Kentucky First Federal Bancorp
Form 10-Q
February 14, 2008

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2007

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 [X] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer and larger accelerated filer” in Rule 12b-2 of the Exchange Act. (Check one):

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

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

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, 2008, the latest practicable date, the Corporation had 7,692,164 shares of $.01 par value common stock outstanding.

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PART I

ITEM 1: Financial Information

Kentucky First Federal Bancorp

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(In thousands, except per share data)

ASSETS	**December 31, 2007 (Unaudited)**	**June 30, 2007**
Cash and due from banks	$ 918	$ 1,179

Interest-bearing deposits in other financial institutions	1,242	1,541
Cash and cash equivalents	2,160	2,720
Interest-bearing deposits	100	100
Available-for-sale securities	13,457	13,298
Held-to-maturity securities, at amortized cost - approximate fair value of $48,136 and $57,835 at December 31, and June 30, 2007, respectively	48,764	59,606
Loans available for sale	124	-
Loans receivable	175,007	166,876
Allowance for loan losses	(655)	(720)
	174,352	166,156
Real estate acquired through foreclosure	35	8
Office premises and equipment - at depreciated cost	2,780	2,762
Federal Home Loan Bank stock - at cost	5,421	5,421
Accrued interest receivable	865	935
Bank-owned life insurance	2,299	2,256
Goodwill	14,507	14,507
Intangible assets-net	546	612
Prepaid expenses and other assets	248	276
Prepaid federal income taxes	453	259
Total assets	**$ 266,111**	**$ 268,916**
LIABILITIES AND SHAREHOLDERS EQUITY		
Deposits	$ 136,991	$ 139,893
Advances from the Federal Home Loan Bank	66,146	65,132
Advances by borrowers for taxes and insurance	31	343
Accrued interest payable	321	365
Deferred federal income taxes	1,043	930
Other liabilities	762	808
Total liabilities	205,294	207,471
Commitments	-	-
Shareholders equity		
Preferred stock, 500,000 shares authorized, $.01 par value; no shares issued	-	-
Common stock, 20,000,000 shares authorized $.01 par value; 8,596,064 shares issued	86	86
Additional paid-in capital	35,776	35,459
Retained earnings	32,327	32,291
Shares acquired by stock benefit plans	(2,827)	(3,013)
Treasury shares at cost, 437,830 and 299,430 shares at December 31 and June 30, 2007, respectively	(4,480)	(3,091)
Accumulated other comprehensive loss	(65)	(287)
Total shareholders equity	60,817	61,445
Total liabilities and shareholders equity	**$ 266,111**	**$ 268,916**

See Notes to Consolidated Financial Statements.

Kentucky First Federal Bancorp

CONSOLIDATED STATEMENTS OF EARNINGS

(Unaudited)
(In thousands, except per share data)

	Six months ended December 31, 2007	Six months ended December 31, 2006	Three months ended December 31, 2007	Three months ended December 31, 2006
Interest income				
Loans	$5,204	$4,820	$2,639	$2,425
Mortgage-backed securities	342	401	168	196
Investment securities	986	1,000	481	496
Interest-bearing deposits and other	205	187	105	74
Total interest income	6,737	6,408	3,393	3,191
Interest expense				
Deposits	2,589	2,230	1,283	1,122
Borrowings	1,584	1,422	797	741
Total interest expense	4,173	3,652	2,080	1,863
Net interest income	2,564	2,756	1,313	1,328
Provision for losses on loans	-	-	-	-
Net interest income after provision for losses on loans	2,564	2,756	1,313	1,328
Other operating income				
Earnings on bank-owned life insurance	43	41	22	21
Loss on sale of real estate acquired through foreclosure	-	(6)	-	4
Other operating	45	48	21	22
Total other income	88	83	43	47
General, administrative and other expense				
Employee compensation and benefits	1,490	1,582	724	779
Occupancy and equipment	169	165	89	79
Franchise taxes	78	86	39	42
Data processing	72	69	37	34
Other operating	314	293	157	143
Total general, administrative and other expense	2,123	2,195	1,046	1,077
Earnings before income taxes	529	644	310	298
Federal income taxes				
Current	69	75	33	26
Deferred	97	131	66	68
Total federal income taxes	166	206	99	94

NET EARNINGS	**$ 363**	**$ 438**	**$ 211**	**$ 204**
EARNINGS PER SHARE				
Basic	**$ 0.05**	**$ 0.06**	**$ 0.03**	**$ 0.03**
Diluted	**$ 0.05**	**$ 0.06**	**$ 0.03**	**$ 0.03**
DIVIDENDS PER SHARE	**$ 0.20**	**$ 0.20**	**$ 0.10**	**$ 0.10**

See Notes to Consolidated Financial Statements.

Kentucky First Federal Bancorp

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)
(In thousands)

	Six months ended December 31,		Three months ended December 31,	
	2007	**2006**	**2007**	**2006**
Net earnings	$ 363	$ 438	$ 211	$ 204
Other comprehensive income, net of taxes (benefits):				
Unrealized holding gains (losses) on securities during the period, net of taxes (benefits) of $114, $109, $62 and $19 during the respective periods	222	212	121	37
Comprehensive income	**$ 585**	**$ 650**	**$ 332**	**$ 241**
Accumulated comprehensive loss	**$ (65)**	**$ (324)**	**$ (65)**	**$ (324)**

See Notes to Consolidated Financial Statements.

Kentucky First Federal Bancorp

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the six months ended December 31,
(Unaudited)
(In thousands)

	2007	**2006**
Cash flows from operating activities:		
Net earnings for the period	$ 363	$ 438
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	(2)	(6)
Amortization of deferred loan origination fees	(19)	(9)
Amortization of purchase accounting adjustments-net	(200)	(206)
Depreciation and amortization	72	75
Amortization of stock benefit plans	279	331
(Gain) loss on sale of real estate acquired through foreclosure	-	6
Provision for losses on loans	-	-
Federal Home Loan Bank stock dividends	-	(157)
Bank-owned life insurance earnings	(43)	(41)
Mortgage loans originated for sale	(380)	(209)
Gain on sale of loans	(3)	(3)
Proceeds from sale of mortgage loans	259	216
Increase (decrease) in cash, due to changes in:		
Accrued interest receivable	70	(15)
Prepaid expenses and other assets	28	(52)
Accrued interest payable	(44)	42
Other liabilities	178	(679)
Federal income taxes		
Current	(57)	(75)
Deferred	113	131
Net cash provided by (used in) operating activities	614	(213)
Cash flows provided by (used in) investing activities:		
Investment securities maturities, prepayments and calls:		
Held to maturity	10,843	3,328
Available for sale	177	197
Proceeds from sale of real estate acquired through foreclosure	-	144
Loan principal repayments	20,612	11,765
Loan disbursements	(28,816)	(18,805)
Purchase of office equipment	(90)	(13)
Net cash provided by (used in) investing activities	2,726	(3,384)
Cash flows provided by (used in) financing activities:		
Net decrease in deposit accounts	(2,902)	(2,247)
Proceeds from Federal Home Loan Bank advances	20,100	46,050
Repayment of Federal Home Loan Bank advances	(18,820)	(38,809)
Advances by borrowers for taxes and insurance	(312)	(327)
Dividends paid on common stock	(577)	(632)
Purchase of shares for treasury	(1,389)	(1,015)
Purchase of common stock for Equity Incentive Plan	-	-
Net cash provided by (used in) financing activities	(3,900)	3,020
Net decrease in cash and cash equivalents	(560)	(472)
Cash and cash equivalents at beginning of period	2,720	2,294
Cash and cash equivalents at end of period	**$ 2,160**	**$ 1,822**

See Notes to Consolidated Financial Statements.

Kentucky First Federal Bancorp

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

For the six months ended December 31,
(Unaudited)
(In thousands)

	2006	2006
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Federal income taxes	$ 110	$ 150
Interest on deposits and borrowings	$4,418	$3,816
Transfers from loans to real estate acquired through foreclosure, net	$ 27	$ 107

See Notes to Consolidated Financial Statements.

Kentucky First Federal Bancorp

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the six- and three-month periods ended December 31, 2007 and 2006

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 financial condition 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 accruals) 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, 2007, are not necessarily indicative of the results which may be expected for an entire fiscal year. The consolidated balance sheet as of June 30, 2007 has been derived from the audited consolidated balance sheet as of that date.

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. Critical Accounting Policies

We consider accounting policies involving significant judgments and assumptions by management that have, or could have, a material impact on the carrying value of certain assets or on income to be critical accounting policies. We consider the allowance for loan losses and accounting for goodwill to be critical accounting policies.

The allowance for loan losses is the estimated amount considered necessary to cover probable incurred credit losses in the loan portfolio at the balance sheet date. The allowance is established through the provision for losses on loans which is charged against income. In determining the allowance for loan losses, management makes significant estimates and has identified this accounting policy as one of the most critical for the Company.

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3. Critical Accounting Policies (continued)

Management of the Banks perform a monthly evaluation of the allowance for loan losses. Consideration is given to a variety of factors in establishing this estimate including, but not limited to, current economic conditions, delinquency statistics, geographic and industry concentrations, the adequacy of the underlying collateral, the financial strength of the borrower, results of internal loan reviews, volume and mix of the loan portfolio and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to change. Management considers the economic climate in the lending areas to be among the factors most likely to have an impact on the level of the required allowance for loan losses. However, in view of the fact that the Banks local economies are diverse, without significant dependence on a single industry or employer, the economic climate in the Banks market areas are considered to be stable, and improving. Nevertheless, management continues to monitor and evaluate factors which could have an impact on the required level of the allowance. Nationally, management will watch for issues that may negatively affect a significant percentage of homeowners in the Banks lending areas. These may include significant increases in unemployment or significant depreciation in home prices. Management reviews employment statistics periodically when determining the allowance for loan losses and generally finds the unemployment rate in the Banks lending areas to be acceptable in relation to historical trends. Given the aforementioned indicators of economic stability, management does not foresee in the near term, any significant increases in the required allowance for loan losses related to economic factors. Finally, Company management has no current plans to alter the type of lending offered or collateral accepted by the Banks, but if such plans change or market conditions result in large concentrations of certain types of loans, such as commercial real estate or high loan-to-value ratio residential loans, management would respond with an increase in the overall allowance for loan losses.

The allowance for loan losses analysis has two components, specific and general allocations. Specific allocations are made for loans that are determined to be impaired. Impairment is measured by determining the present value of expected future cash flows or, for collateral-dependent loans, the fair value of the collateral adjusted for market conditions and selling expenses. The general allocation is determined by segregating the remaining loans by type of loan, risk-weighting (if applicable) and payment history. Historical loss experience, delinquency trends, general economic conditions and geographic and industry concentrations are also analyzed. This analysis establishes factors that are applied to the loan groups to determine the amount of the general reserve. Actual loan losses may be significantly more than the allowance established, which could have a material negative effect on the Companys consolidated financial results.

The Company has recorded goodwill and core deposit intangibles as a result of its acquisition of Frankfort First. Goodwill represents the excess purchase price paid over the net book value of the assets acquired in a merger or acquisition. Pursuant to SFAS No. 142, Goodwill and Intangible Assets, goodwill is not amortized, but is tested for impairment at the reporting unit annually or whenever an impairment indicator arises. The evaluation involves assigning assets and liabilities to reporting units and comparing the fair value of each reporting unit to its carrying value including goodwill. If the fair value of a reporting unit exceeds its carrying amount, goodwill is not considered impaired. However, if the carrying amount of the reporting unit exceeds the fair value, goodwill is considered impaired. The impairment loss equals the excess of carrying value over fair value.

Core deposit intangibles represent the value of long-term deposit relationships and are amortized over their estimated useful lives. The Company annually evaluates these estimated useful lives. If the Company determines that events or circumstances warrant a change in these estimated useful lifes, the Company will adjust the amortization of the core deposit intangibles, which could affect future amortization expense.

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Kentucky First Federal Bancorp

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the six- and three-month periods ended December 31, 2007 and 2006

4. Earnings Per Share

Basic earnings per share is computed based upon the weighted-average common shares outstanding during the period less shares in the Companys ESOP that are unallocated and not committed to be released. Weighted average common shares deemed outstanding give effect to 301,262 unallocated ESOP shares for the six- and three-month periods ended December 31, 2007, and 319,152 unallocated ESOP shares for the six- and three-month periods ended December 31, 2006.

	Six months ended December 31, 2007	**Three months ended December 31, 2007**
Weighted-average common shares outstanding (basic)	7,781,376	7,745,436
Dilutive effect of assumed exercise of stock options	-	-
Weighted-average common shares outstanding (diluted)	**7,781,376**	**7,745,436**

	Six months ended December 31, 2006	**Three months ended December 31, 2006**
Weighted-average common shares outstanding (basic)	8,161,113	8,178,356
Dilutive effect of assumed exercise of stock options	-	-
Weighted-average common shares outstanding (diluted)	**8,161,113**	**8,178,356**

There were 339,200 and 347,600 unexercised options representing non-dilutive shares outstanding for the six- and three-month periods ended December 31, 2007 and 2006, respectively.

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Kentucky First Federal Bancorp

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the six- and three-month periods ended December 31, 2007 and 2006

5. Recent Accounting Pronouncements

The Company or one of its subsidiaries files income tax returns in the U.S. federal and Kentucky jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local examinations by tax authorities for years before 2005.

The Company adopted the provisions of the Financial Accounting Standards Board (FASB) Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109*, on July 1, 2007. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The adoption of FIN 48 resulted in a $250,000 increase to the beginning balance of retained earnings, with no impact on the results of operations of the Company.

The following financial statement line items for the six months ended December 31, 2007 were affected by the change in accounting principle.

	December 31, 2007 (in thousands)		
	As Computed Pre- FIN 48	**As Reported Under FIN 48**	**Effect of Change**
Balance Sheet			
Refundable income taxes	$ 203	$ 453	$ 250
Retained earnings	32,077	32,327	250

In February 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statement No. 115 (SFAS No. 159). SFAS No. 159 permits us to choose to measure certain financial assets and liabilities at fair value that are not currently required to be measured at fair value (i.e. the Fair Value Option). Election of the Fair Value Option is made on an instrument-by-instrument basis and is irrevocable. At the adoption date, unrealized gains and losses on financial assets and liabilities for which the Fair Value Option has been elected would be reported as a cumulative adjustment to beginning retained earnings. If we elect the Fair Value Option for certain financial assets and liabilities, we will report unrealized gains and losses due to changes in their fair value in earnings at each subsequent reporting date. SFAS No. 159 is effective as of July 1, 2008. We are currently evaluating the potential impact of adopting SFAS No. 159 on our consolidated financial statements.

Kentucky First Federal Bancorp

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the six- and three-month periods ended December 31, 2007 and 2006

5. Recent Accounting Pronouncements (continued)

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (FAS 157). FAS 157 enhances existing guidance for measuring assets and liabilities using fair value. Prior to the issuance of FAS 157, guidance for applying fair value was incorporated in several accounting pronouncements. FAS 157 provides a single definition of fair value, together with a framework for measuring it, and requires additional disclosure about the use of fair value to measure assets and liabilities. FAS 157 also emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and sets out a fair value hierarchy with the highest priority being quoted prices in active markets. Under FAS 157, fair value measurements are disclosed by level within that hierarchy. While FAS 157 does not add any new fair value measurements, it does change current practice. Changes to practice include: (1) a requirement for an entity to include its own credit standing in the measurement of its liabilities; (2) a modification of the transaction price presumption; (3) a prohibition on the use of block discounts when valuing large blocks of securities for broker-dealers and investment companies; and (4) a requirement to adjust the value of restricted stock for the effect of the restriction even if the restriction lapses within one year. FAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, or July 1, 2008 and interim periods within those fiscal years. We are currently evaluating the potential impact of adopting FAS 157 on our financial statements.

In September 2006, the FASB ratified a consensus opinion by the EITF on EITF Issue 06-5, *Accounting for Purchases of Life Insurance-Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4 (Accounting for Purchases of Life Insurance).* The issue requires policy holders to consider other amounts included in the contractual terms of an insurance policy, in addition to cash surrender value, for purposes of determining the amount that could be realized under the terms of the insurance contract. If it is probable that contractual terms would limit the amount that could be realized under the insurance contract, those contractual limitations should be considered when determining the realizable amounts. The amount that could be realized under the insurance contract should be determined on an individual policy (or certificate) level and should include any amount realized on the assumed surrender of the last individual policy or certificate in a group policy.

The Company holds several life insurance policies, however, the policies do not contain any provisions that would restrict or reduce the cash surrender value of the policies. The consensus in EITF Issue 06-5 is effective for fiscal years beginning after December 15, 2006. The application of this guidance did not have a material adverse effect on the Company’s financial position or results of operations.

6. Commitments

As of December 31, 2007, loan commitments and unused lines of credit totaled $12.7 million, including $2.3 million in undisbursed construction loans, $923,000 in one- to four-family mortgage loans and $9.5 million in lines of credit secured by equity in real property.

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,” an 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, and rapidly changing technology affecting financial services.

Discussion of Financial Condition Changes from June 30, 2007 to December 31, 2007

Assets: At December 31, 2007, the Company’s assets totaled $266.1 million, a decrease of $2.8 million, or 1.0%, from total assets at June 30, 2007. The primary reason for the decrease in assets was the maturity and/or call of $10.8 million, or 18.2%, of held-to-maturity securities, which decreased to $48.8 million at December 31, 2007. Somewhat offsetting the decrease in held-to-maturity securities was an increase of $8.2 million, or 4.9%, in loans receivable. It is management’s intention to deploy maturing or called investments into mortgage loans to the extent possible.

Cash and cash equivalents: Cash and cash equivalents decreased by $560,000 or 20.6%. It is the Companys preference to minimize the level of cash and cash equivalents and invest liquidity into higher-yielding assets, when possible.

Loans*:* Loans receivable, net, increased to $174.4 million at December 31, 2007, an increase of $8.2 million or 4.9%. Management believes that the successful redeployment of the Companys funds from lower-yielding cash, cash equivalents and investment securities 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, 2007, the Company had approximately $1.0 million, or 0.6% of net loans, in loans 90 days or more past due, compared to $968,000, or 0.6%, of net loans at June 30, 2007. At December 31, 2007, the Companys allowance for loan losses of $655,000 represented 62.7% of nonperforming loans and 0.4% of total loans.

The Company had $1.7 million in loans classified as substandard for regulatory purposes at December 31, 2007. Classified loans as a percentage of net loans was 1.0% and 0.9% at December 31, 2007 and June 30, 2007, respectively. Substandard assets included 31 single-family home loans with loan-to-value ratios (percentage of loan balance to the original or an updated appraisal) ranging from 11% to 98%*; three home equity lines of credit secured by single-family homes; and four single-family homes acquired through foreclosure (with an aggregate fair value of $35,000). At December 31, 2007, the Company had $695,000 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. **Of the substandard assets, one loan exceeded a 90% loan-to-value ratio and that loan is covered by private mortgage insurance.*

Kentucky First Federal Bancorp

MANAGEMENTS DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

<u>Discussion of Financial Condition Changes from June 30, 2007 to December 31, 2007</u> (continued)

Non-Performing Loans (continued)
At December 31, 2007, no loans were classified as doubtful or loss for regulatory purposes.

Investment and Mortgage-Backed Securities*:* At December 31, 2007, the Companys investment and mortgage-backed securities had decreased $10.7 million or 14.6% to $62.2 million. This decrease was due primarily to the maturity and/or call of $10.0 million of investment securities and repayment of principal on mortgage-backed securities which was partially offset by a net increase of $159,000 in the market value of investments and mortgage-backed securities held as available for sale. Since December 31, 2007, $11.0 million in investments have been called. Excluding those investments which have been called, approximately $35.9 million of the Companys investment and agency securities are scheduled to mature within the next three years.

Liabilities: At December 31, 2007, the Companys liabilities totaled $205.3 million, a decrease of $2.2 million, or 1.1%, from total liabilities at June 30, 2007. The decrease in liabilities was attributed primarily to a $2.9 million, or 2.1%, decrease in deposits, which decreased to $137.0 million at December 31, 2007. Somewhat offsetting the decrease in deposits was an increase of $1.0 million or 1.6%, in Federal Home Loan Bank advances, which totaled $66.1 million at December 31, 2007. Of the $66.1 million in advances, approximately $26.6 million were in overnight advances. At times, the Company has chosen not to meet market rates if the deposits cannot be invested profitably in interest-earning assets. As stated previously, management anticipates reducing the level of Federal Home Loan Bank advances as lower-yielding investment securities mature over the next three years.

Shareholders Equity: At December 31, 2007, the Companys shareholders equity totaled $60.8 million, a decrease of $628,000 or 1.0% from the June 30, 2007 total. The primary reason for the decrease in shareholders equity is the acquisition of $1.4 million of treasury shares at an average cost of $10.04 per share.

Comparison of Operating Results for the Six-Month Periods Ended December 31, 2007 and 2006

General

Net earnings totaled $363,000 for the six months ended December 31, 2007, a decrease of $75,000, or 17.1% from the $438,000 in net earnings for the same period in 2006. The decrease was primarily attributable to a decline in net interest income.

Net Interest Income

Net interest income declined $192,000 or 7.0% to $2.6 million for the six month period ended December 31, 2007, compared to the 2006 period, due to increased cost of funds. Interest income increased by $329,000, or 5.1%, to $6.7 million, while interest expense increased $521,000 or 14.3% to $4.2 million for the six months ended December 31, 2007. The growth in interest expense was attributable to increased costs for both deposits and advances.

Comparison of Operating Results for the Six-Month Periods Ended December 31, 2007 and 2006 (continued)

Net Interest Income (continued)

Interest expense on deposits increased $359,000 or 16.1% to $2.6 million, while interest expense on advances increased $162,000, or 11.4%, to $1.6 million for the 2007 period compared to the prior year period. The increase in interest expense on deposits was due an increase in the average rate paid on deposits, as the average balance of deposits outstanding declined for the six-month periods year over year. The average rate paid on deposits increased 56 basis points to 3.73% for the six month period ended December 31, 2007, while the average balance outstanding declined 1.0% to $140.0 million for the current period ended. The increase in interest expense on advances was attributable to an increase in the average balance outstanding, as the average rate paid on those advances declined period to period. The average balance of advances outstanding increased $8.0 million, or 13.3%, to $68.2 million for the six month period ended December 31, 2007. The average rate paid on advances decreased by 8 basis points to 4.65% for the 2007 six month period. Net interest margin decreased by 25 basis points to 2.06% for the six months ended December 31, 2007, compared to 2.31% for the comparable 2006 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 no provision for losses on loans for either of the six months ended December 31, 2007 or 2006. The lack of a provision was influenced by the relatively stable level of nonperforming loans discussed above (See "Critical Accounting Policies"). 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.

Other Income

Other income totaled $88,000 for the six months ended December 31, 2007, an increase of $5,000 from the same period in 2006.

General, Administrative and Other Expense

General, administrative and other expense totaled $2.1 million for the six months ended December 31, 2007, a decrease of $72,000, or 3.3%, compared to the same period in 2006. The decrease was due primarily to a decrease in employee compensation and benefits, which totaled $1.5 million for the six months ended December 31, 2007, a decrease of $92,000, or 5.8%, from the same period in 2006. The decrease in employee compenation and benefits is primarily related to lower salary levels associated with various retirements.

Comparison of Operating Results for the Six-Month Periods Ended December 31, 2007 and 2006 (continued)

Federal Income Taxes

The provision for federal income taxes totaled $166,000 for the six months ended December 31, 2007, a decrease of $40,000, or 19.4%, compared to the same period in 2006. The effective tax rates were 31.4% and 32.0% for the six-month periods ended December 31, 2007 and 2006, respectively.

Comparison of Operating Results for the Three-Month Periods Ended December 31, 2007 and 2006

General

Net earnings totaled $211,000 for the three months ended December 31, 2007, an increase of $7,000, or 3.4% from the $204,000 in net earnings for the same period in 2006. The increase was primarily attributable to a decline in general, administrative and other expense.

Net Interest Income

Net interest income declined $15,000 or 1.1% to $1.3 million for the three month period ended December 31, 2007, compared to the 2006 period, due to increased cost of funds. Interest income increased by $202,000, or 6.3%, while interest expense increased $217,000 or 11.6% to $2.1 million for the three months ended December 31, 2007. The growth in interest expense was attributable to increased costs for both deposits and advances.

Interest expense on deposits increased $161,000 or 14.3% to $1.3 million, while interest expense on advances increased $56,000, or 7.6%, to $797,000 for the 2007 quarter compared to the prior year quarter. The increase in interest expense on deposits was due an increase in the average rate paid on deposits, as the average balance of deposits outstanding declined for the quarterly periods year over year. The average rate paid on deposits increased 51 basis points to 3.73% for the three month period ended December 31, 2007, while the average balance outstanding declined 1.0% to $138.4 million for the current quarter. The increase in interest expense on advances was attributable to an increase in the average balance outstanding, as the average rate paid on those advances declined. The average balance of advances outstanding increased $8.6 million, or 13.7%, to $70.9 million for the three month period ended December 31, 2007. The average rate paid on advances decreased of 26 basis points to 4.5% for the 2007 quarter. Net interest margin decreased by 12 basis points to 2.10% for the three months ended December 31, 2007, compared to 2.22% for the comparable 2006 quarter.

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 no provision for losses on loans during the three months ended December 31, 2007 or 2006. The lack of a provision for the periods was influenced by the stable level of nonperforming loans discussed above (See Critical Accounting Policies). 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 Companys results of operations.

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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, 2007 and 2006 (continued)

Other Income

Other income totaled $43,000 for the three months ended December 31, 2007, a decrease of $4,000 from the same period in 2006. The decrease in the 2007 period is attributable to a nonreoccuring gain on sale of real estate acquired through foreclosure, which was recognized in the 2006 period.

General, Administrative and Other Expense

General, administrative and other expense totaled $1.0 million for the three months ended December 31, 2007, a decrease of $31,000, or 2.9%, compared to the same period in 2006. This decrease was due primarily to a decrease in employee compensation and benefits, which totaled $724,000 for the three months ended December 31, 2007, a decrease of $55,000, or 7.1%, from the same period in 2006. The decrease in employee compensation and benefits is related to both a decrease in salary cost and lower retirement expense. The lower salary levels are associated with various retirements and other attrition of the Company's personnel, while the Company has experienced somewhat favorable results with regard to its defined benefit retirement plan.

Federal Income Taxes

The provision for federal income taxes totaled $99,000 for the three months ended December 31, 2007, an increase of $5,000, or 5.3%, compared to the same period in 2006. The effective tax rates were 31.9% and 31.5% for the three-month periods ended December 31, 2007 and 2006, respectively.

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Kentucky First Federal Bancorp

MANAGEMENT's DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

ITEM 3: Quantitative and Qualitative Disclosures About Market Risk

There has been no material change in the Company's market risk since the disclosure included under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations – Asset and Liability Management" in the Company's Form 10-K filed September 28, 2007.

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, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective. During the quarterly period ended December 31, 2007, there were no changes in the Company's internal control over financial reporting which materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

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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 December 31, 2007.

Period	Total # of shares purchased	Average price paid per share (incl commissions)	Total # of shares purchased as part of publicly announced plans or programs	Maximum # of shares that may yet be purchased under the plans or programs
October 1-31, 2007	20,000	$ 10.11	20,000	89,400
November 1-30, 2007	20,000	$ 10.06	20,000	69,400
December 1-31, 2007	20,300	$ 10.06	20,300	49,100

(1) On March 13, 2007, the Company announced a program to repurchase up to 150,000 shares of its Common Stock. This program was terminated on August 17, 2007 when the Company completed the repurchase of substantially all shares authorized under this program, and announced another program to repurchase up to 150,000 shares of its Common Stock.

ITEM 3. Defaults Upon Senior Securities

Not applicable.

ITEM 4. Submission of Matters to a Vote of Security Holders

(a) The registrant held its Annual Meeting of Shareholders on November 13, 2007.

(b) Not applicable

(c) Two matters were voted upon at the Annual Meeting:

1) Election of three individuals as directors:

	Votes For	Votes Withheld
William D. Gorman	7,547,281	31,108
Herman D. Regan, Jr.	7,557,040	21,349

2) Ratification of BKD, LLP, as the Company s independent registered public accountants for the fiscal year ending June 30, 2008:

Votes For	Votes Against	Abstain
7,543,612	24,650	10,127

There were no broker nonvotes.

Kentucky First Federal Bancorp

PART II (continued)

ITEM 5. Other Information

None.

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: February 14, 2008 By: /s/Tony D. Whitaker
Tony D. Whitaker
Chairman of the Board and Chief Executive Officer

Date: February 14, 2008 By: /s/R. Clay Hulette
R. Clay Hulette
Vice President and Chief Financial Officer