

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

**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, 2008 \_\_\_\_\_

OR

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

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

Commission File Number: 0-51176

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

United States of America  
(State or other jurisdiction of  
incorporation or organization)

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

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

(606) 436-3860  
(Registrant's telephone number, including area  
code)

(Former name, former address and former fiscal  
year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months or such shorter period that the issuer was required to file such reports and (2) has been subject to such filing requirements for the past ninety days: Yes  No

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

Large accelerated filer

Accelerated filer

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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 9, 2008, the latest practicable date, the Corporation had 7,655,164 shares of \$.01 par value common stock outstanding.

1

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INDEX

	<u>Page</u>
PART I ITEM 1	
-	
FINANCIAL INFORMATION	
Statements of Financial Condition	3
Statements of Earnings	4
Statements of Comprehensive Income	5
Statements of Cash Flows	6
Notes to Financial Statements	8
ITEM 2	
Management's Discussion and Analysis of Financial Condition and Results of Operations	13
ITEM 3	
Quantitative and Qualitative Disclosures About Market Risk	18
ITEM 4	
Controls and Procedures	18
PART OTHER INFORMATION	19
II -	
SIGNATURES	21

## PART I

ITEM 1: Financial Information**Kentucky First Federal Bancorp****CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION**

(In thousands, except per share data)

<b>ASSETS</b>	<b>March 31, 2008 (Unaudited)</b>	<b>June 30, 2007</b>
Cash and due from banks	\$ 1,133	\$ 1,179
Interest-bearing deposits in other financial institutions	16,720	1,541
Cash and cash equivalents	17,853	2,720
Interest-bearing deposits	100	100
Available-for-sale securities	13,659	13,298
Held-to-maturity securities, at amortized cost - approximate fair value of \$17,396 and \$57,835 at March 31, 2008 and June 30, 2007, respectively	17,528	59,606
Loans available for sale	265	-
Loans receivable	177,655	166,876
Allowance for loan losses	(666)	(720)
	176,989	166,156
Real estate acquired through foreclosure	35	8
Office premises and equipment - at depreciated cost	2,745	2,762
Federal Home Loan Bank stock - at cost	5,492	5,421
Accrued interest receivable	805	935
Bank-owned life insurance	2,320	2,256
Goodwill	14,507	14,507
Intangible assets-net	513	612
Prepaid expenses and other assets	261	276
Prepaid federal income taxes	441	259
<b>Total assets</b>	<b>\$ 253,513</b>	<b>\$ 268,916</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Deposits	\$ 137,316	\$ 139,893
Advances from the Federal Home Loan Bank	53,564	65,132
Advances by borrowers for taxes and insurance	200	343
Accrued interest payable	302	365
Deferred federal income taxes	1,179	930
Other liabilities	641	808
<b>Total liabilities</b>	<b>193,202</b>	<b>207,471</b>
Commitments	-	-
Shareholders' equity		

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Preferred stock, 500,000 shares authorized, \$.01 par value; no shares issued	-	-
Common stock, 20,000,000 shares authorized \$.01par value; 8,596,064 shares issued	86	86
Additional paid-in capital	35,806	35,459
Retained earnings	32,284	32,291
Shares acquired by stock benefit plans	(2,781)	(3,013)
Treasury shares at cost, 506,830 and 299,430 shares at March 31, 2008 and June 30, 2007, respectively	(5,172)	(3,091)
Accumulated other comprehensive gain (loss)	88	(287)
Total shareholders' equity	60,311	61,445
Total liabilities and shareholders' equity	\$ 253,513	\$ 268,916

See Notes to Consolidated Financial Statements.

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

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

	Nine months ended		Three months ended	
	March 31,		March 31,	
	2008	2007	2008	2007
<b>Interest income</b>				
Loans	\$ 7,873	\$ 7,290	\$ 2,669	\$ 2,470
Mortgage-backed securities	507	588	165	187
Investment securities	1,305	1,496	319	496
Interest-bearing deposits and other	303	285	98	98
<b>Total interest income</b>	<b>9,988</b>	<b>9,659</b>	<b>3,251</b>	<b>3,251</b>
<b>Interest expense</b>				
Deposits	3,729	3,325	1,205	1,160
Borrowings	2,206	2,155	622	733
<b>Total interest expense</b>	<b>5,935</b>	<b>5,480</b>	<b>1,827</b>	<b>1,893</b>
<b>Net interest income</b>	<b>4,053</b>	<b>4,179</b>	<b>1,424</b>	<b>1,358</b>
Provision for losses on loans	12	-	12	-
<b>Net interest income after provision for losses on loans</b>	<b>4,041</b>	<b>4,179</b>	<b>1,412</b>	<b>1,358</b>
<b>Other operating income</b>				
Earnings on bank-owned life insurance	64	62	21	21
Gain on sale of loans	10	9	7	6
Loss on sale of real estate acquired through foreclosure	-	(6)	-	-
Other operating	59	69	17	24
<b>Total other income</b>	<b>133</b>	<b>134</b>	<b>45</b>	<b>51</b>
<b>General, administrative and other expense</b>				
Employee compensation and benefits	2,200	2,314	710	732
Occupancy and equipment	259	253	90	88
Franchise taxes	117	125	39	39
Data processing	117	113	45	44
Other operating	567	555	188	197
<b>Total general, administrative and other expense</b>	<b>3,260</b>	<b>3,360</b>	<b>1,072</b>	<b>1,100</b>
<b>Earnings before income taxes</b>	<b>914</b>	<b>953</b>	<b>385</b>	<b>309</b>
<b>Federal income taxes</b>				

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Current	137	149	68	74
Deferred	153	155	56	24
Total federal income taxes	290	304	124	98
<b>NET EARNINGS</b>	<b>\$ 624</b>	<b>\$ 649</b>	<b>\$ 261</b>	<b>\$ 211</b>
<b>EARNINGS PER SHARE</b>				
Basic	<b>\$ 0.08</b>	<b>\$ 0.08</b>	<b>\$ 0.03</b>	<b>\$ 0.02</b>
Diluted	<b>\$ 0.08</b>	<b>\$ 0.08</b>	<b>\$ 0.03</b>	<b>\$ 0.02</b>
<b>DIVIDENDS PER SHARE</b>	<b>\$ 0.30</b>	<b>\$ 0.30</b>	<b>\$ 0.10</b>	<b>\$ 0.10</b>

See Notes to Consolidated Financial Statements.

**Kentucky First Federal Bancorp****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**(Unaudited)  
(In thousands)

	<b>Nine months ended</b>		<b>Three months ended</b>	
	<b>March 31,</b>		<b>March 31,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Net earnings	\$ 624	\$ 649	\$ 261	\$ 211
Other comprehensive income, net of taxes (benefits):				
Unrealized holding gains (losses) on securities during the period, net of taxes (benefits) of \$193, \$132, \$79 and \$23 during the respective periods	375	256	153	44
Comprehensive income	\$ 999	\$ 905	\$ 414	\$ 255
Accumulated comprehensive gain (loss)	\$ 88	\$ (280)	\$ 88	\$ (280)

See Notes to Consolidated Financial Statements.



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

For the nine months ended March 31,  
(Unaudited)  
(In thousands)

	2008	2007
Cash flows from operating activities:		
Net earnings for the period	\$ 624	\$ 649
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Amortization of discounts and premiums on loans, investments and mortgage-backed securities - net	1	(17)
Amortization of deferred loan origination fees	(34)	(22)
Amortization of purchase accounting adjustments-net	(299)	(308)
Depreciation and amortization	108	113
Amortization of stock benefit plans	670	592
(Gain) loss on sale of real estate acquired through foreclosure	-	6
Provision for losses on loans	12	-
Federal Home Loan Bank stock dividends	(71)	(157)
Bank-owned life insurance earnings	(64)	(62)
Mortgage loans originated for sale	(1,100)	(528)
Gain on sale of loans	(10)	(9)
Proceeds from sale of mortgage loans	845	531
Increase (decrease) in cash, due to changes in:		
Accrued interest receivable	130	(203)
Prepaid expenses and other assets	15	(32)
Accrued interest payable	(63)	101
Other liabilities	(8)	(93)
Federal income taxes		
Current	(182)	(57)
Deferred	56	155
Net cash provided by operating activities	630	659
Cash flows provided by (used in) investing activities:		
Investment securities maturities, prepayments and calls:		
Held to maturity	42,078	3,826
Available for sale	207	299
Proceeds from sale of real estate acquired through foreclosure	-	144
Loan principal repayments	29,401	20,497
Loan disbursements	(40,239)	(29,783)
Purchase of office equipment	(91)	(38)
Net cash provided by (used in) investing activities	31,356	(5,055)
Cash flows provided by (used in) financing activities:		
Net decrease in deposit accounts	(2,577)	(2,139)
Proceeds from Federal Home Loan Bank advances	21,600	107,750
Repayment of Federal Home Loan Bank advances	(32,771)	(98,582)

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Advances by borrowers for taxes and insurance	(143)	(151)
Dividends paid on common stock	(881)	(1,123)
Purchase of shares for treasury	(2,081)	(1,885)
Net cash provided by (used in) financing activities	(16,853)	3,870
Net increase (decrease) in cash and cash equivalents	15,133	(526)
Cash and cash equivalents at beginning of period	2,720	2,294
Cash and cash equivalents at end of period	\$ 17,853	\$ 1,768

See Notes to Consolidated Financial Statements.

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

For the nine months ended March 31,  
(Unaudited)  
(In thousands)

	<b>2008</b>	<b>2007</b>
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Federal income taxes	\$ 165	\$ 135
Interest on deposits and borrowings	\$ 6,493	\$ 5,785
Transfers from loans to real estate acquired through foreclosure, net	\$ 27	-

See Notes to Consolidated Financial Statements.

**Kentucky First Federal Bancorp**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the nine- and three-month periods ended March 31, 2008 and 2007

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

1. Basis of Presentation

The accompanying unaudited consolidated financial statements, which represent the consolidated financial condition and results of operations of the Company, were prepared in accordance with the instructions for Form 10-Q and, therefore, do not include information or footnotes necessary for a complete presentation of financial position, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America. However, in the opinion of management, all adjustments (consisting of only normal recurring accruals) which are necessary for a fair presentation of the consolidated financial statements have been included. The results of operations for the nine- and three-month periods ended March 31, 2008, are not necessarily indicative of the results which may be expected for an entire fiscal year. The consolidated balance sheet as of June 30, 2007 has been derived from the audited consolidated balance sheet as of that date.

2. Principles of Consolidation

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

3. Critical Accounting Policies

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

The allowance for loan losses is the estimated amount considered necessary to cover probable incurred credit losses in the loan portfolio at the balance sheet date. The allowance is established through the provision for losses on loans which is charged against income. In determining the allowance for loan losses, management makes significant

estimates and has identified this accounting policy as one of the most critical for the Company.

8

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**Kentucky First Federal Bancorp**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the nine- and three-month periods ended March 31, 2008 and 2007

3. Critical Accounting Policies (continued)

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

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

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

Core deposit intangibles represent the value of long-term deposit relationships and are amortized over their estimated useful lives. The Company annually evaluates these estimated useful lives. If the Company determines that events or

circumstances warrant a change in these estimated useful lives, the Company will adjust the amortization of the core deposit intangibles, which could affect future amortization expense.

**Kentucky First Federal Bancorp****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the nine- and three-month periods ended March 31, 2008 and 2007

4. Earnings Per Share

Basic earnings per share is computed based upon the weighted-average common shares outstanding during the period less shares in the Company's ESOP that are unallocated and not committed to be released. Weighted average common shares deemed outstanding give effect to 282,484 unallocated ESOP shares for the nine- and three-month periods ended March 31, 2008, and 301,262 unallocated ESOP shares for the nine- and three-month periods ended March 31, 2007.

	<b>Nine months ended March 31, 2008</b>	<b>Three months ended March 31, 2008</b>
Weighted-average common shares outstanding (basic)	7,752,619	7,693,955
Dilutive effect of assumed exercise of stock options	-	-
Weighted-average common shares outstanding (diluted)	<b>7,752,619</b>	<b>7,693,955</b>
	<b>Nine months ended March 31, 2007</b>	<b>Three months ended March 31, 2007</b>
Weighted-average common shares outstanding (basic)	8,021,626	7,985,234
Dilutive effect of assumed exercise of stock options	--	--
Weighted-average common shares outstanding (diluted)	<b>8,021,626</b>	<b>7,985,234</b>

There were 339,200 and 347,600 unexercised options representing non-dilutive shares outstanding for the nine- and three-month periods ended March 31, 2008 and 2007, respectively.



**Kentucky First Federal Bancorp****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the nine- and three-month periods ended March 31, 2008 and 2007

**5. Recent Accounting Pronouncements**

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

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

The following financial statement line items for the nine months ended March 31, 2008 were affected by the change in accounting principle.

	March 31, 2008 (in thousands)		
	As Computed Pre-FIN 48	As Reported Under FIN 48	Effect of Change
<i>Balance Sheet</i>			
Refundable income taxes	\$ 191	\$ 441	\$ 250
Retained earnings	32,034	32,284	250

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

**Kentucky First Federal Bancorp**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the nine- and three-month periods ended March 31, 2008 and 2007

5. Recent Accounting Pronouncements (continued)

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

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

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

6. Commitments

As of March 31, 2008, loan commitments and unused lines of credit totaled \$12.5 million, including \$1.2 million in undisbursed construction loans, \$1.7 million in one- to four-family mortgage loans and \$9.7 million in lines of credit secured by equity in real property.

**Kentucky First Federal Bancorp**

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

Forward-Looking Statements

Certain statements contained in this report that are not historical facts are forward-looking statements that are subject to certain risks and uncertainties. When used herein, the terms "anticipates," "plans," "expects," "believes," 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, and rapidly changing technology affecting financial services.

Discussion of Financial Condition Changes from June 30, 2007 to March 31, 2008

**Assets:** At March 31, 2008, the Company's assets totaled \$253.5 million, a decrease of \$15.4 million, or 5.7%, from total assets at June 30, 2007. The primary reason for the decrease in assets was the maturity and or call of \$42.1 million, or 70.6%, of held-to-maturity securities, which decreased to \$17.5 million at March 31, 2008. Somewhat offsetting the decrease in held-to-maturity securities was an increase of \$10.8 million, or 6.5%, in loans receivable. It is management's intention to deploy maturing or called investments into mortgage loans to the extent possible.

**Cash and cash equivalents:** Cash and cash equivalents increased \$15.1 million to \$17.9 million at March 31, 2008, as a result of the of the Company's unusually high level of calls on investment securities. It is the Company's preference to minimize the level of cash and cash equivalents and invest liquidity into higher-yielding assets, when possible. However, given the rapid influx of liquidity, it will take some time before excess liquidity can be deployed.

**Loans:** Loans receivable, net, increased to \$177.0 million at March 31, 2008, an increase of \$10.8 million or 6.5%. Management believes that the successful redeployment of the Company's funds from lower-yielding cash, cash equivalents and investment securities to higher-yielding mortgage loans is important for the long-term success of the Company. The Company will continue to emphasize loan originations to the extent that it is profitable and prudent.

**Non-Performing Loans:** At March 31, 2008, the Company had approximately \$1.2 million, or 0.7% of net loans, in loans 90 days or more past due, compared to \$968,000, or 0.6%, of net loans at June 30, 2007. At March 31, 2008, the Company's allowance for loan losses of \$666,000 represented 53.8% of nonperforming loans and 0.4% of total loans.

The Company had \$1.7 million in loans classified as substandard for regulatory purposes at March 31, 2008. Classified loans as a percentage of net loans was 1.0% and 0.9% at March 31, 2008 and June 30, 2007, respectively. Substandard assets included 27 single-family home loans with loan-to-value ratios (percentage of loan balance to the original or an updated appraisal) ranging from 16% to 93%\*; three home equity loan second mortgages secured by single-family homes; and four single-family homes acquired through foreclosure (with an aggregate fair value of \$36,000). At March 31, 2008, the Company had \$719,000 in loans classified as special mention. This category includes assets which do not currently expose us to a sufficient degree of risk to warrant classification, but do possess credit deficiencies or potential weaknesses deserving our close attention. \*Of the substandard assets, one loan exceeded a 90% loan-to-value ratio and that loan is covered by private mortgage insurance.



**Kentucky First Federal Bancorp**

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

Discussion of Financial Condition Changes from June 30, 2007 to March 31, 2008 (continued)

***Non-Performing Loans (continued)***

At March 31, 2008, no loans were classified as doubtful or loss for regulatory purposes.

***Investment and Mortgage-Backed Securities:*** At March 31, 2008, the Company's investment and mortgage-backed securities had decreased \$41.7 million or 57.2% to \$31.2 million. This decrease was due primarily to the maturity and/or call of \$40.9 million of investment securities and repayment of principal on mortgage-backed securities which was partially offset by a net increase of \$361,000 in the market value of investments and mortgage-backed securities held as available for sale. Since March 31, 2008, no investments have been called. Approximately \$16.0 million of the Company's remaining investment and agency securities are scheduled to mature within the next three years.

***Liabilities:*** At March 31, 2008, the Company's liabilities totaled \$193.2 million, a decrease of \$14.3 million, or 6.9%, from total liabilities at June 30, 2007. The decrease in liabilities was attributed primarily to an \$11.6 million, or 17.8%, decrease in Federal Home Loan Bank advances, which decreased to \$53.6 million at March 31, 2008. Somewhat supplementing the decrease in advances was a decrease of \$2.6 million or 1.8%, in deposits, which totaled \$137.3 million at March 31, 2008. Of the \$53.6 million in advances, approximately \$13.0 million were in overnight advances. As stated previously, management plans to continue reducing the level of Federal Home Loan Bank advances as lower-yielding investment securities mature over the next three years.

***Shareholders' Equity:*** At March 31, 2008, the Company's shareholders' equity totaled \$60.3 million, a decrease of \$1.1 million or 1.8% from the June 30, 2007 total. The primary reason for the decrease in shareholders' equity is the acquisition of \$2.1 million of treasury shares at an average cost of \$10.03 per share.

Comparison of Operating Results for the Nine-Month Periods Ended March 31, 2008 and 2007

General

Net earnings totaled \$624,000 for the nine months ended March 31, 2008, a decrease of \$25,000, or 3.9% from the \$649,000 in net earnings for the same period in 2007. The decrease was primarily attributable to a decline in net interest income.

Net Interest Income

Net interest income declined \$126,000 or 3.0% to \$4.1 million for the nine month period ended March 31, 2008, compared to the 2007 period, due to the cost of funds increasing at a faster pace than interest income. Interest income increased by \$329,000, or 3.4%, to \$10.0 million, while interest expense increased \$455,000 or 8.3% to \$5.9 million for the nine months ended March 31, 2008. The growth in interest expense was attributable to increased costs for both deposits and advances.

**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, 2008 and 2007 (continued)

Net Interest Income (continued)

Interest expense on deposits increased \$404,000 or 12.2% to \$3.7 million, while interest expense on advances increased \$51,000, or 2.4%, to \$2.2 million for the 2008 period compared to the prior year period. The increase in interest expense on deposits was due primarily to an increase in the average rate paid on deposits as the average balance of deposits outstanding declined for the nine-month periods year over year. The average rate paid on deposits increased 41 basis points to 3.69% for the nine month period ended March 31, 2008, while the average balance outstanding declined only \$32,000 to remain at \$139.1 million for the both periods. The increase in interest expense on advances was attributable to an increase in the average balance outstanding, as the average rate paid on those advances declined period to period. The average balance of advances outstanding increased \$4.7 million, or 7.7%, to \$65.8 million for the nine month period ended March 31, 2008. The average rate paid on advances decreased by 24 basis points to 4.47% for the 2008 nine month period. Net interest margin decreased by 16 basis points to 2.15% for the nine months ended March 31, 2008, compared to 2.31% for the comparable 2008 period.

Provision for Losses on Loans

The Company charges a provision for losses on loans to earnings to bring the total allowance for loan losses to a level considered appropriate by management based on historical experience, the volume and type of lending conducted by the Banks, the status of past due principal and interest payments, general economic conditions, particularly as such conditions relate to the Banks' market areas and other factors related to the collectibility of the Banks' loan portfolio. The Company recorded a provision for losses on loans of \$12,000 during the nine months ended March 31, 2008, while no provision was recorded for the nine months ended March 31, 2007. Based on management's analysis of the loan portfolio, it was determined that the Allowance for Loan and Lease Losses was slightly underfunded and an addition during the three months ended March 31, 2008 was appropriate. Still, the overall level of nonperforming loans, discussed above (See "Critical Accounting Policies,") remains relatively stable. There can be no assurance that the loan loss allowance will be adequate to absorb unidentified losses on loans in the portfolio, which could adversely affect the Company's results of operations.

Other Income

Other income totaled \$133,000 for the nine months ended March 31, 2008, a decrease of \$1,000 from the same period in 2007.

General, Administrative and Other Expense

General, administrative and other expense totaled \$3.3 million for the nine months ended March 31, 2008, a decrease of \$100,000, or 3.0%, compared to the same period in 2007. The decrease was due primarily to a decrease in employee compensation and benefits, which totaled \$2.2 million for the nine months ended March 31, 2008, a decrease of \$114,000, or 4.9%, from the same period in 2007. The decrease in employee compensation and benefits is primarily related to lower levels of retirement expense and slightly reduced employee health insurance cost.



**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, 2008 and 2007 (continued)

Federal Income Taxes

The provision for federal income taxes totaled \$290,000 for the nine months ended March 31, 2008, a decrease of \$14,000, or 4.6%, compared to the same period in 2007. The effective tax rates were 31.7% and 31.9% for the nine-month periods ended March 31, 2008 and 2007, respectively.

Comparison of Operating Results for the Three-Month Periods Ended March 31, 2008 and 2007

General

Net earnings totaled \$261,000 for the three months ended March 31, 2008, an increase of \$50,000, or 23.7% from the \$211,000 in net earnings for the same period in 2007. The increase was primarily attributable to an increase in net interest income and a slight decrease in general, administrative and other expense.

Net Interest Income

Net interest income increased \$66,000 or 4.9% to \$1.4 million for the three month period ended March 31, 2008, compared to the 2007 period, due to decreased cost of funds. Interest income stayed constant at \$3.3 million, while interest expense decreased \$66,000 or 3.5% to \$1.8 million for the three months ended March 31, 2008. The decrease in interest expense was attributable primarily to decreased costs for advances.

Interest expense on deposits increased \$45,000 or 3.9% to \$1.2 million, while interest expense on advances decreased \$111,000, or 15.1%, to \$622,000 for the 2008 quarter compared to the prior year quarter. The increase in interest expense on deposits was due an increase in the average rate paid on deposits, as the average balance of deposits outstanding declined for the quarterly periods year over year. The average rate paid on deposits increased 9 basis points to 3.52% for the three month period ended March 31, 2008, while the average balance outstanding declined 0.1% to \$137.7 million for the current quarter. The decrease in interest expense on advances was attributable to both a decrease in the average balance outstanding as well as a decrease in the average rate paid. On those advances. The average balance of advances outstanding decreased \$1.9 million, or 3.1%, to \$61.0 million for the three month period ended March 31, 2008. The average rate paid on advances decreased 58 basis points to 4.1% for the 2008 quarter. Net interest margin increased by 14 basis points to 2.38% for the three months ended March 31, 2008, compared to 2.24% for the comparable 2007 quarter.

Provision for Losses on Loans

The Company charges a provision for losses on loans to earnings to bring the total allowance for loan losses to a level considered appropriate by management based on historical experience, the volume and type of lending conducted by the Banks, the status of past due principal and interest payments, general economic conditions, particularly as such conditions relate to the Banks' market areas and other factors related to the collectibility of the Banks' loan portfolio. The Company recorded a provision for losses on loans of \$12,000 during the three months ended March 31, 2008. The Company recorded no provision during the three months ended March 31, 2007. Based on management's analysis of the loan portfolio, it was determined that the Allowance for Loan and Lease Losses was slightly underfunded and an



addition during the three months ended March 31, 2008 was appropriate. Still, the overall level of nonperforming loans, discussed above (See "Critical Accounting Policies,") remains relatively stable. 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, 2008 and 2007 (continued)

Other Income

Other income totaled \$45,000 for the three months ended March 31, 2008, a decrease of \$6,000 from the same period in 2007. The decrease in the 2008 period is attributable to a nonreoccurring gain on sale of real estate acquired through foreclosure, which was recognized in the 2007 period.

General, Administrative and Other Expense

General, administrative and other expense totaled \$1.1 million for the three months ended March 31, 2008, a decrease of \$28,000, or 2.5%, compared to the same period in 2007. This decrease was due primarily to a decrease in employee compensation and benefits, which totaled \$710,000 for the three months ended March 31, 2008, a decrease of \$22,000, or 3.0%, from the same period in 2007. The decrease in employee compensation and benefits is related to lower retirement expense. The Company has experienced somewhat favorable results with regard to its defined benefit retirement plan, which has translated into lower cost recognition.

Federal Income Taxes

The provision for federal income taxes totaled \$124,000 for the three months ended March 31, 2008, an increase of \$26,000, or 26.5%, compared to the same period in 2007. The effective tax rates were 32.2% and 31.7% for the three-month periods ended March 31, 2008 and 2007, respectively.

**Kentucky First Federal Bancorp**

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

ITEM 3: Quantitative and Qualitative Disclosures About Market Risk

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

ITEM 4: Controls and Procedures

The Company's Chief Executive Officer and Chief Financial Officer have evaluated the Company's disclosure controls and procedures (as defined under Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective. During the quarterly period ended March 31, 2008, there were no changes in the Company's internal control over financial reporting which materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

**Kentucky First Federal Bancorp**

## PART II

ITEM 1. Legal Proceedings

Not applicable.

ITEM 1A. Risk Factors

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

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

(c) The following table sets forth information regarding Company's repurchases of its common stock during the quarter ended March 31, 2008.

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, 2008	30,000	\$ 9.93	30,000	12,100
February 1-29, 2008	17,000	\$ 10.08	17,000	138,000
March 1-31, 2008	15,000	\$ 10.13	15,000	123,000

(1) On August 17, 2007, the Company announced a program to repurchase up to 150,000 shares of its Common Stock. This program was terminated on February 13, 2008 when the Company completed the repurchase of substantially all shares authorized under this program, and announced another program to repurchase up to 150,000 shares of its Common Stock.

ITEM 3. Defaults Upon Senior Securities

Not applicable.

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

None.

**Kentucky First Federal Bancorp**

PART II (continued)

ITEM 5.

Other Information

None.

ITEM 6.

Exhibits

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

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

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

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

20

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**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 14, 2008  
\_\_\_\_\_

By: /s/Tony D. Whitaker  
\_\_\_\_\_

Tony D. Whitaker  
Chairman of the Board and Chief  
Executive Officer

Date: May 14, 2008  
\_\_\_\_\_

By: /s/R. Clay Hulette  
\_\_\_\_\_

R. Clay Hulette  
Vice President and Chief Financial Officer