FIRST FEDERAL FINANCIAL CORPORATION OF KENTUCKY
Form 10-Q
May 14, 2002

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

FORM 10-Q

(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2002

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

COMMISSION FILE NUMBER 0-18832

FIRST FEDERAL FINANCIAL CORPORATION OF KENTUCKY
(Exact Name of Registrant as specified in its charter)

Kentucky	61-1168311
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

2323 Ring Road
Elizabethtown, Kentucky 42701
(Address of principal executive offices)
(Zip Code)

(270) 765-2131
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding as of April 30, 2002
Common Stock	3,742,600 shares

This document is comprised of 23 pages.

FIRST FEDERAL FINANCIAL CORPORATION OF KENTUCKY

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FIRST FEDERAL FINANCIAL CORPORATION OF KENTUCKY
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

ASSETS	(UNAUDITED) MARCH 31, 2002	JUNE 30, 2001
	(DOLLARS IN THOUSANDS)	
Cash and due from banks	$ 11,458	$ 14,927
Interest bearing deposits	78,466	20,537
Total cash and cash equivalents	89,924	35,464
Securities available-for-sale	1,945	2,013
Securities held-to-maturity: fair value of $4,810 (March) and $20,954 at (June) 2001	4,777	20,921
Loans receivable, less allowance for loan losses of $3,497 (March) and $2,906 (June) 2001	513,705	517,145
Federal Home Loan Bank stock	6,098	5,845
Premises and equipment	11,314	11,454
Real estate owned:		
Acquired through foreclosure	578	296
Held for development	721	721
Repossessed assets	125	70
Excess of cost over net assets acquired	8,591	9,215
Accrued interest receivable	1,476	2,025
Other assets	1,203	1,557
TOTAL ASSETS	$640,457	$606,726

LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Deposits:		
Non-interest bearing	$ 23,042	$ 21,208
Interest bearing	468,446	447,617
Total Deposits	491,488	468,825
Advances from Federal Home Loan Bank	77,846	77,298
Trust Preferred Securities	9,699	-
Accrued interest payable	520	1,970

Accounts payable and other liabilities	1,299	2,476
Deferred income taxes	1,482	1,565
TOTAL LIABILITIES	582,334	552,134
STOCKHOLDERS' EQUITY:		
Serial preferred stock, 5,000,000 shares authorized and unissued	-	-
Common stock, $1 par value per share; authorized 10,000,000 shares; issued and outstanding, 3,758,000 shares in June and March	3,758	3,758
Additional paid-in capital	18	21
Retained earnings	3,984	50,405
Accumulated other comprehensive income, net of tax	363	408
TOTAL STOCKHOLDERS' EQUITY	58,123	54,592
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$640,457	$606,726

See notes to consolidated financial statements.

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FIRST FEDERAL FINANCIAL CORPORATION OF KENTUCKY
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

	THREE MONTHS ENDED MARCH 31,		NINE MONTH MARCH
	2002	2001	2002
INTEREST INCOME:			
Interest and fees on loans	$10,332	$10,759	$31,888
Interest and dividends on investments and deposits	403	903	1,379
Total interest income	10,735	11,662	33,267
INTEREST EXPENSE:			
Deposits	3,960	5,666	13,610
Federal Home Loan Bank advances	923	1,267	2,806
Total interest expense	4,883	6,933	16,416
Net interest income	5,852	4,729	16,851
Provision for loan losses	415	285	1,175
Net interest income after provision for loan losses	5,437	4,444	15,676
NON-INTEREST INCOME:			
Customer service fees on deposit accounts	849	663	2,277
Secondary mortgage market closing fees	157	117	511
Gain on sale of investments	-	-	-
Brokerage and insurance commissions	141	175	417
Other income	181	157	765
Total non-interest income	1,328	1,112	3,970

NON-INTEREST EXPENSE:			
Employee compensation and benefits	1,874	1,658	5,337
Office occupancy expense and equipment	368	366	1,113
FDIC insurance premium	21	21	64
Marketing and advertising	162	125	425
Outside services and data processing	390	372	1,142
State franchise tax	129	109	343
Amortization of intangibles	208	208	624
Other expense	761	588	2,146
Total non-interest expense	3,913	3,447	11,194
Income before income taxes	2,852	2,109	8,452
Income taxes	927	705	2,796
NET INCOME	$1,925	$1,404	$5,656
Earnings per share:			
Basic	$ 0.51	$ 0.37	$ 1.51
Diluted	$ 0.51	$ 0.37	$ 1.51

See notes to consolidated financial statements.

FIRST FEDERAL FINANCIAL CORPORATION OF KENTUCKY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)
(DOLLARS IN THOUSANDS)

	THREE MONTHS ENDED MARCH 31,		NINE MONTHS ENDE MARCH 31,	
	2002	2001	2002	200
NET INCOME	$1,925	$1,404	$5,656	$4,0
Other comprehensive income (loss), net of tax:				
Change in unrealized gain (loss) on securities	(13)	(21)	(45)	3
Reclassification of realized amount	-	-	-	(4
Net unrealized gain (loss) recognized in Comprehensive income	(13)	(21)	(45)	(1
COMPREHENSIVE INCOME	$1,912	$1,383	$5,611	$3,9

See notes to consolidated financial statements.

FIRST FEDERAL FINANCIAL CORPORATION OF KENTUCKY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED MARCH 31, 2002
(UNAUDITED)
(IN THOUSANDS)

	COMMON STOCK		ADDITIONAL PAID - IN	RETAINED	ACCUM COM
	SHARES	AMOUNT	CAPITAL	EARNINGS	NE
BALANCE, JUNE 30, 2001	3,758	$ 3,758	$ 21	$50,405	
Net income	-	-	-	5,656	
Exercise of stock options	10	10	126	-	
Stock tendered as payment for options exercised	(7)	(7)	(129)		
Net change in unrealized gains (losses) on securities available-for-sale, net of tax	-	-	-	-	
Cash dividends declared ($.54 per share)	-	-	-	(2,030)	
Stock repurchased	(3)	(3)	-	(47)	
BALANCE, MARCH 31, 2002	3,758	$ 3,758	$ 18	$53,984	

See notes to consolidated financial statements.

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FIRST FEDERAL FINANCIAL CORPORATION OF KENTUCKY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(DOLLARS IN THOUSANDS)

	NINE MONTHS ENDED MARCH 31,	
	2002	2001
OPERATING ACTIVITIES:		
Net income	$ 5,656	$ 4,098
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,175	786
Depreciation of premises and equipment	801	841
Federal Home Loan Bank stock dividends	(253)	(281)
Amortization of acquired intangible assets	624	624
Amortization and accretion on securities	(47)	(45)
Gain on sale of investments available-for-sale	-	(696)
Gain on sale of real estate held for development	(10)	(9)
Deferred taxes	(60)	170
Changes in:		
Interest receivable	549	250

Other assets	354	(14)
Interest payable	(1,450)	761
Accounts payable and other liabilities	(1,167)	(595)
Net cash provided by operating activities	6,172	5,890
INVESTING ACTIVITIES:		
Sales of securities available-for-sale	-	708
Purchases of securities available-for-sale	-	(32)
Purchases of securities held-to-maturity	(7,000)	-
Maturities of securities held-to-maturity	23,191	13,244
Net (increase) decrease in loans	1,928	(43,203)
Purchase of Federal Home Loan Bank stock	-	(1,379)
Net purchases of premises and equipment	(661)	(703)
Purchase of real estate held for development	-	(275)
Net cash used in investing activities	17,458	(31,640)
FINANCING ACTIVITIES:		
Net increase in deposits	22,663	40,255
Advances from Federal Home Loan Bank	725	32,590
Repayments to Federal Home Loan Bank	(177)	(33,966)
Proceeds from issuance of trust preferred securities	9,699	-
Dividends paid	(2,030)	(2,028)
Proceeds from stock options exercised	-	8
Common stock repurchased	(50)	(30)
Net cash provided by financing activities	30,830	36,829
INCREASE IN CASH AND CASH EQUIVALENTS	54,460	11,079
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	35,464	14,979
CASH AND CASH EQUIVALENTS, END OF PERIOD	$89,924	$26,058

See notes to consolidated financial statements.

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FIRST FEDERAL FINANCIAL CORPORATION OF KENTUCKY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION - The consolidated financial statements include the accounts of First Federal Financial Corporation of Kentucky (the Corporation) and its wholly owned subsidiary, First Federal Savings Bank of Elizabethtown (the Bank), and its wholly owned subsidiaries, First Service Corp. of Elizabethtown and First Heartland Mortgage Company. All significant intercompany transactions and balances have been eliminated.

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Rule 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included.

Operating results for the nine-month period ending March 31, 2002 are not necessarily indicative of the results that may be expected for the year ended June 30, 2002. For further information, refer to the consolidated financial statements and footnotes thereto included in the Corporation's annual report on Form 10-K for the year ended June 30, 2001.

NEW ACCOUNTING PRONOUNCEMENTS - The Financial Accounting Standards Board issued SFAS No. 141 "Business Combinations" and SFAS No. 142 "Goodwill and Other Intangibles" in June 2001. As a result and effective immediately, the purchase method is the only allowable method for accounting for prospective business combinations. Effective July 1, 2002 for the Corporation, acquisition intangibles must be separated into goodwill and identifiable intangibles. Identifiable intangibles will continue to be amortized while amortization of goodwill will cease. Annual impairment testing will be required for goodwill with impairment charges to be recorded if the carrying amount is in excess of its fair value. The financial statement impact has not yet been determined.

RECLASSIFICATIONS - Certain amounts have been reclassified in the prior financial statements to conform to the current period classifications. The reclassifications have no effect on net income or stockholders' equity as previously reported.

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2. SECURITIES

The amortized cost basis and fair values of securities are as follows:

	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VAL
		(DOLLARS IN THOUSANDS)		
Securities available-for-sale:				
MARCH 31, 2002:				
Equity securities	$ 385	$ 547	$ -	$ 932
Obligation of states and political subdivisions	1,010	8	(5)	1,013
Total available-for-sale	$ 1,395	$ 555	$ (5)	$ 1,945
Securities held-to-maturity:				
MARCH 31, 2002:				
U.S. Treasury and agencies	$ 3,953	$ 64	$ (5)	$ 4,012
Mortgage-backed securities	824	5	(31)	798
Total held-to-maturity	$ 4,777	$ 69	$(36)	$ 4,810

AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VAL

	(DOLLARS IN THOUSANDS)			
Securities available-for-sale:				
JUNE 30, 2001:				
Equity securities	$ 385	$ 617	$ (5)	$ 997
Obligation of states and political Subdivisions	1,010	6	-	1,016
Total available-for-sale	$ 1,395	$ 623	$ (5)	$ 2,013
Securities held-to-maturity:				
JUNE 30, 2001:				
U.S. Treasury and agencies	$19,917	$ 150	$(104)	$19,963
Mortgage-backed securities	1,004	4	(17)	991
Total held-to-maturity	$20,921	$ 154	$(121)	$20,954

3. LOANS RECEIVABLE

Loans receivable are summarized as follows:

	MARCH 31, 2002	JUNE 30, 2001
	(DOLLARS IN THOUSANDS)	
Commercial	$ 19,184	$ 17,844
Real estate commercial	103,374	88,938
Real estate construction	9,805	9,079
Real estate mortgage	316,746	330,488
Consumer and home equity	50,445	54,189
Indirect consumer	19,645	21,822
Total loans	519,199	522,360
Less:		
Net deferred loan origination fees	(1,997)	(2,309)
Allowance for loan losses	(3,497)	(2,906)
	(5,494)	(5,215)
Loans, net	$513,705	$517,145

The following table sets forth the changes in the allowance for loan losses:

	THREE MONTHS ENDED MARCH 31,		NINE MONTHS ENDED MARCH 31,	
	2002	2001	2002	2001
	(DOLLARS IN THOUSANDS)			
Allowance for loan losses:				

Balance, beginning of period	$ 3,284	$ 2,541	$ 2,906	$ 2,252
Provision for loan losses	415	285	1,175	786
Charge-offs	(264)	(122)	(690)	(361)
Recoveries	62	12	106	39
Balance, end of period	$ 3,497	$ 2,716	$ 3,497	$ 2,716

Investment in impaired loans is summarized below. There were no impaired loans for the periods presented without an allowance allocation.

	MARCH 31, 2002	JUNE 30, 2001
	(DOLLARS IN THOUSANDS)	
End of period impaired loans	$3,701	$2,720
Amount of allowance for loan loss allocated	504	268

4. BORROWINGS

Deposits are the primary source of funds for First Federal's lending and investment activities and for its general business purposes. The Bank can also use advances (borrowings) from the FHLB of Cincinnati to supplement its supply of lendable funds, meet deposit withdrawal requirements and to extend the term of its liabilities. Advances from the FHLB are secured by the Bank's stock in the FHLB and substantially all of the Bank's first mortgage loans. At March 31, 2002, the Bank had $77.8 million in advances outstanding from the FHLB and the capacity to increase its borrowings an additional $21.9 million.

5. TRUST PREFERRED SECURITIES

On March 26, 2002, First Federal Statutory Trust I, a trust subsidiary of First Federal Financial Corporation of Kentucky (the "Corporation"), completed the private placement of 10,000 shares of cumulative trust preferred securities with a liquidation preference of $1,000 per security. The proceeds of the offering were loaned to the Corporation in exchange for floating rate junior subordinated deferrable interest debentures. Distributions on the securities are payable quarterly at a rate per annum equal to the 3-month LIBOR plus 3.60%. The Corporation undertook the issuance of these securities to enhance its regulatory capital position. The Corporation intends to utilize the capital for general business purposes and to support the Bank's future opportunities for growth. These securities are considered as Tier I capital for the Corporation under current regulatory guidelines.

6. EARNINGS PER SHARE

Earnings Per Common Share - Basic earnings per common share is net income divided by the weighted average number of common shares outstanding during the period. Diluted earnings per common share include the dilutive effect of additional potential common shares issuable under stock options. A reconciliation of the numerators and denominators of the basic and diluted EPS is as follows:

	THREE MONTHS ENDED MARCH 31,		NINE MONTHS ENDED MARCH 31,	
	2002	2001	2002	2001
	(IN THOUSANDS)			
Net income available to common shareholders	$1,925	$1,404	$5,656	$4,098
Basic EPS:				
Weighted average common shares	3,759	3,755	3,759	3,755
Diluted EPS:				
Weighted average common shares	3,759	3,755	3,759	3,755
Dilutive effect of stock options	18	6	16	7
Weighted average common and incremental shares	3,777	3,761	3,775	3,762
Earnings Per Share:				
Basic	$0.51	$0.37	$1.50	$1.09
Diluted	$0.51	$0.37	$1.50	$1.09

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

First Federal Financial Corporation of Kentucky ("Corporation") is the holding company for its wholly owned subsidiary, First Federal Savings Bank of Elizabethtown ("Bank"). The Bank has operations in the Kentucky communities of Elizabethtown, Radcliff, Bardstown, Munfordville, Shepherdsville, Mt. Washington, Brandenburg, Flaherty, and Hillview. The Bank's activities include the acceptance of deposits for checking, savings and time deposit accounts, making secured and unsecured loans, investing in securities and trust services. The Bank's lending services include the origination of real estate, commercial and consumer loans. Operating revenues are derived primarily from interest and fees on domestic real estate, commercial and consumer loans, and from interest on securities of the United States Government and Agencies, states, and municipalities. The primary regulator for the Bank is the Office of Thrift Supervision (OTS).

The following discussion and analysis covers any significant changes in the financial condition since June 30, 2001 and any material changes in the results of operations for the three-month and nine-month periods ending March 31, 2002. This discussion and analysis should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in the 2001 Annual Report to Shareholders.

PRELIMINARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Statements contained in this report that are not statements of historical fact constitute forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. In addition, the Corporation may make forward-looking statements in future filings with the Securities and Exchange Commission, in press releases, and in oral and written statements. Forward-looking statements include, but are not limited to: (1) projections of revenues, income or loss, earnings or loss per share, capital structure and other financial items; (2) statements of plans and objectives of the Corporation or its management or Board of Directors; (3) statements regarding future events, actions or economic performance; and (4) statements of assumptions underlying such statements. Words such as "believes," "anticipates," "expects," "intends," "plans," "targeted," and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

Forward-looking statements involve risks and uncertainties that may cause actual results to differ materially from those indicated by such statements. Some of the events or circumstances that could cause actual results to differ from those indicated by forward-looking statements include, but are not limited to, changes in economic conditions in the markets served by the Corporation, in Kentucky and the surrounding region, or in the nation as a whole; changes in interest rates; the impact of legislation and regulation; the Corporation's ability to offer competitive banking products and services; competition from other providers of financial services, the continued growth of the markets in which the Corporation operates; and the Corporation's ability to expand into new markets and to maintain profit margins in the face of pricing pressure. All of these events and circumstances are difficult to predict and many of them are beyond the Corporation's control, and readers are cautioned not to place undue reliance on the forward-looking statements in this report. The forward-looking statements speak as of the date of this report, and the Corporation makes no undertaking to update the forward-looking statements in this report to reflect developments after the date of this report.

OVERVIEW

Net income for the quarter ended March 31, 2002 was $1.9 million or $0.51 per share diluted compared to $1.4 million or $0.37 per share diluted for the same period in 2001. The rise in the Bank's net interest margin is the largest contributing factor to the 37% growth in earnings for the three-month comparative periods.

Net income for the nine months ended March 31, 2002 was $5.7 million or $1.51 per share diluted compared to $4.1 million or $1.09 per share diluted for the same period in 2001. In January 2001, the Bank restructured $75 million of its Federal Home Loan Bank advances from overnight to 10 year maturities to secure financing at lower interest rates. Management expects that the restructuring of advances coupled with the Federal Open Market Committee's interest rate reductions will continue to have a positive impact on future earnings. The Bank's book value per common share increased from $14.28 at March 31, 2001 to $15.47 at March 31, 2002. Net income for the 2002 period generated return on average assets of 1.23% and return of average equity of 13.34%. These compare with return on average assets of .93% and return on average equity of 10.35% for the 2001 period.

The Bank's total assets at March 31, 2002 grew to $640.5 million compared to $606.7 million at June 30, 2001. Net loans decreased $3.4 million from June 30, 2001 to $513.7 million at March 31, 2002. Residential real estate loans decreased during the 2002 period as declining market interest rates caused an increase in 1-4 family refinancing activity into fixed-rate, secondary market loan products. The commercial real estate portfolio remained strong, increasing

by $14.4 million to $103.4 million at March 31, 2002. This growth is a result of the Bank's continued emphasis on the active pursuit of commercial lending opportunities. While overall loan volume remained strong, the percentage of non-performing loans to total loans remained low at 0.25%, as the Bank maintained its underwriting standards and continued its emphasis on secured real estate lending.

Funding for the growth in the commercial real estate portfolio was derived from deposits. Deposits increased by $22.7 million to $491.5 million as of March 31, 2002 compared to $468.8 million at June 30, 2001. The growth in retail deposits was primarily in savings and money market accounts caused in part by a general shift during recent quarters in funds from the stock market to more conservative investments such as bank deposits. FHLB advances increased from $77.3 million at June 30, 2001 to $77.8 million at March 31, 2002.

RESULTS OF OPERATIONS

NET INTEREST INCOME- The principal source of the Bank's revenue is net interest income. Net interest income is the difference between interest income on interest-earning assets, such as loans and securities and the interest expense on liabilities used to fund those assets, such as interest-bearing deposits and borrowings. Net interest income is impacted by both changes in the amount and composition of interest-earning assets and interest-bearing liabilities as well as market interest rates.

For the quarter ended March 31, 2002, net interest income was $5.8 million, up $1.1 million from the $4.7 million attained during the 2001 quarter. The Bank was able to increase its net interest income through an improved interest rate margin compared to 2001. The Bank's net interest margin increased from 3.32% during the quarter ended March 31, 2001 to 3.96% for the 2002 period. The net interest rate spread increased from 2.93% during the 2001 quarter to 3.63% in the comparable quarter of 2002. The net interest spread and margin benefited from a significant decline in the Bank's cost of funds due to a reduction in short-term market interest rates by the Federal Reserve. During the 2002 period, average interest-earning assets were $591.5 million, an increase of $21.9 million over the same period in 2001. Total average interest bearing liabilities increased from $527.5 million during the quarter ended March 31, 2001 to $538.7 million for the same period in 2002.

Net interest income for the nine months ended March 31, 2002 was $16.9 million, an increase of $3.8 million from the $13.1 million attained during the same period of 2001. The Bank's net interest spread increased 76 basis points while the net interest margin increased 72 basis points for the nine months ended March 31, 2002 compared to the same period in 2001. The increase in net interest income resulted from the Federal Reserve decreasing short-term interest rates throughout 2001. All categories of interest income and interest expense experienced a reduction due to rate. Because the Bank's interest bearing liabilities generally have a shorter repricing frequency than its interest earning assets, the overall effect to the Bank was an increase in net interest income due to an improved spread during 2002.

AVERAGE BALANCE SHEET

The following table provides detailed information as to average balance, interest income/expense, and rates by major balance sheet categories for the three months ended March 31, 2002 and 2001.

	THREE MONTHS ENDED MARCH 31,
	2002

	AVERAGE BALANCE	INTEREST	AVERAGE YIELD/COST	AVERAGE BALANCE
ASSETS			(DOLLARS IN THOUSANDS)	
Interest earning assets:				
Equity securities	$ 945	$ 7	2.96%	$ 935
State and political subdivision securities (1)	1,014	18	7.10	997
U.S. Treasury and agencies	4,730	72	6.09	38,656
Mortgage-backed securities	810	11	5.43	1,037
Loans receivable (2) (3)	520,816	10,332	7.94	516,392
FHLB stock	6,048	67	4.43	5,666
Interest bearing deposits	57,183	234	1.64	5,959
TOTAL INTEREST EARNING ASSETS	591,546	10,741	7.26	569,642
Less: Allowance for loan losses	(3,361)			(2,641)
Non-interest earning assets	34,520			37,493
TOTAL ASSETS	$622,705			$604,494
LIABILITIES AND STOCKHOLDERS' EQUITY				
Interest bearing liabilities:				
Savings accounts	$62,122	$ 369	2.38%	$33,151
NOW and money market accounts	100,555	360	1.43	80,509
Certificates of deposit and other time deposits	297,976	3,223	4.33	314,915
FHLB Advances	77,535	923	4.76	98,957
Trust Preferred Securities	555	8	5.77	-
TOTAL INTEREST BEARING LIABILITIES	538,743	4,883	3.63	527,532
Non-interest bearing liabilities:				
Non-interest bearing deposits	21,660			17,982
Other liabilities	4,563			5,558
TOTAL LIABILITIES	564,966			551,072
Stockholders' equity	57,739			53,422
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$622,705			$604,494
NET INTEREST INCOME		$5,858		
NET INTEREST SPREAD			3.63%	
NET INTEREST MARGIN			3.96%	

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(1) Taxable equivalent yields are calculated assuming a 34% federal income tax rate.
(2) Includes loan fees, immaterial in amount, in both interest income and the calculation of yield on loans.
(3) Calculations include non-accruing loans in the average loan amounts outstanding.

AVERAGE BALANCE SHEET

The following table provides detailed information as to average balance, interest income/expense, and rates by major balance sheet categories for the nine months ended March 31, 2002 and 2001.

	NINE MONTHS ENDED MARCH 31			
	2002			
	AVERAGE BALANCE	INTEREST	AVERAGE YIELD/COST	AVERAGE BALANCE
ASSETS	(DOLLARS IN THOUSANDS)			
Interest earning assets:				
Equity securities	$ 958	$ 24	3.34%	$ 1,029
State and political subdivision securities (1)	1,021	53	6.92	970
U.S. Treasury and agencies	8,065	387	6.40	40,591
Mortgage-backed securities	884	43	6.48	1,152
Loans receivable (2) (3)	524,022	31,888	8.11	500,234
FHLB stock	5,957	253	5.66	5,101
Interest bearing deposits	40,204	637	2.11	4,976
TOTAL INTEREST EARNING ASSETS	581,111	33,285	7.64	554,053
Less: Allowance for loan losses	(3,155)			(2,449)
Non-interest earning assets	35,669			37,318
TOTAL ASSETS	$613,625			$588,922
LIABILITIES AND STOCKHOLDERS' EQUITY				
Interest bearing liabilities:				
Savings accounts	$47,701	$ 791	2.21%	$33,791
NOW and money market Accounts	93,606	1,377	1.96	78,984
Certificates of deposit and other time deposits	310,058	11,434	4.92	304,007
FHLB Advances	77,684	2,806	4.82	95,727
Trust Preferred Securities	185	8	5.77	-
TOTAL INTEREST BEARING LIABILITIES	529,234	16,416	4.14	512,509
Non-interest bearing liabilities:				
Non-interest bearing deposits	21,999			17,806
Other liabilities	5,859			5,808
TOTAL LIABILITIES	557,092			536,123
Stockholders' equity	56,533			52,799
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$613,625			$588,922

NET INTEREST INCOME	$16,869	
NET INTEREST SPREAD		3.50%
NET INTEREST MARGIN		3.87%

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(1) Taxable equivalent yields are calculated assuming a 34% federal income tax rate.
(2) Includes loan fees, immaterial in amount, in both interest income and the calculation of yield on loans.
(3) Calculations include non-accruing loans in the average loan amounts outstanding.

RATE/VOLUME ANALYSIS

The table below sets forth certain information regarding changes in interest income and interest expense of the Bank for the periods indicated. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to (1) changes in rate (changes in rate multiplied by old volume); (2) changes in volume (change in volume multiplied by old rate); and (3) changes in rate-volume (change in rate multiplied by change in volume). Changes in rate-volume are proportionately allocated between rate and volume variance.

(DOLLARS IN THOUSANDS)	THREE MONTHS ENDED MARCH 31, 2002 VS. 2001 INCREASE (DECREASE) DUE TO CHANGE IN			NIN 2 INCR DUE
	RATE	VOLUME	NET CHANGE	RATE
INTEREST INCOME:				
Loans	$(519)	$ 92	$(427)	$(742)
Equity securities	(1)	-	(1)	-
State and political subdivision securities	1	-	1	-
U.S. Treasury and agencies	(104)	(534)	(638)	(116)
Mortgage-backed securities	(4)	(4)	(8)	(7)
FHLB stock	(41)	7	(34)	(71)
Interest bearing deposits	(45)	225	180	(80)
TOTAL INTEREST EARNING ASSETS	(713)	(214)	(927)	(1,016)
INTEREST EXPENSE:				
Savings accounts	(31)	175	144	(301)
NOW and money market accounts	(305)	115	(190)	(394)
Certificates of deposit and other time deposits	(1,417)	(251)	(1,668)	(2,844)
FHLB advances	(84)	(260)	(344)	(825)
Trust Preferred Securities	-	8	8	-
TOTAL INTEREST BEARING LIABILITIES	(1,837)	(213)	(2,050)	(4,364)

NET CHANGE IN NET INTEREST INCOME	$ 1,124	$ (1)	$ 1,123	$ 3,348

NON-INTEREST INCOME-Non-interest income was $1.3 million for the quarter ended March 31, 2002, as compared to $1.1 million for the 2001 period, an increase of $216,000. Fee income from secondary market lending operations increased by $40,000 or 34% during the 2002 period compared to 2001 due to increased secondary market residential loan originations from a higher level of refinancing activity. Customer service fees charged on deposit accounts increased by $186,000 or 28% during the 2002 quarter due to growth in fee-related customer transactions and deposit relationships with existing customers. Service charges on deposit accounts were positively affected by the Bank's new "Powerdraft" program. The "Powerdraft" program permits selected clients to overdraft their accounts up to $600 for the Bank's customary fee. At March 31, 2002, the Bank had nearly 14,000 accounts eligible for the "Powerdraft" program. Other sources of income such as loan fees and other customer transaction fees also increased during the 2001 period as compared to the 2000 period.

Non-interest income was $4.0 million for the nine months ended March 31, 2002, as compared to $3.9 million for the same period last year. During the March 2002 period the Bank did not report any gains from investment sales compared to reported gains of $696,000 for the 2001 period. Fee income from secondary market lending operations increased by $168,000 or 49% during the 2002 period compared to 2001. Customer service fees charged on deposit accounts increased by $415,000 or 22% during the 2002 period due to the Bank's continued efforts to expand its product line and the implementation of the new overdraft payment policy.

NON-INTEREST EXPENSE- Non-interest expense increased during the quarter and nine-month period ended March 31, 2002 compared to the same period in 2001. The most significant factors comprising the increase in non-interest expense for the quarter and nine-months ended March 31, 2002 were increases in employee compensation and benefits, data processing expense and other expense.

Compensation and employee benefits, the largest component of non-interest expense, increased $216,000 for the 2002 quarter compared to the 2001 quarter, and $611,000 for the nine months ended March 31, 2002 compared to March 31, 2001. The increase reflects growth in the overall staffing level from 196 full-time equivalent employees at M arch 31, 2001 to 217 full-time equivalent employees at March 31, 2002. The Bank's continued emphasis on building its commercial and retail staff to reflect its commercial bank philosophy was the largest contributing factor.

Data processing expense increased for both the three and nine months ended March 31, 2002 due to an increase in processor charges relating to an increase in the number of users, training expenses, the implementation of cash management, internet banking and the creation of the Bank's new imaging department. Other expense increased during the 2002 period including postage, stationary and supplies and customer account expenses.

ALLOWANCE AND PROVISION FOR LOAN LOSSES

The allowance for loan losses is regularly evaluated by management and maintained at a level that is considered sufficient to absorb probable incurred credit losses existing in the loan portfolio. Periodic provisions to the allowance are made as needed. An appropriate level of the general allowance is determined based on the application of projected risk percentages to graded loans by categories. In addition, specific reserves are established for individual loans when deemed necessary by management. The amount of the

provision for loan losses necessary to maintain an adequate allowance is based upon an assessment of loan quality, changes in the size and character of the loan portfolio, consultation with regulatory authorities, delinquency trends, economic conditions, industry trends, historical charge-offs, recoveries, and other information. Management is monitoring the commercial real estate loan portfolio closely, recognizing that commercial real estate loans carry a greater risk of loss than residential real estate loans, and believes it has, based on information presently available, adequately provided for loan losses at March 31, 2002. Although management believes it uses the best information available to make allowance provisions, future adjustments, which could be material, may be necessary if management's assumptions differ significantly from the loan portfolio's actual performance.

The provision for loan losses was $415,000 for the three months ended March 31, 2002 compared to $285,000 for the 2001 quarter. The provision for loan losses also increased for the nine months ended March 31, 2002 to $1.2 million compared to $786,000 for the 2001 period. The total allowance for loan losses increased $781,000 to $3.5 million for March 31, 2001 as compared to $2.7 million at March 31, 2002. Management increased the provision and allowance for loan losses due to the increase in non-performing loans and charge-offs for the period, continued strong growth in commercial real estate lending and the generally recognized slowing in the U.S. economy. Net loan charge-offs increased $92,000 to $202,000 for the three months ended March 31, 2002 compared to $110,000 for the same period in 2001. Net loan charge-offs also increased for the nine months ended March 31, 2002 to $584,000 compared to $322,000 for the same period in 2001. The increase in charge-offs is primarily related to charge-offs of indirect consumer loans and commercial real estate loans during the 2002 period.

The following table sets forth an analysis of the Bank's loan loss experience for the three and nine months ended March 31, 2002 and 2001.

	THREE MONTHS ENDED MARCH 31,		NINE MONTHS ENDED MARCH 31,	
	2002	2001	2002	2001
	(DOLLARS IN THOUSANDS)			
Balance-beginning of period	$3,284	$2,541	$2,906	$2,252
Loans charged-off:				
Real estate mortgage	-	-	-	(2)
Consumer	(156)	(122)	(434)	(359)
Commercial	(108)	-	(256)	-
Total charge-offs	(264)	(122)	(690)	(361)
Recoveries:				
Real estate mortgage	1	2	6	2
Consumer	31	10	63	37
Commercial	30	-	37	-
Total recoveries	62	12	106	39
Net loans charged-off	(202)	(110)	(584)	(322)
Provision for loan losses	415	285	1,175	786

Balance-end of period	$3,497	$2,716	$3,497	$2,716
Net charge-offs to average loans outstanding			.11%	.064%
Allowance for loan losses to total non-performing loans			271%	368%
Allowance for loan losses to to net loans outstanding			.68%	.53%

Federal regulations require insured institutions to classify their own assets on a regular basis. The regulations provide for three classifications of asset categories -- substandard, doubtful and loss. The regulations also contain a special mention category, defined as assets which do not currently expose an insured institution to a sufficient degree of risk to warrant classification but do possess credit deficiencies or potential weaknesses deserving management's close attention. Assets classified as substandard or doubtful require the institution to establish general allowances for loan losses. If an asset or portion thereof is classified as loss, the insured institution must either establish specified allowances for loan losses in the amount of 100% of the portion of the asset classified loss, or charge off such amount. At March 31, 2002, on the basis of management's review of the Bank's loan portfolio, the Bank had $3.7 million of assets classified substandard, $176,000 of assets classified as doubtful and $92,000 of assets classified as loss.

The amount of the loan loss allowance is based on the percentage of each classified loan considered to be at risk, based on the following ranges: Substandard-2.5% to 35%; Doubtful-5% to 50%; Loss-100%; and Special Mention-2% to 6%. The risk percentages are developed by the Bank in consultation with regulatory authorities, actual loss experience, peer group loss experience and are adjusted for current economic conditions. The risk percentages are considered a prudent measurement of the risk of the Bank's loan portfolio. Such risk percentages are applied to individual loans based on loan type.

NON-PERFORMING ASSETS

The Bank's non-performing assets consist of loans on which interest is no longer accrued, real estate acquired through foreclosure and repossessed assets. The Bank does not have any loans greater than 90 days past due still on accrual. Loans considered impaired under SFAS 114 are included in non-performing loans. However, at March 31, 2002, a potential problem loan, approximately $2.4 million, still considered by the Bank to be impaired, was not included in the non-performing asset table below due to the terms of the loan being renegotiated and currently being met by the borrower. Loans are considered impaired if full principal or interest payments are not anticipated in accordance with the contractual loan terms. An impaired loan is carried at the present value of expected future cash flows discounted at the loan's effective interest rate or at the fair value of the collateral if the loan is collateral dependent. A portion of the allowance for loan losses is allocated to impaired loans if the value of such loans is less than the unpaid balance. If these allocations require an increase to the allowance for loan losses, such increase is reported in the provision for loan losses.

Loans are reviewed on a regular basis and normal collection procedures are implemented when a borrower fails to make a required payment on a loan. If the delinquency on a mortgage loan exceeds 90 days and is not cured through normal collection procedures or an acceptable arrangement is not worked out with the

borrower, the Bank institutes measures to remedy the default, including commencing a foreclosure action. Consumer loans generally are charged off when a loan is deemed uncollectible by management and any available collateral has been liquidated. Commercial business and real estate loan delinquencies are handled on an individual basis by management with the advice of the Bank's legal counsel. Management does not consider the overall increase in non-performing assets during the period to be material or indicative of any adverse change in overall asset quality. The Bank anticipates that the increase in non-performing loans will continue due to the growth of the Bank's loan portfolio.

Interest income on loans is recognized on the accrual basis except for those loans in a nonaccrual of income status. The accrual of interest on impaired loans is discontinued when management believes, after consideration of economic and business conditions and collection efforts that the borrowers' financial condition is such that collection of interest is doubtful. When interest accrual is discontinued, interest income is subsequently recognized only to the extent cash payments are received.

Real estate acquired by the Bank as a result of foreclosure or by deed in lieu of foreclosure is classified as real estate owned until such time as it is sold. When such property is acquired it is recorded at the lower of the unpaid principal balance of the related loan or its fair market value. Any write-down of the property is charged to the allowance for loan losses. The following table presents information with respect to the Bank's non-performing assets for the periods indicated.

	MARCH 31, 2002	JUNE 30, 2001
	(DOLLARS IN THOUSANDS)	
Past due 90 days still on accrual	$ -	$ -
Loans on non-accrual status (1)(2)	1,292	2,720
Real estate acquired through foreclosure	578	296
Repossessed assets	125	70
Total non-performing assets	$1,995	$3,086
Ratios: Non-performing loans to loans	.25%	.52%
Non-performing assets to total assets	.31%	.51%

(1) Loans on non-accrual status include impaired loans, except for a potential problem loan of $2.4 million.

(2) The interest income that would have been earned and received on non-accrual loans was approximately $79,000 for the nine month period ending March 31, and 227,000 for the year ending June 30.

LIQUIDITY

The Bank maintains sufficient liquidity to fund loan demand and routine deposit withdrawal activity. The Bank's primary source of funds for meeting its liquidity needs are customer deposits, borrowings from the Federal Home Loan Bank, principal and interest payments from loans and securities maturities, and earnings from operations retained by the Bank. The Bank intends to continue to fund loan growth (outstanding loan commitments were $1.3 million at March 31, 2002) with customer deposits and additional advances from the FHLB. While the

Bank utilizes other funding sources in order to meet its liquidity needs, FHLB borrowings remain a material component of management's balance sheet strategy. Also, proceeds of trust preferred securities held by the Corporation are available if needed. At March 31, 2002, the Bank had an unused approved line of credit in the amount of $40 million and sufficient collateral to borrow an additional $21.9 million in advances from the FHLB.

CAPITAL

Regulatory agencies measure capital adequacy within a framework that makes capital requirements, in part, dependent on the individual risk profiles of financial institutions. The Bank continues to exceed the regulatory requirements for Tier I, Tier I leverage and total risk-based capital. The Corporation intends to maintain a capital position that meets or exceeds the "well capitalized" requirements as defined by the FDIC. The Bank's average stockholders' equity to average assets ratio was 9.21% year to date March 31, 2002 compared to 8.97% at June 30, 2001. The Bank's actual and required capital amounts and ratios at March 31, 2002 are presented below:

	ACTUAL		FOR CAPITAL ADEQUACY PURPOSES	
AS OF MARCH 31, 2002:	AMOUNT	RATIO	AMOUNT	RATIO
Total risk-based capital (to risk-weighted assets)	$51,585	11.6%	$35,431	8.0%
Tier I capital (to risk-weighted assets)	47,847	10.8	17,715	4.0
Tier I leverage capital (to average assets)	47,847	7.7	24,908	4.0

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

To minimize the volatility of net interest income and exposure to economic loss that may result from fluctuating interest rates, the Bank manages its exposure to adverse changes in interest rates through asset and liability management activities within guidelines established by its Asset Liability Committee ("ALCO"). The ALCO, which includes senior management representatives, has the responsibility for approving and ensuring compliance with asset/liability management polices of the Corporation. Interest rate risk is the exposure to adverse changes in the net interest income as a result of market fluctuations in interest rates. The ALCO, on an ongoing basis, monitors interest rate and liquidity risk in order to implement appropriate funding and balance sheet strategies. Management considers interest rate risk to be the Bank's most significant market risk.

The Bank utilizes an earnings simulation model to analyze net interest income sensitivity. Potential changes in market interest rates and their subsequent effects on net interest income are then evaluated. The model projects the effect of instantaneous movements in interest rates of both 100 and 200 basis points. Assumptions based on the historical behavior of the Bank's deposit rates and balances in relation to changes in interest rates are also incorporated into the model. These assumptions are inherently uncertain and, as a result, the model cannot precisely measure future net interest income or precisely predict the impact of fluctuations in market interest rates on net interest income. Actual results will differ from the model's simulated results due to timing, magnitude and frequency of interest rate changes as well as changes in market conditions and the application and timing of various management strategies.

The Bank's interest sensitivity profile changed from June 30, 2001 to March 31, 2002. Given a sustained 100 basis point downward shock to the yield curve used in the simulation model, the Bank's base net interest income would increase by an estimated 3.92% at June 30, 2001 compared to an increase of .88% at March 31, 2002. Given a 100 basis point increase in the yield curve the Bank's base net interest income would decrease by an estimated 4.30% at June 30, 2001 compared to a decrease of 4.09% at March 31, 2002.

The interest sensitivity profile of the Bank at any point in time will be affected by a number of factors. These factors include the mix of interest sensitive assets and liabilities as well as their relative pricing schedules. It is also influenced by market interest rates, deposit growth, loan growth, and other factors. The table below is representative only and is not a precise measurement of the effect of changing interest rates on the Bank's net interest income in the future.

	MARCH 31, 2002			
	DECREASE IN RATES			
	200 BASIS POINTS	100 BASIS POINTS	BASE	BA
	(Dollars in thousands)			
PROJECTED INTEREST INCOME				
Loans	$35,350	$37,505	$39,297	$
Investments	2,102	2,123	2,350	
TOTAL INTEREST INCOME	37,452	39,628	41,647	
PROJECTED INTEREST EXPENSE				
Deposits	11,095	13,034	15,031	
Borrowed funds	3,728	3,809	4,030	
TOTAL INTEREST EXPENSE	14,823	16,843	19,061	
NET INTEREST INCOME	$22,629	$22,785	$22,586	$
Change from base	$43	$199		
% Change from base	.19%	.88%		

	JUNE 30, 2001			
	DECREASE IN RATES			
	200 BASIS POINTS	100 BASIS POINTS	BASE	BAS
	(Dollars in thousands)			
PROJECTED INTEREST INCOME				
Loans	$40,259	$41,873	$43,221	$
Investments	2,068	2,184	2,271	
TOTAL INTEREST INCOME	42,327	44,057	45,492	
PROJECTED INTEREST EXPENSE				
Deposits	16,858	19,092	21,326	
Borrowed funds	3,734	3,735	3,736	

TOTAL INTEREST EXPENSE	20,592	22,827	25,062	
NET INTEREST INCOME	$21,735	$21,230	$20,430	$
Change from base	$1,305	$800		
% Change from base	6.39%	3.92%		

FIRST FEDERAL FINANCIAL CORPORATION OF KENTUCKY

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

Although the Bank is, from time to time, involved in various legal proceedings in the normal course of business, there are no material pending legal proceedings to which the Corporation, the Bank, or its subsidiaries is a party, or to which any of their property is subject.

Item 2. Changes in Securities
Not Applicable

Item 3. Defaults Upon Senior Securities
Not Applicable

Item 4. Submission of Matters to a Vote of Security Holders
Not Applicable

Item 5. Other Information
None

Item 6. Exhibits: None
Reports on Form 8-K: None

FIRST FEDERAL FINANCIAL CORPORATION OF KENTUCKY

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

DATE: May 14, 2002 BY: (S) B. Keith Johnson

B. Keith Johnson
President and Chief Executive Officer

DATE: May 14, 2002 BY: (S) Charles E. Chaney

Charles E. Chaney
Senior Vice President
Chief Operating Officer