

Kentucky First Federal Bancorp
Form 10-Q
February 14, 2014

**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 December 31, 2013

OR

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

For the transition period from _____ to _____

Commission File Number: 0-51176

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

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

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

216 West Main Street, Frankfort, Kentucky 40601
(Address of principal executive offices)(Zip Code)

(502) 223-1638
(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.)
Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: At February 12, 2014, the latest practicable date, the Corporation had 8,529,192 shares of \$.01 par value common stock outstanding.

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PART I

ITEM 1: Financial Information

Kentucky First Federal Bancorp
CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except share data)

	December 31, 2013	June 30, 2013
ASSETS		
Cash and due from financial institutions	\$ 4,772	\$ 4,537
Interest-bearing demand deposits	3,136	12,003
Cash and cash equivalents	7,908	16,540
Securities available for sale	224	205
Securities held-to-maturity, at amortized cost- approximate fair value of \$20,869 and \$12,354 at December 31, 2013 and June 30, 2013, respectively	20,200	12,232
Loans held for sale		196
Loans, net of allowance of \$1,438 and \$1,310 at December 31, 2013 and June 30, 2013, respectively	255,047	262,491
Real estate owned, net	1,660	1,163
Premises and equipment, net	4,591	4,608
Federal Home Loan Bank stock, at cost	7,732	7,732
Accrued interest receivable	928	919
Bank-owned life insurance	2,833	2,787
Goodwill	14,507	14,507
Prepaid expenses and other assets	763	682
Total assets	\$ 316,393	\$ 324,062
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits	\$ 220,747	\$ 230,981
Federal Home Loan Bank advances	27,016	24,310
Advances by borrowers for taxes and insurance	196	562
Accrued interest payable	36	36
Accrued federal income taxes	32	45
Deferred federal income taxes	152	241
Deferred revenue	639	641
Other liabilities	570	624
Total liabilities	249,388	257,440
Commitments and contingencies	-	-
Shareholders' equity		
Preferred stock, 500,000 shares authorized, \$.01 par value; no shares issued and outstanding	-	-

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Common stock, 20,000,000 shares authorized, \$.01 par value; 8,596,064 shares issued	86	86
Additional paid-in capital	34,751	34,732
Retained earnings	33,882	33,604
Unearned employee stock ownership plan (ESOP)	(1,569)	(1,626)
Treasury shares at cost, 22,886 common shares at both December 31, 2013 and June 30, 2013	(197)	(197)
Accumulated other comprehensive income	52	23
Total shareholders' equity	67,005	66,622
 Total liabilities and shareholders' equity	 \$ 316,393	 \$ 324,062

See accompanying notes.

Kentucky First Federal Bancorp
CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(Dollars in thousands, except per share data)

	Six months ended December 31,		Three months ended December 31,	
	2013	2012	2013	2012
Interest income				
Loans, including fees	\$ 6,382	\$ 4,608	\$ 3,271	\$ 2,295
Mortgage-backed securities	70	97	34	46
Other securities	14	-	7	-
Interest-bearing deposits and other	160	134	78	73
Total interest income	6,626	4,839	3,390	2,414
Interest expense				
Interest-bearing demand deposits	15	14	8	7
Savings	122	120	62	57
Certificates of Deposit	592	446	291	212
Deposits	729	580	361	276
Borrowings	152	234	67	99
Total interest expense	881	814	428	375
Net interest income	5,745	4,025	2,962	2,039
Provision for loan losses	453	418	171	392
Net interest income after provision for losses on loans	5,292	3,607	2,791	1,647
Non-interest income				
Earnings on bank-owned life insurance	46	45	23	23
Net gains on sales of loans	55	111	20	53
Net loss on sales of OREO	(17)	(15)	(7)	(18)
Other-than-temp impairment loss-REO	(34)	(25)	(17)	(25)
Bargain purchase gain		958		958
Other	162	52	78	26
Total non-interest income	212	1,126	97	1,017
Non-interest expense				
Employee compensation and benefits	2,512	1,672	1,263	818
Occupancy and equipment	285	134	145	56
Outside service fees	79	228	43	191
Legal fees	17	89	6	42
Data processing	220	105	98	45
Auditing and accounting	99	60	66	34
FDIC insurance premiums	115	63	55	34
Franchise and other taxes	136	88	68	44
Foreclosure and OREO expenses (net)	70	(39)	50	(11)
Other	498	320	250	177
Total non-interest expense	4,031	2,720	2,044	1,430
Income before income taxes	1,473	2,013	844	1,234
Federal income taxes				

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Current	437	661	230	397
Deferred	15	(97)	16	(90)
Total federal income tax expense	452	564	246	307
NET INCOME	\$ 1,021	\$ 1,449	\$ 598	\$ 927
EARNINGS PER SHARE				
Basic and diluted	\$ 0.12	\$ 0.19	\$ 0.07	\$ 0.12

See accompanying notes.

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

	Six months ended December 31,		Three months ended December 31,	
	2013	2012	2013	2012
Net income	\$ 1,021	\$ 1,449	\$ 598	\$ 927
Other comprehensive income (loss), net of taxes (benefits: Unrealized holding gains (losses) on securities designated as available for sale, net of taxes (benefits) of \$15, \$, \$16 and \$ during the respective periods	29		31	
Comprehensive income	\$ 1,050	\$ 1,449	\$ 629	\$ 927

See accompanying notes.

Kentucky First Federal Bancorp
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	Six months ended December 31, 2013	2012
Cash flows from operating activities:		
Net income	\$ 1,021	\$ 1,449
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	157	65
Amortization of purchased loan credit discount	(100)	
Amortization of purchased loan premium	4	
Amortization of deferred loan origination costs	(19)	1
Amortization of premiums on investment securities	119	
Amortization of premiums on Federal Home Loan Bank advances	(56)	
Amortization of premiums on deposits	(218)	
Net gain on sale of loans	(55)	(111)
Net loss on sale of real estate owned		15
Write down of real estate owned	34	25
Deferred gain on sale of real estate owned	(2)	(6)
ESOP compensation expense	76	52
Amortization of stock benefit plans and stock options expense		12
Earnings on bank-owned life insurance	(46)	(45)
Provision for loan losses	453	418
Origination of loans held for sale	(1,502)	(2,204)
Proceeds from loans held for sale	1,753	2,356
Bargain purchase gain		(958)
Increase (decrease) in cash, due to changes in:		
Accrued interest receivable	(9)	33
Prepaid expenses and other assets	(81)	(164)
Accrued interest payable		(27)
Accounts payable and other liabilities	(54)	66
Federal income taxes	(116)	(300)
Net cash provided by operating activities	1,359	677
Cash flows from investing activities:		
Acquisition of CKF Bancorp, Inc.		3,349
Purchase held to maturity U.S. Treasury notes	(10,000)	(14,000)
Securities maturities, prepayments and calls:		
Held to maturity	1,913	765
Available for sale	24	18
Loans originated for investment, net of principal collected	6,575	4,699
Additions to premises and equipment, net	(140)	(3)
Net cash used by investing activities	(1,628)	(5,172)
Cash flows from financing activities:		

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Net change in deposits	(10,016)	(1,687)
Payments by borrowers for taxes and insurance, net	(366)	(349)
Proceeds from Federal Home Loan Bank advances	10,000	21,000
Repayments on Federal Home Loan Bank advances	(7,238)	(4,256)
Dividends paid on common stock	(743)	(561)
Treasury stock repurchases		(61)
Net cash provided by (used in) financing activities	(8,363)	14,086
Net increase (decrease) in cash and cash equivalents	(8,632)	9,591
Beginning cash and cash equivalents	16,540	5,735
Ending cash and cash equivalents	\$ 7,908	\$ 15,326

See accompanying notes.

Kentucky First Federal Bancorp
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
(Unaudited)
(In thousands)

	Six months ended December 31, 2013	2012
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Federal income taxes	\$ 575	\$ 945
Interest on deposits and borrowings	\$ 1,155	\$ 823
Transfers of loans to real estate owned, net	\$ (867)	\$ (352)
Loans made on sale of real estate owned	\$ 35	\$ 407
Deferred gain on sale of real estate owned	\$ 2	\$
Capitalization of mortgage servicing rights	\$ 13	\$ 18

See accompanying notes.

Kentucky First Federal Bancorp
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013

(unaudited)

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

On December 31, 2012, the Company completed its acquisition of CKF Bancorp, Inc. (“CKF Bancorp”), the parent company of Central Kentucky Federal Savings Bank (“Central Kentucky FSB”), pursuant to the provisions of the Agreement of Merger dated as of November 3, 2011 and amended as of September 28, 2012. The acquisition was accounted for using the acquisition method of accounting and resulted in the recordation of bargain purchase gain of \$958,000. The results of operations associated with Central Kentucky FSB for the six months ended December 31, 2013, have been included herein.

1. Basis of Presentation

The accompanying unaudited consolidated financial statements, which represent the consolidated balance sheets and results of operations of the Company, were prepared in accordance with the instructions for Form 10-Q and, therefore, do not include information or footnotes necessary for a complete presentation of financial position, results of operations and cash flows in conformity with U.S. generally accepted accounting principles. However, in the opinion of management, all adjustments (consisting of only normal recurring adjustments) which are necessary for a fair presentation of the consolidated financial statements have been included. The results of operations for the six- and three-month periods ended December 3