

Kentucky First Federal Bancorp  
Form 10-Q  
November 14, 2018

**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, 2018

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

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(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

216 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 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, 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. (Check one)

|   |                           |
|---|---------------------------|
| 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.

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, 2018, the latest practicable date, the Corporation had 8,408,315 shares of \$.01 par value common stock outstanding.

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## PART I

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

(Unaudited)

(In thousands, except share data)

|  | September<br>30,<br>2018 | June 30,<br>2018 |
|--|--------------------------|------------------|
| <b>ASSETS</b>  |                          |                  |
| Cash and due from financial institutions   | \$ 1,224                 | \$ 2,337         |
| Interest-bearing demand deposits   | 8,707                    | 7,606            |
| Cash and cash equivalents  | 9,931                    | 9,943            |
| Time deposits in other financial institutions  | 4,952                    | 5,692            |
| Securities available-for-sale  | 546                      | 48               |
| Securities held-to-maturity, at amortized cost- approximate fair value of \$890 and \$998 at September 30, and June 30, 2018, respectively | 902                      | 1,002            |
| Loans held-for-sale  | 110                      | -                |
| Loans, net of allowance of \$1,571 and \$1,576 at September 30, and June 30, 2018, respectively  | 268,881                  | 270,310          |
| Real estate owned, net   | 795                      | 710              |
| Premises and equipment, net  | 5,609                    | 5,652            |
| Federal Home Loan Bank stock, at cost  | 6,482                    | 6,482            |
| Accrued interest receivable  | 721                      | 706              |
| Bank-owned life insurance  | 2,463                    | 2,444            |
| Goodwill   | 14,507                   | 14,507           |
| Prepaid federal income taxes   | 109                      | 144              |
| Prepaid expenses and other assets  | 693                      | 754              |
| Total assets   | \$ 316,701               | \$ 318,394       |

**LIABILITIES AND SHAREHOLDERS' EQUITY**

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|   |            |            |
|---|------------|------------|
| Deposits  | \$ 196,810 | \$ 195,653 |
| Federal Home Loan Bank advances   | 50,014     | 53,052     |
| Advances by borrowers for taxes and insurance   | 1,039      | 762        |
| Accrued interest payable  | 24         | 22         |
| Deferred federal income taxes   | 557        | 443        |
| Deferred revenue  | -          | 558        |
| Other liabilities   | 883        | 701        |
| Total liabilities   | 249,327    | 251,191    |
| 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  | 35,085     | 35,085     |
| Retained earnings   | 34,264     | 34,050     |
| Unearned employee stock ownership plan (ESOP), 61,614 shares and 66,283 shares at September 30, and June 30, 2018, respectively | (616 )     | (663 )     |
| Treasury shares at cost, 162,749 and 151,549 common shares at September 30, and June 30, 2018, respectively                     | (1,444 )   | (1,355 )   |
| Accumulated other comprehensive loss  | (1 )       | -          |
| Total shareholders' equity  | 67,374     | 67,203     |
| Total liabilities and shareholders' equity  | \$ 316,701 | \$ 318,394 |

See accompanying notes.

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

(Unaudited)

(Dollars in thousands, except per share data)

|   | <b>Three months<br/>ended<br/>September 30,<br/>2018    2017</b> |         |
|---|--|---------|
| Interest income                                     |  |         |
| Loans, including fees                               | \$2,888  | \$2,770 |
| Mortgage-backed securities                          | 8  | 12      |
| Other securities                                    | 1  | --      |
| Interest-bearing deposits and other                 | 149  | 119     |
| Total interest income                               | 3,046  | 2,901   |
| Interest expense                                    |  |         |
| Interest-bearing demand deposits                    | 6  | 9       |
| Savings   | 54   | 57      |
| Certificates of Deposit                             | 382  | 228     |
| Deposits  | 442  | 294     |
| Borrowings  | 258  | 174     |
| Total interest expense                              | 700  | 468     |
| Net interest income                                 | 2,346  | 2,433   |
| Provision for loan losses                           | 11   | --      |
| Net interest income after provision for loan losses | 2,335  | 2,433   |
| Non-interest income                                 |  |         |
| Earnings on bank-owned life insurance               | 19   | 24      |
| Net gain on sales of loans                          | 14   | --      |
| Net gain on sales of real estate owned              | 5  | 43      |
| Valuation adjustment for real estate owned          | (18 )  | --      |
| Other   | 49   | 73      |
| Total non-interest income                           | 69   | 140     |
| Non-interest expense                                |  |         |
| Employee compensation and benefits                  | 1,454  | 1,369   |
| Occupancy and equipment                             | 170  | 158     |
| Voice and data communications                       | 65   | 56      |
| Advertising   | 67   | 58      |
| Outside service fees                                | 38   | 39      |
| Data processing                                     | 105  | 102     |
| Auditing and accounting                             | 34   | 66      |

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|  |        |        |
|--|--------|--------|
| Franchise and other taxes                        | 63     | 59     |
| Foreclosure and real estate owned expenses (net) | 23     | 34     |
| Other  | 205    | 217    |
| Total non-interest expense                       | 2,224  | 2,158  |
| Income before income taxes                       | 180    | 415    |
| Federal income tax expense                       | 42     | 135    |
| NET INCOME                                       | \$138  | \$280  |
| EARNINGS PER SHARE                               |        |        |
| Basic and diluted                                | \$0.02 | \$0.03 |
| DIVIDENDS PER SHARE                              | \$0.10 | \$0.10 |

See accompanying notes.



**Kentucky First Federal Bancorp**

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(Unaudited)

(In thousands)

|   | Three<br>months<br>ended<br>September<br>30, |       |
|---|--|-------|
|   | 2018   | 2017  |
| Net income  | \$138  | \$280 |
| Other comprehensive gains (losses), net of tax:   |  |       |
| Unrealized holding gains (losses) on securities designated as available-for-sale, net of taxes of \$0 and \$0 during the respective periods | (1 )   | --    |
| Comprehensive income  | \$137  | \$280 |

See accompanying notes.

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

(Unaudited)

(In thousands)

|  | Three months ended<br>September 30, |          |
|--|-------------------------------------|----------|
|  | 2018                                | 2017     |
| Cash flows from operating activities:  |                                     |          |
| Net income   | \$138                               | \$280    |
| Adjustments to reconcile net income to net cash provided by operating activities |                                     |          |
| Depreciation   | 77                                  | 81       |
| Accretion of purchased loan credit discount                                      | (21 )                               | (22 )    |
| Amortization of purchased loan premium   | 3                                   | 4        |
| Amortization of deferred loan origination costs                                  | 15                                  | 24       |
| Amortization of premiums on investment securities                                | 2                                   | 3        |
| Net gain on sale of loans  | (14 )                               | --       |
| Valuation adjustment of REO  | 18                                  | --       |
| Net gain on sale of real estate owned  | (5 )                                | (43 )    |
| ESOP compensation expense  | 47                                  | 47       |
| Earnings on bank-owned life insurance  | (19 )                               | (24 )    |
| Provision for loan losses  | 11                                  | --       |
| Origination of loans held for sale   | (476 )                              | --       |
| Proceeds from loans held for sale  | 380                                 | --       |
| Increase (decrease) in cash, due to changes in:                                  |                                     |          |
| Accrued interest receivable  | (15 )                               | --       |
| Prepaid expenses and other assets  | 61                                  | 72       |
| Accrued interest payable   | 2                                   | 1        |
| Other liabilities  | 182                                 | 50       |
| Federal income taxes   | 32                                  | 34       |
| Net cash provided by operating activities  | 418                                 | 507      |
| Cash flows from investing activities:  |                                     |          |
| Purchase of time deposits in other financial institutions                        | (494 )                              | (2,727 ) |
| Maturities of time deposits in other financial institutions                      | 1,234                               | --       |
| Purchase of investment securities available-for-sale                             | (501 )                              | --       |
| Securities maturities, prepayments and calls:                                    |                                     |          |
| Held to maturity   | 98                                  | 116      |
| Available-for-sale   | 2                                   | 1        |
| Loans originated for investment, net of principal collected                      | 1,385                               | 1,889    |
| Proceeds from sale of real estate owned  | --                                  | 125      |
| Additions to real estate owned   | (62 )                               | (10 )    |

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|   |          |          |
|---|----------|----------|
| Additions to premises and equipment, net            | (34 )    | (24 )    |
| Net cash provided by (used in) investing activities | 1,628    | (630 )   |
| Cash flows from financing activities:               |          |          |
| Net increase in deposits                            | 1,157    | 5,342    |
| Payments by borrowers for taxes and insurance, net  | 277      | 236      |
| Proceeds from Federal Home Loan Bank advances       | 8,500    | 1,500    |
| Repayments on Federal Home Loan Bank advances       | (11,538) | (11,050) |
| Dividends paid on common stock                      | (365 )   | (363 )   |
| Purchase of stock for treasury                      | (89 )    | --       |
| Net used in financing activities                    | (2,058 ) | (4,335 ) |
| Net decrease in cash and cash equivalents           | (12 )    | (4,458 ) |
| Beginning cash and cash equivalents                 | 9,943    | 12,804   |
| Ending cash and cash equivalents                    | \$9,931  | \$8,346  |

See accompanying notes.

**Kentucky First Federal Bancorp**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)**

(Unaudited)

(In thousands)

Three  
months  
ended  
September  
30,  
2018 2017

Supplemental disclosure of cash flow information:

Cash paid during the period for:

|  |       |       |
|--|-------|-------|
| Federal income taxes                         | \$--  | \$100 |
| Interest on deposits and borrowings          | \$698 | \$467 |
| Transfers of loans to real estate owned, net | \$116 | \$660 |
| Loans made on sale of real estate owned      | \$80  | \$169 |

See accompanying notes.

**Kentucky First Federal Bancorp**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2018

(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. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements, which represent the condensed 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 condensed consolidated financial statements have been included. The results of operations for the three-month period ended September 30, 2018, are not necessarily indicative of the results which may be expected for an entire fiscal year. The condensed consolidated balance sheet as of June 30, 2018 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 condensed 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 2018 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.

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 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

September 30, 2018

(unaudited)

1. Basis of Presentation (continued)

Adoption of New Accounting Standards - In May 2014, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and subsequently issued several amendments to the standard. The primary principle of the guidance is that entities should recognize revenue in a manner consistent with the transfer of promised goods or services to customers in an amount that represents the consideration that the entity expects to be entitled in exchange for those goods or services. ASU No. 2014-09 also requires disclosure of the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Most of the revenues earned by the Company are excluded from the scope of the new standard. Revenue streams within the scope of this guidance include service charges and fees on deposits, interchange fees earned on payments processing, and certain components of other service charges, commissions and fees. The Company has analyzed each stream under Topic 606 and determined that there were no material changes to existing recognition practices except with regard to recognition of gain on the sale of other real estate owned (“REO.”) The Company adopted ASU No. 2014-09 effective July 1, 2018 on a modified retrospective basis through a cumulative-effect adjustment of \$441,000 directly to retained earnings as an offset to the carrying value of deferred revenue.

The Company’s revenue-generating activities accounted for under Topic 606 includes primarily service charges and fees on deposits and other service charges and fees and comprise the majority of other non-interest income on the statement of income.

Service charges and fees on deposits are primarily overdraft fees, dormant account fees, and service charges on checking and savings accounts. Overdraft fees are recognized at the time an account is overdrawn. Dormant account fees are recognized when an account is inactive for at least 365 days. Service charges on checking and savings accounts are primarily account maintenance services performed and recognized in the same calendar month. Other deposit-based service charges and fees include transaction-based services completed at the request of the customer and recognized at the time the transaction is completed. These transaction-based services include ATM usage and stop payment services. All service charges and fees on deposits are withdrawn from the customer’s account at the time the service is provided.

Other service charges and fees include interchange fees. Interchange fees are earned primarily from debit card holder transactions conducted through the Mastercard payment network and other networks, and such fees from cardholder transactions represent a percentage of the underlying transaction value and are received and recognized daily, concurrent with the transaction processing services provided to the cardholder.

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 and, in February 2018, issued an amendment for technical corrections and improvements related to this guidance. The amendments in this ASU require all 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 through net income. Additionally, this ASU eliminates 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. Public business entities must use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. For public business entities, the amendments in this ASU become effective for annual periods and interim periods within those annual periods beginning after December 15, 2017. The Company adopted ASU No. 2016-01 effective July 1, 2018, with no material impact on its consolidated financial position, results of operations, or cash flows upon adoption. However, fair value estimates for all financial instruments now require exit price. Fair value disclosures, which can be found in Note 5, have been modified to consider the exit price notion.



**Kentucky First Federal Bancorp**

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

September 30, 2018

(unaudited)

Adoption of New Accounting Standards: (continued)

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 Company adopted ASU No. 2016-15 effective July 1, 2018, with no material impact on its consolidated financial position, results of operations, or cash flows upon adoption.

Recently Issued Accounting Standards:

**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 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

September 30, 2018

(unaudited)

**New Accounting Standards** (continued)

**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*, to shorten the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require 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. Management elected to adopt the guidance in the quarter ended March 31, 2018 and there was not a material impact on the Company's financial statements.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies are not expected to have a material impact on the Company's financial position, results of operations or cash flows.

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:

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| (dollars in thousands, except per share data)                  | Three months ended |           |
|--|--------------------|-----------|
|  | September 30,      |           |
|  | 2018               | 2017      |
| Net income allocated to common shareholders, basic and diluted | \$ 138             | \$ 280    |
| Weighted average common shares outstanding, basic and diluted  | 8,376,928          | 8,359,607 |
| Earnings per share, basic and diluted                          | \$0.02             | \$0.03    |

There were no stock option shares outstanding for the three month periods ended September 30, 2018 and 2017.

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

September 30, 2018

(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, 2018 and June 30, 2018, the corresponding amounts of gross unrealized gains recognized in accumulated other comprehensive income and gross unrecognized gains and losses:

| (in thousands)                       | <b>September 30, 2018</b> |                                      |                                       |                      |
|--------------------------------------|---------------------------|--------------------------------------|---------------------------------------|----------------------|
|                                      | Amortized cost            | Gross unrealized/ unrecognized gains | Gross unrealized/ unrecognized losses | Estimated fair value |
| <b>Available-for-sale Securities</b> |                           |                                      |                                       |                      |
| Agency mortgage-backed: residential  | \$46                      | \$ --                                | \$ --                                 | \$ 46                |
| Agency bonds                         | 501                       | --                                   | 1                                     | 500                  |
|                                      | \$547                     | \$ --                                | \$ 1                                  | \$ 546               |
| <b>Held-to-maturity Securities</b>   |                           |                                      |                                       |                      |
| Agency mortgage-backed: residential  | \$902                     | \$ 14                                | \$ 26                                 | \$ 890               |
| <br>                                 |                           |                                      |                                       |                      |
| (in thousands)                       | <b>June 30, 2018</b>      |                                      |                                       |                      |
|                                      | Amortized cost            | Gross unrealized/ unrecognized gains | Gross unrealized/ unrecognized losses | Estimated fair value |
| <b>Available-for-sale Securities</b> |                           |                                      |                                       |                      |
| Agency mortgage-backed: residential  | \$48                      | \$ --                                | \$ --                                 | \$ 48                |
| <b>Held-to-maturity Securities</b>   |                           |                                      |                                       |                      |
| Agency mortgage-backed: residential  | \$1,002                   | \$ 19                                | \$ 23                                 | \$ 998               |

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At September 30, 2018, the Company's debt securities consist of an agency bond with an amortized cost of \$501,000 and fair value of \$500,000, which matures in 2020 and mortgage-backed securities, which do not have a single maturity date.

Our pledged securities (including overnight and time deposits in other financial institutions) totaled \$2.1 million at both September 30 and June 30, 2018.

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

September 30, 2018

(unaudited)

**3. Investment Securities (continued)**

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.

**4. Loans receivable**

The composition of the loan portfolio was as follows:

| (in thousands)             | September 30,<br>2018 | June 30,<br>2018 |
|----------------------------|-----------------------|------------------|
| Residential real estate    |                       |                  |
| One- to four-family        | \$ 205,567            | \$206,908        |
| Multi-family               | 15,143                | 15,113           |
| Construction               | 2,514                 | 2,919            |
| Land                       | 692                   | 677              |
| Farm                       | 2,232                 | 2,295            |
| Nonresidential real estate | 32,102                | 32,413           |
| Commercial nonmortgage     | 1,993                 | 1,917            |
| Consumer and other:        |                       |                  |
| Loans on deposits          | 1,542                 | 1,470            |
| Home equity                | 8,118                 | 7,603            |
| Automobile                 | 34                    | 63               |
| Unsecured                  | 515                   | 508              |
|                            | \$ 270,452            | \$271,886        |

|                           |                   |                  |
|---------------------------|-------------------|------------------|
| Allowance for loan losses | (1,571 )          | (1,576 )         |
|                           | <b>\$ 268,881</b> | <b>\$270,310</b> |



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

September 30, 2018

(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, 2018:

| (in thousands)             | Beginning balance | Provision for loan losses | Loans charged off | Recoveries   | Ending balance  |
|----------------------------|-------------------|---------------------------|-------------------|--------------|-----------------|
| Residential real estate:   |                   |                           |                   |              |                 |
| One- to four-family        | \$ 795            | \$ 22                     | \$ (59 )          | \$ 23        | \$ 781          |
| Multi-family               | 225               | 7                         | --                | --           | 232             |
| Construction               | 8                 | (4 )                      | --                | --           | 4               |
| Land                       | 1                 | --                        | --                | --           | 1               |
| Farm                       | 6                 | --                        | --                | --           | 6               |
| Nonresidential real estate | 321               | 2                         | --                | --           | 323             |
| Commercial nonmortgage     | 3                 | 1                         | --                | --           | 4               |
| Consumer and other:        |                   |                           |                   |              |                 |
| Loans on deposits          | 3                 | --                        | --                | --           | 3               |
| Home equity                | 13                | 3                         | --                | --           | 16              |
| Automobile                 | --                | --                        | --                | --           | --              |
| Unsecured                  | 1                 | (20 )                     | --                | 20           | 1               |
| Unallocated                | 200               | --                        | --                | --           | 200             |
| <b>Totals</b>              | <b>\$ 1,576</b>   | <b>\$ 11</b>              | <b>\$ (59 )</b>   | <b>\$ 43</b> | <b>\$ 1,571</b> |

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 | Loans charged | Recoveries | Ending balance |
|----------------|-------------------|--------------------|---------------|------------|----------------|
|----------------|-------------------|--------------------|---------------|------------|----------------|

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|                            |                 | losses       |                 | off          |                 |
|----------------------------|-----------------|--------------|-----------------|--------------|-----------------|
| 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             |
| <b>Totals</b>              | <b>\$ 1,533</b> | <b>\$ --</b> | <b>\$ (18 )</b> | <b>\$ 39</b> | <b>\$ 1,554</b> |

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

September 30, 2018

(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, 2018. The recorded investment in loans excludes accrued interest receivable due to immateriality.

September 30, 2018:

| <i>(in thousands)</i>                        | Loans<br>individually<br>evaluated | Loans<br>acquired<br>with<br>deteriorated<br>credit<br>quality | Unpaid<br>principal<br>balance<br>and<br>recorded<br>investment | Ending<br>allowance<br>attributed<br>to loans | Unallocated<br>allowance | Total<br>allowance |
|--|------------------------------------|--|---|---|--------------------------|--------------------|
| Loans individually evaluated for impairment: |                                    |  |   |   |                          |                    |
| Residential real estate:                     |                                    |  |   |   |                          |                    |
| One- to four-family                          | \$ 4,232                           | \$ 971   | \$ 5,203  | \$ --   | \$ --                    | \$ --              |
| Farm   | 310                                | --   | 310   | --  | --                       | --                 |
| Nonresidential real estate                   | 699                                | --   | 699   | --  | --                       | --                 |
|  | 5,241                              | 971  | 6,212   | --  | --                       | --                 |
| Loans collectively evaluated for impairment: |                                    |  |   |   |                          |                    |
| Residential real estate:                     |                                    |  |   |   |                          |                    |
| One- to four-family                          |                                    |  | \$ 200,364  | \$ 781  | \$ --                    | \$ 781             |
| Multi-family                                 |                                    |  | 15,143  | 232   | --                       | 232                |
| Construction                                 |                                    |  | 2,514   | 4   | --                       | 4                  |

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|                            |            |          |        |          |
|----------------------------|------------|----------|--------|----------|
| Land                       | 692        | 1        | --     | 1        |
| Farm                       | 1,922      | 6        | --     | 6        |
| Nonresidential real estate | 31,403     | 323      | --     | 323      |
| Commercial nonmortgage     | 1,993      | 4        | --     | 4        |
| Consumer:                  |            |          |        |          |
| Loans on deposits          | 1,542      | 3        | --     | 3        |
| Home equity                | 8,118      | 16       | --     | 16       |
| Automobile                 | 34         | --       | --     | --       |
| Unsecured                  | 515        | 1        | --     | 1        |
| Unallocated                | --         | --       | 200    | 200      |
|                            | 264,240    | 1,371    | 200    | 1,571    |
|                            | \$ 270,452 | \$ 1,371 | \$ 200 | \$ 1,571 |

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

September 30, 2018

(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, 2018.

June 30, 2018:

| (in thousands)                               | Loans<br>individually<br>evaluated | Loans<br>acquired<br>with<br>deteriorated<br>credit<br>quality | <b>Unpaid<br/>principal<br/>balance<br/>and<br/>recorded<br/>investment</b> | Ending<br>allowance<br>attributed<br>to loans | Unallocated<br>allowance | Total<br>allowance |
|--|------------------------------------|--|---|---|--------------------------|--------------------|
| Loans individually evaluated for impairment: |                                    |  |   |   |                          |                    |
| Residential real estate:                     |                                    |  |   |   |                          |                    |
| One- to four-family                          | \$ 2,977                           | \$ 1,138   | \$ 4,115  | \$ --   | \$ --                    | \$ --              |
| Farm   | 310                                | --   | 310   | --  | --                       | --                 |
| Nonresidential real estate                   | 122                                | --   | 122   | --  | --                       | --                 |
|  | 3,409                              | 1,138  | 4,547   | --  | --                       | --                 |
| Loans collectively evaluated for impairment: |                                    |  |   |   |                          |                    |
| Residential real estate:                     |                                    |  |   |   |                          |                    |
| One- to four-family                          |                                    |  | \$ 202,793  | \$ 795  | \$ --                    | \$ 795             |
| Multi-family                                 |                                    |  | 15,113  | 225   | --                       | 225                |
| Construction                                 |                                    |  | 2,919   | 8   | --                       | 8                  |
| Land   |                                    |  | 677   | 1   | --                       | 1                  |

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|                            |            |          |        |          |
|----------------------------|------------|----------|--------|----------|
| Farm                       | 1,985      | 6        | --     | 6        |
| Nonresidential real estate | 32,291     | 321      | --     | 321      |
| Commercial nonmortgage     | 1,917      | 3        | --     | 3        |
| Consumer:                  |            |          |        |          |
| Loans on deposits          | 1,470      | 3        | --     | 3        |
| Home equity                | 7,603      | 13       | --     | 13       |
| Automobile                 | 63         | --       | --     | --       |
| Unsecured                  | 508        | 1        | --     | 1        |
| Unallocated                | --         | --       | 200    | 200      |
|                            | 267,339    | 1,376    | 200    | 1,576    |
|                            | \$ 271,886 | \$ 1,376 | \$ 200 | \$ 1,576 |

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

September 30, 2018

(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, 2018 and 2017:

**September 30, 2018:**

| (in thousands)                      | Unpaid<br>Principal<br>Balance<br>and<br>Recorded<br>Investment | Allowance<br>for Loan<br>Losses<br>Allocated | Average<br>Recorded<br>Investment | Interest<br>Income<br>Recognized | Cash Basis<br>Income<br>Recognized |
|-------------------------------------|---|--|-----------------------------------|----------------------------------|------------------------------------|
| With no related allowance recorded: |   |  |                                   |                                  |                                    |
| One- to four-family                 | \$ 4,232  | \$ --  | \$ 3,605                          | \$ 16                            | \$ 16                              |
| Farm                                | 310   | --   | 310                               | --                               | --                                 |
| Nonresidential real estate          | 699   | --   | 411                               | --                               | --                                 |
| Purchased credit-impaired loans     | 971   | --   | 1,055                             | 8                                | 8                                  |
|                                     | 6,212   | --   | 5,380                             | 24                               | 24                                 |
| With an allowance recorded:         |   |  |                                   |                                  |                                    |
| One- to four-family                 | --  | --   | --                                | --                               | --                                 |
|                                     | \$ 6,212  | \$ --  | \$ 5,380                          | \$ 24                            | \$ 24                              |

**September 30, 2017:**

| (in thousands) | Unpaid<br>Principal | Allowance<br>for Loan | Average<br>Recorded | Interest<br>Income | Cash Basis<br>Income |
|----------------|---------------------|-----------------------|---------------------|--------------------|----------------------|
|----------------|---------------------|-----------------------|---------------------|--------------------|----------------------|

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|                                     | Balance<br>and<br>Recorded<br>Investment | Losses<br>Allocated | Investment | Recognized | 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      |



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

September 30, 2018

(unaudited)

4. Loans receivable (continued)

The following table presents the recorded investment in nonaccrual and loans past due over 90 days still on accrual by class of loans as of September 30, 2018 and June 30, 2018:

| (in thousands)                              | September 30,<br>2018                                  |            | June 30, 2018  |            |
|---|--|------------|--|------------|
|   | Loans<br>Past Due<br>Over 90<br>Days Still<br>Accruing | Nonaccrual | Loans<br>Past Due<br>Over 90<br>Days Still<br>Accruing | Nonaccrual |
| One- to four-family residential real estate | \$4,475  | \$ 2,771   | \$4,210  | \$ 2,419   |
| Multifamily                                 | 343  | 448        | --   | --         |
| Farm  | 310  | --         | 310  | --         |
| Nonresidential real estate and land         | 699  | 27         | 708  | --         |
| Commercial and industrial                   | 7  | --         | 7  | --         |
| Consumer                                    | 10   | 7          | 11   | --         |
|   | \$5,844  | \$ 3,253   | \$5,246  | \$ 2,419   |

**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.” During the three months ended September 30, 2018, a secondary mortgage loan of \$219,000 was renewed and an additional \$30,000 was loaned to a borrower to finish construction of an 8-plex. The construction project had experienced cost overruns. The Company carries the first mortgage on this project and both the primary and secondary loans are secured by the 8-plex and additional real estate collateral. At September 30, 2018 and June 30, 2018, the Company had \$1.9 million and \$1.7 million of loans classified as TDRs, respectively. Of the TDRs at September 30,

2018, approximately 33.3% 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 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

September 30, 2018

(unaudited)

4. Loans receivable (continued)

The following table summarizes TDR loan modifications that occurred during the three months ended September 30, 2018 and 2017, and their performance, by modification type:

| <b>(in thousands)</b>                 | Troubled Debt<br>Restructurings<br>Performing to<br>Modified<br>Terms | Troubled Debt<br>Restructurings<br>Not<br>Performing to<br>Modified<br>Terms | Total Troubled<br>Debt<br>Restructurings |
|---------------------------------------|---|--|--|
| Three months ended September 30, 2018 |   |  |  |
| Residential real estate:              |   |  |  |
| Terms extended                        | \$ 249  | \$ --  | \$ 249                                   |
| Three months ended September 30, 2017 |   |  |  |
| Residential real estate:              |   |  |  |
| Terms extended                        | \$ 314  | \$ --  | \$ 314                                   |

The Company had no allocated specific reserves to customers whose loan terms had been modified in troubled debt restructurings as of September 30, 2018 or at June 30, 2018. The Company had no commitments to lend on loans classified as TDRs at September 30, 2018 or June 30, 2018.

No TDRs defaulted during the three-month period ended September 30, 2018. Four TDRs with a carrying value of \$136,000 defaulted during the three-month period ended September 30, 2017.

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

September 30, 2018

(unaudited)

4. Loans receivable (continued)

The following table presents the aging of the principal balance outstanding in past due loans as of September 30, 2018, by class of loans:

| <i>(in thousands)</i>      | 30-89<br>Days<br>Past<br>Due | 90 Days<br>or<br>Greater<br>Past<br>Due | Total<br>Past<br>Due | Loans<br>Not Past<br>Due | Total     |
|----------------------------|------------------------------|---|----------------------|--------------------------|-----------|
| Residential real estate:   |                              |   |                      |                          |           |
| One-to four-family         | \$2,572                      | \$4,792                                 | \$7,364              | \$198,203                | \$205,567 |
| Multi-family               | --                           | 448                                     | 448                  | 14,695                   | 15,143    |
| Construction               | --                           | --                                      | --                   | 2,514                    | 2,514     |
| Land                       | --                           | --                                      | --                   | 692                      | 692       |
| Farm                       | --                           | --                                      | --                   | 2,232                    | 2,232     |
| Nonresidential real estate | 396                          | 298                                     | 694                  | 31,408                   | 32,102    |
| Commercial non-mortgage    | --                           | --                                      | --                   | 1,993                    | 1,993     |
| Consumer and other:        |                              |   |                      |                          |           |
| Loans on deposits          | --                           | --                                      | --                   | 1,542                    | 1,542     |
| Home equity                | 6                            | 12                                      | 18                   | 8,100                    | 8,118     |
| Automobile                 | --                           | --                                      | --                   | 34                       | 34        |
| Unsecured                  | 3                            | --                                      | 3                    | 512                      | 515       |
| Total                      | \$2,977                      | \$5,550                                 | \$8,527              | \$261,925                | \$270,452 |

The following tables present the aging of the principal balance outstanding in past due loans as of June 30, 2018, by class of loans:

(in thousands)

Total

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|                            | 30-89<br>Days<br>Past<br>Due | 90 Days<br>or<br>Greater<br>Past<br>Due | Total<br>Past<br>Due | Loans<br>Not Past<br>Due |           |
|----------------------------|------------------------------|---|----------------------|--------------------------|-----------|
| Residential real estate:   |                              |   |                      |                          |           |
| One-to four-family         | \$3,182                      | \$4,051                                 | \$7,233              | \$199,675                | \$206,908 |
| Multi-family               | 792                          | --                                      | 792                  | 14,321                   | 15,113    |
| Construction               | --                           | --                                      | --                   | 2,919                    | 2,919     |
| Land                       | --                           | --                                      | --                   | 677                      | 677       |
| Farm                       | --                           | --                                      | --                   | 2,295                    | 2,295     |
| Nonresidential real estate | --                           | 269                                     | 269                  | 32,144                   | 32,413    |
| Commercial nonmortgage     | --                           | --                                      | --                   | 1,917                    | 1,917     |
| Consumer:                  |                              |   |                      |                          |           |
| Loans on deposits          | --                           | --                                      | --                   | 1,470                    | 1,470     |
| Home equity                | 9                            | 5                                       | 14                   | 7,589                    | 7,603     |
| Automobile                 | --                           | --                                      | --                   | 63                       | 63        |
| Unsecured                  | 3                            | --                                      | 3                    | 505                      | 508       |
| Total                      | \$3,986                      | \$4,325                                 | \$8,311              | \$263,575                | \$271,886 |

**Kentucky First Federal Bancorp**

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

September 30, 2018

(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

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evaluated for credit quality based on performing status. See the aging of past due loan table above. As of September 30, 2018, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

| <i>(in thousands)</i>      | Pass     | Special<br>Mention | Substandard | Doubtful | Not rated |
|----------------------------|----------|--------------------|-------------|----------|-----------|
| Residential real estate:   |          |                    |             |          |           |
| One- to four-family        | \$--     | \$ 963             | \$ 9,931    | \$ --    | \$194,673 |
| Multi-family               | 14,447   | --                 | 696         | --       | --        |
| Construction               | 2,514    | --                 | --          | --       | --        |
| Land                       | 692      | --                 | --          | --       | --        |
| Farm                       | 1,922    | --                 | 310         | --       | --        |
| Nonresidential real estate | 31,397   | --                 | 705         | --       | --        |
| Commercial nonmortgage     | 1,988    | --                 | 5           | --       | --        |
| Consumer:                  |          |                    |             |          |           |
| Loans on deposits          | 1,542    | --                 | --          | --       | --        |
| Home equity                | 7,932    | 186                | --          | --       | --        |
| Automobile                 | 34       | --                 | --          | --       | --        |
| Unsecured                  | 512      | --                 | 3           | --       | --        |
|                            | \$62,980 | \$ 1,149           | \$ 11,650   | \$--     | \$194,673 |

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

September 30, 2018

(unaudited)

4. Loans receivable (continued)

At June 30, 2018, the risk category of loans by class of loans was as follows:

| (in thousands)             | Pass     | Special<br>Mention | Substandard | Doubtful | Not rated  |
|----------------------------|----------|--------------------|-------------|----------|------------|
| Residential real estate:   |          |                    |             |          |            |
| One- to four-family        | \$--     | \$ 1,093           | \$ 10,215   | \$ --    | \$ 195,600 |
| Multi-family               | 14,445   | --                 | 668         | --       | --         |
| Construction               | 2,919    | --                 | --          | --       | --         |
| Land                       | 677      | --                 | --          | --       | --         |
| Farm                       | 1,985    | --                 | 310         | --       | --         |
| Nonresidential real estate | 31,700   | --                 | 713         | --       | --         |
| Commercial nonmortgage     | 1,910    | --                 | 7           | --       | --         |
| Consumer:                  |          |                    |             |          |            |
| Loans on deposits          | 1,470    | --                 | --          | --       | --         |
| Home equity                | 7,603    | --                 | --          | --       | --         |
| Automobile                 | 63       | --                 | --          | --       | --         |
| Unsecured                  | 506      | --                 | 2           | --       | --         |
|                            | \$63,278 | \$ 1,093           | \$ 11,915   | \$--     | \$ 195,600 |

**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 \$375,000 and \$383,000 at September 30, 2018 and June 30, 2018, respectively, is as follows:



| <i>(in thousands)</i>                       | September<br>30,<br>2018 | June<br>30,<br>2018 |
|---|--------------------------|---------------------|
| One- to four-family residential real estate | \$ 971                   | \$1,138             |

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

September 30, 2018

(unaudited)

4. Loans receivable (continued)

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

| <i>(in thousands)</i>          | Three<br>months<br>ended<br>September<br>30,<br>2018 | Twelve<br>months<br>ended<br>June<br>30,<br>2018 |
|--------------------------------|--|--|
| Balance at beginning of period | \$ 634   | \$ 720   |
| Accretion of income            | (21 )  | (86 )  |
| Disposals, net of recoveries   | --   | --   |
| Balance at end of period       | \$ 613   | \$ 634   |

For those purchased loans disclosed above, the Company made no increase in allowance for loan losses for the year ended June 30, 2018, nor for the three-month period ended September 30, 2018. 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 (exit price) 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 and agency bonds.

**Kentucky First Federal Bancorp**

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

September 30, 2018

(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.

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

| <i>(in thousands)</i>               | Fair Value | Fair Value Measurements Using                                  |   |   |
|-------------------------------------|------------|--|---|---|
|                                     |            | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| September 30, 2018                  |            |  |   |   |
| Agency mortgage-backed: residential | \$ 46      | \$--   | \$ 46   | \$ --                                     |
| Agency bonds                        | 500        | --   | 500   | --  |
|                                     | \$ 546     | \$--   | \$ 546  | \$ --                                     |
| June 30, 2018                       |            |  |   |   |
| Agency mortgage-backed: residential | \$ 48      | \$--   | \$ 48   | \$ --                                     |

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

September 30, 2018

(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 | Fair Value Measurements Using   |   |  |
|------------------------------|------------|---|---|--|
|                              |            | Quoted<br>Prices in<br>Active<br>Markets<br>for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| <u>September 30, 2018</u>    |            |   |   |  |
| Loans                        |            |   |   |  |
| One- to four-family          | \$ 198     | \$ --   | \$ --   | \$ 198   |
| Other real estate owned, net |            |   |   |  |
| One- to four-family          | \$ 234     | \$--  | \$--  | \$ 234   |
| June 30, 2018                |            |   |   |  |
| Loans                        |            |   |   |  |
| One- to four-family          | \$ 513     | \$--  | \$--  | \$ 513   |
| Other real estate owned, net |            |   |   |  |
| One- to four-family          | \$ 5       | \$--  | \$--  | \$ 5   |

There were two impaired loans, which were measured using the fair value of the collateral for collateral-dependent loans, at September 30, 2018, and five impaired loans at June 30, 2018. There was a charge off of \$10,000 made for the three month period ended September 30, 2018 and no charge off for the three month period ended September 30, 2017.

Other real estate owned measured at fair value less costs to sell, had carrying amounts of \$234,000 and \$5,000 at September 30, 2018 and June 30, 2018, respectively. Other real estate owned was written down \$18,000 and zero during the three months ended September 30, 2018 and 2017, respectively.

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

September 30, 2018

(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, 2018 and June 30, 2017:

| September 30, 2018                    | Fair Value<br>(in<br>thousands) | Valuation<br>Technique(s)    | Unobservable<br>Input(s)                                | Range<br>(Weighted<br>Average) |
|---------------------------------------|---------------------------------|------------------------------|---|--------------------------------|
| Loans:                                |                                 |                              |   |                                |
| One- to four-family                   | \$ 198                          | Sales comparison<br>approach | Adjustments for differences between<br>comparable sales | -11.6% to 2.4%<br>(-3.2%)      |
| Foreclosed and<br>repossessed assets: |                                 |                              |   |                                |
| One- to four-family                   | \$ 234                          | Sales comparison<br>approach | Adjustments for differences between<br>comparable sales | 28.5% to 45.8%<br>(39.9%)      |
| June 30, 2018                         | Fair Value<br>(in<br>thousands) | Valuation<br>Technique(s)    | Unobservable<br>Input(s)                                | Range<br>(Weighted<br>Average) |
| Loans:                                |                                 |                              |   |                                |
| One- to four-family                   | \$ 513                          | Sales comparison<br>approach | Adjustment for differences between<br>comparable sales  | -38.5% to 20.7%<br>(-27.8%)    |
| Foreclosed and<br>repossessed assets: |                                 |                              |   |                                |
| One- to four-family                   | \$ 5                            | Sales comparison<br>approach | Adjustments for differences between<br>comparable sales | 0.0% to 0.0%<br>(0.0%)         |



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 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

September 30, 2018

(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, 2018 and June 30, 2018 are as follows:

| <i>(in thousands)</i>                         | <b>Carrying Value</b> | <b>Fair Value Measurements at September 30, 2018 Using</b> |                |                | <b>Total</b> |
|---|-----------------------|--|----------------|----------------|--------------|
|   |                       | <b>Level 1</b>   | <b>Level 2</b> | <b>Level 3</b> |              |
| <b>Financial assets</b>                       |                       |  |                |                |              |
| Cash and cash equivalents                     | \$9,931               | \$9,931  |                |                | \$9,931      |
| Time deposits in other financial institutions | 4,952                 | 4,896  |                |                | 4,896        |
| Available-for-sale securities                 | 546                   |  | \$546          |                | 546          |
| Held-to-maturity securities                   | 902                   |  | 890            |                | 890          |
| Loans held-for-sale                           | 110                   |  |                | 109            | 109          |
| Loans receivable - net                        | 268,881               |  |                | 266,192        | 266,192      |
| Federal Home Loan Bank stock                  | 6,482                 |  |                |                | n/a          |
| Accrued interest receivable                   | 721                   |  | 721            |                | 721          |
| <b>Financial liabilities</b>                  |                       |  |                |                |              |
| Deposits                                      | \$196,810             | \$75,315   | \$121,188      |                | 196,503      |
| Federal Home Loan Bank advances               | 50,014                |  | 49,994         |                | 49,994       |
| Advances by borrowers for taxes and insurance | 1,039                 | 1,039  |                |                | 1,039        |
| Accrued interest payable                      | 24                    |  | 24             |                | 24           |
| <br>  |                       |  |                |                |              |
| <i>(in thousands)</i>                         | <b>Carrying Value</b> | <b>Fair Value Measurements at June 30, 2018 Using</b>      |                |                | <b>Total</b> |
|   |                       | <b>Level 1</b>   | <b>Level 2</b> | <b>Level 3</b> |              |
| <b>Financial assets</b>                       |                       |  |                |                |              |
| Cash and cash equivalents                     | \$9,943               | \$9,943  |                |                | \$9,943      |
| Term deposits in other financial institutions | 5,692                 | 5,692  |                |                | 5,692        |
| Available-for-sale securities                 | 48                    |  | \$48           |                | 48           |
| Held-to-maturity securities                   | 1,002                 |  | 998            |                | 998          |

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|   |           |          |           |           |
|---|-----------|----------|-----------|-----------|
| Loans receivable – net                        | 270,310   |          | \$271,295 | 271,295   |
| Federal Home Loan Bank stock                  | 6,482     |          |           | n/a       |
| Accrued interest receivable                   | 706       | 706      |           | 706       |
| Financial liabilities                         |           |          |           |           |
| Deposits                                      | \$195,056 | \$75,163 | \$120,215 | \$195,378 |
| Federal Home Loan Bank advances               | 53,052    |          | 53,043    | 53,043    |
| Advances by borrowers for taxes and insurance | 762       |          | 762       | 762       |
| Accrued interest payable                      | 22        |          | 22        | 22        |

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

September 30, 2018

(unaudited)

**6. Other Comprehensive Income (Loss)**

The Company's other comprehensive income is comprised solely of unrealized gains and losses on available-for-sale securities. The following is a summary of the accumulated other comprehensive income balances, net of tax:

|                     | Three<br>months<br>ended<br>September<br>30,<br>2018 |
|---------------------|--|
| Beginning balance   | \$ --  |
| Current year change | (1 )   |
| Ending balance      | \$ (1 )  |

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

| (in thousands)   | Three<br>months<br>ended<br>September<br>30,<br>2018 2017 |      |
|--|---|------|
| Unrealized holding gains (losses) on available-for-sale securities | \$ (1 )   | \$ 1 |
| Tax effect   | --  | --   |
| Net-of-tax amount  | \$ (1 )   | \$ 1 |



**Kentucky First Federal Bancorp****ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS**Forward-Looking Statements

Certain statements contained in this report that are not historical facts are forward-looking statements that are subject to certain risks and uncertainties. When used herein, the terms "anticipates," "plans," "expects," "believes," and similar expressions as they relate to Kentucky First Federal Bancorp or its management are intended to identify such forward looking statements. Kentucky First Federal Bancorp's actual results, performance or achievements may materially differ from those expressed or implied in the forward-looking statements. Risks and uncertainties that could cause or contribute to such material differences include, but are not limited to, general economic conditions, prices for real estate in the Company's market areas, interest rate environment, competitive conditions in the financial services industry, changes in law, governmental policies and regulations, rapidly changing technology affecting financial services and the other matters mentioned in Item 1A of the Company's Annual Report on Form 10-K for the year ended June 30, 2018. Except as required by applicable law or regulation, the Company does not undertake the responsibility, and specifically disclaims any obligation, to release publicly the result of any revisions that may be made to any forward-looking statements to reflect events or circumstances after the date of the statements or to reflect the occurrence of anticipated or unanticipated events.

Average Balance Sheets

The following table represents the average balance sheets for the three month periods ended September 30, 2018 and 2017, along with the related calculations of tax-equivalent net interest income, net interest margin and net interest spread for the related periods.

| Three Months Ended September 30, |                  |               |                |                  |               |
|----------------------------------|------------------|---------------|----------------|------------------|---------------|
| 2018                             |                  |               | 2017           |                  |               |
| <b>Average</b>                   | <b>Interest</b>  | <b>Yield/</b> | <b>Average</b> | <b>Interest</b>  | <b>Yield/</b> |
| <b>Balance</b>                   | <b>And</b>       | <b>Cost</b>   | <b>Balance</b> | <b>And</b>       | <b>Cost</b>   |
|                                  | <b>Dividends</b> |               |                | <b>Dividends</b> |               |
| <b>(Dollars in thousands)</b>    |                  |               |                |                  |               |

Interest-earning assets:

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|   |           |          |        |   |           |          |        |   |
|---|-----------|----------|--------|---|-----------|----------|--------|---|
| Loans <sup>1</sup>  | \$270,305 | \$ 2,888 | 4.27   | % | \$257,815 | \$ 2,770 | 4.30   | % |
| Mortgage-backed securities  | 998       | 8        | 3.21   |   | 1,510     | 12       | 3.18   |   |
| Other securities  | 93        | 1        | 4.30   |   | --        | --       | --     |   |
| Other interest-earning assets   | 20,387    | 149      | 2.92   |   | 19,464    | 119      | 2.45   |   |
| Total interest-earning assets   | 291,783   | 3,046    | 4.18   |   | 278,789   | 2,901    | 4.16   |   |
| Less: Allowance for loan losses   | (1,546 )  |          |        |   | (1,534 )  |          |        |   |
| Non-interest-earning assets   | 26,498    |          |        |   | 29,494    |          |        |   |
| Total assets  | \$316,735 |          |        |   | \$306,749 |          |        |   |
| Interest-bearing liabilities:   |           |          |        |   |           |          |        |   |
| Demand deposits   | \$15,211  | \$ 6     | 0.16   | % | \$15,035  | \$ 6     | 0.1    | % |
| Savings   | 56,296    | 54       | 0.38   |   | 58,680    | 57       | 0.39   |   |
| Certificates of deposit   | 120,905   | 382      | 1.26   |   | 107,276   | 231      | 0.86   |   |
| Total deposits  | 192,412   | 442      | 0.92   |   | 180,991   | 294      | 0.65   |   |
| Borrowings  | 49,070    | 258      | 2.10   |   | 50,397    | 174      | 1.38   |   |
| Total interest-bearing liabilities                                      | 241,482   | 700      | 1.16   |   | 231,388   | 468      | 0.81   |   |
| Noninterest-bearing demand deposits                                     | 5,463     |          |        |   | 5,328     |          |        |   |
| Noninterest-bearing liabilities   | 2,322     |          |        |   | 2,834     |          |        |   |
| Total liabilities   | 249,267   |          |        |   | 239,550   |          |        |   |
| Shareholders' equity  | 67,468    |          |        |   | 67,199    |          |        |   |
| Total liabilities and shareholders' equity                              | \$316,735 |          |        |   | \$306,749 |          |        |   |
| Net interest income/average yield                                       |           | \$ 2,346 | 3.02   | % |           | \$ 2,433 | 3.35   | % |
| Net interest margin   |           |          | 3.22   | % |           |          | 3.49   | % |
| Average interest-earning assets to average interest-bearing liabilities |           |          | 120.83 | % |           |          | 120.49 | % |

<sup>1</sup> Includes loan fees, immaterial in amount, in both interest income and the calculation of yield on loans. Also includes loans on nonaccrual status.

**Kentucky First Federal Bancorp**

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

**AND RESULTS OF OPERATIONS (continued)**

Discussion of Financial Condition Changes from June 30, 2018 to September 30, 2018

**Assets:** At September 30, 2018, the Company's assets totaled \$316.7 million, a decrease of \$1.7 million, or 0.5%, from total assets at June 30, 2018. This decrease was attributed primarily to decreases in loans and time deposits in other financial institutions, which were somewhat offset by an increase in investment securities.

**Cash and cash equivalents:** Cash and cash equivalents decreased \$12,000 or 0.1% to \$9.9 million at September 30, 2018.

**Time deposits in other financial institutions:** Time deposits in other financial institutions decreased by \$740,000 or 13.0% to \$5.0 million at September 30, 2018, as short-term time deposits matured and we seek to employ liquidity at the highest earning level possible.

**Investment securities:** At September 30, 2018 our securities portfolio consisted of an agency bond and mortgage-backed securities. Investment securities increased \$398,000 to \$1.4 million at September 30, 2018.

**Loans:** Loans receivable, net, decreased by \$1.4 million or 0.5% to \$268.9 million at September 30, 2018. Management continues to look for high-quality loans to add to its portfolio and will continue to emphasize loan originations to the extent that it is profitable, prudent and consistent with our interest rate risk strategies.

**Non-Performing and Classified Loans:** At September 30, 2018, the Company had non-performing loans (loans 90 or more days past due or on nonaccrual status) of approximately \$8.8 million, or 3.3% of total loans (including loans purchased in the acquisition), compared to \$7.7 million or 3.1%, of total loans at June 30, 2018. The Company's allowance for loan losses totaled \$1.6 million million at both September 30, 2018 and June 30, 2018. The allowance for loan losses at September 30, 2018, represented 17.8% of nonperforming loans and 0.6% of total loans (including loans purchased in the acquisition), while at June 30, 2018, the allowance represented 20.6% of nonperforming loans and 0.6% of total loans.



The Company had \$12.4 million in assets classified as substandard for regulatory purposes at September 30, 2018, including loans (\$11.7 million) and real estate owned (“REO”) (\$795,000), including loans acquired in the CKF Bancorp transaction. Classified loans as a percentage of total loans (including loans acquired) was 4.3% and 4.4% at September 30, 2018 and June 30, 2018, respectively. Of substandard loans, 93.7% were secured by real estate on which the Banks have priority lien position.

**Kentucky First Federal Bancorp****MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION****AND RESULTS OF OPERATIONS (continued)**Discussion of Financial Condition Changes from June 30, 2018 to September 30, 2018 (continued)

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

| (dollars in thousands)  | September 30,<br>2018 | June 30,<br>2018 |
|-------------------------|-----------------------|------------------|
| Substandard assets      | \$ 12,445             | \$12,625         |
| Doubtful assets         | --                    | --               |
| Loss assets             | --                    | --               |
| Total classified assets | \$ 12,445             | \$12,625         |

At September 30, 2018, the Company's real estate acquired through foreclosure represented 6.4% of substandard assets compared to 5.6% at June 30, 2018. During the three months ended September 30, 2018, the Company sold property with a carrying value of \$74,000 for \$80,000, while during the year ended June 30, 2018, property with a carrying value of \$133,000 was sold for \$144,000. During the three months ended September 30, 2018, the Company made one loan totaling \$80,000 to facilitate the purchase of its other real estate owned by qualified borrowers, while for the fiscal year ended June 30, 2018, \$169,000 in loans to facilitate an exchange were made. Loans to facilitate the sale of other real estate owned, which were included in substandard loans, totaled \$237,000 and \$241,000 at September 30, 2018 and June 30, 2018, respectively.

**Kentucky First Federal Bancorp****MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION****AND RESULTS OF OPERATIONS (continued)**Discussion of Financial Condition Changes from June 30, 2018 to September 30, 2018 (continued)

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

|                     | September<br>30, 2018      |                          | June 30,<br>2018           |                          |
|---------------------|----------------------------|--------------------------|----------------------------|--------------------------|
|                     | Number<br>of<br>Properties | Net<br>Carrying<br>Value | Number<br>of<br>Properties | Net<br>Carrying<br>Value |
| One- to four-family | 8                          | \$ 795                   | 7                          | \$ 710                   |
| Building lot        | 1                          | --                       | 1                          | --                       |
| Total REO           | 9                          | \$ 795                   | 8                          | \$ 710                   |

At September 30, 2018 and June 30, 2018, the Company had \$1.1 million of loans classified as special mention, respectively (including loans acquired in the CKF Bancorp transaction on December 31, 2012.) This category includes assets which do not currently expose us to a sufficient degree of risk to warrant classification, but do possess credit deficiencies or potential weaknesses deserving our close attention.

**Liabilities:** Total liabilities decreased \$1.9 million, or 0.7% to \$249.3 million at September 30, 2018, primarily as a result of a decrease in FHLB advances, which decreased \$3.0 million or 5.7% to \$50.0 million at September 30, 2018. Short-term advances were repaid as the Company received loan repayments and additional retail deposits. Deposits increased \$1.2 million or 0.6% and totaled \$196.8 million at quarter end.

**Shareholders' Equity:** At September 30, 2018, the Company's shareholders' equity totaled \$67.4 million, an increase of \$171,000 or 0.1% from the June 30, 2018 total. The change in shareholders' equity was primarily associated with a change in accounting principle and net profits for the period less dividends paid on common stock. See Note 1, Basis of Presentation, *Adoption of New Accounting Standards*.



**Kentucky First Federal Bancorp**

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

**AND RESULTS OF OPERATIONS (continued)**

Discussion of Financial Condition Changes from June 30, 2018 to September 30, 2018 (continued)

The Company paid dividends of \$364,000 or 263.8% of net income for the three month period just ended. On July 5, 2018, the members of First Federal MHC for the seventh time approved a dividend waiver on annual dividends of up to \$0.40 per share of Kentucky First Federal Bancorp common stock. The Board of Directors of First Federal MHC applied for approval of another waiver. The Federal Reserve Bank of Cleveland has notified the Company that it did not object to the waiver of dividends paid by the Company to First Federal MHC, and, as a result, First Federal MHC will be permitted to waive the receipt of dividends for quarterly dividends up to \$0.10 per common share through the third calendar quarter of 2019. Management believes that the Company has sufficient capital to continue the current dividend policy without affecting the well-capitalized status of either subsidiary bank. Management cannot speculate on future dividend levels, because various factors, including capital levels, income levels, liquidity levels, regulatory requirements and overall financial condition of the Company are considered before dividends are declared. However, management continues to believe that a strong dividend is consistent with the Company's long-term capital management strategy. See "Risk Factors" in Part II, Item 1A, of the Company's Annual Report on Form 10-K for the year ended June 30, 2018 for additional discussion regarding dividends.

Comparison of Operating Results for the Three Month Periods Ended September 30, 2018 and 2017

General

Net income totaled \$138,000 for the three months ended September 30, 2018, a decrease of \$142,000 or 50.7% from net income of \$280,000 for the same period in 2017.

Net Interest Income

Net interest income before provision for loan losses decreased \$87,000 or 3.6% to \$2.3 million for the three month period just ended. Interest income increased by \$145,000, or 5.0%, to \$3.0 million, while interest expense increased

\$232,000 or 49.6% to \$700,000 for the three months ended September 30, 2018.

Interest income on loans increased \$118,000 or 4.3% to \$2.9 million, due primarily to an increase in the average volume of the loan portfolio. The average balance of the loan portfolio increased \$12.5 million or 4.8% to \$270.3 million for the three month period ended September 30, 2018, while the rate earned on the loan portfolio decreased 3 basis points to 4.27%. Interest income on mortgage-backed securities decreased \$4,000 or 33.3% to \$8,000 for the quarterly period just ended due to lower interest rate and volume of asset level. Interest income from interest-bearing deposits and other increased \$30,000 or 25.2% to \$149,000 for the quarter just ended primarily as a result of an increase in the average rate earned on those assets which increased 47 basis points to 2.9% compared to the period a year ago.

Interest expense on deposits increased \$148,000 or 50.3% to \$442,000 for the three months ended September 30, 2018, while interest expense on borrowings increased \$84,000 or 48.3% to \$258,000 for the same period. The increase in interest expense on deposits was attributed primarily to an increase in the average rate paid on deposits, which increased 27 basis points to 92 basis points for the recently ended quarter. The average balance of deposits increased \$11.4 million or 6.3% to \$192.4 million for the most recent period. The increase in interest expense on borrowings was attributed chiefly to higher interest rate levels. The average rate paid on borrowings increased 72 basis points to 210 basis points for the most recent period, while the average balance of borrowings outstanding decreased \$1.3 million or 2.6% to \$49.1 million for the recently ended three month period. Net interest yield decreased from 3.35% for the prior year quarterly period to 3.02% for the quarter ended September 30, 2018.

**Kentucky First Federal Bancorp**

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

**AND RESULTS OF OPERATIONS (continued)**

Comparison of Operating Results for the Three Month Periods Ended September 30, 2018 and 2017 (continued)

Provision for Losses on Loans

The Company recorded a provision for losses on loans of \$11,000 during the three months ended September 30, 2018, compared to no provision for the three months ended September 30, 2017. There can be no assurance that the loan loss allowance will be adequate to absorb unidentified losses on loans in the portfolio, which could adversely affect the Company's results of operations.

Non-interest Income

Non-interest income decreased \$71,000 or 50.7% to \$69,000 for the quarter ended September 30, 2018, compared to the prior year quarter, primarily because of decreased gain on the sale of REO and increased write-downs on REO period to period. Net gain on sale of REO decreased \$38,000 to \$5,000 for the recently ended quarter compared to the prior year, while REO write-downs totaled \$18,000 for the three months ended September 30, 2018, compared to zero for the prior year period.

Non-interest Expense

Non-interest expense increased \$66,000 or 3.1% to \$2.2 million for the three months ended September 30, 2018, primarily due to an increase in employee compensation and benefits expense, which resulted from increased costs associated with the Company's defined benefit ("DB") pension plan. Employee compensation and benefits increased \$85,000 or 6.2% to \$1.5 million for the quarter just ended due to increased funding of the DB plan, which increased \$87,000 or 50.4% to \$261,000 for the recently-ended quarter. The Company is required to maintain minimum funding levels for the DB plan or be subject to various limitations. Various factors contribute to the increased cost of the DB plan including a long period of low interest rates, higher administrative fees and higher Pension Benefit Guarantee Corporation premiums. Occupancy and equipment expense increased \$12,000 or 7.6% to \$170,000 for the quarter just

ended due primarily to amortization of recently-added data information system costs. Somewhat offsetting the increased expenses were decreased costs associated with auditing and accounting, other non-interest expense, foreclosure and REO expenses. Auditing and accounting expense decreased \$32,000 or 48.5% to \$34,000 for the three months just ended, while other non-interest expense decreased \$12,000 or 5.5% to \$205,000 for the most recent quarter ended, as management seeks to trim expenses. Foreclosure and REO expenses decreased \$11,000 or 32.4% to \$23,000 for the three months ended September 30, 2018, as the Company deals with fewer instances of REO.

#### Federal Income Tax Expense

Federal income taxes expense totaled \$42,000 for the three months ended September 30, 2018, compared to \$135,000 in the prior year period. The effective tax rates were 23.3% and 32.5% for the three-month periods ended September 30, 2018 and 2017, respectively, primarily due to the change in income tax law, which reduced the top income tax rate for corporations beginning January 1, 2018.



**Kentucky First Federal Bancorp**

ITEM 3: Quantitative and Qualitative Disclosures About Market Risk

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

ITEM 4: Controls and Procedures

The Company's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures (as defined under Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report, and have concluded that the Company's disclosure controls and procedures were effective for the purpose of ensuring that the information required to be disclosed in the reports that the Company files or submits under the Exchange Act with the Securities and Exchange Commission (the "SEC") (1) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (2) is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Based upon their evaluation, the Company's Chief Executive Officer and Chief Financial Officer have also concluded that there were no significant changes during the quarter ended September 30, 2018 in the Company's internal control over financial reporting or in other factors that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**Kentucky First Federal Bancorp**

PART II

ITEM 1. Legal Proceedings

None.

ITEM 1A. Risk Factors

There have been no material changes in the risk factors disclosed in our Annual Report on Form 10-K for the fiscal year ended June 30, 2018.

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

(c) The following table sets forth information regarding Company's repurchases of its common stock during the quarter ended September 30, 2018.

| Period               | Total<br># of<br>shares<br>purchased | Average<br>price paid<br>per share<br>(incl<br>commissions) | Total # of<br>shares<br>purchased<br>as part of<br>publicly<br>announced<br>plans<br>or<br>programs | Maximum<br># of<br>shares<br>that may<br>yet be<br>purchased<br>under<br>the plans<br>or<br>programs |
|----------------------|--------------------------------------|---|---|--|
| July 1-31, 2018      | --                                   | \$ --   | --  | 60,323   |
| August 1-31, 2018    | --                                   | \$ --   | --  | 60,323   |
| September 1-30, 2018 | 11,200                               | \$ 7.94   | 11,200  | 49,123   |

- (1) On January 16, 2014, the Company announced a program (its seventh) to repurchase of up to 150,000 shares of its common stock.

ITEM 3. Defaults Upon Senior Securities

Not applicable.

ITEM 4. Mine Safety Disclosures.

Not applicable.

ITEM 5. Other Information

None.

ITEM 6. Exhibits

- 3.1<sup>1</sup> Charter of Kentucky First Federal Bancorp
- 3.2<sup>2</sup> Bylaws of Kentucky First Federal Bancorp, as amended and restated
- 4.1<sup>1</sup> Specimen Stock Certificate of Kentucky First Federal Bancorp
- 31.1 CEO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 CFO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 CEO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 CFO Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

- 101.0 The following materials from Kentucky First Federal Bancorp's Quarterly Report On Form 10-Q for the quarter ended September 30, 2018 formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Income; (iii) the Consolidated Statements of Comprehensive Income; (iv) the Consolidated Statements of Cash Flows; and (v) the related Notes.

(1) Incorporated herein by reference to the Company's Registration Statement on Form S-1 (File No. 333-119041).

(2) Incorporated herein by reference to the Company's Annual Report on Form 10-K for the Year Ended June 30, 2012  
(File No. 0-51176).

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**Kentucky First Federal Bancorp**

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**KENTUCKY FIRST FEDERAL BANCORP**

Date: November 14, 2018 By: /s/ Don D. Jennings  
Don D. Jennings  
Chief Executive Officer

Date: November 14, 2018 By: /s/ R. Clay Hulette  
R. Clay Hulette  
Vice President and Chief Financial Officer