Kentucky First Federal Bancorp
Form 10-Q
May 15, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2014

OR

¨ TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from ____________ to _______________

Commission File Number: 0-51176

KENTUCKY FIRST FEDERAL BANCORP
(Exact name of registrant as specified in its charter)

United States of America	61-1484858
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

216 West Main Street, Frankfort, Kentucky 40601
(Address of principal executive offices)(Zip Code)

(502) 223-1638
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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 such shorter period that the issuer was required to file such reports and (2) has been subject to such filing requirements for the past ninety days: Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company," in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller Reporting Company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.)

Yes ¨ No x

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: At May 12, 2014, the latest practicable date, the Corporation had 8,524,192 shares of $.01 par value common stock outstanding.

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PART I

ITEM 1: Financial Information

Kentucky First Federal Bancorp

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except share data)

	March 31, 2014	June 30, 2013
ASSETS		
Cash and due from financial institutions	$4,357	$4,537
Interest-bearing demand deposits	8,631	12,003
Cash and cash equivalents	12,988	16,540
Securities available for sale	250	205
Securities held-to-maturity, at amortized cost- approximate fair value of $10,010 and $12,354 at March 31, 2014 and June 30, 2013, respectively	9,877	12,232
Loans held for sale	—	196
Loans, net of allowance of $1,462 and $1,310 at March 31, 2014 and June 30, 2013, respectively	251,179	262,491
Real estate owned, net	1,842	1,163
Premises and equipment, net	4,597	4,608
Federal Home Loan Bank stock, at cost	6,482	7,732
Accrued interest receivable	900	919
Bank-owned life insurance	2,856	2,787
Goodwill	14,507	14,507
Prepaid expenses and other assets	614	682
Total assets	$306,092	$324,062
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits	$218,521	$230,981
Federal Home Loan Bank advances	18,229	24,310
Advances by borrowers for taxes and insurance	411	562
Accrued interest payable	37	36
Accrued federal income taxes	211	45
Deferred federal income taxes	276	241
Deferred revenue	635	641
Other liabilities	644	624
Total liabilities	238,964	257,440

Commitments and contingencies	-	-
Shareholders' equity		
Preferred stock, 500,000 shares authorized, $.01 par value; no shares issued and outstanding	-	-
Common stock, 20,000,000 shares authorized, $.01 par value; 8,596,064 shares issued	86	86
Additional paid-in capital	34,678	34,732
Retained earnings	33,989	33,604
Unearned employee stock ownership plan (ESOP)	(1,456)	(1,626)
Treasury shares at cost, 27,886 and 22,886 common shares at March 31, 2014 and June 30, 2013, respectively	(239)	(197)
Accumulated other comprehensive income	70	23
Total shareholders' equity	67,128	66,622
Total liabilities and shareholders' equity	$ 306,092	$ 324,062

See accompanying notes.

Kentucky First Federal Bancorp

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(Dollars in thousands, except per share data)

	Nine months ended March 31,		Three months ended March 31,	
	2014	2013	2014	2013
Interest income				
Loans, including fees	$ 9,519	$ 8,059	$ 3,137	$ 3,451
Mortgage-backed securities	102	143	32	46
Other securities	22	9	8	9
Interest-bearing deposits and other	237	210	77	76
Total interest income	9,880	8,421	3,254	3,582
Interest expense				
Interest-bearing demand deposits	22	30	7	16
Savings	180	166	58	46
Certificates of Deposit	839	723	247	277
Deposits	1,041	919	312	339
Borrowings	217	336	65	102
Total interest expense	1,258	1,255	377	441
Net interest income	8,622	7,166	2,877	3,141
Provision for loan losses	531	579	78	161
Net interest income after provision for losses on loans	8,091	6,587	2,799	2,980
Non-interest income				
Earnings on bank-owned life insurance	68	67	22	22
Net gains on sales of loans	55	142	—	31
Net gain (loss) on sales of REO	(10)	34	7	49
Valuation adjustment for REO	(34)	(99)	—	(74)
Bargain purchase gain	—	958	—	—
Other	240	133	78	81
Total non-interest income	319	1,235	107	109
Non-interest expense				
Employee compensation and benefits	3,908	2,986	1,396	1,314
Occupancy and equipment	409	273	124	139
Outside service fees	104	252	25	24
Legal fees	27	170	10	81
Data processing	327	244	107	139
Auditing and accounting	165	103	66	43
FDIC insurance premiums	172	140	57	77
Franchise and other taxes	203	156	67	68
Foreclosure and OREO expenses (net)	107	(17)	37	22
Other	721	552	223	232
Total non-interest expense	6,143	4,859	2,112	2,139

Income before income taxes	2,267	2,963	794	950
Federal income tax expense	755	884	303	320
NET INCOME	$ 1,512	$ 2,079	$ 491	$ 630
EARNINGS PER SHARE				
Basic and diluted	$ 0.18	$ 0.27	$ 0.06	$ 0.08
DIVIDENDS PER SHARE	$ 0.30	$ 0.30	$ 0.10	$ 0.10

See accompanying notes.

Kentucky First Federal Bancorp

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(In thousands)

	Nine months ended March 31,		Three months ended March 31,	
	2014	2013	2014	2013
Net income	$ 1,512	$ 2,079	$ 491	$ 630
Other comprehensive income, net of taxes: Unrealized holding gains on securities designated as available for sale, net of taxes of $24, $4, $9 and $4 during the respective periods	47	8	18	8
Comprehensive income	$ 1,559	$ 2,087	$ 509	$ 638

See accompanying notes.

Kentucky First Federal Bancorp

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Nine months ended March 31, 2014		2013	
Cash flows from operating activities:				
Net income	$	1,512	$	2,079
Adjustments to reconcile net income to net cash provided by operating activities				
Depreciation		218		118
Accretion of purchased loan discount		(125)		—
Amortization of purchased loan premium		7		—
Amortization (accretion) of deferred loan origination costs		(17)		15
Amortization (accretion) of premiums on investment securities		169		(73)
Accretion of premiums on Federal Home Loan Bank advances		(56)		(42)
Accretion of premiums on deposits		(316)		(181)
Net gain on sale of loans		(55)		(142)
Net loss (gain) on sale of real estate owned		—		(34)
		34		99

Valuation adjustments of real estate owned		
Deferred gain on sale of real estate owned	(6)	70
ESOP compensation expense	116	46
Stock benefit plans and stock options expense	—	65
Earnings on bank-owned life insurance	(69)	(67)
Provision for loan losses	531	579
Origination of loans held for sale	(1,502)	(2,567)
Proceeds from loans held for sale	1,753	3,105
Proceeds from Federal Home Loan Bank stock repurchase	1,250	—
Bargain purchase gain	—	(958)
Increase (decrease) in cash, due to changes in:		
Accrued interest receivable	19	(64)
Prepaid expenses and other assets	68	24
Accrued interest payable	1	(41)
Accounts payable and other liabilities	20	186
Federal income taxes	177	(53)
Net cash provided by operating activities	3,729	2,164
Cash flows from investing activities:		
Acquisition of CKF Bancorp, Inc.	—	(3,352)
Purchase of U.S. Treasury notes	(10,000)	(14,000)
Securities maturities, prepayments and calls:		
Held to maturity	12,186	16,212
Available for sale	26	24

Loans originated for investment, net of principal collected	10,203	9,479
Additions to premises and equipment, net	(207)	(8)
Net cash used by investing activities	12,208	8,355
Cash flows from financing activities:		
Net change in deposits	(12,144)	(2,551)
Payments by borrowers for taxes and insurance, net	(151)	(132)
Proceeds from Federal Home Loan Bank advances	10,000	22,500
Repayments on Federal Home Loan Bank advances	(16,025)	(25,652)
Dividends paid on common stock	(1,127)	(924)
Reissuance of treasury stock at less than cost	—	6,993
Treasury stock repurchases	(42)	(61)
Net cash provided by (used in) financing activities	(19,489)	173
Net increase (decrease) in cash and cash equivalents	(3,552)	10,692
Beginning cash and cash equivalents	16,540	5,735
Ending cash and cash equivalents	$ 12,988	$ 16,427

See accompanying notes.

Kentucky First Federal Bancorp

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

(Unaudited)

(In thousands)

	Nine months ended March 31, 2014	2013
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Federal income taxes	$ 575	$ 1,020
Interest on deposits and borrowings	$ 1,629	$ 1,040
Transfers of loans to real estate owned, net	$ 1,259	$ 187
Loans made on sale of real estate owned	$ 35	$ 2,537
Deferred gain on sale of real estate owned	$ 6	$ —
Capitalization of mortgage servicing rights	$ 13	$ 23

See accompanying notes.

Kentucky First Federal Bancorp

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2014

(unaudited)

On March 2, 2005, First Federal Savings and Loan Association of Hazard ("First Federal of Hazard" or the "Association") completed a Plan of Reorganization (the "Plan" or the "Reorganization") pursuant to which the Association reorganized into the mutual holding company form of ownership with the incorporation of a stock holding company, Kentucky First Federal Bancorp (the "Company") as parent of the Association. Coincident with the Reorganization, the Association converted to the stock form of ownership, followed by the issuance of all the Association's outstanding stock to Kentucky First Federal Bancorp. Completion of the Plan of Reorganization culminated with Kentucky First Federal Bancorp issuing 4,727,938 common shares, or 55% of its common shares, to First Federal Mutual Holding Company ("First Federal MHC"), a federally chartered mutual holding company, with 2,127,572 common shares, or 24.8% of its shares offered for sale at $10.00 per share to the public and a newly formed Employee Stock Ownership Plan ("ESOP"). The Company received net cash proceeds of $16.1 million from the public sale of its common shares. The Company's remaining 1,740,554 common shares were issued as part of the $31.4 million cash and stock consideration paid for 100% of the common shares of Frankfort First Bancorp ("Frankfort First") and its wholly-owned subsidiary, First Federal Savings Bank of Frankfort ("First Federal of Frankfort"). The acquisition was accounted for using the purchase method of accounting and resulted in the recordation of goodwill and other intangible assets totaling $15.4 million.

On December 31, 2012, the Company completed its acquisition of CKF Bancorp, Inc. ("CKF Bancorp"), the parent company of Central Kentucky Federal Savings Bank ("Central Kentucky FSB"), pursuant to the provisions of the Agreement of Merger dated as of November 3, 2011 and amended as of September 28, 2012. The acquisition was accounted for using the acquisition method of accounting and resulted in the recordation of bargain purchase gain of $958,000. The results of operations associated with Central Kentucky have been included in the operations of the Company since the closing date of December 31, 2012.

1. Basis of Presentation

The accompanying unaudited consolidated financial statements, which represent the consolidated balance sheets and results of operations of the Company, were prepared in accordance with the instructions for Form 10-Q and, therefore, do not include information or footnotes necessary for a complete presentation of financial position, results of operations and cash flows in conformity with U.S. generally accepted accounting principles. However, in the opinion of management, all adjustments (consisting of only normal recurring adjustments) which are necessary for a fair presentation of the consolidated financial statements have been included. The results of operations for the nine- and three-month periods ended March 31, 2014, are not necessarily indicative of the results which may be expected for an entire fiscal year. The consolidated balance sheet as of June 30, 2013 has been derived from the audited consolidated balance sheet as of that date. Certain information and note disclosures normally included in the Company's annual financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Form 10-K annual report for 2013 filed with the Securities and Exchange Commission.

Loans: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, adjusted for deferred loan fees, discounts on purchased loans, and the allowance for loan losses. Interest income is accrued on the unpaid principal balance, unless the collectability of the loan is in doubt. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the level-yield method without anticipating prepayments.

Interest income on one- to four-family residential loans is generally discontinued at the time a loan is 180 days delinquent and on other loans at the time the loan is 90 days delinquent. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

Kentucky First Federal Bancorp

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2014

(unaudited)

1. Basis of presentation (continued)

Interest income on non-consumer loans is discontinued (Placed on Non-Accrual status) at the time the loan is 90 days delinquent unless the loan is well-secured and in process of collection. Retail credit, which includes loans to individuals secured by their personal residence, including first mortgage, home equity and home improvement loans, are placed on nonaccrual status in accordance with the Uniform Retail Credit Classification and Account Management. Nonaccrual loans and loans past due 90 days still on accrual include both homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans. A loan is moved to nonaccrual status in accordance with the Company's policy, typically after 90 days of non-payment for commercial credits and 180 days for one- to four-family residential credits.

All interest accrued but not received for loans placed on nonaccrual is reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are generally returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Loan Losses: The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, anticipated economic conditions in the primary lending area, trends in the level of delinquent and problem loans and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired.

A loan is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower’s prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan’s existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Large groups of smaller balance homogeneous loans, such as consumer and residential real estate loans, are collectively evaluated for impairment, and accordingly, they are not separately identified for impairment disclosures. Troubled debt restructurings are separately identified for impairment disclosures and are measured at the present value of estimated future cash flows using the loan’s effective rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. For troubled debt restructurings that subsequently default, the Company determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

Kentucky First Federal Bancorp

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2014

(unaudited)

1. Basis of presentation (continued)

The general component covers non-impaired loans and is based on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the loss history experience of the Company over the most recent two years and a rolling average of the current year's loss history. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations.

The following portfolio segments have been identified: residential real estate, nonresidential real estate, land, farms, commercial (non-mortgage) and consumer and other loans. The residential real estate segment is our primary lending activity and it enables borrowers to purchase or refinance homes in the Banks' respective market areas. We further classify our residential real estate loans as one- to four-family, multi-family or construction. We originate loans to individuals to finance the construction of residential dwellings for personal use or for use as rental property. We occasionally lend to builders for construction of speculative or custom residential properties for resale, but on a limited basis. We also offer loans secured by nonresidential real estate, primarily commercial office buildings, churches and properties used for other purposes. Generally, these loans are originated for 25 years or less and do not exceed 80% of the appraised value. Our consumer loans include home equity lines of credit, auto loans, personal loans, and loans secured by savings deposits. In the acquisition of CKF, we acquired a portfolio of non-mortgage commercial loans totaling $3.2 million which had a carrying value of $2.4 million at march 31, 2014. Future originations of this type of loan are expected to be limited in the foreseeable future.

Purchased Credit Impaired Loans – Purchased credit impaired loans acquired in a business combination are recorded at estimated fair value on their purchase date with no carryover of the related allowance for loan losses. In determining the estimated fair value of these loans, management considers a number of factors including the remaining life of the acquired loans, estimated prepayments, estimated future credit losses, estimated value of the underlying collateral, estimated holding periods and the net present value of the cash flows expected to be received. To the extent that any smaller dollar purchased credit impaired loan is not specifically reviewed, when evaluating the net present value of the future estimated cash flows, management applies a loss estimate to that loan based on the average expected loss rates for the loans that were individually reviewed in that loan portfolio, adjusted for other factors, as applicable.

The difference between the estimated value of the loans acquired is divided into accretable and non-accretable portions. The non-accretable difference represents the difference between the contractually required payments and the cash flows expected to be collected.

Subsequent decreases to the expected cash flows will generally result in a provision for loan losses. Subsequent increases in cash flows will result in a reversal of the provision for loan losses to the extent of prior charges with a corresponding adjustment to the accretable yield, which would have a positive impact on interest income.

The accretable difference on purchased credit impaired loans represents the difference between the expected cash flows and the amount paid. Such difference is accreted into earnings using the level-yield method over the expected cash flow periods of the loans.

Kentucky First Federal Bancorp

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2014

(unaudited)

1. Basis of presentation (continued)

Management will separately monitor the purchased credit impaired loan portfolio and on a quarterly basis will review loans contained within this portfolio against the factors and assumptions used in determining the initial fair value adjustment. In addition to its quarterly evaluation, a loan is typically reviewed (i) when it is modified or extended, (ii) when material information becomes available to the Bank which provides additional insight pertaining to the loan’s performance, the status of the borrower, or the quality or value of the underlying collateral, or (iii) in connection with the quarterly review of projected cash flows, which includes a substantial portion of each acquired loan portfolio.

United States generally accepted accounting principles (“U.S. GAAP”) provides up to twelve months following the date of acquisition in which management can finalize the fair values of acquired assets and assumed liabilities. Material events that occur during the measurement period are analyzed to determine if the new information reflected facts and circumstances that existed on the acquisition date. The measurement period ends as soon as the Company receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns more information is unobtainable. The measurement period is limited to one year from the acquisition date. Management has finalized the fair values of acquired assets and assumed liabilities.

Principles of Consolidation - The consolidated financial statements include the accounts of the Company, Frankfort First, and its wholly-owned banking subsidiaries, First Federal of Hazard and First Federal of Frankfort (collectively hereinafter “the Banks”). All intercompany transactions and balances have been eliminated in consolidation.

Reclassifications - Certain amounts presented in prior periods have been reclassified to conform to the current period presentation. Such reclassifications had no impact on prior years’ net income.

2. Earnings Per Share

Diluted earnings per share is computed taking into consideration common shares outstanding and dilutive potential common shares to be issued or released under the Company's share-based compensation plans. The factors used in the basic and diluted earnings per share computations follow:

	Nine months ended March 31		Three months ended March 31	
(in thousands)	2014	2013	2014	2013
Net income allocated to common shareholders, basic and diluted	$ 1,512	$ 2,079	$ 491	$ 630

	Nine months ended March 31		Three months ended March 31	
	2014	2013	2014	2013
Weighted average common shares outstanding, basic and diluted	8,373,329	7,812,526	8,376,353	8,360,177

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Kentucky First Federal Bancorp

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

March 31, 2014

(unaudited)

2. Earnings per share (continued)

There were 309,800 stock option shares outstanding for the nine- and three-month periods ended March 31, 2014 and 2013. The stock option shares outstanding were antidilutive for the respective periods.

3. Investment Securities

The following table summarizes the amortized cost and fair value of securities available-for-sale and securities held-to-maturity at March 31, 2014 and June 30, 2013, the corresponding amounts of gross unrealized gains recognized in accumulated other comprehensive income and gross unrecognized gains and losses:

	March 31, 2014			
(in thousands)	Amortized cost	Gross unrealized/ unrecognized gains	Gross unrealized/ unrecognized losses	Estimated fair value
Available-for-sale Securities				
Agency mortgage-backed:residential	$ 136	$ 3	$ -	$ 139
FHLMC stock	8	103	-	111
	$ 144	$ 106	$ -	$ 250
Held-to-maturity Securities				
Agency mortgage-backed: residential	$ 4,114	$ 145	$ -	$ 4,259
Agency bonds	5,763	-	12	5,751
	$ 9,877	$ 145	$ 12	$ 10,010

	June 30, 2013			
(in thousands)	Amortized cost	Gross unrealized/ unrecognized gains	Gross unrealized/ unrecognized losses	Estimated fair value

Available-for-sale Securities				
Agency mortgage-backed:residential	$ 162	$ 4	$ -	$ 166
FHLMC stock	8	31	-	39
	$ 170	$ 35	$ -	$ 205
Held-to-maturity Securities				
Agency mortgage-backed: residential	$ 5,340	$ 210	$ 49	$ 5,502
Agency bonds	6,892	-	39	6,852
	$ 12,232	$ 210	$ 88	$ 12,354

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Kentucky First Federal Bancorp

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

March 31, 2014

(unaudited)

3. Investment Securities (continued)

The Company’s equity securities consist of Federal Home Loan Mortgage Company (FHLMC or Freddie Mac) stock, while our debt securities consist of agency bonds, a U.S. Treasury note, and mortgage-backed securities. Mortgage-backed securities do not have a single maturity date. The amortized cost and fair value of held-to-maturity debt securities are shown by contractual maturity. Securities not due at a single maturity date are shown separately.

	March 31, 2014	
(in thousands)	Amortized Cost	Fair Value
Held-to-maturity Securities		
Within one year	$1,007	$ 1,007
One to five years	4,756	4,744
Mortgage-backed	4,114	4,259
	$9,877	$ 10,010

Our pledged securities at March 31, 2014, and June 30, 2013 totaled $2.9 million and $3.1 million, respectively.

There were no sales of investment securities during the nine month period ended March 31, 2014, or 2013 nor the fiscal year ended June 30, 2013.

We evaluated securities in unrealized loss positions for evidence of other-than-temporary impairment, considering duration, severity, financial condition of the issuer, our intention to sell or requirement to sell. Management does not believe other-than-temporary impairment is evident, because none of the investments have been in a loss position for more than twelve months, as of March 31, 2014 and June 30, 2013.

Kentucky First Federal Bancorp

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

March 31, 2014

(unaudited)

4. Loans receivable

The composition of the loan portfolio was as follows:

(in thousands)	March 31, 2014	June 30, 2013
Residential real estate		
One- to four-family	$ 199,451	$ 209,092
Multi-family	14,165	14,506
Construction	1,997	1,753
Land	2,416	2,821
Farm	1,667	1,843
Nonresidential real estate	22,868	22,092
Commercial nonmortgage	2,379	3,189
Consumer and other:		
Loans on deposits	2,735	2,710
Home equity	5,363	5,757
Automobile	67	72
Unsecured	681	708
	253,789	264,543
Undisbursed portion of loans in process	1,195	833
Deferred loan origination fees (cost)	(47)	(91)
Allowance for loan losses	1,462	1,310
	$ 251,179	$ 262,491

The following table presents the activity in the allowance for loan losses by portfolio segment for the nine months ended March 31, 2014:

(in thousands)	Recoveries

	Beginning balance	Provision for loan losses	Loans charged off		Ending balance
Residential real estate:					
One- to four-family	$ 871	$ 499	$ (392)	$ 12	$ 990
Multi-family	63	10	—	—	73
Construction	8	2	—	—	10
Land	12	(4)			8
Farm	6	3	—	—	9
Nonresidential real estate	94	21	—	—	115
Commercial nonmortgage	13	(1)	—	—	12
Consumer and other:					
Loans on deposits	12	2	—	—	14
Home equity	25	3	—	—	28
Automobile	—	—	—	—	—
Unsecured	6	(4)	—	1	3
Unallocated	200	—	—	—	200
Totals	$ 1,310	$ 531	$ (392)	$ 13	$ 1,462

Kentucky First Federal Bancorp

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

March 31, 2014

(unaudited)

4. Loans receivable (continued)

The following table presents the activity in the allowance for loan losses by portfolio segment for the three months ended March 31, 2014:

(in thousands)	Beginning balance	Provision for loan losses	Loans charged off	Recoveries	Ending balance
Residential real estate:					
One- to four-family	$ 9982	$ 62	$ (62)	$ 8	$ 990
Multi-family	64	9	—	—	73
Construction	10	—	—	—	10
Land	10	(2)			8
Farm	8	1	—	—	9
Nonresidential real estate	102	13	—	—	115
Commercial nonmortgage	16	(4)	—	—	12
Consumer and other:					
Loans on deposits	14	—	—	—	14
Home equity	28	—	—	—	28
Automobile	—	—	—	—	—
Unsecured	4	(1)	—	—	3
Unallocated	200	—	—	—	200
Totals	$ 1,438	$ 78	$ (62)	$ 8	$ **1,462**

The following table presents the activity in the allowance for loan losses by portfolio segment for the nine months ended March 31, 2013:

(in thousands)	Beginning balance	Provision for loan losses	Loans charged off	Recoveries	Ending balance
Residential real estate:					

One- to four-family	$ 565	$ 487	$ (189)	$ 2	$ 865
Multi-family	49	27	—	—	76
Construction	3	4	—	—	7
Nonresidential real estate and land	35	33	—	—	68
Commercial nonmortgage and other	—	2	—	—	2
Loans on deposits	7	—	—	—	7
Consumer and other	16	26	—	—	42
Unallocated	200	—	—	—	200
Totals	$ 875	$ 579	$ (189)	$ 2	$ 1,267

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Kentucky First Federal Bancorp

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

March 31, 2014

(unaudited)

4. Loans receivable (continued)

The following table presents the activity in the allowance for loan losses by portfolio segment for the three months ended March 31, 2013:

(in thousands)	Beginning balance	Provision for loan losses	Loans charged off	Recoveries	Ending balance
Residential real estate:					
One- to four-family	$ 812	$ 127	$ (76)	$ 2	$ 865
Multi-family	87	(11)	—	—	76
Construction	9	(2)	—	—	9
Nonresidential real estate and land	59	9	—	—	68
Commercial nonmortgage and other	—	2	—	—	2
Loans on deposits	7	—	—	—	7
Consumer and other	6	36	—	—	42
Unallocated	200	—	—	—	200
Totals	$ 1,180	$ 161	$ (76)	$ 2	$ 1,267

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio class and based on impairment method as of March 31, 2014. The recorded investment in loans excludes accrued interest receivable and deferred loan costs, net due to immateriality.

Kentucky First Federal Bancorp

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

March 31, 2014

(unaudited)

4. Loans receivable (continued)

March 31, 2014:

(in thousands)	Loans individually evaluated	Loans acquired with deteriorated credit quality	Ending loans balance	Ending allowance
Loans individually evaluated for impairment:				
Residential real estate:				
One- to four-family	$ 4,220	$ 2,740	$6,960	$ 14
Multi-family	—	—	—	—
Land	333	443	776	—
Nonresidential real estate	35	516	551	—
Commercial and industrial	—	48	48	—
Consumer and other				
Automobile	—	—	—	—
Unsecured	8	—	8	—
	$ 4,596	$ 3,747	8,343	14
Loans collectively evaluated for impairment:				
Residential real estate:				
One- to four-family			$192,491	$ 976
Multi-family			14,165	73
Construction			1,997	10
Land			1,640	8
Farm			1,667	9
Nonresidential real estate			22,317	115
Commercial and industrial			2,331	12
Consumer and other				
Loans on deposits			2,735	14
Home equity			5,363	28
Automobile			67	—
Unsecured			673	3

Unallocated	—	200
	245,446	1,448
	$253,789	$ 1,462

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Kentucky First Federal Bancorp

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

March 31, 2014

(unaudited)

4. Loans receivable (continued)

The following tables present the balance in the allowance for loan losses and the recorded investment in loans by portfolio class and based on impairment method as of June 30, 2013.

June 30, 2013:

(in thousands)	Loans individually evaluated	Loans acquired with deteriorated credit quality	Ending loans balance	Ending allowance
Loans individually evaluated for impairment:				
Residential real estate:				
One- to four-family	$ 4,715	$ 2,989	$7,704	$ 14
Farm	—	485	485	—
Nonresidential real estate	—	546	546	—
Commercial and industrial	—	119	119	—
Consumer and other				
Automobile	—	23	23	—
	4,715	4,162	8,877	14
Loans collectively evaluated for impairment:				
Residential real estate:				
One- to four-family			$201,388	$ 860
Multi-family			14,506	63
Construction			1,753	8
Land			2,821	12
Farm			1,358	6
Nonresidential real estate			21,546	94
Commercial and industrial			3,070	13
Consumer and other				
Loans on deposits			2,710	12

Home equity	5,757	25
Automobile	49	—
Unsecured	708	3
Unallocated	—	200
	255,666	1,296
	$264,543	$ 1,310

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Kentucky First Federal Bancorp

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

March 31, 2014

(unaudited)

4. Loans receivable (continued)

The following table presents loans individually evaluated for impairment by class of loans as of and for the nine months ended March 31, 2014 and 2013:

March 31, 2014:

(in thousands)	Unpaid Principal Balance and Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Income Recognized
With no related allowance recorded:					
One- to four-family	$ 4,388	$ —	$ 4,723	$ —	$ —
Purchased credit-impaired loans	3,747	—	3,822	—	—
	8,135	—	8,545	—	—
With an allowance recorded:					
One- to four-family	208	14	208	—	—
	$ 8,343	$ 14	$ 8,753	$ —	$ —

March 31, 2013:

(in thousands)	Unpaid Principal Balance and Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Income Recognized
With no related allowance recorded:					
One- to four-family	$ 3,251	$ —	$ 3,533	$ —	$ —
Purchased credit-impaired loans	3,047	—	6,018	—	—
	6,298	—	9,551	—	—

With an allowance recorded:					
One- to four-family	178	10	185	—	—
	$ 6,476	$ 10	$ 9,736	$ —	$ —

Kentucky First Federal Bancorp

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

March 31, 2014

(unaudited)

4. Loans receivable (continued)

The following tables present the recorded investment in nonaccrual and loans past due over 90 days still on accrual by class of loans as of March 31, 2014, and June 30, 2013:

	March 31, 2014		June 30, 2013	
(in thousands)	Nonaccrual	Loans Past Due Over 90 Days Still Accruing	Nonaccrual	Loans Past Due Over 90 Days Still Accruing
One- to four-family residential real estate	$5,474	$ 1,775	$5,989	$ 1,972
Nonresidential real estate and land	507	—	—	—
Consumer and other	3	5	—	—
	$5,984	$ 1,780	$5,989	$ 1,972

Troubled Debt Restructurings:

A Troubled Debt Restructuring ("TDR") is the situation where the Bank grants a concession to the borrower that the Bank would not otherwise have considered due to the borrower's financial difficulties. All TDRs are considered "impaired." At March 31, 2014 and June 30, 2013, the Company had $2.6 million and $2.9 million of loans classified as TDRs, respectively. Of the TDRs at March 31, 2014, approximately 56.8% were residential real estate loans involving the Banks' conceding to refinance a loan to then-current market interest rates despite poor credit history or a high loan-to-value ratio and approximately 43.2% were related to the borrower's completion of Chapter 7 bankruptcy proceedings with no reaffirmation of his debt to the Banks.

The following table presents TDRs by loan type and accrual status:

March 31, 2014 (in thousands)	Troubled Debt Restructurings on Non-Accrual Status	Troubled Debt Restructurings on Accrual Status	Total Troubled Debt Restructurings
One- to four-family residential real estate	$ 2,462	$ 222	$ 2,684

June 30, 2013 (in thousands)	Troubled Debt Restructurings on Non-Accrual Status	Troubled Debt Restructurings on Accrual Status	Total Troubled Debt Restructurings
One- to four-family residential real estate	$ 2,211	$ 659	$ 2,870

Kentucky First Federal Bancorp

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

March 31, 2014

(unaudited)

4. Loans receivable (continued)

(in thousands)	Troubled Debt Restructurings Performing to Modified Terms	Troubled Debt Restructurings Not Performing to Modified Terms	Total Troubled Debt Restructurings
March 31, 2014			
One- to four- family residential real estate	$ 1,597	$ 1,087	$ 2,684
June 30, 2013			
One- to four- family residential real estate	$ 1,542	$ 1,328	$ 2,870

During the period ended March 31, 2014, the term of one single family residential real estate loan was restructured pursuant to a bankruptcy.

The following table summarizes TDR loan modifications for the three months ended March 31, 2014 and 2013, and their performance, by modification type:

(in thousands)	Troubled Debt Restructurings Performing to Modified Terms	Troubled Debt Restructurings Not Performing to Modified Terms	Total Troubled Debt Restructurings
Three months ended March 31, 2014			
Residential real estate:			
Rate reduction	$ —	$ —	$ —
Bankruptcies	82	—	82
Total troubled debt restructures	$ 82	$ —	$ 82

Three months ended March 31, 2013						
Residential real estate:						
Rate reduction	$	786	$	—	$	783
Bankruptcies		121		—		121
Total troubled debt restructures	$	907	$	—	$	907

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Kentucky First Federal Bancorp

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

March 31, 2014

(unaudited)

4. Loans receivable (continued)

During the nine months ended March 31, 2014, the Company restructured seven loans with premodification balances of $468,000 and postmodification balances of $472,000.

The following table summarizes TDR loan modifications that occured during the nine months ended March 31, 2014 and 2013, and their performance, by modification type

(in thousands)	Troubled Debt Restructurings Performing to Modified Terms	Troubled Debt Restructurings Not Performing to Modified Terms	Total Troubled Debt Restructurings
Nine months ended March 31, 2014			
Residential real estate:			
Rate reduction	$ —	$ —	$ —
Bankruptcies	457	—	457
Total troubled debt restructures	$ 457	$ —	$ 457
Nine months ended March 31, 2013			
Residential real estate:			
Rate reduction	$ 335	$ 504	$ 839
Bankruptcies	142	818	960
Total troubled debt restructures	$ 477	$ 1,322	$ 1,799

The Company had no allocated specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of March 31, 2014, or at June 30, 2013. The Company had no commitments to lend on loans classified as TDRs at March 31, 2014 or June 30, 2013.

The TDRs described above increased the allowance for loan losses as a result of $244,000 in charge offs during the nine months ended March 31, 2014. One TDR defaulted during the nine month period ended March 31, 2014, as a result of filing bankruptcy, while no TDRs defaulted in the nine-month period ended March 31, 2013, or the three month periods ended March 31, 2014 or 2013. The TDR that defaulted had a carrying value of $486,000 at March 31, 2014, after a charge-off $142,000.

Kentucky First Federal Bancorp

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

March 31, 2014

(unaudited)

4. Loans receivable (continued)

The following table presents the aging of the principal balance outstanding in past due loans as of March 31, 2014, by class of loans:

(in thousands)	30-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Loans Not Past Due	Total
Residential real estate:					
One-to four-family	$ 5,784	$ 7,249	$13,033	$186,418	$199,451
Multi-family	—	—	—	14,165	14,165
Construction	—	—	344	1,653	1,997
Land	344	357	357	2,059	2,416
Farm	—	—	—	1,667	1,667
Nonresidential real estate	443	150	563	22,275	22,868
Commercial non-mortgage	—	—	—	2,379	2,379
Consumer and other:					
Loans on deposits	—	—	—	2,735	2,735
Home equity	21	—	21	5,342	5,363
Automobile	—	—	—	67	67
Unsecured	45	8	53	628	681
Total	$ 6,637	$ 7,764	$14,401	$239,388	$253,789

The following tables present the aging of the principal balance outstanding in past due loans as of June 30, 2013, by class of loans:

(in thousands)	30-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Loans Not Past Due	Total

Residential real estate:					
One-to four-family	$ 5,290	$ 5,034	$ 10,324	$ 198,768	$ 209,092
Multi-family	—	—	—	14,506	14,506
Construction	42	—	42	1,711	1,753
Land	—	—	—	2,821	2,821
Farm	—	—	—	1,843	1,843
Nonresidential real estate	35	140	175	21,917	22,092
Commercial and industrial	—	—	—	3,189	3,189
Consumer and other:					
Loans on deposits	—	—	—	2,710	2,710
Home equity	23	23	46	5,711	5,757
Automobile	29	—	29	43	72
Unsecured	—	48	48	660	708
Total	$ 5,419	$ 5,245	$ 10,664	$ 253,879	$ 264,543

Kentucky First Federal Bancorp

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

March 31, 2014

(unaudited)

4. Loans receivable (continued)

Credit Quality Indicators:

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis is performed on an annual basis. The Company uses the following definitions for risk ratings:

Special Mention. Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

Substandard. Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful. Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable.

Loans not meeting the criteria above that are analyzed individually as part of the above-described process are considered to be pass rated loans. Loans listed that are not rated are included in groups of homogeneous loans and are evaluated for credit quality based on performing status. See the aging of past due loan table above. As of March 31, 2014, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

(in thousands)	Pass	Special Mention	Substandard	Doubtful	Not rated
Residential real estate:					
One- to four-family	$—	$ 3,450	$ 10,138	$ —	$189,313
Multi-family	10,715	—	—	—	—
Construction	1,997	—	—	—	—
Land	1,416	—	1,000		
Farm	1,667	—	—	—	—
Nonresidential real estate	20,079	957	1,832	—	—
Commercial and industrial	2,331	—	48	—	—
Consumer and other:					
Loans on deposits	2,735	—	—	—	—
Home equity	5,363	—	—	—	—
Automobile	67	—	—	—	—
Unsecured	662	—	19	—	—
	$47,032	$ 4,407	$ 13,037	$ —	$189,313

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

March 31, 2014

(unaudited)

4. Loans receivable (continued)

At June 30, 2013, the risk category of loans by class of loans was as follows:

(in thousands)	Pass	Special Mention	Substandard	Doubtful	Not rated
Residential real estate:					
One- to four-family	$—	$ 4,923	$ 9,832	$ —	$194,337
Multi-family	12,956	—	1,550	—	—
Construction	1,753	—	—	—	—
Land	2,050	—	771	—	—
Farm	1,843	—	—	—	—
Nonresidential real estate	19,246	—	2,846	—	—
Commercial and industrial	3,071	—	118	—	—
Consumer and other:					
Loans on deposits	2,710	—	—	—	—
Home equity	5,757	—	—	—	—
Automobile	37	—	35	—	—
Unsecured	681	27	—	—	—
	$50,104	$ 4,950	$ 15,152	$ —	$194,337

Purchased Credit Impaired Loans:

The Company purchased loans during fiscal year 2013 for which there was, at acquisition, evidence of deterioration of credit quality since origination and it was probable, at acquisition, that all contractually required payments would not be collected. The carrying amount of those loans, net of a purchase discount of $788,000 and $1.2 million at March 31, 2014 and June 30, 2013, respectively, is as follows:

(in thousands)	March 31, 2014	June 30, 2013
One- to four-family residential real estate	$ 2,740	$ 2,989
Land	443	485
Nonresidential real estate	516	546
Commercial nonmortgage	48	119
Consumer	—	23
Outstanding balance	$ 3,747	$ 4,162

Kentucky First Federal Bancorp

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

March 31, 2014

(unaudited)

4. Loans receivable (continued)

Accretable yield, or income expected to be collected, is as follows

(in thousands)	Three months ended March 31, 2014	Nine months ended March 31, 2014