

March 2, 2009

Neil M. Barofsky  
Special Inspector General  
Office of the Special Inspector General  
Troubled Asset Relief Program  
1500 Pennsylvania Avenue, N.W., Suite 1064  
Washington, D.C. 20220

Dear Mr. Barofsky:

In response to your request dated February 6, 2009, First Financial Service Corporation (FSC) is pleased to present you with the following information:

1. TARP funds in the amount of \$20 million was received by First Financial Service Corporation (FSC) on January 9, 2009 and immediately injected into First Federal Savings Bank (FFSB), the sole subsidiary, as a capital infusion.

Since many of the national and super regional financial institutions appear to have substantially curbed their consumer, small business and commercial real estate lending activities within our market area, the Bank's loan demand has been quite strong. Prior to receipt of the capital infusion, FFSB's total risk based capital was 10.1%. FSC chose to participate in the TARP to provide additional capital to meet its growing loan needs. After receiving the TARP funding FFSB's total risk based capital increased to 12.1%. It is FFSB's desire to remain a well capitalized financial institution under regulatory standards. Accordingly, absent an infusion of capital FFSB was unable to continue to meet the needs of its retail and commercial customer base. Opportunities to raise capital through private sources are virtually non-existent. Consequently, participating in the TARP enabled the Bank to continue to meet its customer needs.

To assist the consumers within our market area FFSB introduced a retail mortgage loan promotion encouraging home owners to either purchase a new residence or to refinance an existing residential mortgage loan. Refinancing at the low rate of 3.99% (or an affordable loan closing cost of \$399) enables the home owner to reduce monthly payments resulting in their ability to improve personal cash flow for other buying needs or help survive the recession. A copy of the advertisement placed in many of the local newspapers during the month of January is attached. Additionally this promotion was publicized via radio advertisement within the market area. FFSB's residential mortgage loan portfolio increased by \$1 million during January 2009 as compared to a decline of \$1 million during January 2008.

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FFSB further met the retail needs of the market area by providing affordable interest rates for automobiles through its indirect auto lending program, home equity lines of credit, and various other consumer loans. This portfolio increased by \$3 million during the month of January 2009 compared to a decline of \$0.7 million during January 2008.

FFSB's commercial lending activities reflect an even greater financing need within its market area. During January 2009 commercial loans increased by \$21 million compared to an increase of \$0.5 million during January 2008. A variety of small business projects were financed, including loans for equipment and operating capital in the restaurant, trucking, and retail sectors. Commercial real estate loans were made for the purchase and development of land and the refinancing of existing projects which enabled the owners to withdraw cash for additional investments in other business opportunities.

The Bank was successful in lending all of the proceeds from TARP during the month ended January 31, 2009 as the total loan portfolio grew by \$25 million. This compares to a \$1 million decrease in the loan portfolio during the month ended January 31, 2008. An analysis of the loan growth is attached for each of the periods. It is anticipated FFSB will continue to meet the lending needs of the communities in which it serves throughout 2009. However the pace of loan growth will most likely slow as the year progresses.

2. The Executive Compensation Committee which is comprised of four independent FFSC and FFSB directors approve the Executive Incentive Compensation Plan annually. Under the 2008 Executive Compensation Plan, incentives were earned by the CEO and President. However, both voluntarily agreed to forfeit the incentive compensation due to the economic challenges facing FFSB. A 2009 Executive Incentive Compensation Plan has been discussed by the Committee; action has not yet been taken to approve the Plan. In accordance with the Economic Stimulus Package, the Committee will review and finalize the Plan pending the new standards to be set by the Treasury Secretary.

Sincerely,

A handwritten signature in cursive script that reads "B. Keith Johnson". The signature is written in black ink and is positioned above the typed name of the signatory.

B. Keith Johnson  
Chief Executive Officer  
First Financial Service Corporation

FIRST FEDERAL SAVINGS BANK

LOAN GROWTH ANALYSIS

31-Jan-09

MORTGAGE LOANS	MONTH - TO - DATE			
	31-Jan-09	31-Dec-08	Inc (Dec)	MTD %
RING ROAD	49,938,558	50,076,162	(137,604)	-0.27%
RADCLIFF	9,985,168	9,689,993	295,175	3.05%
BARDSTOWN	7,289,544	7,320,856	(31,312)	-0.43%
MUNFORDVILLE	14,488,129	14,117,820	370,309	2.62%
WEST DIXIE	1,542,302	1,559,178	(16,875)	-1.08%
SHEPHERDSVILLE	6,534,210	6,691,203	(156,993)	-2.35%
MT. WASHINGTON	9,257,039	8,930,797	326,242	3.65%
PEAR ORCHARD	1,119,553	1,129,443	(9,890)	-0.88%
BRANDENBURG MAIN	10,997,336	10,828,615	168,721	1.56%
FLAHERTY	2,254,994	2,190,086	64,909	2.96%
HILLVIEW	1,883,394	1,884,613	(1,219)	-0.06%
BARDSTOWN 3RD STREET	340,693	341,031	(338)	-0.10%
STONY BROOK	747,489	748,607	(1,119)	-0.15%
Glenview Corporate Banking Ctr	567,079	567,704	(625)	-0.11%
TYLER CENTER	1,098,746	1,099,206	(461)	-0.04%
CEDAR GROVE	56,044	56,848	(804)	-1.41%
EMPLOYEE ACCOUNTS	6,447,679	6,144,797	302,882	4.93%
GEORGETOWN	7,783,966	7,806,840	(22,874)	-0.29%
LANESVILLE	8,422,740	8,453,209	(30,469)	-0.36%
ELIZABETH	17,545,767	17,588,265	(42,498)	-0.24%
CORYDON	9,133,675	9,166,486	(32,812)	-0.36%
TOTAL	167,434,104	166,391,760	1,042,344	0.63%

CONSUMER	MONTH - TO - DATE			
	31-Jan-09	31-Dec-08	Inc (Dec)	MTD %
RING ROAD	18,982,506	18,661,512	320,995	1.72%
RADCLIFF	3,741,839	3,655,980	85,858	2.35%
BARDSTOWN	4,075,179	4,105,042	(29,862)	-0.73%
MUNFORDVILLE	6,054,418	5,872,959	181,459	3.09%
West Dixie	2,843,564	2,690,960	152,604	5.67%
SHEPHERDSVILLE	4,753,619	4,714,599	39,020	0.83%
MT. WASHINGTON	7,355,788	7,152,367	203,422	2.84%
PEAR ORCHARD	2,305,312	1,888,169	417,143	22.09%
BRANDENBURG MAIN	6,506,387	6,502,575	3,811	0.06%
DEALER SERVICES	33,460,177	31,712,731	1,747,446	5.51%
FLAHERTY	2,956,618	2,927,840	28,779	0.98%
HILLVIEW	1,052,165	1,093,028	(40,863)	-3.74%
Bardstown 3rd Street	432,717	386,045	46,672	12.09%
STONY BROOK	696,829	707,075	(10,245)	-1.45%
Glenview Corporate Banking Ctr	56,856	57,740	(884)	-1.53%
TYLER CENTER	1,083,352	1,068,663	14,689	1.37%
CEDAR GROVE	99	361,517	(361,418)	0.00%
EMPLOYEE ACCOUNTS	3,878,421	3,951,108	(72,687)	-1.84%
GEORGETOWN	503,474	497,254	6,220	1.25%
LANESVILLE	743,891	711,000	32,891	4.63%
ELIZABETH	1,009,970	1,032,698	(22,728)	-2.20%
CORYDON	1,103,515	1,108,808	(5,293)	-0.48%
TOTAL	103,596,697	100,859,668	2,737,029	2.71%

COMMERCIAL	MONTH - TO - DATE			
	31-Jan-09	31-Dec-08	Inc (Dec)	MTD %
RING ROAD	264,695,383	261,130,278	3,565,106	1.37%
RADCLIFF	17,961,683	17,895,481	66,202	0.37%
BARDSTOWN	32,229,919	32,131,748	98,171	0.31%
MUNFORDVILLE	2,808,713	2,803,034	5,680	0.20%
WEST DIXIE	68,765	69,145	(380)	-0.55%
SHEPHERDSVILLE	4,207,583	4,162,084	45,498	1.09%
MT. WASHINGTON	7,089,680	7,025,685	63,995	0.91%
PEAR ORCHARD	2,817	3,022	(204)	-6.76%
BRANDENBURG MAIN	67,203,294	66,772,979	430,315	0.64%
FLAHERTY	450,208	441,102	9,107	2.06%
HILLVIEW	6,542,235	6,921,140	(378,905)	-5.47%
Bardstown 3rd Street	233,970	154,194	79,776	51.74%
STONY BROOK	116,264,439	115,403,252	861,188	0.75%
Glenview Corporate Banking Ctr	130,360,505	114,021,925	16,338,580	14.33%
TYLER CENTER	4,454,887	4,456,151	(1,264)	-0.03%
CEDAR GROVE	126,342	21,043	0	0.00%
EMPLOYEE ACCOUNTS	535,338	531,654	3,684	0.69%
LANESVILLE	1,649,040	1,650,650	(1,610)	-0.10%
ELIZABETH	212,705	213,109	(405)	-0.19%
CORYDON	303,761	304,849	(1,087)	-0.36%
TOTAL	657,401,268	636,112,525	21,183,445	3.33%


TOTAL LOAN GROWTH

24,962,818

# First Federal Savings Bank

## "399" Mortgage Special

30-Year Fixed  
**\$399** Closing Costs<sup>†</sup>  
or  
3/1 ARM with NO CLOSING COSTS  
**3.99%** APR<sup>††</sup>



If you're in the market for a home, or looking to refinance your current mortgage, now's the time with First Federal Savings Bank's "399" Mortgage Special. First Federal offers several mortgage programs to fit your needs, including conventional, FHA and VA mortgages, with government approved underwriters on staff. Don't wait until it's too late. This offer is good only through the end of February.

Bardstown • Brandenburg • Corydon • Elizabeth  
Elizabethtown • Flaherty/Vine Grove • Georgetown • Hillview/Okolona  
Jeffersontown • Lanesville • Mt. Washington • Munfordville  
Radcliff/Fort Knox • Shepherdsville

Checking • Savings • Investments  
Debit Card Rewards • Online Banking & Billpay  
Mortgages • Home Equity Lines • Personal Loans  
Free Business Checking • Online Cash Management  
Small Business Lending • Payments • Employee Benefits

Member  
FDIC



<sup>†</sup> Excludes KHC loans. Does not include escrows and prepaids. Only available with a Primary FFSB checking account, automatic deduction of payment from FFSB checking, and a Home Equity Line/Loan if qualified for line/loan.

<sup>††</sup> The annual percentage rate may vary. Prepayment penalty of 1% applies for first 5 years. Only available with a Primary FFSB checking account, automatic deduction of payment from FFSB checking, and a Home Equity Line/Loan if qualified for line/loan.

[www.ffsbky.com](http://www.ffsbky.com)

1-800-314-2265