Kentucky First Federal Bancorp
Form 10-Q
May 15, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2012

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 incorporation or organization)	(I.R.S. Employer Identification No.)

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

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

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

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

Indicate by check mark whether the registrant 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 x 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 ¨ (Do not check if a smaller reporting company)	Smaller Reporting Company x

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

Yes ¨ No x

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: At May 10, 2012, the latest practicable date, the Corporation had 7,735,703 shares of $.01 par value common stock outstanding.

INDEX

PART I

ITEM 1: Financial Information

Kentucky First Federal Bancorp

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except per share data)

	March 31, 2012	June 30, 2011
ASSETS		
Cash and due from financial institutions	$ 1,743	$ 1,002
Interest-bearing demand deposits	2,563	4,047
Cash and cash equivalents	4,306	5,049
Interest-bearing deposits in other financial institutions	100	100
Securities available for sale	192	203
Securities held-to-maturity, at amortized cost- approximate fair value of $6,173 and $7,257 at March 31, 2012 and June 30, 2011, respectively	5,207	6,810
Loans, net of allowance of $818 and $764 at March 31, 2012 and June 30, 2011, respectively	182,495	182,796
Real estate owned, net	2,630	4,304
Premises and equipment, net	2,658	2,667
Federal Home Loan Bank stock, at cost	5,641	5,641
Accrued interest receivable	481	538
Bank-owned life insurance	2,674	2,607
Goodwill	14,507	14,507
Other intangible assets	—	87
Prepaid FDIC assessments	274	361
Prepaid federal income taxes	—	22
Prepaid expenses and other assets	613	443
Total assets	$ 221,778	$ 226,135
LIABILITIES AND SHAREHOLDERS’ EQUITY		
Deposits	$ 135,434	$ 139,940
Federal Home Loan Bank advances	24,662	25,261
Advances by borrowers for taxes and insurance	340	471
Accrued interest payable	74	91
Accrued federal income taxes	159	—

Deferred federal income taxes	620	1,021
Deferred revenue	650	—
Other liabilities	564	654
Total liabilities	162,503	167,438
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	36,877	36,907
Retained earnings	32,350	31,860
Unearned employee stock ownership plan (ESOP)	(1,826)	(1,989)
Treasury shares at cost, 816,375 and 811,375 common shares at March 31, 2012 and June 30, 2011, respectively	(8,215)	(8,170)
Accumulated other comprehensive income	3	3
Total shareholders' equity	59,275	58,697
Total liabilities and shareholders' equity	$ 221,778	$ 226,135

See accompanying notes.

3

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,	
	2012	2011	2012	2011
Interest income				
Loans	$ 7,369	$ 7,644	$ 2,433	$ 2,485
Mortgage-backed securities	200	277	61	84
Other securities	1	2	—	1
Interest-bearing deposits and other	176	184	64	65
Total interest income	7,746	8,107	2,558	2,635
Interest expense				
Deposits	1,247	2,004	360	584
Borrowings	459	545	148	141
Total interest expense	1,706	2,549	508	725
Net interest income	6,040	5,558	2,050	1,910
Provision for losses on loans	82	669	—	601
Net interest income after provision for losses on loans	5,958	4,889	2,050	1,309
Non-interest income				
Gain on sale of loans	23	107	—	15
Earnings on bank-owned life insurance	67	68	23	23
Gain (loss) on sale of real estate acquired through foreclosure	1	(36)	14	—
Unrealized loss-other real estate	(48)	—	—	—
Other	76	80	25	27
Total non-interest income	119	219	62	65
Non-interest expense				
Employee compensation and benefits	2,375	2,257	855	736
Occupancy and equipment	255	258	87	92
Legal fees	274	—	82	—
Outside service fees	210	—	21	—
Data processing	176	189	65	63
Auditing and accounting	96	146	18	59
Federal deposit insurance	113	149	37	46
Franchise and other taxes	138	144	45	46
Amortization of intangible assets	87	98	22	33
Foreclosure and real estate owned expense, net	1	—	(31)	—
Other operating	359	672	123	230

Total non-interest expense	4,084	3,913	1,324	1,305
Income before income taxes	1,993	1,195	788	69
Federal income taxes				
Current	1,056	(185)	205	(519)
Deferred	(400)	179	55	144
Total federal income tax expense (benefit)	656	(6)	260	(375)
NET INCOME	$ 1,337	$ 1,201	$ 528	$ 444
EARNINGS PER SHARE				
Basic and diluted	$ 0.18	$ 0.16	$ 0.07	$ 0.06
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,	
	2012	2011	2012	2011
Net income	$ 1,337	$ 1,201	$ 528	$ 444
Other comprehensive income, net of taxes (benefits):				
Unrealized holding gains (losses) on securities designated as available for sale, net of taxes (benefits) of $—, $—, $— and $— during the respective periods	—	—	—	1
Comprehensive income	$ 1,337	$ 1,201	$ 528	$ 445

See accompanying notes.

Kentucky First Federal Bancorp

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Nine months ended March 31, 2012	2011
Cash flows from operating activities:		
Net income	$1,337	$1,201
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	146	138
Amortization of deferred loan origination (fees) costs	5	(5)
Amortization of premiums on FHLB advances	(12)	(103)
Amortization of core deposit intangibles	87	98
Net gain on sale of loans	(23)	(107)
Write down of real estate owned	48	36
Deferred gain on sale of real estate owned	(15)	—
ESOP compensation expense	133	91
Amortization of stock benefit plans and stock options expense	—	270
Earnings on bank-owned life insurance	(67)	(68)
Provision for loan losses	82	669
Origination of loans held for sale	(394)	(2,850)
Proceeds from loans held for sale	417	3,002
Increase (decrease) in cash, due to changes in:		
Accrued interest receivable	57	15
Prepaid expenses and other assets	(83)	38
Accrued interest payable	(17)	(32)
Accounts payable and other liabilities	(90)	(599)
Federal income taxes		
Current	181	—
Deferred	(401)	—
Net cash provided by operating activities	1,391	1,794
Cash flows from investing activities:		
Purchase of available-for-sale securities	(12,500)	(11,000)
Securities maturities, prepayments and calls:		
Held to maturity	1,603	13,050
Available for sale	12,511	37
Loans originated for investment, net of principal collected	3,159	2,897
Proceeds from sale of real estate owned	(654)	891
Additions to premises and equipment, net	(137)	(91)
Net cash used in investing activities	3,982	5,784

Cash flows from financing activities:		
Net change in deposits	(4,506)	(2,558)
Payments by borrowers for taxes and insurance, net	(131)	(14)
Proceeds from Federal Home Loan Bank advances	17,000	16,000
Repayments on Federal Home Loan Bank advances	(17,587)	(21,980)
Dividends paid on common stock	(847)	(856)
Treasury stock repurchases	(45)	(218)
Net cash provided by financing activities	(6,116)	(9,626)
Net decrease in cash and cash equivalents	(743)	(2,048)
Beginning cash and cash equivalents	5,049	8,362
Ending cash and cash equivalents	$4,306	$6,314

See accompanying notes.

Kentucky First Federal Bancorp

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

(Unaudited)

(In thousands)

	Nine months ended March 31, 2012	2011
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Federal income taxes	$ 790	$ 500
Interest on deposits and borrowings	$ 1,735	$ 2,684
Transfers from loans to real estate acquired through foreclosure, net	$ 95	$ 3,845
Loans made on sale of real estate acquired through foreclosure	$ 2,375	$ 593
Deferred gain on sale of real estate acquired through foreclosure	$ 665	$ —
Capitalization of mortgage servicing rights	$ 3	$ 24

See accompanying notes.

Kentucky First Federal Bancorp

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2012

(unaudited)

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

1. Basis of Presentation

The accompanying unaudited consolidated financial statements, which represent the consolidated balance sheets and results of operations of the Company, were prepared in accordance with the instructions for Form 10-Q and, therefore, do not include information or footnotes necessary for a complete presentation of financial position, results of operations and cash flows in conformity with U.S. generally accepted accounting principles. However, in the opinion of management, all adjustments (consisting of only normal recurring adjustments) 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, 2012, are not necessarily indicative of the results which may be expected for an entire fiscal year. The consolidated balance sheet as of June 30, 2011 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 2011 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, net of deferred loan fees and costs, and an allowance for loan losses. Interest income is accrued on the unpaid principal balance. 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 loans is discontinued at the time the loan is 90 days delinquent unless the loan is well-secured and in process of collection. Unsecured consumer loans are typically charged off no later than 120 days past due. 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. 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.

Kentucky First Federal Bancorp

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2012

(unaudited)

1. Basis of presentation (continued)

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, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off.

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

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

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

The general component covers non-impaired loans and is based on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the loss history experience of the Company over the most recent two years and a rolling average of the current year’s loss history. Prior to this quarter the Company used the loss history experience over the prior year. An expansion of the look-back period results in historical loan losses rolling off less quickly than with a shorter look-back period. 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.

Kentucky First Federal Bancorp

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2012

(unaudited)

1. Basis of presentation (continued)

The following portfolio segments have been identified: residential real estate, nonresidential real estate, loans on deposits and consumer and other loans. The residential real estate segment is our primary lending activity and it enables a borrower 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 do not generally lend to builders for construction of speculative or custom residential properties for resale. 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 75% of the appraised value. Our consumer loans include home equity lines of credit and loans secured by savings deposits.

2. Principles of Consolidation

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

3. Earnings Per Share

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

	Nine months ended March 31,	
	2012	2011

Net income	$ 1,337	$ 1,201
Less earnings allocated to unvested shares	—	(7)
Net income allocated to common shareholders, basic and diluted	$ 1,337	$ 1,194

	Three months ended March 31,	
	2012	2011
Net income	$ 528	$ 444
Less earnings allocated to unvested shares	—	—
Net income allocated to common shareholders, basic and diluted	$ 528	$ 444

10

Kentucky First Federal Bancorp

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

March 31, 2012

(unaudited)

3. Earnings Per Share (continued)

	Nine months ended March 31,	
	2012	2012
Basic		
Weighted-average common shares including unvested		
Common shares outstanding	7,545,639	7,487,610
Less: Weighted-average unvested common shares	—	14,994
Weighted-average common shares outstanding	7,545,639	7,502,604
Diluted		
Add: Dilutive effect of assumed exercise of stock options	-	-
Weighted-average common shares outstanding (diluted)	7,545,639	7,502,604

	Three months ended March 31,	
	2012	2011
Basic		
Weighted-average common shares including unvested		
Common shares outstanding	7,548,077	7,513,815
Less: Weighted-average unvested common shares	—	—
Weighted-average common shares outstanding	7,548,077	7,513,815
Diluted		
Add: Dilutive effect of assumed exercise of stock options	-	-
Weighted-average common shares outstanding (diluted)	7,548,077	7,513,815

There were 325,800 and 309,800 stock option shares outstanding for the nine- and three-month periods ended March 31, 2012, respectively, which were antidilutive for the respective periods. There were 325,800 stock option shares outstanding for each of the nine- and three-month periods ended March 31, 2011, which were antidilutive for the respective periods.

11

Kentucky First Federal Bancorp

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

March 31, 2012

(unaudited)

4. 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, 2012 and June 30, 2011, the corresponding amounts of gross unrealized gains recognized in accumulated other comprehensive income and gross unrecognized gains:

	March 31, 2012			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
		(In thousands)		
Available-for-sale Securities				
Agency mortgage-backed: residential	$188	$ 4	$ -	$ 192

	Amortized cost	Gross unrecognized gains	Gross unrecognized losses	Estimated fair value
Held-to-maturity Securities				
Agency mortgage-backed: residential	$ 5,207	$ 966	$ -	$ 6,173

	June 30, 2011			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Available-for-sale Securities				
Agency mortgage-backed: residential	$199	$ 4	$ -	$ 203

	Amortized cost	Gross unrecognized gains	Gross unrecognized losses	Estimated fair value

Held-to-maturity Securities				
Agency mortgage-backed: residential	$ 6,810	$ 447	$ -	$ 7,257

Our securities holdings consist of agency mortgage-backed securities, which do not have a single maturity date. None of our securities were pledged at March 31, 2012 or June 30, 2011.

There were no sales of investment securities during the fiscal year ended June 30, 2011 or the nine-month period ended March 31, 2012.

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.

12

Kentucky First Federal Bancorp

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

March 31, 2012

(unaudited)

5. Loans receivable

The composition of the loan portfolio was as follows:

(in thousands)	March 31, 2012	June 30, 2011
Residential real estate		
One- to four-family	$ 155,828	$ 158,821
Multi-family	8,489	4,504
Construction	284	1,062
Nonresidential real estate and land	11,474	12,211
Loans on deposits	2,292	2,405
Consumer and other	5,062	4,824
	183,429	183,827
Less:		
Undisbursed portion of loans in process	222	353
Deferred loan origination fees (cost)	(106)	(86)
Allowance for loan losses	818	764
	$ 182,495	$ 182,796

The following table presents the activity in the allowance for loan losses by portfolio segment for the nine months ended March 31, 2012:

(in thousands)	Beginning balance	Provision for loan losses	Loans charged off	Recoveries	Ending balance
Residential real estate:					
One- to four-family	$ 490	$ 51	$ 4	$ —	$ 537

Multi-family	11	14	—	—	25
Construction	5	(4)	—	—	1
Nonresidential real estate and land	36	(3)	—	—	33
Loans on deposits	8	(1)	—	—	7
Consumer and other	14	25	24	—	15
Unallocated	200	—	—	—	200
Totals	$ 764	$ 82	$ 28	$ —	$ 818

13

Kentucky First Federal Bancorp

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

March 31, 2012

(unaudited)

5. 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, 2012:

(in thousands)	Beginning balance	Provision for loan losses	Loans charged off	Recoveries	Ending balance
Residential real estate:					
One- to four-family	$ 555	$ (18)	$ —	$ —	$ 537
Multi-family	29	(4)	—	—	25
Construction	1	—	—	—	1
Nonresidential real estate and land	35	(2)	—	—	33
Loans on deposits	7	—	—	—	7
Consumer and other	15	24	24	—	15
Unallocated	200	—	—	—	200
Totals	$ 842	$ —	$ 24	$ —	$ 818

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

(in thousands)	Beginning balance	Provision for loan losses	Loans charged off	Recoveries	Ending balance
Residential real estate:					
One- to four-family	$ 1,261	$ 669	$ 1,322	$ —	$ 608
Multi-family	11	—	—	—	11

Construction	5	—	—	—	5
Nonresidential real estate and land	36	—	—	—	36
Loans on deposits	8	—	—	—	8
Consumer and other	14	—	—	—	14
Unallocated	200	—	—	—	200
Totals	$ 1,535	$ 669	$ 1,322	$ —	$ 882

14

KENTUCKY FIRST FEDERAL BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

March 31, 2012

(unaudited)

5. 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, 2011:

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

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, 2012. There were no loans acquired with deteriorated credit quality at March 31, 2012.

(in thousands)	Recorded investment in loans	Ending allowance attributed to loans	Unallocated allowance	Total allowance
Loans individually evaluated for impairment:				
Residential real estate:				
One- to four-family	$ 2,960	$ 90	$ —	$ 90

Multi-family	—	—	—	—
Construction	—	—	—	—
Nonresidential real estate and land	—	—	—	—
Loans on deposits	—	—	—	—
Consumer and other	—	—	—	—
	$ 2,960	$ 90	$ —	$ 90
Loans collectively evaluated for impairment:				
Residential real estate:				
One- to four-family	$ 152,868	$ 447	$ —	$ 447
Multi-family	8,489	25	—	25
Construction	284	1	—	1
Nonresidential real estate and land	11,474	33	—	33
Loans on deposits	2,292	7	—	7
Consumer and other	5,062	15	—	15
Unallocated	—	—	200	200
	$ 180,469	$ 528	$ 200	$ 728

KENTUCKY FIRST FEDERAL BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

March 31, 2012

(unaudited)

5. Loans receivable (continued)

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio class and based on impairment method as of June 30, 2011. There were no loans acquired with deteriorated credit quality at June 30, 2011.

(in thousands)	Recorded investment in loans	Ending allowance attributed to loans	Unallocated allowance	Total allowance
Loans individually evaluated for impairment:				
Residential real estate:				
One- to four-family	$ 2,224	$ 55	$ —	$ 55
Multi-family	—	—	—	—
Construction	—	—	—	—
Nonresidential real estate and land	—	—	—	—
Loans on deposits	—	—	—	—
Consumer and other	—	—	—	—
	$ 2,224	$ 55	$ —	$ 55
Loans collectively evaluated for impairment:				
Residential real estate:				
One- to four-family	$ 156,597	$ 439	$ —	$ 439
Multi-family	4,504	13	—	13
Construction	1,062	3	—	3
Nonresidential real estate and land	12,211	34	—	34
Loans on deposits	2,405	7	—	7
Consumer and other	4,824	13	—	13
Unallocated	—	—	200	200
	$ 181,603	$ 509	$ 200	$ 709

The following table presents loans individually evaluated for impairment by class of loans as of and for the nine months ended March 31, 2012:

(in thousands)	Outstanding Principal Balance	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Received
With no related allowance recorded:					
One- to four-family	$ 1,685	$ —	$ 1,005	$ 48	$ 48
With an allowance recorded:					
One- to four-family	$ 1,276	$ 90	$ 1,281	$ 10	$ 10

KENTUCKY FIRST FEDERAL BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

March 31, 2012

(unaudited)

5. Loans receivable (continued)

The following table presents loans individually evaluated for impairment by class of loans as of and for the twelve months ended June 30, 2011:

(in thousands)	Outstanding Principal Balance	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Received
With no related allowance recorded:					
One- to four-family	$ 1,136	$ —	$ 1,296	$ 44	$ 44
With an allowance recorded:					
One- to four-family	$ 1,088	$ 55	$ 1,213	$ 33	$ 33

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." The substantial majority of the Banks' residential real estate TDRs involve conceding to refinance a loan to then-current market interest rates despite poor credit history or a high loan-to-value ratio.

During the period ended March 31, 2012, the terms of a certain loan was modified to accept a payment for interest, taxes and insurance for a period of time, while three loans were modified to extend the term of repayment and one loan was considered a TDR simply because the borrower extended the balance of the loan to its maximum amount and was experiencing financial difficulty.

The following table presents the recorded investment in nonaccrual loans, loans past due over 90 days still on accrual and TDRs by class of loans as of March 31, 2012:

(in thousands)	Nonaccrual	Loans Past Due Over 90 Days Still Accruing	TDRs on Accrual Status
One- to four-family residential real estate	$ 1,460	$ 21	$ 1,101

The following table presents the recorded investment in nonaccrual loans, loans past due over 90 days still on accrual and TDRs by class of loans as of June 30, 2011:

(in thousands)	Nonaccrual	Loans Past Due Over 90 Days Still Accruing	TDRs on Accrual Status
One- to four-family residential real estate	$ 876	$ -	$ 729

KENTUCKY FIRST FEDERAL BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

March 31, 2012

(unaudited)

5. Loans receivable (continued)

The TDRs described above did not increase the allowance for loan losses and did not result in charge offs during the nine months ended March 31, 2012. There were no TDRs that defaulted during the nine-month period ended March 31, 2012 or over the previous twelve months. There are no outstanding commitments to lend on loans classified as TDRs. A summary of the types of TDR loan modifications that occurred during the first nine months of fiscal 2012 were as follows:

(in thousands)	Number of Loans	TDRs Performing to Modified Terms	TDRs Not Performing to Modified Terms	Total TDRs
Residential real estate:				
One- to four-family	5	$ 379	$ —	$ 379

The following table presents the aging of the principal balance outstanding in past due loans as of March 31, 2012, by class of loans:

(in thousands)	30-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Loans Not Past Due	Total
Residential real estate:					
One-to four-family	$ 3,545	$ 1,481	$ 5,026	$ 150,802	$ 155,828
Multi-family	—	—	—	8,489	8,489
Construction	—	—	—	284	284
Nonresidential real estate and land	—	—	—	11,474	11,474
Loans on deposits	—	—	—	2,292	2,292
Consumer and other	—	—	—	5,062	5,062

Total	$ 3,545	$ 1,481	$ 5,026	$ 178,403	$ 183,429

The following table presents the aging of the principal balance outstanding in past due loans as of June 30, 2011, by class of loans:

(in thousands)	30-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Loans Not Past Due	Total
Residential real estate:					
One-to four-family	$ 3,181	$ 876	$ 4,057	$ 154,764	$ 158,821
Multi-family	—	—	—	4,504	4,504
Construction	—	—	—	1,062	1,062
Nonresidential real estate and land	—	—	—	12,211	12,211
Loans on deposits	—	—	—	2,405	2,405
Consumer and other	—	—	—	4,824	4,824
Total	$ 3,181	$ 876	$ 4,057	$ 179,770	$ 183,827

KENTUCKY FIRST FEDERAL BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

March 31, 2012

(unaudited)

5. 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, 2012, 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	$—	$ 66	$ 3,000	$ —	$152,762
Multi-family	5,676	—	2,813	—	—
Construction	284	—	—	—	—
Nonresidential real estate and land	11,202	272	—	—	—
Loans on deposits	—	—	—	—	2,292
Consumer and other	—	—	—	—	5,062

Kentucky First Federal Bancorp

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

March 31, 2012

(unaudited)

5. Loans receivable (continued)

At June 30, 2011, 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	$—	$ 67	$ 2,180	$ —	$156,574
Multi-family	4,504	—	—	—	—
Construction	1,062	—	—	—	—
Nonresidential real estate and land	11,943	268	—	—	—
Loans on deposits	—	—	—	—	2,405
Consumer and other	—	—	—	—	4,824

6. Commitments

As of March 31, 2012, loan commitments and unused lines of credit totaled $13.9 million, which included $222,000 in undisbursed construction loans, $1.1 million in one- to four-family mortgage loans, $4.0 million in multi-family loans and $8.6 million in lines of credit secured by equity in real property.

7. 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, 2012

(unaudited)

7. 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. it is valued at the lower of cost or 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.

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

Fair Value Measurements at March 31, 2012 (in thousands)		
Quotes Prices in Active Markets for	Significant Other	Significant