

Kentucky First Federal Bancorp  
Form 10-Q/A  
October 06, 2010

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q/A  
(Amendment No. 1)

(Mark One)

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

For the quarterly period ended December 31, 2009

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  
(State or other jurisdiction of  
incorporation or organization)

61-1484858  
(I.R.S. Employer Identification No.)

479 Main Street, Hazard, Kentucky 41702  
(Address of principal executive offices)(Zip Code)

(606) 436-3860  
(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 February 9, 2010, the latest practicable date, the Corporation had 7,853,934 shares of \$.01 par value common stock outstanding.

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Kentucky First Federal Bancorp  
Explanatory Note

This amendment to the Quarterly report on Form 10-Q (“Amended Report”) for Kentucky First Federal Bancorp (the “Company”) for the period ended December 31, 2009, is being filed to amend portions of the Company’s Quarterly Report filed on Form 10-Q for the period ended December 31, 2009, which was originally filed with the Securities and Exchange Commission (“SEC”) on February 12, 2010.

The Company amended the June 30, 2009 audited financial statements in the Annual Report on Form 10-K/A filed on September 30, 2010 to reflect certain adjustments to its accrued income tax liability. The adjustments are more fully described in Notes to Consolidated Financial Statements, Note 10 Prior Period Adjustment. The Company is amending the December 31, 2009 unaudited financial statements to reflect the impact of this restatement and its impact on the December 31, 2009 unaudited financial statements and the June 30, 2009 financial statements included in the filing.

The Company is amending Item 1. “Financial Information”, and Item 2. “Management’s Discussion and Analysis of Financial Condition and Results of Operations” to reflect the restatement of financial statements in connection with the following adjustment:

The increase of retained earnings by \$144,000 from \$31.216 million to \$31.360 million as of December 31, 2009 to reflect the impact of amending the 2009 Annual report on Form 10-K/A on September 30, 2010. The restatements also reduced prepaid federal income tax from \$473,000 to \$393,000 and reduced deferred federal income taxes from \$1.449 million to \$1.225 million as of December 31, 2009.

In connection with the restatement as described above, the Company has reevaluated the effectiveness of its internal controls over financial reporting and its disclosure controls and procedures accordingly. See Item 4. “Controls and Procedures” for additional discussion on internal controls.

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## PART I

## ITEM 1: Financial Information

## Kentucky First Federal Bancorp

CONSOLIDATED BALANCE SHEETS  
(Unaudited)  
(Dollars in thousands, except per share data)

	Restated December 31, 2009	Restated June 30, 2009
<b>ASSETS</b>		
Cash and due from financial institutions	\$ 968	\$ 1,548
Interest-bearing demand deposits	3,133	2,669
Cash and cash equivalents	4,101	4,217
Interest-bearing deposits	100	100
Available-for-sale securities	5,327	5,451
Held-to-maturity securities, at amortized cost- approximate fair value of \$11,316 and \$15,317 at December 31, and June 30, 2009, respectively	10,972	14,999
Loans held for sale	105	230
Loans receivable	192,520	189,609
Allowance for loan losses	(1,618)	(678)
Real estate acquired through foreclosure	110	109
Office premises and equipment, net	2,794	2,844
Federal Home Loan Bank stock	5,641	5,641
Accrued interest receivable	613	750
Bank-owned life insurance	2,473	2,428
Goodwill	14,507	14,507
Other intangible assets, net	284	349
Advances to borrowers for taxes and insurance	22	—
Prepaid federal income taxes	393	—
Prepaid expenses and other assets	1,049	345
Total assets	\$ 239,393	\$ 240,901
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Deposits	\$ 142,552	\$ 139,743
Advances from the Federal Home Loan Bank	36,837	40,156
Advances by borrowers for taxes and insurance	—	290
Accrued interest payable	173	189
Accrued federal income taxes	—	147
Deferred federal income taxes	1,225	1,115
Other liabilities	478	723
Total liabilities	181,265	182,363
Commitments and contingencies	-	-

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Shareholders' equity		
Preferred stock, 500,000 shares authorized, \$.01 par value; no shares issued	-	-
Common stock, 20,000,000 shares authorized, \$.01 par value; 8,596,064 shares issued and outstanding	86	86
Additional paid-in capital	36,537	36,223
Retained earnings	31,360	32,074
Shares acquired by stock benefit plans	(2,457)	(2,557)
Treasury shares at cost, 734,930 and 728,930 common shares at December 31, and June 30, 2009, respectively	(7,446)	(7,379)
Accumulated other comprehensive income	48	91
Total shareholders' equity	58,128	58,538
Total liabilities and shareholders' equity	\$ 239,393	\$ 240,901

See accompanying notes.

## Kentucky First Federal Bancorp

## CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(Dollars in thousands, except per share data)

	Six months ended December 31,		Three months ended December 31,	
	2009	2008	2009	2008
<b>Interest income</b>				
Loans	\$ 5,282	\$ 5,555	\$ 2,634	\$ 2,776
Mortgage-backed securities	252	292	123	143
Investment securities	91	135	44	67
Interest-bearing deposits and other	134	207	64	72
Total interest income	5,759	6,189	2,865	3,058
<b>Interest expense</b>				
Deposits	1,841	2,135	891	1,055
Borrowings	807	922	391	442
Total interest expense	2,648	3,057	1,282	1,497
Net interest income	3,111	3,132	1,583	1,561
Provision for losses on loans	1,028	15	60	-
Net interest income after provision for losses on loans	2,083	3,117	1,523	1,561
<b>Non-interest income</b>				
Earnings on bank-owned life insurance	45	47	22	29
Gain on sale of loans	59	18	31	6
Loss on sale of real estate acquired through foreclosure	(27)	-	(15)	-
Other operating	51	49	23	24
Total non-interest income	128	114	61	59
<b>Non-interest expense</b>				
Employee compensation and benefits	1,526	1,412	780	712
Occupancy and equipment	145	204	74	116
Franchise taxes	92	87	46	47
Data processing	112	81	59	39
FDIC insurance premiums	93	12	51	6
Amortization of intangible assets	65	33	65	33
Other operating	403	463	184	196
Total non-interest expense	2,436	2,292	1,259	1,146
Income (loss) before income taxes	(225)	939	325	474
<b>Federal income tax expense (benefit)</b>				
Current	(210)	(66)	(30)	148
Deferred	132	370	140	3

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Total federal income tax expense (benefit)	(78)	304	110	151
NET INCOME (LOSS)	\$ (147)	\$ 635	\$ 215	\$ 323
EARNINGS (LOSS) PER SHARE				
Basic	\$ (0.02)	\$ 0.08	\$ 0.03	\$ 0.04
Diluted	\$ (0.02)	\$ 0.08	\$ 0.03	\$ 0.04
DIVIDENDS PER SHARE	\$ 0.20	\$ 0.20	\$ 0.10	\$ 0.10

See accompanying notes.



## Kentucky First Federal Bancorp

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)  
(In thousands)

	Six months ended December 31,		Three months ended December 31,	
	2009	2008	2009	2008
Net income (loss)	\$ (147)	\$ 635	\$ 215	\$ 323
<b>Other comprehensive income (loss), net of taxes (benefits):</b>				
Unrealized holding gains (losses) on securities designated as available for sale, net of taxes (benefits) of \$(22), \$42, \$(11) and \$46 during the respective periods	(43)	82	(21)	90
Comprehensive income (loss)	\$ (190)	\$ 717	\$ 194	\$ 413

See accompanying notes.

## Kentucky First Federal Bancorp

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)  
(In thousands)Six months ended  
December 31,  
2009 2008

Cash flows from operating activities:		
Net income (loss) for the period	\$ (147)	\$ 635
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Amortization of discounts and premiums on loans, investments and mortgage-backed securities – net	—	1
Amortization of deferred loan origination fees	(1)	33
Amortization of premiums on FHLB advances	(226)	(255)
Amortization of core deposit intangibles	65	65
Depreciation and amortization	85	76
Amortization of stock benefit plans	283	284
Provision for losses on loans	1,028	15
Federal Home Loan Bank stock dividends	—	(75)
Bank-owned life insurance earnings	(45)	(47)
Mortgage loans originated for sale	(2,141)	(1,210)
Gain on sale of loans	(59)	(18)
Loss on sale of real estate acquired through foreclosure	27	—
Proceeds from sale of mortgage loans	2,325	1,314
Increase (decrease) in cash, due to changes in:		
Accrued interest receivable	137	(43)
Prepaid expenses and other assets	(726)	50
Accrued interest payable	(16)	(13)
Other liabilities	(114)	69
Federal income taxes		
Current	(540)	(262)
Deferred	132	370
Net cash provided by operating activities	67	989
Cash flows provided by (used in) investing activities:		
Investment securities maturities, prepayments and calls:		
Held to maturity	4,027	975
Available for sale	59	50
Proceeds from sale of real estate acquired through foreclosure	223	8
Loan principal repayments	18,403	26,495
Loan disbursements	(21,652)	(35,589)
Purchase of office equipment	(35)	(212)
Net cash provided by (used in) investing activities	1,025	(8,273)
Cash flows provided by (used in) financing activities:		
Net increase (decrease) in deposit accounts	2,809	(1,717)

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Proceeds from Federal Home Loan Bank advances	4,000	15,800
Repayment of Federal Home Loan Bank advances	(7,093)	(16,091)
Advances by borrowers for taxes and insurance	(290)	(329)
Dividends paid on common stock	(567)	(582)
Treasury stock repurchases	(67)	(1,056)
Net cash used in financing activities	(1,208)	(3,975)
Net decrease in cash and cash equivalents	(116)	(11,259)
Cash and cash equivalents at beginning of period	4,217	15,966
Cash and cash equivalents at end of period	\$ 4,101	\$ 4,707

See accompanying notes.

Kentucky First Federal Bancorp

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

(Unaudited)  
(In thousands)

Six months ended  
December 31,  
2009                  2008

Supplemental disclosure of cash flow information:

Cash paid during the period for:

Federal income taxes	\$        330	\$        205
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Interest on deposits and borrowings	\$    2,890	\$    3,325
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See accompanying notes.

Kentucky First Federal Bancorp

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Six- and three-months ended December 31, 2009 and 2008  
(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.

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 accounting principles generally accepted in the United States of America. 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 six- and three-month periods ended December 31, 2009, are not necessarily indicative of the results which may be expected for an entire fiscal year. The consolidated balance sheet as of June 30, 2009 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/A annual report for 2009 filed with the Securities and Exchange Commission.

2. 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.

## Kentucky First Federal Bancorp

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Six- and three-months ended December 31, 2009 and 2008  
(unaudited)

## 3. Earnings Per Share

Basic earnings per share is computed based upon the weighted-average common shares outstanding during the period less shares in the Company's ESOP that are unallocated and not committed to be released. Weighted average common shares deemed outstanding give effect to 263,572 and 282,484 unallocated ESOP shares for the six- and three-month periods ended December 31, 2009, and 2008, respectively.

	Six months ended December 31,	
	2009	2008
Weighted-average common shares outstanding (basic)	7,562,968	7,663,001
Dilutive effect of:		
Assumed exercise of stock options	-	-
Weighted-average common shares outstanding (diluted)	7,562,968	7,663,001
	Three months ended December 31,	
	2009	2008
Weighted-average common shares outstanding (basic)	7,561,360	7,643,602
Dilutive effect of:		
Assumed exercise of stock options	36,566	-
Weighted-average common shares outstanding (diluted)	7,597,926	7,643,602

There were 339,200 stock option shares outstanding for both of the six- and three-month periods ended December 31, 2009 and 2008, but the stock option shares in the 2008 and year-to-date 2009 periods were not considered in computing diluted earnings per share, because they were anti-dilutive.

## 4. New Accounting Standards

FASB Staff Position ("FSP") ASC 260-10 is effective for fiscal years beginning after December 15, 2008 and is to be applied retrospectively. This FSP requires share-based compensation awards that qualify as participating securities to be included in basic EPS using the two-class method. A share-based compensation award is considered a participating security if it receives non-forfeitable dividends. A non-forfeitable dividend would be a dividend that the participant receives before the award is vested and if the participant forfeits the actual shares awarded the dividends he/she has received do not have to be paid back to the company. This guidance was adopted in the first quarter and has been applied to all periods shown.

In connection with our adoption of FSP ASC 260-10, weighted average voting and unvested common shares outstanding include unvested shares issued through the year 2010 incentive compensation plan shares of 25,900 and 51,800 at December 31, 2009 and 2008, respectively. This FSP requires share-based compensation awards that qualify as participating securities to be included in basis EPS using the two-class method. Adoption of this FSP had no effect on the basic and diluted EPS for either of the six- or three-month periods ended December 31, 2008.

Kentucky First Federal Bancorp

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Six- and three-months ended December 31, 2009 and 2008  
(unaudited)

4. New Accounting Standards (continued)

In April 2009, the FASB issued FSP No. 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments," which was subsequently incorporated into ASC Topic 825, "Financial Instruments." This guidance amended FASB Statement No. 107, "Disclosures about Fair Value of Financial Instruments," to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies that were previously only required in annual financial statements. The adoption of this guidance at December 31, 2009, did not impact our results of operations or financial position, as it only required disclosures, which are included in the following section.

In May 2009, the FASB issued ASC 855, "Subsequent Events," which establishes general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. In particular, this Statement sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. In accordance with this Statement, an entity should apply the requirements to interim or annual financial periods ending after June 15, 2009. Subsequent events were evaluated through February 12, 2010, which is the date the financial statements were issued. The impact of the adoption did not have a material impact on the results of operations or financial position of the Company.

In June 2009 the FASB issued Statement No. 168 (ASC 105-10), "The FASB Accounting Standards Codification and Hierarchy of Generally Accepted Accounting Principles-a replacement of FASB Statement No. 162," Which was subsequently incorporated into ASC 405. This Statement has become the source of authoritative U.S. generally accepted accounting principles ("GAAP") recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission ("SEC") under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. On the effective date of this Statement, the Codification superseded all then-existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the Codification will become non-authoritative. Management has adopted this Statement for the period ended December 31, 2009. All authoritative language has been updated to comply with ASC 405.

On June 12, 2009, the FASB issued new guidance impacting FASB ASC 860, Transfers and Servicing. The new guidance amends ASC 860, and will require more information about transfers of financial assets, including securitization transactions, and where entities have continuing exposure to the risks related to transferred financial assets. It eliminates the concept of a "qualifying special-purpose entity," changes the requirements for derecognizing financial assets, and requires additional disclosures. The new standard will be effective January 1, 2010 and the adoption of this standard is not expected to have a material effect on the Company's results of operations or financial position.





## Kentucky First Federal Bancorp

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Six- and three-months ended December 31, 2009 and 2008  
(unaudited)

## 4. New Accounting Standards (continued)

On June 12, 2009, the FASB issued new guidance impacting FASB ASC 810-10, Consolidation (Statement No. 167 amends FIN 46(R)). The new guidance replaces the quantitative-based risks and rewards calculation for determining which enterprise, if any, has a controlling financial interest in a variable interest entity with a qualitative approach focused on identifying which enterprise has the power to direct the activities of a variable interest entity (VIE) that most significantly impact the entity's economic performance and (1) the obligation to absorb losses of the entity or (2) the right to receive benefits from the entity. Unlike previous guidance, this Statement requires ongoing reconsideration of whether (1) an entity is a VIE and (2) an enterprise is the primary beneficiary of a VIE. It is expected that the amendments will result in more entities consolidating VIEs that previously were not consolidated. This new guidance will also require additional disclosures about the Company's involvement in variable interest entities. This new guidance will be effective January 1, 2010 and the adoption of this standard is not expected to have a material effect on the Company's results of operations or financial position.

## 5. Investment Securities

The amortized cost, gross unrealized gains, gross unrealized losses and estimated fair values of investment securities are summarized as follows:

	Amortized cost	December 31, 2009		Estimated fair value
		Gross unrealized gains	Gross unrealized losses	
(In thousands)				
<b>Available-for-sale Securities</b>				
U.S. Government and federal agency	\$ 5,000	\$ 70	\$ -	\$ 5,070
Agency residential mortgage-backed securities	255	3	(1)	257
	\$ 5,255	\$ 73	\$ (1)	\$ 5,327
<b>Held-to-maturity Securities</b>				
U.S. Government and federal agency	\$ -	\$ -	\$ -	\$ -
Agency residential mortgage-backed securities	10,972	344	-	11,316
	\$ 10,972	\$ 344	\$ -	\$ 11,316

	Amortized cost	June 30, 2009		Estimated fair value
		Gross unrealized gains	Gross unrealized losses	

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(In thousands)

<b>Available-for-sale Securities</b>					
U.S. Government and federal agency	\$	5,000	\$	136	\$ - \$ 5,136
Agency residential mortgage-backed securities		314		2	(1) 315
	\$	5,314	\$	138	\$ (1) \$ 5,451
<b>Held-to-maturity Securities</b>					
U.S. Government and federal agency	\$	3,000	\$	2	\$ - \$ 3,002
Agency residential mortgage-backed securities		11,999		316	- 12,315
	\$	14,999	\$	318	\$ - \$ 15,317

## Kentucky First Federal Bancorp

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Six- and three-months ended December 31, 2009 and 2008  
(unaudited)

## 5. Investment Securities (continued)

The amortized cost and estimated fair value of investment securities by contractual maturity are shown below. Actual maturities may differ from contractual maturities, because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	December 31, 2009		June 30, 2009	
	Estimated fair value	Amortized cost (In thousands)	Estimated fair value	Amortized cost
<b>Available-for-sale</b>				
Within one year	\$ 5,070	\$ 5,000	\$ 5,136	\$ 5,000
One year through five years	-	-	-	-
	5,070	5,000	5,136	5,000
Mortgage-backed securities	257	255	315	314
Totals	\$ 5,327	\$ 5,255	\$ 5,451	\$ 5,314
<b>Held-to-maturity</b>				
Within one year	\$ -	\$ -	\$ 3,002	\$ 3,000
One year through five years	-	-	-	-
	-	-	3,002	3,000
Mortgage-backed securities	11,316	10,972	12,315	11,999
Totals	\$ 11,316	\$ 10,972	\$ 15,317	\$ 14,999

There were no sales of investment securities during the fiscal year ended June 30, 2009 or the six- and three- month periods ended December 31, 2009.

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.

## Kentucky First Federal Bancorp

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Six- and three-months ended December 31, 2009 and 2008  
(unaudited)

## 6. Loans Receivable

The composition of the loan portfolio is as follows:

	December 31, 2009	June 30, 2009
(In thousands)		
Residential real estate		
One- to four-family	\$ 164,625	\$ 163,108
Multi-family	8,728	7,303
Construction	1,175	735
Nonresidential real estate and land	11,139	11,460
Loans on deposits	2,736	2,909
Consumer and other	4,698	4,497
	193,101	190,012
Less:		
Undisbursed portion of loans in process	576	404
Deferred loan origination fees (cost)	5	(1)
Allowance for loan losses	1,618	678
	\$ 190,902	\$ 188,931

Impaired loans were as follows:

	December 31, 2009	June 30, 2009
(In thousands)		
Loans with no allocated allowance for loan losses	\$ 1,884	\$ 4,086
Loans with allocated allowance for loan losses	5,385	1,153
Total	\$ 7,269	\$ 5,239
Amount of allowance for loan losses allocated	\$ 993	\$ 56

## 7. Allowance for Loan Losses

The activity in the allowance for loan losses is summarized as follows:

	For the Six Months Ended	
	December 31, 2009	December 31, 2008
(In thousands)		
Beginning balance	\$ 678	\$ 666
Provision for losses on loans	1,028	15

Charge-offs	(88)	-
Ending balance	\$ 1,618	\$ 681

## Kentucky First Federal Bancorp

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Six- and three-months ended December 31, 2009 and 2008  
(unaudited)

## 7. Allowance for Loan Losses (continued)

	For the Three Months Ended	
	December 31, 2009	December 31, 2008
	(In thousands)	
Beginning balance	\$ 1,599	\$ 681
Provision for losses on loans	60	-
Charge-offs	(41)	-
Ending balance	\$ 1,618	\$ 681

## 8. Commitments

As of December 31, 2009, loan commitments and unused lines of credit totaled \$10.9 million, including \$576,000 in undisbursed construction loans, \$936,000 in one- to four-family mortgage loans and \$9.4 million in lines of credit secured by equity in real property.

## 9. 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 or discounted cash flows. Level 2 securities include mortgage

products.

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## Kentucky First Federal Bancorp

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Six- and three-months ended December 31, 2009 and 2008  
(unaudited)

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

## Impaired Loans

Impaired loans are evaluated at the time the loan is identified as impaired and are recorded at fair value. Market value is measured based on the value of the collateral securing these loans and is classified as Level 3 in the fair value hierarchy. Fair value is determined using several methods. Generally, the fair value of real estate is determined based on appraisals by qualified licensed appraisers. If an appraisal is not available, the fair value of the collateral may be determined by using a cash flow analysis, a broker's opinion of value, the net present value of future cash flows, or an observable market price from an active market. Fair value on non-real estate collateral loans is determined using similar methods. In addition, business equipment may be valued by using the net book value from the business' financial statements. Impaired loans are evaluated quarterly for additional impairment.

## Other Real Estate Owned ("OREO")

OREO is evaluated at the time of acquisition and recorded at fair value as determined by independent appraisal or internal market evaluation less cost to sell. OREO is further evaluated quarterly for impairment. The aggregate fair value of OREO acquired and/or written down to fair value during the period is disclosed below.

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

Description	Fair Value	Fair Value Measurements at December 31, 2009 (in thousands)		
		Quotes Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Available-for-sale securities:</b>				
U.S. Government and federal agency	\$ 5,070	\$ -	\$ 5,070	\$ -
Agency residential mortgage-backed securities	257	-	257	-
Totals	\$ 5,327	\$ -	\$ 5,327	\$ -

Description	Fair Value	Fair Value Measurements at June 30, 2009 (in thousands)		
		Quotes Prices in Active Markets for Identical	Significant Other Observable	Significant Unobservable

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Description	Fair Value	Assets (Level 1)	Inputs (Level 2)	Inputs (Level 3)
<b>Available-for-sale securities:</b>				
U.S. Government and federal agency	\$ 5,136	\$ -	\$ 5,136	\$ -
Agency residential mortgage-backed securities	315	-	315	-
Totals	\$ 5,451	\$ -	\$ 5,451	\$ -

## Kentucky First Federal Bancorp

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Six- and three-months ended December 31, 2009 and 2008  
(unaudited)

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

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

Description	Fair Value	Fair Value Measurements at December 31, 2009 (in thousands)		
		Quotes Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	\$ 6,276	\$ -	\$ -	\$ 6,276
Other real estate owned	110	-	-	110
Totals	\$ 6,386	\$ -	\$ -	\$ 6,386

Impaired loans had a carrying amount of \$5.4 million and a valuation allowance of \$993,000 at December 31, 2009. A charge of \$16,000 was included in earnings for the period.

Description	Fair Value	Fair Value Measurements at June 30, 2009 (in thousands)		
		Quotes Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	\$ 5,183	\$ -	\$ -	\$ 5,183
Other real estate owned	109	-	-	109
Totals	\$ 5,292	\$ -	\$ -	\$ 5,292

ASC 829, "Disclosures about Fair Value of Financial Instruments," requires disclosure of the fair value of financial instruments, both assets and liabilities, whether or not recognized in the consolidated statement of financial condition, 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 recognized in the accompanying statements of financial condition at amounts other than fair value at June 30, 2009 and 2008:

Cash and cash equivalents: 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 deemed to equal the quoted market price, which is level 2 pricing.

Kentucky First Federal Bancorp

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Six- and three-months ended December 31, 2009 and 2008  
(unaudited)

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

Loans held for sale: Loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value, as determined by outstanding commitments from investors. When the Bank decides to sell loans not previously classified as held for sale, such loans are transferred into a held-for-sale classification, and the recorded loan values are adjusted to the lower of cost or fair value.

Loans receivable: 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.

Federal Home Loan Bank stock, interest-earning deposits and accrued interest receivable: It is not practicable to determine the fair value of FHLB stock due to restrictions placed on its transferability. The carrying amounts presented in the consolidated statements of financial condition for interest-earning deposits and accrued interest receivable are deemed to approximate fair value.

Deposits: The fair value of NOW accounts, passbook accounts, money market deposits and advances by borrowers for taxes and insurance 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. The historical carrying amount of accrued interest payable on deposits is deemed to approximate fair value.

Advances from the Federal Home Loan Bank: 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.

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 December 31, and June 30, 2009, was not material.

## Kentucky First Federal Bancorp

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Six- and three-months ended December 31, 2009 and 2008  
(unaudited)

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

Based on the foregoing methods and assumptions, the carrying value and fair value of the Company's financial instruments at December 31 and June 30, 2009 are as follows:

	December 31, 2009		June 30, 2009	
	Carrying value	Fair value	Carrying value	Fair value
	(In Thousands)			
<b>Financial assets</b>				
Cash and cash equivalents	\$ 4,101	\$ 4,101	\$ 4,217	\$ 4,217
Interest-earning deposits	100	100	100	100
Available-for-sale securities	5,327	5,327	5,451	5,451
Held-to-maturity securities	10,972	11,316	14,999	15,317
Loans held for sale	105	105	230	230
Loans receivable - net	190,902	196,123	188,931	193,165
Federal Home Loan Bank stock	5,641	n/a	5,641	n/a
Accrued interest receivable	613	613	750	750
Advances to borrowers for taxes and insurance	22	22	-	-
<b>Financial liabilities</b>				
Deposits	\$ 142,552	\$ 145,046	\$ 139,743	\$ 142,772
Advances from the Federal Home Loan Bank	36,837	36,762	40,156	41,613
Advances by borrowers for taxes and insurance	-	-	290	290
Accrued interest payable	173	173	189	189

## Kentucky First Federal Bancorp

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Six- and three-months ended December 31, 2009 and 2008  
(unaudited)

## 10. Prior Period Adjustment

On September 30, 2010, the Company amended its Form 10-K (“Amended Report”) to restate the financial statements to revise the federal deferred and current income taxes. The restatement reduced the deferred federal income tax liability by \$224,000 to eliminate an unsupported excess of the liability from the Company’s adoption of accounting guidance for uncertain tax positions. In addition, the restatement increased the income tax due by \$80,000 from a 4th quarter fiscal year 2009 dividend distribution from one of the Company’s bank subsidiaries, which exceeded the Bank’s accumulated earnings and profits and, as a consequence, resulted in a distribution of the bank’s thrift reserve. The financial statements have been restated to revise the reported liability, prepaid taxes and retained earnings associated with this restatement. As a result of the restatement, the following financial statement line items were adjusted (in thousands):

Consolidated Balance Sheets	Restated	Previously Reported	Effect of Change
<b>December 31, 2009:</b>			
Prepaid federal income taxes	\$ 393	\$ 473	\$ (80)
<b>Total assets</b>	<b>239,393</b>	<b>239,473</b>	<b>(80)</b>
Deferred federal income taxes	1,225	1,449	(224)
<b>Total liabilities</b>	<b>181,265</b>	<b>181,489</b>	<b>(224)</b>
Retained earnings	31,360	31,216	144
<b>Total shareholders’ equity</b>	<b>58,128</b>	<b>57,984</b>	<b>144</b>
<b>Total liabilities and shareholders’ equity</b>	<b>239,393</b>	<b>239,473</b>	<b>(80)</b>
<b>June 30, 2009:</b>			
Accrued federal income taxes	147	67	80
Deferred federal income taxes	1,115	1,339	(224)
<b>Total liabilities</b>	<b>182,363</b>	<b>182,507</b>	<b>(144)</b>
Retained earnings	32,074	31,930	144
<b>Total shareholders’ equity</b>	<b>58,538</b>	<b>58,394</b>	<b>144</b>

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/A for the year ended June 30, 2009.

Discussion of Financial Condition Changes from June 30, 2009 to December 31, 2009 (RESTATED)

Assets: At December 31, 2009, the Company's assets totaled \$239.4 million, a decrease of \$1.5 million, or 0.6%, from total assets at June 30, 2009. This decrease was attributed primarily a decrease in investment securities as well as an increase in the allowance for loan losses, offset by an increase in loans receivable, net.

Cash and cash equivalents: Cash and cash equivalents slightly decreased by \$116,000 to \$4.1 million at December 31, 2009. It is management's intention to continue deploying excess liquidity into mortgage loans to the extent possible.

Loans: Loans receivable, net, increased by \$2.0 million or 1.0% to \$190.9 million at December 31, 2009, despite an increased level of allowance for loan losses. A provision for loan losses of \$1.0 million was made during the six months just ended, chiefly to establish a specific valuation allowance in response to deterioration in the financial position of a single borrower. Otherwise, gross loans receivable increased \$2.9 million or 1.5% to \$192.5 million at December 31, 2009. Management believes that the successful redeployment of the Company's excess liquidity to higher-yielding mortgage loans is important for the long-term success of the Company. The Company will continue to emphasize loan originations to the extent that it is profitable and prudent.

Non-Performing Loans: At December 31, 2009, the Company had approximately \$3.3 million, or 1.7% of net loans, in loans 90 days or more past due, compared to \$3.9 million or 2.0%, of net loans at June 30, 2009. At December 31, 2009, the Company's allowance for loan losses of \$1.6 million represented 48.8% of nonperforming loans and 0.8% of net loans compared to an allowance balance of \$678,000 at June 30, 2009, representing 17.5% of nonperforming loans and 0.4% of net loans..

The Company had \$7.4 million in assets classified as substandard for regulatory purposes at December 31, 2009, including loans and real estate acquired through foreclosure ("REO"). Classified assets as a percentage of net loans was 3.8% and 4.2% at December 31, and June 30, 2009, respectively. REO at December 31, 2009, included four single-family homes with an aggregate carrying value of \$110,000. All substandard loans were secured by residential property on which the banks have priority lien position. The table below summarizes substandard loans at December 31, 2009:





## 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, 2009 to December 31, 2009 (RESTATED) (continued)

	Number of Loans	Carrying Value
Single family, owner occupied	39	\$ 2,376
Single family, non-owner occupied	5	339
More than one single family, non-owner occupied	3	2,638
2-4 family, owner occupied	2	41
2-4 family, non-owner occupied	10	1,472
5 or more family, non-owner occupied	1	403
Total substandard loans	60	\$ 7,269

Included in classified loans is one credit relationship which, within the last six months, experienced significant deterioration and is responsible for most of the provision for losses during that period. The loans to this borrower totaled \$4.7 million at December 31, 2009, and all of the underlying collateral is comprised of 1-4 family residential rental units. Management determined this loan to be impaired under ASC 310 "Receivables" and that it would be unable to collect all amounts due according to the contractual terms of the loan agreement. During the six month period ended December 31, 2009, a specific reserve of \$925,000 was established based on the estimated fair value of the underlying collateral less cost to sell.

At December 31, 2009, the Company had \$481,000 in loans classified as special mention. 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. At December 31, 2009, no loans were classified as doubtful or loss for regulatory purposes.

Investment and Mortgage-Backed Securities: At December 31, 2009, the Company's investment and mortgage-backed securities had decreased \$4.2 million or 20.3% to \$16.3 million. Approximately \$5.0 million of the Company's remaining investment and agency securities are scheduled to mature in the current fiscal year.

Liabilities: At December 31, 2009, the Company's liabilities totaled \$181.3 million, a decrease of \$1.1 million, or 0.6%, from total liabilities at June 30, 2009. The decrease in liabilities was attributed primarily to a \$3.3 million, or 8.3%, decrease in Federal Home Loan Bank advances, which decreased to \$36.8 million at December 31, 2009. Approximately \$25.0 million in advances will mature within the next twelve months. Management plans to refinance a portion of its advances utilizing longer-term products at prevailing interest rates, which are lower than the rates currently being paid on the advances.

Shareholders' Equity: At December 31, 2009, the Company's shareholders' equity totaled \$58.1 million, a decrease of \$410,000 or 0.7% from the June 30, 2009 total. The primary reasons for the decline were the net loss for the six months of \$147,000 and dividends paid of \$567,000.



Kentucky First Federal Bancorp

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS (continued)

Comparison of Operating Results for the Six-Month Periods Ended December 31, 2009 and 2008

General

Net loss totaled \$(147,000) for the six months ended December 31, 2009, a decrease of \$782,000 from the \$635,000 in net income for the same period in 2008. The decrease was primarily attributable to a provision for loan loss of \$1.0 million during the period. Also contributing to the decrease in net income was a decrease in net interest income and an increase in FDIC insurance premiums from quarter to quarter.

Net Interest Income

Net interest income decreased \$21,000 or 0.7% to \$3.1 million for the six month period ended December 31, 2009, compared to the 2008 period, due to interest income decreasing at a faster pace than interest expense. Interest income decreased by \$430,000, or 6.9%, to \$5.8 million, while interest expense decreased \$409,000 or 13.4% to \$2.6 million for the six months ended December 31, 2009.

Interest income on loans decreased \$273,000 or 4.9% to \$5.3 million, due primarily to a decrease in the average rate earned on the loan portfolio. The average balance of loans outstanding for the six month period ended December 31, 2009, increased \$2.9 million or 1.5% to an average of \$189.8 million for the six months just ended, while the average rate earned declined 38 basis points to 5.57% for the period just ended. Interest income on interest-bearing deposits and other decreased \$73,000 or 35.3% to \$134,000 for the six months ended December 31, 2009, primarily as a result of reduced volume. The average balance outstanding declined \$4.4 million or 34.5% to \$8.3 million for the six month period ended December 31, 2009, while the average rate earned on those assets declined 4 basis points to 3.22%.

Interest expense on deposits and borrowings both declined period to period. Interest expense on deposits decreased \$294,000 or 13.8% to \$1.8 million for the six month period ended December 31, 2009, while interest expense on borrowings declined \$115,000 or 12.5% to \$807,000 for the same period. The decline in interest expense on deposits was attributed primarily to a reduction in the average rate paid on the deposits, as the average balance of deposits increased period to period. The average rate paid on deposits decreased 51 basis points to 2.60% for the most recent period, while the average balance of deposits increased \$4.4 million or 3.2% to \$141.5 million. The decline in interest expense on borrowings was attributed to lower borrowings outstanding, as the average balance of borrowings declined \$9.3 million or 20.8% to \$35.6 million for the most recent period. The average rate paid on borrowings increased 43 basis points to 4.54% for the recently ended six-month period.

Provision for Losses on Loans

The Company charges a provision for losses on loans to earnings to bring the total allowance for loan losses to a level considered appropriate by management based on historical experience, the volume and type of lending conducted by the Banks, the status of past due principal and interest payments, general economic conditions, particularly as such conditions relate to the Banks' market areas and other factors related to the collectibility of the Banks' loan portfolio. The Company recorded a provision for losses on loans of \$1.0 million during the six months ended December 31, 2009, compared to a provision of \$15,000 for the six months ended December 31, 2008. Management determined that a specific valuation allowance of \$925,000 was appropriate in response to deterioration in the financial position of a single borrower. 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.

Kentucky First Federal Bancorp

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS (continued)

Comparison of Operating Results for the Six-Month Periods Ended December 31, 2009 and 2008 (continued)

Non-interest Income

Non-interest income totaled \$128,000 for the six months ended December 31, 2009, an increase of \$14,000 from the same period in 2008.

Non-interest Expense

Non-interest expense totaled \$2.4 million for the six months ended December 31, 2009, an increase of \$144,000, or 6.3%, compared to the same period in 2008. The increase was due primarily to an increase in employee compensation and benefits and FDIC insurance premiums. Employee compensation and benefits increased 8.1% or \$114,000 to \$1.5 million for the six month period just ended primarily as a result of lower levels of deferred loan origination costs, which was attributed to a lower number of loan originations during the period. The Company defers certain costs, which are attributable to the origination of loans, and amortizes those costs over the lives of those loans. When fewer loans are originated during a period, a lower level of cost is deferred. FDIC insurance premiums totaled \$93,000 for the six months ended December 31, 2009, an increase of \$81,000, or 675.0%, from the same period in 2008. As is the case for most FDIC-insured financial institutions, the two banks owned by the Company are experiencing higher FDIC insurance premiums, which were mandated to increase deposit insurance fund levels as a result of the recent increase in bank failures. Somewhat offsetting higher levels of expense in other areas, occupancy and equipment expense decreased \$59,000 or 28.9% to \$145,000 for the six months ended December 31, 2009. During the quarter ended December 31, 2008, the Company incurred expenses associated with the conversion of one of its bank's core data processing systems and those nonrecurring costs were primarily responsible for the higher level of expense during that period.

Federal Income Tax Expense (Benefit)

As a result of the net loss for the period, the benefit of federal income taxes totaled \$78,000 for the six months ended December 31, 2009, a decrease of \$382,000, compared to a provision of \$304,000 for federal income tax expense in the same period in 2008. The effective tax rates were (34.7%) and 32.4% for the six month periods ended December 31, 2009 and 2008, respectively.

Comparison of Operating Results for the Three Month Periods Ended December 31, 2009 and 2008

General

Net income totaled \$215,000 for the three months ended December 31, 2009, a decrease of \$108,000 from the \$323,000 in net income for the same period in 2008. The decrease was primarily attributable to an increase in non-interest expenses and provision for loan losses during the period.

Net Interest Income

Net interest income increased \$22,000 or 1.4% to \$1.6 million for the three month period ended December 31, 2009, compared to the 2008 period, due to interest expense decreasing at a faster pace than interest income. Interest income

decreased by \$193,000, or 6.3%, to \$2.9 million, while interest expense decreased \$215,000 or 14.4% to \$1.3 million for the three months ended December 31, 2009.

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 December 31, 2009 and 2008 (continued)

Net Interest Income (continued)

Interest income on loans decreased \$142,000 or 5.1% to \$2.6 million, due to a decrease in the average rate earned on the loan portfolio. The average balance of loans outstanding for the three month period ended December 31, 2009, increased \$3.0 million or 1.6% to an average of \$190.0 million for the three months just ended, while the average rate earned declined 40 basis points to 5.55% for the period just ended. Interest income on investment securities decreased \$23,000 or 34.3% to \$44,000 for the three months ended December 31, 2009, primarily as a result of reduced volume. The average balance outstanding declined \$2.9 million or 36.1% to \$5.2 million for the three month period ended December 31, 2009, while the average rate earned on those assets increased 9 basis points to 3.39%.

Interest expense on deposits and borrowings both declined period to period. Interest expense on deposits decreased \$164,000 or 15.5% to \$891,000 for the three month period ended December 31, 2009, while interest expense on borrowings declined \$51,000 or 11.5% to \$391,000 for the same period. The decline in interest expense on deposits was attributed primarily to a reduction in the average rate paid on the deposits, as the average balance of deposits increased period to period. The average rate paid on deposits decreased 58 basis points to 2.51% for the most recent period, while the average balance of deposits increased \$5.2 million or 3.8% to \$141.9 million. The decline in interest expense on borrowings was attributed to lower borrowings outstanding, as the average balance of borrowings declined \$7.3 million or 17.2% to \$35.2 million for the most recent period. The average rate paid on borrowings increased 29 basis points to 4.44% for the recently ended three-month period.

Provision for Losses on Loans

The Company recorded a provision for losses on loans of \$60,000 during the three months ended December 31, 2009, compared to no provision for the three months ended December 31, 2008. The additional general provision was necessary to reestablish the appropriate level subsequent to charge-offs related to foreclosed properties acquired during the period. 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 \$61,000 for the three months ended December 31, 2009, an increase of \$2,000 from the same period in 2008.



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 December 31, 2009 and 2008 (continued)

Non-interest Expense

Non-interest expense totaled \$1.3 million for the three months ended December 31, 2009, an increase of \$113,000, or 9.9%, compared to the same period in 2008. The increase was due primarily to an increase in employee compensation and benefits and FDIC insurance premiums. Employee compensation and benefits increased 9.6% or \$68,000 to \$780,000 for the three month period just ended primarily as a result of lower levels of deferred loan origination costs, which was attributed to a lower number of loan originations during the period. FDIC insurance premiums totaled \$51,000 for the three months ended December 31, 2009, an increase of \$45,000, or 750.0%, from the same period in 2008. Somewhat offsetting higher levels of expense in other areas, occupancy and equipment expense decreased \$42,000 or 36.2% to \$74,000 for the three months ended December 31, 2009. During the quarter ended December 31, 2008, the Company incurred expenses associated with the conversion of one of its bank's core data processing systems and those nonrecurring costs were primarily responsible for the higher level of expense during that period.

Federal Income Tax Expense (Benefit)

Federal income tax expense totaled \$110,000 for the three months ended December 31, 2009, a decrease of \$41,000, or 27.2% compared to the same period in 2008. The effective tax rates were 33.8% and 31.9% for the three month periods ended December 31, 2009 and 2008, respectively.

Kentucky First Federal Bancorp

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS (continued)

ITEM 4: Controls and Procedures (Restated)

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. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were not effective.

During the course of our external audit for the fiscal year ended June 30, 2010, our external auditors identified an adjustment related to the carrying amount of our deferred tax assets/liabilities, as well as additional income tax due on excess distribution of dividends from a subsidiary bank to its parent, which resulted in distribution of thrift reserves. Based on our assessment and the foregoing criteria, management has concluded that the Company did not maintain effective internal control over financial reporting as of December 31, 2009.

In connection with the above evaluation of our disclosure controls and procedures, no change was identified that occurred in the Company's internal control over financial reporting during the three months ended December 31, 2009 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. However, management has taken remedial steps to address the material weakness described above. Those steps include revision of procedures related to evaluating deferred tax inventories and income tax expense, as well as the preparation of a schedule of accumulated earnings and profits.

Kentucky First Federal Bancorp

PART II

ITEM 6. Exhibits

- 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

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: October 5, 2010 By: /s/Tony D. Whitaker  
Tony D. Whitaker  
Chairman of the Board and Chief Executive  
Officer

Date: October 5, 2010 By: /s/R. Clay Hulette  
R. Clay Hulette  
Vice President and Chief Financial Officer