Kentucky First Federal Bancorp
Form 10-Q
November 14, 2017

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, 2017

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.)

J16 West Main Street, Frankfort, Kentucky 40601

(Address of principal executive offices)(Zip Code)

(502) 223-1638

(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 for such shorter period that the registrant 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, smaller reporting company or an emerging growth company. See the definition of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Yes No

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, 2017, the latest practicable date, the Corporation had 8,444,515 shares of $.01 par value common stock outstanding.

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PART I

FINANCIAL INFORMATION

ITEM 1: Financial Statements

Kentucky First Federal Bancorp

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except share data)

	September 30, 2017	June 30, 2017
ASSETS		
Cash and due from financial institutions	$ 4,837	$4,035
Interest-bearing demand deposits	3,509	8,769
Cash and cash equivalents	8,346	12,804
Time deposits in other financial institutions	6,928	4,201
Securities available for sale	70	71
Securities held-to-maturity, at amortized cost- approximate fair value of $1,402 and $1,523 at September 30, and June 30, 2017, respectively	1,368	1,487
Loans, net of allowance of $1,554 and $1,533 at September 30, and June 30, 2017, respectively	255,858	258,244
Real estate owned, net	777	358
Premises and equipment, net	5,753	5,810
Federal Home Loan Bank stock, at cost	6,482	6,482
Accrued interest receivable	679	679
Bank-owned life insurance	3,182	3,158
Goodwill	14,507	14,507
Prepaid federal income taxes	17	74
Prepaid expenses and other assets	538	610
Total assets	$ 304,505	$308,485
LIABILITIES AND SHAREHOLDERS’ EQUITY		
Deposits	$ 188,187	$182,845

Federal Home Loan Bank advances	46,230	55,780
Advances by borrowers for taxes and insurance	1,054	818
Accrued interest payable	22	21
Deferred federal income taxes	696	719
Deferred revenue	578	578
Other liabilities	628	578
Total liabilities	237,395	241,339
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	35,084	35,084
Retained earnings	34,097	34,180
Unearned employee stock ownership plan (ESOP), 80,290 shares and 84,959 shares at September 30, and June 30, 2017, respectively	(803)	(850)
Treasury shares at cost, 151,549 and 151,549 common shares at September 30, and June 30, 2017, respectively	(1,355)	(1,355)
Accumulated other comprehensive income	1	1
Total shareholders' equity	67,110	67,146
Total liabilities and shareholders' equity	$ 304,505	$ 308,485

See accompanying notes.

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Kentucky First Federal Bancorp

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(Dollars in thousands, except per share data)

	Three months ended September 30,	
	2017	**2016**
Interest income		
Loans, including fees	$2,770	$2,693
Mortgage-backed securities	12	25
Other securities	--	3
Interest-bearing deposits and other	119	68
Total interest income	2,901	2,789
Interest expense		
Interest-bearing demand deposits	6	5
Savings	57	64
Certificates of Deposit	231	178
Deposits	294	247
Borrowings	174	81
Total interest expense	468	328
Net interest income	2,433	2,461
Provision for loan losses	--	4
Net interest income after provision for loan losses	2,433	2,457
Non-interest income		
Earnings on bank-owned life insurance	24	24
Net gain on sales of real estate owned	43	73
Other	73	71
Total non-interest income	140	168
Non-interest expense		
Employee compensation and benefits	1,369	1,344
Occupancy and equipment	158	182
Outside service fees	39	41
Legal fees	8	13
Data processing	102	97
Auditing and accounting	66	79
FDIC insurance premiums	23	60
Franchise and other taxes	59	60
Foreclosure and real estate owned expenses (net)	34	21

Other	300	271
Total non-interest expense	2,158	2,168
Income before income taxes	415	457
Federal income tax expense	135	160
NET INCOME	$280	$297
EARNINGS PER SHARE		
Basic and diluted	$0.03	$0.04
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, 2017	**2016**
Net income	$280	$297
Other comprehensive gains (losses), net of tax:		
Unrealized holding gains (losses) on securities designated as available for sale, net of taxes (benefits) of $0 and $(3) during the respective periods	--	(5)
Comprehensive income	$280	$292

See accompanying notes.

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Kentucky First Federal Bancorp

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Three months ended September 30, 2017	2016
Cash flows from operating activities:		
Net income	$280	$297
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	81	86
Accretion of purchased loan credit discount	(22)	(46)
Amortization of purchased loan premium	4	3
Amortization (accretion) of deferred loan origination costs (fees)	24	15
Amortization of premiums on investment securities	3	18
Amortization of premiums on deposits	--	(81)
Net loss (gain) on sale of real estate owned	(43)	(73)
Deferred gain on sale of real estate owned	--	(4)
ESOP compensation expense	47	52
Earnings on bank-owned life insurance	(24)	(24)
Provision for loan losses	--	4
Origination of loans held for sale	--	(203)
Increase (decrease) in cash, due to changes in:		
Accrued interest receivable	--	(1)
Prepaid expenses and other assets	72	343
Accrued interest payable	1	(1)
Other liabilities	50	107
Federal income taxes	34	61
Net cash provided by operating activities	507	553
Cash flows from investing activities:		
Purchase of term deposits in other financial institutions	(2,727)	(988)
Securities maturities, prepayments and calls:		
Held to maturity	116	638
Available for sale	1	1
Loans originated for investment, net of principal collected	1,889	(2,798)
Proceeds from sale of real estate owned	125	336
Additions to real estate owned	(10)	(13)
Additions to premises and equipment, net	(24)	(40)

Net cash used in investing activities	(630)	(2,864)
Cash flows from financing activities:		
Net increase (decrease) in deposits	5,342	(2,988)
Payments by borrowers for taxes and insurance, net	236	273
Proceeds from Federal Home Loan Bank advances	1,500	12,000
Repayments on Federal Home Loan Bank advances	(11,050)	(6,064)
Dividends paid on common stock	(363)	(372)
Net cash provided by (used in) financing activities	(4,335)	2,849
Net increase (decrease) in cash and cash equivalents	(4,458)	538
Beginning cash and cash equivalents	12,804	13,108
Ending cash and cash equivalents	$8,346	$13,646

See accompanying notes.

Kentucky First Federal Bancorp

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

(Unaudited)

(In thousands)

	Three months ended September 30, 2017	2016
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Federal income taxes	$100	$100
Interest on deposits and borrowings	$467	$410
Transfers of loans to real estate owned, net	$660	$68
Loans made on sale of real estate owned	$169	$110

See accompanying notes.

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Kentucky First Federal Bancorp

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2017

(unaudited)

The Kentucky First Federal Bancorp ("Kentucky First" or the "Company") was incorporated under federal law in March 2005, and is the mid-tier holding company for First Federal Savings and Loan Association of Hazard, Hazard, Kentucky ("First Federal of Hazard") and Frankfort First Bancorp, Inc. ("Frankfort First"). Frankfort First is the holding company for First Federal Savings Bank of Kentucky, Frankfort, Kentucky ("First Federal of Kentucky"). First Federal of Hazard and First Federal of Kentucky (hereinafter collectively the "Banks") are Kentucky First's primary operations, which consist of operating the Banks as two independent, community-oriented savings institutions.

In December 2012, the Company acquired CKF Bancorp, Inc., a savings and loan holding company which operated three banking locations in Boyle and Garrard Counties in Kentucky. In accounting for the transaction the assets and liabilities of CKF Bancorp were recorded on the books of First Federal of Kentucky in accordance with accounting standard ASC 805, Business Combinations.

1. <u>Basis of Presentation</u>

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, 2017, are not necessarily indicative of the results which may be expected for an entire fiscal year. The consolidated balance sheet as of June 30, 2017 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 2017 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 Kentucky (collectively hereinafter “the Banks”). All intercompany transactions and balances have been eliminated in consolidation.

Kentucky First Federal Bancorp

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2017

(unaudited)

New Accounting Standards:

FASB ASC 606 - In May 2014, FASB issued ASU 2014-09, Revenue from Contracts with Customers, and subsequently issued several amendments to the standard. The core principle of ASU 2014-09 is that entities should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Additional disclosures are required to provide information regarding the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. As amended, ASU 2014-09 becomes effective for annual periods and interim periods within those annual periods beginning after December 15, 2017, or the fiscal year beginning July 1, 2018, with respect to the Company. Management is finalizing its assessment of impact of the effects of ASU 2014-09, as amended, on the Company's financial statements and disclosures. We do not expect the new standard or any of the amendments to result in a material change from our current accounting for revenue, because the majority of the Company's financial instruments are outside of the scope of Topic 606. Management will continue to evaluate the impact, if any, of any additional guidance that is forthcoming.

FASB ASC 825 - In January 2016, the FASB issued an update ASU No. 2016-01, Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The amendments in this update: 1) Require equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. 2) Simplify the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. When a qualitative assessment indicates that impairment exists, an entity is required to measure the investment at fair value. 3) Eliminate the requirement to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet. 4) Require entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. 5) Require an entity to present separately in other comprehensive income the portion of the total change in fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. 6) Require separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements. 7) Clarify that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. The amendments in this update become effective for annual periods and interim periods within those annual periods beginning after December 15, 2017, or the fiscal year beginning July 1, 2018, with respect to the Company. Management is finalizing its assessment of impact of the effects of adopting the new guidance on the consolidated financial statements, but it is not expected to have a material impact. However, a fair value estimate on a loan portfolio would consider exit price.

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Kentucky First Federal Bancorp

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2017

(unaudited)

New Accounting Standards (continued)

FASB ASC 718 - In March 2016, the FASB issued ASU No. 2016-09, Compensation – Stock Compensation (Topic 718): Improvements to Employee Shared-Based Payment Accounting. The amendments are intended to improve the accounting for employee shared-based payments and affects all organizations that issue share-based payment awards to their employees. Several aspects of the accounting for share-based payment award transactions are simplified, including the income tax consequences, the classification of awards as either equity or liabilities, and the classification on the statement of cash flows. The amendments in this update became effective July 1, 2017, with respect to the Company and, as expected, it did not have a material impact of the consolidated financial statements.

FASB ASC 326 - In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The final standard will change estimates for credit losses related to financial assets measured at amortized cost such as loans, held-to-maturity debt securities, and certain other contracts. For estimating credit losses, the FASB is replacing the incurred loss model with an expected loss model, which is referred to as the current expected credit loss (CECL) model. The Company will now use forward-looking information to enhance its credit loss estimates. The amendment requires enhanced disclosures to aid investors and other users of financial statements to better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of our portfolio. The largest impact to the Company will be on its allowance for loan and lease losses, although the ASU also amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The standard is effective public companies for annual periods and interim periods within those annual periods beginning after December 15, 2019, or in the Company’s case the fiscal year beginning July 1, 2020. ASU 2016-13 will be applied through a cumulative effect adjustment to retained earnings (modified-retrospective approach), except for debt securities for which an other-than-temporary impairment had been recognized before the effective date. A prospective transition approach is required for these debt securities. We have formed a functional committee that is assessing our data and system needs and are evaluating the impact of adopting the new guidance. We expect to recognize a one-time cumulative effect adjustment to the allowance for loan losses as of the beginning of the first reporting period in which the new standard is effective, but cannot yet determine the magnitude of any such one-time adjustment or the overall impact of the new guidance on the consolidated financial statements. However, the Company does expect ASU 2016-13 to add complexity and costs to its current credit loss evaluation process.

Kentucky First Federal Bancorp

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2017

(unaudited)

<u>New Accounting Standards</u> (continued)

FASB ASC 230 - In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments* . The amendments in ASU 2016-15 provide guidance on the following eight specific cash flow issues:

1. Debt Prepayment or Debt Extinguishment Costs;

2. Settlement of Zero-Coupon Debt Instruments or Other Debt Instruments with Coupon Interest Rates That Are Insignificant in Relation to the Effective Interest Rate of the Borrowing;

3. Contingent Consideration Payments Made after a Business Combination;

4. Proceeds from the Settlement of Insurance Claims;

5. Proceeds from the Settlement of Corporate-Owned Life Insurance Policies, including Bank-Owned Life Insurance Policies;

6. Distributions Received from Equity Method Investees;

7. Beneficial Interests in Securitization Transactions; and

8. Separately Identifiable Cash Flows and Application of the Predominance Principle.

The amendments are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted, including adoption in an interim period. Management is finalizing its assessment of impact of the effects of adopting the new guidance on the consolidated financial statements, but it is not expected to have a material impact.

FASB ASC 310 – In March 2017, the FASB issued ASU No. 2017-08, *Receivables- Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities.* The amendments in this update shorten the amortization period for certain callable debt securities held at a premium. Specifically, the amendments requite the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. The amendments in this update more closely align the amortization period of premiums and discounts to expectations incorporated in market pricing on the underlying securities, which, in turn, are expected to more closely align interest income recorded on bonds held at a premium or a discount with the economics of the underlying instrument. For public business entities, the amendments in this update are effective for fiscal years, and the interim periods within those fiscal years, beginning after December 15, 2018. Changes resulting from the amendments in this update should be recognized on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. Additionally, in the period of adoption, an entity should provide disclosures about a change in accounting principle. We have determined that this guidance will have an immaterial impact on the Company’s financial statements and have elected to adopt the guidance.

Kentucky First Federal Bancorp

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2017

(unaudited)

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.

2. 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:

	Three months ended September 30,	
(in thousands)	2017	2016
Net income allocated to common shareholders, basic and diluted	$280	$297

	Three months ended September 30,	
	2017	2016
Weighted average common shares outstanding, basic and diluted	8,359,607	8,335,931

There were no stock option shares outstanding for the three month periods ended September 30, 2017 and 2016.

Kentucky First Federal Bancorp

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

September 30, 2017

(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, 2017 and June 30, 2017, the corresponding amounts of gross unrealized gains recognized in accumulated other comprehensive income and gross unrecognized gains and losses:

	September 30, 2017			
(in thousands)	Amortized cost	Gross unrealized/ unrecognized gains	Gross unrealized/ unrecognized losses	Estimated fair value
Available-for-sale Securities				
Agency mortgage-backed: residential	$69	$ 1	$ --	$ 70
Held-to-maturity Securities				
Agency mortgage-backed: residential	$1,368	$ 42	$ 8	$ 1,402

	June 30, 2017			
(in thousands)	Amortized cost	Gross unrealized/ unrecognized gains	Gross unrealized/ unrecognized losses	Estimated fair value
Available-for-sale Securities				
Agency mortgage-backed: residential	$70	$ 1	$ --	$ 71
Held-to-maturity Securities				
Agency mortgage-backed: residential	$1,487	$ 45	$ 9	$ 1,523

At September 30, 2017, the Company's debt securities consist of mortgage-backed securities, which 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.

	September 30, 2017	
(in thousands)	Amortized Cost	Fair Value
Held-to-maturity Securities		
Agency mortgage-backed: residential	$1,368	$1,402

Our pledged securities (including overnight and time deposits in other financial institutions) totaled $2.2 million and $2.3 million at September 30 and June 30, 2017, respectively.

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, 2017

(unaudited)

4. Loans receivable

The composition of the loan portfolio was as follows:

(in thousands)	September 30, 2017	June 30, 2017
Residential real estate		
One- to four-family	$ 196,497	$ 197,936
Multi-family	15,067	15,678
Construction	2,320	2,398
Land	901	1,304
Farm	2,368	2,062
Nonresidential real estate	31,104	29,211
Commercial nonmortgage	2,200	2,540
Consumer and other:		
Loans on deposits	1,632	1,607
Home equity	6,819	6,853
Automobile	38	42
Unsecured	471	400
	259,417	260,031
Undisbursed portion of loans in process	(2,047)	(296)
Deferred loan origination costs	42	42
Allowance for loan losses	(1,554)	(1,533)
	$ 255,858	$ 258,244

The following table presents the activity in the allowance for loan losses by portfolio segment for the three months ended September 30, 2017:

(in thousands)	Beginning balance	Provision for loan losses	Loans charged off	Recoveries	Ending balance
Residential real estate:					
One- to four-family	$ 773	$ (20)	$ (18)	$ 39	$ 774
Multi-family	243	--	--	--	243
Construction	6	1	--	--	7
Land	4	(2)	--	--	2
Farm	9	1	--	--	10
Nonresidential real estate	270	14	--	--	284
Commercial nonmortgage	6	1	--	--	7
Consumer and other:					
Loans on deposits	4	1	--	--	5
Home equity	17	3	--	--	20
Automobile	--	--	--	--	--
Unsecured	1	1	--	--	2
Unallocated	200	--	--	--	200
Totals	$ 1,533	$ --	$ (18)	$ 39	**$ 1,554**

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Kentucky First Federal Bancorp

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

September 30, 2017

(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, 2016:

(in thousands)	Beginning balance	Provision for loan losses	Loans charged off	Recoveries	Ending balance
Residential real estate:					
One- to four-family	$ 862	$ (16)	$ (43)	$ --	$ 803
Multi-family	192	16	--	--	208
Construction	5	--	--	--	5
Land	2	--	--	--	2
Farm	3	1	--	--	4
Nonresidential real estate	217	5	--	--	222
Commercial nonmortgage	18	(3)	--	--	15
Consumer and other:					
Loans on deposits	4	--	--	--	4
Home equity	11	1	--	--	12
Automobile	--	--	--	--	--
Unsecured	1	--	--	--	1
Unallocated	200	--	--	--	200
Totals	$ 1,515	$ 4	$ (43)	$ --	**$ 1,476**

Kentucky First Federal Bancorp

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

September 30, 2017

(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, 2017. The recorded investment in loans excludes accrued interest receivable and deferred loan costs, net due to immateriality. There were no impaired loans at September 30, 2017, that had a related specific allowance.

September 30, 2017:

(in thousands)	**Unpaid Principal Balance and Recorded Investment** 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	$3,195	$ 1,502	$4,697	$ --	$ --	$ --
	131	--	131	--	--	--
	3,326	1,502	4,828	--	--	--
Loans collectively evaluated for impairment:						
Residential real estate:						
One- to four-family			$191,800	$ 774	$ --	$ 774
Multi-family			15,067	243	--	243
Construction			2,320	7	--	7
Land			901	2	--	2

Farm	2,368	10	--	10
Nonresidential real estate	30,973	284	--	284
Commercial nonmortgage	2,200	7	--	7
Consumer:				
Loans on deposits	1,632	5	--	5
Home equity	6,819	20	--	20
Automobile	38	--	--	--
Unsecured	471	2	--	2
Unallocated	--	--	200	200
	254,589	1,354	200	1,554
	$259,417	$ 1,354	$ 200	$ 1,554

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Kentucky First Federal Bancorp

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

September 30, 2017

(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, 2017. There were no impaired loans at June 30, 2017, that had a related specific allowance.

June 30, 2017:

	Unpaid Principal Balance and Recorded Investment					
(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	$3,706	$ 1,676	$5,382	$ --	$ --	$ --
Nonresidential real estate	131	--	131	--	--	--
	3,837	1,676	5,513	--	--	--
Loans collectively evaluated for impairment:						
Residential real estate:						
One- to four-family			$192,554	$ 773	$ --	$ 773
Multi-family			15,678	243	--	243
Construction			2,398	6	--	6
Land			1,304	4	--	4
Farm			2,062	9	--	9

Nonresidential real estate	29,080	270	--	270
Commercial nonmortgage	2,540	6	--	6
Consumer:				
Loans on deposits	1,607	4	--	4
Home equity	6,853	17	--	17
Automobile	42	--	--	--
Unsecured	400	1	--	1
Unallocated	--	--	200	200
	254,518	1,333	200	1,533
	$260,031	$ 1,333	$ 200	$ 1,533

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Kentucky First Federal Bancorp

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

September 30, 2017

(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, 2017 and 2016:

September 30, 2017:

(in thousands)	Unpaid Principal Balance and Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Income Recognized
With no related allowance recorded:					
One- to four-family	$ 3,195	$ -	$ 3,450	$ 2	$ 2
Nonresidential real estate	131	-	131	-	-
Purchased credit-impaired loans	1,502	-	1,589	30	30
	4,828	-	5,170	32	32
With an allowance recorded:					
One- to four-family	-	-	-	-	-
	$ 4,828	$ -	$ 5,170	$ 32	$ 32

September 30, 2016:

(in thousands)	Unpaid Principal Balance	Allowance for Loan Losses	Average Recorded Investment	Interest Income Recognized	Cash Basis Income Recognized

	and Recorded Investment	Allocated			
With no related allowance recorded:					
One- to four-family	$ 3,980	$ --	$ 3,690	$ 2	$ 2
Purchased credit-impaired loans	2,091	--	2,201	14	14
	6,071	--	5,891	16	16
With an allowance recorded:					
One- to four-family	--	--	--	--	--
	$ 6,071	$ --	$ 5,891	$ 16	$ 16

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Kentucky First Federal Bancorp

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

September 30, 2017

(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, 2017 and June 30, 2017:

	September 30, 2017		June 30, 2017	
(in thousands)	Nonaccrual	Loans Past Due Over 90 Days Still Accruing	Nonaccrual	Loans Past Due Over 90 Days Still Accruing
One- to four-family residential real estate	$4,790	$ 1,598	$4,870	$ 1,770
Nonresidential real estate and land	150	539	151	--
Consumer	9	22	8	11
	$4,949	$ 2,159	$5,029	$ 1,781

Troubled Debt Restructurings:

A Troubled Debt Restructuring ("TDR") is the situation where the Bank grants a concession to the borrower that the Banks would not otherwise have considered due to the borrower's financial difficulties. All TDRs are considered "impaired." At September 30, 2017 and June 30, 2017, the Company had $1.7 million and $1.5 million of loans classified as TDRs, respectively. Of the TDRs at September 30, 2017, approximately 15.9% were related to the borrower's completion of Chapter 7 bankruptcy proceedings with no reaffirmation of the debt to the Banks.

Kentucky First Federal Bancorp

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

September 30, 2017

(unaudited)

4. Loans receivable (continued)

The following table summarizes TDR loan modifications that occurred during the three months ended September 30, 2017 and 2016, and their performance, by modification type:

(in thousands)	Troubled Debt Restructurings Performing to Modified Terms	Troubled Debt Restructurings Not Performing to Modified Terms	Total Troubled Debt Restructurings
Three months ended September 30, 2017			
Residential real estate:			
Terms extended	$ 314	$ --	$ 314

The Company had no TDRs during the three months ended September 30, 2016. The Company had no allocated specific reserves to customers whose loan terms had been modified in troubled debt restructurings as of September 30, 2017 or at June 30, 2017. The Company had no commitments to lend on loans classified as TDRs at September 30, 2017 or June 30, 2017.

Four TDRs with a carrying value of $136,000 defaulted during the three-month period ended September 30, 2017. The properties were taken into REO and sold. There were no TDRs that defaulted during the three- month period ended September 30, 2016.

Kentucky First Federal Bancorp

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

September 30, 2017

(unaudited)

4. Loans receivable (continued)

The following table presents the aging of the principal balance outstanding in past due loans as of September 30, 2017, by class of loans:

(in thousands)	**30-89 Days Past Due**	**90 Days or Greater Past Due**	**Total Past Due**	**Loans Not Past Due**	**Total**
Residential real estate:					
One-to four-family	$3,973	$ 3,847	$7,820	$188,677	$196,497
Multi-family	--	--	--	15,067	15,067
Construction	--	--	--	2,320	2,320
Land	--	--	--	901	901
Farm	--	539	539	1,829	2,368
Nonresidential real estate	630	133	763	30,341	31,104
Commercial non-mortgage	--	--	--	2,200	2,200
Consumer and other:					
Loans on deposits	--	--	--	1,632	1,632
Home equity	3	22	25	6,794	6,819
Automobile	--	--	--	38	38
Unsecured	--	--	--	471	471
Total	**$4,606**	**$ 4,541**	**$9,147**	**$250,270**	**$259,417**

The following tables present the aging of the principal balance outstanding in past due loans as of June 30, 2017, by class of loans:

(in thousands)	Total

	30-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Loans Not Past Due	
Residential real estate:					
One-to four-family	$5,193	$4,496	$9,689	$188,247	$197,936
Multi-family	--	--	--	15,678	15,678
Construction	--	--	--	2,398	2,398
Land	--	--	--	1,304	1,304
Farm	539	--	539	1,523	2,062
Nonresidential real estate	635	133	768	28,443	29,211
Commercial nonmortgage	--	--	--	2,540	2,540
Consumer:					
Loans on deposits	--	--	--	1,607	1,607
Home equity	17	11	28	6,825	6,853
Automobile	--	--	--	42	42
Unsecured	13	--	13	387	400
Total	$6,397	$4,640	$11,037	$248,994	$260,031

Kentucky First Federal Bancorp

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

September 30, 2017

(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 30, 2017, 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	$--	$ 4,569	$ 9,998	$ --	$181,930
Multi-family	14,686	--	381	--	--
Construction	2,320	--	--	--	--
Land	901	--	--	--	--
Farm	1,829	--	539	--	--
Nonresidential real estate	30,954	--	150	--	--
Commercial nonmortgage	2,174	26	--	--	--
Consumer:					
Loans on deposits	1,632	--	--	--	--
Home equity	6,819	--	--	--	--
Automobile	38	--	--	--	--
Unsecured	467	--	4	--	--
	$61,820	$ 4,595	$ 11,072	$ --	$181,930

Kentucky First Federal Bancorp

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

September 30, 2017

(unaudited)

4. Loans receivable (continued)

At June 30, 2017, 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	$--	$ 6,110	$ 9,883	$ --	$181,943
Multi-family	14,541	--	1,137	--	--
Construction	2,398	--	--	--	--
Land	1,304	--	--	--	--
Farm	1,523	--	539	--	--
Nonresidential real estate	29,061	--	150	--	--
Commercial nonmortgage	2,513	27	--	--	--
Consumer:					
Loans on deposits	1,607	--	--	--	--
Home equity	6,744	93	16	--	--
Automobile	42	--	--	--	--
Unsecured	396	--	4	--	--
	$60,129	$ 6,230	$ 11,729	$ --	$181,943

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 $388,000 at September 30, 2017 and June 30, 2017, respectively, is as follows:

(in thousands)	September 30, 2017	June 30, 2017
One- to four-family residential real estate	$ 1,502	$ 1,676
Nonresidential real estate	--	--
Outstanding balance	$ 1,502	$ 1,676

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Kentucky First Federal Bancorp

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

September 30, 2017

(unaudited)

4. Loans receivable (continued)

Accretable yield, or income expected to be collected on loans purchased during fiscal year 2013, is as follows

(in thousands)	Three months ended September 30, 2017	Three months ended September 30, 2016
Balance at beginning of period	$ 720	$ 981
Accretion of income	(22)	(46)
Reclassifications from nonaccretable difference	-	-
Disposals, net of recoveries	1	-
Balance at end of period	$ 699	$ 935

For those purchased loans disclosed above, the Company made no increase in allowance for loan losses for the year ended June 30, 2017, nor for the three-month period ended September 30, 2017. 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 that the entity has the ability to access at the measurement date.

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 reflect a reporting entity's own assumptions and 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 and FHLMC stock.

Kentucky First Federal Bancorp

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

September 30, 2017

(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:

	Fair Value Measurements Using			
(in thousands)	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>September 30, 2017</u>				
Agency mortgage-backed: residential	$70	$ --	$ 70	$ --
June 30, 2017				
Agency mortgage-backed: residential	$71	$ --	$ 71	$ --

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Kentucky First Federal Bancorp

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

September 30, 2017

(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, 2017				
Loans				
One- to four-family	$70	-	-	$ 70
June 30, 2017				
Other real estate owned, net				
One- to four-family	$103	-	-	$ 103
Land	79	-	-	79

There were no impaired loans, which were measured using the fair value of the collateral for collateral-dependent loans, at September 30, 2017, and June 30, 2017. There was no specific provision made for the three month periods ended September 30, 2017 or 2016.

Other real estate owned measured at fair value less costs to sell, had carrying amounts of $182,000 at June 30, 2017. Other real estate owned was not written down during the three months ended September 30, 2017 and 2016.

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Kentucky First Federal Bancorp

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

September 30, 2017

(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, 2017 and June 30, 2017:

September 30, 2017	Fair Value (in thousands)	Valuation Technique(s)	Unobservable Input(s)	Range (Weighted Average)
Loans:				
One- to four-family	$ 70	Sales comparison approach	Adjustments for differences between comparable sales	-23.5% to 13.8% (-1.5%)

June 30, 2017	Fair Value (in thousands)	Valuation Technique(s)	Unobservable Input(s)	Range (Weighted Average)
Foreclosed and repossessed assets:				
One- to four-family	$ 103	Sales comparison approach	Adjustments for differences between comparable sales	-3.6% to 45.8% (9.5%)
Land	$ 79	Sales comparison approach	Adjustments for differences between comparable sales	3.5% to 6.6% (5.0%)

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, 2017

(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, 2017 and June 30, 2017:

Cash and cash equivalents, interest-bearing deposits and time deposits in other financial institutions: 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: 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, 2017 and June 30, 2017, was not material.

Kentucky First Federal Bancorp

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

September 30, 2017

(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, 2017 and June 30, 2017 are as follows: