

Kentucky First Federal Bancorp  
Form 10-Q  
May 15, 2015

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended March 31, 2015

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      (I.R.S. Employer Identification No.)  
incorporation or organization)

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

Edgar Filing: Kentucky First Federal Bancorp - Form 10-Q

(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  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  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  Smaller Reporting Company   
(Do not check if a smaller reporting company)

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

Yes  No

**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 13, 2015, the latest practicable date, the Corporation had 8,439,515 shares of \$.01 par value common stock outstanding.



INDEX

	Page
PART I - ITEM 1 <u>FINANCIAL INFORMATION</u>	
<u>Consolidated Balance Sheets</u>	3
<u>Consolidated Statements of Income</u>	4
<u>Consolidated Statements of Comprehensive Income</u>	5
<u>Consolidated Statements of Cash Flows</u>	6
<u>Notes to Consolidated Financial Statements</u>	8
ITEM 2 <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	33
ITEM 3 <u>Quantitative and Qualitative Disclosures About Market Risk</u>	40
ITEM 4 <u>Controls and Procedures</u>	40
PART II - <u>OTHER INFORMATION</u>	41
<u>SIGNATURES</u>	42

## PART I

ITEM 1: Financial Information**Kentucky First Federal Bancorp****CONSOLIDATED BALANCE SHEETS**

(Unaudited)

(In thousands, except share data)

	March 31, <b><u>2015</u></b>	June 30, <b><u>2014</u></b>
<b>ASSETS</b>		
Cash and due from financial institutions	\$4,826	\$4,191
Interest-bearing demand deposits	5,007	7,320
Cash and cash equivalents	9,833	11,511
Securities available for sale	168	247
Securities held-to-maturity, at amortized cost- approximate fair value of \$7,836 and \$9,195 at March 31, 2015 and June 30, 2014, respectively	7,689	9,018
Loans, net of allowance of \$1,593 and \$1,473 at March 31, 2015 and June 30, 2014, respectively	244,533	246,788
Real estate owned, net	2,285	1,846
Premises and equipment, net	4,584	4,629
Federal Home Loan Bank stock, at cost	6,482	6,482
Accrued interest receivable	772	891
Bank-owned life insurance	2,948	2,878
Goodwill	14,507	14,507
Prepaid federal income taxes	144	227
Prepaid expenses and other assets	555	631
Total assets	<b>\$294,500</b>	<b>\$299,655</b>

**LIABILITIES AND SHAREHOLDERS' EQUITY**

Deposits	\$202,173	\$213,142
Federal Home Loan Bank advances	22,644	17,200
Advances by borrowers for taxes and insurance	455	616
Accrued interest payable	32	32
Deferred federal income taxes	600	210
Deferred revenue	614	631
Other liabilities	938	619

Edgar Filing: Kentucky First Federal Bancorp - Form 10-Q

Total liabilities	227,456	232,450
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	34,646	34,671
Retained earnings	34,479	34,027
Unearned employee stock ownership plan (ESOP), 126,980 shares and 140,987 shares at March 31, 2015 and June 30, 2014, respectively	(1,270 )	(1,410 )
Treasury shares at cost, 112,563 and 27,886 common shares at March 31, 2015 and June 30, 2014, respectively	(937 )	(239 )
Accumulated other comprehensive income	40	70
Total shareholders' equity	67,044	67,205
Total liabilities and shareholders' equity	<b>\$294,500</b>	<b>\$299,655</b>

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,	
	2015	2014	2015	2014
Interest income				
Loans, including fees	\$ 9,093	\$ 9,519	\$ 3,038	\$ 3,137
Mortgage-backed securities	84	102	27	32
Other securities	19	22	6	8
Interest-bearing deposits and other	195	237	65	77
Total interest income	9,391	9,880	3,136	3,254
Interest expense				
Interest-bearing demand deposits	23	22	7	7
Savings	177	180	59	58
Certificates of Deposit	698	839	246	247
Deposits	898	1,041	312	312
Borrowings	180	217	61	65
Total interest expense	1,078	1,258	373	377
Net interest income	8,313	8,622	2,763	2,877
Provision for loan losses	302	531	36	78
Net interest income after provision for loan losses	8,011	8,091	2,727	2,799
Non-interest income				
Earnings on bank-owned life insurance	70	68	23	22
Net gain on sales of loans	28	55	13	—
Net gain (loss) on sales of OREO	124	(10 )	(18 )	7
Vaulation adjustments of OREO	(27 )	(34 )	(13 )	—
Other	201	240	63	78
Total non-interest income	396	319	68	107
Non-interest expense				
Employee compensation and benefits	3,698	3,908	1,189	1,396
Occupancy and equipment	469	409	198	124
Outside service fees	153	104	66	25
Legal fees	58	27	32	10
Data processing	327	327	118	107
Auditing and accounting	189	165	59	66
FDIC insurance premiums	173	172	54	57
Franchise and other taxes	198	203	64	67

Edgar Filing: Kentucky First Federal Bancorp - Form 10-Q

Foreclosure and OREO expenses (net)	155	107	34	37
Other	697	721	176	223
Total non-interest expense	6,117	6,143	1,990	2,112
Income before income taxes	2,290	2,267	805	794
Federal income tax expense	756	755	266	303
<b>NET INCOME</b>	<b>\$ 1,534</b>	<b>\$ 1,512</b>	<b>\$ 539</b>	<b>\$ 491</b>
<b>EARNINGS PER SHARE</b>				
Basic and diluted	<b>\$ 0.18</b>	<b>\$ 0.18</b>	<b>\$ 0.06</b>	<b>\$ 0.06</b>
<b>DIVIDENDS PER SHARE</b>	<b>\$ 0.30</b>	<b>\$ 0.30</b>	<b>\$ 0.10</b>	<b>\$ 0.10</b>

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,	
	2015	2014	2015	2014
Net income	\$ 1,534	\$ 1,512	\$ 539	\$ 491
Other comprehensive income (loss), net of taxes (benefits):				
Unrealized holding gains (losses) on securities designated as available for sale, net of taxes (benefits) of \$(15), \$24, \$2 and \$9 during the respective periods	(30 )	47	4	18
<b>Comprehensive income</b>	<b>\$ 1,504</b>	<b>\$ 1,559</b>	<b>\$ 543</b>	<b>\$ 509</b>

See accompanying notes.

**Kentucky First Federal Bancorp****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited)

(In thousands)

	<b>Nine months ended</b>	
	<b>March 31,</b>	
	<b>2015</b>	<b>2014</b>
Cash flows from operating activities:		
Net income	\$1,534	\$1,512
Adjustments to reconcile net income to net cash provided by operating Activities		
Depreciation	206	218
Accretion of purchased loan credit discount	(270 )	(125 )
Amortization of purchased loan premium	14	7
Amortization (accretion) of deferred loan origination costs (fees)	44	(17 )
Amortization of premiums on investment securities	117	169
Amortization of premiums on Federal Home Loan Bank advances	—	(56 )
Amortization of premiums on deposits	(191 )	(316 )
Net gain on sale of loans	(28 )	(55 )
Net loss (gain) on sale of real estate owned	(89 )	—
Valuation adjustments of real estate owned	27	34
Deferred gain on sale of real estate owned	(17 )	(6 )
ESOP compensation expense	115	116
Earnings on bank-owned life insurance	(70 )	(68 )
Provision for loan losses	302	531
Origination of loans held for sale	(599 )	(1,502 )
Proceeds from loans held for sale	627	1,752
Increase (decrease) in cash, due to changes in:		
Accrued interest receivable	119	19
Prepaid expenses and other assets	76	68
Accrued interest payable	—	1
Other liabilities	319	20
Federal income taxes	488	177
Net cash provided by operating activities	2,724	2,479
Cash flows from investing activities:		
Purchase of held-to-maturity U.S. Treasury notes	(8,500 )	(10,000)
Securities maturities, prepayments and calls:		
Held to maturity	9,712	12,186
Available for sale	34	26
Loans originated for investment, net of principal collected	724	10,203
Proceeds from sale of real estate owned	1,064	—

Edgar Filing: Kentucky First Federal Bancorp - Form 10-Q

Proceeds from FHLB stock redemption	—	1,250
Additions to premises and equipment, net	(161 )	(207 )
Net cash provided by investing activities	2,873	13,458
Cash flows from financing activities:		
Net decrease in deposits	(10,778)	(12,144)
Payments by borrowers for taxes and insurance, net	(161 )	(151 )
Proceeds from Federal Home Loan Bank advances	19,300	10,000
Repayments on Federal Home Loan Bank advances	(13,856)	(16,025)
Dividends paid on common stock	(1,082 )	(1,127 )
Treasury stock repurchases	(698 )	(42 )
Net cash used in financing activities	(7,275 )	(19,489)
Net decrease in cash and cash equivalents	(1,678 )	(3,552 )
Beginning cash and cash equivalents	11,511	16,540
Ending cash and cash equivalents	<b>\$9,833</b>	<b>\$12,988</b>

See accompanying notes.

**Kentucky First Federal Bancorp****CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)**

(Unaudited)

(In thousands)

	Nine months ended March 31, <b><u>2015</u></b> <b><u>2014</u></b>	
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Federal income taxes	\$255	\$575
Interest on deposits and borrowings	\$1,269	\$1,629
Transfers of loans to real estate owned, net	\$1,780	\$1,259
Loans made on sale of real estate owned	\$439	\$35

See accompanying notes.

## Kentucky First Federal Bancorp

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2015

(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.

#### 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, 2015, are not necessarily indicative of the results which may be expected for an entire fiscal year. The consolidated balance sheet as of June 30, 2014 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 2014 filed with the Securities and Exchange Commission.

**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 or shareholders' equity.

**Kentucky First Federal Bancorp****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

March 31, 2015

(unaudited)

**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:

(in thousands)	<b>Nine months ended</b>		<b>Three months ended</b>	
	<b>March 31,</b>		<b>March 31,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
<b>Net income allocated to common shareholders, basic and diluted</b>	<b>\$ 1,534</b>	<b>\$ 1,512</b>	<b>\$ 539</b>	<b>\$ 491</b>
	<b>Nine months ended</b>		<b>Three months ended</b>	
	<b>March 31,</b>		<b>March 31,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
<b>Weighted average common shares outstanding, basic and diluted</b>	<b>8,360,824</b>	<b>8,373,329</b>	<b>8,317,518</b>	<b>8,376,353</b>

There were 309,800 stock option shares outstanding for the nine- and three-month periods ended March 31, 2015 and 2014. The stock option shares outstanding were antidilutive for the respective periods.

**Kentucky First Federal Bancorp****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

March 31, 2015

(unaudited)

**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, 2015 and June 30, 2014, the corresponding amounts of gross unrealized gains recognized in accumulated other comprehensive income and gross unrecognized gains and losses:

<i>(in thousands)</i>	<b>March 31, 2015</b>		<b>Gross</b>		<b>Estimated fair value</b>		
	<b>Amortized cost</b>	<b>unrealized/ unrecognized gains</b>	<b>unrealized/ unrecognized losses</b>	<b>Gross unrealized/ unrecognized losses</b>			
						<b>Estimated</b>	
						<b>fair value</b>	
<b>Available-for-sale Securities</b>							
Agency mortgage-backed: residential	\$101	\$ 2	\$ —	\$ 103			
FHLMC stock	7	58	—	65			
	<b>\$108</b>	<b>\$ 60</b>	<b>\$ —</b>	<b>\$ 168</b>			
<b>Held-to-maturity Securities</b>							
Agency mortgage-backed: residential	\$3,060	\$ 142	\$ —	\$ 3,202			
Agency bonds	4,629	5	—	4,634			
	<b>\$7,689</b>	<b>\$ 147</b>	<b>\$ —</b>	<b>\$ 7,836</b>			
<b>June 30, 2014</b>							
<i>(in thousands)</i>	<b>Gross</b>		<b>Gross</b>		<b>Estimated fair value</b>		
	<b>Amortized cost</b>	<b>unrealized/ unrecognized gains</b>	<b>unrealized/ unrecognized losses</b>	<b>Gross unrealized/ unrecognized losses</b>			
						<b>Estimated</b>	
						<b>fair value</b>	



**Available-for-sale Securities**

Agency mortgage-backed: residential	\$ 134	\$ 2	\$ —	\$ 136
FHLMC stock	8	103	—	111
	\$ 142	\$ 105	\$ —	\$ 247

**Held-to-maturity Securities**

Agency mortgage-backed: residential	\$ 3,792	\$ 180	\$ 1	\$ 3,971
Agency bonds	5,226	3	5	5,224
	<b>\$ 9,018</b>	<b>\$ 183</b>	<b>\$ 6</b>	<b>\$ 9,195</b>

**Kentucky First Federal Bancorp****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

March 31, 2015

(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 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.

(in thousands)	March 31, 2015	
	Amortized Cost	Fair Value
<b>Held-to-maturity Securities</b>		
Within one year	\$ 2,015	\$ 2,016
One to five years	2,614	2,618
Mortgage-backed	3,060	3,202
	<b>\$7,689</b>	<b>\$ 7,836</b>

Our pledged securities at March 31, 2015, and June 30, 2014 totaled \$2.2 million and \$2.6 million, respectively.

There were no sales of investment securities during the nine month periods ended March 31, 2015 and 2014.

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. Those securities were agency bonds, which carry a very limited amount of risk. Also, we have no intention to sell nor feel that we will be compelled to sell such securities before maturity. Based on our evaluation, no impairment has been recognized through earnings.

**Kentucky First Federal Bancorp****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

March 31, 2015

(unaudited)

4. Loans receivable

The composition of the loan portfolio was as follows:

<i>(in thousands)</i>	<b><u>March 31</u></b>	<b><u>June 30,</u></b>
	<b>2015</b>	<b>2014</b>
Residential real estate		
One- to four-family	\$ 191,553	\$ 196,381
Multi-family	16,389	14,002
Construction	2,986	2,122
Land	2,297	2,362
Farm	1,880	1,644
Nonresidential real estate	22,585	21,945
Commercial nonmortgage	1,765	2,080
Consumer and other:		
Loans on deposits	2,573	2,564
Home equity	5,571	5,359
Automobile	65	64
Unsecured	425	638
	248,089	249,161
Undisbursed portion of loans in process	(2,071 )	(952 )
Deferred loan origination costs	108	52
Allowance for loan losses	(1,593 )	(1,473 )
	<b>\$ 244,533</b>	<b>\$ 246,788</b>

The following table presents the activity in the allowance for loan losses by portfolio segment for the nine months ended March 31, 2015:

<i>(in thousands)</i>	<b>Beginning</b>	<b>Provision</b>	<b>Loans</b>	<b>Recoveries</b>	<b>Ending</b>
-----------------------	------------------	------------------	--------------	-------------------	---------------

Edgar Filing: Kentucky First Federal Bancorp - Form 10-Q

	<b>balance</b>	<b>for loan</b>	<b>charged</b>		<b>balance</b>
		<b>losses</b>	<b>off</b>		
Residential real estate:					
One- to four-family	\$ 1,003	\$ 254	\$ (202 )	\$ 20	\$ 1,075
Multi-family	73	21	—	—	94
Construction	11	6	—	—	17
Land	10	1	—	—	11
Farm	9	2	—	—	11
Nonresidential real estate	112	14	—	—	126
Commercial nonmortgage	11	(1 )	—	—	10
Consumer and other:					
Loans on deposits	13	2	—	—	15
Home equity	28	4	—	—	32
Automobile	—	—	—	—	—
Unsecured	3	(1 )	—	—	2
Unallocated	200	—	—	—	200
<b>Totals</b>	<b>\$ 1,473</b>	<b>\$ 302</b>	<b>\$ (202 )</b>	<b>\$ 20</b>	<b>\$ 1,593</b>

**Kentucky First Federal Bancorp****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

March 31, 2015

(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, 2015:

<i>(in thousands)</i>	<b>Beginning balance</b>	<b>Provision for loan losses</b>	<b>Loans charged off</b>	<b>Recoveries</b>	<b>Ending balance</b>
Residential real estate:					
One- to four-family	\$ 1,086	\$ 13	\$ (37 )	\$ 13	\$ 1,075
Multi-family	80	14	—	—	94
Construction	7	10	—	—	17
Land	13	(2 )	—	—	11
Farm	9	2	—	—	11
Nonresidential real estate	123	3	—	—	126
Commercial nonmortgage	12	(2 )	—	—	10
Consumer and other:					
Loans on deposits	15	—	—	—	15
Home equity	32	—	—	—	32
Automobile	—	—	—	—	—
Unsecured	4	(2 )	—	—	2
Unallocated	200	—	—	—	200
<b>Totals</b>	<b>\$ 1,581</b>	<b>\$ 36</b>	<b>\$ (37 )</b>	<b>\$ 13</b>	<b>\$ 1,593</b>

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

<i>(in thousands)</i>	<b>Beginning balance</b>	<b>Provision for loan losses</b>	<b>Loans charged off</b>	<b>Recoveries</b>	<b>Ending balance</b>
-----------------------	------------------------------	--------------------------------------	------------------------------	-------------------	---------------------------

Edgar Filing: Kentucky First Federal Bancorp - Form 10-Q

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	<b>\$ 1,310</b>	<b>\$ 531</b>	<b>\$ (392</b>	<b>) \$ 13</b>	<b>\$ 1,462</b>

**Kentucky First Federal Bancorp****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

March 31, 2015

(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:

<i>(in thousands)</i>	<b>Beginning balance</b>	<b>Provision for loan losses</b>	<b>Loans charged off</b>	<b>Recoveries</b>	<b>Ending balance</b>
Residential real estate:					
One- to four-family	\$ 982	\$ 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
<b>Totals</b>	<b>\$ 1,438</b>	<b>\$ 78</b>	<b>\$ (62</b>	<b>) \$ 8</b>	<b>\$ 1,462</b>

**Kentucky First Federal Bancorp****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

March 31, 2015

(unaudited)

4. Loans receivable (continued)

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, 2015. The recorded investment in loans excludes accrued interest receivable and deferred loan costs, net due to immateriality.

**March 31, 2015:**

(in thousands)	Loans			Ending allowance attributed to loans	Unallocated Total	
	Loans individually evaluated	Loans acquired with deteriorated credit quality	Ending loans balance		allowance	allowance
Loans individually evaluated for impairment:						
Residential real estate:						
One- to four-family	\$ 1,725	\$ 2,517	\$4,242	\$ 8	\$ —	\$ 8
Land	—	381	381	—	—	—
Nonresidential real estate	—	528	528	—	—	—
	1,725	3,426	5,151	8	—	8
Loans collectively evaluated for impairment:						
Residential real estate:						
One- to four-family			\$187,378	\$ 1,067	\$ —	\$ 1,067
Multi-family			16,389	94	—	94
Construction			2,986	17	—	17
Land			1,916	11	—	11
Farm			1,880	11	—	11



Edgar Filing: Kentucky First Federal Bancorp - Form 10-Q

Nonresidential real estate	22,057	126	—	126
Commercial nonmortgage	1,765	10	—	10
Consumer:				
Loans on deposits	2,573	15	—	15
Home equity	5,571	32	—	32
Automobile	65	—	—	—
Unsecured	425	2	—	2
Unallocated	—	—	200	200
	243,005	1,385	200	1,585
	<b>\$248,089</b>	<b>\$ 1,393</b>	<b>\$ 200</b>	<b>\$ 1,593</b>

**Kentucky First Federal Bancorp****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

March 31, 2015

(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, 2014.

**June 30, 2014:**

(in thousands)	Loans individually evaluated	Loans acquired with deteriorated credit quality	Ending loans balance	Ending allowance attributed to loans	Unallocated allowance	Total allowance
Loans individually evaluated for impairment:						
Residential real estate:						
One- to four-family	\$ 2,159	\$ 2,735	\$4,894	\$ 14	\$ —	\$ 14
Land	—	444	444	—	—	—
Nonresidential real estate	—	529	529	—	—	—
Commercial nonmortgage	—	68	68	—	—	—
	2,159	3,776	5,935	14	—	14
Loans collectively evaluated for impairment:						
Residential real estate:						
One- to four-family			\$191,487	\$ 989	\$ —	\$ 989
Multi-family			14,002	73	—	73
Construction			2,122	11	—	11
Land			1,918	10	—	10
Farm			1,644	9	—	9
Nonresidential real estate			21,416	112	—	112
Commercial nonmortgage			2,012	11	—	11
Consumer:						
Loans on deposits			2,564	13	—	13
Home equity			5,359	28	—	28

Edgar Filing: Kentucky First Federal Bancorp - Form 10-Q

Automobile	64	—	—	—
Unsecured	638	3	—	3
Unallocated	—	—	200	200
	243,226	1,259	200	1,459
	<b>\$249,161</b>	<b>\$ 1,273</b>	<b>\$ 200</b>	<b>\$ 1,473</b>

**Kentucky First Federal Bancorp****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

March 31, 2015

(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, 2015 and 2014:

**March 31, 2015:**

(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	\$ 1,658	\$ —	\$ 1,516	\$ 26	\$ 26
Purchased credit-impaired loans	3,426	—	3,552	191	83
	5,084	—	5,068	217	109
With an allowance recorded:					
One- to four-family	67	8	104	4	4
	<b>\$ 5,151</b>	<b>\$ 8</b>	<b>\$ 5,172</b>	<b>\$ 221</b>	<b>\$ 113</b>

**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
----------------	--	--	-----------------------------------	----------------------------------	------------------------------------

Edgar Filing: Kentucky First Federal Bancorp - Form 10-Q

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	—	—
	<b>\$ 8,343</b>	<b>\$ 14</b>	<b>\$ 8,753</b>	<b>\$ —</b>	<b>\$ —</b>

**Kentucky First Federal Bancorp****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

March 31, 2015

(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, 2015, and June 30, 2014:

(in thousands)	March 31, 2015		June 30, 2014	
	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	\$3,853	\$ 1,234	\$5,767	\$ 3,513
Nonresidential real estate and land	660	37	384	—
Commercial nonmortgage	26	36	47	—
Consumer	34	16	29	—
	<b>\$4,573</b>	<b>\$ 1,323</b>	<b>\$6,227</b>	<b>\$ 3,513</b>

**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, 2015 and June 30, 2014, the Company had \$1.8 million and \$2.0 million of loans classified as TDRs, respectively. Of the TDRs at March 31, 2015, approximately 40.2% were related to the borrower’s completion of Chapter 7 bankruptcy proceedings with no reaffirmation of the debt to the Banks.

The following table presents TDR’s by loan type at March 31, 2015 and June 30, 2014, and their performance, by modification type:

<i>(dollars in thousands)</i>	<b>Number of Loans</b>	<b>Pre- Modification Outstanding Recorded Investment</b>	<b>Post- Modification Outstanding Recorded Investment</b>	<b>TDRs Performing to Modified Terms</b>	<b>TDRs Not Performing to Modified Terms</b>
<b>March 31, 2015</b>					
Residential Real Estate:					
1-4 Family	39	\$ 2,142	\$ 2,142	\$ 1,617	\$ 221
<b>June 30, 2014</b>					
Residential Real Estate:					
1-4 Family	39	\$ 2,230	\$ 2,230	\$ 1,621	\$ 376

**Kentucky First Federal Bancorp****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

March 31, 2015

(unaudited)

4. Loans receivable (continued)

There was one TDR loan modification totaling \$20,000 for the three months ended March 31, 2015, which resulted in extension of the term of the loan with no additional principal or change in interest rate. The loan is performing to modified terms at March 31, 2015. The following table summarizes TDR loan modifications for the three months ended March 31, 2014, and their performance, by modification type:

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

There was one TDR loan modification totaling \$20,000 for the nine months ended March 31, 2015, which resulted in extension of the term of the loan with no additional principal or change in interest rate. The loan is performing to modified terms at March 31, 2015. The following table summarizes TDR loan modifications that occurred during the nine months ended March 31, 2014, and their performance, by modification type

(in thousands)	<b>Troubled Debt Restructurings Performing to Modified Terms</b>	<b>Troubled Debt Restructurings Not Performing to Modified Terms</b>	<b>Total Troubled Debt Restructurings</b>
<b>Nine months ended March 31, 2014</b>			



Edgar Filing: Kentucky First Federal Bancorp - Form 10-Q

Residential real estate:

Rate reduction	\$	—	\$	—	\$	—
Bankruptcies		457		—		457
Total troubled debt restructures	\$	<b>457</b>	\$	<b>—</b>	\$	<b>457</b>

The Company had no allocated specific reserves to customers whose loan terms had been modified in troubled debt restructurings as of March 31, 2015, or at June 30, 2014. The Company had no commitments to lend on loans classified as TDRs at March 31, 2015 or June 30, 2014.

There were no TDRs that defaulted during the nine- or three-month periods ended March 31, 2015, while there was one TDR that defaulted in the nine and three-month periods ended March 31, 2014. That default was a result of bankruptcy and resulted in additional provision for loan losses of \$194,000 during the nine- and three-months ended March 31, 2014.

**Kentucky First Federal Bancorp****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

March 31, 2015

(unaudited)

4. Loans receivable (continued)

The following table presents the aging of the principal balance outstanding in past due loans as of March 31, 2015, by class of loans:

<i>(in thousands)</i>	<b>30-89 Days Past Due</b>	<b>90 Days or Greater Past Due</b>	<b>Total Past Due</b>	<b>Loans Not Past Due</b>	<b>Total</b>
Residential real estate:					
One-to four-family	\$ 6,122	\$ 2,841	\$8,963	\$ 182,590	\$ 191,553
Multi-family	—	—	—	16,389	16,389
Construction	—	—	—	2,986	2,986
Land	224	37	261	2,036	2,297
Farm	—	—	—	1,880	1,880
Nonresidential real estate	—	320	320	22,265	22,585
Commercial non-mortgage	—	—	—	1,765	1,765
Consumer and other:					
Loans on deposits	—	—	—	2,573	2,573
Home equity	—	44	44	5,527	5,571
Automobile	—	—	—	65	65
Unsecured	1	36	37	388	425
<b>Total</b>	<b>\$ 6,347</b>	<b>\$ 3,278</b>	<b>\$9,625</b>	<b>\$ 238,464</b>	<b>\$ 248,089</b>

The following tables present the aging of the principal balance outstanding in past due loans as of June 30, 2014, by class of loans:

<i>(in thousands)</i>	<b>30-89 Days Past Due</b>	<b>90 Days or Greater Past Due</b>	<b>Total Past Due</b>	<b>Loans Not Past Due</b>	<b>Total</b>
-----------------------	--------------------------------	--	-------------------------------	-------------------------------	--------------

Edgar Filing: Kentucky First Federal Bancorp - Form 10-Q

Residential real estate:					
One-to four-family	\$ 4,481	\$ 9,060	\$13,541	\$ 182,840	\$196,381
Multi-family	—	—	—	14,002	14,002
Construction	343	—	343	1,779	2,122
Land	—	364	364	1,998	2,362
Farm	—	—	—	1,644	1,644
Nonresidential real estate	375	396	771	21,174	21,945
Commercial nonmortgage	—	88	88	1,992	2,080
Consumer:					
Loans on deposits	—	—	—	2,564	2,564
Home equity	—	33	33	5,326	5,359
Automobile	—	—	—	64	64
Unsecured	68	—	68	570	638
<b>Total</b>	<b>\$ 5,267</b>	<b>\$ 9,941</b>	<b>\$15,208</b>	<b>\$ 233,953</b>	<b>\$249,161</b>

**Kentucky First Federal Bancorp**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

March 31, 2015

(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,

Edgar Filing: Kentucky First Federal Bancorp - Form 10-Q

2015, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

<b>(in thousands)</b>	<b>Pass</b>	<b>Special Mention</b>	<b>Substandard</b>	<b>Doubtful</b>	<b>Not rated</b>
Residential real estate:					
One- to four-family	\$—	\$ 5,268	\$ 8,731	\$ —	\$ 177,554
Multi-family	16,389	—	—	—	—
Construction	2,986	—	—	—	—
Land	1,428	—	869	—	—
Farm	1,880	—	—	—	—
Nonresidential real estate	19,407	1,136	2,042	—	—
Commercial nonmortgage	1,765	—	—	—	—
Consumer:					
Loans on deposits	2,573	—	—	—	—
Home equity	5,541	—	30	—	—
Automobile	65	—	—	—	—
Unsecured	389	36	—	—	—
	<b>\$52,423</b>	<b>\$ 6,440</b>	<b>\$ 11,672</b>	<b>\$ —</b>	<b>\$ 177,554</b>

**Kentucky First Federal Bancorp****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

March 31 2015

(unaudited)

4. Loans receivable (continued)

At June 30, 2014, the risk category of loans by class of loans was as follows:

<i>(in thousands)</i>	Pass	Special Mention	Substandard	Doubtful	Not rated
Residential real estate:					
One- to four-family	\$—	\$ 2,928	\$ 11,287	\$ —	\$ 182,166
Multi-family	14,002	—	—	—	—
Construction	2,122	—	—	—	—
Land	1,366	—	996	—	—
Farm	1,644	—	—	—	—
Nonresidential real estate	18,920	965	2,060	—	—
Commercial nonmortgage	2,014	—	66	—	—
Consumer:					
Loans on deposits	2,564	—	—	—	—
Home equity	5,359	—	—	—	—
Automobile	64	—	—	—	—
Unsecured	606	3	29	—	—
	<b>\$48,661</b>	<b>\$ 3,896</b>	<b>\$ 14,438</b>	<b>\$ —</b>	<b>\$ 182,166</b>

**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 credit discount of \$618,000 and \$782,000 at March 31, 2015 and June 30, 2014, respectively, is as follows:

<b>(in thousands)</b>	<b>March 31, 2015</b>	<b>June 30, 2014</b>
One- to four-family residential real estate	\$ 2,517	\$ 2,735
Land	381	444
Nonresidential real estate	528	529
Commercial nonmortgage	—	68
Outstanding balance	<b>\$ 3,426</b>	<b>\$ 3,776</b>

**Kentucky First Federal Bancorp****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

March 31, 2015

(unaudited)

4. Loans receivable (continued)

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

(in thousands)	<b>Three months ended March 31, 2015</b>	<b>Nine months ended March 31, 2015</b>	<b>Twelve months ended June 30, 2014</b>
Balance at beginning of period	\$ 1,249	\$ 1,478	\$ 1,294
New loans purchased	—	—	—
Accretion of income	(105 )	(270 )	(155 )
Reclassifications from nonaccrutable difference	—	—	339
Disposals	(77 )	(141 )	—
Balance at end of period	<b>\$ 1,067</b>	<b>\$ 1,067</b>	<b>\$ 1,478</b>

For those purchased loans disclosed above, the Company made no increase in allowance for loan losses for the year ended June 30, 2014, nor for the nine- or three-month periods ended March 31, 2015. Neither were any allowance for loan losses reversed during those periods.

5. Disclosures About Fair Value of Assets and Liabilities

ASC topic 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC topic 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:



**Level 1** - Quoted prices in active markets for identical assets or liabilities.

**Level 2** - Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

**Level 3** – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Following is a description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy.

### **Securities**

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics. Level 2 securities include agency mortgage-backed securities.

**Kentucky First Federal Bancorp**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

March 31, 2015

(unaudited)

**5. Disclosures About Fair Value of Assets and Liabilities (continued)**

**Impaired Loans**

At the time a loan is considered impaired, it is evaluated for loss based on the fair value of collateral securing the loan if the loan is collateral dependent. If a loss is identified, a specific allocation will be established as part of the allowance for loan losses such that the loan's net carrying value is at its estimated fair value. Impaired loans carried at fair value generally receive specific allocations of the allowance for loan losses. For collateral-dependent loans, fair value is commonly based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business, resulting in a Level 3 fair value classification. Impaired loans are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

**Other Real Estate**

Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. Fair value is commonly based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value.

Financial assets measured at fair value on a recurring basis are summarized below:

<i>(in thousands)</i>	<b>Fair Value Measurements Using</b>			
	<b>Fair Value</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	
<b><u>March 31, 2015</u></b>				
Agency mortgage-backed: residential	\$ 103	\$ —	\$ 103	\$ —
FHLMC stock	65	—	65	—
	<b>\$ 168</b>	<b>\$ —</b>	<b>\$ 168</b>	<b>\$ —</b>
<b><u>June 30, 2014</u></b>				
Agency mortgage-backed: residential	\$ 136	\$ —	\$ 136	\$ —
FHLMC stock	111	—	111	—
	<b>\$ 247</b>	<b>\$ —</b>	<b>\$ 247</b>	<b>\$ —</b>

**Kentucky First Federal Bancorp****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

March 31, 2015

(unaudited)

**5. Disclosures About Fair Value of Assets and Liabilities (continued)**

Assets measured at fair value on a non-recurring basis are summarized below:

<i>(in thousands)</i>	<b>Fair Value Measurements Using</b>			
	<b>Fair Value</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
<b><u>March 31, 2015</u></b>				
Impaired loans				
One- to four-family	\$ 67	\$ —	\$ —	\$ 67
Other real estate owned, net				
One- to four-family	963	—	—	963
<b><u>June 30, 2014</u></b>				
Impaired loans				
One- to four-family	\$ 186	\$ —	\$ —	\$ 186
Other real estate owned, net				
One- to four-family	1,140	—	—	1,140
Land	15	—	—	15

Impaired loans, which were measured using the fair value of the collateral for collateral-dependent loans totaled \$75,000 and \$200,000 at March 31, 2015, and June 30, 2014, respectively with specific valuation allowance of \$8,000 and \$14,000, respectively. There was no specific provision made for the nine month periods ended March 31, 2015 or 2014.

Other real estate owned measured at fair value less costs to sell, had carrying amounts of \$963,000 and \$1.2 million at March 31, 2015 and June 30, 2014, respectively. Other real estate owned was written down \$27,000 and \$34,000 during the nine months ended March 31, 2015 and 2014, respectively.

**Kentucky First Federal Bancorp****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

March 31, 2015

(unaudited)

**5. Disclosures About Fair Value of Assets and Liabilities (continued)**

The following table presents quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at March 31, 2015 and June 30, 2014:

	<b>Fair Value (in thousands)</b>	<b>Valuation Technique(s)</b>	<b>Unobservable Input(s)</b>	<b>Range (Weighted Average)</b>
<b>March 31, 2015</b>				
Impaired Loans: Residential real estate				
One- to four- family	\$ 67	Sales comparison approach	Adjustments for differences between comparable sales	4.64% to 10.31% (7.91%)
Foreclosed and repossessed assets:				
1-4 family	\$ 963	Sales comparison approach	Adjustments for differences between comparable sales	-1.4% to 18.6% (0.94%)
<b>June 30, 2014</b>				
Impaired Loans: Residential real estate				
One- to four- family	\$ 186	Sales comparison approach	Adjustments for differences between comparable sales	3.1% to 19.8% (4.3%)
Foreclosed and repossessed assets:				
1-4 family	\$ 1,140	Sales comparison approach	Adjustments for differences between comparable sales	-37.1% to 30.2% (1.1%)
Land	\$ 15			20.2% to 38.9% (20.8%)

Sales comparison approach      Adjustments for differences between comparable sales

**Kentucky First Federal Bancorp**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

March 31, 2015

(unaudited)

5. Disclosures About Fair Value of Assets and Liabilities (continued)

The following is a disclosure of the fair value of financial instruments, both assets and liabilities, whether or not recognized in the consolidated balance sheet, for which it is practicable to estimate that value. For financial instruments where quoted market prices are not available, fair values are based on estimates using present value and other valuation methods.

The methods used are greatly affected by the assumptions applied, including the discount rate and estimates of future cash flows. Therefore, the fair values presented may not represent amounts that could be realized in an exchange for certain financial instruments.

The following methods were used to estimate the fair value of all other financial instruments at March 31, 2015 and June 30, 2014:

Cash and cash equivalents and interest-bearing deposits: The carrying amounts presented in the consolidated statements of financial condition for cash and cash equivalents are deemed to approximate fair value.

Held-to-maturity securities: For held-to-maturity securities, fair value is estimated by using pricing models, quoted price of securities with similar characteristics, which is level 2 pricing for the other securities.

Loans held for sale: Loans originated and intended for sale in the secondary market are determined by FHLB pricing schedules.



Loans: The loan portfolio has been segregated into categories with similar characteristics, such as one- to four-family residential, multi-family residential and nonresidential real estate. These loan categories were further delineated into fixed-rate and adjustable-rate loans. The fair values for the resultant loan categories were computed via discounted cash flow analysis, using current interest rates offered for loans with similar terms to borrowers of similar credit quality. For loans on deposit accounts and consumer and other loans, fair values were deemed to equal the historic carrying values. The fair values of the loans does not necessarily represent an exit price.

Loans receivable represents the Company's most significant financial asset, which is in Level 3 for fair value measurements. A third party provides financial modeling for the Company and results are based on assumptions and factors determined by management.

Federal Home Loan Bank stock: It is not practicable to determine the fair value of FHLB stock due to restrictions placed on its transferability.

Accrued interest receivable: The carrying amount is the estimated fair value.

Deposits: The fair value of NOW accounts, passbook accounts, and money market deposits are deemed to approximate the amount payable on demand. Fair values for fixed-rate certificates of deposit have been estimated using a discounted cash flow calculation using the interest rates currently offered for deposits of similar remaining maturities.

Federal Home Loan Bank advances: The fair value of these advances is estimated using the rates currently offered for similar advances of similar remaining maturities or, when available, quoted market prices.

Advances by borrowers for taxes and insurance and accrued interest payable: The carrying amount presented in the consolidated statement of financial condition is deemed to approximate fair value.

**Kentucky First Federal Bancorp****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

March 31, 2015

(unaudited)

**5. Disclosures About Fair Value of Assets and Liabilities (continued)**

**Commitments to extend credit:** For fixed-rate and adjustable-rate loan commitments, the fair value estimate considers the difference between current levels of interest rates and committed rates. The fair value of outstanding loan commitments at March 31, 2015 and June 30, 2014, was not material.

Based on the foregoing methods and assumptions, the carrying value and fair value of the Company's financial instruments at March 31, 2015 and June 30, 2014 are as follows:

<b>(in thousands)</b>	<b>Carrying Value</b>	<b>Fair Value Measurements at March 31, 2015 Using</b>			
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial assets</b>					
Cash and cash equivalents	\$9,833	\$9,833			\$9,833
Available-for-sale securities	168		\$168		168
Held-to-maturity securities	7,689		7,836		7,836
Loans receivable – net	244,533			\$247,308	247,308
Federal Home Loan Bank stock	6,482				n/a
Accrued interest receivable	772		44	728	772
<b>Financial liabilities</b>					
Deposits	\$202,173	\$79,341	\$123,006		202,347
Federal Home Loan Bank advances	22,644		23,026		23,026
Advances by borrowers for taxes and insurance	455	455			455
Accrued interest payable	32		32		32

<b>(in thousands)</b>	<b>Fair Value Measurements at June 30, 2014 Using</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>

Edgar Filing: Kentucky First Federal Bancorp - Form 10-Q

	<b>Carrying Value</b>			
<b>Financial assets</b>				
Cash and cash equivalents	\$11,511	\$11,511		\$11,511
Available-for-sale securities	247		\$247	247
Held-to-maturity securities	9,018		9,195	9,195
Loans receivable – net	246,788		\$253,780	253,780
Federal Home Loan Bank stock	6,482			n/a
Accrued interest receivable	891		891	891
<b>Financial liabilities</b>				
Deposits	\$213,142	\$88,854	\$124,390	\$213,244
Federal Home Loan Bank advances	17,200		18,303	18,303
Advances by borrowers for taxes and insurance	616	616		616
Accrued interest payable	32		32	32

**Kentucky First Federal Bancorp****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

March 31, 2015

(unaudited)

**6. Other Comprehensive Income (Loss)**

The following is a summary of the accumulated other comprehensive income balances, net of tax:

	<b>Balance at June 30, 2014</b>	<b>Current Year Change</b>	<b>Balance at March 31, 2015</b>
Unrealized gains (losses) on available-for-sale securities	\$ 70	\$ (30 )	\$ 40

Other comprehensive income (loss) components and related tax effects for the periods indicated were as follows:

<b>(in thousands)</b>	<b>Nine months ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
Unrealized holding gains (losses) on available-for-sale securities	\$ (45 )	\$ 71
Tax effect	(15 )	24
Net-of-tax amount	\$ (30 )	\$ 47

<b>(in thousands)</b>	<b>Three months ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
Unrealized holding gains on available-for-sale securities	\$ 6	\$ 27
Tax effect	2	9
Net-of-tax amount	\$ 4	\$ 18

**Kentucky First Federal Bancorp**

**ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS**

Forward-Looking Statements

Certain statements contained in this report that are not historical facts are forward-looking statements that are subject to certain risks and uncertainties. When used herein, the terms "anticipates," "plans," "expects," "believes," and similar expressions as they relate to Kentucky First Federal Bancorp or its management are intended to identify such forward looking statements. Kentucky First Federal Bancorp's actual results, performance or achievements may materially differ from those expressed or implied in the forward-looking statements. Risks and uncertainties that could cause or contribute to such material differences include, but are not limited to, general economic conditions, prices for real estate in the Company's market areas, interest rate environment, competitive conditions in the financial services industry, changes in law, governmental policies and regulations, rapidly changing technology affecting financial services and the other matters mentioned in Item 1A of the Company's Annual Report on Form 10-K for the year ended June 30, 2014.

**Kentucky First Federal Bancorp****ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION****AND RESULTS OF OPERATIONS** (continued)Average Balance Sheets

The following table represents the average balance sheets for the nine month periods ended March 31, 2015 and 2014, along with the related calculations of tax-equivalent net interest income, net interest margin and net interest spread for the related periods.

	<b>Nine Months Ended March 31,</b>			<b>2014</b>		
	<b>Average</b>	<b>Interest</b>	<b>Yield/</b>	<b>Average</b>	<b>Interest</b>	<b>Yield/</b>
	<b>Balance</b>	<b>And</b>	<b>Cost</b>	<b>Balance</b>	<b>And</b>	<b>Cost</b>
		<b>Dividends</b>			<b>Dividends</b>	
	<b>(Dollars in thousands)</b>					
Interest-earning assets:						
Loans <sup>1</sup>	\$246,297	\$ 9,093	4.92 %	\$261,697	\$ 9,519	4.85 %
Mortgage-backed securities	3,529	84	3.17	4,889	102	2.78
Other securities	5,814	19	0.44	7,850	22	0.37
Other interest-earning assets	13,974	195	1.86	18,346	237	1.72
Total interest-earning assets	269,614	9,391	4.64	292,782	9,880	4.50
Less: Allowance for loan losses	(1,513 )			(1,376 )		
Non-interest-earning assets	29,490			29,710		
Total assets	\$297,591			\$321,116		
Interest-bearing liabilities:						
Demand deposits	\$16,296	\$ 23	0.19 %	\$17,930	\$ 22	0.16 %
Savings	58,815	177	0.40	57,806	180	0.42
Certificates of deposit	129,991	698	0.72	150,814	839	0.74
Total deposits	205,102	898	0.58	226,550	1,041	0.61
Borrowings	18,960	180	1.27	21,175	217	1.37
Total interest-bearing liabilities	224,062	1,078	0.64	247,725	1,258	0.68
Noninterest-Bearing demand deposits	4,154			3,639		
Noninterest-bearing liabilities	2,117			2,279		
Total liabilities	230,333			253,643		
Shareholders' equity	67,258			67,473		

Edgar Filing: Kentucky First Federal Bancorp - Form 10-Q

Total liabilities and shareholders' equity	\$297,591			\$321,116		
Net interest income/average yield	\$ 8,313	4.00	%	\$ 8,622	3.82	%
Net interest margin		4.11	%		3.93	%
Average interest-earning assets to average interest-bearing liabilities		120.33	%		118.19	%

<sup>1</sup> Includes loan fees, immaterial in amount, in both interest income and the calculation of yield on loans. Also includes loans on nonaccrual status.

**Kentucky First Federal Bancorp****ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION****AND RESULTS OF OPERATIONS** (continued)Average Balance Sheets (continued)

The following table represents the average balance sheets for the three month periods ended March 31, 2015 and 2014, along with the related calculations of tax-equivalent net interest income, net interest margin and net interest spread for the related periods.

	<b>Three Months Ended March 31,</b>			<b>2014</b>			
	<b>Average</b>	<b>Interest</b>	<b>Yield/</b>	<b>Average</b>	<b>Interest</b>	<b>Yield/</b>	
	<b>Balance</b>	<b>And</b>	<b>Cost</b>	<b>Balance</b>	<b>And</b>	<b>Cost</b>	
		<b>Dividends</b>			<b>Dividends</b>		
	<b>(Dollars in thousands)</b>						
Interest-earning assets:							
Loans <sup>2</sup>	\$245,935	\$ 3,038	4.94	% \$254,815	\$ 3,137	4.92	%
Mortgage-backed securities	3,277	27	3.30	4,433	32	2.89	
Other securities	6,038	6	0.40	7,556	8	0.42	
Other interest-earning assets	13,070	65	1.99	14,644	77	2.10	
Total interest-earning assets	268,320	3,136	4.68	281,448	3,254	4.62	
Less: Allowance for loan losses	(1,281 )			(1,424 )			
Non-interest-earning assets	29,785			30,234			
Total assets	\$296,824			\$310,258			
Interest-bearing liabilities:							
Demand deposits	\$16,185	\$ 7	0.17	% \$14,503	\$ 7	0.19	%
Savings	59,228	59	0.40	60,074	58	0.39	
Certificates of deposit	124,467	246	0.79	143,133	247	0.69	
Total deposits	199,880	312	0.62	217,710	312	0.57	
Borrowings	23,637	61	1.03	20,166	65	1.29	
Total interest-bearing liabilities	223,517	373	0.67	237,876	377	0.63	
Noninterest-bearing demand deposits	4,306			3,478			
Noninterest-bearing liabilities	1,759			1,904			
Total liabilities	229,582			243,258			
Shareholders' equity	67,242			67,000			



Edgar Filing: Kentucky First Federal Bancorp - Form 10-Q

Total liabilities and shareholders' equity	\$296,824			\$310,258		
Net interest income/average yield		\$ 2,763	4.01 %		\$ 2,877	3.99 %
Net interest margin			4.12 %			4.09 %
Average interest-earning assets to average interest-bearing liabilities			120.05 %			118.32 %

<sup>2</sup> Includes loan fees, immaterial in amount, in both interest income and the calculation of yield on loans. Also includes loans on nonaccrual status.

**Kentucky First Federal Bancorp**

**ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION**

**AND RESULTS OF OPERATIONS (continued)**

Discussion of Financial Condition Changes from June 30, 2014 to March 31, 2015

**Assets:** At March 31, 2015, the Company's assets totaled \$294.5 million, a decrease of \$5.2 million, or 1.7%, from total assets at June 30, 2014. This decrease was attributed primarily to decreases in loans, cash and cash equivalents and investment securities.

**Cash and cash equivalents:** Cash and cash equivalents decreased by \$1.7 million or 14.6% to \$9.8 million at March 31, 2015.

**Loans:** Loans receivable, net, decreased by \$2.3 million or 0.9% to \$244.5 million at March 31, 2015, due primarily to low levels of loan demand and loan payoffs received. While we experienced modest loan growth in the past two calendar quarters after several quarters of decline, management continues to look for high-quality loans to add to its portfolio and will continue to emphasize loan originations to the extent that it is profitable, prudent and consistent with our interest rate risk strategies.

**Non-Performing Loans:** At March 31, 2015, the Company had non-performing loans (loans 90 or more days past due or on nonaccrual status) of approximately \$5.9 million, or 2.4% of total loans (including loans purchased in the acquisition), compared to \$9.7 million or 3.95%, of total loans at June 30, 2014. The Company's allowance for loan losses totaled \$1.6 million and \$1.5 million at March 31, 2015, and June 30, 2014, respectively. The allowance for loan losses at March 31, 2015, represented 27.2% of nonperforming loans and 0.65% of total loans (including loans purchased in the acquisition), while at June 30, 2014, the allowance represented 15.1% of nonperforming loans and 0.60% of total loans.

The Company had \$14.0 million in assets classified as substandard for regulatory purposes at March 31, 2015, including loans (\$11.7 million) and real estate owned ("REO") (\$2.3 million), including loans acquired in the CKF Bancorp transaction. Classified loans as a percentage of total loans (including loans acquired on December 31, 2012) was 4.7% and 5.9% at March 31, 2015 and June 30, 2014, respectively. Of substandard loans, 99.7% were secured by real estate on which the Banks have priority lien position.



**Kentucky First Federal Bancorp****MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION****AND RESULTS OF OPERATIONS (continued)**Discussion of Financial Condition Changes from June 30, 2014 to March 31, 2015 (continued)

The table below shows the aggregate amounts of our assets classified for regulatory purposes at the dates indicated:

<b>(dollars in thousands)</b>	<b>March 31, 2015</b>	<b>June 30, 2014</b>
Substandard assets	\$13,957	\$16,284
Doubtful assets	—	—
Loss assets	—	—
Total classified assets	\$13,957	\$16,284

At March 31, 2015, the Company's real estate acquired through foreclosure represented 16.4% of substandard assets compared to 11.3% at June 30, 2014. During the nine months ended March 31, 2015 and the fiscal year ended June 30, 2014, the Company made loan(s) to facilitate the purchase of its other real estate owned by qualified borrowers. During the nine months ended March 31, 2015, the Company sold property with carrying value of \$397,000 for \$484,000, while during the year ended June 30, 2014, property with a carrying value of \$189,000 was sold for \$200,000. Such loans are considered loans to facilitate an exchange and, as such, the Company defers recognition of any gain until the proper time in the future. Loans to facilitate the sale of other real estate owned, which were included in substandard loans, totaled \$305,000 and \$309,000 at March 31, 2015 and June 30, 2014, respectively.

**Kentucky First Federal Bancorp****MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION****AND RESULTS OF OPERATIONS (continued)**Discussion of Financial Condition Changes from June 30, 2014 to March 31, 2015 (continued)

The following table presents the aggregate carrying value of REO at the dates indicated:

	<u>March 31,</u> <u>2015</u>		<u>June 30, 2014</u>	
	<u>Num</u>	<u>Net</u>	<u>Num</u>	<u>Net</u>
	<u>of</u>	<u>Carrying</u>	<u>of</u>	<u>Carrying</u>
	<u>Prop</u>	<u>Value</u>	<u>Prop</u>	<u>Value</u>
Single family, non-owner occupied	15	\$ 2,252	20	\$ 1,831
Building lot	5	33	3	15
Total REO	20	\$ 2,285	23	\$ 1,846

At March 31, 2015, and June 30, 2014, the Company had \$6.5 million and \$3.9 million of loans classified as special mention, respectively (including loans purchased at December 31, 2012.) This category includes assets which do not currently expose us to a sufficient degree of risk to warrant classification, but do possess credit deficiencies or potential weaknesses deserving our close attention. The primary reason for this increase was related to two larger borrowers who each experienced some weakness in cash flow, but had no delinquency and their loans were well secured by real estate.

**Securities:** At March 31, 2015, the Company's investment securities had decreased \$1.4 million or 15.2% to \$7.9 million compared to June 30, 2014.

**Liabilities:** At March 31, 2015, the Company's liabilities totaled \$227.5 million, a decrease of \$5.0 million, or 2.1%, from total liabilities at June 30, 2014. The decrease in liabilities was attributed primarily to a decrease in deposits and was partially offset by an increase in FHLB advances. Deposits decreased \$11.0 million or 5.1% to \$202.2 million at March 31, 2015, as certificate of deposit customers have sought higher yields elsewhere. FHLB advances increased \$5.4 million or 31.7% from \$17.2 million at June 30, 2014 to \$22.6 million at March 31, 2015.

**Shareholders' Equity:** At March 31, 2015, the Company's shareholders' equity totaled \$67.0 million, a decrease of \$161,000 or 0.2% from the June 30, 2014 total, primarily as a result of the Company's repurchase of its outstanding common shares for treasury purposes, which totaled \$698,000 during the nine months just ended. In addition to the purchase of treasury stock, the change in shareholders' equity was chiefly associated with net profits for the period less dividends paid on common stock.

**Kentucky First Federal Bancorp**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION**

**AND RESULTS OF OPERATIONS (continued)**

Discussion of Financial Condition Changes from June 30, 2014 to March 31, 2015 (continued)

The Company paid dividends of \$1.1 million or 70.5% of net income for the nine month period just ended. On July 8, 2014, the members of First Federal MHC for the third time approved a dividend waiver on annual dividends of up to \$0.40 per share of Kentucky First Federal Bancorp common stock. The Board of Directors of First Federal MHC applied for approval of another waiver. On August 3, 2014 the Company received notice from the Federal Reserve Bank of Cleveland that there would be no objection to a waiver of dividends paid by the Company to First Federal MHC. As a result, First Federal MHC will be permitted to waive the receipt of dividends for quarterly dividends up to \$0.10 per common share through the third quarter of 2015. Management believes that the Company has sufficient capital to continue the current dividend policy without affecting the well-capitalized status of either subsidiary bank. Management cannot speculate on future dividend levels, because various factors, including capital levels, income levels, liquidity levels, regulatory requirements and overall financial condition of the Company are considered before dividends are declared. However, management continues to believe that a strong dividend is consistent with the Company's long-term capital management strategy. See "Risk Factors" in Part II, Item 1A, of the Company's Annual Report on Form 10-K for the year ended June 30, 2014 for additional discussion regarding dividends.

Comparison of Operating Results for the Nine Month Periods Ended March 31, 2015 and 2014

General

Net income totaled \$1.5 million for the nine months ended March 31, 2015, an increase of \$22,000 or 1.5% from net income for the same period in 2014.

Net Interest Income

Net interest income after provision for loan losses decreased \$80,000 or 1.0% and totaled \$8.0 million and \$8.1 million for the nine months ended March 31, 2015 and 2014, respectively. Provision for loan losses decreased by \$229,000 or 43.1% to \$302,000 for the nine month period just ended compared to \$531,000 for the prior year period.

## Edgar Filing: Kentucky First Federal Bancorp - Form 10-Q

Interest income decreased \$489,000 or 4.9%, to \$9.4 million, while interest expense decreased \$180,000 or 14.3% to \$1.1 million for the nine months ended March 31, 2015, after amortization of fair value adjustments on interest bearing accounts.

Interest income on loans decreased \$426,000 or 4.5% to \$9.1 million, due primarily to a decrease in the average balance of the loan portfolio. The average balance of loans outstanding decreased \$15.4 million to \$246.3 million for the nine month period just ended, while the average rate earned on loans outstanding increased 7 basis points to 4.92% for the recently ended period. Interest income on mortgage-backed residential securities (“MBS”) decreased \$18,000 or 17.6% to \$84,000 for the nine months ended March 31, 2015, as the average balance decreased \$1.4 million or 27.8% to \$3.5 million for the recently ended period, while the average rate earned increased 39 basis points to 3.2% compared to the period a year ago. Interest income on other securities, primarily composed of agency bonds, totaled \$19,000 during the recent nine month period, compared to \$22,000 for the prior year period. The average balance of the other investment securities was \$5.8 million for the nine month period just ended and the average rate earned on those securities was 44 basis points.



**Kentucky First Federal Bancorp**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION**

**AND RESULTS OF OPERATIONS (continued)**

Comparison of Operating Results for the Nine Month Periods Ended March 31, 2015 and 2014 (continued)

Net Interest Income (continued)

Interest income on interest-bearing deposits and other decreased for the period just ended primarily because of lower dividends received on FHLB of Cincinnati stock. The Company's dividends from FHLB of Cincinnati decreased \$41,000 or 17.3% to \$196,000 for the nine month period ended March 31, 2015 compared to the 2014 period. The Company's stock in FHLB of Cincinnati was partially redeemed pursuant to the FHLB of Cincinnati's most recent amended Capital Plan, which became effective February 17, 2014. Because of the redemption, the Company's average balance of FHLB of Cincinnati stock decreased \$942,000 or 12.7% to \$6.5 million for the nine months ended March 31, 2015, compared to the prior year period. In addition to the lower average balance of FHLB of Cincinnati stock, the average rate paid by the FHLB of Cincinnati decreased 23 basis points to 4.03% for the recently ended period compared to last year.

Interest expense on deposits decreased \$143,000 or 13.7% to \$898,000 for the nine month period ended March 31, 2015, due primarily to a decrease in average deposits outstanding. Average deposits outstanding decreased \$21.4 million or 9.5% to \$205.1 million for the recently ended nine month period, while the average rate paid on deposits increased 1 basis point to 58 basis points for the current year period. Interest expense on borrowings decreased \$37,000 or 17.1% to \$180,000 for the nine month period ended March 31, 2015, compared to the prior year period. The decrease in interest expense on borrowings was attributed to both lower average balance outstanding and lower rates paid, as the average balance outstanding decreased \$2.2 million or 10.5% to \$19.0 million and the average rate paid on borrowings decreased 10 basis points to 1.27% for the recently ended nine month period.

Net interest margin increased from 3.93% for the prior year period to 4.11% for the nine months ended March 31, 2015.

Provision for Losses on Loans

The Company recorded \$302,000 in provision for losses on loans during the nine months ended March 31, 2015, compared to a provision of \$531,000 for the nine months ended March 31, 2014. There can be no assurance that the loan loss allowance will be adequate to absorb unidentified losses on loans in the portfolio, which could adversely affect the Company's results of operations.

#### Non-interest Income

Non-interest income totaled \$396,000 for the nine months ended March 31, 2015, an increase of \$77,000 or 24.1% from the same period in 2014. The increase in non-interest income was primarily attributable to a \$134,000 increase in net gain on sales of REO. Somewhat offsetting the gain on sale of REO were decreases in other non-interest income and gains on sale of loans. Other non-interest income decreased \$39,000 or 16.3% to \$201,000 for the nine month period ended March 31, 2015, due primarily to decreases in fee income on deposit accounts. Gains on sale of loans decreased \$27,000 or 49.1% to \$28,000 for the recently ended nine month period. The Company had both fewer loans and lower dollar volume of long-term, fixed rate loans that it sold to the FHLB during the period due to lower customer demand. There were no sales of investments during the nine month period just ended.

**Kentucky First Federal Bancorp**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION**

**AND RESULTS OF OPERATIONS (continued)**

Comparison of Operating Results for the Nine Month Periods Ended March 31, 2015 and 2014 (continued)

Non-interest Expense

Non-interest expense totaled \$6.1 million for each of the nine month periods ended March 31, 2015 and 2014. A \$210,000 or 5.4% decrease in employee compensation and benefits expense, which totaled \$3.7 million for the nine months ended March 31, 2015, was offset by increases in other expenses. Employee compensation and benefits expense decreased primarily because the Company ceased for the fiscal year contributions to its multiple-employer defined benefit pension plan in response to favorable funding levels. Occupancy and equipment, which totaled \$469,000 for the recent period ended, increased \$60,000 or 14.7% due to aging facilities and necessary repairs thereon. Outside service fees, primarily associated with outside loan review and ESOP administration, increased \$49,000 or 47.1% to \$153,000 for the nine months ended March 31, 2015. Foreclosure and OREO expenses, net, increased \$48,000 or 44.9% to \$155,000 for the nine month period just ended as the Company continued to work through the REO process. Legal fees totaled \$58,000, an increase of \$31,000 or 114.8%, for the recently ended nine month period, primarily because of costs associated with the proposed merger of the two banks.

Federal Income Tax Expense

Federal income tax expense totaled \$756,000 for the nine months ended March 31, 2015, compared to \$755,000 in the prior year period. The effective tax rates were 33.0% and 33.3% for the nine month periods ended March 31, 2015 and 2014, respectively.

Comparison of Operating Results for the Three Month Periods Ended March 31, 2015 and 2014

General

Net income totaled \$539,000 for the three months ended March 31, 2015, an increase of \$48,000 or 9.8% from net income of \$491,000 for the same period in 2014.

### Net Interest Income

Net interest income after provision for loan losses decreased \$72,000 or 2.6% to \$2.7 million for the three month period just ended compared to \$2.8 million for the prior year quarter. Net interest income before provision for loan loss decreased \$114,000 or 4.0% to \$2.8 million for the quarter ended March 31, 2015. Provision for losses on loans decreased \$42,000 to \$36,000 for the recently-ended quarter compared to a provision of \$78,000 in the prior year period. Interest income decreased by \$118,000, or 3.6%, to \$3.1 million, while interest expense decreased \$4,000 or 1.1% to \$373,000 for the three months ended March 31, 2015, after amortization of fair value adjustments on interest bearing accounts.

Interest income on loans decreased \$99,000 or 3.2% to \$3.0 million, due to a decrease in the average size of the loan portfolio. The average balance of loans outstanding for the three month period ended March 31, 2015, decreased \$8.9 million or 3.5% to \$245.9 million, while the average rate earned increased 2 basis points to 4.94% for the period. Interest income on interest-bearing deposits and other decreased \$12,000 or 15.6% to \$65,000 for the three months ended March 31, 2015, primarily as a result of the redemption of FHLB of Cincinnati stock discussed above. As a result of the lower level of FHLB stock owned and lower dividend rates paid by the FHLB, dividend income decreased \$13,000 or 16.7% to \$65,000 for the three month period ended March 31, 2015 compared to the prior year period.

**Kentucky First Federal Bancorp**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION**

**AND RESULTS OF OPERATIONS (continued)**

Comparison of Operating Results for the Three Month Periods Ended March 31, 2015 and 2014

(continued)

Interest expense on deposits totaled \$312,000 for the three month periods ended March 31, 2015 and 2014, while interest expense on borrowings decreased \$4,000 or 6.2% to \$61,000 for the most recently ended period. The average balance of deposits decreased \$17.8 million to \$199.9 million for the most recent period, while the average balance paid on deposits increased 5 basis points to 0.62%. The decrease in average deposits was attributed to rate-sensitive deposit customers withdrawing funds to seek additional yield as the historically low interest rate environment continues. The decrease in interest expense on borrowings also was attributed to lower outstanding rates paid on amounts outstanding, as the average balance of outstanding borrowings increased \$3.5 million or 17.2% to \$23.6 million for the recently ended quarterly period.

Net interest margin increased slightly from 4.09% for the prior year quarterly period to 4.12% for the quarter ended March 31, 2015.

Provision for Losses on Loans

The Company recorded \$36,000 in provision for losses on loans during the three months ended March 31, 2015, compared to a \$78,000 provision for the three months ended March 31, 2014. There can be no assurance that the loan loss allowance will be adequate to absorb unidentified losses on loans in the portfolio, which could adversely affect the Company's results of operations.

Non-interest Income

Non-interest income totaled \$68,000 for the three months ended March 31, 2015, a decrease of \$39,000 from the same period in 2014. The Company recorded net loss from sales of REO of \$18,000 during the recently ended quarter compared to a net gain in the prior year period. There were no sales of investments during the three month period just

ended.

#### Non-interest Expense

Non-interest expense decreased \$122,000 or 5.8% and totaled \$2.0 million for the three months ended March 31, 2015 compared to \$2.1 million for the same period in 2014. Employee compensation and benefits decreased \$207,000 or 14.8% to \$1.2 million for the quarterly period, because of changes in pension laws which reduced expenses. New pension laws temporarily reduce funding requirements for multiple-employer pension plan in which the Company participates. Although the Company's liabilities for future pension benefit expenses was at least 100% funded at March 31, 2015, and no further defined benefit pension costs are anticipated for the balance of the fiscal year, the Company expects that its pension funding costs will be higher in the future.

#### Federal Income Tax Expense

Federal income taxes expense totaled \$266,000 for the three months ended March 31, 2015, compared to \$303,000 in the prior year period. The effective tax rates were 33.0% and 38.2% for the three-month periods ended March 31, 2015 and 2014, respectively.

**Kentucky First Federal Bancorp**

ITEM 3: Quantitative and Qualitative Disclosures About Market Risk

This item is not applicable as the Company is a smaller reporting company.

ITEM 4: Controls and Procedures

The Company's Chief Executive Officer and Chief Financial Officer have evaluated the Company's disclosure controls and procedures (as defined under Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report, and have concluded that the Company's disclosure controls and procedures were effective.

The Company's Chief Executive Officer and Chief Financial Officer have also concluded that there were no significant changes during the quarter ended March 31, 2015, in the Company's internal control over financial reporting or in other factors that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**Kentucky First Federal Bancorp**

## PART II

ITEM 1. Legal Proceedings

None.

ITEM 1A. Risk Factors

There have been no material changes in the risk factors disclosed in our Annual Report on Form 10-K for the fiscal year ended June 30, 2014.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

(c) The following table sets forth information regarding Company's repurchases of its common stock during the quarter ended March 31, 2015.

Period	Total # of shares purchased	Average price paid per share (incl commissions)	Total # of shares purchased as part of publicly announced plans or programs	Maximum # of shares that may yet be purchased under the plans or programs
January 1-31, 2015	—	\$ —	—	78,323
February 1-28, 2015	18,000	\$ 8.20	18,000	60,323
March 1-31, 2015	—	\$ —	—	60,323

(1) On January 16, 2014, the Company announced a program (its seventh) to repurchase of up to 150,000 shares of its common stock.

ITEM 3. Defaults Upon Senior Securities



Not applicable.

ITEM 4. Mine Safety Disclosures.

Not applicable.

ITEM 5. Other Information

None.

ITEM 6. Exhibits

- 3.1<sup>1</sup> Charter of Kentucky First Federal Bancorp
- 3.2<sup>1</sup> Bylaws of Kentucky First Federal Bancorp, as amended and restated
- 4.1<sup>1</sup> Specimen Stock Certificate of Kentucky First Federal Bancorp
- 31.1 CEO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 CFO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 CEO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 CFO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

101.0 The following materials from Kentucky First Federal Bancorp's Quarterly Report

On Form 10-Q for the quarter ended March 31, 2015 formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Income; (iii) the Consolidated Statements of Comprehensive Income; (iv) the Consolidated Statements of Cash Flows; and (v) the related Notes.

(1) Incorporated herein by reference to the Company's Registration Statement on Form S-1 (File No. 333-119041).

**Kentucky First Federal Bancorp**

SIGNATURES

Pursuant to the requirements 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.

KENTUCKY FIRST FEDERAL BANCORP

Date: May 15, 2015 By: /s/Don D. Jennings  
Don D. Jennings  
Chief Executive Officer

Date: May 15, 2015 By: /s/ R. Clay Hulette  
R. Clay Hulette  
Vice President and Chief Financial Officer