

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

Kentucky First Federal Bancorp  
Form 10-Q  
May 16, 2011

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, 2011

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)

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(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):

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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 10, 2011, the latest practicable date, the Corporation had 7,740,703 shares of \$.01 par value common stock outstanding.

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## PART I

## ITEM 1: Financial Information

## Kentucky First Federal Bancorp

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

	March 31, 2011	June 30, 2010 (Restated)
<b>ASSETS</b>		
Cash and due from financial institutions	\$817	\$1,118
Interest-bearing demand deposits	5,497	7,244
Cash and cash equivalents	6,314	8,362
Interest-bearing deposits in other financial institutions	100	100
Securities available for sale	209	246
Securities held-to-maturity, at amortized cost- approximate fair value of \$7,778 and \$10,026 at March 31, 2011 and June 30, 2010, respectively	7,385	9,435
Loans held for sale	325	370
Loans	184,094	192,153
Allowance for loan and lease losses	(882 )	(1,535 )
Real estate owned, net	3,666	748
Premises and equipment, net	2,684	2,731
Federal Home Loan Bank stock	5,641	5,641
Accrued interest receivable	503	518
Bank-owned life insurance	2,585	2,518
Goodwill	14,507	14,507
Other intangible assets	120	218
Prepaid FDIC assessments	405	542
Prepaid federal income taxes	518	-
Prepaid expenses and other assets	484	385
<b>Total assets</b>	<b>\$228,658</b>	<b>\$236,939</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Deposits	\$142,411	\$144,969
Federal Home Loan Bank advances	25,926	32,009
Advances by borrowers for taxes and insurance	321	335
Accrued interest payable	113	145
Other liabilities	1,592	1,673
<b>Total liabilities</b>	<b>170,363</b>	<b>179,131</b>
Commitments and contingencies	-	-
Shareholders' equity		

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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	36,893	36,623
Retained earnings	31,560	31,216
Unearned employee stock ownership plan (ESOP)	(2,078 )	(2,169 )
Treasury shares at cost, 811,375 and 745,530 common shares at March 31, 2011 and June 30, 2010, respectively	(8,170 )	(7,952 )
Accumulated other comprehensive income	4	4
Total shareholders' equity	58,295	57,808
Total liabilities and shareholders' equity	\$228,658	\$236,939

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,	
	2011	2010	2011	2010
	(Restated)		(Restated)	
<b>Interest income</b>				
Loans	\$ 7,644	\$ 7,984	\$ 2,485	\$ 2,701
Mortgage-backed securities	277	367	84	115
Other securities	2	135	1	44
Interest-bearing deposits and other	184	197	65	64
<b>Total interest income</b>	<b>8,107</b>	<b>8,683</b>	<b>2,635</b>	<b>2,924</b>
<b>Interest expense</b>				
Deposits	2,004	2,656	584	814
Borrowings	545	1,195	141	389
<b>Total interest expense</b>	<b>2,549</b>	<b>3,851</b>	<b>725</b>	<b>1,203</b>
<b>Net interest income</b>	<b>5,558</b>	<b>4,832</b>	<b>1,910</b>	<b>1,721</b>
Provision for losses on loans	669	1,099	601	71
<b>Net interest income after provision for losses on loans</b>	<b>4,889</b>	<b>3,733</b>	<b>1,309</b>	<b>1,650</b>
<b>Non-interest income</b>				
Earnings on bank-owned life insurance	68	62	23	17
Gain on sale of loans	107	96	15	37
Loss on sale of real estate acquired through foreclosure	(36 )	(27 )	-	-
Other	80	75	27	23
<b>Total non-interest income</b>	<b>219</b>	<b>206</b>	<b>65</b>	<b>77</b>
<b>Non-interest expense</b>				
Employee compensation and benefits	2,257	2,341	736	778
Occupancy and equipment	258	247	92	102
Franchise taxes	144	141	46	49
Data processing	189	177	63	64
FDIC insurance premiums	149	139	46	46
Auditing and accounting	146	121	59	45
Amortization of intangible assets	98	98	33	33
Other operating	672	478	230	151
<b>Total non-interest expense</b>	<b>3,913</b>	<b>3,742</b>	<b>1,305</b>	<b>1,268</b>
<b>Income before income taxes</b>	<b>1,195</b>	<b>197</b>	<b>69</b>	<b>459</b>

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Federal income tax expense (benefit)

Current	(185 )	(14 )	(519 )	209
Deferred	179	80	144	(52 )
Total federal income tax expense (benefit)	(6 )	66	(375 )	157

NET INCOME	\$ 1,201	\$ 131	\$ 444	\$ 302
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EARNINGS PER SHARE

Basic and diluted	\$ 0.16	\$ 0.02	\$ 0.06	\$ 0.04
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DIVIDENDS PER SHARE	\$ 0.30	\$ 0.30	\$ 0.10	\$ 0.10
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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,	
	2011	2010	2011	2010
	(Restated)		(Restated)	
Net income	\$ 1,201	\$ 131	\$ 444	\$ 302
Other comprehensive income (loss), net of taxes (benefits): Unrealized holding gains (losses) on securities designated as available for sale, net of taxes (benefits) of \$--, \$(35), \$--and \$(13) during the respective periods	—	(68 )	1	(25 )
Comprehensive income	\$ 1,201	\$ 63	\$ 445	\$ 277

See accompanying notes.



## Kentucky First Federal Bancorp

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)  
(In thousands)

Nine months ended  
 March 31,  
 2011                      2010  
 (Restated)

Cash flows from operating activities:		
Net income	\$ 1,201	\$ 131
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	138	131
Amortization of deferred loan origination (fees) costs	(5 )	(23 )
Amortization of premiums on FHLB advances	(103 )	(314 )
Amortization of core deposit intangibles	98	98
Net gain on sale of loans	(107 )	(96 )
Net loss on sale of real estate owned	36	27
ESOP compensation expense	91	176
Amortization of stock benefit plans and stock options expense	270	328
Earnings on bank-owned life insurance	(68 )	(62 )
Provision for loan losses	669	1,099
Origination of loans held for sale	(2,850 )	(3,434 )
Proceeds from loans held for sale	3,002	3,665
Increase (decrease) in cash, due to changes in:		
Accrued interest receivable	15	106
Prepaid expenses and other assets	38	(629 )
Accrued interest payable	(32 )	(25 )
Accounts payable and other liabilities	(599 )	(395 )
Net cash provided by operating activities	1,794	783
Cash flows from investing activities:		
Purchase of available-for-sale securities	(11,000 )	--
Securities maturities, prepayments and calls:		
Held to maturity	13,050	4,841
Available for sale	37	68
Loans originated for investment, net of principal collected	2,897	(4,036 )
Proceeds from sale of real estate owned	891	223
Additions to premises and equipment, net	(91 )	(48 )
Net cash provided by investing activities	5,784	1,048
Cash flows from financing activities:		
Net change in deposits	(2,558 )	4,707
Payments by borrowers for taxes and insurance, net	(14 )	(127 )
Proceeds from Federal Home Loan Bank advances	16,000	9,500
Repayments on Federal Home Loan Bank advances	(21,980 )	(15,679 )
Dividends paid on common stock	(856 )	(862 )

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Treasury stock repurchases	(218 )	(181 )
Net cash used in financing activities	(9,626 )	(2,642 )
Net decrease in cash and cash equivalents	(2,048 )	(811 )
Beginning cash and cash equivalents	8,362	4,217
Ending cash and cash equivalents	\$6,314	\$3,406

See accompanying notes.

## Kentucky First Federal Bancorp

## CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

(Unaudited)  
(In thousands)

Nine months ended	
March 31,	
2011	2010

## Supplemental disclosure of cash flow information:

## Cash paid during the period for:

Federal income taxes	\$500	\$360
Interest on deposits and borrowings	\$2,684	\$4,190
Transfers from loans to real estate acquired through foreclosure, net	\$3,845	\$261
Loans made on sale of real estate acquired through foreclosure	\$593	\$146
Capitalization of mortgage servicing rights	\$24	\$27

See accompanying notes.

Kentucky First Federal Bancorp

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011

(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 U.S. generally accepted accounting principles. However, in the opinion of management, all adjustments (consisting of only normal recurring adjustments, except for the ESOP adjustments referenced below) 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, 2011, are not necessarily indicative of the results which may be expected for an entire fiscal year. The consolidated balance sheet as of June 30, 2010 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 2010 filed with the Securities and Exchange Commission.

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



Kentucky First Federal Bancorp

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011  
(unaudited)

1. Basis of presentation (continued)

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

A loan is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired.

Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

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

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



## Kentucky First Federal Bancorp

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011  
(unaudited)

## 1. Basis of presentation (continued)

The Securities and Exchange Commission (the “SEC” or “Commission”) Staff Accounting Bulletin 108 (“SAB108”) provides guidance on quantifying and evaluating the materiality of unrecorded misstatements. SAB 108 requires that a company uses both the “iron curtain” and “rollover” approaches when quantifying misstatement amounts. Under the rollover approach, the error is quantified as the amount by which the current year income statement is misstated. The iron curtain approach, however, quantifies the error as the cumulative errors using both a balance sheet and an income statement approach – and evaluate whether either of these approaches results in quantifying a misstatement that, when all relevant quantitative and qualitative factors are considered, is material.

The Company has performed an analysis of its unrecorded misstatements using both the rollover and iron curtain approaches. Using the rollover method, management concluded that none of its unrecorded misstatements were material to its current period or prior periods’ financial statements. Under the iron curtain method, however, management concluded that the Company’s adjustment related to additional compensation associated with its Employee Stock Ownership Plan (“ESOP”) was material to the current period’s financial statements, but using the rollover method was immaterial to its prior periods’ financial statements. This misstatement was related to an error associated with the release of shares to ESOP participants. The Company recorded a one-time entry to retained earnings to correct the unrecorded misstatements on the balance sheet. The SAB 108 entries posted in the nine-month period ended March 31, 2011 and the effect on retained earnings and net income were as follows:

(in thousands)	Effect on Retained Earnings	Effect on Current Year’s Earnings
Recording of prior years’ additional ESOP compensation expense	\$(223 )	\$—
Income tax effect of the item above	76	—
Net SAB 108 effect	(147 )	—

The understatement of ESOP expense was discovered in the three month period ended December 31, 2010, when the company was notified pursuant to a review by the United States Department of Labor (“DOL”) that the Company had incorrectly calculated the number of shares required to be released to participants of its ESOP. The incorrect method of calculating shares was in place from March 2, 2005 through June 30, 2010. The Company is working with the DOL to take the necessary corrective action with regard to the ESOP. There is no current year effect for the adjustment related to the additional ESOP compensation expense, which is applicable to prior periods.



## Federal Bancorp

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011  
(unaudited)

## 1. Basis of presentation (continued)

The applicable effect on the prior year balance sheet and statements of operations related to additional ESOP compensation expense is as follows:

(in thousands)	June 30, 2010	
Balance Sheet:		
Other liabilities as previously reported		\$1,749
Income tax adjustment		(76 )
Other liabilities as adjusted		\$1,673
Additional paid-in capital as previously reported		\$36,597
ESOP compensation expense adjustment		26
Additional paid-in capital as adjusted		\$36,623
Retained earnings as previously reported		\$31,363
ESOP compensation expense adjustment (net of tax)		(147 )
Retained earnings as adjusted		\$31,216
Unearned employee stock ownership plan (ESOP) as previously reported		\$(2,366 )
ESOP compensation expense adjustment		197
Unearned employee stock ownership plan (ESOP) as adjusted		\$(2,169 )
	Nine months ended	Three months ended
Nine- and three-months ended March 31, 2010		
Statements of Operations:		
Employee compensation and benefits as previously reported	\$ 2,304	\$ 778
ESOP expense adjustment	37	—
Employee compensation and benefits as adjusted	\$ 2,341	\$ 778
Total federal income tax expense as previously reported	\$ 79	\$ 157
Tax impact of ESOP expense adjustment	(13 )	—
Total federal income tax expense as adjusted	\$ 66	\$ 157
Net income as previously reported	\$ 155	\$ 302
ESOP expense adjustment (net of tax)	(24 )	--
Net income as adjusted	\$ 131	\$ 302
Earnings per share-basic and diluted as previously reported	\$ 0.02	\$ 0.04
ESOP expense adjustment	—	—
Earnings per share-basic and diluted as adjusted	\$ 0.02	\$ 0.04



## Kentucky First Federal Bancorp

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

March 31, 2011  
(unaudited)

## 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.

## 3. Earnings Per Share

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

	Nine months ended March 31,	
	2011	2010 (Restated)
Net income	\$ 1,201	\$ 131
Less earnings allocated to unvested shares	(7 )	(13 )
Net income allocated to common shareholders, basic and diluted	\$ 1,194	\$ 118

	Three months ended March 31,	
	2011	2010 (Restated)
Net income	\$ 444	\$ 302
Less earnings allocated to unvested shares	—	(3 )
Net income allocated to common shareholders, basic and diluted	\$ 444	\$ 299

	Nine months ended March 31,	
	2011	2010
Basic		
Weighted-average common shares including unvested common shares outstanding	7,487,610	7,521,493
Less: Weighted-average unvested common shares	14,994	43,167
Weighted-average common shares outstanding	7,502,604	7,564,660
Diluted		
Add: Dilutive effect of assumed exercise of stock options	-	41,815
Weighted-average common shares outstanding (diluted)	7,502,604	7,606,475



## Kentucky First Federal Bancorp

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

March 31, 2011  
(unaudited)

## 3. Earnings Per Share (continued)

	Three months ended March 31,	
	2011	2010
<b>Basic</b>		
Weighted-average common shares including unvested Common shares outstanding	7,513,815	7,542,219
Less: Weighted-average unvested common shares	—	25,900
Weighted-average common shares outstanding	7,513,815	7,568,119
<b>Diluted</b>		
Add: Dilutive effect of assumed exercise of stock options	—	18,862
Weighted-average common shares outstanding (diluted)	7,513,815	7,586,981

There were 325,800 stock option shares outstanding for each of the nine- and three-month periods ended March 31, 2011, which were antidilutive for the respective periods. There were 334,644 and 391,000 stock option shares outstanding for each of the nine- and three-month periods ended March 31, 2010.

## 4. New Accounting Standards

In January 2011, the FASB issued ASU No. 2011-01, "Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20." The provisions of ASU No. 2010-20 required the disclosure of more granular information on the nature and extent of troubled debt restructurings and their effect on the allowance for loan and lease losses effective for the Company's reporting period ended March 31, 2011. The amendments in ASU No. 2011-01 defer the effective date related to these disclosures, enabling creditors to provide such disclosures after the FASB completes their project clarifying the guidance for determining what constitutes a troubled debt restructuring. As the provisions of this ASU only defer the effective date of the disclosure requirements related to troubled debt restructurings, the adoption of this ASU will have no impact on the Company's statements of income and condition.

In April 2011, the FASB issued ASU No. 2011-02, 'A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring.' The provisions of ASU No. 2011-02 provide additional guidance related to determining whether a creditor has granted a concession, include factors and examples for creditors to consider in evaluating whether a restructuring results in a delay in payment that is insignificant, prohibit creditors from using the borrower's effective rate test to evaluate whether a concession has been granted to the borrower, and add factors for creditors to use in determining whether a borrower is experiencing financial difficulties. A provision in ASU no. 2011-02 also ends the FASB's deferral of the additional disclosures about troubled debt restructurings as required by ASU No. 2010-20. The provisions of ASU No. 2011-02 are effective for the Company's reporting period ending September 30, 2011. The adoption of ASU No. 2011-02 is not expected to have a material impact on the Company's statements of income and condition.



## Kentucky First Federal Bancorp

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

March 31, 2011  
(unaudited)

## 5. 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, 2011 and June 30, 2010, the corresponding amounts of gross unrealized gains recognized in accumulated other comprehensive income and gross and gross unrecognized gains:

	March 31, 2011			Estimated fair value
	Amortized cost (In thousands)	Gross unrealized gains	Gross unrealized losses	
Available-for-sale Securities				
Agency mortgage-backed: residential	\$201	\$8	\$-	\$209
	Amortized cost	Gross unrecognized gains	Gross unrecognized losses	Estimated fair value
Held-to-maturity Securities				
Agency mortgage-backed: residential	\$7,385	\$393	\$-	\$7,778
	Amortized cost	Gross unrecognized gains	Gross unrecognized losses	Estimated fair value
Available-for-sale Securities				
Agency mortgage-backed: residential	\$240	\$7	\$(1 )	\$246
	Amortized cost	Gross unrecognized gains	Gross unrecognized losses	Estimated fair value
Held-to-maturity Securities				
Agency mortgage-backed: residential	\$9,435	\$591	\$-	\$10,026

## Kentucky First Federal Bancorp

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

March 31, 2011  
(unaudited)

## 5. Investment Securities (continued)

Our securities holdings consist of agency mortgage-backed securities, which do not have a single maturity date.

There were no sales of investment securities during the fiscal year ended June 30, 2010 or the nine-month period ended March 31, 2011.

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.

## 6. Loans Receivable

The composition of the loan portfolio was as follows:

	March 31, 2011	June 30, 2010
	(In thousands)	
Residential real estate		
One- to four-family	\$ 159,438	\$ 165,818
Multi-family	3,633	6,689
Construction	1,779	1,916
Nonresidential real estate and land	12,207	10,943
Loans on deposits	2,598	2,754
Consumer and other	4,711	4,802
	184,366	192,922
Less:		
Undisbursed portion of loans in process	345	631
Deferred loan origination fees (cost)	(73 )	138
Allowance for loan losses	882	1,535
	\$ 183,212	\$ 190,618

Impaired loans were as follows:

	March 31, 2011	June 30, 2010
	(In thousands)	
Loans with no allocated allowance for loan losses	\$ 1,162	\$ 1,348
Loans with allocated allowance for loan losses	1,693	5,370
Total	\$ 2,855	\$ 6,718
Amount of allowance for loan losses allocated	\$ 146	\$ 904
Average impaired loans for the nine- and twelve- months ended	\$ 2,581	\$ 4,304



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Interest recognized on impaired loans for the nine- and twelve- months ended	\$58	\$246
Cash received on impaired loans for the nine- and twelve- months ended	\$56	\$246

## Kentucky First Federal Bancorp

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

March 31, 2011  
(unaudited)

## 6. 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, 2011. There were no loans acquired with deteriorated credit quality at March 31, 2011.

(in thousands)	Recorded investment in loans	Ending allowance attributed to loans	Unallocated allowance	Total allowance
Loans individually evaluated for impairment:				
Residential real estate:				
One- to four-family	\$ 2,855	\$ 146	\$ —	\$ 146
Multi-family	—	—	—	—
Construction	—	—	—	—
Nonresidential real estate and land	—	—	—	—
Loans on deposits	—	—	—	—
Consumer and other	—	—	—	--
	\$ 2,855	\$ 146	\$ —	\$ 146
Loans collectively evaluated for impairment:				
Residential real estate:				
One- to four-family	\$ 156,583	\$ 462	\$ —	\$ 462
Multi-family	3,633	11	—	11
Construction	1,779	5	—	5
Nonresidential real estate and land	12,207	36	—	36
Loans on deposits	2,598	8	—	8
Consumer and other	4,711	14	—	14
Unallocated	—	—	200	200
	\$ 181,511	\$ 536	\$ 200	\$ 736

## Kentucky First Federal Bancorp

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

March 31, 2011  
(unaudited)

## 6. 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, 2011:

(in thousands)	Outstanding Principal Balance	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Received
With no related allowance recorded:					
One- to four-family	\$1,162	\$—	\$1,336	\$40	\$40
With an allowance recorded:					
One- to four-family	\$1,693	\$146	\$1,245	\$18	\$16

Nonperforming loans were as follows:

	March 31, 2011	June 30, 2010
	(In thousands)	
Nonaccrual loans	\$2,123	\$7,671
Restructured loans	732	—
Loans past due 90 days or more and still accruing	—	112
Total	\$2,855	\$7,783

The following table presents the recorded investment in nonaccrual and loans past due over 90 days still on accrual by class of loans as of March 31, 2011:

(in thousands)	Nonaccrual	Loans Past Due Over 90 Days Still Accruing
Consumer and other	\$20	\$-
One- to four-family residential real estate	2,103	-
Total	\$2,123	\$-

## Kentucky First Federal Bancorp

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

March 31, 2011  
(unaudited)

## 6. Loans Receivable (continued)

## Troubled Debt Restructurings:

The Company has allocated \$8,000 of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of March 31, 2011. The Company has no commitments to lend additional amounts as of March 31, 2011, to customers with outstanding loans that are classified as troubled debt restructurings.

The following table presents the aging of the principal balance outstanding in past due loans as of March 31, 2011, by class of loans:

(in thousands)	30-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Loans Not Past Due	Total
Residential real estate:					
One-to four-family	\$ 2,729	\$ 2,103	\$ 4,832	\$ 154,606	\$ 159,438
Multi-family	—	—	—	3,633	3,633
Construction	—	—	—	1,779	1,779
Nonresidential real estate and land	—	—	—	12,207	12,207
Loans on deposits	—	—	—	2,598	2,598
Consumer and other	—	20	20	4,691	4,711
<b>Total</b>	<b>\$ 2,729</b>	<b>\$ 2,123</b>	<b>\$ 4,852</b>	<b>\$ 179,514</b>	<b>\$ 184,366</b>

## 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.

## Kentucky First Federal Bancorp

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

March 31, 2011  
(unaudited)

## 6. Loans Receivable (continued)

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, 2011, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

(in thousands)	Pass	Special Mention	Substandard	Doubtful	Not rated
Residential real estate:					
One- to four-family	\$ —	\$ 68	\$ 3,534	\$ —	\$ 155,836
Multi-family	3,633	—	—	—	—
Construction	1,779	—	—	—	—
Nonresidential real estate and land	11,933	274	—	—	—
Loans on deposits	—	—	—	—	2,598
Consumer and other	—	—	20	—	4,691

## 7. Allowance for Loan Losses

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

	For the Nine Months Ended	
	March 31, 2011	March 31, 2010
	(In thousands)	
Beginning balance	\$ 1,535	\$ 678
Provision for losses on loans	669	1,099
Charge-offs	(1,322 )	(88 )
Ending balance	\$ 882	\$ 1,689

## Kentucky First Federal Bancorp

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

March 31, 2011  
(unaudited)

## 6. Loans Receivable (continued)

The following table presents the activity in the allowance for loan losses by portfolio segment for the nine months ended March 31, 2011:

(in thousands)	Beginning balance	Provision for loan losses	Loans charged off	Recoveries	Ending balance
Residential real estate:					
One- to four-family	\$ 1,261	\$ 669	\$ (1,322 )	\$ —	\$ 608
Multi-family	11	—	—	—	11
Construction	5	—	—	—	5
Nonresidential real estate and land	36	—	—	—	36
Loans on deposits	8	—	—	—	8
Consumer and other	14	—	—	—	14
Unallocated	200	—	—	—	200
Totals	\$ 1,535	\$ 669	\$ (1,322 )	\$ —	\$ 882

The following table presents the activity in the allowance for loan losses by portfolio segment for the three months ended March 31, 2011:

(in thousands)	Beginning balance	Provision for loan losses	Loans charged off	Recoveries	Ending balance
Residential real estate:					
One- to four-family	\$ 1,329	\$ 601	\$ (1,322 )	\$ —	\$ 608
Multi-family	11	—	—	—	11
Construction	5	—	—	—	5
Nonresidential real estate and land	36	—	—	—	36
Loans on deposits	8	—	—	—	8
Consumer and other	14	—	—	—	14
Unallocated	200	—	—	—	200
Totals	\$ 1,603	\$ 601	\$ (1,322 )	\$ —	\$ 882

## 8. Commitments

As of March 31, 2011, loan commitments and unused lines of credit totaled \$10.8 million, an increase of \$107,000 or 1.1% from the June 30, 2010 level. At March 31, 2011, loan commitments included \$345,000 in undisbursed construction loans, a \$286,000 or 45.3% decrease from the June 30, 2010 level, while one- to four-family mortgage loans totaled \$1.7 million, an \$855,000 or 97.4% increase, while there were no commitments outstanding on other real estate and lines of credit secured by equity in real property totaled \$8.8 million, a \$462,000 or 5.0% decrease between reference points.





Kentucky First Federal Bancorp

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

March 31, 2011  
(unaudited)

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. Level 2 securities include agency mortgage-backed securities.

Impaired Loans

The fair value of impaired loans with specific allocations of the allowance for loan losses is generally based on recent independent 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 appraisers to adjust for difference 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. Independent appraisals for collateral-dependent loans are updated periodically (usually every 9-12 months).

## Kentucky First Federal Bancorp

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

March 31, 2011  
(unaudited)

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

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

Fair Value Measurements at March 31, 2011  
(in thousands)

Description	Total	Quotes Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Agency mortgage-backed: residential	\$ 209	\$ -	\$ 209	\$ -

Fair Value Measurements at June 30, 2010  
(in thousands)

Description	Total	Quotes Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Agency mortgage-backed: residential	\$246	\$-	\$246	\$ -

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

Fair Value Measurements at March 31, 2011  
(in thousands)

Description	Total	Quotes Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans: One- to four-family	\$1,547	\$-	\$-	\$ 1,547

Impaired loans with allocated allowance for loan losses had a carrying amount of \$1.693 million and a specific valuation allowance of \$146,000 at March 31, 2011. A specific allowance provision of \$27,000 was made for the nine- and three month period ended March 31, 2011.

Fair Value Measurements at June 30, 2010 .  
(in thousands)

	Total	Quotes Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans: One- to four-family	\$4,466	\$-	\$-	\$ 4,466

Kentucky First Federal Bancorp

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

March 31, 2011  
(unaudited)

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

Impaired loans, which are measured for impairment using the fair value of this collateral for collateral-dependent loans, with allocated allowance for loan losses had a carrying amount of \$5.4 million with a valuation allowance of \$904,000 at June 30, 2010.

The following table is a 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 at March 31, 2011 and June 30, 2010:

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.

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.

## Kentucky First Federal Bancorp

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

March 31, 2011  
(unaudited)

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

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.

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, 2011 and June 30, 2010, 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, 2011 and June 30, 2010 are as follows:

	March 31, 2011		June 30, 2010	
	Carrying value	Fair value	Carrying value	Fair value
	(In Thousands)			
<b>Financial assets</b>				
Cash and cash equivalents	\$ 6,314	\$ 6,314	\$ 8,362	\$ 8,362
Interest-earning deposits	100	100	100	100
Available-for-sale securities	209	209	246	246
Held-to-maturity securities	7,385	7,778	9,435	10,026
Loans held for sale	325	336	370	383
Loans receivable - net	183,212	190,504	190,618	198,203
Federal Home Loan Bank stock	5,641	n/a	5,641	n/a
Accrued interest receivable	503	503	518	518
<b>Financial liabilities</b>				
Deposits	\$ 142,411	\$ 144,675	\$ 144,969	\$ 147,280
Federal Home Loan Bank advances	25,926	24,778	32,009	30,590
Advances by borrowers for taxes and insurance	321	321	335	335
Accrued interest payable	113	113	145	145

## 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, 2010.

## Average Balance Sheets

The following table represents the average balance sheets for the nine month periods ended March 31, 2011 and 2010, along with the related calculations of tax-equivalent net interest income, net interest margin and net interest spread for the related periods.

	Nine Months Ended March 31,							
	Average Balance	2011 Interest And Dividends	Yield/ Cost		Average Balance	2010 Interest And Dividends	Yield/ Cost	
(Dollars in thousands)								
<b>Interest-earning assets:</b>								
Loans	\$ 190,950	\$ 7,644	5.34	%	\$ 191,390	\$ 7,984	5.56	%
Mortgage-backed securities	8,689	277	4.25		11,502	367	4.25	
Other securities	1,264	2	0.21		5,274	135	3.41	
Other interest-earning assets	12,826	184	1.91		8,735	197	3.01	
Total interest-earning assets	213,729	8,107	5.06		216,901	8,683	5.34	
<b>Less: Allowance for loan losses</b>								
	(1,532 )				(1,292 )			
Non-interest-earning assets	23,228				22,857			
Total assets	\$ 235,425				\$ 238,466			
<b>Interest-bearing liabilities:</b>								
Demand deposits	\$ 13,727	\$ 65	0.63	%	\$ 12,594	\$ 80	0.85	%
Savings	30,690	227	0.99		29,513	217	0.98	
Certificates of deposit	99,994	1,712	2.28		100,035	2,359	3.14	
Total deposits	144,411	2,004	1.85		142,142	2,656	2.49	
Borrowings	30,817	545	2.36		35,817	1,195	4.45	
	175,228	2,549	1.94		177,959	3,851	2.89	

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Total interest-bearing liabilities						
Noninterest-Bearing demand deposits	942			699		
Noninterest-bearing liabilities	1,826			2,513		
Total liabilities	177,996			181,171		
Shareholders' equity	57,429			57,295		
Total liabilities and shareholders' equity	\$ 235,425			\$ 238,466		
Net interest income/average yield	\$ 5,558	3.12	%	\$ 4,832	2.45	%
Net interest margin		3.47	%		2.97	%
Average interest-earning assets to average interest-bearing liabilities		121.97	%		121.88	%



## Kentucky First Federal Bancorp

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

## Average Balance Sheets (continued)

The following table represents the average balance sheets for the three month periods ended March 31, 2011 and 2010, along with the related calculations of tax-equivalent net interest income, net interest margin and net interest spread for the related periods.

	Three Months Ended March 31,							
	Average Balance	2011 Interest And Dividends	Yield/ Cost		Average Balance	2010 Interest And Dividends	Yield/ Cost	
	(Dollars in thousands)							
Interest-earning assets:								
Loans	\$ 188,757	\$ 2,485	5.27	%	\$ 193,052	\$ 2,701	5.60	%
Mortgage-backed securities	7,845	84	4.28		10,860	115	4.24	
Other securities	711	1	0.56		5,157	44	3.41	
Other interest-earning assets	12,127	65	2.14		9,580	64	2.67	
Total interest-earning assets	209,440	2,635	5.03		218,649	2,924	5.35	
Less: Allowance for loan losses								
	(1,545 )				(1,618 )			
Non-interest-earning assets	23,064				23,112			
Total assets	\$ 230,959				\$ 240,143			
Interest-bearing liabilities:								
Demand deposits	\$ 13,880	\$ 16	0.46	%	\$ 14,656	\$ 22	0.60	%
Savings	31,020	77	0.99		29,796	72	0.97	
Certificates of deposit	97,994	491	2.00		101,490	720	2.84	
Total deposits	142,894	584	1.64		145,942	814	2.23	
Borrowings	27,363	141	2.06		36,342	389	4.28	
Total interest-bearing liabilities	170,257	725	1.70		182,284	1,203	2.64	
Noninterest-Bearing demand deposits								
	757				1,054			
Noninterest-bearing liabilities								
	1,488				1,997			
Total liabilities	172,502				185,335			
Shareholders' equity	58,457				54,808			
Total liabilities and shareholders' equity	\$ 230,959				\$ 240,143			
Net interest income/average yield		\$ 1,910	3.33	%		\$ 1,721	2.71	%

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Net interest margin	3.65 %	3.15 %
Average interest-earning assets to average interest-bearing liabilities	123.01 %	119.95 %

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## 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, 2010 to March 31, 2011

Assets: At March 31, 2011, the Company's assets totaled \$228.7 million, an decrease of \$8.3 million, or 3.5%, from total assets at June 30, 2010. This decrease was attributed primarily to a decrease in loans receivable.

Cash and cash equivalents: Cash and cash equivalents decreased by \$2.0 million to \$6.3 million at March 31, 2011. It is management's intention to continue deploying excess liquidity into mortgage loans and investment securities to the extent possible, while maintaining adequate liquidity at all times.

Loans: Loans receivable, net, decreased by \$7.4 million or 3.9% to \$183.2 million at March 31, 2011. The foreclosure of loans made primarily to one borrower resulted in the charge-off of \$1.3 million and the addition of \$3.3 million in property to other real estate owned. See "Non-Performing Loans." 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 and prudent. However, loan demand has weakened as a result of the downturn in the economy and we expect to see a continued decrease in demand for home loans until the housing market regains a strong footing.

Non-Performing Loans: At March 31, 2011, the Company had non-performing loans of approximately \$2.9 million, or 1.6% of total loans, compared to \$7.8 million or 4.05%, of total loans at June 30, 2010. At March 31, 2011, the Company's allowance for loan losses of \$882,000 represented 30.9% of nonperforming loans and 0.48% of total loans compared to an allowance balance of \$1.5 million at June 30, 2010, representing 19.72% of nonperforming loans and 0.8% of total loans.

The Company had \$7.4 million in assets classified as substandard for regulatory purposes at March 31, 2011, including loans and real estate acquired through foreclosure ("REO"). Classified loans as a percentage of net loans was 3.8% and 3.7% at March 31, 2011 and June 30, 2010, respectively. All substandard loans were secured by residential property on which the banks have priority lien position. The table below summarizes substandard loans and negative escrows on those loans at March 31, 2011:

	Number of Loans	Carrying Value
1-4 family, owner occupied	26	\$1,637
1-4 family, non-owner occupied	5	880
Multi-family, non-owner occupied	2	1,059
Total substandard loans	33	\$3,576

Previously included in classified loans was one credit relationship which was determined to be impaired during the three-month period ended December 31, 2009. Since that time foreclosure action has been effectively completed as of March 31, 2011. The Company had been overseeing the rental units under its assignment of rents before acquiring deed to the properties.

## 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, 2010 to March 31, 2011 (continued)

At March 31 2011, the Company had \$342,000 of loans classified as special mention compared to \$269,000 at June 30, 2010. 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 March 31, 2011, no loans were classified as doubtful or loss for regulatory purposes. For further information on non-performing loans see "Note 6. Loans Receivable" of the Notes to Consolidated Financial Statements set forth in Item 1, above.

The following table presents the aggregate carrying value of REO at March 31, 2011:

	Number of Properties	Aggregate Carrying Value
Single-family homes	39	\$1,927
2-4 family properties	12	1,488
16-plex	1	236
Building lot	1	15
Total substandard loans	53	\$3,666

**Mortgage-Backed and other Securities:** At March 31, 2011, the Company's mortgage-backed securities had decreased \$2.1 million or 21.6% to \$7.6 million.

**Liabilities:** At March 31, 2011, the Company's liabilities totaled \$170.4 million, a decrease of \$8.7 million, or 4.9%, from total liabilities at June 30, 2010. The decrease in liabilities was attributed primarily to a \$6.1 million, or 19.0%, decrease in Federal Home Loan Bank advances, which decreased to \$25.9 million at March 31, 2011, Deposits also decreased \$2.6 million or 1.8% to \$142.4 million at March 31, 2011. Management's strategy regarding the restructuring of its advances has been successful. Our need for advances funding is directly related to loan demand. Our strategy has allowed us to refinance our borrowings at lower overall interest rates and to repay excess funds without incurring penalties.

**Shareholders' Equity:** At March 31, 2011, the Company's shareholders' equity totaled \$58.3 million, an increase of \$487,000 or 0.8% from the June 30, 2010 total.

The Company paid dividends of \$856,000 or 71.3% of net income for the nine-month period just ended. First Federal MHC has waived its right to dividends on its common shares of the Company. The Company believes that a strong dividend is appropriate in light of the high level of capital that both banks now have. At March 31, 2011, capital on a consolidated basis and at each of the banks exceeded the level necessary to be considered "well capitalized" and was sufficient, in management's opinion, to support foreseeable growth. Management cannot speculate on future dividend levels. 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.



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, 2011 and 2010

General

Net income totaled \$1.2 million for the nine months ended March 31, 2011, an increase of \$1.1 million from net income of \$131,000 for the same period in 2010. The increase was primarily attributable to higher net interest income and lower provision for loan losses.

Net Interest Income

Net interest income increased \$726,000 or 15.0% to \$5.6 million for the nine-month period ended March 31, 2011, compared to the 2010 period, due to interest expense decreasing at a faster pace than interest income. Interest income decreased by \$576,000, or 6.6%, to \$8.1 million, while interest expense decreased \$1.3 million or 33.8% to \$2.5 million for the nine months ended March 31, 2011.

Interest income on loans decreased \$340,000 or 4.3% to \$7.6 million, due primarily to a decrease in the average rate earned on the loan portfolio. The average balance of loans outstanding for the nine-month period ended March 31, 2011, decreased \$440,000 or 0.2% to an average of \$191.0 million for the nine months just ended, while the average rate earned declined 22 basis points to 5.34% for the period just ended. Interest income on mortgage-backed residential securities and other securities decreased \$90,000 or 24.5% and \$133,000 or 98.5%, respectively, to \$277,000 and \$2,000, respectively, for the nine months ended March 31, 2011. The decrease in the income from securities was related to reduced volume, as securities matured and principal from mortgage-backed securities flowed back to the Company. There were no sales of investments during the nine-month period just ended.

Interest expense on deposits and borrowings both declined period to period. Interest expense on deposits decreased \$652,000 or 24.5% to \$2.0 million for the nine-month period ended March 31, 2011, while interest expense on borrowings declined \$650,000 or 54.4% to \$545,000 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 64 basis points to 1.85% for the most recent period, while the average balance of deposits increased \$2.3 million or 1.60% to \$144.4 million. The decline in interest expense on borrowings was attributed primarily to lower rates paid on those borrowings outstanding, as the average rate paid declined 209 basis points to 2.36% for the most recent period. The average balance of borrowings outstanding decreased \$5.0 million or 14.0% to \$30.8 million for the recently ended nine-month period. If the general level of interest rates remains steady, we expect to see our time deposits continue to reprice to lower levels, although the rate of repricing will decline over time. The decline in deposit repricing will likely cause the increase in our net interest margin to plateau.

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 \$669,000 during the nine months ended March 31, 2011,

compared to a provision of \$1.1 million for the nine months ended March 31, 2010. 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 Nine-Month Periods Ended March 31, 2011 and 2010 (continued)

Non-interest Income

Non-interest income totaled \$219,000 for the nine months ended March 31, 2011, an increase of \$13,000 from the same period in 2010, primarily as a result of an increase of \$11,000 or 11.5% in net gains on sales of loans. The Company continues to sell long-term, fixed rate mortgages to the Federal Home Loan Bank of Cincinnati under the relationship that has been used for a number of years.

Non-interest Expense

Non-interest expense totaled \$3.9 million for the nine months ended March 31, 2011, an increase of \$171,000, or 4.6%, compared to the same period in 2010. The increase was due primarily to an increase in other operating expense.

Other operating expense totaled \$672,000 for the nine months ended March 31, 2011, an increase of \$194,000, or 40.6%, from the same period in 2010, primarily as a result of increased OREO expenses, legal fees and other outside service fees. OREO expenses were \$44,000 for the most recent nine-month period, compared to \$6,000 for the year ago period, and were primarily attributed to water damage sustained in a single dwelling unit. Foreclosure costs were \$45,000 for the nine months ended March 31, 2011, while no comparable costs were charged in the prior year. Legal fees were \$105,000 for the nine months ended March 31, 2011, an increase of \$42,000 or 65.6%, due chiefly to the Company's recently settled dispute with the Internal Revenue Service. Outside service fees increased \$37,000 or 80.4% to \$84,000 for the nine-month period just ended, and were associated with various consulting work and information technology fees.

Federal Income Tax Expense (Benefit)

The benefit from federal income taxes totaled \$6,000 for the nine months ended March 31, 2011, a decrease of \$72,000, compared to federal income tax expense recognized in the prior year period. The Company recognized a \$403,000 tax refund it was due from the Internal Revenue Service pursuant to a United States Tax Court decision signed February 3, 2011. The effective tax rates were (0.5)% and 33.5% for the nine-month periods ended March 31, 2011 and 2010, respectively.



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, 2011 and 2010

General

Net income totaled \$444,000 for the three months ended March 31, 2011, an increase of \$142,000 or 47.0% from the net income of \$302,000 for the same period in 2010. The increase was primarily attributable to the refund of federal taxes and higher net interest income.

Net Interest Income

Net interest income increased \$189,000 or 11.0% to \$1.9 million for the three month period ended March 31, 2011, compared to the 2010 period, due to interest expense decreasing at a faster pace than interest income. Interest income decreased by \$289,000, or 9.9%, to \$2.6 million, while interest expense decreased \$478,000 or 39.7% to \$725,000 for the three months ended March 31, 2011.

Interest income on loans decreased \$216,000 or 8.0% to \$2.5 million, due primarily to a decrease in the average rate earned on the loan portfolio. The average balance of loans outstanding for the three month period ended March 31, 2011, decreased \$4.3 million or 2.2% to an average of \$188.8 million for the three months just ended, while the average rate earned declined 33 basis points to 5.27%. Interest income on securities decreased \$74,000 or 46.5% to \$85,000 for the three months ended March 31, 2011, primarily as a result of maturity of the investment securities. The average balance of other securities outstanding declined from \$5.2 million for the three months ended March 31, 2010 to \$711,000 for the current period ended, while average mortgage-backed residential securities decreased \$3.0 million or 27.8% to \$7.8 million for the three month period ended March 31, 2011. The average rate earned on mortgage-backed securities was 4.28% for the most recent quarterly period compared to 4.24% for the prior year period. The average rate earned on other securities decreased 285 basis points to 0.56% for the period just ended.

Interest expense on deposits and borrowings both declined period to period. Interest expense on deposits decreased \$230,000 or 28.3% to \$584,000 for the three-month period ended March 31, 2011, while interest expense on borrowings declined \$248,000 or 63.8% to \$141,000 for the same period. The decline in interest expense on deposits was attributed both to a reduction in the average rate paid on the deposits as well as a decrease in the average balance of deposits period to period. The average rate paid on deposits decreased 59 basis points to 1.64% for the most recent period, while the average balance of interest-bearing deposits decreased \$3.0 million or 2.1% to \$142.9 million. The decline in interest expense on borrowings was attributed both to lower interest rates paid and lower average borrowings outstanding. The average balance of borrowings declined \$9.0 million or 24.7% to \$27.4 million for the most recent period, while the average rate paid on borrowings decreased 222 basis points to 2.06% for the recently ended three-month 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, 2011 and 2010 (continued)

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 \$601,000 during the three months ended March 31, 2011, compared to a provision of \$71,000 for the three months ended March 31, 2010. The provision for loan loss in the most recent quarter was necessary to restore the Company's loan loss reserves to a level that management determined appropriate. The Company's loan loss reserves were substantially depleted when charges were recorded upon the foreclosure of a single credit. REO was recorded using an updated, lower appraisal value on the project. For further information on the amounts charged off during the period, see "Note 7 Allowance for Loan Losses" in the Notes to Consolidated Financial Statements set forth in Item 1, above. The project includes 34 rental modular homes, which have a high occupancy rate and represent approximately one-half of the homes in the development. Because the properties are expected to provide more than adequate cash flow for upkeep and management, the Company plans to market these properties collectively. 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 \$65,000 for the three months ended March 31, 2011, a decrease of \$12,000 from the same period in 2010, primarily as a result of a decrease in the gain on sales of loans. The gain on sale of loans was \$15,000 for the recent quarter ended, a decrease of \$22,000 or 59.5%, compared three-month period in 2010. The volume of the loans sold decreased from \$1.3 million in the year-ago quarter to \$487,000 for the recently ended quarter.

Non-interest Expense

Non-interest expense totaled \$1.3 million for the three months ended March 31, 2011, an increase of \$37,000, or 2.9%, compared to the same period in 2010. The increase was due primarily to an increase in other operating expenses. Other operating expense totaled \$230,000 for the three months ended March 31, 2011, an increase of \$79,000, or 52.3%, from the same period in 2010, primarily as a result of increased foreclosure costs and legal fees. REO expenses and foreclosure costs were \$17,000 and \$29,000, respectively, for the most recent quarterly period, while legal fees increased \$15,000 or 71.4% to \$36,000 for the quarter just ended.

Federal Income Tax Expense

The benefit for federal income taxes totaled \$375,000 for the three months ended March 31, 2011, compared to \$157,000 federal income tax expense in the same period in 2010. The benefit for federal income tax was due primarily to a \$403,000 tax refund the Company recognized. The effective tax rates were (287.1)% and 34.2% for the three-month periods ended March 31, 2011 and 2010, 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. Based upon that evaluation and a material weakness identified as of June 30, 2010 (see the Company's Form 10-K filed October 6, 2010), the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were ineffective. In response to the material weakness the Company is working with its external audit firm to revise its procedures.

During the quarter ended March 31, 2011, management evaluated its method of calculating the number of shares to be released for its employee stock ownership plan ("ESOP"), as well as its accounting associated with the ESOP. In connection with its review and evaluation, management has initiated the following changes:

- Changed the method of calculating the number of shares to be committed to be released to participants; and
- Segregated the dividends associated with unallocated ESOP shares from Company funds.

As a result of taking the above actions, management has concluded that it has remediated the material weakness identified during the quarter ended December 31, 2010. Notwithstanding the evaluation and initiation of these remediation actions, the identified material weaknesses in our internal controls over financial reporting, which were described in Item 9A of our Form 10-K for the year ended June 30, 2010, will not be considered remediated until the new controls are fully implemented, in operation for a sufficient period of time, tested, and concluded by management to be operating effectively.

## Kentucky First Federal Bancorp

## PART II

## ITEM 1. Legal Proceedings

Not applicable.

## ITEM 1A. Risk Factors

The Registrant's risk factors have not changed from those set forth in the Annual Report on Form 10-K.

## 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, 2011.

Period	Total # of shares purchased	Average price paid per share (incl commissions)	Total # of shares purchased publicly announced plans or programs	Maximum # of shares that may yet be purchased under the plans or programs
January 1-31, 2011	—	\$—	—	97,500
February 1-28, 2011	5,000	\$—	—	92,500
March 1-31, 2011	—	\$—	—	92,500

(1) On May 14, 2010, the Company announced the completion of the stock repurchase program begun on October 17, 2008 and initiated another program for the repurchase of up to 150,000 shares of its Common Stock

## ITEM 3. Defaults Upon Senior Securities

Not applicable.

## ITEM 4. Removed and Reserved.

Not applicable.

## ITEM 5. Other Information

None.

## ITEM 6. Exhibits

- 3.11 Charter of Kentucky First Federal Bancorp
- 3.21 Bylaws of Kentucky First Federal Bancorp
- 4.11 Specimen Stock Certificate of Kentucky First Federal Bancorp

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- 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

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(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 16, 2011

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

Date: May 16, 2011

By: /s/ R. Clay Hulette  
R. Clay Hulette  
Vice President and Chief Financial Officer