

Kentucky First Federal Bancorp  
Form 10-Q  
November 16, 2015

**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 September 30, 2015

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 <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/>	Smaller Reporting Company <input checked="" type="checkbox"/>

(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 November 9, 2015, the latest practicable date, the Corporation had 8,439,515 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)

	September 30, 2015	June 30, 2015
<b>ASSETS</b>		
Cash and due from financial institutions	\$ 2,793	\$3,864
Interest-bearing demand deposits	9,872	9,771
Cash and cash equivalents	12,665	13,635
Securities available for sale	155	159
Securities held-to-maturity, at amortized cost- approximate fair value of \$5,723 and \$6,534 at September 30, 2015 and June 30, 2015, respectively	5,625	6,423
Loans held for sale	121	100
Loans, net of allowance of \$1,568 at September 30, 2015 and June 30, 2015	245,012	243,815
Real estate owned, net	1,260	1,593
Premises and equipment, net	5,768	5,235
Federal Home Loan Bank stock, at cost	6,482	6,482
Accrued interest receivable	747	725
Bank-owned life insurance	2,994	2,971
Goodwill	14,507	14,507
Prepaid expenses and other assets	582	653
<b>Total assets</b>	<b>\$ 295,918</b>	<b>\$296,298</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Deposits	\$ 196,253	\$199,701
Federal Home Loan Bank advances	29,231	26,635
Advances by borrowers for taxes and insurance	972	699
Accrued interest payable	33	32
Accrued federal income taxes	112	78
Deferred federal income taxes	578	569
Deferred revenue	606	610
Other liabilities	620	661
<b>Total liabilities</b>	<b>228,405</b>	<b>228,985</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	34,631	34,638
Retained earnings	34,871	34,711
Unearned employee stock ownership plan (ESOP), 117,642 shares and 122,311 shares at September 30, 2015 and June 30, 2015, respectively	(1,176 )	(1,223 )
Treasury shares at cost, 112,563 common shares at both September 30, 2015 and June 30, 2015	(937 )	(937 )
Accumulated other comprehensive income	38	38
Total shareholders' equity	67,513	67,313
Total liabilities and shareholders' equity	\$ 295,918	\$296,298

See accompanying notes.

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

(Unaudited)

(Dollars in thousands, except per share data)

	Three months ended September 30,	
	2015	2014
Interest income		
Loans, including fees	\$ 2,892	\$ 3,000
Mortgage-backed securities	23	29
Other securities	5	6
Interest-bearing deposits and other	64	64
Total interest income	2,984	3,099
Interest expense		
Interest-bearing demand deposits	7	8
Savings	65	59
Certificates of Deposit	208	222
Deposits	280	289
Borrowings	70	62
Total interest expense	350	351
Net interest income	2,634	2,748
Provision for loan losses	11	56
Net interest income after provision for loan losses	2,623	2,692
Non-interest income		
Earnings on bank-owned life insurance	23	23
Net gain on sales of loans	19	6
Net gain (loss) on sales of OREO	16	(1 )
Vaulation adjustments of OREO	(18 )	—
Other	74	68
Total non-interest income	114	96
Non-interest expense		
Employee compensation and benefits	1,279	1,377
Occupancy and equipment	148	131
Outside service fees	48	38
Legal fees	29	7
Data processing	97	102
Auditing and accounting	67	65
FDIC insurance premiums	54	63
Franchise and other taxes	63	67
Foreclosure and OREO expenses (net)	28	53
Other	252	266

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Total non-interest expense	2,065	2,169
Income before income taxes	672	619
Federal income tax expense	134	203
NET INCOME	\$ 538	\$ 416
EARNINGS PER SHARE		
Basic and diluted	\$ 0.06	\$ 0.05
DIVIDENDS PER SHARE	\$ 0.10	\$ 0.10

See accompanying notes.

**Kentucky First Federal Bancorp**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(Unaudited)

(In thousands)

	Three months ended September 30,	
	2015	2014
Net income	\$ 538	\$ 416
Other comprehensive loss, net of tax benefits: Unrealized holding gains (losses) on securities designated as available for sale, net of tax benefits of \$0 and \$11 during the respective periods	—	(24 )
Comprehensive income	\$ 538	\$ 392

See accompanying notes.



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

(Unaudited)

(In thousands)

	Three months ended September,	
	2015	2014
Cash flows from operating activities:		
Net income	\$ 538	\$ 416
Adjustments to reconcile net income to net cash provided by operating Activities		
Depreciation	72	66
Accretion of purchased loan credit discount	(39 )	(60 )
Amortization of purchased loan premium	5	4
Amortization (accretion) of deferred loan origination costs (fees)	5	(5 )
Amortization of premiums on investment securities	25	41
Amortization of premiums on deposits	(21 )	(98 )
Net gain on sale of loans	(19 )	(6 )
Net loss (gain) on sale of real estate owned	(16 )	1
Valuation adjustments of real estate owned	18	—
Deferred gain on sale of real estate owned	(4 )	(3 )
ESOP compensation expense	40	39
Earnings on bank-owned life insurance	(23 )	(23 )
Provision for loan losses	11	56
Origination of loans held for sale	(121 )	(326 )
Proceeds from loans held for sale	119	85
Increase (decrease) in cash, due to changes in:		
Accrued interest receivable	(22 )	(9 )
Prepaid expenses and other assets	71	46
Accrued interest payable	1	2
Other liabilities	(41 )	215
Federal income taxes	43	203
Net cash provided by operating activities	642	644
Cash flows from investing activities:		
Securities maturities, prepayments and calls:		
Held to maturity	773	304
Available for sale	4	2
Loans originated for investment, net of principal collected	(1,278 )	2,625
Proceeds from sale of real estate owned	430	327
Additions to premises and equipment, net	(605 )	(69 )

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Net cash provided by (used in) investing activities	(676 )	3,189
Cash flows from financing activities:		
Net decrease in deposits	(3,427 )	(1,328 )
Payments by borrowers for taxes and insurance, net	273	251
Proceeds from Federal Home Loan Bank advances	6,200	2,500
Repayments on Federal Home Loan Bank advances	(3,604 )	(5,512 )
Dividends paid on common stock	(378 )	(380 )
Net cash used in financing activities	(936 )	(4,469 )
Net decrease in cash and cash equivalents	(970 )	(636 )
Beginning cash and cash equivalents	13,635	11,511
Ending cash and cash equivalents	\$ 12,665	\$ 10,875

See accompanying notes.

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

(Unaudited)

(In thousands)

	Three months ended September 30,	
	2015	2014
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Federal income taxes	\$ 110	\$ —
Interest on deposits and borrowings	\$ 370	\$ 447
Transfers of loans to real estate owned, net	\$ 99	\$ 156
Loans made on sale of real estate owned	\$ —	\$ 195

See accompanying notes.

**Kentucky First Federal Bancorp**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2015

(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 three-month period ended September 30, 2015, are not necessarily indicative of the results which may be expected for an entire fiscal year. The consolidated balance sheet as of June 30, 2015 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 2015 filed with the Securities and Exchange Commission.

**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 or shareholders’ equity.



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

September 30, 2015

(unaudited)

**3. Investment Securities**

The following table summarizes the amortized cost and fair value of securities available-for-sale and securities held-to-maturity at September 30, 2015 and June 30, 2015, the corresponding amounts of gross unrealized gains recognized in accumulated other comprehensive income and gross unrecognized gains and losses:

(in thousands)	September 30, 2015			
	Amortized cost	Gross unrealized/unrecognized gains	Gross unrealized/unrecognized losses	Estimated fair value
<b>Available-for-sale Securities</b>				
Agency mortgage-backed: residential	\$91	\$ 1	\$ —	\$ 92
FHLMC stock	7	56	—	63
	\$98	\$ 57	\$ —	\$ 155
<b>Held-to-maturity Securities</b>				
Agency mortgage-backed: residential	\$2,543	\$ 97	\$ 2	\$ 2,638
Agency bonds	3,082	3	—	3,085
	\$5,625	\$ 100	\$ 2	\$ 5,723
(in thousands)	June 30, 2015			
	Amortized cost	Gross unrealized/unrecognized gains	Gross unrealized/unrecognized losses	Estimated fair value
<b>Available-for-sale Securities</b>				
Agency mortgage-backed: residential	\$94	\$ 2	\$ —	\$ 96
FHLMC stock	8	55	—	63
	\$102	\$ 57	\$ —	\$ 159

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Held-to-maturity Securities

Agency mortgage-backed: residential	\$2,821	\$	112	\$	2	\$ 2,931
Agency bonds	3,602		2		1	3,603
	\$6,423	\$	114	\$	3	\$ 6,534



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

September 30, 2015

(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 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)	September 30, 2015	
	Amortized Cost	Fair Value
Held-to-maturity Securities		
Within one year	\$ 1,522	\$ 1,523
One to five years	1,560	1,562
Mortgage-backed	2,543	2,638
	\$ 5,625	\$ 5,723

Our pledged securities totaled \$2.2 million at September 30, 2015, and June 30, 2015.

There were no sales of investment securities during the three month periods ended September 30, 2015 and 2014.

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. Those securities were agency bonds, which carry a very limited amount of risk. Also, we have no intention to sell nor feel that we will be compelled to sell such securities before maturity. Based on our evaluation, no impairment has been recognized through earnings.

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

September 30, 2015

(unaudited)

4. Loans receivable

The composition of the loan portfolio was as follows:

(in thousands)	September 30, 2015	June 30, 2015
Residential real estate		
One- to four-family	\$ 192,729	\$ 191,721
Multi-family	17,196	16,621
Construction	2,742	3,780
Land	1,641	2,021
Farm	1,562	1,567
Nonresidential real estate	22,046	22,118
Commercial nonmortgage	1,787	1,782
Consumer and other:		
Loans on deposits	2,262	2,262
Home equity	5,551	5,477
Automobile	69	73
Unsecured	373	605
	247,958	248,027
Undisbursed portion of loans in process	(1,505	) (2,753 )
Deferred loan origination costs	127	109
Allowance for loan losses	(1,568	) (1,568 )
	\$ 245,012	\$ 243,815

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

September 30, 2015

(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 September 30, 2015:

(in thousands)	<b>Beginning balance</b>	<b>Provision for loan losses</b>	<b>Loans charged off</b>	Recoveries	<b>Ending balance</b>
Residential real estate:					
One- to four-family	\$ 1,059	\$ 12	\$ (11	) \$ —	\$ 1,060
Multi-family	94	3	—	—	97
Construction	21	(5	)	—	16
Land	7	1	—	—	8
Farm	9	—	—	—	9
Nonresidential real estate	121	1	—	—	122
Commercial nonmortgage	10	—	—	—	10
Consumer and other:					
Loans on deposits	13	—	—	—	13
Home equity	31	—	—	—	31
Automobile	—	—	—	—	—
Unsecured	3	(1	)	—	2
Unallocated	200	—	—	—	200
Totals	\$ 1,568	\$ 11	\$ (11	) \$ —	\$ 1,568

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

September 30, 2015

(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 September 30, 2014:

(in thousands)	<b>Beginning balance</b>	<b>Provision for loan losses</b>	<b>Loans charged off</b>	Recoveries	<b>Ending balance</b>
Residential real estate:					
One- to four-family	\$ 1,003	\$ 52	\$ 37	\$ 2	\$ 1,020
Multi-family	73	—	—	—	73
Construction	11	—	—	—	11
Land	10	1	—	—	11
Farm	9	—	—	—	9
Nonresidential real estate	112	2	—	—	114
Commercial nonmortgage	11	(1 )	—	—	10
Consumer and other:					
Loans on deposits	13	1	—	—	14
Home equity	28	2	—	—	30
Automobile	—	—	—	—	—
Unsecured	3	(1 )	—	—	2
Unallocated	200	—	—	—	200
Totals	\$ 1,473	\$ 56	\$ 37	\$ 2	\$ 1,494

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

September 30, 2015

(unaudited)

4. 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 September 30, 2015. The recorded investment in loans excludes accrued interest receivable and deferred loan costs, net due to immateriality.

**September 30, 2015:**

(in thousands)	<b>Loans individually evaluated</b>	<b>Loans acquired with deteriorated credit quality</b>	<b>Ending loans balance</b>	<b>Ending allowance attributed to loans</b>	<b>Unallocated allowance</b>	<b>Total allowance</b>
Loans individually evaluated for impairment:						
Residential real estate:						
One- to four-family	\$ 3,566	\$ 2,172	\$5,738	\$ —	\$ —	\$ —
Land	—	285	285	—	—	—
Nonresidential real estate	—	523	523	—	—	—
	3,566	2,980	6,546	—	—	—
Loans collectively evaluated for impairment:						
Residential real estate:						
One- to four-family			\$186,991	\$ 1,060	\$ —	\$ 1,060
Multi-family			17,196	97	—	97
Construction			2,742	16	—	16
Land			1,356	8	—	8
Farm			1,562	9	—	9
Nonresidential real estate			21,523	122	—	122
Commercial nonmortgage			1,787	10	—	10

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Consumer:				
Loans on deposits	2,262	13	—	13
Home equity	5,551	31	—	31
Automobile	69	—	—	—
Unsecured	373	2	—	2
Unallocated	—	—	200	200
	241,412	1,368	200	1,568
	\$247,958	\$ 1,368	\$ 200	\$ 1,568

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

September 30, 2015

(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, 2015.

**June 30, 2015:**

(in thousands)	Loans individually evaluated	Loans acquired with deteriorated credit quality	Ending loans balance	Ending allowance attributed to loans	Unallocated allowance	Total allowance
Loans individually evaluated for impairment:						
Residential real estate:						
One- to four-family	\$ 1,743	\$ 2,565	\$4,308	\$ —	\$ —	\$ —
Land	476	381	857	—	—	—
Nonresidential real estate	241	526	767	—	—	—
Consumer and other:						
Home equity	28	—	28	—	—	—
Unsecured	18	—	18	—	—	—
	2,506	3,472	5,978	—	—	—
Loans collectively evaluated for impairment:						
Residential real estate:						
One- to four-family			\$187,413	\$ 1,059	\$ —	\$ 1,059
Multi-family			16,621	94	—	94
Construction			3,780	21	—	21
Land			1,164	7	—	7
Farm			1,567	9	—	9

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Nonresidential real estate	21,351	121	—	121
Commercial nonmortgage	1,782	10	—	10
Consumer:				
Loans on deposits	2,262	13	—	13
Home equity	5,449	31	—	31
Automobile	73	—	—	—
Unsecured	587	3	—	3
Unallocated	—	—	200	200
	242,049	1,368	200	1,568
	\$248,027	\$ 1,368	\$ 200	\$ 1,568



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

September 30, 2015

(unaudited)

4. Loans receivable (continued)

The following table presents loans individually evaluated for impairment by class of loans as of and for the three months ended September 30, 2015 and 2014:

**September 30, 2015:**

(in thousands)	<b>Unpaid Principal Balance and Recorded Investment</b>	<b>Allowance for Loan Losses Allocated</b>	<b>Average Recorded Investment</b>	<b>Interest Income Recognized</b>	<b>Cash Basis Income Recognized</b>
With no related allowance recorded:					
One- to four-family	\$ 3,566	\$ —	\$ 3,036	\$ 3	\$ 3
Purchased credit-impaired loans	2,980	—	3,226	23	23
	6,546	—	6,262	26	26
With an allowance recorded:					
One- to four-family	—	—	—	—	—
	\$ 6,546	\$ —	\$ 6,262	\$ 26	\$ 26

**September 30, 2014:**

(in thousands)	<b>Unpaid Principal Balance and Recorded Investment</b>	<b>Allowance for Loan Losses Allocated</b>	<b>Average Recorded Investment</b>	<b>Interest Income Recognized</b>	<b>Cash Basis Income Recognized</b>
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With no related allowance recorded:

One- to four-family	\$ 1,441	\$ —	\$ 1,701	\$ 1	\$ 1
Purchased credit-impaired loans	3,568	—	3,635	29	29
	5,009	—	5,336	30	30

With an allowance recorded:

One- to four-family	70	9	135	1	1
	\$ 5,079	\$ 9	\$ 5,471	\$ 31	\$ 31

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

September 30, 2015

(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 September 30, 2015, and June 30, 2015:

(in thousands)	September 30, 2015		June 30, 2015	
	Nonaccrual	<b>Loans Past Due Over 90 Days Still Accruing</b>	Nonaccrual	<b>Loans Past Due Over 90 Days Still Accruing</b>
One- to four-family residential real estate	\$ 4,676	\$ 1,195	\$4,331	\$ 1,745
Nonresidential real estate and land	409	—	410	—
Consumer	25	—	26	—
	\$ 5,110	\$ 1,195	\$4,767	\$ 1,745

**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 September 30, 2015 and June 30, 2015, the Company had \$1.6 million and \$1.9 million of loans classified as TDRs, respectively. Of the TDRs at September 30, 2015, approximately 40.2% were related to the borrower’s completion of Chapter 7 bankruptcy proceedings with no reaffirmation of the debt to the Banks.

The following table presents TDR’s by loan type at September 30, 2015 and June 30, 2015, and their performance, by modification type:

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(dollars in thousands)	<b>Number of Loans</b>	<b>Pre- Modification Outstanding Recorded Investment</b>	<b>Post- Modification Outstanding Recorded Investment</b>	<b>TDRs Performing to Modified Terms</b>	<b>TDRs Not Performing to Modified Terms</b>
September 30, 2015					
Residential Real Estate:					
1-4 Family	36	\$ 1,888	\$ 1,626	\$ 1,199	\$ 427
June 30, 2015					
Residential Real Estate:					
1-4 Family	38	\$ 2,110	\$ 1,851	\$ 1,710	\$ 141

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

September 30, 2015

(unaudited)

4. Loans receivable (continued)

The following table summarizes TDR loan modifications for the three months ended September 30, 2015 and 2014, and their performance, by modification type:

(in thousands)	<b>Troubled Debt Restructurings Performing to Modified Terms</b>	<b>Troubled Debt Restructurings Not Performing to Modified Terms</b>	<b>Total Troubled Debt Restructurings</b>
Three months ended September 30, 2015			
Residential real estate:			
Rate reduction	\$ 3	\$ —	\$ 3
Bankruptcies	—	—	—
Total troubled debt restructures	\$ 3	\$ —	\$ 3
Three months ended September 30, 2014			
Residential real estate:			
Rate reduction	\$ —	\$ —	\$ —
Bankruptcies	—	—	—
Total troubled debt restructures	\$ —	\$ —	\$ —

The Company had no allocated specific reserves to customers whose loan terms had been modified in troubled debt restructurings as of September 30, 2015, or at June 30, 2015. The Company had no commitments to lend on loans classified as TDRs at September 30, 2015 or June 30, 2015.

There were no TDRs that defaulted during the three-month periods ended September 30, 2015 or 2014.



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

September 30, 2015

(unaudited)

4. Loans receivable (continued)

The following table presents the aging of the principal balance outstanding in past due loans as of September 30, 2015, by class of loans:

(in thousands)	<b>30-89 Days Past Due</b>	<b>90 Days or Greater Past Due</b>	<b>Total Past Due</b>	<b>Loans Not Past Due</b>	Total
Residential real estate:					
One-to four-family	\$ 6,572	\$ 3,230	\$9,802	\$ 182,927	\$192,729
Multi-family	—	—	—	17,196	17,196
Construction	—	—	—	2,742	2,742
Land	—	509	509	1,132	1,641
Farm	—	—	—	1,562	1,562
Nonresidential real estate	505	388	893	21,153	22,046
Commercial non-mortgage	—	—	—	1,787	1,787
Consumer and other:					
Loans on deposits	—	—	—	2,262	2,262
Home equity	37	—	37	5,514	5,551
Automobile	—	—	—	69	69
Unsecured	1	18	19	354	373
Total	\$ 7,115	\$ 4,145	\$11,260	\$ 236,698	\$247,958

The following tables present the aging of the principal balance outstanding in past due loans as of June 30, 2015, by class of loans:

(in thousands)	<b>30-89 Days Past Due</b>	<b>90 Days or Greater Past Due</b>	<b>Total Past</b>	<b>Loans Not Past Due</b>	Total
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		<b>Past Due</b>	<b>Due</b>		
Residential real estate:					
One-to four-family	\$ 5,129	\$ 3,233	\$8,362	\$ 183,359	\$ 191,721
Multi-family	—	—	—	16,621	16,621
Construction	—	—	—	3,780	3,780
Land	344	262	606	1,415	2,021
Farm	—	—	—	1,567	1,567
Nonresidential real estate	142	388	530	21,588	22,118
Commercial nonmortgage	—	—	—	1,782	1,782
Consumer:					
Loans on deposits	—	—	—	2,262	2,262
Home equity	20	—	20	5,457	5,477
Automobile	—	—	—	73	73
Unsecured	13	18	31	574	605
Total	\$ 5,648	\$ 3,901	\$9,549	\$ 238,478	\$248,027



**Kentucky First Federal Bancorp**

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

September 30, 2015

(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 September

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30, 2015, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

(in thousands)	Pass	<b>Special Mention</b>	Substandard	Doubtful	Not rated
Residential real estate:					
One- to four-family	\$—	\$ 7,970	\$ 10,664	\$ —	\$174,095
Multi-family	16,848	—	348	—	—
Construction	2,742	—	—	—	—
Land	1,128	—	513	—	—
Farm	1,562	—	—	—	—
Nonresidential real estate	20,139	1,119	788	—	—
Commercial nonmortgage	1,755	32	—	—	—
Consumer:					
Loans on deposits	2,262	—	—	—	—
Home equity	5,525	—	26	—	—
Automobile	69	—	—	—	—
Unsecured	373	—	—	—	—
	\$52,403	\$ 9,121	\$ 12,339	\$ —	\$174,095

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

September 30, 2015

(unaudited)

4. Loans receivable (continued)

At June 30, 2015, the risk category of loans by class of loans was as follows:

(in thousands)	Pass	<b>Special Mention</b>	Substandard	Doubtful	Not rated
Residential real estate:					
One- to four-family	\$—	\$ 6,914	\$ 9,371	\$ —	\$175,436
Multi-family	16,621	—	—	—	—
Construction	3,780	—	—	—	—
Land	1,164	—	857	—	—
Farm	1,567	—	—	—	—
Nonresidential real estate	20,198	1,131	789	—	—
Commercial nonmortgage	1,750	32	—	—	—
Consumer:					
Loans on deposits	2,262	—	—	—	—
Home equity	5,448	—	29	—	—
Automobile	73	—	—	—	—
Unsecured	605	—	—	—	—
	\$53,468	\$ 8,077	\$ 11,046	\$ —	\$175,436

**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 credit discount of \$512,000 and \$616,000 at September 30, 2015 and June 30, 2015, respectively, is as follows:

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(in thousands)

September 30, 2015    June 30, 2015

One- to four-family residential real estate	\$ 2,172	\$ 2,565
Land	285	381
Nonresidential real estate	523	526
Commercial nonmortgage	—	—
Outstanding balance	\$ 2,980	\$ 3,472

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

September 30, 2015

(unaudited)

4. Loans receivable (continued)

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

(in thousands)	Three months ended September 30, 2015	Twelve months ended <b>June 30,</b> <b>2015</b>
Balance at beginning of period	\$ 1,021	\$ 1,478
Accretion of income	(39	) (457
Reclassifications from nonaccretable difference	106	—
Disposals	—	—
Balance at end of period	\$ 1,088	\$ 1,021

For those purchased loans disclosed above, the Company made no increase in allowance for loan losses for the year ended June 30, 2015, nor for the three-month period ended September 30, 2015. 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)**

September 30, 2015

(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.

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

<i>(in thousands)</i>	<b>Fair Value Measurements Using</b>			
	<b>Fair Value</b>	<b>Quoted Prices in Active Markets for Identical Assets  (Level 1)</b>	<b>Significant Other Observable Inputs  (Level 2)</b>	<b>Significant Unobservable Inputs  (Level 3)</b>
<b><u>September 30, 2015</u></b>				
Agency mortgage-backed: residential	\$ 92	\$ —	\$ 92	\$ —
FHLMC stock	63	—	63	—
	<b>\$ 155</b>	<b>\$ —</b>	<b>\$ 155</b>	<b>\$ —</b>
<b><u>June 30, 2015</u></b>				
Agency mortgage-backed: residential	\$ 96	\$ —	\$ 96	\$ —
FHLMC stock	63	—	63	—
	<b>\$ 159</b>	<b>\$ —</b>	<b>\$ 159</b>	<b>\$ —</b>



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

September 30, 2015

(unaudited)

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

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

(in thousands)	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2015				
Other real estate owned, net				
One- to four-family	\$ 511	—	—	511
Land	121	—	—	121
June 30, 2015				
Other real estate owned, net				
One- to four-family	\$ 525	—	—	\$ 525
Land	15	—	—	15

There were no impaired loans, which were measured using the fair value of the collateral for collateral-dependent loans, at September 30, 2015, and June 30, 2015. There was no specific provision made for the three month periods ended September 30, 2015 or 2014.

Other real estate owned measured at fair value less costs to sell, had carrying amounts of \$632,000 and \$540,000 at September 30, 2015 and June 30, 2015, respectively. Other real estate owned was written down \$18,000 during the three months ended September 30, 2015, while there was no write-down of other real estate owned during the three months ended September 30, 2014.



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

September 30, 2015

(unaudited)

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

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 September 30, 2015 and June 30, 2015:

September 30, 2015	Fair Value (in thousands)	Valuation Technique(s)	Unobservable Input(s)	Range (Weighted Average)
Foreclosed and repossessed assets:				
1-4 family	\$ 511	Sales comparison approach	Adjustments for differences between comparable sales	-10.8% to 11.7% (0.1%)
Land	121	Sales comparison approach	Adjustments for differences between comparable sales	3.5% to 6.6% (5.4%)
June 30, 2015	Fair Value (in thousands)	Valuation Technique(s)	Unobservable Input(s)	Range (Weighted Average)
Foreclosed and repossessed assets:				
1-4 family	\$ 525	Sales comparison approach	Adjustments for differences between comparable sales	1.5% to 11.7% (2.9%)
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.

**Kentucky First Federal Bancorp**

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

September 30, 2015

(unaudited)

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

The following methods were used to estimate the fair value of all other financial instruments at September 30, 2015 and June 30, 2015:

Cash and cash equivalents and interest-bearing deposits: The carrying amounts presented in the consolidated statements of financial condition for cash and cash equivalents are deemed to approximate fair value.

Held-to-maturity securities: For held-to-maturity securities, fair value is estimated by using pricing models, quoted price of securities with similar characteristics, which is level 2 pricing for the other securities.

Loans held for sale: Loans originated and intended for sale in the secondary market are determined by FHLB pricing schedules.

Loans: The loan portfolio has been segregated into categories with similar characteristics, such as one- to four-family residential, multi-family residential and nonresidential real estate. These loan categories were further delineated into fixed-rate and adjustable-rate loans. The fair values for the resultant loan categories were computed via discounted cash flow analysis, using current interest rates offered for loans with similar terms to borrowers of similar credit quality. For loans on deposit accounts and consumer and other loans, fair values were deemed to equal the historic carrying values. The fair values of the loans does not necessarily represent an exit price.

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.

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.

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 September 30, 2015 and June 30, 2014, was not material.

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

September 30, 2015

(unaudited)

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

Based on the foregoing methods and assumptions, the carrying value and fair value of the Company's financial instruments at September 30, 2015 and June 30, 2015 are as follows:

<b>(in thousands)</b>	Carrying Value	Fair Value Measurements at September 30, 2015 Using			Total
		Level 1	Level 2	Level 3	
<b>Financial assets</b>					
Cash and cash equivalents	\$12,665	\$12,665			\$12,665
Available-for-sale securities	155		\$155		155
Held-to-maturity securities	5,625		5,723		5,723
Loans held for sale	121		125		125
Loans receivable – net	245,012			\$249,484	249,484
Federal Home Loan Bank stock	6,482				n/a
Accrued interest receivable	747		25	722	747
<b>Financial liabilities</b>					
Deposits	\$196,253	\$83,781	\$112,672		196,453
Federal Home Loan Bank advances	29,231		29,922		29,922
Advances by borrowers for taxes and insurance	972	972			972
Accrued interest payable	33		33		33

<b>(in thousands)</b>	Carrying Value	Fair Value Measurements at June 30, 2015 Using			Total
		Level 1	Level 2	Level 3	
<b>Financial assets</b>					
Cash and cash equivalents	\$13,635	\$13,635			\$13,635
Available-for-sale securities	159		\$159		159

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Held-to-maturity securities	6,423	6,534	6,534
Loans held for sale	100	101	