FORM 10-K405

Annual report pursuant to section 13 and 15(d), Regulation S-K Item 405

Filing Date: **1996-12-30** | Period of Report: **1996-09-30**
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FILER

HARRODSBURG FIRST FINANCIAL BANCORP INC

CIK:**946738**| IRS No.: **611284899** | State of Incorp.:**DE** | Fiscal Year End: **0930**
Type: **10-K405** | Act: **34** | File No.: **000-26570** | Film No.: **96687494**
SIC: **6035** Savings institution, federally chartered

Mailing Address
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HARRODSBURG KY 40330

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6067345452

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K
(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

For the fiscal year ended September 30, 1996

- or -

|_| TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

For the transition period from ____________________________ to _________________

Commission Number: 0-26570

HARRODSBURG FIRST FINANCIAL BANCORP, INC.
(Exact name of Registrant as specified in its Charter)

Delaware	61-1284899
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
104 South Chiles Street, Harrodsburg, Kentucky	40330-1620
(Address of principal executive offices)	Zip Code

Registrant's telephone number, including area code: (606) 734-5452

Securities registered pursuant to Section 12(b) of the Act: None

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

Common Stock, par value $.10 per share
(Title of Class)

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 by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

The aggregate market value of the voting stock held by non-affiliates of the Registrant, based on the average bid price of the Registrant's Common Stock as quoted on the National Association of Securities Dealers, Inc., Automated Quotations System on December 9, 1996, was $30.7 million (1,683,650 shares at $18.25 per share).

As of December 9, 1996 there were issued and outstanding 2,047,933 shares of the Registrant's Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the Annual Report to Stockholders for the Fiscal Year Ended September 30, 1996. (Parts I, II and IV)

2. Portions of the Proxy Statement for the 1997 Annual Meeting of Stockholders. (Part III)

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<TABLE>
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PART I

Item 1. Business

General

Harrodsburg First Financial Bancorp, Inc. (the "Company") is a Delaware corporation organized in June 1995 at the direction of First Federal Savings Bank of Harrodsburg (the "Bank" or "First Federal") to acquire all of the capital stock that the Bank issued upon its conversion from the mutual to stock form of ownership. On September 29, 1995, the Bank completed its conversion and became a wholly owned subsidiary of the Company.

The Company is a unitary savings and loan holding company which, under existing laws, generally is not restricted in the types of business activities in which it may engage provided that the Bank retains a specified amount of its assets in housing-related investments.

First Federal is a federally chartered stock savings bank headquartered in Harrodsburg, Kentucky. The Bank attracts deposits from the general public and uses such deposits primarily to originate loans secured by first mortgages on one- to four-family residences located in its market area. Such loans totaled $64.3 million, or 80.18%, of the Bank's total loan portfolio at September 30, 1996. The Bank originates and retains adjustable-rate loans as well as, to a lesser extent, fixed-rate loans for its mortgage loan portfolio. The Bank has not sold mortgage loans into the secondary market during the past five years. In addition, the Bank originates multi-family, commercial and agricultural real estate loans, which represented $9.1 million or 11.40%, of the total loan portfolio at September 30, 1996. These loans were primarily secured by apartment buildings, office buildings, churches, farms and other properties. The Bank also offers construction loans which represented $3.9 million or 4.85% of the total loan portfolio at September 30, 1996. These loans are primarily secured by residential properties and become permanent loans of the Bank upon completion of the construction. The Bank offers consumer loans, which totaled $2.9 million, or 3.57% of the total loan portfolio at September 30, 1996. These loans consist primarily of home equity loans secured by second mortgages, loans secured by savings deposits, and personal loans which are either secured or unsecured.

In addition to interest-earning deposits with the Federal Home Loan Bank ("FHLB") of Cincinnati, the Bank maintains an investment securities portfolio consisting of FHLB stock and Federal Home Loan Mortgage Corporation ("FHLMC") capital stock, Government agency-backed bonds and mortgage-backed securities. See Note 2 of the Notes to Consolidated Financial Statements.

The principal sources of funds for the Bank's lending activities are deposits, and the amortization, repayment, and maturity of loans and investment securities. Principal sources of income are interest on loans, interest-earning deposits and to a lesser extent investment securities. The Bank's principal expense is interest paid on deposits.

Market Area

The Bank's primary market area consists of Mercer and Anderson Counties, Kentucky. This area is primarily rural with a large amount of agri-business. The primary lending concentration is in the Bank's market area, an area mainly comprised of the cities of Harrodsburg and Lawrenceburg which have

populations of approximately 7,795 and 5,911, respectively. Historically, the economy in the Bank's market area has been dependent on agriculture, agriculture related industries and manufacturing. Tourism is the second largest industry in Mercer County, next to agriculture. The largest employers in the market area are Hitachi Automotive, Trim Masters, Corning, Inc. and Bay West Paper.

Economic growth in the Bank's market area remains dependent upon the local economy. In addition, the deposit and loan activity of the Bank is significantly affected by economic conditions in its market area.

Competition

The Bank is one of ten financial institutions serving its immediate market area. The competition for deposit products comes from seven commercial banks in the Bank's market area, and two credit unions. Deposit competition also includes a number of insurance products sold by local agents and investment products such as mutual funds and other securities sold by local and regional brokers. Loan competition varies depending upon market conditions. Loan competition comes from commercial banks in the Bank's market area, credit unions, and mortgage bankers who serve the area.

First Federal has traditionally maintained a competitive position in mortgage loan originations and market share throughout its service area by virtue of its local presence and its involvement in the community. The Bank believes that it has been able to effectively market its loans and other financial products and services when compared to other local-based institutions and its superior customer service when compared to other institutions and mortgage bankers based outside of the Bank's market area.

Lending Activities

General. The Bank's loan portfolio predominantly consists of mortgage loans secured by single family residences. First Federal also makes commercial real estate, multi-family real estate, agricultural, residential construction and consumer loans.

Analysis of Loan Portfolio. The following table sets forth information concerning the composition of the Bank's loan portfolio in dollar amounts and in percentages of the total loan portfolio (before deductions for loans in process, deferred loan origination fees and costs and allowance for loan losses) as of the dates indicated.
<TABLE>
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	At September 30,			
	1996		1995	
	Amount	Percent	Amount	Percent
Type of Loans:	(Dollars in Thousands)			
Real Estate:				
One-to four-family residential................	$64,304	80.18%	$62,364	81.07%
Multi-family..................................	3,559	4.44	3,053	3.97
Agricultural..................................	2,352	2.93	2,654	3.45
Commercial....................................	3,228	4.03	3,116	4.05
Construction..................................	3,891	4.85	1,979	2.57
Consumer:				
Savings account...............................	407	.51	621	.81
Home equity...................................	1,279	1.59	1,314	1.71
Other(1)......................................	1,177	1.47	1,826	2.37
Total loans receivable.....................	80,197	100.00%	76,927	100.00%
Less:				
Loans in process..............................	2,168		975	
Deferred loan origination fees and costs, net...............................	229		219	
Allowance for loan losses.....................	297		297	
Unearned discounts............................	1		2	
Loans receivable, net............................	$77,502		$75,434	

</TABLE>

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(1) Includes home improvement and personal loans.

The Bank primarily originates loans for retention in its portfolio and has not purchased or sold loans during the past two years.

Loan Maturity Tables

The following table sets forth the maturity of the Bank's loan portfolio at September 30, 1996. The table does not include prepayments or scheduled principal repayments. Prepayments and scheduled principal repayments on loans totaled $15.9 million, $13.1 million and $14.9 million, for the three years ended September 30, 1996, 1995 and 1994, respectively. Adjustable-rate mortgage loans are shown as maturing based on contractual maturities.

<TABLE>
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	1-4 Family Residential	Multi-Family, Agricultural and Commercial	Construction	Consumer	Total
	(In Thousands)				
Non-performing............	$567	$ 58	$ --	$ 241	$ 866
Amounts Due:					
Within 3 months.........	1	--	--	808	809
3 months to 1 year......	17	46	--	480	543
Total due within one year	18	46	--	1,288	1,352
After 1 year:					
1 to 3 years............	420	61	--	16	497

3 to 5 years...........	1,079	100	--	51	1,230
5 to 10 years..........	6,531	1,128	--	373	8,032
10 to 20 years.........	34,393	5,462	285	894	41,034
Over 20 years..........	21,296	2,284	3,606	--	27,186
Total due after one year..	63,719	9,035	3,891	1,334	77,979
Total amount due.........	$64,304	$9,139	$3,891	$2,863	80,197
Less:					
Allowance for loan losses					297
Loans in process..........					2,168
Unearned discounts........					1
Deferred loan fees........					229
Loans receivable, net.					$77,502

</TABLE>

The following table sets forth the dollar amount of all loans due after September 30, 1997, which have pre-determined (or fixed) interest rates and which have floating or adjustable interest rates.

<TABLE>
<CAPTION>

<S>	Fixed Rates <C>	Floating or Adjustable Rates (In Thousands) <C>	Total <C>
One-to four-family residential............	$11,574	$52,145	$63,719
Multi-family, agriculture and commercial...	434	8,601	9,035
Construction..............................	756	3,135	3,891
Consumer..................................	16	1,318	1,334
Total..................................	$12,780	$65,199	$77,979

</TABLE>

One- to Four-Family Residential Loans. The Bank's primary lending activity consists of the origination of one- to four-family residential mortgage loans secured by property located in the Bank's primary market area. The Bank generally originates one- to four-family residential mortgage loans without private mortgage insurance in amounts up to 85% of the lesser of the appraised value or selling price of the mortgaged property. Loans in excess of 85% of the value of the mortgaged property typically require private mortgage insurance in the amount of 25% to 30% of the loan amount.

First Federal offers three types of residential ARM's, all of which use the index value of the National Monthly Median Cost of Funds Ratio to SAIF-Insured Institutions plus a set margin added to it. The interest rates on these loans have an initial adjustment period of between one and five years, and generally adjust annually thereafter, with a maximum adjustment of 2% per year and 5% maximum increase over the life of the loan. The index margin on a non owner-occupied one- to four-family property loan is 1% higher than on an owner-occupied property loan. The Bank's adjustable-rate one-to four-family mortgage loans are for terms of up to 25 years, amortized on a monthly basis, with principal and interest due each month. Residential real estate loans often remain outstanding for significantly shorter periods than their contractual terms. Borrowers may refinance or prepay loans at their option without penalty. First Federal originates, to a limited extent, 10 year and 20 year term fixed-rate mortgages on one- to four-family, owner-occupied homes with loan to value ratios of 80% or less. First Federal originated $4.3 million in fixed-rate one- to four-family mortgage loans with a maximum term of 20 years or less during the year ended September 30, 1996. All such loans are being held as long term investments and none are being held for sale.

Loan originations are generally obtained from existing and walk-in customers, members of the local community, and referrals from realtors, depositors and borrowers within the Bank's lending area. Mortgage loans originated and held by the Bank in its portfolio generally include due-on-sale clauses which provide the Bank with the contractual right to deem the loan immediately due and payable in the event that the borrower transfers ownership of the property without the Bank's consent. At September 30, 1996, $64.3 million, or 80.18%, of the total loan portfolio consisted of one- to four-family residential loans of which $52.7 million were adjustable-rate loans and $11.6 million were fixed-rate loans.

The retention of adjustable-rate loans in the Bank's portfolio helps reduce the Bank's exposure to increases in prevailing market interest rates. However, there are unquantifiable credit risks resulting from potential increases in costs to borrowers in the event of upward repricing of adjustable-rate loans. It is possible that during periods of rising interest rates, the risk of default on adjustable-rate loans may increase due to increases in interest costs to borrowers. Further, adjustable-rate loans which provide for initial rates of interest below the fully indexed rates may be subject to increased risk of delinquency or default as the higher, fully indexed rate of interest subsequently replaces the lower, initial rate. Further, although adjustable-rate loans allow the Bank to increase the sensitivity of its interest-earning assets to changes in interest rates, the extent of this interest sensitivity is limited by the initial fixed rate period before the first adjustment and the periodic and lifetime interest rate adjustment limitations and the ability of borrowers to convert the loans to fixed rates. Accordingly, there can be no assurance that yields on the Bank's adjustable-rate loans will fully adjust to compensate for increases in the Bank's cost of funds. Finally, adjustable-rate loans increase the Bank's exposure to decreases in prevailing market interest rates, although the Bank's cost of funds tend to offset this effect.

Construction Loans. First Federal engages in construction lending involving loans to qualified borrowers for construction of one-to four-family dwellings, multi-family residential, commercial buildings and churches, with the intent of such loans converting to permanent financing upon completion of construction. As of September 30, 1996, the Bank's loan portfolio included $3.9 million of loans secured by properties under construction, all of which were construction/permanent loans structured to become

permanent loans upon the completion of construction and none of which was an interim construction loan structured to be repaid in full upon completion of construction. All construction loans are secured by a first lien on the property under construction. Loan proceeds are disbursed in increments as construction progresses and as inspections warrant. Construction/permanent loans generally have adjustable or fixed interest rates and are underwritten in accordance with the same terms and requirements as the Bank's permanent mortgages, except the loans generally provide for disbursement in stages during a construction period of up to twelve months, during which the borrower is not required to make monthly payments. If construction improvements are not completed at the end of six months, accrued interest must be paid to date. Accrued interest must be paid at completion of construction to the first day of the following month, and monthly payments start the first day of the following month after the loan is converted to permanent financing. Borrowers must satisfy all credit requirements which would apply to the Bank's permanent mortgage loan financing for the subject property and must execute a construction loan agreement with the Bank.

Construction financing generally is considered to involve a higher degree of risk of loss than long term financing on improved, occupied real estate. Risk of loss on a construction loan is dependent largely upon the accuracy of the initial estimate of the property's value at completion of construction or development and the estimated cost (including interest) of construction. During the construction phase, a number of factors could result in delays and cost overruns. If the estimate of construction cost proves to be inaccurate, the Bank may be required to advance funds beyond the amount originally committed to permit completion of the development. The Bank has sought to minimize this risk by requiring precise construction cost estimates, specifications, and drawing plans from qualified borrowers in the Bank's market area.

Multi-Family and Commercial Real Estate Loans. In order to serve its community and enhance yields on its assets, the Bank originates loans secured by commercial real estate and multi-family properties. The multi-family and commercial real estate loans originated by the Bank have generally been made to individuals, small businesses and partnerships. They have primarily been secured by first mortgages on apartment buildings, office buildings, churches and other properties. The Bank benefits from originating such loans due to higher adjustable interest rates. Adjustable-rate loans for this type of lending have a margin that is 1% higher than the margin added to single family owner-occupied property loan. First Federal's multi-family residential and commercial real estate loans are adjustable-rate loans with terms of 25 years or less, with loan-to-value ratios not exceeding 80%. As of September 30, 1996, loans on multi-family residential and commercial real estate properties constituted approximately $9.1 million, or 11.40% of the Bank's total loan portfolio.

Multi-family and commercial real estate lending entails significant additional risks as compared to one-to four-family residential lending. For example, such loans typically involve large loans to single borrowers or related borrowers, the payment experience on such loans is typically dependent on the successful operation of the project, and these risks can be significantly affected by the supply and demand conditions in the market for commercial property and multi-family residential units.

Loans secured by commercial real estate generally involve a greater degree of risk than residential mortgage loans and carry larger loan balances. This increased credit risk is a result of several factors, including the concentration of principal in a limited number of loans and borrowers, the effects of general economic conditions on income producing properties, and the increased difficulty of evaluating and monitoring these types of loans. Furthermore, the repayment of loans secured by commercial real estate is typically dependent upon the successful operation of the related real estate project. If the cash flow from the project is reduced, the borrower's ability to repay the loan may be impaired. To minimize these risks, First Federal generally limits loans of this type to its market area and to borrowers with which it

has substantial experience or who are otherwise well known to the Bank. The Bank's underwriting procedures require verification of the borrower's credit history, income, financial statements, banking relationships, credit references, and income projections for the property. It is the Bank's current practice to obtain personal guarantees from all principals obtaining this type of loan. For the small total dollar amount of loans secured by church real estate that are originated by the Bank, repayment is dependent upon the continuing financial support of the church's members. The Bank also obtains appraisals on each property. All appraisals on commercial and multi-family real estate are reviewed by the Bank's management.

Set forth below is a brief description of the Bank's multi-family and commercial real estate loans with outstanding principal balances in excess of $350,000 at September 30, 1996. See also "-- Loans to One Borrower."

Shopping Center, Nicholasville, Kentucky. This loan was originated in 1987 in the amount of $885,000. At September 30, 1996, this loan had a principal outstanding balance of $771,000 and an estimated loan-to-value ratio of approximately 64%. The loan was over one month delinquent at September 30, 1996.

Sixteen Townhouses, Harrodsburg, Kentucky. This loan was originated in 1993 for $442,000 as a loan to facilitate the sale of real estate owned and had an original loan-to-value ratio of 100% and therefore the Bank required additional security for the loan. At September 30, 1996, the loan had a principal outstanding balance of $402,000 and was current.

Church, Harrodsburg, Kentucky. This loan was originated in 1991 in the amount of $455,000 and had an original loan-to-value ratio of 83%. This loan had an outstanding balance of $350,000 and was current at September 30, 1996.

Eight Townhouses and Two Single Family Dwellings, Harrodsburg, Kentucky. This loan was originated in 1996 in the amount of $450,000 and had an original loan to value ratio of 76%. This loan had an outstanding balance of $449,000 and was current at September 30, 1996.

Two Eight Unit and One Four Plex Unit Apartment Dwellings, Lawrenceburg, Kentucky. This loan was originated in 1995 in the amount of $390,000 and had an original loan to value ratio of 70%. This loan had an outstanding balance of $382,000 and was current at September 30, 1996.

Agricultural Loans. First Federal engages in lending on improved farm land with no dwelling, building lots and building acreage sites. The Bank benefits from originating such loans due to higher origination fees and adjustable interest rates. These properties must have good road access. The loan to value ratio for this type of loan is 75% or less with a maximum loan term of 15 years. An adjustable-rate loan for this type of lending has a margin that is 1% higher than the margin added to one-to four-family owner-occupied property loans.

First Federal also engages in loans for improved farm land with dwelling. The loan to value ratio for this type of loan is 80% or less with a maximum term of 25 years. These loans can be set up with payment of interest collected semi-annually and principal yearly as well as monthly principal and interest payments. As of September 30, 1996, agricultural farm loans constituted approximately $2.4 million, or 2.93% of the Bank's total loan portfolio.

Consumer Lending. These loans totaled $2.9 million, or 3.57%, of the total loan portfolio at September 30, 1996. First Federal does not emphasize consumer lending although it does originate such

loans on a regular basis. The Bank originates consumer loans on either a secured or unsecured basis. These loans generally require a pre-existing relationship with the Bank. The Bank generally makes certificate of deposit loans for terms of up to six months in amounts up to the face amount of the certificate. The interest rate charged on these loans is 1% higher than the rate paid on the certificate, and interest is billed on a quarterly basis. These loans are payable on demand and the account must be assigned to the Bank as collateral for the loan.

Federal regulations permit federally chartered thrift institutions to make secured and unsecured consumer loans up to 35% of an institution's assets. In addition, a federal thrift has lending authority above the 35% category for certain consumer loans, property improvement loans, and loans secured by savings accounts. The Bank originates consumer loans in order to provide a wide range of financial services to its customers and because the shorter terms and normally higher interest rates on such loans help maintain a profitable spread between its average loan yield and its cost of funds.

Consumer loans generally involve more risk than first mortgage loans. Repossessed collateral for a defaulted loan may not provide an adequate source of repayment of the outstanding loan balance as a result of damage, loss or depreciation, and the remaining deficiency often does not warrant further substantial collection efforts against the borrower. In addition, loan collections are dependent on the borrower's continuing financial stability, and thus are more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy. Further, the application of various federal and state laws, including federal and state bankruptcy and insolvency laws, may limit the amount which can be recovered. These loans may also give rise to claims and defenses by a borrower against the Bank and the seller of the underlying collateral. In underwriting consumer loans, the Bank considers the borrower's credit history, an analysis of the borrower's income, expenses and ability to repay the loan and the value of the collateral. At September 30, 1996, the Bank had $241,000 of consumer loans delinquent more than 90 days.

The largest consumer loan made by the Bank consists of a $450,000 line of credit made on May 23, 1996. The line of credit is secured by agricultural crops grown in Harrodsburg, Kentucky. As of September 30, 1996, the outstanding balance on this line of credit was $358,000.

Loan Approval Authority and Underwriting. President Hood and Vice President Asbury have the authority to approve mortgage loans and unsecured loans in the amount of $175,000 or less with ratification by the full board. Loans in excess of $175,000 must be approved by the full board. Loans are approved after determining they meet the Bank's lending and underwriting standards.

For all loans originated by the Bank, upon receipt of a completed loan application from a prospective borrower, a credit report is generally ordered, income and certain other information is verified and, if necessary, additional financial information is requested. An appraisal of the real estate intended to be used as security for the proposed loan is obtained. All appraisals are reviewed by officers of the Bank designated by the Board of Directors. An independent appraiser designated and approved by the Board of Directors of the Bank is utilized for all real estate mortgage loans. For construction/permanent loans, the funds advanced during the construction phase are held in a loan-in-process account and disbursed based upon various stages of completion in accordance with the results of inspection reports that are based upon physical inspection of the construction by an independent contractor hired by the Bank or in some cases by a loan officer. For real estate loans the Bank will require either title insurance or a title opinion. Borrowers must also obtain fire and casualty, hazard or flood insurance (for loans on property located in a flood zone, flood insurance is required) prior to the closing of the loan.

Loan Commitments. The Bank issues written commitments to prospective borrowers on all approved real estate loans. Generally, the commitment requires acceptance within 45 days of the date of issuance. At September 30, 1996, the Bank had $4.7 million of commitments to cover originations, undisbursed funds for loans in process, and unused lines of credit. The Bank believes that most of the Bank's commitments will be funded. The approximate percentage of commitments that expire without being funded is less than 1%.

Loans-to-One Borrower. Savings associations are subject to the same limits as those applicable to national banks, which under current regulations limit loans-to-one borrower in an amount equal to 15% of unimpaired capital and unimpaired surplus, calculated as the sum of the Bank's core and supplementary capital included in total capital, plus the balance of the general valuation allowances for loan and lease losses not included in supplementary capital, plus investments in subsidiaries that are not included in calculating core capital, or $500,000, whichever is higher. The Bank's maximum loan-to-one borrower limit was approximately $3.3 million at September 30, 1996.

At September 30, 1996, the Bank's largest amount of loans to one borrower consisted of several residential real estate loans in the amount of $1.3 million in loans secured by a first mortgage on single family dwellings located in Nicholasville and Versailles, Kentucky. This does not include $935,000 in loans secured by single family dwellings made to the father of the borrower, which are discussed below.

The next four largest lending relationships at September 30, 1996 consisted of $1.0 million in loans secured by a first mortgage on single family dwellings located in Nicholasville, Kentucky; $935,000 in loans secured by single family dwellings located in Nicholasville and Lancaster, Kentucky; $836,000 in loans secured by single family dwellings, duplexes and 18 townhouse units all located in Harrodsburg, Lawrenceburg, and Danville, Kentucky (See "--Multi-Family and Commercial Real Estate Loans.") and $814,000 in loans secured by a multi-unit apartment building and single family dwellings located in Lawrenceburg, Kentucky. (See "--Multi-Family and Commercial Real Estate Loans.")

Non-Performing and Problem Assets

Loan Delinquencies. The Bank monitors delinquencies on all types of loans closely. If such loans later become delinquent, the Bank contacts and works with the borrower to resolve the delinquency before initiating foreclosure proceedings. The Bank's collection procedures provide that when a mortgage loan is 10 days past due, a notice of nonpayment is sent. Delinquent notices are sent if the loan becomes delinquent for more than 30 days. If payment is still delinquent after 60 days, the customer will receive a letter and/or telephone call and may receive a visit from a representative of the Bank. If the delinquency continues, similar subsequent efforts are made to eliminate the delinquency. If the loan continues in a delinquent status for 90 days past due and no repayment plan is in effect, management will generally initiate legal proceedings.

Loans are reviewed on a monthly basis by management and are generally placed on a non-accrual status when the loan becomes more than 90 days delinquent and, in the opinion of management, the collection of additional interest is doubtful. Interest accrued and unpaid at the time a loan is placed on non-accrual status is charged against interest income. Subsequent interest payments, if any, are either applied to the outstanding principal balance or recorded as interest income, depending on the assessment of the ultimate collectibility of the loan. At September 30, 1996, no loans were classified in a non-accrual status.

Non-Performing Assets. The following table sets forth information regarding non-accrual loans, real estate owned and certain other repossessed assets and loans. As of the dates indicated, the Bank had no loans categorized as troubled debt restructuring within the meaning of SFAS 15.
<TABLE>
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	At September 30, 1996	At September 30, 1995
	(In Thousands)	
Loans accounted for on a non-accrual basis:		
<S>	<C>	<C>
Total...............................	$ --	$ --

Accruing loans which are contractually past due 90 days or more:		
Mortgage loans:		
Construction loans.................	--	--
Permanent loans secured by 1 to 4 family dwelling units...................	567	472
All other mortgage loans...........	58	110
Non-mortgage loans:		
Commercial.........................	--	--
Consumer...........................	241	85
Total..............................	866	667
Total non-accrual and accrual loan...	866	667
Real estate owned....................	--	--
Total non-performing assets..........	$ 866	$ 667
Total non-performing loans to net loans	1.12%	.88%
Total non-performing loans to total assets	.79%	.62%
Total non-performing assets to total assets	.79%	.62%

</TABLE>

There was no interest income that would have been recorded on loans accounted for on a non-accrual basis under the original terms of such loans for the year ended September 30, 1996, because there were no loans accounted for on a non-accrual basis for this period.

Classified Assets. OTS regulations provide for a classification system for problem assets of insured institutions which covers all problem assets. Under this classification system, problem assets of insured institutions are classified as "substandard," "doubtful," or "loss." An asset is considered substandard if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Substandard assets include those characterized by the "distinct possibility" that the insured institution will sustain "some loss" if the deficiencies are not corrected. Assets classified as doubtful have all of the weaknesses inherent in those classified substandard, with the added characteristic that the weaknesses present make "collection or liquidation in full," on the basis of currently existing facts, conditions, and values, "highly questionable and improbable." Assets classified as loss are those considered "uncollectible" and of such little value that their continuance as assets without the establishment of a specific loss reserve is not warranted. Assets may be designated "special mention" because of potential weakness that do not currently warrant classification in one of the aforementioned categories.

When an insured institution classifies problem assets as either substandard or doubtful, it may establish general allowances for loan losses in an amount deemed prudent by management. General allowances represent loss allowances which have been established to recognize the inherent risk associated with lending activities, but which, unlike specific allowances, have not been allocated to particular

problem assets. When an insured institution classifies problem assets as loss, it is required either to establish a specific allowance for losses equal to 100% of that portion of the asset so classified or to charge off such amount. An institution's determination as to the classification of its assets and the amount of its valuation allowances is subject to review by the OTS, which may order the establishment of additional general or specific loss allowances. A portion of general loss allowances established to cover possible losses related to assets classified as substandard or doubtful may be included in determining an institution's regulatory capital, while specific valuation allowances for loan losses generally do not qualify as regulatory capital.

At September 30, 1996, the Bank had loans designated special mention which aggregated $19,000 and classified assets consisting of loans classified as substandard which aggregated $497,000, and none classified as doubtful or loss. The Bank had delinquent loans of 60 days or more of $1.1 million (of which $732,000 were residential mortgage loans) and an allowance for loan losses of

$297,000 which includes a general valuation allowance of $290,000 and a specific reserve of $7,000.

Foreclosed Real Estate. 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 it is sold. When property is acquired it is recorded at the lower of cost or fair value at the date of foreclosure less estimated costs of disposition.

Allowance for Loan Losses. It is management's policy to provide for losses on loans in its loan portfolio. A provision for loan losses is charged to operations based on management's evaluation of the losses that may be incurred in the Bank's loan portfolio. Such evaluation, which includes a review of all loans of which full collectibility of interest and principal may not be reasonably assured, considers the Bank's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, current economic conditions, and the relationship of the allowance for loan losses to outstanding loans.

In June 1993, the Financial Accounting Standards Board (FASB) issued SFAS No. 114 "Accounting by Creditors for Impairment of a Loan." This promulgation, which was amended by SFAS No. 118 as to certain income recognition and disclosure provisions, became effective as to the Company in fiscal 1996. The new accounting standards require that impaired loans be measured based upon the present value of expected future cash flows discounted at the loan's effective interest rate, or as an alternative, at the loan's observable market price or fair value of the collateral. The Bank's current procedures for evaluating impaired loans result in carrying such loans at the lower of cost or fair value.
See Note 1 of Notes to Consolidated Financial Statements.

The amount of provisions for loan losses recorded in future periods may be significantly greater or lesser than the provisions taken in the past. The allowance for loan losses, as a ratio of total loans was .37% at September 30, 1996.

Management will continue to review the entire loan portfolio to determine the extent, if any, to which further additional loss provisions may be deemed necessary. There can be no assurance that the allowance for loan losses will be adequate to cover losses which may in fact be realized in the future and that additional provisions for losses will not be required.

Allocation of Allowance for Loan Losses. The following table sets forth the allocation of the Bank's allowance for loan losses by loan category and the percent of loans in each category to total loans receivable at the dates indicated. Except as set forth below, the portion of the loan loss allowance allocated to each loan category does not represent the total available for future losses that may occur within the loan category because the total loan loss allowance is a valuation reserve applicable to the entire loan portfolio.
<TABLE>
<CAPTION>

	At September 30,			
	1996		1995	
	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans
	(Dollars in Thousands)			
At end of period allocated to:				
Real estate mortgage:				
<S>	<C>	<C>	<C>	<C>
One- to four-family residential	$238	80.18%	$241	81.07%
Multi-family............	13	4.44	12	3.97
Agricultural............	12	4.03	10	3.45
Commercial..............	14	4.85	12	4.05
Residential construction..	9	2.93	8	2.57
Consumer(1)................	11	3.57	14	4.89
Total allowance for loan losses...............	$297	100.00%	$297	100.00%

</TABLE>

----
(1) Includes $7,000 specific reserve attributable to a particular loan and not available for other loan losses.

Analysis of the Allowance for Loan Losses. The following table sets forth information with respect to the Bank's allowance for loan losses at the dates and for the periods indicated:

<TABLE>
<CAPTION>

	At or For the Year Ended September 30,	
	1996	1995
	(Dollars in Thousands)	
<S>	<C>	<C>
Total loans outstanding.......................	$80,197	$76,927
	======	======
Average loans outstanding.....................	$74,797	$74,013
	======	======
Allowance balances (at beginning of period)....................................	$ 297	$252
Provision (credit):		
Residential................................	--	85
Consumer...................................	7	7
Net Charge-offs (recoveries):		
Residential................................	--	27
Consumer...................................	7	20
	---	----
Allowance balance (at end of period)..........	$297	$297
	===	===
Allowance for loan losses as a percent of total loans outstanding..................	.37%	.39%
Net loans charged off as a percent of average loans outstanding...................	.01%	.06%

</TABLE>

Investment Activities

First Federal is required under federal regulations to maintain a minimum amount of liquid assets which may be invested in specified short-term securities and certain other investments. See "-- Regulation -- Regulation of the Bank -- Federal Home Loan Bank System". The Bank has maintained a liquidity portfolio in excess of regulatory requirements. Liquidity levels may be increased or decreased depending upon the yields on investment alternatives and upon management's judgment as to the attractiveness of the yields then available in relation to other opportunities and its expectation of future yield levels, as well as management's projections as to the short term demand for funds to be used in the Bank's loan origination and other activities. At September 30, 1996, First Federal had an investment portfolio which included interest-earning deposits of $14.2 million, certificates of deposit with the FHLB of $2.5 million and investment securities of $12.4 million, consisting of FHLB stock, Government agency-backed bonds and FHLMC capital stock. The Bank is permitted to invest in various securities, including U.S. Treasury securities, U.S. government agency obligations, mortgage-backed and related securities, and municipal bonds, as permitted by the OTS regulations. The Bank classifies its investment securities as held-to-maturity or available-for-sale in accordance with SFAS No. 115. The fair value of the investment portfolio at September 30, 1996, was $12.3 million, and the carrying value of the investment portfolio includes a net unrealized gain at that date of approximately $1.1 million, after deduction of $579,000 in deferred income tax expense.

Investment Portfolio. The following table sets forth the carrying value of the Bank's investment securities portfolio, short term investments and FHLB stock, at the dates indicated. At September 30, 1996, the market value of the Bank's investment securities portfolio was $12.3 million.

<TABLE>
<CAPTION>

At September 30,

	1996	1995
	(In Thousands)	
Investment Securities available for sale:		
FHLMC securities....................	$1,881	$ 1,332
Total.............................	1,881	1,332
Investment securities held to maturity:		
FHLB Stock and bonds	10,405	1,616
Mortgaged-backed securities........	98	131
Total.............................	10,503	1,747
Total investment securities........	12,384	3,079
Interest-earning deposits (1)........	16,730	26,939
Total investments................	$29,114	$30,018

</TABLE>

(1) Includes interest-earning overnight deposits and term deposits with FHLB.

Investment Portfolio Maturities. The following table sets forth certain information regarding the carrying values, weighted average yields and maturities of the Bank's investment securities portfolio.

<TABLE>
<CAPTION>

As of September 30, 1996

	One Year or Less		More Than One to Five Years	
	Carrying Value	Average Yield	Carrying Value	Average Yield
	(Dollars in Thousands)			
Investments securities available for sale:				
FHLMC Securities............	$1,881	1.60%	$ --	--%
Investment securities held to maturity:	--	--		
Bonds - U.S. Government and Federal agencies..........	--	--	8,996	6.32
GNMA PC......................	--	--	--	--
FHLB Stock...................	--	--	--	--
Bonds - Municipal............	--	--	--	--
Total.....................	--	--	8,996	6.32
Total investment securities..	$ 1,881	1.60%	$ 8,996	6.32%

</TABLE>

<TABLE>
<CAPTION>

As of September 30, 1996

More Than Five to Ten Years		More than Ten Years		Total Investment Securities		
Carrying Value	Average Yield	Carrying Value	Average Yield	Carrying Value	Average Yield	Market Value
(Dollars in Thousands)						

Investments securities available for sale:

<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
FHLMC Securities............	$ --	--%	$ --	--%	$ 1,881	1.60%	$ 1,881
Investment securities held to maturity:							
Bonds - U.S. Government and Federal agencies..........	--	--	--	--	8,996	6.32	8,903
GNMA PC.....................	--	--	98	7.41	98	7.41	98
FHLB Stock..................	--	--	1,196	6.94	1,196	6.94	1,196
Bonds - Municipal...........	105	4.21	108	5.37	213	4.80	202
Total.....................	105	4.21	1,402	6.85	10,503	6.37	10,399
Total investment securities..	$ 105	4.21%	$ 1,402	6.85%	$12,384	5.65%	$ 12,280

</TABLE>

Sources of Funds

General. Deposits are the major external source of the Bank's funds for lending and other investment purposes. First Federal derives funds from amortization and prepayment of loans and, to a much lesser extent, maturities of investment securities, borrowings, and operations. Scheduled loan principal repayments are a relatively stable source of funds, while deposit inflows and outflows and loan prepayments are significantly influenced by general interest rates and market conditions. Although First Federal had no FHLB advances at September 30, 1996, such advances may also be a source of funds for the Bank in the future.

Deposits. Consumer and commercial deposits are attracted principally from within the Bank's primary market area through the offering of a broad selection of deposit instruments including passbook, NOW, non-interest earning accounts, money market deposit and certificates of deposit ranging in term from three months to five years. The Bank also offers IRA accounts. Deposit account terms vary according to the minimum balance required, the time period the funds must remain on deposit, and the interest rate, among other factors.

The interest rates paid by the Bank on deposits are set weekly at the direction of senior management. The Bank determines the interest rate to offer the public on new and maturing accounts by reviewing the current U.S. Treasury rate for the term and the market interest rates offered by competitors.

Passbook, money market and NOW accounts constituted $16.7 million, or 21.73%, of the Bank's deposit portfolio at September 30, 1996. Certificates of deposit constituted $60.2 million or 78.27% of the deposit portfolio of which $3.2 million or 5.3% of the deposit portfolio were certificates of deposit with balances of $100,000 or more. As of September 30, 1996, the Bank had no brokered deposits.

Deposit Portfolio. Deposits in the Bank as of September 30, 1996, were represented by various types of savings programs described below.

<TABLE>
<CAPTION>

Category	Term	Interest Rate(1)	Minimum Balance Amount	Balance as of September 30, 1996(2)	Percentage of of Total Deposits
<S>	<C>	<C>	<C>	<C>	<C>
Now Accounts(3)	None	--%	$ 250	$5,402	7.02%

Regular Savings	None	--	10	8,329	10.82
Money Market Accounts(4)	None	--	2,500	2,994	3.89
Certificates of Deposit:					
3-month Money Market	91 days	4.76	500	1,447	1.88
6-month Money Market	182 days	5.01	500	8,953	11.63
Fixed Term, Fixed Rate	12 month	6.50	*	81	.10
Fixed Term, Fixed Rate	12 month	5.31	500	14,057	18.26
Fixed Term, Fixed Rate	18 month	5.69	500	6,025	7.83
IRA	18 month	6.00	25	9,072	11.79
Fixed Term, Fixed Rate	30 month	6.75	*	11	.11
Fixed Term, Fixed Rate	30 month	5.98	500	9,790	12.70
Fixed Term, Fixed Rate	30 month	5.30	*	65	.08
Fixed Term, Fixed Rate	36 month	6.75	*	3	--
Fixed Term, Fixed Rate	42 month	5.92	500	5,178	6.72
Fixed Term, Fixed Rate	48 month	7.50	*	100	.12
Fixed Term, Fixed Rate	60 month	6.06	500	5,306	6.89
Fixed Term, Fixed Rate	72 month	7.75	*	29	.03
Fixed Term, Fixed Rate	96 month	8.00	*	104	.13
	Total			$ 76,946	100.00%

</TABLE>

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(1) Represents weighted average interest rates.
(2) In thousands.
(3) If average daily balance of $2,500 maintained, interest rate was 2.75%
(4) If average daily balance drops below $2,500, interest rate was 2.00% * This type of certificate was no longer offered at September 30, 1996.

Jumbo Certificates of Deposit. The following table indicates the amount of the Bank's certificates of deposit of $100,000 or more by time remaining until maturity as of September 30, 1996.

Maturity Period	Certificates of Deposit (In Thousands)
Three months or less	$ 506
More than three through six months	1,005
More than six through twelve months	568
Over twelve months	1,132
Total	$ 3,211

The following table sets forth the average balances and interest rates based on month-end balances for interest-bearing demand deposits and time deposits as of the dates indicated.
<TABLE>
<CAPTION>

	Year Ended September 30,			
	1996		1995	
	Average Balance	Average Rate	Average Balance	Average Rate
	(Dollars in Thousands)			
Deposit Category:				
<S>	<C>	<C>	<C>	<C>
Demand Accounts(1)	$ 8,430	2.32%	$ 9,372	2.24%
Passbook Accounts	8,088	2.75	8,676	2.75
Certificates	60,261	5.79	63,491	5.26
	$76,779	5.08%	$81,539	4.67%

</TABLE>

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(1) Includes non-interest bearing accounts, which represent less than 10% of total deposits.

Borrowings. Deposits are the primary source of funds of the Bank's lending and investment activities and for its general business purposes. The Bank may obtain advances from the FHLB of Cincinnati to supplement its supply of lendable funds. Advances from the FHLB of Cincinnati are typically secured by a pledge of the Bank's stock in the FHLB of Cincinnati and a portion of the Bank's first mortgage loans and certain other assets. The Bank, if the need arises, may also access the Federal Reserve Bank discount window to supplement its supply of lendable funds and to meet deposit withdrawal requirements. At September 30, 1996, the Bank had no borrowings.

Subsidiary Activity

First Federal is permitted to invest up to 2% of its assets in the capital stock of, or provide secured or unsecured loans to, subsidiary corporations, with an additional investment of 1% of assets when such additional investment is utilized primarily for community development purposes. Under such limitations, as of September 30, 1996, First Federal was authorized to invest up to approximately $2.2 million in the stock of, or provide loans to, service corporations (based upon the 2% limitation). The Bank has one wholly owned subsidiary, Harrodsburg Savings and Loan Service Corporation (the "Service Corporation"). The sole purpose of the Service Corporation is to purchase and hold the required amount of stock of Savings and Loan Data Corp., now Intrieve, pursuant to the Bank's agreement with Intrieve for data processing services. Incorporated in Kentucky in 1978, the Service Corporation has not conducted any other business and has been inactive since its acquisition of the stock. The Bank's investment in its subsidiary totaled $15,000 at September 30, 1996.

Personnel

As of September 30, 1996, the Bank had 15 full-time and no part-time employees. None of the Bank's employees are represented by a collective bargaining group. The Bank believes that its relationship with its employees is good.

Regulation

Set forth below is a brief description of certain laws which relate to the regulation of the Company and the Bank. The description does not purport to be complete and is qualified in its entirety by reference to applicable laws and regulations.

Company Regulation

General. The Company is a unitary savings and loan holding company subject to regulatory oversight by the OTS. As such, the Company is required to register and file reports with the OTS and is subject to regulation and examination by the OTS. In addition, the OTS will have enforcement authority over the Company and its non-savings association subsidiaries, should such subsidiaries be formed, which also permits the OTS to restrict or prohibit activities that are determined to be a serious risk to the subsidiary savings association. This regulation and oversight is intended primarily for the protection of the depositors of the Bank and not for the benefit of stockholders of the Company. The Company will also be required to file certain reports with, and otherwise comply with, the rules and regulations of the OTS and the Securities and Exchange Commission ("SEC").

QTL Test. As a unitary savings and loan holding company, the Company generally will not be subject to activity restrictions, provided the Bank satisfies the QTL test. If the Company acquires control of another savings association as a separate subsidiary, it would become a multiple savings and loan holding company, and the activities of the Company and any of its subsidiaries (other than the Bank or any other SAIF-insured savings association) would become subject to restrictions applicable to bank holding companies unless such other associations each also qualify as a QTL or were acquired in a supervised acquisition.

Restrictions on Acquisitions. The Company must obtain approval from the OTS before acquiring control of any other SAIF-insured association. Such acquisitions are generally prohibited if they result in a multiple savings and loan holding company controlling savings associations in more than one state. However, such interstate acquisitions are permitted based on specific state authorization or in a supervisory acquisition of a failing savings association.

Federal law generally provides that no "person," acting directly or indirectly or through or in concert with one or more other persons, may acquire "control," as that term is defined in OTS regulations, of a federally insured savings institution without giving at least 60 days written notice to the OTS and providing the OTS an opportunity to disapprove the proposed acquisition. Such acquisitions of control may be disapproved if it is determined, among other things, that (i) the acquisition would substantially lessen competition; (ii) the financial condition of the acquiring person might jeopardize the financial stability of the savings institution or prejudice the interests of its depositors; or (iii) the competency, experience, or integrity of the acquiring person or the proposed management personnel indicates that it would not be in the interest of the depositors or the public to permit the acquisitions of control by such person.

The Bank Holding Company Act of 1956 ("BHCA") authorizes the Federal Reserve Board to approve an application by a bank holding company to acquire control of a savings association. Furthermore, a bank holding company that controls a savings association is authorized to merge or consolidate the assets and liabilities of the savings association with, or transfer assets and liabilities to, any subsidiary bank which is a member of the BIF with the approval of the appropriate federal banking agency and the Federal Reserve Board. Generally, federal savings associations can acquire or be acquired by any insured depository institution.

Federal Securities Law. The Company's Common Stock is registered with the SEC under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The Company is subject to the information, proxy solicitation, insider trading restrictions and other requirements under the Exchange Act.

Bank Regulation

General. As a federally chartered, SAIF-insured savings bank, First Federal is subject to regulation and examination by the OTS and the FDIC. Lending activities and other investments must comply with various federal statutory and regulatory requirements. The Bank is also subject to certain reserve requirements promulgated by the Federal Reserve Board.

The OTS, in conjunction with the FDIC, regularly examines the Bank and prepares reports for the consideration of the Bank's Board of Directors on any deficiencies that they find in the Bank's operations. The Bank's relationship with its depositors and borrowers is also regulated to a great extent by federal law, especially in such matters as the ownership of savings accounts and the form and content of the Bank's mortgage documents.

First Federal must file reports with the OTS and the FDIC concerning its activities and financial condition, in addition to obtaining regulatory approvals prior to entering into certain transactions such as mergers with or acquisitions of other savings institutions. This regulation and supervision establishes a comprehensive framework of activities in which an institution can engage and is intended primarily for the protection of the Savings Association Insurance Fund ("SAIF") and depositors. The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes. Any change in such regulations, whether by the OTS, the FDIC or the United States Congress could have a material adverse impact on the Company and the Bank and their operations.

Insurance of Deposit Accounts. The Bank's deposit accounts are insured by the SAIF to a maximum of $100,000 for each insured member (as defined by law and regulation). The FDIC has the authority, should it initiate proceedings to terminate an institution's deposit insurance, to suspend the insurance of any such institution without tangible capital. However, if a savings association has positive capital when it includes qualifying intangible assets, the FDIC cannot suspend deposit insurance unless capital declines materially, the institution fails to enter into and remain in compliance with an approved capital plan, or the institution is operating in an unsafe or unsound manner.

Regardless of an institution's capital level, insurance of deposits may be terminated by the FDIC upon a finding that the institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC or the institution's primary regulator. The management of the Bank is unaware of any practice, condition or violation that might lead to termination of its deposit insurance.

On September 30, 1996, H.R. 1362 was signed into law by the President. Title II of H.R. 1362 is titled the Economic Growth and Paperwork Reduction Act of 1996 (the "Act"). Among its many provisions, the Act provides for resolving the BIF/SAIF premium disparity. Currently, most insured depository institutions holding BIF-assessable deposits pay the statutory minimum of $2,000 for deposit insurance on these deposits while most insured depository institutions with SAIF-assessable deposits pay 23 basis points per $100 of these deposits for deposit insurance. The Bank currently pays an insurance premium to the FDIC equal to 0.23% of its total deposits.

The BIF/SAIF legislation provides for a one-time assessment to recapitalize the SAIF. The assessment will be based on the amount of SAIF-assessable deposits held by an institution as of March 31, 1995 (with certain exceptions). The assessment is effective on September 30, 1996 and is payable on November 27, 1996.

The BIF/SAIF legislation does not specify an actual assessment but states that the total assessment will be equal to the amount necessary to recapitalize the SAIF as of October 1, 1996. A recent report of the America's Community Bankers estimated the assessment at approximately 65.7 basis points per $100 of SAIF-assessable deposits as of March 31, 1995. The BIF/SAIF legislation provides that the amount of the special assessment is deductible under section 162 of the Internal Revenue Code (the "Code") in the year in which the assessment is paid. The BIF/SAIF legislation also provides that section 172(f) of the Code will not apply to deductions taken under section 162 of the Code for the special assessment. The Bank has estimated the amount of the assessment to be approximately $536,000 before tax benefit and such amount was accrued on September 30, 1996.

Regulatory Capital Requirements. OTS capital regulations require savings institutions to meet three capital standards: (1) tangible capital equal to 1.5% of total adjusted assets, (2) a leverage ratio (core capital) equal to at least 3% of total adjusted assets and (3) a risk-based capital requirement equal to 8.0% of total risk-weighted assets.

Tangible capital is defined as core capital less all intangible assets (including supervisory goodwill), plus purchased mortgage servicing rights valued at the lower of the maximum percentage established by the OTS or the amount includable in core capital. Core capital is defined as common stockholders' equity (including retained earnings), noncumulative perpetual preferred stock and minority interests in the equity accounts of consolidated subsidiaries, and qualifying supervisory goodwill, less nonqualifying intangible assets.

The OTS leverage ratio regulation establishes a core capital ratio of at least 3% for those savings associations in the strongest financial and managerial condition based on the "CAMEL" rating system currently in use by the OTS. Those savings associations receiving a CAMEL rating of "1", the best possible rating on a scale of 1 to 5, will be required to maintain a ratio of core capital to adjusted total assets of 3%. All other savings associations will be required to maintain minimum core capital of at least 4% of total adjusted assets, with a maximum core capital ratio requirement of 5%. In determining the required minimum core capital ratio, the OTS would assess the quality of risk management and the level of risk in each savings association on a case-by-case basis. The OTS has not indicated the standards it

will use in establishing the appropriate core capital requirement for savings associations not rated "1" under the CAMEL rating system.

The risk-based capital standard for savings institutions requires the maintenance of total risk-based capital (which is defined as core capital plus supplementary capital) of 8.0% of risk-weighted assets. The components of supplementary capital include, among other items, cumulative perpetual preferred stock, perpetual subordinated debt, mandatory convertible subordinated debt, intermediate-term preferred stock and the portion of the allowance for loan losses not designated for specific loan losses. The portion of the allowance for loan and lease losses includable in supplementary capital is limited to a maximum of 1.25% of risk-weighted assets. Overall, supplementary capital is limited to 100% of core capital. A savings association must calculate its risk-weighted assets by multiplying each asset and off-balance sheet item by various risk factors as determined by the OTS, which range from 0% for cash to 100% for delinquent loans, property acquired through foreclosure, commercial loans and other assets.

As of September 30, 1996, the Bank had tangible, core and risk-based capital of $21.7 million, $21.7 million and $22.0 million, respectively, which amounts significantly exceed all applicable fully phased-in regulatory capital requirements of the OTS.

OTS regulations set forth the methodology for calculating an IRR component which is added to the risk-based capital requirements for OTS regulated thrift institutions. Generally, savings associations with a greater than "normal" level of interest rate exposure will be subject to a deduction from total capital for purposes of calculating their risk-based capital requirement. Specifically, interest rate exposure will be measured as the decline in net portfolio value due to a 200 basis point change in market interest rates. The IRR component to be deducted from total capital is equal to one-half the difference between an institution's measured exposure and the "normal" level of exposure which is defined as two percent of the estimated economic value of its assets. Institutions, such as the Bank, with less than $300 million in assets and a risk-based capital ratio in excess of 12% are exempt from deducting the IRR component.

In addition, pursuant to the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"), the OTS must revise the risk-based capital regulations to include a credit risk component and a nontraditional activities component, the purpose of which will be to increase the minimum capital requirements for savings associations with higher credit risks.

Dividend and Other Capital Distribution Limitations. OTS regulations impose limitations upon all capital distributions by savings institutions, such as cash dividends, payments to repurchase or otherwise acquire its shares, payments to shareholders of another institution in a cash-out merger, and other distributions charged against capital. The rule establishes three tiers of institutions, based primarily on an institution's capital level. OTS regulations require the Bank to give the OTS 30 days advance notice of any proposed declaration of dividends to the Company, and the OTS has the authority under its supervisory powers to prohibit the payment of dividends to the Company. In addition, the Bank may not declare or pay a cash dividend on its capital stock if the effect thereof would be to reduce the regulatory capital of the Bank below the amount required for the liquidation account established pursuant to the Bank's conversion. Finally, under the FDICIA, a savings association is prohibited from making a capital distribution if, after making the distribution, the savings association would be undercapitalized (not meet any one of its minimum regulatory capital requirements).

Qualified Thrift Lender Test. The Home Owners' Loan Act, as amended ("HOLA"), requires savings institutions to meet a QTL test. If the Bank maintains an appropriate level of Qualified Thrift Investments ("QTIs") (primarily residential mortgages and related investments, including certain mortgage-related securities) and otherwise qualifies as a QTL, it will continue to enjoy full borrowing privileges from the FHLB of Cincinnati. The required percentage of QTIs is 65% of portfolio assets (defined as all assets minus intangible assets, property used by the institution in conducting its business

and liquid assets equal to 10% of total assets). Certain assets are subject to a percentage limitation of 20% of portfolio assets. In addition, savings associations may include shares of stock of the FHLBs, Federal National Mortgage Association ("FNMA"), and FHLMC as qualifying QTIs. Compliance with the QTL test is determined on a monthly basis in nine out of every 12 months. As of September 30, 1996, the Bank was in compliance with its QTL requirement with 84.91% of its assets invested in QTIs.

A savings association that does not meet a QTL test must either convert to a bank charter or comply with the following restrictions on its operations: (i) the savings association may not engage in any new activity or make any new investment, directly or indirectly, unless such activity or investment is permissible for a national bank; (ii) the branching powers of the savings association shall be restricted to those of a national bank; (iii) the savings association shall not be eligible to obtain any advances from its FHLB; and (iv) payment of dividends by the savings association shall be subject to the rules regarding payment of dividends by a national bank. Upon the expiration of three years from the date the savings association ceases to be a QTL, it must cease any activity and not retain any investment not permissible for a national bank and immediately repay any outstanding FHLB advances (subject to safety and soundness considerations).

Transactions With Affiliates. Generally, restrictions on transactions with affiliates require that transactions between a savings association or its subsidiaries and its affiliates be on terms as favorable to the Bank as comparable transactions with non-affiliates. In addition, certain of these transactions are restricted to an aggregate percentage of the Bank's capital and collateral in specified amounts must usually be provided by affiliates to receive loans from the Bank. Affiliates of the Bank include the Company and any company which would be under common control with the Bank. In addition, a savings association may not lend to any affiliate engaged in activities not permissible for a bank holding company or acquire the securities of any affiliate which is not a subsidiary. The OTS has the discretion to treat subsidiaries of savings associations as affiliates on a case-by-case basis.

The Bank's authority to extend credit to its officers, directors, and 10% stockholders as well as to entities that such persons control is currently governed by Sections 22(g) and 22(h) of the Federal Reserve Act and Regulation O promulgated by the Federal Reserve Board. Among other things, these regulations require such loans to be made on terms substantially similar to those offered to unaffiliated individuals, place limits on the amount of loans the Bank may make to such persons based, in part, on the Bank's capital position, and require certain approval procedures to be followed. OTS regulations, with minor variation, apply Regulation O to savings associations.

Liquidity Requirements. All savings associations are required to maintain an average daily balance of liquid assets equal to a certain percentage of the sum of its average daily balance of net withdrawable deposit accounts and borrowings payable in one year or less. The liquidity requirement may vary from time to time (between 4% and 10%) depending upon economic conditions and savings flows of all savings associations. As of September 30, 1996, the Bank's liquidity ratio was 34.26%.

Liquid assets for purposes of this ratio include specified short term assets (e.g., cash, certain time deposits, certain banker's acceptances, and short term U.S. Government obligations), and long term assets (e.g., U.S. Government obligations of more than one and less than five years and state agency obligations with a maximum remaining term of 24 months). The regulations governing liquidity requirements include as liquid assets debt securities hedged with forward commitments obtained from, or debt securities subject to repurchase agreements with, members of the Bank of Primary Dealers in United States Government Securities or banks whose accounts are insured by the FDIC, debt securities directly hedged with a short financial future position, and debt securities that provide the holder with a right to redeem the security at par value, regardless of the stated maturities of the securities. The OTS is also authorized to designate as liquid assets certain mortgage-related securities with less than one year to maturity. Short term liquid assets currently must constitute at least 1% of an association's average daily balance of net withdrawable

deposit accounts and current borrowings. Monetary penalties may be imposed upon associations for violations of liquidity requirements.

Federal Home Loan Bank System. The Bank is a member of the FHLB of Cincinnati, which is one of 12 regional FHLBs that administer the home financing credit function of savings associations. Each FHLB serves as a reserve or central bank for its members within its assigned region. It is funded primarily from proceeds derived from the sale of consolidated obligations of the FHLB System. It makes loans to members (i.e., advances) in accordance with policies and procedures established by the Board of Directors of the FHLB. As of September 30, 1996, the Bank had no funds borrowed from the FHLB of Cincinnati to fund operations; however, there can be no assurances that borrowings will not be made in the future.

As a member, the Bank is required to purchase and maintain stock in the FHLB of Cincinnati in an amount equal to at least 1% of its aggregate unpaid residential mortgage loans, home purchase contracts, or similar obligations at the beginning of each year. As of September 30, 1996, the Bank had $1.2 million in FHLB stock, which was in compliance with this requirement.

The FHLBs are required to provide funds for the resolution of troubled savings associations and to contribute to affordable housing programs through direct loans or interest subsidies on advances targeted for community investment and low- and moderate-income housing projects. These contributions have adversely affected the level of FHLB dividends paid and could continue to do so in the future. For the fiscal year ended September 30, 1996, dividends paid by the FHLB of Cincinnati to the Bank totaled $80,230.

Federal Reserve System. The Federal Reserve Board requires all depository institutions to maintain non-interest bearing reserves at specified levels against their transaction accounts (primarily checking, NOW, and Super NOW checking accounts) and non-personal time deposits. The balances maintained to meet the reserve requirements imposed by the Federal Reserve Board may be used to satisfy the liquidity requirements that are imposed by the OTS. As of September 30, 1996, the Bank was in compliance with its Federal Reserve Board minimum reserve requirements.

Savings associations have authority to borrow from the Federal Reserve Bank "discount window," but Federal Reserve policy generally requires savings associations to exhaust all OTS sources before borrowing from the Federal Reserve System. The Bank had no such borrowings at September 30, 1996.

Federal Taxation

The Bank files its tax return on a fiscal year (September 30) basis. Savings associations are subject to the provisions of the Internal Revenue Code in the same general manner as other corporations. However, savings associations such as the Bank, which meet certain definitional tests and other conditions prescribed by the Code may benefit from certain favorable provisions regarding their deductions from taxable income for annual additions to their bad debt reserve. For purposes of the bad debt reserve deduction, loans are separated into "qualifying real property loans," which generally are loans secured by interests in real property, and nonqualifying real property loans, which are all other loans. The bad debt reserve deduction with respect to nonqualifying loans must be based on actual loss experience. The amount of the bad debt reserve deduction with respect to qualifying real property loans may be based upon actual loss experience (the "experience method") or a percentage of taxable income determined without regard to such actual experience (the "percentage of taxable income method"). The Bank used the percentage of taxable income method for the years ended September 30, 1996, 1995 and 1994. The Bank is expected to use the percentage of taxable income method for the year ending September 30, 1996.

The Bank reviews the most favorable way to calculate the deduction attributable to an addition to its bad debt reserve on an annual basis.

Under the experience method, the bad debt deduction may be based on (i) a six-year moving average of actual losses on qualifying and non-qualifying loans or (ii) a fill-up to the institution's base year reserve amount, which is the tax bad debt reserve determined as of September 30, 1988.

The percentage of specially computed taxable income that is used to compute a savings association's bad debt reserve deduction under the percentage of taxable income method (the "percentage bad debt deduction") is 8%. The percentage of bad debt deduction thus computed is reduced by the amount permitted as a deduction for non-qualifying loans under the experience method.

If an association's qualifying assets (generally, loans secured by residential real estate or deposits, educational loans, cash and certain government obligations) constitute less than 60% of its total assets, the association may not deduct any addition to a bad debt reserve and generally must include existing reserves in income over a four year period. As of September 30, 1996, at least 60% of the Bank's assets were qualifying assets as defined in the Code. No assurance can be given that the Bank will meet the 60% test for subsequent taxable years.

Earnings appropriated to the Bank's bad debt reserve and claimed as a tax deduction will not be available for the payment of cash dividends or for distribution to stockholders (including distributions made on dissolution or liquidation), unless the Bank includes the amount in income, along with the amount deemed necessary to pay the resulting federal income tax. As of September 30, 1996, the Bank had approximately $1.6 million of accumulated earnings for which federal income taxes have not been provided. If such amount is used for any purpose other than bad debt losses, including a dividend distribution or a distribution in liquidation, it will be subject to federal income tax at the then current rate.

On August 20, 1996, the President signed into law the Small Business Jobs Protection Act. Included within this act were provisions repealing the percentage of taxable income method of calculating a thrift's bad debt reserve for tax purposes. This method as described above, had permitted thrift institutions, such as the Bank, who satisfied certain definitional tests and other conditions prescribed by the Internal Revenue Code to deduct an annual addition to their bad debt reserve calculated as a percentage of taxable income. Other financial institutions generally were required to calculate their bad debt deduction based upon actual loss experience (the "experience method"). As a result of the elimination of the percentage of taxable income method, institutions that have utilized such method will be required to recapture into taxable income post-1987 reserves in excess of the reserves calculated under the experience method, over period of six years commencing in the first taxable year beginning after December 31, 1995. An institution will be able to defer recapture until up to the third taxable year after December 31, 1995 if the dollar amount of the institution's residential loan originations in each year is not less than the average dollar amount of residential loan originations originated in each of the six most recent years disregarding the years with the highest and lowest originations during such period. For purposes of this test, residential loan originations would not include refinancings and home equity loans.

Beginning with the first taxable year beginning after December 31, 1995, (Fiscal 1997 for the Bank) savings institutions, such as the Bank, will be treated the same as commercial banks. Institutions with $500 million or more in assets will only be able to take a tax deduction when a loan is actually charged off. Institutions with less than $500 million in assets will still be permitted to make deductible bad debt additions to reserves, but only using the experience method. The Bank has provided deferred taxes on its post-1987 additions to the bad debt reserve and, as a result, management does not expect that the recapture of the Bank's post-1987 reserves will have a material adverse effect on the Bank's operations.

Generally, for taxable years beginning after 1986, the Code also requires most corporations, including savings associations, to utilize the accrual method of accounting for tax purposes. Further, for taxable years ending after 1986, the Code disallows 100% of a savings association's interest expense allocated to certain tax-exempt obligations acquired after August 7, 1986. Interest expense allocable to (i) tax-exempt obligations acquired after August 7, 1986 which are not subject to this rule, and (ii) tax-exempt obligations issued after 1982 but before August 8, 1986, are subject to the rule which applied prior to the Code disallowing the deductibility of 20% of the interest expense.

The Bank's federal income tax returns have not been examined by the IRS during the past 10 years.

State Taxation

The Commonwealth of Kentucky imposes no income or franchise taxes on savings institutions. First Federal is subject to an annual Kentucky ad valorem tax. This tax is .1% of the Bank's savings accounts, common stock, capital and retained income with certain deductions allowed for amounts borrowed by depositors and for securities guaranteed by the U.S. Government or certain of its agencies. For the fiscal year ended September 30, 1996, the amount of such expense for the Bank was $93,037.

The Company is subject to an annual license fee on capital employed and income tax on its operations by the Commonwealth of Kentucky. The annual license fee is based on $2.10 per $1,000 of capital employed and the tax on income ranges from 4% on the first $25,000 of taxable income to 8.25% on taxable income in excess of $250,000. In addition, the Company must pay an annual franchise tax to the state of Delaware.

Stockholders of the Company who are residents of the Commonwealth of Kentucky may be subject to a Kentucky tax on intangible property, defined for this purpose to include shares of stock in a corporation. The tax is an ad valorem tax based upon the fair market value of the shares held by the individual, and is assessed at a rate of $.25 per $100 in value. All Kentucky residents are urged to consult their own tax and financial advisors as to the applicability of this tax.

Item 2. Properties

The Bank operates from its main office and one full service branch office. The Bank's total investment in offices, office property and equipment is $1.4 million with a net book value of $658,000 at September 30, 1996. The following table sets forth information regarding the Bank's properties:

<TABLE>
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Location	Leased or Owned	Original Date Acquired	Net Book Value at September 30, 1996
MAIN OFFICE:			
<S>	<C>	<C>	<C>
104 South Chiles Street Harrodsburg, Kentucky 40330	Owned	1964	$535,000
BRANCH OFFICE:			
216 South Main Street Lawrenceburg, Kentucky	Owned	1973	123,000

</TABLE>

In November 1994, the Bank purchased the house and lot located next door to the main office for $82,500. The house has been demolished and the .25 acre lot has been filled with crushed stone. Construction of the parking lot and expansion of the existing drive-in facility for another lane with an ATM which began in October 1995, has been completed.

Item 3. Legal Proceedings

The Bank, from time to time, is a party to ordinary routine litigation, which arises in the normal course of business, such as claims to enforce liens, condemnation proceedings on properties in which the Bank holds security interests, claims involving the making and servicing of real property loans, and other issues incident to the business of the Bank. There were no lawsuits pending or known to be contemplated against the Bank or the Company at September 30, 1996.

Item 4. Submission of Matters to a Vote of Security Holders

None.

PART II

Item 5. Market for Common Equity and Related Stockholder Matters
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Information relating to the market for Registrant's common equity and related stockholder matters appears under "Market and Dividend Information" in the Registrant's 1996 Annual Report to Stockholders on the inside cover page, and is incorporated herein by reference.

Item 6. Selected Financial Data

The above-captioned information appears under "Selected Financial and Other Data" in the Registrants' 1996 Annual Report to Stockholders on pages 2 and 3 and is incorporated by reference herein.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The above-captioned information appears under "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Registrant's 1996 Annual Report to Stockholders on pages 4 through 15 and is incorporated herein by reference.

Item 8. Financial Statements and Supplementary Data

The Consolidated Financial Statements of the Company and its subsidiaries, together with the report thereon by Miller, Mayer, Sullivan & Stevens LLP appears in the Registrant's 1996 Annual Report to Stockholders on pages 16 through 41 and are incorporated herein by reference.

Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure

None.

PART III

Item 10. Directors and Executive Officers of the Registrant

The information contained under the section captioned "Proposal I -- Election of Directors" at pages 3 to 5 of the Registrant's definitive proxy statement for the Registrant's Annual Meeting of Stockholders to be held on January 27, 1997 (the "Proxy Statement"), which was filed with the Commission on December 18, 1996 and incorporated herein by reference. See also "Item 1. Business -- Personnel" included herein.

Item 11. Executive Compensation

The information relating to executive compensation is incorporated herein by reference to the Registrant's Proxy Statement at pages 7 through 12.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information relating to security ownership of certain beneficial owners and management is incorporated herein by reference to the Registrant's Proxy Statement at page 4.

Item 13. Certain Relationships and Related Transactions

The information relating to certain relationships and related transactions is incorporated herein by reference to the Registrant's Proxy Statement at page 11.

PART IV

Item 14. Exhibits and Reports on Form 8-K

(a) The following documents are filed as a part of this report:

(1) Financial Statements of the Company are incorporated by reference to the following indicated pages of the 1996 Annual Report to Stockholders.
<TABLE>
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	PAGE
<S>	<C>
Independent Auditors' Report..	16

</TABLE>

The remaining information appearing in the Annual Report to Stockholders is not deemed to be filed as part of this report, except as expressly provided herein.

(2) All schedules are omitted because they are not required or applicable, or the required information is shown in the consolidated financial statements or the notes thereto.

(3) Exhibits

(a) The following exhibits are filed as part of this report.

3.1 Certificate of Incorporation of Harrodsburg First Financial Bancorp, Inc.*
3.2 Bylaws of Harrodsburg First Financial Bancorp, Inc.*
13.0 1996 Annual Report to Stockholders
21.0 Subsidiary Information
27.0 Financial Data Schedules

(b) Reports on Form 8-K.

None.

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* Incorporated herein by reference into this document from the Exhibits to Form S-1, Registration Statement, initially filed on June 14, 1995, Registration No. 33-93458.

SIGNATURES

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

HARRODSBURG FIRST FINANCIAL BANCORP, INC.

Dated: December 30, 1996 By: /s/ Jack D. Hood

Jack D. Hood
President, Chief Executive
Officer and Director

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

<TABLE>
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<S>	<C>
By: /s/ Jack D. Hood	By: /s/ Wickliffe T. Asbury, Sr.
Jack D. Hood President, Chief Executive Officer and Director	Wickliffe T. Asbury, Sr. Vice President and Director
Date: December 30, 1996	Date: December 30, 1996
By: /s/ Jack L. Coleman, Sr.	By: /s/ Teresa W. Noel
Jack L. Coleman, Sr.	Teresa W. Noel

	Director		Treasurer and Chief Financial Officer
Date:	December 30, 1996	Date:	December 30, 1996
By:	/s/ Elwood Burgin	By:	/s/ Jack L. Coleman, Jr.
	Elwood Burgin Director		Jack L. Coleman, Jr. Director
Date:	December 30, 1996	Date:	December 30, 1996
By:	/s/ Thomas Les Letton		
	Thomas Les Letton Director		
Date:	December 30, 1996		

</TABLE>

EXHIBIT 13

1996 ANNUAL REPORT

HARRODSBURG FIRST FINANCIAL BANCORP, INC.

HARRODSBURG FIRST FINANCIAL BANCORP, INC.

Harrodsburg First Financial Bancorp, Inc., a Delaware corporation (the "Company"), was organized by First Federal Savings Bank of Harrodsburg, formerly Harrodsburg First Federal Savings and Loan Association, ("Harrodsburg First Federal" or the "Bank") to be a savings institution holding company whose only subsidiaries are the Bank and its subsidiary. On September 29, 1995, the Bank converted from mutual to stock form as a wholly owned subsidiary of the Company. In connection with the conversion, the Company issued 2,182,125 shares of its common stock (the "Common Stock") to the public.

The Company is a unitary savings and loan holding company subject to regulation by the Office of Thrift Supervision ("OTS") of the Department of the Treasury. The primary activity of the Company is holding the stock of the Bank and operating the Bank. Accordingly, the information set forth in this report, including financial statements and related data, relates primarily to the Bank and its subsidiary.

First Federal Savings Bank of Harrodsburg was formed in 1961 as a federal mutual savings and loan association and obtained insurance of accounts and became a member of the Federal Home Loan Bank ("FHLB") of Cincinnati at that time. Upon its conversion to stock form in September 1995, the Bank adopted its present name. The Bank operates through one full service office in Harrodsburg, Kentucky, and another full service branch office in Lawrenceburg, Kentucky.

The executive offices of the Company and the Bank are located at 104 South Chiles Street, Harrodsburg, Kentucky 40330, and its telephone number is (606) 734-5452.

MARKET AND DIVIDEND INFORMATION

Market for the Common Stock

Since October 4, 1995, the Common Stock of the Company has been listed for trading under the symbol "HFFB" on the National Association of Securities Dealers, Inc. Automated Quotation ("Nasdaq") National Market. As of December 6, 1996, there were 2,047,933 shares of the Common Stock issued and outstanding, held by approximately 1,274 stockholders of record, including beneficial owners in nominee or street name.

Dividends

On March 18, 1996, the Board of Directors of the Company established a policy whereby the Company will pay a semi-annual cash dividend of $.20 per share payable as of the 15th day of each April and October or the first business day thereafter if such day is not a business day, to stockholders of record as of the last business day of the month following the end of the such semi-annual period. On September 16, 1996, the Board of Directors declared a one time special dividend of $.15 per share payable on October 16, 1996, to stockholders of record as of October 1, 1996. The Board of Directors of the Company periodically reviews its dividend policy. Any change in the Company's dividend policy, as determined by the Board of Directors, will depend on the Company's debt and equity structure, earnings, regulatory capital requirements, and other factors, including economic conditions, regulatory restrictions, and tax considerations. See Note 7 of Notes to Consolidated Financial Statements for restrictions on the payment of cash dividends. For further information on stock prices and dividends, see Stock Prices and Dividends (page 3).

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LETTER TO STOCKHOLDERS

To Our Stockholders

It is with great pleasure that we present the second annual report for Harrodsburg First Financial Bancorp, Inc., for the fiscal year ended September 30, 1996. It has been an extremely busy and exciting year as your Company and its subsidiary adjusted to life as a public company.

We are proud of the fact that of the seventy-five companies that converted from mutual to the stock form of ownership from June 30, 1995 through September 30, 1996, the stock of Harrodsburg First Financial has led the country in appreciation of price from its initial price of $10 per share.

The completion of the initial public offering in September 1995 paved the way for a record earnings performance in the current fiscal year. Net earnings for fiscal 1996 totaled $1,090,167 or $.55 per share, representing an increase of 22.3% over our fiscal 1995 earnings of $891,025. The net income for the fiscal 1996 earnings reflect a charge of $353,802, net of the federal income tax benefit, for a special assessment by the Savings Association Insurance Fund. The legislation that implemented this special assessment was signed into law by President Clinton on September 30, 1996, and should put behind us, once and for all, the federal deposit insurance premium disparity between banks and savings institutions and the savings and loan debacle of the 1980s. This one time charge will reduce future federal deposit insurance premium expense and will result in improved earnings in years to come.

In late September 1996, the installation of ATMs at both offices was completed, and the customer response to this service has been very positive.

After the completion of six months as a public company, the Board of Directors approved a stock repurchase program of up to 5% or 109,106 shares of the Company's stock. The authorization for this program expired September 29, 1996, with the Company being able to repurchase 49,392 shares. A second repurchase program of 5% of the outstanding shares has been instituted. The repurchased shares will become treasury shares and will be used for general corporate purposes. The Board believes that the repurchases will improve liquidity in the market for the common stock and is expected to increase the Company's earnings per share and book value per share.

We wish to thank you, our stockholders, for your support in our first year as a public company. We encourage you to expand you banking relationships with us as we pursue the ultimate goal of building long term value for your investment.

Sincerely,

/s/Jack Hood
Jack Hood
President and Chief Executive Officer

SELECTED FINANCIAL AND OTHER DATA

Financial Condition Data

	At September 30, 1996	1995	1994	1993	1992
	(Dollars in Thousands)				
Total Amount of:					
Assets	$ 108,953	$ 107,234	$ 91,465	$ 89,744	$ 90,335
Loans receivable, net	77,502	75,434	72,640	72,172	71,996
Investments (1)	14,884	8,580	7,266	1,244	1,219
Cash and cash equivalents	15,065	21,990	10,350	15,255	15,435
Deposits	76,946	75,893	82,091	81,455	83,006
Stockholders' equity	30,222	30,185	9,043	8,018	7,076
Number of:					
Real estate loans outstanding	1,710	1,745	1,764	1,849	1,922
Deposit accounts	9,524	10,559	9,930	9,908	10,347
Full service offices	2	2	2	2	2

(1) Includes FHLB stock, and term deposits with the FHLB.

Operating Data

	For the year ended September 30, 1996	1995	1994	1993	1992
	(Dollars in Thousands)				
Interest income	$ 7,712	$ 6,612	$ 6,210	$ 6,433	$ 7,209
Interest expense	3,901	3,807	3,277	3,745	4,985
Net interest income	3,811	2,805	2,933	2,688	2,224
Provision for loan losses	8	92	60	60	45
Net interest income after provision for loan losses	3,803	2,713	2,873	2,628	2,179
Non-interest income	101	81	86	102	104
Non-interest expense	2,225	1,444	1,357	1,303	1,206
Income before income tax expense and cumulative effect of change in accounting principle	1,679	1,350	1,602	1,427	1,077
Income tax expense	589	459	558	485	371
Income before cumulative effect of change in accounting principle	1,090	891	1,044	942	706
Cumulative effect of change in accounting principle (1)			19		
Net income	$ 1,090	$ 891	$ 1,025	$ 942	$ 706

(1) Reflects adoption of Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes."

Key Operating Ratios

	At or for the year ended September 30, 1996	1995	1994	1993	1992
Performance Ratios:					
Return on average assets (net income divided by average total assets)	1.00%	.95%	1.12%	1.04%	.79%

Return on average equity (net income divided by average equity).....	3.56	7.84	12.01	12.48	10.44
Average interest-earning assets to average interest-bearing liabilities	125.55	113.08	109.11	107.43	106.12
Net interest rate spread..........	2.14	2.50	2.92	2.71	2.20
Net yield on average interest-earning assets.................	3.57	3.04	3.26	3.03	2.55
Dividend payout...................	72.7				
Capital Ratios:					
Average equity to average assets (average equity divided by average total assets)..........	28.18	12.11	9.32	8.34	7.56
Equity to assets at period end....	27.74	28.15	9.89	8.93	7.83
Asset Quality Ratios:					
Net interest income after provision for loan losses to total other expenses	170.92	187.88	211.56	201.69	180.68
Non-performing loans to total loans	1.12	.88	1.86	1.33	2.03
Non-performing loans to total assets	.79	.62	1.48	1.07	1.62

</TABLE>

Stock Prices and Dividends

The following table sets forth the range of high and low sales prices for the common stock as well as dividends declared in each quarter for 1996. The information is not shown for 1995 because the Company's stock was issued to the public initially on September 29, 1995. Such over-the-counter market quotations reflect inter-dealer prices, without retail mark-up, mark-down, or commission and may not necessarily represent actual transactions.

Quarterly Stock Information

	Fiscal 1996		
	Stock Price Range		
Quarter	Low	High	Per Share Dividend
1st	$ 12.00	$ 15.75	$
2nd	13.25	14.63	0.20
3rd	13.00	15.75	
4th	15.25	18.25	0.20
Total			$ 0.40

MANAGEMENT'S DISCUSSION AND
ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

General

Harrodsburg First Financial Bancorp, Inc. ("Company") became publicly held on September 29, 1995, when its wholly-owned subsidiary completed a conversion from a federal mutual savings and loan association to a federal stock savings bank, First Federal Savings Bank of Harrodsburg ("Bank"). The purpose of the discussion that follows is to provide insight into the consolidated financial condition and results of operations of Harrodsburg First Financial Bancorp, Inc. and its subsidiary, First Federal Savings Bank of Harrodsburg.

The primary business of the Company is the operation of the Bank. The assets of the Company consist of a portion of the net cash proceeds from the initial public offering, all of the Bank's outstanding capital stock, and a note receivable from the Company's Employee Stock Ownership Plan ("ESOP"). Therefore, this discussion relates primarily to the Bank.

Historically, the Bank has functioned as a financial intermediary, attracting deposits from the general public and using such deposits, to make mortgage loans and, to a lesser extent consumer loans and to purchase investment securities. As such, its net earnings are dependent primarily on its net interest income, which is the difference between interest income earned on its interest-earning assets and interest paid on interest-bearing liabilities. Net interest income is determined by (i) the difference between yields earned on interest-earning assets and rates paid on interest-bearing liabilities (interest rate spread) and (ii) the relative amounts of interest-earning assets and interest-bearing liabilities. The Bank's interest rate spread is affected by regulatory, economic, and competitive factors that influence interest rates, loan demand, and deposit flows. To a lesser extent, the Bank's net earnings are also affected by the level of non-interest income, which primarily consists of service charges and other fees. In addition, net earnings are affected by the level of non-interest (general and administrative) expenses.

The operations of the Bank and the entire thrift industry are significantly affected by prevailing economic conditions, competition, and the monetary and fiscal policies of the federal government and governmental agencies. Lending activities are influenced by the demand for and supply of housing, competition among lenders, the level of interest rates, and the availability of funds. Deposit flows and costs of funds are influenced by prevailing market rates of interest, competing investments, account maturities, and the levels of personal income and savings in the Bank's market area.

The Bank's interest-earning assets have been historically concentrated in real estate-collateralized instruments, principally single-family residential loans, and to a lesser extent, loans secured by multi-family residential and commercial properties, construction loans, home equity lines of credit, second mortgages on single-family residences and consumer loans, both secured and unsecured, including loans secured by savings accounts. The Bank also invests in securities, primarily U.S. Government Treasury and Agency securities, and in interest-earning deposits, primarily with the FHLB of Cincinnati. Its source of funding for these investments has principally been deposits placed with the Bank by consumers in the market areas it serves.

Asset/Liability Management

Net interest income, the primary component of the Bank's net earnings, is derived from the difference or "spread" between the yield on interest-earning assets and the cost of the interest-bearing liabilities. The Bank has sought to reduce its exposure to changes in interest rates by matching more closely the effective maturities or repricing characteristics of its interest-earning assets and interest-bearing liabilities. The matching of the Bank's assets and liabilities may be analyzed by examining the extent to which its assets and liabilities are interest rate sensitive and

by monitoring the expected effects of interest rate changes on an institution's net interest income and net portfolio value.

An asset or liability is interest rate sensitive within a specific time period if it will mature or reprice within that time period. If the Bank's assets mature or reprice more quickly or to a greater extent than its liabilities, the Bank's net portfolio value and net interest income would tend to increase during periods of rising interest rates but decrease during periods of falling interest rates. If the Bank's assets mature or reprice more slowly or to a lesser extent than its liabilities, as is the case with most savings institutions, the Bank's net portfolio value and net interest income would tend to decrease during periods of rising interest rates but increase during periods of falling interest rates. The Bank's policy has been to mitigate the interest rate risk inherent in the historical savings institution business of originating long-term loans funded by short-term deposits by pursuing certain strategies designed to decrease the vulnerability of its earnings to material and prolonged changes in interest rates.

Management's principal strategy in managing the Bank's interest rate risk has been to maintain short and intermediate-term assets in the portfolio, including locally originated adjustable rate mortgage loans. The Bank does not actively offer long-term fixed rate loans. All fixed rate loans that are offered are secured by one to four-family owner-occupied dwellings for terms of no more than 20 years. Likewise, the interest rate charged on the Bank's adjustable rate loans typically reprice after one, three, or five years with maximum periodic interest rate adjustment limits ("caps"). At September 30, 1996, the Bank had no adjustable rate loans that reprice after five years from that date. In managing its investment portfolio, the Bank seeks to purchase investments that mature on a basis that approximates the estimated maturities of the Bank's liabilities.

Management has attempted to lengthen the average maturity of its liabilities by adopting a tiered pricing program for its certificates of deposit. The Bank offers higher rates of interest on its longer term certificates in order to encourage depositors to invest in certificates with longer maturities.

Interest Rate Sensitivity Analysis

The Bank's future financial performance depends to a large extent on how successful it is in limiting the sensitivity of earnings and net asset value to changes in interest rates. Such sensitivity may be analyzed by examining the amount by which the market value of the Bank's portfolio equity changes given an immediate and sustained change in interest rates. Based on the latest information available, the Bank's market value of portfolio equity at September 30, 1996 would decrease by $1.0 million or 3.0% given a 200 basis point immediate and sustained increase in interest rates.

Average Balances, Interest, and Average Yields

Net interest income is affected by (i) the difference ("interest rate spread") between rates of interest earned on interest-earning assets and rates of interest paid on interest-bearing liabilities and (ii) the relative amounts of interest-earning assets and interest-bearing liabilities. When interest-earning assets approximate or exceed interest-bearing liabilities, any positive interest rate spread will generate net interest income. Savings institutions have traditionally used interest rate spreads as a measure of net interest income. Another indication of an institution's net interest income is its "net yield on interest-earning assets" which is net interest income divided by average interest-earning assets. The following table sets forth certain information relating to the Bank's average interest-earning assets and interest-bearing liabilities and reflects the average yield on assets and average cost of liabilities for the periods indicated. Such yields and costs are derived by dividing income or expense by the average monthly balance of assets or liabilities, respectively, for the periods presented. During the periods indicated, nonaccruing loans are included in the net loan category. Average balances are derived from month-end average balances. Management does not believe that the use of month-end average balances instead of average daily balances has caused any material difference in the information presented.

<TABLE>
<CAPTION>

	Year Ended September 30,								
	1996			1995			1994		
	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost
					(Dollars in Thousands)				
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Interest-earning assets:									
Loans receivable............	$ 74,797	$ 5,970	7.98%	$ 74,013	$ 5,634	7.61%	$ 71,745	$ 5,528	7.71%
Investment securities (1)....	32,043	1,742	5.44	18,191	978	5.38	18,322	682	3.72
Total interest-earning assets..........	106,840	7,712	7.22	92,204	6,612	7.17	90,067	6,210	6.89
Non-interest earning assets.....	1,871			1,673			1,586		
Total assets.................	$ 108,711			$ 93,877			$ 91,653		
Interest-bearing liabilities:									
Deposits.....................	$ 76,779	3,901	5.08	$ 81,539	3,807	4.67	$ 82,545	3,277	3.97
Total interest-bearing liabilities...............	76,779	3,901	5.08	81,539	3,807	4.67	82,545	3,277	3.97
Non-interest bearing liabilities..................	1,296			966			570		
Total liabilities...........	78,075			82,505			83,115		
Stockholders' equity...........	30,636			11,372			8,538		
Total liabilities & stockholders' equity.......	$ 108,711			$ 93,877			$ 91,653		
Net interest income............		$ 3,811			$ 2,805			$ 2,933	
Interest rate spread (2)........			2.14%			2.50%			2.92%
Net yield on interest-earning assets (3)....................			3.57%			3.04%			3.26%
Ratio of average interest-earning assets to average interest- bearing liabilities.			125.55%			113.08%			109.11%

</TABLE>

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(1) Includes interest-earning overnight deposits and term deposits with FHLB.

(2) Interest-rate spread represents the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities.
(3) Net yield on interest-earning assets represents net interest income as a percentage of average interest-earning assets.

The net interest margin is a key measure in determining the Bank's income performance. The Bank's net interest margin was 3.57% for the year ended September 30, 1996 compared to 3.04% for the same period in 1995. The 1996 increase was due to an increase of net interest income of approximately $1.0 million or 35.8%. Interest income for the year ended September 30, 1996 increased approximately $1.1 million or 16.6% compared to the same period in 1995. During these same periods, interest expense increased approximately $94,000 or 2.5%.

The increase in net interest income of $1.0 million between 1996 and 1995 was due primarily to the increase in the volume of average net interest-earning assets of approximately $14.6 million in 1996 compared to 1995.

The Bank's net interest margin was 3.04% for the year ended September 30, 1995 compared to 3.26% for the same period in 1994. The 1995 decrease was due to a decrease of net interest income of approximately $128,000 or 4.6%. Interest income for the year ended September 30, 1995 increased approximately $402,000 or 6.5% compared to the same period in 1994. During these same periods, interest expense increased approximately $530,000 or 16.2%.

The decrease in net interest income of $128,000 between 1995 and 1994 was due to the average interest rates paid on deposits increasing at a greater rate than the average interest yield on interest-earning assets, which was offset to some extent by the increase in the volume of average net interest-earning assets of approximately $2.1 million in 1995 compared to 1994.

Rate/Volume Analysis

The following 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 (i) changes in volume (changes in average volume multiplied by old rate); (ii) changes in rates (changes in rate multiplied by old average volume); (iii) changes in rate-volume (changes in rate multiplied by the change in average volume). Average balances are derived from month-end balances. Management does not believe that the use of month-end balances instead of average daily balances has caused any material difference in the information presented.

<TABLE>
<CAPTION>

	Year Ended September 30,							
	1996 vs 1995				1995 vs 1994			
	Increase (Decrease) Due to				Increase (Decrease) Due to			
	Volume	Rate	Rate/ Volume	Net	Volume	Rate	Rate/ Volume	Net
	(In Thousands)							
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Interest-earning assets:								
Loans receivable	$ 60	$ 274	$ 3	$ 337	$ 175	$ (68)	$ (2)	$ 105
Investment securities (1)	744	11	8	763	(5)	304	(2)	297
Total	$ 804	$ 285	$ 11	$ 1,100	$ 170	$ 236	$ (4)	$ 402
Interest expense:								
Deposits	$ (222)	$ 336	$ (20)	$ 94	$ (40)	$ 577	$ (7)	$ 530
Total	$ (222)	$ 336	$ (20)	$ 94	$ (40)	$ 577	$ (7)	$ 530
Net change in interest income	$ 1,026	$ (51)	$ 31	$ 1,006	$ 210	$ (341)	$ 3	$ (128)

</TABLE>

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(1) Includes interest-earning overnight deposits and term deposits with FHLB of Cincinnati.

COMPARISON OF THE RESULTS OF OPERATIONS FOR THE YEARS ENDED SEPTEMBER 30, 1996 AND 1995

Net Income

Income before the cumulative effect of a change in accounting principle increased by $199,000 or 22.3% to $1,090,000 for the year ended September 30, 1996 as compared to $891,000 for the same period in 1995. The net increase was due to an increase of $1,006,000 in net interest income, an increase of $20,000 in non-interest income plus a decrease in the provision for loan losses of approximately $84,000 offset by an increase of $781,000 in non-interest expense and an increase of $130,000 in income tax expense.

Interest Income

Interest income was $7.7 million, or 7.22% of average interest-earning assets, for the year ended September 30, 1996 as compared to $6.6 million, or 7.17% of average interest-earning assets, for the year ended September 30, 1995. Interest income increased by $1.1 million or 16.6% from 1995 to 1996. The change was primarily due to a $14.6 million increase in the average balance of interest-earning assets during the year ended September 30, 1996 compared to the year ended September 30, 1995.

Interest Expense

Interest expense was $3.9 million, or 5.08% of average interest-bearing liabilities, for the year ended September 30, 1996 as compared to $3.8 million, or 4.67% of average interest-bearing liabilities, for the corresponding period in 1995. The increase in interest expense of $94,000 was primarily the result of an increase in the average rates paid on deposits offset by a decrease of $4.8 million in the average balance of interest bearing deposits for the year ended September 30, 1996 compared to the same period in 1995.

Provision for Loan Losses

The provision for loan losses was approximately $8,000 and $92,000 for the years ended September 30, 1996 and 1995, respectively. Management considers many factors in determining the necessary levels of the allowance for loan losses, including an analysis of specific loans in the portfolio, estimated value of the underlying collateral, assessment of general trends in the real estate market, delinquency trends, prospective economic and regulatory conditions, inherent loss in the loan portfolio, and the relationship of the allowance for loan losses to outstanding loans. At September 30, 1996 the allowance for loan losses represented .37% of total loans compared to .39% at September 30, 1995.

Non-Interest Income

Non-interest income amounted to $101,000 and $81,000 for the years ended September 30, 1996 and 1995, respectively. The largest item in non-interest income is service fees on loan and deposit accounts, which amounted to $77,000 and $59,000 for 1996 and 1995, respectively. The increase in non-interest income of $20,000 was primarily due to the increase in income from late fees on delinquent loans and service fee income on NOW accounts.

Non-Interest Expense

Non-interest expense increased approximately $781,000 or 54.2% to $2.2 million for the year ended September 30, 1996 compared to $1.4 million for the same period in 1995. Non-interest expense was 2.0% and 1.5% of average assets for the years ended September 30, 1996 and 1995, respectively. The increase of $781,000 was

primarily due to an increase of $560,000 in federal insurance premiums, an increase of $89,000 in compensation and benefits, and an increase of $129,000 in other operating expenses. The increase of $560,000 in federal insurance premiums was primarily due to a one-time special assessment of $536,000, pursuant to legislation signed by the President on September 30, 1996 to recapitalize the

Savings Association Insurance Fund (SAIF). The increase in compensation and benefits resulted from compensation expense related to the ESOP of $169,000 in 1996, which was not incurred in 1995, offset in part by a $30,000 contribution to the defined benefit pension plan in 1995 that was not incurred in 1996, plus a decrease in salaries and bonuses of $45,000 in 1996 as compared to 1995. The decrease in salaries and bonuses in 1996 was due to a bonus of $81,000 paid in 1995 that was not paid in 1996. The increase of $129,000 in other operating expense was primarily due to increased legal and accounting fees, plus taxes and other regulatory filing fees associated with being a public company.

Income Tax Expense

The provision for income tax expense amounted to approximately $589,000 and $459,000 for the years ended September 30, 1996 and 1995, respectively. The provision for income tax expense as a percentage of income before income tax expense and cumulative effect of the change in accounting principle amounted to 35.1% and 34.0% for 1996 and 1995, respectively.

COMPARISON OF THE RESULTS OF OPERATIONS FOR THE YEARS ENDED SEPTEMBER 30, 1995 AND 1994

Net Income

Net income decreased by $134,000 or 13.0% to $891,000 for the year ended September 30, 1995 as compared to $1,025,000 for the same period in 1994. Income before the cumulative effect of the change in accounting principle decreased by $153,000 or 14.6% to $891,000 in 1995 compared to $1,044,000 in 1994. The net decrease of $153,000 was due to a decrease of $129,000 in net interest income, a decrease of approximately $5,000 in non-interest income, plus increases of approximately $32,000 in the provision for loan losses and $86,000 in non-interest expense offset by approximately a $99,000 decrease in income tax expense for 1995 compared to 1994.

Interest Income

Interest income was $6.6 million, or 7.17% of average interest-earning assets for the year ended September 30, 1995 as compared to $6.2 million, or 6.89% of average interest-earning assets, for the year ended September 30, 1994. Interest income increased by $402,000 or 6.5% from 1994 to 1995. The change was due to a 28 basis point increase in the average rate earned on the average interest-earning assets plus a $2.1 million increase in the average balance of interest-earning assets during the year ended September 30, 1995 compared to the year ended September 30, 1994.

Interest Expense

Interest expense was $3.8 million, or 4.67% of average interest-bearing deposits, for the year ended September 30, 1995 as compared to $3.3 million, or 3.97% of average interest-bearing deposits, for the corresponding period in 1994. Interest expense increased by $530,000 or 16.2% from 1994 to 1995. The change was due primarily to a 70 basis point increase in the average rate paid on the deposits during the year ended September 30, 1995 compared to the corresponding period in 1994.

Provision for Loan Losses

The provision for loan losses was $92,000 and $60,000 for the years ended September 30, 1995 and 1994. Management considers many factors in determining the necessary levels of the allowance for loan losses, including an analysis of specific loans in the portfolio, estimated value of the underlying collateral, assessment of general trends in the real estate market, delinquency trends, prospective economic and regulatory conditions, inherent loss in the loan portfolio, and the relationship of the allowance for loan losses to outstanding loans. At September 30, 1995 the allowance for loan losses represented .39% of total loans compared to .34% at September 30, 1994. The provisions were necessary to raise the allowance for loan losses to a level consistent with management's analysis of the loan portfolio.

Non-Interest Income

Non-interest income amounted to $81,000 and $86,000 for the years ended September 30, 1995 and 1994, respectively. The largest items in non-interest income are service fees on loan and deposit accounts, which amounted to $59,000 and $63,000 for 1995 and 1994, respectively. The decline in non-interest income of $5,000 was primarily due to the decrease in income from late fees on delinquent loans.

Non-Interest Expense

Non-interest expense increased approximately $86,000 or 6.3% to $1,444,000 at September 30, 1995 compared to $1,358,000 at September 30, 1994. Non-interest expense was 1.5% of average assets for both 1995 and 1994. The increase of $86,000 was due primarily to an increase in compensation and benefits of $70,000 plus an increase of $10,000 in occupancy expenses. The increase of $70,000 in compensation and benefits was due to normal increases in salary and benefits of $41,000 offset by a $26,000 decline in the contribution to the multi-employer pension plan, plus in fiscal year 1994, the Bank recognized a gain of $55,000 upon termination of their defined benefit pension plan (see Note 8 of Notes to Consolidated Financial Statements). The increase of $10,000 in occupancy expenses was due to increased depreciation charges and maintenance expense. For a possible one-time expense to the Bank to recapitalized the Savings Association Insurance Funds, see "SAIF Premium Disparity Possible Assessment."

Income Taxes

The provision for income tax expense amounted to approximately $459,000 and $558,000 for the years ended September 30, 1995 and 1994, respectively. The provision for income tax expense as a percentage of income before income tax expenses and cumulative effect of the change in accounting principle amounted to 34.0% and 34.8% for 1995 and 1994, respectively.

COMPARISON OF FINANCIAL CONDITION AT SEPTEMBER 30, 1996 and 1995

The Company's consolidated assets increased $1.8 million or 1.6% to $109.0 million at September 30, 1996 compared to $107.2 million at September 30, 1995. Securities available-for-sale increased $549,000, securities held-to-maturity increased $8.7 million, loans increased $2.1 million, cash and cash equivalents plus certificates of deposit decreased $9.9 million and other non-interest earning assets increased by $270,000.

Securities classified as available-for-sale are carried at market value in accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Securities available-for-sale increased $549,000 due to the increase in fair value of such securities. Securities held-to-maturity increased $8.7 million due

to the purchase of debt securities of U.S. Government agencies totaling $9.2 million offset by the call of a $500,000 FHLB bond.

Liabilities of the Company increased $1.7 million or 2.2% to $78.7 million at September 30, 1996 compared to $77.0 million at September 30, 1995. The increase in liabilities was primarily due to the increase in deposits of $1.1 million, reflecting management's aggressive strategy in attracting depositors within the local market area.

Stockholder's equity was $30.2 million at September 30, 1996 and increased approximately $37,000 over the balance at September 30, 1995. The increase was due to net income of $1.1 million, an increase of $362,000 in the net unrealized appreciation on securities available-for-sale, and an increase of $169,000 due to ESOP shares earned, offset by the purchase of common stock totaling $789,000 pursuant to a repurchase agreement approved by the Board of Directors of the Company on March 18, 1996, plus the payment of dividends totaling $795,000.

The OTS imposes regulations which provide that the savings institutions must maintain certain levels of capital. Specifically, the regulations provide that savings institutions must maintain tangible capital equal to 1.5% of adjusted total assets, core capital equal to 3% of adjusted total assets and a combination of core and supplementary capital equal to 8% of risk weighted assets.

The following summarizes the Bank's capital requirements and position at September 30, 1996 and 1995:
<TABLE>
<CAPTION>

	1996		1995	
	(Dollars in Thousands)			
	Amount	Percent	Amount	Percent
<S>	<C>	<C>	<C>	<C>
Tangible capital........................	$ 21,754	20.2	$ 20,531	19.1
Tangible capital requirement............	1,618	1.5	2,134	1.5
Excess..................................	$ 20,136	18.7	$ 18,397	17.6

Core capital	$ 21,754	20.2	$ 20,531	19.1
Core capital requirement	3,235	3.0	4,268	3.0
Excess	$ 18,519	17.2	$ 16,263	16.1
Tangible capital	$ 21,754		$ 20,531	
General valuation allowance	290		290	
Total capital (core and supplemental)	22,044	40.7	20,821	30.4
Risk-based capital requirement	4,334	8.0	5,469	8.0
Excess	$ 17,710	32.7	$ 15,352	22.4

</TABLE>

Liquidity

The liquidity of the Company depends primarily on the dividends paid to it as the sole shareholder of the Bank. At September 30, 1996, the Bank could pay on its common stock dividends of approximately $11.5 million.

The Bank's primary sources of funds are deposits and proceeds from principal and interest payments of loans. Additional sources of liquidity are advances from the FHLB of Cincinnati and other borrowings. At September 30, 1996, the Bank had no outstanding borrowings. The Bank has utilized and may in the future, utilize FHLB of Cincinnati borrowings during periods when management of the Bank believes that such borrowings provide a lower cost source of funds than deposit accounts and the Bank desires liquidity in order to help expand its lending operations.

The Company's operating activities produced positive cash flows for the fiscal years ended September 30, 1996, 1995, and 1994.

The Bank's most liquid assets are cash and cash-equivalents, which include investments in highly liquid, short-term investments. At September 30, 1996 and 1995, cash and cash equivalents totaled $15.1 million and $22.0 million, respectively.

At September 30, 1996, the Bank had $39.7 million in certificates of deposits due within one year and $17.2 million due between one and three years. Management believes, based on past experience, that the Bank will retain much of the deposits or replace them with new deposits. At September 30, 1996, the Bank had $900,000 in outstanding commitments to originate mortgages. The Bank intends to fund these commitments with short-term investments and proceeds from loan repayments.

OTS regulations require that the Bank maintain specified levels of liquidity. Liquidity is measured as a ratio of cash and certain investments to withdrawable savings. The minimum level of liquidity required by regulation is presently 5.0%. The Bank's liquidity ratio at September 30, 1996, 1995, and 1994 was 34.26%, 36.10%, and 15.43%, respectively.

Impact of Inflation and Changing Prices

The consolidated financial statements and notes thereto presented herein have been prepared in accordance with generally accepted accounting principles, which require the measurement of financial position and operating results in terms of historical dollars without considering the change in the relative purchasing power of money over time and due to inflation. The impact of inflation is reflected in the increased cost of the Company's operations. Unlike most industrial companies, nearly all the assets and liabilities of the Company are monetary in nature. As a result, interest rates have a greater impact on the Company's performance than do the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the price of goods and services.

Other Developments - BIF-SAIF Premium Disparity; Deposit Insurance Assessment; Bad Debt Reserve Recapture

The Bank's savings deposits are insured by the Savings Associations Insurance Fund ("SAIF"), which is administered by the Federal Deposit Insurance Corporation ("FDIC"). The assessment rate currently ranges from 0.23% of deposits for well capitalized institutions to 0.31% of deposits for undercapitalized institutions.

The FDIC also administers the Bank Insurance Fund ("BIF"), which has the same designated reserve ratio as the SAIF. On August 8, 1995, the FDIC adopted an amendment to the BIF risk-based assessment schedule which lowered the deposit insurance assessment rate for most commercial banks and other depository institutions with deposits insured by the BIF to a range of 0.31% of insured deposits for undercapitalized BIF-insured institutions to 0.04% of deposits for well-capitalized institutions, which constitute over 90% of BIF-insured institutions. The FDIC amendment became effective September 30, 1995. On November 14, 1995, the BIF assessment rate schedule was further revised to a statutory minimum of $2,000 annually for well capitalized institutions to 0.27% for deposits for undercapitalized institutions. These revisions to the BIF assessment rate schedule created a substantial disparity in the deposit insurance premiums paid by BIF and SAIF members and placed SAIF-insured savings institutions such as the Bank at a significant competitive disadvantage to BIF-insured institutions.

On September 30, 1996, the President signed legislation which among other things, recapitalized the Savings Associations Insurance Fund through a special assessment on most savings financial institutions, such as the Bank. The special assessment amounted to 65.7 basis points applied to the Bank's insured deposits as of March 31, 1995, and amounted to $536,000. The expense was recognized in the consolidated financial statements for the year ended

statements for the year ended September 30, 1996, and the after tax impact was to reduce net income by $354,000 or $0.18 per share of common stock. As a result of this special assessment, the insurance assessment rate on the Bank's deposits will be reduced beginning January 1, 1997.

In addition, the legislation repealed the bad debt deduction under the percentage of taxable income method of the Internal Revenue Code for savings banks. Savings banks, like the Bank, which have previously used the percentage of taxable income method in computing its bad debt deduction for tax purposes will be required to recapture into taxable income post-1987 reserves over a six-year period beginning with the 1996 taxable year (fiscal year 1997 for the Bank). The start of such recapture may be delayed until the 1998 taxable year if the dollar amount of the institution's residential loan originations in each year is not less than the average dollar amount of residential loans originated in each of the nine most recent years disregarding the years with the highest and lowest originations during such period. For purposes of this test, residential loan originations would not include refinancing and home equity loans. The impact of this legislation will not have a material impact on the financial statements of the Company.

Impact of Recent Accounting Pronouncements

Disclosures of Fair Value of Financial Instruments. In December 1991, the Financial Accounting Standards Board (the "FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 107, "Disclosures about Fair Value of Financial Instruments." SFAS No. 107 requires the Company to disclose the fair value of its financial instruments, which will include the majority of its balance sheet accounts in addition to selected off-balance sheet items. SFAS No. 107 became effective for the Company in fiscal 1996 because the Company has less than $150 million in total assets. Earlier adoption was required for entities with assets in excess of $150 million. SFAS No. 107 focuses only on disclosure of fair values in the financial statements, and therefore, has no effect on consolidated financial position and results of operations.

Accounting for Impaired Loans. In September 1993, the FASB issued SFAS No. 114, "Accounting by Creditors for Impairment of a Loan." SFAS No. 114 specifies that allowances for loan losses on impaired loans should be determined using the present value of estimated future cash flows of the loan, discounted at the loans' effective interest rate. A loan is impaired when it is probable that all principal and interest amounts will not be collected according to the loan contract. SFAS No. 114 is effective for fiscal years beginning after December 15, 1994, which for the Company is the 1996 fiscal year. Management adopted SFAS No. 114 on October 1, 1995, without material impact on consolidated financial position or results of operations. In October 1994, the FASB amended certain of the revenue recognition provisions of SFAS No. 114 by the issuance of SFAS No. 118. Such revisions similarly had no material effect on the consolidated financial condition or results of operations of the Company.

Derivative Financial Statements. In October 1994, the FASB issued SFAS No. 119, "Disclosure about Derivative Financial Instruments and Fair Value of Financial Instruments." SFAS No. 119 requires financial statement disclosure of certain derivative financial instruments, defined as futures, forwards, swaps, option contracts, or other financial instruments with similar characteristics. In the opinion of management, the disclosure requirements of SFAS No. 119 will not have a material effect on the Company's consolidated financial condition or results of operations, as the Company does not invest in derivative financial instruments, as defined in SFAS No. 119. As a result, the applicability of SFAS No. 119 relates solely to disclosure requirements pertaining to fixed-rate and adjustable-rate loan commitments.

Accounting for ESOP. The Accounting Standards Executive Committee of the American Institute of Certified Public Accountants ("AcSEC") has issued Statement of Position ("SOP 93-6") on "Employers' Accounting for Employee Stock Ownership Plans" ("ESOP"). SOP 93-6, among other things, changes the measure of compensation expense recorded by employers from the cost of ESOP shares to the fair value of ESOP shares. To the extent that fair value of the Company's ESOP shares differs from the costs of such shares, compensation expense must be

recorded in the Company's financial statements for the fair value of ESOP shares allocated to participants for a reporting period. SOP 93-6 was adopted by the Company during fiscal 1995, without material financial statement effect.

Accounting for Mortgage Servicing. In May 1995, the FASB issued SFAS No. 122, "Accounting for Mortgage Servicing Rights." SFAS No. 122 requires that the Company recognizes as separate assets rights to service mortgage loans for others, regardless of how those servicing rights were acquired. An institution that acquires mortgage servicing rights through either the purchase or origination of mortgage loans and sells those loans with servicing rights retained would allocate some of the cost of the loans to the mortgage servicing rights. SFAS No. 122 also requires that an enterprise allocate the cost of purchasing or originating the mortgage loans between the mortgage servicing rights and the loans, when mortgage loans are securitized, if it is practicable to estimate the fair value of mortgage servicing rights. Additionally, SFAS No. 122 requires that capitalized mortgage servicing rights and capitalized excess servicing receivables be assessed for impairment. Impairment would be measured based on fair value. SFAS No. 122 is to be applied prospectively in the Company's fiscal year beginning October 1, 1996, to transactions in which an entity acquires mortgage servicing rights and to impairment evaluations of all capitalized mortgage servicing rights and capitalized excess servicing receivables whenever acquired. Retroactive application is prohibited. Management adopted SFAS No. 122 on October 1, 1996, as required, without material effect on the Company's consolidated financial position or results of operations.

Accounting for Stock-Based Compensation. In October 1994, the FASB issued SFAS No. 123 entitled "Accounting for Stock-Based Compensation." SFAS No. 123 establishes a fair value based method of accounting for stock-based compensation paid to employees. SFAS No. 123 recognizes the fair value of an award of stock or stock options on the grant date and is effective for transactions occurring after December 1995. Companies are allowed to continue to measure compensation cost for those plans using the intrinsic value based method of accounting, which generally does not result in compensation expense recognition for most plans. Companies that elect to remain with the existing accounting are required to disclose in a footnote to the financial statements pro forma net earnings, and if presented, earnings per share, as if SFAS No. 123 had been adopted. The Company does not currently have any outstanding stock options, and therefore, adoption of SFAS No. 123 will not have a material effect on the Company's consolidated financial condition or results of operations.

Accounting for Transfers of Financial Assets. In June 1996, the FASB issued SFAS No. 125, "Accounting for Transfers of Financial Assets, Servicing Rights, and Extinguishment of Liabilities," that provides accounting guidance on transfers of financial assets, servicing of financial assets, and extinguishment of liabilities. SFAS No. 125 introduces an approach to accounting for transfers of financial assets that provides a means of dealing with more complex transactions in which the seller disposes of only a partial interest in the assets, retains rights or obligations, makes use of special purpose entities in the transaction, or otherwise has continuing involvement with the transferred assets. The new accounting method, the financial components approach, provides that the carrying amount of the financial assets transferred be allocated to components of the transaction based on their relative fair values. SFAS No. 125 provides criteria for determining whether control of assets has been relinquished and whether a sale has occurred. If the transfer does not qualify as a sale, it is accounted for as secured borrowing. Transactions subject to the provisions of SFAS No. 125 include, among others, transfers involving repurchase agreements, securitizations of financial assets, loan participations, factoring arrangements, and transfers of receivables with recourse.

An entity that undertakes an obligation to service financial assets recognizes either a servicing asset or liability for the servicing contract (unless related to a securitization of assets, and all the securitized assets are retained and classified as held-to-maturity). A servicing asset or liability that is purchased or assumed is initially recognized at its fair value. Servicing assets and liabilities are amortized in proportion to and over the period of estimated net servicing income or net servicing loss and are subject to subsequent assessments for impairment based on fair value.

MILLER, MAYER, SULLIVAN & STEVENS LLP
CERTIFIED PUBLIC ACCOUNTANTS
"INNOVATORS OF SOLUTION TECHNOLOGY"(sm)

INDEPENDENT AUDITORS' REPORT

Board of Directors
Harrodsburg First Financial Bancorp, Inc.
Harrodsburg, Kentucky

We have audited the accompanying consolidated balance sheets of Harrodsburg First Financial Bancorp, Inc. and Subsidiary as of September 30, 1996 and 1995 and the related consolidated statements of income, stockholders' equity, and cash flows for each of the years in the three year period ended September 30, 1996. These consolidated financial statements are the responsibility of the management of Harrodsburg First Financial Bancorp, Inc. (Company). Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Harrodsburg First Financial Bancorp, Inc. and Subsidiary as of September 30, 1996 and 1995, and the results of their operations and their cash flows for each of the years in the three year period ended September 30, 1996 in conformity with generally accepted accounting principles.

/s/Miller, Mayer, Sullivan & Stevens
Lexington, Kentucky
November 27, 1996

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HARRODSBURG FIRST FINANCIAL BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
September 30, 1996 and 1995

<TABLE>
<CAPTION>

ASSETS	1996	1995
<S>	<C>	<C>
Cash and due from banks	$ 834,621	$ 551,447
Interest Bearing Deposits	14,230,056	21,438,983
Certificates of deposit	2,500,000	5,500,000
Securities available-for-sale at fair value	1,881,429	1,332,177
Securities held-to-maturity, fair value of $10,398,994 and $1,751,411 for 1996 and 1995, respectively	10,502,766	1,747,343
Loans receivable, net	77,502,336	75,433,526
Accrued interest receivable	675,433	553,686
Premises and equipment, net	657,920	538,584
Other assets, including Federal income tax refund of $49,272 and $35,428 for 1996 and 1995, respectively	168,113	138,527
Total assets	$ 108,952,674	$107,234,273

LIABILITIES AND STOCKHOLDERS' EQUITY

Deposits	$ 76,946,210	$ 75,893,177
Advance payments by borrowers for taxes and insurance	68,534	86,929
Deferred Federal income tax	719,402	634,083
Dividends payable	391,633	
Other liabilities	604,906	434,870
Total liabilities	78,730,685	77,049,059
Stockholders' equity		
Common stock, $0.10 par value, 5,000,000 shares authorized; 2,182,125 shares issued and outstanding	218,213	218,213
Additional paid-in capital	21,001,572	20,948,904
Retained earnings, substantially restricted	10,229,074	9,934,378
Net unrealized appreciation on securities available-for-sale, net of deferred income taxes	1,191,925	829,419
Treasury stock, 49,392 shares, at cost	(789,495)	
Unallocated employee stock ownership plan (ESOP) shares	(1,629,300)	(1,745,700)
Total stockholders' equity	30,221,989	30,185,214
Total liabilities and stockholders' equity	$ 108,952,674	$107,234,273

</TABLE>

The accompanying notes are an integral part of the consolidated financial statements.

HARRODSBURG FIRST FINANCIAL BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
for the years ended September 30, 1996, 1995, and 1994

<TABLE>
<CAPTION>

<S>	1996 <C>	1995 <C>	1994 <C>
Interest income:			
Interest on loans	$ 5,970,236	$ 5,634,417	$ 5,527,683
Interest and dividends on securities	433,018	104,368	84,588
Other interest income	1,308,723	872,911	598,271
Total interest income	7,711,977	6,611,696	6,210,542
Interest expense:			
Interest on deposits	3,901,228	3,807,113	3,277,153
Net interest income	3,810,749	2,804,583	2,933,389
Provision for loan losses	7,500	91,982	60,000
Net interest income after provision for loan losses	3,803,249	2,712,601	2,873,389
Non-interest income:			
Loan and other service fees, net	77,214	58,829	63,234
Other	24,030	22,314	22,587
	101,244	81,143	85,821
Non-interest expense:			
Compensation and benefits	834,471	745,285	675,114
Occupancy expenses, net	121,604	130,781	120,816
Federal and other insurance premiums	748,464	188,072	187,979
Data processing expenses	95,711	92,976	86,044
State franchise tax	93,037	83,694	87,472
Other operating expenses	332,295	202,898	200,282
	2,225,582	1,443,706	1,357,707
Income before income tax expense and cumulative effect of change in accounting principle	1,678,911	1,350,038	1,601,503
Income tax expense	588,744	459,013	557,921

Income before cumulative effect of change in accounting principle	1,090,167	891,025	1,043,582
Cumulative effect of change in accounting principle			(18,591)
Net income	$ 1,090,167	$ 891,025	$ 1,024,991
Earnings per share	$ 0.55		

</TABLE>

The accompanying notes are an integral part of the consolidated financial statements.

HARRODSBURG FIRST FINANCIAL BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
for the years ended September 30, 1996, 1995, and 1994

<TABLE>
<CAPTION>

	Common Stock	Additional Paid-In Capital	Retained Earnings	Net Unrealized Appreciation on Securities Available-for-Sale	Treasury Stock	Unearned ESOP Shares	Total Stockholders' Equity
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balance, September 30, 1993	$	$	$8,018,362	$	$	$	$8,018,362
Net income			1,024,991				1,024,991
Balance, September 30, 1994			9,043,353				9,043,353
Issuance of common stock	218,213	20,948,904				(1,745,700)	19,421,417
Net income			891,025				891,025
Cumulative effect October 1, 1994 of change in accounting for securities				629,086			629,086
Change in net unrealized gain on securities available-for-sale, net of deferred income taxes				200,333			200,333
Balance, September 30, 1995	218,213	20,948,904	9,934,378	829,419		(1,745,700)	30,185,214
Net income			1,090,167				1,090,167
Change in net unrealized gain on securities available-for-sale, net of deferred income taxes				362,506			362,506
Dividend declared			(795,471)				(795,471)
ESOP shares earned in 1996		52,668				116,400	169,068
Purchase of 49,392 shares of common stock					(789,495)		(789,495)
Balance, September 30, 1996	$ 218,213	$21,001,572	$10,229,074	$ 1,191,925	$ (789,495)	$(1,629,300)	$30,221,989

</TABLE>

The accompanying notes are an integral part of the consolidated financial statements.

HARRODSBURG FIRST FINANCIAL BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
for the years ended September 30, 1996, 1995, and 1994

<TABLE>
<CAPTION>

<S>	1996	1995	1994
Operating activities			
Net income	$ 1,090,167	$ 891,025	$ 1,024,991
Adjustments to reconcile net income to net cash provided by operating activities:			
Cumulative effect of change in accounting principle			18,591
Provision for loan losses	7,500	91,982	60,000
Provision for depreciation	58,344	70,496	65,175
ESOP benefit expense	169,068		
Amortization of loan fees	(56,935)	(41,232)	(48,509)
Amortization of investment discount	(466)		
FHLB stock dividend	(80,000)	(71,100)	(52,900)
Change in:			
Interest receivable	(121,747)	(35,124)	(100,252)
Interest payable	(1,522)	132	(1,237)
Accrued liabilities	171,557	(8,915)	(29,885)
Prepaid expense	(9,646)	8,157	(2,658)
Income taxes payable	(121,367)	56,804	43,238
Net cash provided by operating activities	1,104,953	962,225	976,554
Investing activities			
Net (increase) decrease in loans	(2,019,375)	(2,819,505)	(504,087)
Purchase of certificates of deposit			(6,000,000)
Maturity of certificates of deposit	3,000,000	500,000	
Purchase of securities held-to-maturity	(9,208,636)	(500,000)	
Call of security held-to-maturity	500,000		
Principle repayments - mortgage back securities	33,679	15,031	30,238
Purchase of fixed assets	(177,977)	(115,999)	(43,936)
Retirement of assets	297		182
Net cash provided (used) by investing activities	(7,872,012)	(2,920,473)	(6,517,603)

</TABLE>

(Continued)

The accompanying notes are an integral part of the
consolidated financial statements.

HARRODSBURG FIRST FINANCIAL BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS, Continued
for the years ended September 30, 1996, 1995, and 1994

<TABLE>
<CAPTION>

<S>	1996	1995	1994
Financing activities			
Net increase (decrease) in demand deposits, NOW accounts and savings accounts	984,882	(3,101,122)	(523,059)
Net increase (decrease) in certificates of deposit	68,152	(3,096,803)	1,158,678
Net increase (decrease) in custodial accounts	(18,395)	9,316	808
Proceeds from issuance of common stock ,net		21,532,531	
ESOP loan		(1,745,700)	
Purchase of treasury stock	(789,495)		
Payment of dividends	(403,838)		
Net cash provided (used) by financing activities	(158,694)	13,598,222	636,427

Increase (decrease) in cash and cash equivalents	(6,925,753)	11,639,974	(4,904,622)
Cash and cash equivalents, beginning of year	21,990,430	10,350,456	15,255,078
Cash and cash equivalents, end of year	$ 15,064,677	$ 21,990,430	$ 10,350,456
Supplemental Disclosures			
Cash payments for:			
Interest on deposits	$ 3,902,750	$ 3,806,981	$ 3,289,998
Income taxes	$ 710,111	$ 402,209	$ 514,683
Mortgage loans originated to finance sale of foreclosed real estate		$ 17,500	$
Transfers from loans to real estate acquired through foreclosures			$ 25,000

</TABLE>

The accompanying notes are an integral part of the consolidated financial statements.

HARRODSBURG FIRST FINANCIAL BANCORP, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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1. Summary of Significant Accounting Policies

On September 29, 1995, Harrodsburg First Financial Bancorp, Inc. sold through a public offering 2,182,125 shares of common stock at a price of $10 per share in connection with the conversion of Harrodsburg First Federal Savings and Loan Association from a federally chartered mutual savings and loan association to a federally chartered stock savings bank, and the simultaneous formation of a savings and loan holding company. In the conversion, Harrodsburg First Federal Savings and Loan Association changed its name to First Federal Savings Bank of Harrodsburg (Bank). The net proceeds from the conversion amounted to $21,167,117, after deduction of certain costs associated with the conversion which totaled $654,133. The Company received all of the capital stock of the Bank in exchange for 50% of the net proceeds received in the conversion.

The Company's articles of incorporation authorize the issuance of up to 500,000 shares of preferred stock, which may be issued with certain rights and preferences. As of September 30, 1996, no preferred stock has been issued.

The Company is a corporation organized under the laws of Delaware. The Company is a savings and loan holding company whose activities are primarily limited to holding the stock of the Bank. The Bank is a federally chartered stock savings bank and a member of the Federal Home Loan Bank System. As a member of this system, the Bank is required to maintain an investment in capital stock of the Federal Home Loan Bank of Cincinnati (FHLB) in an amount equal to at least the greater of 1% of its outstanding loan and mortgage-backed securities or .3% of total assets as of December 31 of each year.

The Bank conducts a general banking business in central Kentucky which primarily consists of attracting deposits from the general public and applying those funds to the origination of loans for residential, consumer, and nonresidential purposes. The Bank's profitability is significantly dependent on net interest income which is the difference between interest income generated from interest-earning assets (i.e. loans and investments) and the interest expense paid on interest-bearing liabilities (i.e. customer deposits and borrowed funds). Net interest income is affected by the relative amount of interest-earning assets and interest-bearing liabilities and the interest received or paid on these balances. The level of interest rates paid or received by the Bank can be significantly influenced by a number of environmental factors, such as governmental monetary policy, that are outside of management's control.

The consolidated financial information presented herein has been prepared in accordance with generally accepted accounting principles (GAAP) and general accounting practices within the financial services industry. In preparing consolidated financial statements in accordance with GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from such estimates.

The following is a summary of the Company's significant accounting policies which have been consistently applied in the preparation of the accompanying consolidated financial statements.

Principles of Consolidation. The consolidated financial statements include the accounts of the Company and the Bank. All significant intercompany accounts and transactions have been eliminated.

Loan Origination Fees. The Bank accounts for loan origination fees in accordance with SFAS No. 91 "Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Cost of Leases." Pursuant to the provisions of SFAS No. 91, origination fees received from loans, net of direct origination costs, are deferred and amortized to interest income using the level-yield method, giving effect to actual loan prepayments. Additionally, SFAS No. 91 generally limits the definition of loan origination costs to the direct costs attributable to originating a loan, i.e., principally actual personnel costs. Fees received for loan commitments that are expected to be drawn upon, based on the Bank's experience with similar commitments, are deferred and amortized over the life of the loan using the level-yield method. Fees for other loan commitments are deferred and amortized over the loan commitment period on a straight-line basis.

Investment Securities. On October 1, 1994, the Bank adopted Statement of Financial Accounting Standards(SFAS) No. 115 "Accounting for Certain Investments in Debt and Equity Securities." SFAS No. 115 requires that all investments in debt securities and all investments in equity securities that have readily determinable fair values be classified into three categories. Securities that management has positive intent and ability to hold until maturity are classified as held-to-maturity. Securities that are bought and held specifically for the purpose of selling them in the near term are classified as trading securities. All other securities are classified as available-for-sale. Securities classified as trading and available-for-sale are carried at market value. Unrealized holding gains and s losses for trading securities are included in current income. Unrealized holding gains and losses for securities available-for-sale are reported as a net amount in a separate component of stockholders' equity until realized. Investments classified as held-to-maturity will be carried at amortized cost. The cumulative effect of this change was to increase stockholders' equity by $629,086, net of deferred taxes of $324,075, as of October 1, 1994.

Securities that management has the intent and ability to hold to maturity are classified as held-to- maturity, and carried at cost, adjusted for amortization of premium or accretion of discount over the term of the security, using the level yield method. Included in this category of investments is the FHLB stock which is a restricted stock carried at cost. Securities available-for-sale are carried at market value. Adjustments from amortized cost to market value are recorded in stockholders' equity net of deferred income tax until realized. The identified security method is used to determine gains or losses on sales of securities.

Prior to October 1, 1994, investment securities were carried at cost, adjusted for amortization of premiums and accretion of discounts. The investment securities were carried at cost, as it was management's intent and the Bank had the ability to hold the securities until maturity. Investment securities held for indefinite periods of time, or which management utilized as part of its asset/liability management strategy, or that would be sold in response to changes in interest rates, prepayment risk, or the perceived need to increase regulatory capital were classified as held-for-sale at the point of purchase and carried at the lower of cost or market.

(Continued)

Regulations require the Bank to maintain an amount of cash and U.S. government and other approved securities equal to a prescribed percentage (5% at September 30, 1996 and 1995) of deposit accounts (net of loans secured by deposits) plus short-term borrowings. At September 30, 1996 and 1995, the Bank met these requirements.

Federal Home Loan Mortgage Corporation Stock: On December 6, 1984, the Federal Home Loan Mortgage Corporation created a new class of participating preferred stock. The preferred stock was distributed to the twelve district banks of the Federal Home Loan Banking System for subsequent distribution to their member institutions. The Bank received 1,606 shares of the stock and recorded it at its fair value of $40 per share as of December 31, 1984. The fair value of the stock recognized as of December 1984 became its cost. The stock has been subsequently classified as available-for- sale and carried at market value.

Office Properties and Equipment. Office properties and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight line method and the double declining balance method over the estimated useful lives of the related assets. The gain or loss on the sales of property and equipment is recorded in the year of disposition.

Real Estate Owned. Real estate owned is generally comprised of property acquired through foreclosure or deed in lieu of foreclosure. Foreclosed real estate is recorded at the lower of cost or fair value, net of selling expenses, which subsequently becomes the cost, at the date of foreclosure. Expenses relating to holding property, including interest expense, are not capitalized. These expenses are charged to operations as incurred. Gains on the sale of real estate are recognized upon the ultimate disposal of the property. Valuations are periodically performed by management, and an allowance for losses is established by a charge to operations if the carrying value of a property exceeds its net realizable value.

Loans Receivable: Loans receivable are stated at the principal amount outstanding less the allowance for loan losses and net deferred loan fees. The Bank has adequate liquidity and capital, and it is generally management's intention to hold such assets to maturity.

The allowance for loan losses is increased by charges to income and decreased by charge-offs (net of recoveries). Management's periodic evaluation of the adequacy of the allowance is based on the Bank's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to pay, estimated value of any underlying collateral, and current economic conditions. While management uses the best information available, future adjustments may be necessary if conditions differ substantially from assumptions used in management's evaluation. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the allowance for loan losses and may require additions to the allowances based on their judgment about information available to them at the time of their examination.

Interest earned on loans receivable is recorded in the period earned. Uncollectible interest on loans that are contractually past due is charged off or an allowance is established based on management's periodic evaluation. The allowance is established by a charge to interest income equal to all interest previously accrued, and income is subsequently recognized only to the extent cash payments are

(Continued)

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received until, in management's judgment, the borrower's ability to make periodic interest and principal payments is back to normal, in which case the loan is returned to accrual status.

The Bank adopted SFAS No. 114, as subsequently amended, on October 1, 1995, without material effect on consolidated financial condition or results of operations.

A loan is defined under SFAS No. 114 as impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. In applying the provisions of SFAS No. 114, the Bank considers its investment in one-to-four family residential loans and consumer installment loans to be homogenous and therefore excluded from separate identification for evaluation of impairment. With respect to the Bank's investment in impaired multi-family and nonresidential loans, such loans are collateral dependent, and as a result, are carried as a practical expedient at the lower of cost or fair value.

Collateral dependent loans when put in non-accrual status are considered to constitute more than a minimum delay in repayment and are evaluated for impairment under SFAS No. 114 at that time.

Deposits. The Bank's deposits are insured by the Savings Association Insurance Fund ("SAIF"), which is administered by the Federal Deposit Insurance Corporation ("FDIC"). The Bank currently pays an assessment rate of 23% on customer deposit balances under $100,000. On September 30, 1996, the President signed legislation, which among other things, recapitalized the Savings Association Insurance Fund through a special assessment on savings financial institutions, such as the Bank. The special assessment amounted to $536,063 for the Bank and is included in the Federal and other insurance premium expense for the year ended September 30, 1996. As a result of the recapitalization of the SAIF, the Bank's assessment rate for insurance on deposits, beginning in 1997, is expected to be reduced to approximately 4% on customer deposit balances under $100,000.

Income Taxes. The Company accounts for federal income taxes in accordance with the provisions of SFAS No. 109, "Accounting for Income Taxes." SFAS No. 109 established financial accounting and reporting standards for the effects of income taxes that result from the Company's activities within the current and previous years. Pursuant to the provisions of SFAS No. 109, a deferred tax liability or deferred tax asset is computed by applying the current statutory tax rates to net taxable or deductible differences between the tax basis of an asset or liability and its reported amount in the financial statements that will result in taxable or deductible amounts in future periods. Deferred tax assets are recorded only to the extent that the amount of net deductible temporary differences or carryforward attributes may be utilized against current period earnings, carried back against prior years earnings, offset against taxable temporary differences reversing in future periods, or utilized to the extent of management's estimate of future taxable income. A valuation allowance is provided for deferred tax assets to the extent that the value of net deductible temporary differences and carryforward attributes exceeds management's estimates of taxes payable on future taxable income. Deferred tax liabilities are provided on the total amount of net temporary differences taxable in the future.

(Continued)

The Company files a consolidated federal income tax return with the Bank. The current income tax expense or benefit is allocated to each Corporation included in the consolidated tax return based on their tax expense or benefit computed on a separate return basis.

Employee Stock Ownership Plan. Shares of common stock issued to the Company's employee stock ownership plan (ESOP) are initially recorded as unearned ESOP shares in the stockholders' equity at the fair value of the shares at the date of the issuance of the plan. As shares are committed to be released as compensation to employees, the Company reduces the carrying value of the unearned shares and records compensation expense equal to the current value of the shares.

Effect of Implementing New Accounting Standards. In March 1995, the FASB issued SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." SFAS No. 121 establishes accounting standards for the impairment of long-lived assets, certain identifiable intangibles and goodwill related to those assets to be held and used, and for long-lived assets and certain identifiable intangible assets to be disposed of. The Standard requires an impairment loss to be recognized when the carrying amount of the asset exceeds the fair value of the asset. Management does not anticipate the implementation of this standard having a material adverse impact on the financial statements.

In May 1995, the FASB issued SFAS No. 122 "Accounting for Mortgage Servicing Rights," which amended SFAS No. 65 "Accounting for Certain Mortgage Banking Activities." SFAS No. 122 requires a mortgage banking enterprise to recognize as separate assets rights to service mortgage loans for others; however, these servicing rights are acquired. This statement applies prospectively in fiscal years beginning after December 15, 1995.

The Company and the Bank are not currently involved with mortgage banking activities, and therefore, this standard would not currently have any impact on the consolidated financial statements of the Company.

Cash and Cash Equivalents. For purposes of reporting consolidated cash flows, the Bank considers cash, balances with banks, and interest bearing deposits in other financial institutions with original maturities of three months or less to be cash equivalents.

Reclassification. Certain presentations of accounts previously reported have been reclassified in these consolidated financial statements. Such reclassifications had no effect on net income or retained income as previously reported.

(Continued)

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2. Investment Securities

The cost and estimated fair value of securities held by the Bank as of September 30, 1996 and 1995 are summarized as follows:

<TABLE>
<CAPTION>

1996	Amortized Cost	Gross Unrealized Gains	Gross nrealized U Losses	Fair Value
<S>	<C>	<C>	<C>	<C>
Securities, available-for-sale:				
Federal Home Loan Mortgage, capital stock, 19,272 shares	$ 75,482	$ 1,805,947	$	$ 1,881,429
Securities, held-to-maturity:				
Debt Securities:				
U.S. Government and Federal Agencies	$ 8,996,019	$ 5,625	$ 98,574	$ 8,903,070
Municipal bonds	213,083		11,392	201,691
	9,209,102	5,625	109,966	9,104,761
Mortgage-backed Securities	97,864	569		98,433
Federal Home Loan Bank of Cincinnati, capital stock - 11,958 shares	1,195,800			1,195,800
	$ 10,502,766	$ 6,194	$ 109,966	$ 10,398,994

</TABLE>
<TABLE>
<CAPTION>

1995	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<S>	<C>	<C>	<C>	<C>
Securities, available-for-sale:				
Federal Home Loan Mortgage, capital stock, 19,272 shares	$ 75,482	$ 1,256,695	$	$ 1,332,177
Securities, held-to-maturity:				
Debt Securities:				
Federal Home Loan Bank Bond	$ 500,000	$ 780	$	$ 500,780
Mortgage-backed Securities	131543	3288		134831

Federal Home Loan Bank of Cincinnati, capital stock - 11,158 shares	1115800			1115800
	$1,747,343	$ 4,068	$	$ 1,751,411

</TABLE>

The amortized cost and estimated market value of debt securities at September 30, 1996, by contractual maturity, are as follows:

(Continued)

<TABLE>
<CAPTION>

<S>	Amortized Cost <C>	Estimated Market Value <C>
Due after one year through five years	$ 8,996,019	$ 8,903,070
Due after five through ten years	104,684	98,655
Due after ten years	108,399	103,036
	$ 9,209,102	$ 9,104,761

</TABLE>

In accordance with the requirements of SFAS No. 115 "Accounting for Certain Investments in Debt and Equity Securities," the unrealized gain on securities available-for-sale of $1,805,947 net of deferred income taxes of $614,022 has been recorded as a separate component of stockholders' equity as of September 30, 1996.

For the year ended September 30, 1996, the Bank received $500,000 from the call of a debt security backed by a U.S. Government agency, which was classified as held-to-maturity. There were no sales of securities for the years ended September 30, 1995 and 1994.

3. Loans Receivable

Loans receivable, net at September 30, 1996 and 1995 consists of the following:

<TABLE>
<CAPTION>

<S>	1996 <C>	1995 <C>
Loans secured by first lien mortgages on real estate:		
One-to-four residential property	$ 64,303,729	$ 62,363,932
Multi-family residential property	3,558,839	3,053,364
Commercial properties	3,228,376	3,115,742
Construction	3,891,250	1,978,700
Agricultural	2,351,985	2,654,301
Consumer loans:		
Home equity	1,278,828	1,314,148
Home improvement and personal	1,176,371	1,825,930
Loans secured by savings deposits	407,469	620,595
	80,196,847	76,926,712
Loans in process	(2,167,621)	(975,197)
Provisions for loan losses	(297,250)	(297,292)
Deferred loan origination fees	(229,640)	(220,697)
Loans receivable, net	$ 77,502,336	$ 75,433,526

</TABLE>

The Bank has concentrated its lending activity within a 45 mile radius of Harrodsburg, Kentucky. Therefore, a substantial portion of its debtors' ability to honor their contracts is dependent on the economy of this area.

HARRODSBURG FIRST FINANCIAL BANCORP, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Bank provides an allowance to the extent considered necessary to provide for losses that may be incurred upon the ultimate realization of loans. The changes in the allowance on loan losses is analyzed as follows:

<TABLE>
<CAPTION>

	Year Ended September 30,		
	1996	1995	1994
<S>	<C>	<C>	<C>
Balance at beginning or period	$ 297,292	$ 252,019	$ 195,273
Additions charged to operations	7,500	91,982	60,000
Charge-offs	(7,542)	(49,297)	(3,254)
Recoveries		2,588	
Balance at end of period	$ 297,250	$ 297,292	$ 252,019

</TABLE>

The following is a summary of non-performing loans (in thousands) at September 30, 1996, 1995, and 1994, respectively:

<TABLE>
<CAPTION>

	September 30,		
	1996	1995	1994
<S>	<C>	<C>	<C>
Non-accrual loans			
Loans past due 90 days or more	$ 866	$ 667	$ 1,354
Total non-performing loan balances	$ 866	$ 667	$ 1,354

</TABLE>

At September 30, 1996, the Bank had identified no impaired loans as defined by SFAS No. 114. There were no loans in non-accrual status, and as such, all interest income earned for the year ended September 30, 1996 on the loans outstanding has been included in income.

Loans to executive officers and directors, including loans to affiliated companies of which executive officers and directors are principal owners, and loans to members of the immediate family of such persons at September 30, 1996 and 1995 are summarized as follows:

<TABLE>
<CAPTION>

	September 30,	
	1996	1995
<S>	<C>	<C>
Balance at beginning of period	$ 207,696	$ 172,425
Additions during year		65,000
Repayments	(13,250)	(29,729)
Balance at end of period	$ 194,446	$ 207,696

</TABLE>

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4. Premises and Equipment

Office premises and equipment included the following:
<TABLE>
<CAPTION>

Description	Useful Life	1996	1995
<S>	<C>	<C>	<C>
Land, buildings and improvements	30-45 years	$ 839,285	$ 744,072
Furniture, fixtures and equipment	5-10 years	548,357	472,098
		1,387,642	1,216,170
Less accumulated depreciation		(729,722)	(677,586)
		$ 657,920	$ 538,584

</TABLE>

Depreciation expense for the years ended September 30, 1996, 1995 and 1994 amounted to $58,344, $70,496, and $65,175, respectively.

5. Deposits

Deposit account balances as of the dates indicated are summarized as follows:
<TABLE>
<CAPTION>

	September 30, 1996	September 30, 1995
<S>	<C>	<C>
Demand deposit accounts, non-interest bearing	$ 487,377	$ 393,546
Passbook accounts with a weighted average rate of 2.79% at September 30, 1996 and 1995	8,328,830	7,828,538
NOW and MMDA deposits with a weighted average rate of 2.47% at September 30, 1996 and 1995	7,908,815	7,600,151
	16,725,022	15,822,235
Certificate of deposits with a weighted average interest rate of 5.63% and 5.84% at September 30, 1996 and 1995, respectively	60,221,188	60,070,942
Total Deposits	$ 76,946,210	$ 75,893,177
Jumbo certificates of deposit (minimum denomination of $100,000)	$ 3,211,065	$ 3,855,034

</TABLE>

(Continued)

Certificates of deposit by maturity at September 30, 1996 and 1995 (in thousands) are as follows:
<TABLE>
<CAPTION>

	September 30, 1996	September 30, 1995

Within one year	$ 39,678	$ 38,329
Over 1 to 3 years	17,707	17,177
Maturing in years thereafter	2,836	4,565
	$ 60,221	$ 60,071

Certificates of deposit by maturity and interest rate category at September 30, 1996 (in thousands) are as follows:

	Amount Due				
	Less Than One Year	1-2 Years	2-3 Years	After 3 Years	Total
2.01--4.00%	$	$	$	$	$
4.01--6.00%	32,780	9,004	2,857	947	45,588
6.01--8.00%	6,898	4,154	1,692	1,889	14,633
8.05--10.00%					
	$ 39,678	$ 13,158	$ 4,549	$ 2,836	$ 60,221

Interest expense on deposits for the periods indicated is summarized as follows:

	Years Ended September 30,		
	1996	1995	1994
Money market and NOW account	$ 195,471	$ 212,952	$ 217,059
Savings Accounts	224,418	283,208	285,790
Certificates	3,481,339	3,310,953	2,774,304
	$ 3,901,228	$ 3,807,113	$ 3,277,153

The Bank maintains arrangements for clearing NOW and MMDA accounts with the Federal Home Loan Bank of Cincinnati. The Bank is required to maintain adequate collected funds in its Demand Account to cover average daily clearings. The Bank was in compliance with this requirement at September 30, 1996 and 1995. At September 30, 1996, the Bank had pledged $450,000 of their overnight deposits held by the FHLB of Cincinnati to secure certain customer deposit balances.

6. Income Taxes

Effective January 1, 1993, the Bank adopted SFAS No. 109 "Accounting for Income Taxes" which requires an asset and liability approach to accounting for income taxes. The cumulative effect of adopting SFAS No. 109 was to decrease net income for the year ended September 30, 1994 by $18,591. Financial statements for prior periods were not restated.

(Continued)

The provision for income taxes for the periods indicated consist of the following:

	Years ended September 30,		
	1996	1995	1994
<S>	<C>	<C>	<C>
Federal income tax expense:			
Current expense	$ 690,171	$ 402,949	$ 501,572
Deferred expense (benefit)	(101,427)	56,064	56,349
	$ 588,744	$ 459,013	$ 557,921

</TABLE>

Deferred income taxes result from temporary differences in the recognition of income and expenses for tax and financial statement purposes. The source of these temporary differences and the tax effect of each are as follows:

<TABLE>
<CAPTION>

	Years ended September 30,		
	1996	1995	1994
<S>	<C>	<C>	<C>
Deposit insurance	$ (182,261)	$	$
Accrued pension cost			18,690
FHLB stock	27,200	24,174	18,054
Allowance for loan losses	57,357	35,947	21,574
Other, net	(3,723)	(4,057)	(1,969)
Net deferred tax expense (benefit)	$ (101,427)	$ 56,064	$ 56,349

</TABLE>

Forthe periods indicated, total income tax expense differed from the amounts computed by applying the U.S. Federal income tax rate of 34% to income before income taxes as follows:

<TABLE>
<CAPTION>

	Years ended September 30,		
	1996	1995	1994
<S>	<C>	<C>	<C>
Expected income tax expense at federal tax rate	$ 570,830	$ 459,013	$ 544,511
Other, net	17,914		13,410
Total income tax expense	$ 588,744	$ 459,013	$ 557,921
Effective income tax rate	35.1%	34.0%	34.8%

</TABLE>

(Continued)

Deferred tax assets and liabilities as of September 30, 1996 and 1995 consisted of the following:

<TABLE>
<CAPTION>

	1996	1995
<S>	<C>	<C>
Deferred tax assets:		
Deferred loan fee income	$ 78,077	$ 74,439
Deposit insurance assessment	182,261	
	260,338	74,439

Deferred tax liabilities:		
FHLB stock	210,120	182,920
Allowance for loan losses	93,305	35,948
Fixed asset basis over tax basis	62,293	62,378
	365,718	281,246
Net deferred taxes payable	$ 105,380	$ 206,807

</TABLE>

In addition to the net deferred tax liability of $105,380 outlined in the preceding table, the financial statements include a deferred tax liability of $614,022 that was charged against the unrealized gain on securities available-for-sale of $1,805,947. The net amount of $1,191,925 is recorded as a separate component of stockholders' equity.

The Internal Revenue Code allows savings institutions a special bad debt deduction, subject to certain limitations, based on the greater of actual experience or a percentage of taxable income method before such deduction. The effective bad debt deduction under the percentage of taxable income method is equal to approximately 8% of taxable income. In September of 1996, legislation was passed by Congress, which repealed the bad debt deduction under the percentage of taxable income method of the Internal Revenue Code for savings banks. Savings banks, like the Bank, which have previously used the percentage of taxable income method in computing its bad debt deduction for tax purposes will be required to recapture into taxable income post 1987 tax reserves over a six-year period, effective in fiscal year 1997 for the Bank. The impact of this legislation will not have a material impact on the financial statements of the Company.

7. Stockholders' Equity and Regulatory Capital

Regulatory Capital. The Bank is subject to minimum regulatory capital requirements promulgated by the Office of Thrift Supervision (OTS). Such minimum capital standards generally require the maintenance of regulatory capital sufficient to meet each of three tests, hereinafter described as the tangible capital requirement, the core capital requirement and the risk-based capital requirement. The tangible capital requirement provides for minimum tangible capital (defined as stockholders' equity less all intangible assets) equal to 1.5% of adjusted total assets. The core capital requirement provides for minimum core capital (tangible capital plus certain forms of supervisory goodwill and other qualifying intangible assets such as capitalized mortgage servicing rights) equal to 3.0% of adjusted total assets. A recent OTS proposal, if adopted in present form, would increase the core capital requirement to a range of 4%-5% of adjusted total assets for substantially all savings institutions. Management anticipates no material change to the Bank's present excess regulatory capital position as a result of this change in the regulatory capital requirement. The risk-based capital requirement provides for the maintenance of core capital plus general loss allowances equal to 8.0% of risk-weighted assets. In computing risk- weighted assets, the Savings Bank multiplies the value of each asset on its statement of financial

(Continued)

condition by a defined risk-weighting factor, e.g., one-to-four family residential loans carry a risk- weighted factor of 50%.

As of September 30, 1996, the Bank's regulatory capital exceeded all minimum regulatory capital requirements as shown in the following table:

<TABLE>
<CAPTION>

	Regulatory Capital					
	Tangible Capital	Percent	Core Capital	Percent	isk-based R Capital	Percent
	(in thousands)					
Capital under generally						

<S> <C> <C> <C> <C> <C> <C>

accepted accounting princiles	$ 22,946	%	$ 22,946	%	$ 22,946	%
Adjustments:						
Net unrealized appreciation on securities available-for-sale	(1,192)		(1,192)		(1,192)	
General valuation allowances					290	
Regulatory capital computed	21,754	20.2	21,754	20.2	22,044	40.7
Minimum capital requirement	1,618	1.5	3,235	3.0	4,334	8.0
Regulatory capital-excess	$ 20,136	18.7%	4 18,519	17.2%	$ 17,710	32.7%

</TABLE>

Retained Earnings Restriction. The Bank is allowed a special bad debt deduction limited generally to eight percent (8%) of otherwise taxable income and subject to certain limitations based on aggregate loans and savings account balances at the end of the year. If the amount qualifying as deductions under the Internal Revenue Code are later used for purposes other than for bad debt losses, they will be subject to Federal income tax at the then current corporation rate. Retained earnings at September 30, 1996 includes approximately $1,596,000, for which Federal income tax has not been provided nor has been required to be provided (see Note 6).

Liquidation Account: Upon conversion to a capital stock savings bank, eligible account holders who continued to maintain their deposit accounts in the Bank were granted priority in the event of the future liquidation of the Bank through the establishment of a special "Liquidation Account" in an amount equal to the consolidated net worth of the Bank at March 31, 1995. The liquidation account was $10,236,488 at March 31, 1995 and will be reduced in proportion to reductions in the balance of eligible account holders as determined on each subsequent fiscal year end. The existence of the liquidation account will not restrict the use or application of net worth except with respect to the cash payment of dividends. The Bank may not declare or pay a cash dividend on or repurchase any of its common stock if the effect thereof would cause its regulatory capital to be reduced below the amount required for the liquidation account.

(Continued)

Dividend Restrictions: The payment of cash dividends by the Bank on its Common Stock is limited by regulations of the OTS. Interest on savings accounts will be paid prior to payments or dividends on common stock. The Bank may not declare or pay a cash dividend to the Company in excess of the greater of (i) 100% of its net income to date during the current calendar year plus the amount that would reduce by one-half the Bank's capital ratio at the beginning of the year or (ii) 75% of its net income over the most recent four quarter period without prior OTS approval. Additional limitation on dividends declared or paid, or repurchases of the Bank stock are tied to the Bank's level of compliance with its regulatory capital requirements. At September 30, 1996, $11.5 million was available for payment of dividends from the Bank to the Company under the above mentioned OTS restrictions.

8. Retirement Benefits

Retirement Benefits: The Bank maintained a noncontributory defined benefit pension plan (Pension Trust) for the year ended September 30, 1993, which covered all full-time employees with one year of service who had attained the age of 21. Effective October 1, 1993, the Bank's Board of Directors terminated the Pension Trust, and effective the same date approved the Bank's participation in the Pentegra Retirement Fund ("Pentegra"), a multi-employer defined benefit retirement plan. Net assets of the Pension Trust were transferred to the Pentegra Plan on October 1, 1993. The accounting on that date was to recognize the termination of the Pension Trust, which resulted in a settlement gain of $54,972. The gain was due to the removal of the accrued pension liability related to the Pension Trust as of October 1, 1993.

The new multi-employer plan covers all full-time employees with one year of service who have attained the age of 21. Under a multi-employer defined benefit plan, pension expense is the amount of the annual required contribution, and a liability will be recognized only for contributions which are due but unpaid at the end of the accounting period. Pension expense was $-0-, $30,843 and $57,500 for the years ended September 30, 1996, 1995, and 1994, respectively.

Effective April 1, 1993, the Board of Directors adopted an employee pension benefit plan (referred to as a "401K Plan") as described under the Employees' Retirement Income Security Act of 1974. Under the Plan, the Bank is required to match 25% of employee contributions up to a maximum of 1.5% of eligible compensation. The Plan covers all full-time employees. The Bank contributed $6,888, $7,485, and $7,328 to the Plan for the years ended September 30, 1996, 1995, and 1994, respectively.

Employee Stock Ownership Plan: In connection with the stock conversion September 30, 1995, the Company established an internally leveraged Employee Stock Ownership Plan (the "ESOP") which covers substantially all full time employees. The ESOP borrowed $1,745,700 from the Company and purchased 174,570 shares of common stock of the Company at the date of conversion. The loan is to be repaid in annual installments over a 15 year period with interest, which is based on the published prime rate (currently 8.50%) per the Wall Street Journal.

The Company makes annual contributions to the ESOP equal to the ESOP's debt service less dividends, if any, received by the ESOP and used for debt service. Dividends received by the ESOP on shares held as collateral may be used to pay debt service; dividends on allocated shares may be credited to participants' accounts. Dividends of $67,500 were used in fiscal year 1996 to pay ESOP

(Continued)

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debt service. The ESOP shares are pledged as collateral on the debt. As the debt is repaid, shares are released from collateral and allocated to active participants based on a formula specified in the ESOP agreement.

ESOP compensation was $169,067 for the year ended September 30, 1996. For 1996, 11,640 were released from collateral. At September 30, 1996, there were 162,930 unallocated ESOP shares having a fair value of $2,851,275.

9. Financial Instruments with Off-Balance Sheet Risk and Concentration of Credit Risk

The Bank is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include mortgage commitments outstanding which amounted to approximately $931,000 plus unused lines of credit granted to customers totaling $1,588,846 at September 30, 1996. At September 30, 1995 mortgage commitments outstanding amounted to approximately $1,050,000 and unused lines of credit amounted to $1,297,367. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for loan commitments and consumer lines of credit are represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. Since many of the loan commitments may expire without being drawn upon, the total commitment amount does not necessarily represent future requirements. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained upon extension of credit is based on management's credit evaluation of the counterparty. Collateral held varies, but primarily includes residential real estate.

10. Earnings Per Share

Earnings per share for the year ended September 30, 1996 was calculated by dividing net income of $1,090,167 by the weighted average number of shares of common stock outstanding during the year, which was 1,998,877 for the year ended September 30, 1996. Earnings per share for fiscal year 1995 and prior years are not shown because the stock conversion was effective September 29, 1995.

11. Trust Accounts

The Bank maintained two Trust accounts during the year ended September 30, 1996. The following is a summary of the Trust Department assets at

September 30, 1996:

Description	September 30, 1996
Cash in passbook and checking account	$ 3,331
Certificates of deposit	22,021
Total	$ 25,352

(Continued)

12. Disclosures about Fair Value of Financial Instruments

In December 1991, the FASB issued SFAS No. 107, "Disclosures About Fair Value of Financial Instruments." This statement extends the existing fair value disclosure practices for some instruments by requiring all entities to disclose the fair value of financial instruments (as defined), both assets and liabilities recognized and not recognized in the statements of financial condition, for which it is practicable to estimate fair value.

There are inherent limitations in determining fair value estimates, as they relate only to specific data based on relevant information at that time. As a significant percentage of the Bank's financial instruments do not have an active trading market, fair value estimates are necessarily based on future expected cash flows, credit losses, and other related factors. Such estimates are accordingly, subjective in nature, judgmental and involve imprecision. Future events will occur at levels different from that in the assumptions, and such differences may significantly affect the estimates.

The statement excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company. Additionally, the tax impact of the unrealized gains or losses has not been presented or included in the estimates of fair value.

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments.

Cash and Cash Equivalents. The carrying amounts reported in the statement of financial condition for cash and short-term instruments approximate those assets' fair values.

Investment Securities. Fair values for investment securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. No active market exists for the Federal Home Loan Bank capital stock. The carrying value is estimated to be fair value since if the Bank withdraws membership in the Federal Home Loan Bank, the stock must be redeemed for face value.

Loans Receivable. The fair value of loans was estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

Deposits. The fair value of savings deposits and certain money market deposits is the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposit is estimated using the rates currently offered for deposits of similar remaining maturities.

Loan Commitments and Unused Home Equity Lines of Credit. The fair value of loan commitments and unused lines of credit is estimated by taking into account the remaining terms of the agreements and the present credit-worthiness of the counterparties.

(Continued)

The estimated fair value of the Company's financial instruments at September 30, 1996 are as follows:

<TABLE>
<CAPTION>

<S>	Carrying Amount <C>	Fair Value <C>
Assets		
Cash and cash equivalents	$ 15,064,677	$ 15,064,677
Certificates of deposit	2,500,000	2,500,000
Securities available-for-sale	1,881,429	1,881,429
Securities held-to-maturity	10,502,766	10,398,994
Loans receivable, net	77,502,336	77,617,294
Liabilities		
Deposits	76,946,210	77,081,851
Unrecognized Financial Instruments		
Loan commitments		931,000
Unused lines of credit		1,588,846

</TABLE>

(Continued)

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13. Harrodsburg First Financial Bancorp, Inc. Financial Information (Parent Company Only)

The parent company's principal assets are its investment in the Bank and cash balances on deposit with the Bank. The following are condensed financial statements for the parent company as of September 30, 1996.

<TABLE>
<CAPTION>

Harrodsburg First Financial Bancorp, Inc.
Condensed Statement of Financial Condition
September 30, 1996

<S>	<C>
Assets:	
Cash and due from banks	$ 7,548,037
Investment in subsidiary	22,945,415
Other assets	122,498
Total assets	$30,615,950
Liabilities and Stockholders' Equity:	
Dividends payable	$ 391,633
Accounts payable	2,328
	393,961
Stockholders' equity	
Common stock	218,213
Additional paid-in capital	21,001,572
Retained earnings	10,229,074
Net unrealized appreciation on securities available-for-sale	1,191,925
Treasury stock, 49,392 shares, at cost	(789,495)
Unearned ESOP shares	(1,629,300)
Total stockholders' equity	30,221,989
Total liabilities and stockholders' equity	$30,615,950

</TABLE>

(Continued)

Harrodsburg First Financial Bancorp, Inc.
Condensed Statement of Income
year ended September 30, 1996

Income:	
Miscellaneous income	$ 1,000
Expense:	
Legal fees	32,196
Franchise and license tax	30,435
Transfer agent fees	10,832
Accounting fees	10,000
Other operating expenses	16,351
	99,814
Net loss before tax benefit	(98,814)
Income tax benefit	6,096
Net loss before equity in undistributed net income of subsidiary	(92,718)
Equity in undistributed net income of subsidiary	1,182,885
Net income	$ 1,090,167

Harrodsburg First Financial Bancorp, Inc.
Condensed Statement of Cash Flows
year ended September 30, 1996

Cash flows from operating activities:	
Net income	$ 1,090,167
Adjustments to reconcile net income to net cash provided by operating activities:	
Equity in undistributed net income of subsidiary	(1,182,885)
Increase in other receivables	(6,098)
Decrease in other liabilities	(363,086)
Net cash used by operating activities	(461,902)
Cash flows from investing activities:	
Net cash provided (used) by investing activities	
Cash flows from financing activities:	
Dividends paid	(403,838)
Purchase of common stock	(789,495)
Net cash used by financing activities	(1,193,333)
Net decrease in cash and cash equivalents	(1,655,235)
Cash and cash equivalents at beginning of period	9,203,272
Cash and cash equivalents at end of period	$ 7,548,037

(Continued)

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14. Harrodsburg Savings and Loan Service Corporation

In 1978, the Bank formed Harrodsburg Savings and Loan Service Corporation, a wholly owned subsidiary, by purchasing its stock for $15,000. The Subsidiary was created to hold stock in a not for profit corporation that provides on line computer processing and inquiry service for the Bank and other savings and loan institutions.

Summary balance sheets for the wholly owned subsidiary are as follows:

Harrodsburg Savings & Loan Service Corporation
Balance Sheets, September 30, 1996 and 1995

ASSETS	1996	1995
Investments	$ 15,000	$ 15,000
STOCKHOLDERS' EQUITY		
Common stock	$ 15,000	$ 15,000

The Service Corporation did not receive income nor did it incur expense during the years ended September 30, 1996 and 1995.

15. Stock Purchase

On March 18, 1996, the Board of Directors of the Company authorized the repurchase of up to 5% or 109,106 shares of the Company's stock. Subsequently, 49,392 shares were repurchased at a total cost of $789,495. This plan, as approved by OTS, expired September 30, 1996. On September 16, 1996, the Board of Directors approved filing a second application with OTS to purchase 5% of the then outstanding stock (106,636 shares).

CORPORATE INFORMATION

BOARD OF DIRECTORS

Jack D. Hood President and Chief Executive Officer of the Bank and the Company	Jack L. Coleman, Jr. Representative, State of Kentucky; Partner, Coleman's Lumber Yard	Jack L. Coleman, Sr. Partner, Coleman's Lumber Yard
Elwood Burgin Retired	Thomas Les Letton President, The Letton Company	Wickliffe T. Asbury, Sr. Vice President of the Bank and the Company

EXECUTIVE OFFICERS

Jack D. Hood President and Chief Executive Officer of the Bank and the Company	Charles W. Graves, Jr. Vice President of the Bank and the Company	Wickliffe T. Asbury, Sr. Vice President of the Bank and the Company
Debbie C. Roach Secretary of the Bank and the Company		Teresa W. Noel Treasurer of the Bank and the

Company

</TABLE>

OFFICE LOCATIONS

104 South Chiles Street Harrodsburg, Kentucky 40330	216 South Main Street Lawrenceburg, Kentucky 40356

GENERAL INFORMATION

Independent Accountants Miller, Mayer, Sullivan, & Stevens, LLP 2365 Harrodsburg Road Lexington, KY 40504-3399	Special Counsel Malizia, Spidi, Sloane, & Fisch, P.C. One Franklin Square 1301 K Street, N.W., Suite 700 East Washington, DC 20005	Annual Report on Form 10K A COPY OF THE COMPANY'S 1996 ANNUAL REPORT ON FORM 10-K WITHOUT EXHIBITS WILL BE FURNISHED WITHOUT CHARGE TO STOCKHOLDERS AS OF THE RECORD DATE FOR THE 1997 ANNUAL MEETING UPON WRITTEN REQUEST TO JACK D. HOOD, HARRODSBURG FIRST FINANCIAL BANCORP, INC., P.O. BOX 384, 104 SOUTH CHILES STREET, HARRODSBURG, KY 40330
General Counsel David Patrick Attorney-at-Law 321 South Main Street Harrodsburg, KY 40330	Annual Meeting The 1997 Annual Meeting of Stockholders will be held on January 27, 1997 at 2:00 p.m. at First Federal Savings Bank of Harrodsburg, 104 South Chiles Street, Harrodsburg, KY	
Walter Patrick Attorney-at-Law Gordon Building P.O. Box 178 Lawrenceburg, KY 40342	Transfer Agent Illinois Stock Transfer 223 West Jackson Blvd,, Suite 1210 Chicago, IL 60606	

EXHIBIT 21

EXHIBIT 21

SUBSIDIARIES OF THE REGISTRANT

Parent

Harrodsburg First Financial Bancorp, Inc.

<TABLE>
<CAPTION>

Subsidiaries	Percentage Owned	State of Incorporation
<S>	<C>	<C>
First Federal Savings Bank of Harrodsburg (a)	100%	United States
Harrodsburg Savings and Loan Service Corporation (a)	100%	Kentucky

</TABLE>

(a) The operations of this subsidiary are included in the consolidated financial statements contained in the 1996 Annual Report to Stockholders incorporated herein by reference.

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