

K-Fed
BANCORP

2009 ANNUAL REPORT



STRONG
SOLID
SAFE

 **KAISER FEDERAL BANK**

FINANCIAL **HEALTH** IS EVERYTHING.

BACKGROUND

For over 55 years the financial institution which is owned by K-Fed Bancorp has provided personal financial services to a special niche of individuals in California. Originally chartered in 1953 as a Federal Credit Union for the employees and physicians of the Kaiser Permanente Medical Care Program, Kaiser Permanente Federal Credit Union grew to \$190 million in assets with two branches, and a network of ATMs. In 1999, the market share had been maximized under the credit union charter and the members voted to convert to a Mutual Savings Association. Within two years of the conversion, Kaiser Federal added two more branches and grew by more than 100%. Continued growth required more capital and in 2003 the members voted to change the structure again. K-Fed Mutual Holding Company was formed to hold the stock in K-Fed Bancorp which owns Kaiser Federal Bank. By March 31, 2004, in an initial public offering, 39% of the stock in K-Fed Bancorp was made available to the depositors of Kaiser Federal Bank and \$54 million in additional capital was raised. In this structure for the five years we have remained:

STRONG

K-Fed Bancorp's only business is Kaiser Federal Bank with total assets over \$895 million due to continued strong growth in deposits. Remaining in the mid-market range for both interest paid on deposits and interest rates charged on loans, we are not attracting "rate chasers". We believe in a fair rate on both sides of the account relationship.

SOLID

As a conservative and successful financial institution for more than 55 years, Kaiser Federal Bank continues to control expenses and maintain consistent earnings with steady growth. With three branches and six financial service centers, or cashless branches, the bank is able to provide cost effective personal service to all of our customers. The bank has also been able to further enhance the customer service experience by leveraging technology through the use of our ATM network, online banking and bill pay service.

SAFE

Kaiser Federal Bank exceeds the minimum requirement of a "well capitalized" institution as defined by our regulator, the Office of Thrift Supervision. Our investment and loan portfolios are conservative in nature as a matter of prudent management.



MESSAGE FROM THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

This past year has been one of the most difficult in the history of this great country. It has been labeled as economic and financial turmoil, a downturn that has put enormous stress on the nation's financial system, and the most severe recession since WWII. The decline in the stock market and real estate values, the bankruptcies and closing of large and small businesses with increased unemployment has created havoc on finances and families.

“Bank” became a four letter word.

Some “Banks” were “bailed out” with loans from the government, some were forced to merge with other banks, others failed and were taken over by the Federal Deposit Insurance Corporation. “Banks” were blamed for the real estate loans that were given to borrowers who really did not qualify, could not afford the payments, and/or did not understand the type of loan they obtained. “Banks” were said to have taken advantage of people who wanted to own a home. “Banks” were then held responsible for not making loans, and the lack of credit.

In reality, the majority of “Banks” continued to do business as usual, helping their account holders with their finances, and making credit available to credit worthy borrowers.

During the real estate boom, unregulated mortgage brokers provided real estate loans that;

- did not require proof of income or demonstrated ability to repay,
- required little or no down payment,
- provided low payments in the first few years with an increase later beyond the borrower's ability to repay.

These loans were packaged into complex collateralized debt obligations which were sold to investors. These complex collateral structures were given investment grade ratings and even insured by some companies.

As real estate loans became available to borrowers who really could not afford them, housing demand increased and prices became unreasonable. In a few short years some values increased by 200%!

Something was not right.

Home equity loans financed not only home improvements, but also paid off credit card debt that financed consumer spending which inflated consumer consumption.

New subdivisions of homes spread into the central part of Southern California, new warehouses and office buildings were built throughout the state, entrepreneurs and new businesses flourished.

When the real estate values in California climbed to the level that an average family could not afford with a conventional 30-year loan, requiring 20% down and a 5% to 6% annual percentage rate, the bubble had to burst.

And it did.

The market for the unconventional types of real estate loans disappeared. Investors and the insurers of those loans experienced losses. The stock market dropped, real estate slumped as values started to decline, building stopped, real estate loans went into default, consumer spending declined, large and small businesses failed, unemployment increased, foreclosures increased and real estate values continued to drop.

Kaiser Federal Bank cannot escape what is happening to the economy of our State and the Nation. However, to date we have not experienced the high level of non-performing assets and loan losses as some of our peers. Our loan portfolio demonstrates the results of our consistent conservative approach to real estate lending and we continue to keep it diversified with an increased emphasis this year on multi-family loans.

Not being a large bank is an advantage. With our size comes the ability to personally work with our account holders. We make every effort to work with borrowers who experience financial difficulty and are not able to meet their loan obligation. It is in the best interest of the borrower, the bank and the community to do everything possible to keep a family in their home.

During this difficult time there has also been what is called a “flight to safety” as people put their money in a safe and secure place. Kaiser Federal Bank has experienced an increase in deposits this fiscal year of 14.4% without paying above mid-market interest rates. Checking deposits increased by 15.9%, Savings increased 5.5%, Money Market Accounts increased 38.5%, and Certificates of Deposit increased 10.9%.

Realizing the challenges of this year, I thank our staff for their prompt and courteous service which is recognized in the high accolades from our account holders. I also extend my appreciation to the shareholders for their support, the account holders for their commitment and the leadership of the Board of Directors for contributing to the continuing success of this organization.

Graphs and selected financial data on the next two pages provide a brief summary of the last five years with specific details available in the enclosed Form 10-K.

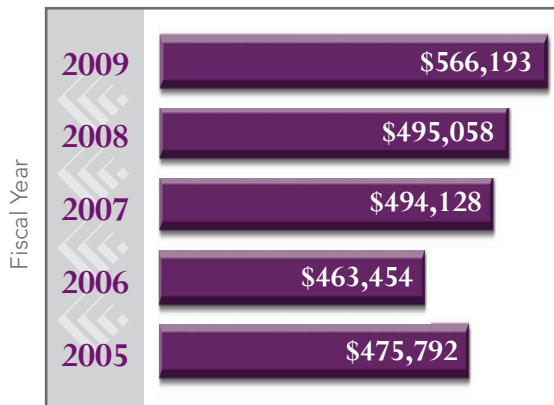


K. M. Hoveland
President and Chief Executive Officer

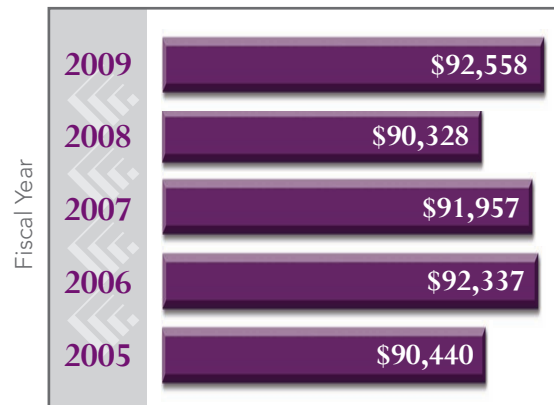
Total Assets



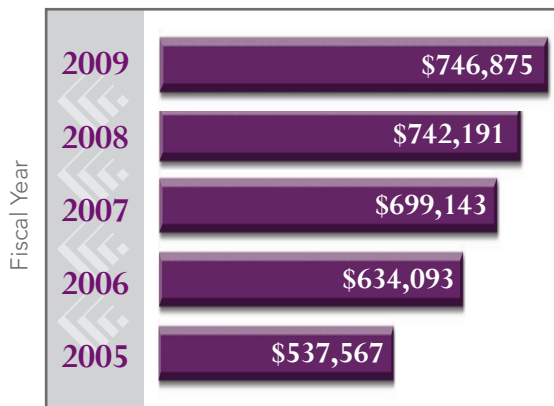
Deposits



Equity



Loans



Net Income



(Dollars in Thousands)



Bellflower

10104 Rosecrans Ave.
Bellflower, CA 90706



Covina

1359 N. Grand Ave.
Covina, CA 91724



Fontana

9844 Sierra Ave.
Fontana, CA 92335



Harbor City

26640 Western Ave.
Harbor City, CA 90710



Los Angeles

1110 N. ...
Los Angeles

SELECTED FINANCIAL DATA

	At June 30,				
	2009	2008	2007	2006	2005
	(Dollars in Thousands)				
<u>Selected Financial Condition Data:</u>					
Total assets.....	\$ 895,097	\$ 849,291	\$ 799,870	\$ 739,114	\$ 640,097
Cash and cash equivalents	73,705	51,240	22,339	25,579	17,315
Loans receivable, net	746,875	742,191	699,143	634,093	537,567
Securities available-for-sale	4,236	8,539	13,579	11,289	18,848
Securities held-to-maturity.....	5,528	7,504	21,096	24,738	30,834
Other investments (interest-earning time deposits).....	25,508	0	7,363	9,010	9,010
FHLB Stock	12,649	12,540	9,870	8,746	4,027
Deposits.....	566,193	495,058	494,128	463,454	475,792
Total borrowings	232,004	260,019	210,016	179,948	70,777
Total stockholders' equity	92,558	90,328	91,957	92,337	90,440

	Year Ended June 30,				
	2009	2008	2007	2006	2005
	(Dollars in Thousands, except per share data)				
<u>Selected Operating Data:</u>					
Total interest income.....	\$ 45,173	\$ 45,238	\$ 41,166	\$ 35,821	\$ 28,168
Total interest expense.....	22,883	25,769	23,140	17,464	10,800
Net interest income.....	22,290	19,469	18,026	18,357	17,368
Provision for loan losses	2,586	962	529	652	406
Net interest income after provision for loan losses..	19,704	18,507	17,497	17,705	16,962
Noninterest income.....	4,549	4,320	4,259	3,426	3,056
Noninterest expense.....	16,749	16,826	14,588	13,476	12,041
Income before income tax expense.....	7,504	6,001	7,168	7,655	7,977
Income tax expense	2,755	2,133	2,504	2,726	2,980
Net income	\$ 4,749	\$ 3,868	\$ 4,664	\$ 4,929	\$ 4,997
Basic earnings per share.....	\$ 0.36	\$ 0.29	\$ 0.34	\$ 0.36	\$ 0.36
Dividends per share.....	\$ 0.44	\$ 0.42	\$ 0.39	\$ 0.28	\$ 0.16



Panorama City
8501 Van Nuys Blvd.
Panorama City, CA 91402

Pasadena
252 S. Lake Ave.
Pasadena, CA 91101

Riverside
11810 Pierce St.
Riverside, CA 92505

Santa Clara
3375 Scott Blvd.
Santa Clara, CA 95054

INVESTOR RELATIONS

Exchange: NASDAQ®
Symbol: KFED
K. M. Hoveland, President/CEO
1359 N. Grand Avenue
Covina, CA 91724 626-339-9663
Shareholders seeking information about the Company may access presentations, press releases and government filings through the web site: www.k-fed.com

STOCK TRANSFERS

Computershare
PO Box 43078
Providence, RI 02940-3078
Within the US, Canada & Puerto Rico 800-962-4284
www.computershare.com/investor

INDEPENDENT AUDITORS

Crowe Horwath LLP
One Mid America Plaza
Oak Brook, IL 60522-3697 630-574-7878

SECURITIES COUNSEL

Luse Gorman Pomerenk & Schick, P.C.
5335 Wisconsin Avenue, NW, Suite 780
Washington, DC 20015-2035 202-274-2000

BOARD OF DIRECTORS

James Breeden – Chairman
Rita Zwern – Secretary
K. M. Hoveland – Director
Gerald Murbach – Director
Michael Sacher – Director
Robert Steinbach – Director
Laura Weissnar – Director

COMPANY OFFICERS

K. M. Hoveland – President/CEO
Dustin Luton – Senior Vice President/CFO

BANK OFFICERS

K. M. Hoveland – President/CEO
Dustin Luton – Senior Vice President/COO
Jean Carandang – Chief Financial Officer
Nancy Huber – Chief Credit Officer
Jeanne Thompson – Chief Administrative Officer

OFFICE MANAGERS

Bellflower – Open
Covina – Niké Shelton–Padilla
Fontana – Dawn Dumont
Harbor City – Evelyn Salinas
Los Angeles – Julie Hernandez
Panorama City – Edison Freire
Pasadena – Linda Hunter
Riverside – Roger St. Cyr
Santa Clara – Mary Jane Both

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For Your Financial Health

