

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

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended March 31, 2014

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 0-51176

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

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

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

(502) 223-1638  
(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):

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 12, 2014, the latest practicable date, the Corporation had 8,524,192 shares of \$.01 par value common stock outstanding.

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## PART I

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

(Unaudited)

(In thousands, except share data)

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

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

See accompanying notes.

**Kentucky First Federal Bancorp****CONSOLIDATED STATEMENTS OF INCOME**

(Unaudited)

(Dollars in thousands, except per share data)

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

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

See accompanying notes.

**Kentucky First Federal Bancorp**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(Unaudited)

(In thousands)

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

See accompanying notes.



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

(Unaudited)

(In thousands)

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

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

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

See accompanying notes.

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

(Unaudited)

(In thousands)

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

See accompanying notes.

## Kentucky First Federal Bancorp

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2014

(unaudited)

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

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

#### 1. Basis of Presentation

The accompanying unaudited consolidated financial statements, which represent the consolidated balance sheets and results of operations of the Company, were prepared in accordance with the instructions for Form 10-Q and, therefore, do not include information or footnotes necessary for a complete presentation of financial position, results of operations and cash flows in conformity with U.S. generally accepted accounting principles. However, in the opinion of management, all adjustments (consisting of only normal recurring adjustments) which are necessary for a fair presentation of the consolidated financial statements have been included. The results of operations for the nine- and three-month periods ended March 31, 2014, are not necessarily indicative of the results which may be expected for an

entire fiscal year. The consolidated balance sheet as of June 30, 2013 has been derived from the audited consolidated balance sheet as of that date. Certain information and note disclosures normally included in the Company's annual financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Form 10-K annual report for 2013 filed with the Securities and Exchange Commission.

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

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

**Kentucky First Federal Bancorp**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

March 31, 2014

(unaudited)

1. Basis of presentation (continued)

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

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

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

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

A loan is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans for which the terms have been

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

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



**Kentucky First Federal Bancorp**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

March 31, 2014

(unaudited)

1. Basis of presentation (continued)

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

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

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

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

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

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

**Kentucky First Federal Bancorp**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

March 31, 2014

(unaudited)

1. Basis of presentation (continued)

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

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

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

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

2. Earnings Per Share

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

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

  

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

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

March 31, 2014

(unaudited)

2. Earnings per share (continued)

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

3. Investment Securities

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

(in thousands)	Amortized cost	March 31, 2014		Estimated fair value
		Gross unrealized/unrecognized gains	Gross unrealized/unrecognized losses	
<b>Available-for-sale Securities</b>				
Agency mortgage-backed:residential	\$ 136	\$ 3	\$ -	\$ 139
FHLMC stock	8	103	-	111
	\$ 144	\$ 106	\$ -	\$ 250
<b>Held-to-maturity Securities</b>				
Agency mortgage-backed: residential	\$ 4,114	\$ 145	\$ -	\$ 4,259
Agency bonds	5,763	-	12	5,751
	\$ 9,877	\$ 145	\$ 12	\$ 10,010
(in thousands)	Amortized cost	June 30, 2013		Estimated fair value
		Gross unrealized/unrecognized gains	Gross unrealized/unrecognized losses	

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Available-for-sale Securities

Agency mortgage-backed:residential	\$ 162	\$ 4	\$ -	\$ 166
FHLMC stock	8	31	-	39
	\$ 170	\$ 35	\$ -	\$ 205

Held-to-maturity Securities

Agency mortgage-backed: residential	\$ 5,340	\$ 210	\$ 49	\$ 5,502
Agency bonds	6,892	-	39	6,852
	\$ 12,232	\$ 210	\$ 88	\$ 12,354

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

March 31, 2014

(unaudited)

3. Investment Securities (continued)

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

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

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

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

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

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

March 31, 2014

(unaudited)

4. Loans receivable

The composition of the loan portfolio was as follows:

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

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

(in thousands)

Recoveries



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

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

March 31, 2014

(unaudited)

4. Loans receivable (continued)

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

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

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

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

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

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

March 31, 2014

(unaudited)

4. Loans receivable (continued)

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

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

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

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

March 31, 2014

(unaudited)

4. Loans receivable (continued)**March 31, 2014:**

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

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Unallocated

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

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

March 31, 2014

(unaudited)

4. Loans receivable (continued)

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

**June 30, 2013:**

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

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

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

March 31, 2014

(unaudited)

4. Loans receivable (continued)

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

**March 31, 2014:**

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

**March 31, 2013:**

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

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With an allowance recorded:

One- to four-family	178	10	185	—	—
	\$ 6,476	\$ 10	\$ 9,736	\$ —	\$ —

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

March 31, 2014

(unaudited)

4. Loans receivable (continued)

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

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

**Troubled Debt Restructurings:**

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

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

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March 31, 2014 (in thousands)	Troubled Debt Restructurings on Non-Accrual Status	Troubled Debt Restructurings on Accrual Status	Total Troubled Debt Restructurings
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One- to four-family residential real estate	\$ 2,462	\$ 222	\$ 2,684
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June 30, 2013 (in thousands)	Troubled Debt Restructurings on Non-Accrual Status	Troubled Debt Restructurings on Accrual Status	Total Troubled Debt Restructurings
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One- to four-family residential real estate	\$ 2,211	\$ 659	\$ 2,870
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**Kentucky First Federal Bancorp****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

March 31, 2014

(unaudited)

4. Loans receivable (continued)

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

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

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

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

Three months ended March 31, 2013

Residential real estate:

Rate reduction	\$ 786	\$	—	\$ 783
Bankruptcies	121		—	121
Total troubled debt restructures	\$ 907	\$	—	\$ 907

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

March 31, 2014

(unaudited)

4. Loans receivable (continued)

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

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

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

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

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



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

March 31, 2014

(unaudited)

4. Loans receivable (continued)

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

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

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

(in thousands)	30-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Loans Not Past Due	Total
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Residential real estate:					
One-to four-family	\$ 5,290	\$ 5,034	\$ 10,324	\$ 198,768	\$ 209,092
Multi-family	—	—	—	14,506	14,506
Construction	42	—	42	1,711	1,753
Land	—	—	—	2,821	2,821
Farm	—	—	—	1,843	1,843
Nonresidential real estate	35	140	175	21,917	22,092
Commercial and industrial	—	—	—	3,189	3,189
Consumer and other:					
Loans on deposits	—	—	—	2,710	2,710
Home equity	23	23	46	5,711	5,757
Automobile	29	—	29	43	72
Unsecured	—	48	48	660	708
Total	\$ 5,419	\$ 5,245	\$ 10,664	\$ 253,879	\$ 264,543

**Kentucky First Federal Bancorp**

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

March 31, 2014

(unaudited)

4. Loans receivable (continued)

**Credit Quality Indicators:**

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

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

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

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

Loans not meeting the criteria above that are analyzed individually as part of the above-described process are considered to be pass rated loans. Loans listed that are not rated are included in groups of homogeneous loans and are evaluated for credit quality based on performing status. See the aging of past due loan table above. As of March 31,

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2014, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

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

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

March 31, 2014

(unaudited)

4. Loans receivable (continued)

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

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

**Purchased Credit Impaired Loans:**

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

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(in thousands)

March 31, 2014    June 30, 2013

One- to four-family residential real estate	\$ 2,740	\$ 2,989
Land	443	485
Nonresidential real estate	516	546
Commercial nonmortgage	48	119
Consumer	—	23
Outstanding balance	\$ 3,747	\$ 4,162

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

March 31, 2014

(unaudited)

4. Loans receivable (continued)

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

(in thousands)	Three months ended March 31, 2014	Nine months ended March 31, 2014	Twelve months ended June 30, 2013
Balance at beginning of period	\$ 1,541	\$ 1,294	\$ —
New loans purchased	—	—	1,423
Accretion of income	(25 )	(125 )	(129 )
Reclassifications from nonaccretable difference		347	—
Disposals	—	—	—
Balance at end of period	\$ 1,516	\$ 1,516	\$ 1,294

For those purchased loans disclosed above, the Company made no increase in allowance for loan losses for the year ended June 30, 2013, nor for the nine- or three-month periods ended March 31, 2014. Neither were any allowance for loan losses reversed during those periods.

5. Disclosures About Fair Value of Assets and Liabilities

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

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

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

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

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

### **Securities**

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



**Kentucky First Federal Bancorp**

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

March 31, 2014

(unaudited)

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

**Impaired Loans**

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

**Other Real Estate**

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

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

March 31, 2014

(unaudited)

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

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

(in thousands)	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
March 31, 2014				
Agency mortgage-backed: residential	\$ 139	\$ —	\$ 139	\$ —
FHLMC stock	111	—	111	—
	\$ 250	\$ —	\$ 250	\$ —
June 30, 2013				
Agency mortgage-backed: residential	\$ 166	\$ —	\$ 166	\$ —
FHLMC stock	39	—	39	—
	\$ 205	\$ —	\$ 205	\$ —

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

(in thousands)	Fair Value	Fair Value Measurements Using		
		Quoted Prices in	Significant Other Observable	Significant Unobservable Inputs

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		Active Markets for Identical Assets (Level 1)	Inputs (Level 2)		(Level 3)
March 31, 2014					
Impaired loans					
One- to four-family	\$ 203	\$ —	\$ —	\$ —	\$ 203
Other real estate owned, net					
One- to four-family	786	—	—	—	786
Land	15	—	—	—	15
June 30, 2013					
Impaired loans					
One- to four-family	\$ 213	\$ —	\$ —	\$ —	\$ 213
Other real estate owned, net					
One- to four-family	633	—	—	—	633
Land	15	—	—	—	15

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

March 31, 2014

(unaudited)

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

Impaired loans, which are measured using the fair value of the collateral for collateral-dependent loans, had a carrying amount of \$207,000 and \$213,000 at March 31, 2014 and June 30, 2013, with specific valuation allowance of \$13,000 and \$14,000, respectively. Other real estate owned measured at fair value less costs to sell, had carrying amounts of \$682,000 and \$648,000 at March 31, 2014 and June 30, 2013, respectively.

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

	Fair Value (in thousands)	Valuation Technique(s)	Unobservable Input(s)	Range (Weighted Average)
Impaired Loans:				
Residential real estate				
One- to four- family	\$ 203	Sales comparison approach	Adjustments for differences between comparable sales	-21.1% to 40.0% (3.7%)
Foreclosed and repossessed assets:				
1-4 family	\$ 786	Sales comparison approach	Adjustments for differences between comparable sales	-37.1% to 30.2% (1.1%)
Land	\$ 15	Sales comparison approach	Adjustments for differences between comparable sales	-66.7 to 73.3% (40.0%)

The following table presents quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at June 30, 2013:

	Fair Value (in thousands)	Valuation Technique(s)	Unobservable Input(s)	Range (Weighted Average)
<b>Impaired Loans:</b>				
<b>Residential real estate</b>				
1-4 family	\$ 213	Sales comparison approach	Adjustments for differences between comparable sales	3.1% to 19.8% (4.3%)
<b>Foreclosed and repossessed assets:</b>				
1-4 family	\$ 633	Sales comparison approach	Adjustments for differences between comparable sales	0.5% to 18.6% (8.6%)
Land	15	Sales comparison approach	Adjustments for differences between comparable sales	20.2% to 38.9% (20.8%)

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

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

The following methods were used to estimate the fair value of all other financial instruments at March 31, 2014 and June 30, 2013:

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.



**Kentucky First Federal Bancorp**

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

March 31, 2014

(unaudited)

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

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. The methods used to estimate fair value of loans do not necessarily represent an exit price. 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.

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.

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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, 2014 and June 30, 2013, 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, 2014 and June 30, 2013 are as follows:

	Carrying Value	Fair Value Measurements at March 31, 2014 Using			Total
		Level 1	Level 2	Level 3	
<b>Financial assets</b>					
Cash and cash equivalents	\$ 12,988	\$12,988			\$12,988
Available-for-sale securities	250		\$139	\$111	250
Held-to-maturity securities	9,877		10,010		10,010
Loans receivable - net	251,179			258,747	258,747
Federal Home Loan Bank stock	6,482				n/a
Accrued interest receivable	900		900		900
<b>Financial liabilities</b>					
Deposits	\$ 218,521	\$91,163	\$127,554		\$218,717
Federal Home Loan Bank advances	18,229		19,534		19,534
Advances by borrowers for taxes and insurance	411			411	411
Accrued interest payable	37	1	36		37



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

March 31, 2014

(unaudited)

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

<b>(in thousands)</b>	Carrying Value	Fair Value Measurements at June 30, 2013 Using			Total
		Level 1	Level 2	Level 3	
<b>Financial assets</b>					
Cash and cash equivalents	\$16,540	\$16,540			\$16,540
Available-for-sale securities	205		\$205		205
Held-to-maturity securities	12,232		12,354		12,354
Loans held for sale	196		196		196
Loans receivable - net	262,491			\$258,747	258,747
Federal Home Loan Bank stock	7,732				n/a
Accrued interest receivable	919		919		919
<b>Financial liabilities</b>					
Deposits	\$230,981	\$91,163	\$127,554		\$218,717
Federal Home Loan Bank advances	24,310		19,534		19,534
Advances by borrowers for taxes and insurance	562			\$562	562
Accrued interest payable	36		36		36

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

**6. Other Comprehensive Income**

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

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	Balance at June 30, 2013	Current Year Change	Balance at March 31, 2014
Unrealized gains on available-for-sale securities	\$ 23	\$ 47	\$ 70

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

(in thousands)	Nine months ended March 31,	
	2014	2013
Unrealized holding gains on available-for-sale securities	\$ 71	\$ 20
Tax effect	24	7
Net-of-tax amount	\$ 47	\$ 13

(in thousands)	Three months ended March 31, 2014 2013	
Unrealized holding gains on available-for-sale securities	\$27	\$ 12
Tax effect	9	4
Net-of-tax amount	\$18	\$ 8

**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, 2013.

Acquisition impact on size of the Company

On December 31, 2012, the Company acquired 100% of the outstanding common shares of CKF Bancorp. As a result of the acquisition, the Company was much larger during the nine month period ended March 31, 2014, than during the prior year comparable period. This difference is apparent in the Average Balance Sheets section, below, and is the basis for many of the differences found in the period-to-period comparisons for the nine month periods.

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

The following table represents the average balance sheets for the nine month periods ended March 31, 2014 and 2013, along with the related calculations of net interest income, net interest margin and net interest spread for the related periods.

	Nine Months Ended March 31, 2014			2013			
	Average Balance	Interest And Dividends	Yield/ Cost	Average Balance	Interest And Dividends	Yield/ Cost	
	(Dollars in thousands)						
Interest-earning assets:							
Loans	\$261,697	\$ 9,519	4.85	% \$210,794	\$ 8,059	5.10	%
Mortgage-backed securities	4,889	102	2.78	6,691	143	2.85	
Other securities	7,850	22	0.37	2,495	9	0.48	
Other interest-earning assets	18,346	237	1.72	12,870	210	2.18	
Total interest-earning assets	292,782	9,880	4.50	232,850	8,421	4.82	
Less: Allowance for loan losses	(1,376 )			(935 )			
Non-interest-earning assets	29,710			26,797			
Total assets	\$321,116			\$258,712			
Interest-bearing liabilities:							
Demand deposits	\$8,501	\$ 22	0.35	% \$12,134	\$ 30	0.33	%
Savings	67,235	180	0.36	45,625	166	0.48	
Certificates of deposit	150,814	839	0.74	107,328	723	0.90	
Total deposits	226,550	1,041	0.61	165,087	919	0.74	
Borrowings	21,175	217	1.37	30,660	336	1.46	
Total interest-bearing liabilities	247,725	1,258	0.68	195,747	1,255	0.86	
Noninterest-Bearing demand deposits	3,639			1,364			
Noninterest-bearing liabilities	2,279			2,307			
Total liabilities	253,643			199,418			
Shareholders' equity	67,473			59,294			

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Total liabilities and shareholders' equity	\$321,116			\$258,712		
Net interest income/average yield	\$ 8,622	3.82	%	\$ 7,166	3.96	%
Net interest margin		3.93	%		4.10	%
Average interest-earning assets to average interest-bearing liabilities		118.19	%		118.96	%

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

The following table represents the average balance sheets for the three month periods ended March 31, 2014 and 2012, along with the related calculations of net interest income, net interest margin and net interest spread for the related periods.

	Three Months Ended March 31, 2014			2013			
	Average Balance	Interest And Dividends	Yield/ Cost	Average Balance	Interest And Dividends	Yield/ Cost	
	(Dollars in thousands)						
Interest-earning assets:							
Loans	\$254,815	\$ 3,137	4.92	% \$270,154	\$ 3,451	5.11	%
Mortgage-backed securities	4,433	32	2.89	8,967	46	2.05	
Other securities	7,556	8	0.42	7,484	9	0.48	
Other interest-earning assets	14,644	77	2.10	23,465	76	1.30	
Total interest-earning assets	281,448	3,254	4.62	310,070	3,582	4.62	
Less: Allowance for loan losses	(1,424 )			(1,178 )			
Non-interest-earning assets	30,234			30,027			
Total assets	\$310,258			\$338,919			
Interest-bearing liabilities:							
Demand deposits	\$4,147	\$ 7	0.68	% \$12,187	\$ 16	0.53	%
Savings	70,430	58	0.33	62,646	46	0.29	
Certificates of deposit	143,133	247	0.69	157,808	277	0.70	
Total deposits	217,710	312	0.57	232,641	339	0.58	
Borrowings	20,166	65	1.29	39,231	105	1.04	
Total interest-bearing liabilities	237,876	377	0.63	271,872	441	0.65	
Noninterest-Bearing demand deposits	3,478			1,364			
Noninterest-bearing liabilities	1,904			1,644			
Total liabilities	243,258			274,880			
Shareholders' equity	67,000			64,039			

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Total liabilities and shareholders' equity	\$310,258			\$338,919		
Net interest income/average yield	\$ 2,877	3.99	%	\$ 3,141	3.97	%
Net interest margin		4.09	%		4.05	%
Average interest-earning assets to average interest-bearing liabilities		118.32	%		114.05	%

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**Kentucky First Federal Bancorp**

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

**AND RESULTS OF OPERATIONS (continued)**

Discussion of Financial Condition Changes from June 30, 2013 to March 31, 2014

**Assets:** At March 31, 2014, the Company's assets totaled \$306.1 million, a decrease of \$18.0 million, or 5.5%, from total assets of \$324.1 million at June 30, 2013. This decrease was attributed primarily to decreases in loans, cash and cash equivalents and Federal Home Loan Bank stock.

**Cash and cash equivalents:** Cash and cash equivalents decreased by \$3.6 million or 21.5% to \$13.0 million at March 31, 2014, as excess liquidity was utilized to repay borrowings.

**Loans:** Loans receivable, net, decreased by \$11.3 million or 4.3% to \$251.2 million at March 31, 2014, due primarily to low levels of loan demand and loan payoffs received. Also, due to historically low interest rates, many home mortgages have been refinanced to long-term, fixed rate loans either with other lenders or with our banks to be sold into the secondary market. Management continues to look for high-quality loans to add to its portfolio and will continue to emphasize loan originations to the extent that it is profitable, prudent and consistent with our interest rate risk strategies. However, loan demand continues in its weakened state 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 stronger footing.

**Non-Performing Loans:** At March 31, 2014, the Company had non-performing loans (loans 90 or more days past due or on nonaccrual status) of approximately \$7.8 million, or 3.09% of total loans (including loans purchased in the acquisition), compared to \$8.0 million or 3.04%, of total loans at June 30, 2013. The Company's allowance for loan losses totaled \$1.5 million and \$1.3 million at March 31, 2014, and June 30, 2013, respectively. The allowance for loan losses at March 31, 2014, represented 18.8% of nonperforming loans and 0.58% of total loans (including loans purchased in the acquisition), while at June 30, 2013, the allowance represented 16.4% of nonperforming loans and 0.50% of total loans.

The Company had \$14.9 million in assets classified as substandard for regulatory purposes at March 31, 2014, including loans (\$13.1 million) and real estate owned ("REO") (\$1.8 million), including both loans and REO acquired in the CKF Bancorp transaction. Classified loans as a percentage of total loans (including loans acquired on December 31, 2012) was 5.2% and 6.2% at March 31, 2014 and June 30, 2013, respectively. Of substandard loans, 99% were secured by real estate on which the Banks have priority lien position.





**Kentucky First Federal Bancorp****MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION****AND RESULTS OF OPERATIONS (continued)**Discussion of Financial Condition Changes from June 30, 2013 to March 31, 2014 (continued)

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

(dollars in thousands) March 31, 2014 June 30, 2013

Substandard assets	\$ 14,879	\$ 16,315
Doubtful assets	—	—
Loss assets	—	—
Total classified assets	\$ 14,879	\$ 16,315

At March 31, 2014 all substandard loans were secured by real property on which the banks have priority lien position except for three loans totaling \$48,000, which were secured by business inventory, and four unsecured consumer loans, which totaled \$19,000. The table below summarizes substandard loans (including substandard loans purchased at December 31, 2012) at the dates indicated:

	March 31, 2014		June 30, 2013	
	Number of Property	Net Carrying Value	Number of Property	Net Carrying Value
(dollars in thousands)				
Single family, owner occupied	99	\$ 6,866	69	\$ 5,404
Single family, duplex	—	—	1	37
Single family, non-owner occupied	32	2,404	37	2,477
Two- to four-family, non-owner occupied	5	868	9	1,915
Multi-family	—	—	14	1,550
Nonresidential real estate	8	1,832	9	2,846
Commercial nonmortgage	3	48	4	118
Land	5	1,000	6	771
Consumer	4	19	7	38
Total substandard loans	156	\$ 13,037	176	\$ 15,155



**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, 2013 to March 31, 2014 (continued)

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

	March 31, 2014		June 30, 2013	
	Number	Net	Number	Net
	of	Carrying	of	Carrying
	Property	Value	Property	Value
Single family, non-owner occupied	20	\$ 1,822	18	\$ 946
2-4 family, owner-occupied	—	—	2	167
5 or more family, non-owner-occupied	—	—	—	—
Building lot	3	20	4	50
Total REO	23	\$ 1,842	24	\$ 1,163

Although the Company sold several single-family, non-owner occupied REO properties during the nine month period and three were only two more properties at March 31, 2014 than at June 30, 2013, the carrying value of that class of properties increased \$876,000 or 92.6% to \$1.8 million. The REO properties acquired during the nine months just ended are more expensive properties than those held at June 30, 2013. Management does not believe this change represents a trend in our lending area.

At March 31, 2014, and June 30, 2013, the Company had \$4.4 million and \$5.0 million of loans classified as special mention, respectively (including loans purchased at December 31, 2012.) This category includes assets which do not currently expose us to a sufficient degree of risk to warrant classification, but do possess credit deficiencies or potential weaknesses deserving our close attention.

**Securities:** At March 31, 2014, the Company's investment securities had decreased \$2.3 million or 18.6% to \$10.1 million compared to June 30, 2013, due primarily to the maturity of \$1.0 million in agency bonds and principal repayment on mortgage-backed securities.

**Liabilities:** At March 31, 2014, the Company's liabilities totaled \$239.0 million, a decrease of \$18.5 million, or 7.2%, from total liabilities at June 30, 2013. The decrease in liabilities was attributed primarily to decreases in deposits and FHLB advances. Deposits decreased \$12.5 million or 5.4% to \$218.5 million at March 31, 2014, as certificate of deposit customers have sought higher yields elsewhere. FHLB advances decreased \$6.1 million or 25.0% from \$24.3 million at June 30, 2013 to \$18.2 million at March 31, 2014. We utilize excess liquidity to reduce liabilities when possible.

**Shareholders' Equity:** At March 31, 2014, the Company's shareholders' equity totaled \$67.1 million, an increase of \$506,000 or 0.8% from the June 30, 2013 total. The change in shareholders' equity is primarily associated with net profits for the period less dividends paid on common stock.

**Kentucky First Federal Bancorp**

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

**AND RESULTS OF OPERATIONS (continued)**

Discussion of Financial Condition Changes from June 30, 2013 to March 31, 2014 (continued)

The Company paid dividends of \$1.1 million or 74.5% of net income for the nine month period just ended. The Company received notice from the Federal Reserve Board on August 6, 2013, that there would be no objection to a waiver of dividends paid by Kentucky First Federal to First Federal MHC in the next twelve months. On July 9, 2013, the members of First Federal MHC for the second time approved a dividend waiver on annual dividends of up to \$0.40 per share of Kentucky First Federal Bancorp common stock. The Board of Directors of First Federal MHC applied for approval of another waiver. As a result, First Federal MHC will be permitted to waive the receipt of dividends for quarterly dividends up to \$0.10 per common share through the third quarter of 2014. The Board of Directors of First Federal MHC has called a special meeting of members to be held July 8, 2014, to consider waiving of dividends through the third quarter of 2015. Management believes that the Company has sufficient capital to continue the current dividend policy without affecting the well-capitalized status of either subsidiary bank. Management cannot speculate on future dividend levels, because various factors, including capital levels, income levels, liquidity levels, regulatory requirements and overall financial condition of the Company are considered before dividends are declared. However, management continues to believe that a strong dividend is consistent with the Company's long-term capital management strategy. See "Risk Factors" in Part II, Item 1A, of the Company's Annual Report on Form 10-K for the year ended June 30, 2013 for additional discussion regarding dividends.

Comparison of Operating Results for the Nine Month Periods Ended March 31, 2014 and 2013

General

Net income totaled \$1.5 million for the nine months ended March 31, 2014, a decrease of \$567,000 or 27.3% from net income of \$2.1 million for the same period in 2013. The decrease in net income was primarily attributable to a \$958,000 bargain purchase gain recognized in the 2013 period, which was a result of the acquisition of CKF Bancorp, Inc. ("CKF Bancorp"), on December 31, 2012. Only three months of CKF Bancorp operations are included in the Company's reported earnings for the 2013 period, while the Company's results of operations for the nine months ended March 31, 2014 include operations acquired from CKF Bancorp.

Net Interest Income

Net interest income after provision for loan losses increased \$1.5 million or 22.8% to \$8.1 million for the nine months recently ended compared to \$6.6 million for the nine months ended March 31, 2013, due primarily to the larger operation base resulting from the acquisition of CKF Bancorp. Provision for loan losses decreased \$48,000 or 8.3% to \$531,000 for the nine month period just ended compared to \$579,000 for the prior year period. Net interest income before provision for loan losses increased \$1.5 million or 20.3% to \$8.6 million for the recent period compared to the prior year period. Interest income increased \$1.5 million or 17.3%, to \$9.9 million, while interest expense increased only \$3,000 or 0.2% to \$1.3 million for the nine months ended March 31, 2014, after amortization of fair value adjustments on interest bearing accounts.

Interest income on loans increased \$1.5 million or 18.1% to \$9.5 million, due primarily to the CKF Bancorp acquisition. The average balance of loans outstanding increased \$50.9 million to \$261.7 million for the nine month period just ended, while the average rate earned on loans outstanding decreased 25 basis points to 4.85% for the period. Interest income on mortgage-backed residential securities ("MBS") decreased \$41,000 or 28.7% to \$102,000 for the nine months ended March 31, 2014, due both to a reduced rate earned and a reduction in the average balance. The rate earned on MBS decreased 7 basis points to 2.78% for the recently ended period. Other securities, primarily composed of agency bonds, were also acquired in the acquisition, and accounted for \$22,000 in interest income during the recent nine month period, compared to \$9,000 for the prior year period. The average balance of the other investment securities was \$7.9 million for the nine month period just ended and the average rate earned on those securities was 37 basis points. There were no sales of investments during the nine month period just ended.

**Kentucky First Federal Bancorp**

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

**AND RESULTS OF OPERATIONS (continued)**

Comparison of Operating Results for the Nine Month Periods Ended March 31, 2014 and 2013 (continued)

Net Interest Income (continued)

Interest expense on deposits increased \$122,000 or 13.3% to \$1.0 million for the nine month period ended March 31, 2014, due to the increase in average deposits outstanding. The increase in deposits was primarily attributed to the CKF Bancorp acquisition. Average deposits outstanding increased \$61.5 million or 37.2% to \$226.6 million for the recently ended nine month period, while the average rate paid on deposits declined from 13 basis points to 61 basis points for the current year period. Interest expense on borrowings decreased \$119,000 or 35.4% to \$217,000 for the nine month period ended March 31, 2014, compared to the prior year period. The decrease in interest expense on borrowings was attributed both to a lower rate paid on borrowings and a smaller average balance outstanding. The average rate paid on borrowings decreased 9 basis points to 1.37% for the recently ended nine month period, while the average balance of borrowings outstanding decreased \$9.5 million or 30.9% to \$21.2 million.

Net interest margin decreased from 4.10% for the prior year period to 3.93% for the nine months ended March 31, 2014.

Provision for Losses on Loans

The Company recorded \$531,000 in provision for losses on loans during the nine months ended March 31, 2014, compared to a provision of \$579,000 for the nine months ended March 31, 2013. Although management believes the provision for loan losses is adequate, there can be no assurance that the loan loss allowance will be sufficient 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 \$319,000 for the nine months ended March 31, 2014, a decrease of \$916,000 or 72.4% from the same period in 2013. The decrease in non-interest income was primarily attributable to a \$958,000 bargain purchase gain recognized in the 2013 period, which was a result of the CKF Bancorp acquisition. Also contributing to the decrease was lower net gains on sales of loans, which decreased \$87,000 or 61.3% to \$55,000 for the nine months just ended. The Company had both fewer loans and lower dollar volume of long-term, fixed rate loans that it sold to the FHLB during the period due to lower customer demand. The amount of gain realized on each loan was smaller in the period just ended than the prior period due to margin compression, which was associated with a recent rise in long-term mortgage rates. Other income increased \$107,000 or 80.5% to \$240,000 for the nine month period just ended, primarily attributable to fees earned on deposit accounts acquired from CKF Bancorp. Other real estate owned represented net charges of \$44,000 for the nine month period ended March 31, 2014, compared to net charges of \$65,000 in the prior year period. Included in the net charges for other real estate owned for the nine months ended March 31, 2014, were valuation adjustments on REO of \$34,000 in addition to the net loss on sale of REO of \$10,000.

**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, 2014 and 2013 (continued)

Non-interest Expense

Non-interest expense totaled \$6.1 million and \$4.9 million for the nine months ended March 31, 2014 and 2013, respectively, an increase of \$1.3 million or 26.4% period to period. The increase was primarily related to higher costs associated with normal operations of the CKF Bancorp acquisition. Employee compensation and benefits increased \$922,000 or 30.9% due to additional personnel hired with the acquisition, as well as higher retirement expense. Foreclosure and OREO expenses (net) was \$107,000 for the recently ended nine month period compared to net charges of \$17,000 for the prior year period. Somewhat offsetting the increases in non-interest expenses due to increased size of operation, outside service fees and legal fees decreased \$148,000 and \$143,000, respectively, period to period. Outside service and legal fees incurred in the prior year period were primarily associated with the CKF Bancorp acquisition.

Federal Income Tax Expense

Federal income taxes expense totaled \$755,000 for the nine months ended March 31, 2014, compared to \$884,000 in the prior year period. The effective tax rates were 33.3% and 29.8% for the nine month periods ended March 31, 2014 and 2013, respectively.

Comparison of Operating Results for the Three Month Periods Ended March 31, 2014 and 2013

General

Net income totaled \$491,000 for the three months ended March 31, 2014, a decrease of \$139,000 or 22.1% from net income of \$630,000 for the same period in 2013. The decrease was primarily attributable to lower net interest income.

Net Interest Income

Net interest income after provision for loan losses decreased \$181,000 or 6.1% to \$2.8 million for the three month period just ended compared to \$3.0 million for the prior year quarter. Net interest income before provision for loan losses decreased \$624,000 or 8.4% to \$2.9 million for the quarter ended March 31, 2014. Provision for losses on loans decreased \$83,000 to \$78,000 for the recently-ended quarter compared to a provision of \$161,000 in the prior year period. Interest income decreased by \$328,000, or 9.2%, to \$3.3 million, while interest expense decreased only \$64,000 or 14.5% to \$377,000 for the three months ended March 31, 2014, after amortization of fair value adjustments on interest bearing accounts.

Interest income on loans decreased \$314,000 or 9.1% to \$3.1 million, due to a decrease in the average size of the loan portfolio. The average balance of loans outstanding for the three month period ended March 31, 2014, decreased \$15.3 million to \$254.8 million, while the average rate earned decreased 19 basis points to 4.92% for the period. Interest income on mortgage-backed residential securities decreased \$14,000 or 30.4% to \$32,000 for the three months ended March 31, 2014, as a result of reduced volume, as securities matured and principal from mortgage-backed securities flowed back to the Company. There were no sales of investments during the three month periods ended March 31, 2014 or 2013.

**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, 2014 and 2013

(continued)

Interest expense on deposits decreased \$27,000 or 8.0% to \$312,000 for the three month period ended March 31, 2014, while interest expense on borrowings decreased \$37,000 or 36.3% to \$65,000 for the same period. The decrease in interest expense on deposits was attributed to a decrease in the average balance of deposits. The average balance of deposits decreased \$14.9 million to \$217.7 million for the most recent period, while the average rate paid on deposits decreased 1 basis point to 0.57%. The decrease in average deposits was attributed to depositors withdrawing funds in search for higher yields on their funds. The decrease in interest expense on borrowings was attributed to lower average outstanding balances. The average balance of borrowings outstanding decreased \$19.1 million or 48.6% to \$20.2 million for the recently ended three month period, while the average rate paid on borrowings increased 25 basis points to 1.29% for the most recent period.

Net interest margin increased from 4.05% for the prior year quarterly period to 4.09% for the quarter ended March 31, 2014.

Provision for Losses on Loans

The Company recorded \$78,000 in provision for losses on loans during the three months ended March 31, 2014, compared to a \$161,000 provision for the three months ended March 31, 2013. 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 Three Month Periods Ended March 31, 2014 and 2012 (continued)

Non-interest Income

Non-interest income totaled \$107,000 for the three months ended March 31, 2014, a decrease of \$2,000 from the same period in 2013.

Non-interest Expense

Non-interest expense totaled \$2.1 million for each of the three months ended March 31, 2014 and 2013. Increases of \$82,000 or 6.2% in employee compensation and benefits and \$23,000 or 29.9% in auditing and accounting were more than offset by efficiencies created by and expenses related to the CKF Bancorp acquisition. In addition to routine increases for existing personnel, the Company has hired additional staff to handle additional regulatory compliance issues. Legal fees decreased \$71,000 or 87.7% to \$10,000 for the recently ended period. The prior year period included legal fees associated with the CKF Bancorp acquisition. Cost savings were realized as a result of the CKF Bancorp acquisition in areas such as data processing, FDIC insurance premiums and occupancy and equipment, which totaled \$32,000, \$20,000 and \$15,000, respectively, for the three months ended March 31, 2014.

Federal Income Tax Expense

Federal income taxes expense totaled \$303,000 for the three months ended March 31, 2014, compared to \$320,000 in the prior year period. The effective tax rates were 38.2% and 33.7% for the three-month periods ended March 31, 2014 and 2013, respectively.

**Kentucky First Federal Bancorp**

ITEM 3: Quantitative and Qualitative Disclosures About Market Risk

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

ITEM 4: Controls and Procedures

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

The Company's Chief Executive Officer and Chief Financial Officer have also concluded that there were no significant changes during the quarter ended March 31, 2014, in the Company's internal control over financial reporting or in other factors that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**Kentucky First Federal Bancorp**

## PART II

ITEM 1. Legal Proceedings

None.

ITEM 1A. Risk Factors

There have been no material changes in the risk factors disclosed in our Annual Report on Form 10-K for the fiscal year ended June 30, 2013.

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, 2014.

Period	Total # of shares purchased	Average price paid per share (incl commissions)	Total # of shares purchased as part of publicly announced plans or programs	Maximum # of shares that may yet be purchased under the plans or programs
January 1-31, 2014	—	\$ —	—	150,000
February 1-28, 2014	5,000	\$ 8.32	5,000	145,000
March 1-31, 2014	—	\$ —	—	145,000

(1) On January 16, 2014, the Company announced the completion of the stock repurchase program begun on May 14, 2010 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. Mine Safety Disclosures.

Not applicable.

ITEM 5. Other Information

None.

ITEM 6. Exhibits

3.1<sup>1</sup> Charter of Kentucky First Federal Bancorp

3.2<sup>1</sup> Bylaws of Kentucky First Federal Bancorp, as amended and restated

4.1<sup>1</sup> Specimen Stock Certificate of Kentucky First Federal Bancorp

31.1 CEO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 CFO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1 CEO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2 CFO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

101.0 The following materials from Kentucky First Federal Bancorp's Quarterly Report on Form 10-Q for the quarter ended March 31, 2014 formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Income; (iii) the Consolidated Statements of Comprehensive Income; (iv) the Consolidated Statements of Cash Flows; and (v) the related Notes.

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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 15, 2014 By: /s/ Don D. Jennings  
Don D. Jennings  
Chief Executive Officer

Date: May 15, 2014 By: /s/ R. Clay Hulette  
R. Clay Hulette  
Vice President and Chief Financial Officer