and reinvested all distributions in the fund.

Net asset value (NAV) is the value of all your fund's assets, minus any liabilities and the net assets allocated to any outstanding preferred shares, divided by the number of outstanding common shares.

Market price is the current trading price of one share of the fund. Market prices are set by transactions between buyers and sellers on exchanges such as the New York Stock Exchange.

Current yield is the annual rate of return earned from dividends or interest of an investment. Current yield is expressed as a percentage of the price of a security, fund share, or principal investment.

Comparative indexes

Barclays Capital U.S. Aggregate Bond Index is an unmanaged index of U.S. investment-grade fixed-income securities.

Barclays Capital Municipal Bond Index is an unmanaged index of long-term fixed-rate investment-grade tax-exempt bonds.

BofA (Bank of America) Merrill Lynch U.S. 3-Month Treasury Bill Index is an unmanaged index that seeks to measure the performance of U.S. Treasury bills available in the marketplace.

S&P 500 Index is an unmanaged index of common stock performance.

Indexes assume reinvestment of all distributions and do not account for fees. Securities and performance of a fund and an index will differ. You cannot invest directly in an index.

Lipper is a third-party industry-ranking entity that ranks mutual funds. Its rankings do not reflect sales charges. Lipper rankings are based on total return at net asset value relative to other funds that have similar current investment styles or objectives as determined by Lipper. Lipper may change a fund's category assignment at its discretion. Lipper category averages reflect performance trends for funds within a category.

Other information for shareholders

Important notice regarding share repurchase program

In September 2010, the Trustees of your fund approved the renewal of a share repurchase program that had been in effect since 2005. This renewal will allow your fund to repurchase, in the 12 months beginning October 8, 2010, up to 10% of the fund's common shares outstanding as of October 7, 2010.

Important notice regarding Putnam's privacy policy

In order to conduct business with our shareholders, we must obtain certain personal information such as account holders' names, addresses, Social Security numbers, and dates of birth. Using this information, we are able to maintain accurate records of accounts and transactions.

It is our policy to protect the confidentiality of our shareholder information, whether or not a shareholder currently owns shares of our funds. In particular, it is our policy not to sell information about you or your accounts to outside marketing firms. We have safeguards in place designed to prevent unauthorized access to our computer systems and procedures to protect personal information from unauthorized use.

Under certain circumstances, we must share account information with outside vendors who provide services to us, such as mailings and proxy solicitations. In these cases, the service providers enter into confidentiality agreements with us, and we provide only the information necessary to process transactions and perform other services related to your account. Finally, it is our policy to share account information with your financial representative, if you've listed one on your Putnam account.

Proxy voting

Putnam is committed to managing our mutual funds in the best interests of our shareholders. The Putnam funds' proxy voting guidelines and procedures, as well as information regarding how your fund voted proxies relating to portfolio securities during the 12-month period ended June 30, 2010, are available in the Individual Investors section at putnam.com, and on the SEC's website, www.sec.gov. If you have questions about finding forms on the SEC's website, you may call the SEC at 1-800-SEC-0330. You may also obtain the Putnam funds' proxy voting guidelines and procedures at no charge by calling Putnam's Shareholder Services at 1-800-225-1581.

Fund portfolio holdings

The fund will file a complete schedule of its portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. Shareholders may obtain the fund's Forms N-Q on the SEC's website at www.sec.gov. In addition, the fund's Forms N-Q may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. You may call the SEC at 1-800-SEC-0330 for information about the SEC's website or the operation of the Public Reference Room.

Trustee and employee fund ownership

Putnam employees and members of the Board of Trustees place their faith, confidence, and, most importantly, investment dollars in Putnam mutual funds. As of April 30, 2011, Putnam employees had approximately $382,000,000 and the Trustees had approximately $71,000,000 invested in Putnam mutual funds. These amounts include investments by the Trustees' and employees' immediate family members as well as investments through retirement and deferred compensation plans.

Financial statements

These sections of the report, as well as the accompanying Notes, preceded by the Report of Independent Registered Public Accounting Firm, constitute the funds financial statements.

The funds portfolio lists all the funds investments and their values as of the last day of the reporting period. Holdings are organized by asset type and industry sector, country, or state to show areas of concentration and diversification.

Statement of assets and liabilities shows how the funds net assets and share price are determined. All investment and non-investment assets are added together. Any unpaid expenses and other liabilities are subtracted from this total. The result is divided by the number of shares to determine the net asset value per share. (For funds with preferred shares, the amount subtracted from total assets includes the liquidation preference of preferred shares.)

Statement of operations shows the funds net investment gain or loss. This is done by first adding up all the funds earnings from dividends and interest income and subtracting its operating expenses to determine net investment income (or loss). Then, any net gain or loss the fund realized on the sales of its holdings as well as any unrealized gains or losses over the period is added to or subtracted from the net investment result to determine the funds net gain or loss for the fiscal year.

Statement of changes in net assets shows how the funds net assets were affected by the funds net investment gain or loss, by distributions to shareholders, and by changes in the number of the funds shares. It lists distributions and their sources (net investment income or realized capital gains) over the current reporting period and the most recent fiscal year-end. The distributions listed here may not match the sources listed in the Statement of operations because the distributions are determined on a tax basis and may be paid in a different period from the one in which they were earned.

Financial highlights provide an overview of the funds investment results, per-share distributions, expense ratios, net investment income ratios, and portfolio turnover in one summary table, reflecting the five most recent reporting periods. In a semiannual report, the highlights table also includes the current reporting period.

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Report of Independent Registered Public Accounting Firm

To the Trustees and Shareholders of
Putnam Municipal Opportunities Trust:

In our opinion, the accompanying statement of assets and liabilities, including the portfolio, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Putnam Municipal Opportunities Trust (the fund) at April 30, 2011, and the results of its operations, the changes in its net assets and the financial highlights for each of the periods indicated, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as financial statements) are the responsibility of the funds management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of investments owned at April 30, 2011 by correspondence with the custodian provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP
Boston, Massachusetts
June 21, 2011

The fund's portfolio 4/30/11

Key to holding's abbreviations

AGM Assured Guaranty Municipal Corporation
AGO Assured Guaranty, Ltd.
AMBAC AMBAC Indemnity Corporation
COP Certificates of Participation
FGIC Financial Guaranty Insurance Company
FNMA Coll. Federal National Mortgage Association Collateralized
FRB Floating Rate Bonds
G.O. Bonds General Obligation Bonds
GNMA Coll. Government National Mortgage Association Collateralized
NATL National Public Finance Guarantee Corp.
SGI Syncora Guarantee, Inc.
U.S. Govt. Coll. U.S. Government Collateralized
VRDN Variable Rate Demand Notes

MUNICIPAL BONDS AND NOTES (143.9%)*	**Rating****	**Principal amount**	**Value**
Alabama (0.4%)			
Selma, Indl. Dev. Board Rev. Bonds (Gulf Opportunity Zone Intl. Paper Co.), Ser. A, 5.8s, 5/1/34	BBB	$750,000	$729,593
Sylacauga, Hlth. Care Auth. Rev. Bonds (Coosa Valley Med. Ctr.), Ser. A, 6s, 8/1/25	B/P	1,200,000	1,052,508
			1,782,101
Arizona (3.2%)			
Casa Grande, Indl. Dev. Auth. Rev. Bonds (Casa Grande Regl. Med. Ctr.), Ser. A, 7 5/8s, 12/1/29	BB-/P	3,300,000	3,111,305
Cochise Cnty., Indl. Dev. Auth. Rev. Bonds (Sierra Vista Cmnty. Hosp.), Ser. A, 6 3/4s, 2/1/26	BBB+/P	410,000	410,086
Coconino Cnty., Poll. Control Rev. Bonds (Tucson Elec. Pwr. Co. - Navajo), Ser. A, 5 1/8s, 10/1/32	Baa3	1,500,000	1,351,215
Glendale, Indl. Dev. Auth. Rev. Bonds (Midwestern U.), 5 1/8s, 5/15/40	A-	2,125,000	1,946,904
Marana, Impt. Dist. Special Assmt. Bonds			

(Tangerine Farms Road), 4.6s, 1/1/26	A2	1,859,000	1,725,616
Maricopa Cnty., Poll. Control Rev. Bonds (El Paso			
Elec. Co.), Ser. A, 7 1/4s, 2/1/40	Baa2	2,400,000	2,601,840
Phoenix, Civic Impt. Corp. Arpt. Rev. Bonds,			
Ser. A, 5s, 7/1/40	A1	1,000,000	919,200
Pima Cnty., Indl. Dev. Auth. Rev. Bonds			
(Tucson Elec. Pwr. Co.), 5 3/4s, 9/1/29	Baa3	800,000	801,768
(Horizon Cmnty. Learning Ctr.), 5.05s, 6/1/25	BBB	1,550,000	1,304,170
Tempe, Indl. Dev. Auth. Lease Rev. Bonds			
(ASU Foundation), AMBAC, 5s, 7/1/28	AA/P	500,000	454,325
U. Med. Ctr. Corp. AZ Hosp. Rev. Bonds, 6 1/2s,			
7/1/39	Baa1	1,000,000	1,014,410
			15,640,839
California (24.8%)			
ABC Unified School Dist. G.O. Bonds, Ser. B,			
FGIC, zero %, 8/1/20	Aa2	1,500,000	936,735
Burbank, Unified School Dist. G.O. Bonds			
(Election of 1997), Ser. C, FGIC, zero %, 8/1/23	AA	1,000,000	486,690
CA Edl. Fac. Auth. Rev. Bonds			
(Claremont Graduate U.), Ser. A, 5s, 3/1/42	A3	2,000,000	1,673,020
(Loyola Marymount U.), NATL, zero %, 10/1/21	A2	1,300,000	739,063
(U. of the Pacific), 5s, 11/1/21	A2	1,500,000	1,590,210

MUNICIPAL BONDS AND NOTES (143.9%)* *cont.*	**Rating****	**Principal amount**	**Value**
California *cont.*			
CA Hlth. Fac. Fin. Auth. Rev. Bonds			

(Sutter Hlth.), Ser. A, NATL, 5 3/8s, 8/15/30	Aa3	$2,500,000	$2,439,700
AMBAC, 5.293s, 7/1/17	A2	2,400,000	2,405,135
CA Hsg. Fin. Agcy. Rev. Bonds (Home Mtge.)			
Ser. E, 4.8s, 8/1/37	A	5,000,000	4,136,150
Ser. K, 4 5/8s, 8/1/26	A	10,000,000	8,495,600
CA Muni. Fin. Auth. COP (Cmnty. Hosp. Central			
CA), 5 1/4s, 2/1/37	Baa2	1,800,000	1,440,810
CA Muni. Fin. Auth. Rev. Bonds (Eisenhower			
Med. Ctr.), Ser. A, 5 3/4s, 7/1/40	Baa1	1,000,000	894,040
CA Poll. Control Fin. Auth. Rev. Bonds			
(San Jose Wtr. Co.), 5.1s, 6/1/40	A	3,500,000	3,153,044
(Pacific Gas & Electric Corp.), Class D, FGIC,			
4 3/4s, 12/1/23	A3	2,500,000	2,497,575
CA Poll. Control Fin. Auth. Solid Waste Disp. FRB			
(Waste Management, Inc.), Ser. C, 5 1/8s, 11/1/23	A-2	850,000	840,353
CA Poll. Control Fin. Auth. Wtr. Fac. Rev. Bonds			
(American Wtr. Cap. Corp.), 5 1/4s, 8/1/40	BBB+	1,000,000	944,360
CA State G.O. Bonds			
6 1/2s, 4/1/33	A1	12,000,000	13,171,440
5 1/2s, 3/1/40	A1	7,450,000	7,511,537
5s, 10/1/29	A1	4,000,000	4,018,920
CA State Pub. Wks. Board Rev. Bonds			
Ser. I-1, 6 1/8s, 11/1/29	A2	1,000,000	1,055,820
Ser. A-1, 6s, 3/1/35	A2	1,600,000	1,631,663
CA Statewide Cmnty. Dev. Auth. COP			
(The Internext Group), 5 3/8s, 4/1/30	BBB	5,250,000	4,411,050
CA Statewide Cmnty. Dev. Auth. Rev. Bonds			
(Irvine LLC-UCI East Campus), 6s, 5/15/40	Baa2	2,000,000	1,838,500
(Sutter Hlth.), Ser. A, 5s, 11/15/43	Aa3	2,485,000	2,141,772
Cathedral City, Impt. Board Act of 1915 Special			

Assmt. Bonds (Cove Impt. Dist.), Ser. 04-02, 5.05s, 9/2/35	BBB/P	775,000	625,634
Chula Vista COP, NATL, 5s, 8/1/32	A1	4,000,000	3,512,600
Chula Vista, Indl. Dev. Rev. Bonds (San Diego Gas), Ser. B, 5s, 12/1/27	Aa3	1,915,000	1,881,066
Foothill/Eastern Corridor Agcy. Rev. Bonds, Ser. A, zero %, 1/1/28 (Escrowed to maturity)	Aaa	20,000,000	9,845,600
Golden State Tobacco Securitization Corp. Rev. Bonds			
Ser. 03 A1, 6 1/4s, 6/1/33	Aaa	810,000	871,900
Ser. A1, 5s, 6/1/33	Baa3	1,050,000	690,207
Ser. S-B, zero %, 6/1/47	B	6,000,000	137,280
M-S-R Energy Auth. Rev. Bonds, Ser. B, 6 1/2s, 11/1/39	A	3,000,000	3,066,900
Metro. Wtr. Dist. Rev. Bonds (Southern CA Wtr. Wks.), 5 3/4s, 8/10/18	AAA	6,000,000	7,007,580
Orange Cnty., Cmnty. Fac. Dist. Special Tax Rev. Bonds (Ladera Ranch No. 02-1), Ser. A, 5.55s, 8/15/33	BBB/P	900,000	823,680

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MUNICIPAL BONDS AND NOTES (143.9%)* *cont.*	**Rating****	**Principal amount**	**Value**
California *cont.*			
Rancho Mirage, Joint Powers Fin. Auth. Rev. Bonds (Eisenhower Med. Ctr.), Ser. A, 5s, 7/1/47	Baa1	$1,000,000	$778,420
Redwood City, Elementary School Dist. G.O. Bonds, FGIC, NATL, zero %, 8/1/21	A+	1,990,000	1,100,331

Rocklin, Unified School Dist. G.O. Bonds, FGIC,			
NATL, zero %, 8/1/27	Aa2	2,000,000	726,860
Sacramento Cnty., Arpt. Syst. Rev. Bonds,			
5s, 7/1/40	A2	1,350,000	1,212,165
Sacramento, Special Tax Rev. Bonds			
(North Natomas Cmnty. Fac.), Ser. 97-01			
5s, 9/1/20	BB+/P	1,195,000	1,136,708
5s, 9/1/29	BB+/P	1,180,000	997,501
5s, 9/1/18	BB+/P	1,030,000	998,008
San Bernardino Cnty., COP (Med. Ctr. Fin.),			
Ser. A, NATL, 6 1/2s, 8/1/17	Baa1	5,000,000	5,239,900
San Diego Cnty., Regl. Arpt. Auth. Rev. Bonds,			
Ser. A, 5s, 7/1/40	A2	3,750,000	3,351,525
San Diego, Unified School Dist. G.O. Bonds			
(Election of 2008), Ser. C			
zero %, 7/1/40	Aa1	5,000,000	678,200
zero %, 7/1/38	Aa1	5,000,000	771,700
San Juan, Unified School Dist. G.O. Bonds, AGM,			
zero %, 8/1/19	AA+	1,000,000	679,160
Sunnyvale, Cmnty. Fac. Dist. Special Tax			
Rev. Bonds, 7.65s, 8/1/21	B+/P	615,000	615,763
Tuolumne Wind Project Auth. Rev. Bonds			
(Tuolumne Co.), Ser. A, 5 7/8s, 1/1/29	A1	1,585,000	1,693,002
Turlock, Dist. Ser. A, 5s, 1/1/40	A1	3,000,000	2,750,160
			119,645,037
Colorado (1.7%)			
CO Hlth. Fac. Auth. Rev. Bonds			
(Christian Living Cmntys.), Ser. A, 5 3/4s, 1/1/26	BB–/P	325,000	293,056
(Evangelical Lutheran), 5s, 6/1/29	A3	850,000	748,417

CO Hsg. & Fin. Auth. Rev. Bonds (Single Family Mtge.), Ser. A3, Class III, 5 1/4s, 5/1/33 Δ	A1	2,390,000	2,441,218
CO Pub. Hwy. Auth. Rev. Bonds (E-470 Pub. Hwy.), Ser. C1, NATL, 5 1/2s, 9/1/24	Baa1	1,250,000	1,181,050
CO Springs, Hosp. Rev. Bonds, 6 3/8s, 12/15/30	A3	3,280,000	3,280,394
			7,944,135
Delaware (0.5%)			
DE St. Econ. Dev. Auth. Rev. Bonds (Delmarva Pwr.), 5.4s, 2/1/31	BBB+	1,100,000	1,080,255
DE State Hsg. Auth. Rev. Bonds (Single Family Mtge.), Ser. B, zero %, 1/1/40 Δ	A3	10,415,000	1,471,327
			2,551,582
District of Columbia (1.8%)			
DC Rev. Bonds (Howard U.), Ser. A, 6 1/2s, 10/1/41	A3	3,000,000	2,976,180
DC Wtr. & Swr. Auth. Pub. Util. Rev. Bonds, FGIC, NATL, 5s, 10/1/28	Aa3	3,000,000	3,039,210

MUNICIPAL BONDS AND NOTES (143.9%)* *cont.*	**Rating****	**Principal amount**	**Value**
District of Columbia *cont.*			
Metro. Washington, Arpt. Auth. Dulles Toll Rd. Rev. Bonds			
(First Sr. Lien), Ser. A, 5s, 10/1/39	A2	$2,000,000	$1,915,140
(Metrorail), Ser. A, zero %, 10/1/37	Baa1	3,700,000	593,702
			8,524,232
Florida (5.4%)			
Brevard Cnty., Hlth. Care Fac. Auth. Rev. Bonds			

(Health First, Inc.), 7s, 4/1/39	A3	3,000,000	3,204,000
Escambia Cnty., Env. Impt. Rev. Bonds			
(Intl. Paper Co.), Ser. A, 5s, 8/1/26	BBB	2,500,000	

Process

Throughout the year, the Compensation Committee meets with the Chief Executive Officer and other executive officers to solicit and obtain recommendations with respect to the Corporation s compensation programs and practices; however, the Committee makes the final determinations with respect to all forms of compensation for the executive officers of the Corporation, and no executive officer is part of the final deliberations and decisions impacting their own compensation. In reaching its decisions, the Committee considers recommendations from the Chief Executive Officer, utilizes information provided by the human resources department, and engages the services of an independent outside consultant with nationally recognized experience and credentials in public company compensation matters. During 2006, the services of Watson Wyatt were utilized. See also External Benchmarks.

Components of Compensation

To achieve the above principles, our primary compensation program includes the following elements:

§ base salary

§ performance-based incentive compensation

§ long-term equity incentive compensation
   - stock options
   - restricted stock

§ retirement and other benefits

§ perquisites and other personal benefits

These elements of compensation have been chosen to create a flexible package that reflects the long-term nature of the banking business and can reward both short and long-term performance of the Corporation and individual. Each element is discussed below.

Base Salaries

§ provide a level of financial security that is appropriate for the executive s position within our corporation

§ are a function of the competitive labor market for specific positions in the organization and recognize the relative value an individual s work brings to the Corporation, in addition to how well the executive is executing the position s responsibilities

§ are generally targeted at the 50th percentile of the relevant labor market with an appropriate range to recognize experience, performance and contributions, and other relevant circumstances

§ are reviewed at least annually and adjusted, as appropriate, to reflect changes in the labor market in addition to factors such as individual performance, range of responsibilities, value, experience and contribution to the organization

Non-Equity Incentive Awards Performance Based (Short-Term Incentive Plan)

§ Annual incentives serve as a key mechanism of adjusting pay levels to reflect company wide short-term performance, thereby ensuring affordability and a competitive return to shareholders

§ Variable incentive pay must be earned annually which downplays entitlement and emphasizes pay for performance

§ Annual incentives will reward executives for annual financial performance and achievement of established corporate objectives

§ Annual non-equity incentives are made by the Committee at a meeting in April of each year

§ In March 2006, the Compensation Committee approved parameters of the Short-Term Incentive Plan. All of the Corporation s associates, including the Corporation s Named Executive Officers, participate in the plan. The Short-Term Incentive Plan went in effect beginning with fiscal 2006. Under the plan, a target percentage is established for each participant at the beginning of each fiscal year, based upon median competitive award levels for short-term incentive compensation within the financial services industry. The target percentage, after being adjusted for performance as described below, is applied to actual base salary paid for the fiscal year.

For the 2006 Short-Term Incentive Plan, two performance measures, return on equity (ROE) and growth in earnings per share (EPS), were used to determine the actual awards under the plan. In April 2006, the Compensation Committee established threshold, target and maximum ROE levels based upon the performance of publicly traded bank holding companies of between $3-10 billion in asset size as published by SNL Financial. In addition, the Compensation Committee established threshold, target and maximum EPS growth levels based upon reasonable growth expectations for the Corporation. At the end fiscal 2006, the amount of the target percentage was multiplied by a factor ranging from zero times the target percentage (for performance at or below the threshold ROE) up to two times the target percentage (for performance at or above the maximum ROE). After adjusting the target percentage based upon ROE performance (the Adjusted Percentage), the amount of the Adjusted Percentage was further modified based upon EPS growth. The EPS modifier will range from a 20% reduction to the Adjusted Percentage (for performance at or below the threshold EPS growth rate) to a 20% increase to the Adjusted Percentage (for performance at or above the maximum EPS

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growth rate). After applying the EPS modifier to the Adjusted Percentage, the resulting percentage was applied to actual base salary paid for the fiscal year to determine the actual award.

The 2006 short-term incentive target percentages for Messrs. Davis, Lefferson, Hall, Immelt, Munafo and Gehlmann were 50%, 40%, 35%, 35%, 35% and 30%, respectively. However, based on the Corporation s performance in 2006, the Chief Executive and the Named Executive Officers did not receive any incentive bonus in 2006.

Long-Term and Stock Based-Incentives

§ serve as a means of attracting, retaining and rewarding executives who are in a position to most directly influence the longer-term success of the Corporation

§ balance short-term decision making with a long-term perspective, thereby encouraging decisions that have a positive impact on long-term shareholder value creation and our company as a whole

§ support our capital structure and strategy taking into consideration both Corporation and executive perspectives, and provide a source of executive capital accumulation commensurate with value created for shareholders

§ are generally targeted to approximate the median competitive market practices, taking into consideration internal equity and the organizational structure

§ as earned are a function of long-term financial and operational results relative to company objectives and industry performance

§ may be awarded in cash, equity or some combination to address Corporation objectives and executive stock ownership

§ all equity awards are made at or above the market price at the time of grant

§ for 2006 grants were approximately 120% of base salary for Mr. Davis, 50% of base salary for Mr. Lefferson and 40% of base salary for Messrs. Hall, Munafo and Gehlmann for 2006; consisting of 50% stock options and 50% restricted stock grants

§ Annual awards of equity compensation are made at a Committee meeting in April of each year

§ Newly hired executives may receive new hire bonus equity awards. If such awards are granted, they are received on the last business day of the quarter in which they are hired and such awards are priced at market value on that date

§ The 1999 Stock Incentive Plan provides for incentive compensation to our executive officers tied to the enhancement of shareholder value. Under the 1999 Stock Incentive Plan, the Compensation Committee reviewed and approved in April 2006 stock option grants and restricted stock awards for the Named Executive Officers. The option exercise price and the value of restricted shares are determined based on the fair market value of the stock at the close of business on the date of grants. The Compensation Committee reviewed management s recommendation on the amount of the stock option grants and restricted stock awards based on market practice, the officer s level in the organization, the performance of the Corporation, and a review of stock option grants and restricted stock awards made in prior years. After discussing and modifying the recommendations, the awards are ratified. Vesting of restricted shares is subject to performance triggers and beginning in 2006, options vest over a four-

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year period. These awards are discussed elsewhere in this Proxy Statement at Summary Compensation Table and Grants of Plan-Based Awards.

Non Performance Based Benefits

§ The benefits program, in total, attempts to meet the essential needs of executives in a manner which is market competitive and cost-effective for both the executive and the Corporation

§ Executives can participate in group medical and life insurance programs and a percentage match by the Corporation under the 401(k) plan, and a defined benefit plan, which are generally available to all of our associates on a non-discriminatory basis. The benefits will serve to protect executives and their families against financial risks associated with illness, disability and death and will provide financial security during retirement through a combination of personal savings and Corporation contributions, taking advantage of tax-deferral opportunities where permitted

§ The Named Executive Officers also receive certain fringe benefits, such as participation in the SERP and Deferred Compensation Plan. In addition, the Named Executive Officers are reimbursed for business-related expenses they incur, receive a monthly car allowance, some are reimbursed for club memberships, and are entitled to up to $2,000 reimbursement for tax/investment advice. Furthermore, relocation benefits are available for qualifying executives. Management believes that the costs of reimbursement of such expenses and allowances constitute ordinary and necessary business expenses that facilitate job performance and minimize work-related expenses incurred by the Named Executive Officers. Finally, biennial physical examinations are provided to senior officers in hopes of ensuring the continued health of key managers and executives of the Corporation. Those approved benefits that are not business-related, however, are paid/reimbursed but taxed as a personal benefit.

§ Employment agreements provide added benefits to the Named Executives in event of a change-in-control and/or termination for other than cause. See Employment Agreements and Other Potential Post-Employment Payments.

External Benchmarks

In evaluating the levels of compensation, the Compensation Committee also utilizes the services of Watson Wyatt, an independent compensation consulting firm. Watson Wyatt presents information from survey resources available to Watson Wyatt in addition to information from a customized proxy analysis of similarly sized publicly-traded financial services/banking organizations. In evaluating the market date provided by Watson Wyatt, the committee will also consider:

The primary labor market peer group against which executive compensation and performance is benchmarked (generally comprised of companies with a financial services/banking industry focus and of a similar asset size to ensure market competitiveness)

Companies representative of the broader general industry population may provide appropriate compensation benchmarks for certain positions that are not specific to the financial services/banking industry

Pay opportunities are established based on median market practices. Actual compensation earned should reflect overall performance of the Corporation so that in years of strong performance, executives may earn higher levels of compensation as compared to executives in similar positions of responsibility at comparative companies. Conversely, in years of below average performance, executives may be paid below average compensation

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Employment Agreements

The Corporation has employment agreements with each of the Named Executive Officers currently employed by the Corporation as described below.

Employment Agreement with Mr. Davis

In 2004, the Corporation entered into an agreement with Mr. Davis. The agreement was amended and restated on August 24, 2006 (the Agreement). The initial term of the Agreement was for one year from the commencement of Mr. Davis s employment on October 1, 2004 (the Commencement Date). The Agreement automatically renews for successive one-year periods after the initial term, unless and until terminated in accordance with the terms of the Agreement. The Agreement provides that Mr. Davis will receive an annual salary, incentive awards, non-incentive related compensation (including executive benefits/perquisites), and broad-based employee benefits as determined from time-to-time by the Board. Mr. Davis s annual base salary was increased from $400,000 in 2005 to 450,000 in August of 2006.

Pursuant to the agreement and in connection with his initial hiring, Mr. Davis is entitled to a bonus of $33,000 on each of the first three anniversaries of his employment, ending October 1, 2007. Furthermore, pursuant to the Agreement, Mr. Davis received (i) a stock option grant, subject to the terms of the Corporation s 1999 Stock Incentive Plan, for 50,000 shares of the Company s common shares that vested on October 1, 2005 with an exercise price equal to the fair market value on the date of grant; and (ii) a restricted stock award, subject to the terms of the stock plan, for 35,000 shares of the Corporation s common shares (17,500 vested on October 1, 2005, 8,750 vested on October 1, 2006, and 8,750 will vest on October 1, 2007). He must be employed by the Corporation on the applicable anniversary to receive the additional bonuses or restricted shares, except as otherwise provided in the Agreement, as described below.

Termination. Mr. Davis s employment with the Corporation:

- Will terminate automatically upon his death;
- May be terminated either by the Corporation or Mr. Davis at the end of the agreement s initial term or any renewal term upon 90 days prior written notice from either of them to the other;
- May be terminated by Mr. Davis at any time for Good Reason, meaning the occurrence, without Mr. Davis s consent, of a significant reduction in his base salary or his authority or responsibilities as set forth in the Agreement;
- May be terminated by the Corporation immediately upon notice to Mr. Davis at any time for Cause, as defined in the Agreement; or
- May be terminated by the Corporation immediately upon notice to Mr. Davis at any time if he is then under a Long-Term Disability, as defined in the Agreement.

Severance. If Mr. Davis s employment is terminated as follows:

- By the Corporation, without Cause (as defined in the Agreement), by providing 90 days written notice prior to the end of the Agreement s initial term or any renewal term;
- By the Corporation, without Cause, immediately upon notice to Mr. Davis at any time, if he is then under a Long-Term Disability, as defined in the Agreement; or
- By Mr. Davis at any time for Good Reason, as defined in the Agreement; and

Mr. Davis has provided the Corporation with a separate, written release and covenant not to sue; then Mr. Davis will be entitled to receive termination compensation equal to:

- compensation equal to 24 months of his Base Salary
- a termination bonus equal to twice the target payment under the Corporation s Short-Term Incentive Bonus Plan for the calendar year in which the termination occurred;

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any additional bonuses not yet paid under the Agreement, and

if the termination occurs within 12 months of a Change in Control as such term is defined in the Agreement, Mr. Davis will receive a payment equal to the present value of the death benefit he would have received under an Employee Split Dollar Agreement and calculated as if Mr. Davis died at age 75.

The termination compensation will be paid over a two-year Severance Period as such term is defined in the Agreement. Following any termination, should Mr. Davis elect COBRA coverage, the Corporation shall pay the premiums for the first 12 months of such coverage. Mr. Davis shall also be entitled to executive outplacement assistance with an agency selected by the Corporation in an amount not to exceed 5% of Mr. Davis s base salary.

In the event the receipt of any payment under the Agreement, in combination with any other payments to Mr. Davis from the Corporation, will result in the payment by Mr. Davis of any excise tax under Section 280G and Section 4999 of the Internal Revenue Code (Code), the Corporation will pay to Mr. Davis an additional amount equal to the amount of such excise tax and the additional federal, state and local income taxes for which Mr. Davis will be liable as a result of this additional payment. Furthermore, the Agreement is subject to the limitations of Section 409A of the Code.

Employment Agreements with Named Executive Officers Other than Mr. Davis

The Corporation is party to employment agreements with each of the Named Executive Officers other than Mr. Davis (each referred to as an Officer). Each agreement is for a term of one or two years. Unless and until terminated in accordance with the terms of the agreement, each agreement renews annually from and after the initial term unless the Corporation or the Officer gives three to six months prior notice of termination.

The agreements can be terminated upon the Officer s death or disability; at the end of the initial term or any renewal term if not renewed upon six month s prior written notice; for Cause, as defined in the agreements; or for Good Reason, meaning:

a change in the duties of the Officer s position or the transfer to a new position in violation of the terms of the agreement;

a substantial alteration in the nature or status of the Officer s responsibilities in violation of the agreement;

a reduction in the Officer s base salary;

refusal by the Corporation or its successor to renew the term of the agreement for any reason prior to the Officer reaching his or her normal retirement date under the Corporation s retirement plan; or

a change in the Officer s employment benefits in violation of the terms of the agreement.

Except as otherwise provided in the agreements, if the Officer is terminated for any reason other than Cause, and the Officer has provided the Corporation with a separate, written release and covenant not to sue in accordance with the agreement and does not revoke such release and covenant, then the Officer will be entitled to receive the following:

The Officer s base salary will be continued for a period of 12- 24 months from the date of termination of employment (such period being called the Severance Pay Period).

During the Severance Pay Period, only medical and dental benefits continue.

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If, prior to the Officer s date of termination, the Officer has participated in the Corporation s Short-Term Incentive Plan for a complete calendar year, the Officer will receive a payment in one lump-sum in an amount equal to one or two times the percentage of the incentive payment made or required to be made for the calendar year pursuant to the plan immediately preceding the calendar year in which the Officer s date of termination occurs.

Notwithstanding the above, if the employment of an Officer is terminated as follows:

By the Corporation, with Cause, the Officer will receive a payment in one lump-sum in an amount equal to two times the percentage of the incentive payment made or required to be made for the calendar year pursuant to the Short-Term Inventive Plan immediately preceding the calendar year in which the Officer s date of termination occurs.

If the Officer s date of termination of employment is within 12 months after a change in control (as defined in the agreements), the Officer will receive a payment equal to: (A) with respect to shares subject to an option granted as of the time of the change in control under the Corporation s 1991 and 1999 stock plans that the Officer cannot exercise due to the termination of employment, the difference between the fair market value of such common shares determined as of the date of termination of employment and the option exercise price, and (B) with respect to any restricted stock granted under the Corporation s 1991 Stock Incentive Plan as of the time of the change in control which the Officer forfeits as a result of the termination of employment, the fair market value of such restricted shares determined as of the date of termination of employment and as if all restrictions had been removed.

If the receipt of any payments described above to the Officers (other than Messrs. Munafo and Gehlmann), in combination with any other payments to them, shall, in the opinion of independent tax counsel selected by the Corporation, result in liability for the payment by the Officer of any excise tax pursuant to Sections 280G and 4999 of the Code, the Corporation will pay to the Officer within 60 days of the date his or her employment terminates an additional amount equal to the amount of such excise tax and the additional federal, state, and local income taxes for which he or she will be liable as the result of this additional payment. Furthermore, the Agreements are subject to the limitations of Section 409A of the Code.

Confidentiality and Non-Competition

The Named Executive Officers, including Mr. Davis, are prohibited, at all times, from disclosing any confidential information, as defined in the agreements, except as required by law, and must return all confidential information to the Corporation upon termination of their employment. During the term of each Named Executive Officer s employment and for a period of six months following termination of the officer s employment for any reason other than by the Corporation for Cause (as defined in the agreements), the Named Executive Officer has agreed not to be employed by, serve as an officer or director of, consultant to, or advisor to any business that engages either directly or indirectly in commercial banking, savings banking, or mortgage lending in the geographic area of Ohio, Indiana, Michigan, or Kentucky, or which is reasonably likely to engage in such businesses in the same geographic area.

Severance Agreements

The Corporation entered into an Agreement and Release with Mr. Immelt on June 27, 2006 pursuant to which he will receive certain payments in accordance with his previous employment agreement with the Corporation. Mr. Immelt was a named executive officer during part of fiscal 2006.

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Tax and Accounting Implications

Deductibility of Executive Compensation. Section 162(m) of the Code generally disallows a corporate tax deduction for annual compensation paid to executive officers to the extent that it exceeds $1,000,000. It is the policy of the Compensation Committee that compensation to executive officers should, in general, be structured to qualify for deductibility under Section 162(m). For those exceptional circumstances where executive compensation may exceed the deductible amount, the Corporation has adopted a deferred compensation plan which provides for the mandatory deferral of such excess compensation.

Nonqualified Deferred Compensation. On October 22, 2004, the American Jobs Creation Act of 2004 was signed into law, changing the tax rules applicable to nonqualified deferred compensation arrangements. While the final regulations have not become effective yet, the Corporation believes it is operating in good faith compliance with the statutory provisions which were effective January 1, 2005.

Accounting for Stock-Based Compensation. Beginning on January 1, 2006, the Corporation began accounting for stock-based payments in accordance with the requirements of Financial Accounting Standards Statement No. 123(R) (FAS 123(R)).

Incentive Stock Options. Federal income tax rules impose limits to the favorable tax treatment for incentive options. The limit is that no employee may hold incentive options that become exercisable in a single calendar year whose total value exceeds $100,000. If this limit is exceeded, the excess above $100,000 becomes a non-qualified stock option and does not receive the favorable tax treatment described above. In the event options granted to the Named Executive Officers exceed the $100,000 limit they automatically become non-qualified options.

Other Information

The Corporation currently does not have any stock ownership guidelines for executive officers.

Summary

The total compensation mix attributable to the relative weighting of each element reflects the competitive market and our priorities. As such, the mix of pay may be adjusted from time to time to best support our immediate and longer-term objectives. Generally, as associates move to higher levels of responsibility with greater ability to influence our results, the percentage of pay at risk may increase

We believe our approach to executive compensation is a critical element to the successful attraction and retention of the right talent to effectively implement our strategic plan. We can apply multiple approaches and tactics but the key principles of market based compensation, adjusted for the value created by the individual and organizational performance should be the cornerstones of our philosophy. We believe the compensation packages provided to the Named Executive Officers is appropriate and consistent with our compensation philosophy.

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SUMMARY COMPENSATION TABLE

The following Summary Compensation Table sets forth the compensation of Corporation s Principal Executive Officer, Principal Financial Officer and the next three highest compensated executive officers. All of the executive officers named in the Summary Compensation Table are referred to hereafter as the Named Executive Officers. Mark Immelt is also included because he was a Named Executive Officer for a portion of 2006.

Name and Principal Position	Year	Salary ($)(1)	Bonus ($)(2)	Stock Awards ($)(3)	Option Awards ($)(4)	Non-Equity Incentive Plan Compensation ($)(5)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)(6)	All Other Compensation ($)(7)	Total ($)
Claude E. Davis President & CEO	2006	420,000	33,000	277,146	299,232		31,549	57,998	1,118,925
C. Douglas Lefferson EVP and Chief Operating Officer	2006	262,404	0	67,284	73,440		60,162	29,787	493,077
J. Franklin Hall SVP and Chief Financial Officer	2006	220,673	0	46,458	49,824		15,876	17,055	349,866
Mark W. Immelt EVP, Wealth Resource Group	2006	297,962	0	0	0		98,469	860,779	1,257,210
Samuel J. Munafo EVP, Banking	2006	228,461	0	48,060	50,976		110,352	32,891	470,740
Gregory A. Gehlmann SVP, Chief Risk Officer and General Counsel	2006	219,327	0	44,856	47,520		10,971	19,197	341,871

(1) The dollar value of base salary (cash and non-cash) earned during the fiscal year.

(2) The dollar value of bonus (cash and non-cash)

earned during the fiscal year. With respect to Mr. Davis, the amount above was paid pursuant to his employment agreement and not tied to any performance in 2006. See also Compensation Discussion and Analysis Employment Agreements Employment Agreement with Mr. Davis.

(3) The aggregate grant date fair value of stock awards computed in accordance with FAS 123(R). In addition to vesting over a four year period, restricted stock awards do not vest unless the Corporation meets certain performance targets. During 2006, the Corporation did not reach such targets and therefore one-fourth of such awards will not vest in 2007, but may vest in subsequent years if performance

targets are met**.** With respect to Mr. Davis, also includes the vesting of 25% of a restricted stock award of 30,000 shares (8,750 shares at $15.91 per share) in connection with the

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Corporation hiring Mr. Davis in October 2004. See also Employment Agreements Employment Agreement with Mr. Davis.

(4) The aggregate grant date fair value of option awards computed in accordance with FAS 123(R). Options vest over a four-year period. See also Grants of Plan Based Awards.

(5) The dollar value of all earnings for services performed during the fiscal year pursuant to awards under non-equity incentive plans and all earnings on any outstanding awards. No payouts were made under the short-term incentive plan. See Compensation Discussion and Analysis Components of Compensation Non-Equity Incentive Awards Performance Based (Short-Term Incentive Plan) and Plan Based Awards.

(6) The aggregate change in the actuarial present value of accumulated benefits under all defined

benefit and actuarial pension plans (Employees Pension Plan and Supplemental Retirement Plan) (Employees Pension Plan only with respect to Mr. Gehlmann) from the plan measurement date used for financial statement reporting purposes with respect to the prior completed fiscal year to the plan measurement date used for financial statement reporting purposes with respect to the covered fiscal year (e.g., interest rate and mortality rate assumptions). Includes amounts which the named executive may not currently be entitled to receive because such amounts are not vested.

(7) All other compensation for the year that could not properly be reported in any other column. The column titled Other below includes tax/investment advice (Messrs. Davis, Lefferson and Immelt), organization dues (Messrs. Davis, Immelt and Munafo), and spouse travel to director/management retreat and/awards ceremony, of which none individually

exceeded $10,000. Also included in the Other column below is $821,642 accrued or paid to Mr. Immelt pursuant to the terms of an Agreement and Release.

Name	Automobile Allowance	Company Match Under 401(k) Plan	Split Dollar Insurance Premiums	Dividends on Unvested Restricted Stock	Other	Total
Mr. Davis	$9,078	$6,581	$2,254	$27,488	$ 12,597	$ 57,998
Mr. Lefferson	9,068	6,574	898	8,751	4,496	29,787
Mr. Hall	6,000	2,296	715	5,547	2,497	17,055
Mr. Immelt	8,854	6,906	5,957	7,547	831,515	860,779
Mr. Munafo	8,686	6,853	2,863	6,399	8,090	32,891
Mr. Gehlmann	6,000	6,466	742	2,368	3,621	19,197

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GRANTS OF PLAN-BASED AWARDS

The following table shows all individual grants of stock awards to the Named Executive Officers of the Corporation during the fiscal year ended December 31, 2006. Total value is computed utilizing the grant date market value for restricted stock awards and the grant date fair value in accordance with FAS 123(R)on stock option awards.

			Estimated Future Payouts Under Equity Incentive Plans(4)						
Name	**Grant Date**	**Estimated Future Payouts Under Non-Equity Incentive Plans**	**Threshold**	**Target**	**Maximum**	**All Other Stock Awards: Number of Shares of Stock or Units (#)(1)**	**All Other Option Awards: Number of Securities Underlying Options (#)**	**Exercise Or Base Price of Option Awards (2)**	**Grant Date Fair Value of Stock and Option Awards(3)**
Claude Davis	4/24/06	NONE	N/A	$ 540,000	N/A	17,300			$ 277,146
							103,900	$ 16.02	299,232
C. Douglas Lefferson	4/24/06	NONE	N/A	132,500	N/A	4,200			67,284
							25,500	$ 16.02	73.440
J. Franklin Hall	4/24/06	NONE	N/A	90,000	N/A	2,900			46,458
							17,300	$ 16.02	49.824
Sam Munafo	4/24/06	NONE	N/A	92,000	N/A	3,000			48,060
							17,700	$ 16.02	50,976
Mark Immelt		NONE	N/A		N/A				
Greg Gehlmann	4/24/06	NONE	N/A	92,000	N/A	2,800			44,856
							16,500	$ 16.02	47,520

1. Restricted shares vest over a four-year period and are subject to certain performance triggers. During 2006, the Corporation did not reach such targets and

therefore one-fourth of such awards will not vest in 2007, but may vest in subsequent years if performance targets are met.

2. Closing price of the Corporation s common shares on the date of grant.

3. The grant date fair value of each stock option, calculated using the Black-Scholes option pricing model is $2.88. This reflects compensation costs recognized under FAS 123(R) in 2006. All options are granted at 100% of fair market value on the date of grant. The options are exercisable ratably over a four year period (25% per year) commencing one year after the date of grant. In no event can options be exercised later than 10 years after the date of grant, provided

that the optionee remains in the employment of the Corporation or its affiliates. The option exercise period may be shortened upon an optionee s disability, retirement or death. Shares acquired upon option exercise must be held one year from the date of exercise.

4. The amounts of the estimated future payouts under equity incentive plans column represent the opportunities in the event the Corporation meets certain targets pursuant to the terms of the stock awards. For 2006, grants were targeted at approximately 120% of base salary for Mr. Davis, 50% of base salary for Mr. Lefferson and 40% of base salary for Messrs. Hall, Munafo and Gehlmann.

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OUTSTANDING EQUITY AWARDS AT FISCAL YEAR END

The following table represents stock options and restricted stock awards outstanding for each NEO as of December 31, 2006. All stock options and restricted awards have been adjusted for stock dividends and stock splits. The closing per share price of the Corporation s stock on the last trading date of the fiscal year was $16.61.

	Option Awards				Restricted Stock Awards	
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#) (1)	Market Value of Shares or Units of Stock That Have Not Vested ($)
Claude E. Davis					42,850	$ 711,739
	50,000	0	$ 17.19	10/01/2014		
	21,024	63,076 (3)	$ 17.51	04/18/2015		
	0	103,900 (4)	$ 16.02	04/24/2016		
C. Douglas Lefferson					11,700	$ 194,337
	1,271	0	$ 19.09	01/27/2008		
	4,201	0	$ 22.57	01/25/2009		
	1,574	0	$ 22.57	06/12/2010		
	12,127	0	$ 17.56	01/24/2010		
	10,500	0	$ 16.01	01/23/2011		
	10,000	0	$ 17.20	01/17/2012		
	10,000	0	$ 16.58	01/22/2013		
	2,500	0	$ 17.09	01/21/2014		
	6,249	18,751 (3)	$ 17.51	04/18/2015		
	0	25,500 (4)	$ 16.02	04/24/2016		
J. Franklin Hall					7,800	$ 129,558
	6,772	0	$ 17.56	01/24/2010		
	5,250	0	$ 16.01	01/22/2011		
	5,000	0	$ 17.20	01/17/2012		
	10,000	0	$ 16.58	01/22/2013		
	2,500	0	$ 17.09	01/21/2014		
	3,574	10,726 (3)	$ 17.51	04/18/2015		
	0	17,300 (4)	$ 16.02	04/24/2016		
Samuel J. Munafo					7,900	$ 131,219
	7,624	0	$ 19.09	01/27/2008		
	8,662	0	$ 22.57	01/25/2009		
	15,120	0	$ 17.56	01/24/2010		

7,875	0	$ 16.01	01/22/2011
5,000	0	$ 17.20	01/17/2012
5,000	0	$ 16.58	01/22/2013
2,500	0	$ 17.09	01/21/2014
2,999	9,001 (3)	$ 17.51	04/18/2015
0	17,700 (4)	$ 16.02	04/24/2016

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Name	Option Awards: Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price ($)	Option Expiration Date	Restricted Stock Awards: Number of Shares or Units of Stock That Have Not Vested (#) (1)	Market Value of Shares or Units of Stock That Have Not Vested ($)
Gregory A. Gehlmann					5,100	$ 84,711
	2,849	8,551 (5)	$ 18.63	06/21/2016		
	0	16,500 (4)	$ 16.02	04/24/2016		
Mark W. Immelt					0	0
	12,706	0	$ 19.09	01/28/2007		
	17,325	0	$ 22.57	12/31/2007		
	33,810	0	$ 17.56	12/31/2007		
	10,500	0	$ 16.01	12/31/2007		
	10,000	0	$ 17.20	12/31/2007		
	10,000	0	$ 16.58	12/31/2007		
	2,500	0	$ 17.09	12/31/2007		
	5,449	0	$ 17.51	12/31/2007		

(1) Shares of restricted stock shown in this column include both time-based and performance-based restricted shares.

Time-based restricted shares will vest according to the following schedule:

Vesting Date	Davis	Lefferson	Hall	Munafo	Gehlmann	Immelt
January 21, 2007		1,250	1,000	1,250		
January 21, 2008		1,250	1,000	1,250		
October 1, 2007	8,750					

Performance-based restricted shares will vest according to the following schedule:

Vesting Date	Davis	Lefferson	Hall	Munafo	Gehlmann	Immelt
April 18, 2007						
April 24, 2007						

April 18, 2008	12,600	3,750	2,175	1,800	1,725
April 24, 2008	8,650	2,100	1,450	1,500	1,400
April 18, 2009	4,200	1,250	725	600	575
April 24, 2009	4,325	1,050	725	750	700
April 24, 2010	4,325	1,050	725	750	700

(3) The unvested portion of this option grant will vest 50% on April 18, 2007, 75% on April 18, 2008, and 100% on April 18, 2009.

(4) The unvested portion of this option grant will vest 25% on April 24, 2007, 50% on April 24, 2008, 75% on April 24, 2009, and 100% on April 24, 2010.

(5) The unvested portion of this option grant will vest 50% on June 21, 2007, 75% on June 21, 2008, and 100% on June 21, 2009.

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OPTION EXERCISES AND STOCK VESTED

The following table shows the stock options exercised and restricted stock that vested by NEOs in 2006 and the value realized upon exercise.

	Option Awards		Stock Awards	
Name	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting ($)
Claude E. Davis		$	8,750	$139,213
C. Douglas Lefferson	1,537	10,095	6,236	108,766
J. Franklin Hall			3,351	58,399
Mark W. Immelt			7,168	125,139
Samuel J. Munafo	3,074	19,391	3,721	65,005
Gregory A. Gehlmann				

(1) Aggregate market value on the exercise date of shares covered by the option less the aggregate price paid by the Named Executive Officer.

(2) The value realized on vesting of restricted stock awards represents the aggregate dollar amount realized upon vesting by multiplying the number of shares of stock by the market value of the underlying shares as of the prior day s close.

The Corporation has no long-term incentive plans relating to future compensation of the Named Executive Officers other than the 1991 Stock Incentive Plan and the 1999 Stock Incentive Plan. No additional awards can be granted under the 1991 Stock Incentive Plan.

PENSION BENEFITS

The Corporation has a thrift plan, a retirement plan, a supplemental retirement plan and a deferred compensation plan. It also maintains Split Dollar Agreements covering the Named Executive Officers and certain other management associates. The retirement plan and the thrift plan cover the majority of the employees of the Corporation and its subsidiaries, including the officers of the Corporation. The deferred compensation plan is a nonqualified deferred compensation plan in which only executive officers of the Corporation are eligible to participate. Participants may elect to defer up to 50% of their base salary and 100% of their bonus or incentive pay for any year.

Thrift Plan. The thrift plan covers associates who reached age 21. Participation is immediately available and participants may contribute up to 50% of their base salary (unless limited by law or regulation) to the plan. The Corporation s subsidiaries matching contributions are 50% of each participant s contribution, limited to 3% of base salary of each participant, and become fully vested when made. Effective January 1, 2006, Corporation contributions are fully vested after one year for new associates entering the plan after that date.

Defined Benefit Pension Plan. The Corporation s Employee s Pension Plan covers associates of the Corporation s subsidiaries who have attained age 21 and completed one year of credited service. An associate is

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vested after five years of service and receives benefits upon retirement pursuant to a formula based on average salary and years of service.

Supplemental Retirement Plan. The Corporation maintains a supplemental executive retirement plan (SERP) to supplement the payments under the pension plan for certain senior officers of the Corporation and its subsidiaries who may be designated from time-to-time by the Compensation Committee. The SERP s purpose is to augment an individual s retirement income.

PENSION BENEFITS

The following table shows each pension plan that the NEO participates in, the number of years of credited service and the present value of accumulated benefits.

Name	Plan Name	Number of Years of Credited Service (#)(1)	Present Value of Accumulated Benefit ($)(2)	Payments During Last Fiscal Year ($)
Claude E. Davis	Employees Pension Plan	2	$ 20,246	$0
	SERP	2	33,176	$0
C. Douglas Lefferson	Employees Pension Plan	21	170,641	$0
	SERP	21	60,143	$0
J. Franklin Hall	Employees Pension Plan	8	37,007	$0
	SERP	8	3,494	$0
Mark W. Immelt	Employees Pension Plan	10	257,659	$0
	SERP	10	195,087	$0
Samuel J. Munafo	Employees Pension Plan	35	603,221	$0
	SERP	35	79,083	$0
Gregory A. Gehlmann	Employees Pension Plan	2	19,377	$0

(1) The number of years of service credited to the named executive officers under the plan, computed as of the same pension plan measurement date used for financial

statement reporting purposes with respect to the registrant s audited financial statements for the last completed fiscal year.

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(2) The actuarial present value of the named executive officer s accumulated benefit under the plan, computed as of the same pension plan measurement date used for financial statement reporting purposes with respect to the registrant s audited financial statements for the last completed fiscal year.

Split Dollar Life Insurance. The Split Dollar Agreement is an endorsement method split dollar arrangement which applies to a life insurance policy owned by the Corporation which, upon a Named Executive Officer s death, first pays the Corporation the premiums which the Corporation paid for the policy, and then pays the Named Executive Officer s beneficiary a death benefit equal to three times the executive s base salary in effect at his or her death. If the Named Executive Officer terminated employment before death and, when employment terminated, he or she was eligible to receive an immediate retirement benefit under the early retirement provisions of the Corporation s retirement plan and had been employed for at least five years, the Corporation keeps the policy in force until the executive s death and the death benefit is equal to three times the executive s base salary at the time of his or her termination of employment. In either case, any amounts payable under the policy after the payment to the Named Executive Officer s beneficiary are paid to the Corporation.

NONQUALIFIED DEFERRED COMPENSATION

Pursuant to the Corporation s Deferred Compensation Plan, certain executives, including the named executives, may defer up to 50% of his or her base salary and 100% of his/her bonus or incentive pay of any plan year. The following table provides information on the non-qualified deferred compensation to the named executives in 2006. This information also appears in the Summary Compensation table provided earlier in this document but was not provided in such table in proxies for previous years.

Name	Executive Contributions in Last FY ($)	Registrant Contributions in Last FY ($)	Aggregate Earnings in Last FY ($)	Aggregate Withdrawals/ Distributions ($)	Aggregate Balance at Last FYE ($)
Claude E. Davis	33,000(1)		2,729(2)		73,599(3)

(1)

The amount shown above for Mr. Davis is that portion of an employment agreement benefit that he elected to defer in 2006. This amount was disclosed in the bonus column in the Summary Compensation Table and related footnotes.

(2) During 2006 the Corporation paid interest on deferred compensation balances. However, because this rate does not exceed the threshold rate requiring disclosure on the Summary Compensation Table and, therefore, the amounts are not included on that table.

(3) The amounts are reported in as compensation to Mr. Davis in the Corporation s Summary Compensation Table in previous years.

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OTHER POTENTIAL POST-EMPLOYMENT PAYMENTS

The following table sets forth the severance amounts that each of Messrs. Davis, Lefferson, Hall, Munafo and Gehlmann would be entitled to receive if their employment relationship with the Corporation had been terminated as described above on December 31, 2006. The following table is for illustrative purposes only:

Severance Benefits Table Termination upon Change In Control

Executive	Multiple of Base Pay (2x) $	Multiple of Short-Term Incentive S	Unvested In-the-Money Option Value S	Unvested Restricted Stock Value S	Accel. of Life Ins. Benefit S	Benefits per Contract S	Gross Up Payment (Claw-back) for Additional Tax Imposed by Section 280G of the Tax Code($)(1)	Estimated Total Payment Post Gross-Up (Claw-back) $
C. Davis	900,000			192,699	358,984	1,451,683	Not triggered	1,451,683
D. Lefferson	530,000			49,839	179,184	759,023	Not triggered	759,023
F. Hall	450,000			32,414	124,451	606,865	323,385	930,250
S. Munafo	460,000			31,564	294,990	786,554	Not triggered	786,554
G. Gehlmann	460,000			26,189	174,251	660,440	(107,175)	553,265

1. In the event severance payments exceed approximately three times an executive s salary, Section 280G of the Code requires such payments to be taxed at an excise rate of 20% in addition to regular tax rates. The employment agreements for Messrs. Davis, Lefferson and

Hall provide that the Corporation will make such additional tax payments on behalf of the executive while employment agreements for Messrs. Munafo and Gehlmann provide that any excess payments will be reduced to avoid the additional tax. Excessive payments are not deductible to the Corporation.

REPORT OF THE COMPENSATION COMMITTEE

The Compensation Committee of the Corporation has reviewed and discussed with the Company s management the Compensation Discussion and Analysis that is required by Item 402(b) of Regulation S-K with the Corporation s management.

Based on that review and those discussions, the Committee has recommended to the Corporation s Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement.

Barry S. Porter, Chair
Donald M. Cisle, Sr.
Susan L. Knust
William J. Kramer

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REPORT OF THE AUDIT AND RISK MANAGEMENT COMMITTEE

In accordance with its written charter, the Audit and Risk Management Committee oversees the Corporation s financial reporting process on behalf of the Board of Directors. Management has the primary responsibility for the financial statements and the reporting process including the systems of internal controls. The Corporation s independent registered public accounting firm, Ernst & Young LLP (Ernst & Young), is responsible for expressing an opinion on the conformity of the Corporation s audited financial statements to generally accepted accounting principles.

In fulfilling its oversight responsibilities, the Committee reviewed the audited financial statements in the Annual Report with management including a discussion of the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgments and the clarity of disclosures in the financial statements. The Committee discussed with Ernst & Young those matters required to be discussed by SAS 61 (Codification of Statements on Auditing Standards, AU 380). In addition, the Committee received from Ernst & Young the written disclosures and the letter required by Independence Standards Board Standard No. 1 and discussed with them their independence.

The Committee discussed with the Corporation s internal auditors and Ernst & Young the overall scope and plans for their respective audits. The Committee met with the internal auditors and with Ernst & Young, with and without management present, to discuss the results of their examinations, their evaluations of the Corporation s internal controls, and the overall quality of the Corporation s financial reporting.

In reliance on the reviews and discussions referred to above, the Committee recommended to the Board of Directors, and the Board has approved, that the audited financial statements be included in the Annual Report on Form 10-K for the year ended December 31, 2006, for filing with the SEC. The Committee has approved the selection of Ernst & Young as the Corporation s independent registered public accounting firm for 2007.

Audit and Risk Management Committee

William J. Kramer, Chair
Richard E. Olszewski
Barry S. Porter
Steven C. Posey

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM, FEES AND ENGAGEMENT

Ernst & Young has been selected as the independent registered public accounting firm to audit the financial statements of the Corporation for the current fiscal year. Management expects that representatives of that firm will be present at the Annual Meeting, will have the opportunity to make a statement, if they desire to do so, and will be available to respond to appropriate questions.

The following table sets forth the aggregate fees billed to the Corporation and related entities for the last two fiscal years by the Corporation s independent registered public accounting firm.

Fees by Category	**2006**	**2005**
Audit Fees	$ 661,000	$ 683,000
Audit-Related Fees (1)	33,000	27,500
Tax Fees (2)		203,221
All Other Fees (3)	61,550	56,000
Total	$ 755,550	$ 969,721

(1) Services covered by these fees consist of employee benefit plan

audits.

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(2) Services covered by these fees consist of professional tax services, including preparation of the federal income tax returns for the Corporation and its subsidiaries.

(3) Services covered by these fees consist of audit and tax compliance work billed to the Legacy Funds Group of mutual funds for which the Corporation s subsidiary, First Financial Capital Advisors LLC, serves as investment advisor.

It is the policy of the Audit and Risk Management Committee that, before the Corporation engages an accounting firm to render audit services as the Corporation s independent registered public accounting firm, the engagement must be approved by the Audit and Risk Management Committee. In addition, before an accounting firm serving as the Corporation s independent registered public accounting firm is engaged by the Corporation to render non-audit services, the engagement must be approved by the Audit and Risk Management Committee.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

Except for Mr. Kramer, all members of the Compensation Committee, or their affiliates, have engaged in loan transactions with First Financial Bank. All such loans were made in the ordinary course of business of the bank. No other relationships required to be reported under the rules promulgated by the Securities and Exchange Commission exist with respect to members of the Corporation s Compensation Committee.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires the Corporation s officers, directors and persons who own more than 10 percent of a registered class of the Corporation s equity securities to file reports of ownership and changes in ownership on Forms 3, 4 and 5 with the SEC. Officers, directors and greater than 10 percent shareholders are required by SEC regulations to furnish the Corporation with copies of all Forms 3, 4 and 5 they file.

Based solely on the Corporation s review of the copies of such forms that it has received and written representations from certain reporting persons that they were not required to file a Form 5 for the specified fiscal year, the Corporation believes that all of its officers, directors and greater than 10 percent shareholders complied with all filing requirements applicable to them with respect to transactions during fiscal 2005.

SHAREHOLDER PROPOSALS

If an eligible shareholder wishes to present a proposal to be included in the Corporation s Proxy Statement and form of Proxy relating to the 2008 Annual Meeting of Shareholders, it must be presented to management by certified mail, written receipt requested, not later than November 22, 2007. Any such proposal must comply with Rule 14a-8 promulgated by the SEC pursuant to the Securities Exchange Act of 1934, as amended. Any shareholder who intends to propose any other matter to be acted upon at the 2008 Annual Meeting of Shareholders must inform the Corporation no later than January 31, 2008. If notice is not provided by that date, the person(s) named in the Corporation s Proxy for the 2008 Annual Meeting will be allowed to exercise his or her discretionary authority to vote upon any such proposal without the matter having been discussed in the Proxy Statement for the 2007 Annual Meeting. Proposals should be sent to First Financial Bancorp., Attention: Gregory A. Gehlmann, General Counsel and Secretary, 300 High Street, P.O. Box 476, Hamilton, Ohio 45012-0476.

ANNUAL REPORT

The Corporation s financial statements are not included in this Proxy Statement as they are not deemed material to the exercise of prudent judgment by the shareholders with respect to any proposal to be submitted at the Annual Meeting. The Corporation s Annual Report for the year ended December 31, 2006, is being mailed to each shareholder with the Proxy and Proxy Statement, but such Annual Report is not incorporated in this Proxy Statement and is not deemed to be a part of the Proxy soliciting material.

A shareholder of the Corporation may obtain a copy of the Annual Report on Form 10-K, including financial statements and schedules thereto, for the fiscal year ended December 31, 2006, and as filed with the SEC, without charge by submitting a written request to the following address:

First Financial Bancorp.
Attn: Gregory A. Gehlmann, General Counsel
and Secretary
300 High Street
P.O. Box 476
Hamilton, Ohio 45012-0476

The Annual Report on Form 10-K is also available through the Corporation s Web site at www.bankatfirst.com under the Investor Information link, by clicking on SEC Filings.

Management and the Board of Directors of the Corporation know of no business to be brought before the meeting other than as set forth in this Proxy Statement. However, if any matters other than those referred to in this Proxy Statement should properly come before the meeting, it is the intention of the persons named in the enclosed Proxy to vote such Proxy on such matters in accordance with their best judgment.

The expense of proxy solicitation will be borne by the Corporation. Proxies will be solicited by mail and may be solicited for no additional compensation by some of the officers, directors and associates of the Corporation or its subsidiaries by telephone or in person. Brokerage houses and other custodians, nominees and fiduciaries may be requested to forward soliciting material to the beneficial owners of shares of the Corporation and will be reimbursed for their related expenses.

By Order of the Board of Directors,
Gregory A. Gehlmann
General Counsel and Secretary
March 30, 2007

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EXHIBIT A

Marked to Show Changes

PROPOSED AMENDMENT TO ARTICLE V OF REGULATIONS

ARTICLE V

CERTIFICATES

SECTION 5.1. Except as set forth in Section 5.2 hereof, certificates evidencing the ownership of shares of the Corporation shall be issued to those entitled to them by transfer or otherwise. Each certificate for shares shall bear a distinguishing number, the signature of the President or Chairman of the Board, and of the Secretary of the Corporation, the corporate seal, and such recitals as may be required by law. Such signatures and seal on the certificate may be facsimile signatures.

SECTION 5.2. Uncertificated Shares. The board of directors, subject to the immediately succeeding paragraph, may provide by resolution that some or all of any or all classes and series of shares of the corporation shall be uncertificated shares, provided that the resolution shall not apply to shares represented by a certificate until the certificate is surrendered to the corporation and the resolution shall not apply to a certificated security issued in exchange for an uncertificated security. Within a reasonable time after the issuance or transfer of uncertificated shares, the Corporation shall send to the registered owner of the shares a written notice containing the information required to be set forth or stated on share certificates in accordance with all applicable laws. Except as expressly provided by law, the rights and obligations of the holders of uncertificated shares and the rights and obligations of the holders of certificates representing shares of the same class and series shall be identical.

SECTION 5.3. Subject to any applicable provision of law or the Articles, transfers of shares of the Corporation shall be made only upon its books, upon surrender and cancellation of a certificate or certificates for the shares so transferred. Any certificate so presented for transfer shall be endorsed or shall be accompanied by separate written assignment or a power of attorney, signed by the person appearing by the certificate to be the owner of the shares represented thereby. Any uncertificated shares shall be transferable in person or by attorney upon written request in form and substance acceptable to the corporation or any transfer agent for the applicable class of shares, accompanied by a duly endorsed stock power and/or such other assurances as the corporation or such transfer agent may require as to the genuineness and effectiveness thereof.

SECTION 5.4. Lost, Stolen, Destroyed, or Mutilated Certificates. Subject to Section 5.2 hereof, the Corporation may, in its discretion, upon evidence satisfactory to it of the loss, theft, or destruction of any certificate for shares of the Corporation, authorize the issuance of a new certificate in lieu thereof, and may, in its discretion, require as a condition precedent to such issuance, the giving, by the owner of such alleged lost, stolen, or destroyed certificate, of a bond of indemnity, in form and amount, with surety, satisfactory to the Corporation, against any loss or damage which may result to, or claim which may be made against, the Corporation, or any transfer agent or registrar of its shares, in connection with such alleged lost, stolen, or destroyed, or such new, certificate. If any certificate for shares of the Corporation becomes worn, defaced, or mutilated, the Corporation may, upon production and surrender thereof, order that the same be canceled and that a new certificate be issued in lieu thereof.

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PLEASE MARK VOTES
X AS IN THIS EXAMPLE

REVOCABLE PROXY
FIRST FINANCIAL BANCORP.
ANNUAL MEETING OF SHAREHOLDERS May 1, 2007

Each undersigned shareholder of First Financial Bancorp. (the Corporation) hereby constitutes and appoints Jerry Begley and Rae LoBuono or either of them, with full power of substitution in each of them, the proxy or proxies of the undersigned to vote only at the Annual Meeting of Shareholders of the Corporation to be held at the Fitton Center for Creative Arts, 101 South Monument Avenue, Hamilton, Ohio 45011, on May 1, 2007, at 10:00 A.M., local time, and at any adjournment thereof, all of the shares of the Corporation which the undersigned would be entitled to vote if personally present at such meeting or any adjournment thereof:

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE FOLLOWING ITEMS:

1. The election as directors of all nominees listed (except as marked to the contrary below):

   ___ FOR
   ___ WITHHOLD
   ___ FOR ALL EXCEPT

   CLASS II EXPIRING IN 2010: J. Wickliffe Ach, Donald M. Cisle, Sr., Corinne R. Finnerty and Richard Olszewski.

   INSTRUCTION: To withhold authority to vote for any individual nominee, mark For All Except and write that nominee s name in the space provided below.

   ____

2. To approve an amendment to the Corporation s Regulations to allow the Board of Directors to authorize the Corporation to issue shares without issuing physical certificates.

   ___ FOR
   ___ AGAINST
   ___ ABSTAIN

3. To consider and act upon, in their discretion, such other matters as may properly come before the meeting or any adjournment thereof.

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THIS PROXY WILL BE VOTED IN ACCORDANCE WITH THE SPECIFIC INDICATIONS ABOVE. IN THE ABSENCE OF SUCH INDICATIONS THIS PROXY WILL BE VOTED (I) FOR THE ELECTION OF EACH OF THE ABOVE NAMED NOMINEES FOR DIRECTOR, AND (II) IN FAVOR OF THE PROPOSAL IN ITEM NUMBER TWO.

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS and may be revoked prior to its exercise. Receipt of the accompanying Proxy Statement is hereby acknowledged.

Please be sure to sign and date this Proxy in the box below.

Date ____________________________________

Shareholder sign above Co-holder (if any) sign above

Detach above card, sign, date and mail in postage paid envelope provided.

FIRST FINANCIAL BANCORP.

The signature or signatures on this Proxy should be the same as the name or names which appear hereon. Persons signing in a fiduciary capacity should give full title as such.

PLEASE MARK, DATE, SIGN AND RETURN PROMPTLY IN THE ENCLOSED POSTAGE-PAID ENVELOPE.