

Board of Governors of the Federal Reserve System



Annual Report of Holding Companies—FR Y-6

Report at the close of business as of the end of fiscal year

This Report is required by law: Section 5(c)(1)(A) of the Bank Holding Company Act (12 U.S.C. § 1844(c)(1)(A)); sections 8(a) and 13(a) of the International Banking Act (12 U.S.C. §§ 3106(a) and 3108(a)); sections 11(a)(1), 25, and 25A of the Federal Reserve Act (12 U.S.C. §§ 248(a)(1), 602, and 611a); and sections 113, 165, 312, 618, and 809 of the Dodd-Frank Act (12 U.S.C. §§ 5361, 5365, 5412, 1850a(c)(1), and 5468(b)(1)). Return to the appropriate Federal Reserve Bank the original and the number of copies specified.

This report form is to be filed by all top-tier bank holding companies, top-tier savings and loan holding companies, and U.S. intermediate holding companies organized under U.S. law, and by any foreign banking organization that does not meet the requirements of and is not treated as a qualifying foreign banking organization under Section 211.23 of Regulation K (12 C.F.R. § 211.23). (See page one of the general instructions for more detail of who must file.) The Federal Reserve may not conduct or sponsor, and an organization (or a person) is not required to respond to, an information collection unless it displays a currently valid OMB control number.

NOTE: The *Annual Report of Holding Companies* must be signed by one director of the top-tier holding company. This individual should also be a senior official of the top-tier holding company. In the event that the top-tier holding company does not have an individual who is a senior official and is also a director, the chairman of the board must sign the report. If the holding company is an ESOP/ESOT formed as a corporation or is an LLC, see the General Instructions for the authorized individual who must sign the report.

I, Robert P Wellons

Name of the Holding Company Director and Official

Chairman of the Board

Title of the Holding Company Director and Official

attest that the *Annual Report of Holding Companies* (including the supporting attachments) for this report date has been prepared in conformance with the instructions issued by the Federal Reserve System and are true and correct to the best of my knowledge and belief.

With respect to information regarding individuals contained in this report, the Reporter certifies that it has the authority to provide this information to the Federal Reserve. The Reporter also certifies that it has the authority, on behalf of each individual, to consent or object to public release of information regarding that individual. The Federal Reserve may assume, in the absence of a request for confidential treatment submitted in accordance with the Board's "Rules Regarding Availability of Information," 12 C.F.R. Part 261, that the Reporter and individual consent to public release of all details in the report concerning that individual.

[Signature]
 Signature of Holding Company Director and Official

09/27/2022

Date of Signature

For holding companies not registered with the SEC—
 Indicate status of Annual Report to Shareholders:

- is included with the FR Y-6 report
- will be sent under separate cover
- is not prepared

For Federal Reserve Bank Use Only

RSSD ID _____

C.I. _____

Date of Report (top-tier holding company's fiscal year-end):

June 30, 2022

Month / Day / Year

549300JW8Z4H2SFHB196

Reporter's Legal Entity Identifier (LEI) (20-Character LEI Code)

Reporter's Name, Street, and Mailing Address

First Federal Financial Corporation

Legal Title of Holding Company

P.O. Box 1049

(Mailing Address of the Holding Company) Street / P.O. Box

<u>Dunn</u>	<u>NC</u>	<u>28335</u>
City	State	Zip Code

200 E Divine Street Dunn, NC 28334

Physical Location (If different from mailing address)

Person to whom questions about this report should be directed:

<u>Lynn S. Coats</u>	<u>CFO, First Federal Bank</u>
Name	Title

910-891-2804

Area Code / Phone Number / Extension

910-892-8396

Area Code / FAX Number

lcoats@ffbnc.com

E-mail Address

N/A

Address (URL) for the Holding Company's web page

Is confidential treatment requested for any portion of this report submission?

0=No	<input type="checkbox"/>
1=Yes	<input checked="" type="checkbox"/>

In accordance with the General Instructions for this report (check only one),

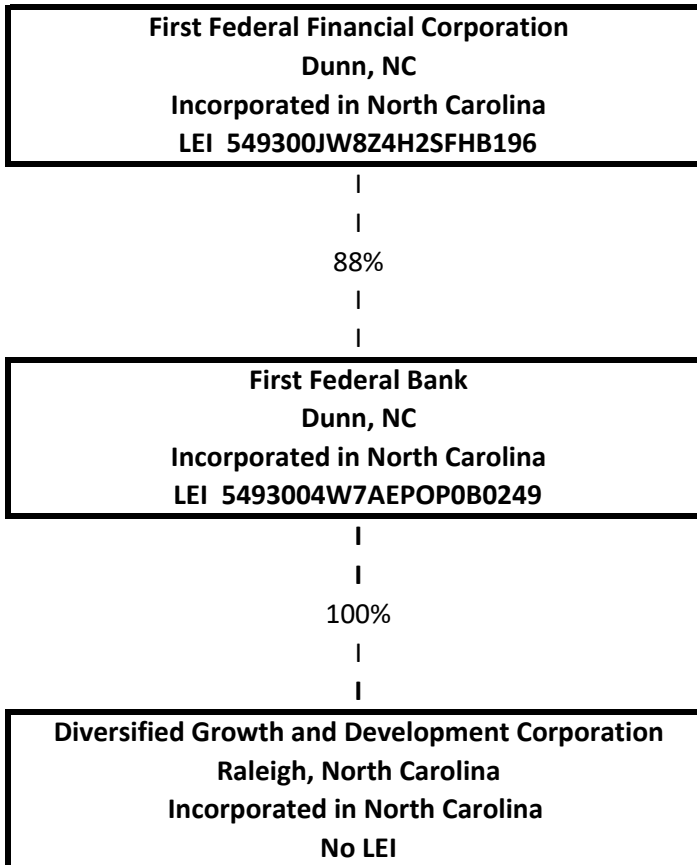
- 1. a letter justifying this request is being provided along with the report
- 2. a letter justifying this request has been provided separately ...

NOTE: Information for which confidential treatment is being requested must be provided separately and labeled as "confidential."

Item 1: Annual Report to Shareholders
FR Y-6
First Federal Financial Corporation
Fiscal Year Ending June 30, 2022

The June 30, 2022 First Federal Financial Corporation financial statement audit was completed by Elliott Davis. A copy of the audited financial statements is included in this package.

Item 2a: Organizational Chart
Form FR Y-6
First Federal Financial Corporation
Fiscal Year Ending June 30, 2022



Results: A list of branches for your depository institution: **FIRST FEDERAL BANK (ID_RSSD: 943974)**.
 This depository institution is held by **FIRST FEDERAL FINANCIAL CORPORATION (1253821)** of **DUNN, NC**.
 The data are as of **06/30/2022**. Data reflects information that was received and processed through **07/06/2022**.

Reconciliation and Verification Steps

1. In the **Data Action** column of each branch row, enter one or more of the actions specified below
2. If required, enter the date in the **Effective Date** column

Actions

- OK:** If the branch information is correct, enter 'OK' in the **Data Action** column.
- Change:** If the branch information is incorrect or incomplete, revise the data, enter 'Change' in the **Data Action** column and the date when this information first became valid in the **Effective Date** column.
- Close:** If a branch listed was sold or closed, enter 'Close' in the **Data Action** column and the sale or closure date in the **Effective Date** column.
- Delete:** If a branch listed was never owned by this depository institution, enter 'Delete' in the **Data Action** column.
- Add:** If a reportable branch is missing, insert a row, add the branch data, and enter 'Add' in the **Data Action** column and the opening or acquisition date in the **Effective Date** column.

If printing this list, you may need to adjust your page setup in MS Excel. Try using landscape orientation, page scaling, and/or legal sized paper.

Submission Procedure

When you are finished, send a saved copy to your FRB contact. See the detailed instructions on this site for more information
 If you are e-mailing this to your FRB contact, put your institution name, city and state in the subject line of the e-mail

Note:

To satisfy the **FR Y-10 reporting requirements**, you must also submit FR Y-10 Domestic Branch Schedules for each branch with a **Data Action** of **Change, Close, Delete, or Add**.
 The FR Y-10 report may be submitted in a hardcopy format or via the FR Y-10 Online application - <https://y10online.federalreserve.gov>

* FDIC UNINUM, Office Number, and ID_RSSD columns are for reference only. Verification of these values is not required.

Data Action	Effective Date	Branch Service Type	Branch ID_RSSD*	Popular Name	Street Address	City	State	Zip Code	County	Country	FDIC UNINUM*	Office Number*	Head Office	Head Office ID_RSSD*	Comments
OK		Full Service (Head Office)	943974	FIRST FEDERAL BANK	200 EAST DIVINE STREET	DUNN	NC	28334	HARNETT	UNITED STATES	Not Required	Not Required	FIRST FEDERAL BANK	943974	
OK		Full Service	4161600	ANGIER BRANCH	110 WEST DUPREE ST	ANGIER	NC	27501	HARNETT	UNITED STATES	Not Required	Not Required	FIRST FEDERAL BANK	943974	
OK		Full Service	4161619	BENSON BRANCH	105 NORTH JOHNSON ST	BENSON	NC	27504	JOHNSTON	UNITED STATES	Not Required	Not Required	FIRST FEDERAL BANK	943974	
OK		Full Service	4161628	CLAYTON BRANCH	442 EAST MAIN ST	CLAYTON	NC	27520	JOHNSTON	UNITED STATES	Not Required	Not Required	FIRST FEDERAL BANK	943974	
OK		Full Service	4161655	DUNN BRANCH	200 EAST CUMBERLAND STREET	DUNN	NC	28334	HARNETT	UNITED STATES	Not Required	Not Required	FIRST FEDERAL BANK	943974	
OK		Full Service	4161637	ERWIN BRANCH	540 EAST JACKSON BLVD	ERWIN	NC	28334	HARNETT	UNITED STATES	Not Required	Not Required	FIRST FEDERAL BANK	943974	
OK		Full Service	4161646	FUQUAY BRANCH	603 NORTH JUDD PARKWAY NORTHEAST	FUQUAY VARINA	NC	27526	WAKE	UNITED STATES	Not Required	Not Required	FIRST FEDERAL BANK	943974	

Item 3: Securities Holders Owning More than 5% Voting or Controlling Interests**Form FR Y-6****First Federal Financial Corporation****Fiscal Year Ending June 30, 2022**

Name City, State Country	Country of Citizenship	Number of Securities Owned or Controlled	Percentage of Securities Owned or Controlled	Class of Voting Securities	
Robert P. Wellons Dunn, NC USA	USA	28,387	12.79%	Common Stock	1
John Wellons, Jr. Fayetteville, NC USA	USA	28,386	12.79%	Common Stock	1
Sylvia Wellons Craft Farmville, NC USA	USA	28,387	12.79%	Common Stock	1
Don Wellons Dunn, NC USA	USA	28,359	12.78%	Common Stock	1
Beth Wellons Morrice Roswell, GA USA	USA	13,573	6.11%	Common Stock	2
Gaye Wellons Mashburn Morehead City, NC USA	USA	14,378	6.48%	Common Stock	2
Kathryn R. Todd Tallahassee, FL USA	USA	13,975	6.30%	Common Stock	2
Joy Wellons Moore Morehead City, NC USA	USA	14,378	6.48%	Common Stock	2
Total Outstanding Shares		<u>169,823</u>			

1 - Brothers and Sister of Same Family

2 - Sisters of Same Family

Item 3.2 There were no individuals/companies that held 5% or more voting securities at some point during the year, but not at end of the year.

Item 4: Insiders*
Form FR Y-6
First Federal Financial Corporation
Fiscal Year Ending June 30, 2022

Name City, State Country	Principal Occupation if other than with Holding Company	Title & Position with Holding Company	Title & Position with Subsidiary (Include names of subsidiaries)	Title & Position with Other Businesses (include names of other businesses)	Percentage of Voting Shares in Holding Company	Percentage of Voting Shares in in Subsidiaries (Include names of subsidiaries)	List names of other companies if 25% or more of voting securities are held (List names of companies and percentage of voting securities held)
Robert P. Wellons (1) Dunn, NC USA	Real Estate\Construction	Director Chairman of the Board	Chairman of the Board - First Federal Bank	President - Wellons Realty, Inc. President - Wellons Construction, Inc. President - Freedom Constructors, Inc.	12.79%	0.64% First Federal Bank	Wellons Realty, Inc. 100% Wellons Construction, Inc. 100% Freedom Constructors, Inc. 40% Four W's, Inc. 25% Prestige Mortgage Corporation 25% WMJ Developers, LLC 33 1/3% KR/O, LLC 25% Cheyenne Developers, LLC 50% RP Wellons Land & Development, LLC 40% Navaho 25% Aho 25% R P Wellons, CECO, LLC 40% Leisure Living CB, LLC 25% Leisure, LLC 25% Rock Hard Properties, LLC 25% Decoy Lakes 35% Cool Hand Properties, LLC 33 1/3%
Don Wellons (1) Dunn, NC USA	Real Estate	Director Vice Chairman of the Board	N/A	President - Don G. Wellons Properties, Inc.	12.78%	0.95% First Federal Bank	Don G. Wellons Properties, Inc. 100% 2004 Cumberland, LLC 33 1/3% Deep Valley Ranch LLC 100% Prestige Mortgage Corporation 25% Four W's, Inc. 25% Southview Self Storage 100% Aho 25% Leisure Living CB, LLC 25% Leisure, LLC 25% Rock Hard Properties, LLC 25% KR/O, LLC 25%
Sylvia Craft (1) Farmville, NC USA	Real Estate	N/A	N/A	N/A	12.79%	0.48% First Federal Bank	Prestige Mortgage Corporation 25% Aho 25% KR/O, LLC 25% Four W's, Inc. 25% Leisure Living CB, LLC 25% Leisure, LLC 25% Rock Hard Properties, LLC 25% 2004 Cumberland, LLC 33 1/3% Daffodil Lane, LLC, Farmville NC 100%

Item 4: Insiders*
Form FR Y-6
First Federal Financial Corporation
Fiscal Year Ending June 30, 2022

Name City, State Country	Principal Occupation if other than with Holding Company	Title & Position with Holding Company	Title & Position with Subsidiary (Include names of subsidiaries)	Title & Position with Other Businesses (include names of other businesses)	Percentage of Voting Shares in Holding Company	Percentage of Voting Shares in in Subsidiaries (Include names of subsidiaries)	List names of other companies if 25% or more of voting securities are held (List names of companies and percentage of voting securities held)
John Wellons, Jr. (1) Fayetteville, NC USA	Real Estate	N/A	N/A	N/A	12.79%	0.52% First Federal Bank	2004 Cumberland, LLC 33 1/3% Prestige Mortgage Corporation 25% KR/O, LLC 25% Four W's, Inc. 25% Leisure Living CB, LLC 25% Leisure, LLC 25% Rock Hard Properties, LLC 25% Aho 25% Hotpoint LLC, Dunn, NC 100%
Gaye W. Mashburn (2) Morehead City, NC USA	Real Estate	Director President	Director - First Federal Bank	President - C.G. W., Inc. President - Wellons Enterprises, Inc.	6.48%	0.01% First Federal Bank	BTA, LLC 25% Down East Trading Post 1, LLC 25% C.G. W., Inc. 25% 4 Sisters-00, LLC 25% 509 Ocean Ridge, Inc. 33.3% Mashburn Properties II, LLC 33% Wellons Sisters, LLC 50% B.G.K.J., LLC 25%
Joy W. Moore (2) Morehead City, NC USA	Real Estate	Director	N/A	Vice President - C.G.W., Inc. Vice President - 509 Ocean Ridge, Inc. Vice President - Beaufort Town Apartments, Inc. President - Joy Moore, Inc.	6.48%	0.01% First Federal Bank	BTA, LLC 25% Down East Trading Post 1, LLC 25% C.G. W., Inc. 25% 4 Sisters-00, LLC 25% 509 Ocean Ridge, Inc. 33.3% B.G.K.J., LLC 25% Beaufort Town Apartments, Inc. 25% Wellons Sisters, LLC 50% Joy Moore Inc. 100%
Clement E. Medley Dunn, NC USA	Retired	Director	Vice-Chairman of First Federal Bank Board	N/A	0.10%	0.58% First Federal Bank	N/A
Charlene Hamlett Durham, NC USA	Real Estate	Director	Director - First Federal Bank	Partner - Triangle Investment Company President - Hudson, Inc. Managing Partner - Cedar Creek Park, LLC Managing Partner Charlestown Henderson, LLC Managing Partner CWH Properties, LLC Corporate Secretary Corporate Secretary Corporate Secretary Corporate Secretary Corporate Secretary Corporate Secretary Corporate Secretary Corporate Secretary Corporate Secretary	0.00%	0.98% First Federal Bank	Triangle Investment Company 50% Hudson, Inc. 50% Cedar Creek Park, LLC 100% Charlestown Henderson, LLC 100% CWH Properties, LLC 100% Real Estate Associates, Inc. 25% REA Eno Square, Inc. 25% REA Landcom, Inc. 25% REA Residential, Inc. 25% Rental Partners 25% Bowling Ventures, Inc. 25% REA Recreation, Inc. 25% REA Riddle Road 33% REA Moore Business Park, LLC 25% Arrowwood Lane, LLC 33% Riverside LNC, LLC 25% C S Wellons Properties, LLC 50%

* Principal securities holder, directors and executive officers
(1) Brothers and Sister of Same Family
(2) Sisters of Same Family

First Federal Financial Corporation and Subsidiary

Report on Consolidated Financial Statements

As of and for the years ended June 30, 2022 and 2021

First Federal Financial Corporation and Subsidiary

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Independent Auditor's Report

To the Board of Directors and Shareholders
First Federal Financial Corporation and Subsidiary

Opinion

We have audited the consolidated financial statements of First Federal Financial Corporation and its subsidiary (the "Company"), which comprise the consolidated balance sheets as of June 30, 2022 and 2021, the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of June 30, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Auditor's Responsibilities for the Audit of the Financial Statements, Continued

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Elliott Davis, PLLC

Raleigh, North Carolina
September 23, 2022

First Federal Financial Corporation and Subsidiary

Consolidated Balance Sheets

As of June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Assets		
Cash and due from banks	\$ 7,366,329	\$ 17,209,537
Interest-bearing time deposits	3,000,000	987,000
Securities available-for-sale	57,879,316	57,639,017
Other securities, at cost	335,815	188,015
Loans, net of allowance for loan losses of \$1,835,661 and \$1,835,668, respectively	153,933,922	127,804,375
Premises and equipment, net	1,413,505	1,481,166
Bank owned life insurance	2,534,649	2,471,118
Deferred tax asset, net	3,172,811	835,898
Other assets	1,517,154	1,877,578
Total assets	<u>\$ 231,153,501</u>	<u>\$ 210,493,704</u>
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Interest-bearing	\$ 131,128,761	\$ 121,213,642
Non-interest bearing	<u>77,807,291</u>	<u>65,284,083</u>
Total deposits	208,936,052	186,497,725
FHLB advances	6,000,000	-
Accrued interest payable and other liabilities	<u>1,221,419</u>	<u>1,883,185</u>
Total liabilities	<u>216,157,471</u>	<u>188,380,910</u>
Stockholders' equity:		
Common stock, \$1 par value, 1,000,000 shares authorized; 221,976 shares issued and outstanding at June 30, 2022 and 2021	221,976	221,976
Additional paid-in capital	4,783,283	4,783,283
Retained earnings	16,556,898	15,781,907
Accumulated other comprehensive loss	(8,071,593)	(1,000,868)
Noncontrolling interest	<u>1,505,466</u>	<u>2,326,496</u>
Total stockholders' equity	<u>14,996,030</u>	<u>22,112,794</u>
Total liabilities and stockholders' equity	<u>\$ 231,153,501</u>	<u>\$ 210,493,704</u>

See Notes to Consolidated Financial Statements

First Federal Financial Corporation and Subsidiary

Consolidated Statements of Income

For the years ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Interest income		
Loans, including fees	\$ 6,275,899	\$ 6,390,478
Investment securities	1,237,644	824,170
Other interest and dividends	<u>62,140</u>	<u>54,669</u>
Total interest income	<u>7,575,683</u>	<u>7,269,317</u>
Interest expense		
Deposits	384,093	570,656
Borrowings	<u>2,129</u>	<u>9,631</u>
Total interest expense	<u>386,222</u>	<u>580,287</u>
Net interest income	7,189,461	6,689,030
Provision for loan losses	<u>-</u>	<u>-</u>
Net interest income after provision for loan losses	7,189,461	6,689,030
Noninterest income		
Service charges and other fees	789,144	683,808
Mortgage banking income	196,606	461,833
Net gain on sale of foreclosed assets	-	7,343
Other	<u>100,321</u>	<u>127,337</u>
Total noninterest income	<u>1,086,071</u>	<u>1,280,321</u>
Noninterest expenses		
Salaries and employee benefits	4,294,571	4,587,304
Occupancy and equipment	777,898	824,022
Data processing fees	661,811	632,216
Professional services	227,223	191,607
Telephone and courier	201,917	186,959
Maintenance costs	115,869	105,406
Foreclosed assets, net	-	230
FDIC insurance premiums	96,828	67,672
Other	<u>860,832</u>	<u>851,496</u>
Total noninterest expenses	<u>7,236,949</u>	<u>7,446,912</u>
Income before provision for income taxes	1,038,583	522,439
Income tax expense (benefit)	<u>162,525</u>	<u>(20,157)</u>
Net income	876,058	542,596
Less: Net income attributable to noncontrolling interest	<u>101,067</u>	<u>62,597</u>
Net income attributable to First Federal Financial Corporation and Subsidiary	<u>\$ 774,991</u>	<u>\$ 479,999</u>
Earnings per share	<u>\$ 3.49</u>	<u>\$ 2.16</u>

See Notes to Consolidated Financial Statements

First Federal Financial Corporation and Subsidiary

Consolidated Statements of Comprehensive Income

For the years ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Net income	\$ 876,058	\$ 542,596
Other comprehensive income (loss)		
Unrealized holding losses arising during the period, net of tax benefit of (\$2,626,169) and (\$22,895), respectively	(7,196,451)	(102,547)
Change in unfunded status of pension, net of tax expense (benefit) of (\$167,238) and \$30,671, respectively	<u>(796,371)</u>	<u>146,052</u>
Other comprehensive income (loss), net of tax	(7,992,822)	43,505
Other comprehensive income (loss) attributable to noncontrolling interest	<u>(922,097)</u>	<u>5,020</u>
Other comprehensive income (loss) attributable to First Federal Financial Corporation and Subsidiary	<u>(7,070,725)</u>	<u>38,485</u>
Comprehensive income (loss)	<u>\$ (7,116,764)</u>	<u>\$ 586,101</u>

See Notes to Consolidated Financial Statements

First Federal Financial Corporation and Subsidiary

Consolidated Statements of Changes in Stockholders' Equity

For the years ended June 30, 2022 and 2021

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interest	Total Stockholders' Equity
Balance at June 30, 2020	\$ 221,976	\$ 4,783,283	\$ 15,301,908	\$ (1,039,354)	\$ 2,258,880	\$ 21,526,693
Net Income	-	-	479,999	-	62,597	542,596
Change in unfunded status of pension, net	-	-	-	129,203	16,849	146,052
Change in net unrealized position on securities, net	-	-	-	(90,717)	(11,830)	(102,547)
Balance at June 30, 2021	221,976	4,783,283	15,781,907	(1,000,868)	2,326,496	22,112,794
Net Income	-	-	774,991	-	101,067	876,058
Change in unfunded status of pension, net	-	-	-	(704,497)	(91,874)	(796,371)
Change in net unrealized position on securities, net	-	-	-	(6,366,228)	(830,223)	(7,196,451)
Balance at June 30, 2022	<u>\$ 221,976</u>	<u>\$ 4,783,283</u>	<u>\$ 16,556,898</u>	<u>\$ (8,071,593)</u>	<u>\$ 1,505,466</u>	<u>\$ 14,996,030</u>

See Notes to Consolidated Financial Statements

First Federal Financial Corporation and Subsidiary

Consolidated Statements of Cash Flows

For the years ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Operating activities		
Net income	\$ 876,058	\$ 542,596
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	338,582	363,273
Net gain on disposal of premises and equipment	-	(450)
Net amortization of securities	395,779	583,370
Impairment of foreclosed assets	-	(116)
Net (gain) loss on sale of foreclosed assets	-	(7,343)
Deferred income tax expense (benefit)	157,402	(17,875)
Bank owned life insurance income	(63,531)	(60,533)
Postretirement benefit income and deferred compensation expense	(622,412)	(972,722)
Change in operating assets and liabilities:		
Other assets	(2,133,891)	(675,706)
Accrued expenses and other liabilities	<u>1,790,443</u>	<u>1,467,296</u>
Net cash provided by operating activities	<u>738,430</u>	<u>1,221,790</u>
Investing activities		
Change in interest bearing time deposits	(2,013,000)	-
Proceeds from calls, maturities, and prepayments of securities available for sale	6,589,341	6,573,618
Purchases of securities, available for sale	(17,048,038)	(34,734,538)
(Purchase) sale of other securities, net	(147,800)	66,200
Net (increase) decrease in loans	(26,129,547)	14,521,719
Purchases of premises and equipment	(270,921)	(58,916)
Proceeds from sale of foreclosed assets	-	<u>241,916</u>
Net cash used in investing activities	<u>(39,019,965)</u>	<u>(13,390,001)</u>
Financing activities		
Net increase in deposits	22,438,327	14,051,836
Net increase (decrease) in FHLB advances	<u>6,000,000</u>	<u>(2,000,000)</u>
Net cash provided by financing activities	<u>28,438,327</u>	<u>12,051,836</u>
Net decrease in cash and cash equivalents	<u>(9,843,208)</u>	<u>(116,375)</u>
Cash and cash equivalents, beginning of year	<u>17,209,537</u>	<u>17,325,912</u>
Cash and cash equivalents, end of year	<u>\$ 7,366,329</u>	<u>\$ 17,209,537</u>
Cash paid during the year for:		
Interest	<u>\$ 384,288</u>	<u>\$ 581,363</u>
Income taxes	<u>\$ -</u>	<u>\$ -</u>

See Notes to Consolidated Financial Statements

First Federal Financial Corporation and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

Note 1. Summary of Significant Accounting Policies

Consolidation:

The consolidated financial statements include the accounts of First Federal Financial Corporation (the “Company”) and its 89%-owned subsidiary, First Federal Bank (the “Bank”) and the Bank’s 100%-owned subsidiary, Diversified Growth & Development, Inc. All significant intercompany balances and transactions have been eliminated in consolidation.

Nature of operations:

The Company provides a variety of financial services to individuals and small businesses through its offices in Harnett, Johnston, and Wake County, North Carolina. Its primary deposit products are demand deposits, savings, and certificate of deposit accounts, and its primary lending products are loans collateralized by real estate, commercial, and consumer loans.

Use of estimates:

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the fair value of financial instruments, the valuation of deferred tax assets, and the valuation of the Company’s defined benefit pension obligation.

Concentrations of credit risk:

Most of the Company’s activities are with customers located in Harnett, Johnston, and Wake County, North Carolina, and the surrounding areas. Note 2 discusses the types of securities in which the Company invests. Note 3 discusses the types of lending in which the Company engages. Residential mortgages comprise approximately 55% of the Company’s loan portfolio. The Company does not have any other significant concentrations within any one industry or with any one customer.

Cash and cash equivalents:

For the purpose of presentation in the consolidated statements of cash flows, the Company considers cash and highly liquid investments with maturities of three months or less when purchased as cash and cash equivalents. Cash and cash equivalents consists of cash and due from banks and federal funds sold at June 30, 2022 and 2021.

Interest-bearing time deposits:

Interest-bearing time deposits are comprised primarily of federally insured certificates of deposit and corporate certificates which mature within three months to seven years. Such amounts are carried at cost, which approximate market value, at June 30, 2022 and 2021.

First Federal Financial Corporation and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

Note 1. Summary of Significant Accounting Policies, Continued

Securities:

Securities that are held principally for resale in the near term are recorded in the trading assets account at fair value with changes in fair value recorded in earnings. Debt securities that management has the positive intent and ability to hold to maturity are classified as “held to maturity” and recorded at amortized cost. Securities not classified as held to maturity or trading are classified as “available-for-sale” and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Other securities:

The Company, as a member of the Federal Home Loan Bank of Atlanta (“FHLB”) system, is required to maintain an investment in capital stock of the FHLB. Based on the redemption provisions of the FHLB, the stock has no quoted market value and is carried at cost. Management reviews for impairment based on the ultimate recoverability of the cost basis of other securities.

Loans:

The Company grants real estate, commercial, and consumer loans to customers. A substantial portion of the loan portfolio is represented by loans secured by real estate in Harnett, Johnston, and Wake County, North Carolina. The ability of the Company’s debtors to honor their contracts is dependent upon the real estate and general economic conditions in these areas.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances adjusted for the allowance for loan losses.

For loans amortized at cost, interest income is accrued based on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and amortized as a level yield adjustment over the respective term of the loan.

The accrual of interest on the loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Loans are typically charged off not later than 120 days past due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on non-accrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on non-accrual or charged-off is reversed against interest income. The interest on these loans is accounted for on the cash basis or cost recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

First Federal Financial Corporation and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

Note 1. Summary of Significant Accounting Policies, Continued

Loans, continued:

When a loan is classified as non-accrual and the future collectability of the recorded loan balance is doubtful, collections of interest and principal are generally applied as a reduction to the principal outstanding, except in the case of loans with scheduled amortizations where the payment is generally applied to the oldest payment due. When the future collectability of the recorded loan balance is expected, interest income may be recognized on a cash basis. In the case where a non-accrual loan has been partially charged-off, recognition of interest on a cash basis is limited to that which would have been recognized on the recorded loan balance at the contractual interest rate. Receipts in excess of that amount are recorded as recoveries to the allowance for loan losses until prior charge-offs have been fully recovered.

Allowance for loan losses:

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price less selling costs) of the impaired loan is lower than the carrying value of that loan. The general component covers non-impaired loans and is based on historical charge-off experience. Other adjustments may be made to the allowance for pools of loans after an assessment of internal and external influence on credit quality that are not fully reflected in the historical loss or risk rating data.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls are considered on a case by case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral less selling costs if the loan is collateral dependent.

First Federal Financial Corporation and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

Note 1. Summary of Significant Accounting Policies, Continued

Off-balance sheet credit related financial instruments:

In the ordinary course of business, the Company has entered into commitments to extend credit, including unfunded commitments under lines of credit and standby letters of credit. Such financial instruments are recorded when they are funded.

Foreclosed assets:

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations are included in net expenses from foreclosed assets. At June 30, 2022 and 2021, there were no loans collateralized by real estate in the process of foreclosure.

Premises and equipment:

Land is carried at cost. Bank premises and furniture, leasehold improvements, fixtures, and equipment are carried at cost, less accumulated depreciation computed on the straight-line method over the estimated useful lives of the assets.

Expenditures for maintenance and repairs are charged against earnings as incurred. Costs of major additions and improvements are capitalized. Upon disposition or retirement of property, the asset account is relieved of the cost of the item and the allowance for depreciation is charged with accumulated depreciation. Any resulting gain or loss is reported in current income.

Long-lived assets:

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. If the future undiscounted cash flows expected to result from the use of the asset and its eventual disposition are less than the carrying amount of the asset, an impairment loss is recognized. Long-lived assets and certain intangibles to be disposed of are reported at the lower of carrying amount or fair value less cost to sell.

Income taxes:

The Company accounts for income taxes in accordance with income tax accounting guidance (Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740, *Income Taxes*). The guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

First Federal Financial Corporation and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

Note 1. Summary of Significant Accounting Policies, Continued

Income taxes, continued:

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation process, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with the taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

The income tax accounting guidance related to accounting for uncertainty in income taxes sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions. As of June 30, 2022, management is not aware of any uncertain tax positions that would have a material effect on the Company's financial statements. The years ending on or after June 30, 2019 remain subject to examination by federal and state authorities.

The Company recognizes interest and penalties on income taxes as a component of income tax expense.

Bank owned life insurance:

The Company has purchased single-premium life insurance on certain employees of the Company. Appreciation in value of the insurance policies is classified as noninterest income.

Earnings per share:

Basic earnings per share represent income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. The weighted-average number of common shares outstanding used to calculate earnings per share was 221,976 for the years ended June 30, 2022 and 2021. At June 30, 2022 and 2021, the Company had no potentially dilutive securities outstanding.

Fair value of financial instruments:

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in Note 16. Fair value estimates involve uncertainties and matters of significant judgment. Changes in assumptions or in market conditions could significantly affect the estimates.

Advertising costs:

Advertising costs are expensed as incurred. Advertising expense was \$57,926 and \$46,597 for the years ended June 30, 2022 and 2021, respectively.

First Federal Financial Corporation and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

Note 1. Summary of Significant Accounting Policies, Continued

Compensated absences:

Employees of the Company are entitled to paid vacation, paid sick days and personal days off, depending on job classifications, length of service, and other factors. It is impractical to estimate the amount of compensation for future absences, and, accordingly, no liability has been recorded in the accompanying financial statements. The Company's policy is to recognize the costs of compensated absences when actually paid to employees.

Revenue recognition:

Revenue from Contracts with Customers – All of the Company's revenues that are within the scope of ASC 606 are recognized within noninterest income. The following table presents the Company's sources of noninterest income for the years ended June 30, 2022 and 2021. Items outside the scope of ASC 606 are noted as such.

	<u>2022</u>	<u>2021</u>
Noninterest income:		
Service charges and other fees	\$ 789,144	\$ 683,808
Mortgage banking income (2)	196,606	461,833
Net gain on sale of foreclosed assets	-	7,343
Other (1)	<u>100,321</u>	<u>127,337</u>
Total noninterest income	<u>\$ 1,086,071</u>	<u>\$ 1,280,321</u>

(1) Portions within the scope of ASC 606, but not material

(2) Outside the scope of ASC 606

There were no impairment losses recognized on any receivables or contract assets arising from the Company's contracts with customers during the years ended June 30, 2022 and 2021.

The service charge revenue generated from contracts with customers is noninterest income and relates to fees charged on deposit accounts and certain loan fees. The revenues generated from each of these contracts are recognized when a performance obligation is met and each obligation is associated with a transaction tied to the account or the opening of the account. Given each of these accounts are transactional and the contract is a day-to-day contract, the performance obligations on these accounts occurs when the contract provision is triggered on the account, which results in the related service charge. Based on the Company's analysis, there are no fees generated for opening an account or for a service on the account where the good or service has not been transferred or prior to the performance obligation being met.

As of June 30, 2022 and 2021, the Company did not have amounts of material receivables, contract assets or contract liabilities tied to these contracts with customers. The Company believes that while loan and deposit accounts generate service charge income, these contracts do not create receivables, assets or liabilities given the fees associated with these service charges are typically charged and collected once the performance obligations is triggered. In addition, during the years ended June 30, 2022 and 2021, the Company did not recognize revenue that was included in any contract liabilities, and no revenues were recognized related to performance obligations satisfied in prior reporting periods.

First Federal Financial Corporation and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

Note 1. Summary of Significant Accounting Policies, Continued

Revenue recognition, continued:

The Company analyzes its payment streams associated with contracts with customers on a quarterly basis. As of June 30, 2022 and 2021, the nature of the performance obligations within the contracts generating service charges on deposit and loan accounts have a duration of one year or less. Also, based on the Company's analysis and the nature of the contracts discussed within this note, it was determined that there were no significant judgements associated with the recognition of revenue associated with these contracts.

Based on the Company's analysis, each of the service charge revenues discussed above are associated with the transfer of services through administration of customer's deposit account or through an agreed-upon, fixed amount that is disclosed in the customer's contract and are charged to the customer when the related service is performed on the customer's account. In addition, based on the Company's analysis, none of the contracts discussed above required a material cost to obtain or fulfill the contract, which resulted in no capitalized asset associated with these contracts as of June 30, 2022 and 2021.

Subsequent events:

The Company evaluated all events or transactions that occurred after June 30, 2022 through September 23, 2022, the date the Company issued these financial statements. During this period, the Company did not have any material subsequent events that required accrual or recognition in the financial statements for the year ended June 30, 2022.

Reclassification:

Certain amounts in the 2021 consolidated financial statements have been reclassified to conform to the 2022 presentation. Such classifications had no impact on net income or stockholders' equity.

Recently issued accounting standards:

In June 2016, the FASB issued guidance (ASU 2016-13) to change the accounting for credit losses and modify the impairment model for certain debt securities. The amendments will be effective for the Company for reporting periods beginning after December 15, 2022. Early adoption was permitted for all organizations for periods beginning after December 15, 2018.

The Company will apply the amendments to the ASU through a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption. The Company is evaluating the impact of the ASU on the consolidated financial statements. The Company is still evaluating the impact the ASU will have on the recorded allowance for loan losses given the change to estimated losses over the contractual life of the loans adjusted for expected prepayments. In addition to the allowance for loan losses, the Company will also record an allowance for credit losses on debt securities instead of applying the impairment model currently utilized.

The amount of the adjustments will be impacted by each portfolio's composition and credit quality at the adoption date as well as economic conditions and forecasts at that time.

First Federal Financial Corporation and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

Note 1. Summary of Significant Accounting Policies, Continued

Recently issued accounting standards, continued:

In May 2019, the FASB issued guidance to provide entities with an option to irrevocably elect the fair value option, applied on an instrument-by-instrument basis for eligible instruments, upon adoption of ASU 2016-13, *Measurement of Credit Losses on Financial Instruments*. The amendments will be effective for the Company for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. The Company does not expect these amendments to have a material effect on its consolidated financial statements.

In November 2019, the FASB issued guidance to defer the effective dates for private companies, not-for-profit organizations, and certain smaller reporting companies applying standards on CECL. The new effective dates will be for fiscal years beginning after December 15, 2022 including interim periods within those fiscal years.

In November 2019, the FASB issued guidance that addresses issues raised by stakeholders during the implementation of ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The amendments affect a variety of Topics in the Accounting Standards Codification. The amendments in ASU 2016-13 are effective for fiscal years beginning after December 15, 2022 including interim periods within those years. The Company does not expect these amendments to have a material effect on its consolidated financial statements.

In March 2020, the FASB issued guidance that makes narrow-scope improvements to various aspects of the financial instrument guidance, including the CECL guidance issued in 2016. The amendments related to conforming amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years beginning after December 15, 2020 including interim periods within those fiscal years. The effective date of the amendments to ASU 2016-01 is for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years beginning after December 31, 2019. For the amendments related to ASU 2016-13, the effective date is during 2023. Early adoption will continue to be permitted. For entities that have not yet adopted the guidance in ASU 2016-13, the effective dates and the transition requirements for these amendments are the same as the effective date and transition requirements in ASU 2016-13. The amendments should be applied on a modified-retrospective basis by means of a cumulative-effect adjustment to opening retained earnings in the statement of financial position as of the date that an entity adopted the amendments in ASU 2016-13. The Company does not expect these amendments to have a material effect on its 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.

First Federal Financial Corporation and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

Note 2. Investment Securities

The amortized cost and fair values of securities available-for-sale are as follows:

	<u>June 30, 2022</u>			
	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
Municipal securities	\$ 30,995,670	\$ 6,819	\$ (5,573,334)	\$ 25,429,155
SBA loan pooled securities	13,449,285	-	(723,430)	12,725,855
Mortgage backed securities	22,286,835	-	(3,039,986)	19,246,849
Corporate securities	500,000	-	(22,543)	477,457
	<u>\$ 67,231,790</u>	<u>\$ 6,819</u>	<u>\$ (9,359,293)</u>	<u>\$ 57,879,316</u>
	<u>June 30, 2021</u>			
	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
Municipal securities	\$ 30,320,476	\$ 366,486	\$ (106,873)	\$ 30,580,089
SBA loan pooled securities	8,293,538	328,471	-	8,622,009
Mortgage backed securities	18,554,857	86,274	(204,212)	18,436,919
	<u>\$ 57,168,871</u>	<u>\$ 781,231</u>	<u>\$ (311,085)</u>	<u>\$ 57,639,017</u>

Other securities on the balance sheet are comprised of \$335,815 and \$188,015 in FHLB stock at June 30, 2022 and 2021, respectively.

Securities with a carrying value of \$6,125,270 and \$5,915,003 at June 30, 2022 and 2021, respectively, were pledged to secure public deposits and for other purposes as required or permitted by law.

The following is a summary of maturities of securities available-for-sale. The amortized cost and fair values are based on the contractual maturity dates. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without penalty.

<u>June 30, 2022</u>	<u>Amortized Cost</u>	<u>Fair Value</u>
Due within one year	\$ -	\$ -
Due after one year but within five years	500,000	477,457
Due after five years but within ten years	5,447,272	5,149,532
Due after ten years	61,284,518	52,252,327
	<u>\$ 67,231,790</u>	<u>\$ 57,879,316</u>

First Federal Financial Corporation and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

Note 2. Investment Securities, Continued

Temporarily impaired securities:

The following table shows gross unrealized losses and fair value, aggregated by investment category, and length of time that individual securities have been in a continuous unrealized loss position, at June 30, 2022 and 2021.

	June 30, 2022					
	Less Than Twelve Months		Twelve Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Municipal securities	\$ 19,546,563	\$ 4,468,894	\$ 5,018,528	\$ 1,104,440	\$ 24,565,091	\$ 5,573,334
SBA loan pooled Securities	12,725,855	723,430	-	-	12,725,855	723,430
Mortgage backed securities	11,182,622	1,475,472	8,064,227	1,564,514	19,246,849	3,039,986
Corporate securities	477,457	22,543	-	-	477,457	22,543
	<u>\$ 43,932,497</u>	<u>\$ 6,690,339</u>	<u>\$13,082,755</u>	<u>\$ 2,668,954</u>	<u>\$ 57,015,252</u>	<u>\$ 9,359,293</u>
	June 30, 2021					
	Less Than Twelve Months		Twelve Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Municipal securities	\$ 6,516,285	\$ 106,873	\$ -	\$ -	\$ 6,516,285	\$ 106,873
Mortgage backed securities	12,129,154	201,094	875,814	3,118	13,004,968	204,212
	<u>\$ 18,645,439</u>	<u>\$ 307,967</u>	<u>\$ 875,814</u>	<u>\$ 3,118</u>	<u>\$ 19,521,253</u>	<u>\$ 311,085</u>

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

First Federal Financial Corporation and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

Note 2. Investment Securities, Continued

Temporarily impaired securities, continued:

All securities owned as of June 30, 2022 and 2021 were investment grade. As of June 30, 2022 and 2021, the Company held 92 and 14 investment positions, respectively, with unrealized losses of \$9,359,293 and \$311,085, respectively. These investments were in municipals, SBA loan pools, MBS, and corporate. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and industry analysts' reports. Management has determined that all declines in the market value of available-for-sale securities are not other-than-temporary and will not be likely required to sell.

Note 3. Loans

Following is a summary of loans receivable at June 30:

	<u>2022</u>	<u>2021</u>
Real estate:		
Residential	\$ 84,890,297	\$ 63,542,841
Construction	23,858,841	14,885,677
Nonresidential	35,067,245	35,295,811
Commercial (1)	10,238,921	14,527,591
Consumer	<u>1,549,494</u>	<u>1,285,000</u>
Total loans	155,604,798	129,536,920
Deferred loan fees and costs, net	164,785	103,123
Less allowance for loan losses	<u>(1,835,661)</u>	<u>(1,835,668)</u>
Net loans	<u>\$ 153,933,922</u>	<u>\$ 127,804,375</u>

(1) Includes \$0 and \$3,488,767 of PPP loans as of June 30, 2022 and June 30, 2021, respectively.

The Company grants real estate, commercial, and consumer loans to its customers. Although the Company has a diversified loan portfolio, 92.4% and 87.8% of the portfolio is concentrated in loans secured by real estate as of June 30, 2022 and 2021, respectively.

Real estate – residential:

The Company originates residential mortgage real estate loans for the closed-end purchase or refinancing of mortgages for individual homeowners or rental properties. These loans are secured by 1-4 family residential properties primarily located in the Company's market area. The financial strength of the borrowers and collateral values of the properties are assessed as part of the underwriting criteria of these loans. Risks associated with these loans include reductions in cash flow of borrowers due to job loss or sickness and declines in collateral values of properties securing the loans.

First Federal Financial Corporation and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

Note 3. Loans, Continued

Real estate – construction:

The Company originates construction loans to builders and commercial borrowers and, to a limited extent, loans to individuals for the construction of primary residences. These loans are secured by real estate. To the extent construction loans are not made to owner occupants of 1-4 family residential properties, they are more vulnerable to changes in economic conditions. Further the nature of these loans is such that they are difficult to evaluate and monitor. The risk of loss on construction loans is dependent on the accuracy of initial estimates of property value upon completion of the projects, and the estimated costs (including interest) of the projects.

Real estate – nonresidential:

Nonresidential loans are owner occupied loans where the primary sources of repayment are cash flows from the ongoing operations and activities conducted by the owners. Underwriting criteria for these loans require initial and on-going reviews of borrower cash flows. Economic conditions impacting cash flows of the borrowers or declines in collateral values are risks to this loan type.

Commercial:

Commercial business loans are made to small and medium sized companies in the Company's market area. Commercial loans are generally used for working capital purposes or for acquiring equipment, inventory or furniture. Primarily all of the Company's commercial loans are secured loans, along with a small amount of unsecured loans. The Company's underwriting analysis consists of a review of the financial statements of the borrower, the lending history of the borrower, the debt service capabilities of the borrower, the projected cash flows of the business, the value of the collateral, if any, and whether the loan is guaranteed by the principals of the borrower. These loans are generally secured by accounts receivable, inventory and equipment. Commercial loans are typically made on the basis of the borrower's ability to make repayment from the cash flow of the borrower's business, which makes them of higher risk than residential loans and the collateral securing loans may be difficult to appraise and may fluctuate in value based on the success of the business. The Company seeks to minimize these risks through its underwriting standards.

Consumer:

Consumer and other loans consist of all loans made to individuals for household, family, and other personal expenditures. These loans include automobile loans, unsecured loans, and deposit-secured loans as well as non-real estate secured revolving credit lines. Consumer underwriting criteria include the credit worthiness of the borrowers as well as the values of underlying collateral. Risks associated with consumer loans include job loss, sickness, and declines in collateral values or losses of collateral.

First Federal Financial Corporation and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

Note 3. Loans, Continued

An analysis of the change in allowance for loan losses at June 30, 2022 is as follows:

	<u>Real Estate Residential</u>	<u>Real Estate Construction</u>	<u>Real Estate Nonresidential</u>	<u>Commercial</u>	<u>Consumer</u>	<u>Total</u>
Allowance for loan losses:						
Beginning balance	\$ 790,300	\$ 263,903	\$ 605,751	\$ 158,939	\$ 16,775	\$ 1,835,668
Provision for loan losses	(57,441)	76,055	(29,833)	11,506	(287)	-
Charge-offs	-	-	-	-	(500)	(500)
Recoveries	-	-	-	-	493	493
Ending Balance	<u>\$ 732,859</u>	<u>\$ 339,958</u>	<u>\$ 575,918</u>	<u>\$ 170,445</u>	<u>\$ 16,481</u>	<u>\$ 1,835,661</u>
Impaired loans individually evaluated for impairment:						
Recorded investment	<u>\$ 1,520,602</u>	<u>\$ -</u>	<u>\$ 133,416</u>	<u>\$ -</u>	<u>\$ 3,600</u>	<u>\$ 1,657,618</u>
Balance in allowance for loan losses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Loans collectively evaluated for impairment:						
Recorded investment	<u>\$ 83,369,695</u>	<u>\$ 23,858,841</u>	<u>\$ 34,933,829</u>	<u>\$ 10,238,921</u>	<u>\$ 1,545,894</u>	<u>\$ 153,947,180</u>
Balance in allowance for loan losses	<u>\$ 732,859</u>	<u>\$ 339,958</u>	<u>\$ 575,918</u>	<u>\$ 170,445</u>	<u>\$ 16,481</u>	<u>\$ 1,835,661</u>
Total evaluated for impairment:						
Recorded investment	<u>\$ 84,890,297</u>	<u>\$ 23,858,841</u>	<u>\$ 35,067,245</u>	<u>\$ 10,238,921</u>	<u>\$ 1,549,494</u>	<u>\$ 155,604,798</u>
Balance in allowance for loan losses	<u>\$ 732,859</u>	<u>\$ 339,958</u>	<u>\$ 575,918</u>	<u>\$ 170,445</u>	<u>\$ 16,481</u>	<u>\$ 1,835,661</u>

First Federal Financial Corporation and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

Note 3. Loans, Continued

An analysis of the change in allowance for loan losses at June 30, 2021 is as follows:

	<u>Real Estate Residential</u>	<u>Real Estate Construction</u>	<u>Real Estate Nonresidential</u>	<u>Commercial</u>	<u>Consumer</u>	<u>Total</u>
Allowance for loan losses:						
Beginning balance	\$ 851,983	\$ 227,310	\$ 538,281	\$ 206,200	\$ 11,563	\$ 1,835,337
Provision for loan losses	(61,683)	36,593	67,470	(47,261)	4,881	-
Charge-offs	-	-	-	-	-	-
Recoveries	-	-	-	-	331	331
Ending Balance	<u>\$ 790,300</u>	<u>\$ 263,903</u>	<u>\$ 605,751</u>	<u>\$ 158,939</u>	<u>\$ 16,775</u>	<u>\$ 1,835,668</u>
Impaired loans individually evaluated for impairment:						
Recorded investment	<u>\$ 1,777,416</u>	<u>\$ -</u>	<u>\$ 167,055</u>	<u>\$ -</u>	<u>\$ 4,918</u>	<u>\$ 1,949,389</u>
Balance in allowance for loan losses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Loans collectively evaluated for impairment:						
Recorded investment	<u>\$ 61,765,425</u>	<u>\$ 14,885,677</u>	<u>\$ 35,128,756</u>	<u>\$ 14,527,591</u>	<u>\$ 1,280,082</u>	<u>\$ 127,587,531</u>
Balance in allowance for loan losses	<u>\$ 790,300</u>	<u>\$ 263,903</u>	<u>\$ 605,751</u>	<u>\$ 158,939</u>	<u>\$ 16,775</u>	<u>\$ 1,835,668</u>
Total evaluated for impairment:						
Recorded investment	<u>\$ 63,542,841</u>	<u>\$ 14,885,677</u>	<u>\$ 35,295,811</u>	<u>\$ 14,527,591</u>	<u>\$ 1,285,000</u>	<u>\$ 129,536,920</u>
Balance in allowance for loan losses	<u>\$ 790,300</u>	<u>\$ 263,903</u>	<u>\$ 605,751</u>	<u>\$ 158,939</u>	<u>\$ 16,775</u>	<u>\$ 1,835,668</u>

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. Loans classified other than weak pass are reviewed monthly by the Company for further deterioration or improvement to determine if they are appropriately classified and whether there is any impairment. All loans are graded upon initial issuance. Further, commercial loans are typically reviewed at least annually to determine the appropriate loan grading. In addition, during the renewal process of any loan, as well as when a loan becomes past due, the Company will determine the appropriate loan grade.

Loans excluded from the review process above are generally classified as pass credits until: (a) they become past due; (b) management becomes aware of deterioration in the credit worthiness of the borrower; or (c) the customer contacts the Company for a modification. In these circumstances, the loan is specifically evaluated for potential classification as to special mention, substandard, doubtful or even charge off.

First Federal Financial Corporation and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

Note 3. Loans, Continued

Internally assigned loan grades are defined as follows:

Pass - These loans exhibit minimal to moderately low risk. Loans are properly approved, documented, collateralized, and performing which do not reflect an abnormal credit risk.

Special Mention - These credits constitute a moderately high risk. These loans also possess deficiencies, which corrective action by the Company would remedy.

Substandard - These loans are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. These loans also are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Doubtful - These loans have all the weaknesses inherent in those classified as substandard with the added characteristic that the weaknesses make collection or liquidation in full, based on currently existing facts, conditions, and values, highly questionable and improbable.

Loss - These loans have those characteristics of doubtful loans with little to no value. These loans are considered to be not warranted as a bankable asset.

The following is an analysis of the Company's loan portfolio by credit quality indicators at June 30, 2022:

	<u>Pass</u>	<u>Special Mention</u>	<u>Substandard</u>	<u>Total</u>
Real estate				
Residential	\$ 83,034,551	\$ 263,451	\$ 1,592,295	\$ 84,890,297
Construction	23,858,841	-	-	23,858,841
Nonresidential	34,933,829	-	133,416	35,067,245
Commercial	10,182,369	56,552	-	10,238,921
Consumer	<u>1,539,502</u>	<u>5,698</u>	<u>4,294</u>	<u>1,549,494</u>
	<u>\$ 153,549,092</u>	<u>\$ 325,701</u>	<u>\$ 1,730,005</u>	<u>\$ 155,604,798</u>

The following is an analysis of the Company's loan portfolio by credit quality indicators at June 30, 2021:

	<u>Pass</u>	<u>Special Mention</u>	<u>Substandard</u>	<u>Total</u>
Real estate				
Residential	\$ 61,599,890	\$ 299,925	\$ 1,643,026	\$ 63,542,841
Construction	14,885,677	-	-	14,885,677
Nonresidential	35,128,756	-	167,055	35,295,811
Commercial	14,283,269	240,089	4,233	14,527,591
Consumer	<u>1,270,085</u>	<u>8,367</u>	<u>6,548</u>	<u>1,285,000</u>
	<u>\$ 127,167,677</u>	<u>\$ 548,381</u>	<u>\$ 1,820,862</u>	<u>\$ 129,536,920</u>

First Federal Financial Corporation and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

Note 3. Loans, Continued

The following table provides an aging analysis of past due loans and non-accrual loans at June 30, 2022:

	Accruing Loans			Non- Accrual	Current Loans	Total
	30-89 Days	Greater than 90 Days	Total			
Real estate						
Residential	\$ -	\$ -	\$ -	\$ 1,340,760	\$ 83,549,537	\$ 84,890,297
Construction	-	-	-	-	23,858,841	23,858,841
Nonresidential	-	-	-	133,416	34,933,829	35,067,245
Commercial	-	-	-	-	10,238,921	10,238,921
Consumer	-	-	-	3,600	1,545,894	1,549,494
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,477,776</u>	<u>\$ 154,127,022</u>	<u>\$ 155,604,798</u>

The following table provides an aging analysis of past due loans and non-accrual loans at June 30, 2021:

	Accruing Loans			Non- Accrual	Current Loans	Total
	30-89 Days	Greater than 90 Days	Total			
Real estate						
Residential	\$ -	\$ -	\$ -	\$ 1,588,414	\$ 61,954,427	\$ 63,542,841
Construction	-	-	-	-	14,885,677	14,885,677
Nonresidential	-	-	-	167,055	35,128,756	35,295,811
Commercial	-	-	-	-	14,527,591	14,527,591
Consumer	-	-	-	4,918	1,280,082	1,285,000
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,760,387</u>	<u>\$ 127,776,533</u>	<u>\$ 129,536,920</u>

The following is an analysis of the Company's impaired loan portfolio detailing the related allowance recorded at June 30, 2022:

	With No Allowance Recorded		With an Allowance Recorded		
	Recorded Investment	Unpaid Contractual Principal Balance	Recorded Investment	Unpaid Contractual Principal Balance	Related Allowance
Real estate					
Residential	\$ 1,520,602	\$ 1,525,752	\$ -	\$ -	\$ -
Nonresidential	133,416	133,416	-	-	-
Consumer	3,600	3,600	-	-	-
	<u>\$ 1,657,618</u>	<u>\$ 1,662,768</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

First Federal Financial Corporation and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

Note 3. Loans, Continued

The following is an analysis of the Company's impaired loan portfolio detailing the related allowance recorded at June 30, 2021:

	With No Allowance Recorded		With an Allowance Recorded		
	Recorded Investment	Unpaid Contractual Principal Balance	Recorded Investment	Unpaid Contractual Principal Balance	Related Allowance
Real estate					
Residential	\$ 1,777,416	\$ 1,782,566	\$ -	\$ -	\$ -
Nonresidential	167,055	167,055	-	-	-
Consumer	4,918	4,918	-	-	-
	<u>\$ 1,949,389</u>	<u>\$ 1,954,539</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

A loan is considered impaired, in accordance with the impairment accounting guidance, when based on current information and events, it is probable that the Company will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Impaired loans includes all classes of commercial non-accruing loans and TDRs.

The average net investment in impaired loans and interest income recognized and received on impaired loans are as follows at June 30, 2022:

	Average Recorded Investment	Interest Income Recognized	Interest Income Received
Real estate			
Residential	\$ 1,560,229	\$ 80,768	\$ 80,768
Nonresidential	152,110	10,267	10,267
Consumer	4,289	161	161
	<u>\$ 1,716,628</u>	<u>\$ 91,196</u>	<u>\$ 91,196</u>

The average net investment in impaired loans and interest income recognized and received on impaired loans are as follows at June 30, 2021:

	Average Recorded Investment	Interest Income Recognized	Interest Income Received
Real estate			
Residential	\$ 1,815,525	\$ 91,825	\$ 91,825
Nonresidential	182,037	12,287	12,287
Consumer	5,417	144	144
	<u>\$ 2,002,979</u>	<u>\$ 104,256</u>	<u>\$ 104,256</u>

First Federal Financial Corporation and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

Note 3. Loans, Continued

Modifications of terms for loans and their inclusion as TDRs are based on individual facts and circumstances. Loan modifications that are included as TDRs may involve a reduction of the stated interest rate of the loan, an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk, or deferral of principal payments, regardless of the modification.

There were no TDRs entered into during the years ended June 30, 2022 and 2021. Loans identified as TDRs totaled \$314,092 and \$334,094 for the years ended June 30 2022 and 2021, respectively.

TDRs totaling \$133,250 were on non-accrual status at June 30, 2022 and were classified as Substandard. Loans retain their accrual status at the time of their modification. As a result, if a loan is on non-accrual at the time it was modified, it stays on non-accrual, and if a loan is on accrual at the time of modification, it generally stays on accrual. A loan on non-accrual will be individually evaluated based on sustained adherence to the terms of the modification agreement prior to being reclassified to accrual status.

At June 30, 2022 and 2021, there were no commitments to lend additional funds to any borrower whose loan terms have been modified in a TDR.

Note 4. Premises and Equipment

Premises and equipment is summarized as follows as of June 30:

	<u>2022</u>	<u>2021</u>
Land	\$ 555,390	\$ 555,390
Bank premises and leasehold improvements	3,161,481	3,035,494
Furniture, fixtures and equipment	<u>2,565,160</u>	<u>2,467,753</u>
	6,282,031	6,058,637
Less accumulated depreciation	<u>(4,868,526)</u>	<u>(4,577,471)</u>
Premises and equipment, net	<u>\$ 1,413,505</u>	<u>\$ 1,481,166</u>

Depreciation expense was \$338,582 and \$363,273 for the years ended June 30, 2022 and 2021, respectively.

The Company was a party to three non-cancellable leases as of June 30, 2022. Future minimum lease payments under the operating leases are summarized as follows:

2023	\$ 186,354
2024	188,706
2025	146,249
2026	142,284
2027 and thereafter	<u>159,998</u>
Total	<u>\$ 823,591</u>

Rental expense relating to the operating lease amounted to \$181,150 and \$189,872 for the years ending June 30, 2022 and 2021, respectively.

First Federal Financial Corporation and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

Note 5. Deposits

The aggregate amount of time deposits in denominations of \$250,000 or more at June 30, 2022 and 2021 was \$9,276,184 and \$10,896,248, respectively.

At June 30, 2022, the scheduled maturities of time deposits are as follows:

2023	\$ 34,950,537
2024	4,830,866
2025	476,607
2026	351,029
2027 and thereafter	<u>26,429</u>
Total	<u>\$ 40,635,468</u>

Note 6. Borrowings

The Company has a line of credit with FHLB enabling the Company to borrow up to 25% of total assets of the Bank. As of June 30, 2022, the Company would be able to access an additional \$57,814,500 of FHLB credit products based on the Bank's current financial and operational conditions and upon pledging of sufficient collateral. At June 30, 2022, and 2021, the Company had \$6,000,000 and \$0 in outstanding advances, respectively.

As of June 30, 2022, the Company also had an unsecured line of credit with another financial institution enabling the Company to borrow up to \$7,000,000 with interest determined at the time of any advance. The arrangement is reviewed annually for renewal. At June 30, 2022, and 2021, the Company had \$0 in outstanding advances.

Note 7. Income Taxes

The income tax provision differs from the amount of income tax determined by applying the U.S. federal income tax rate to pretax income for the years ended June 30, 2022 and June 30, 2021, due to the following:

	<u>2022</u>	<u>2021</u>
Income tax expense (benefit):		
Tax expense at statutory rate	\$ 236,477	\$ 105,006
(Increase) decrease in income taxes resulting from:		
Interest on nontaxable securities	(89,660)	(84,203)
Income from life insurance	(13,342)	(12,712)
State income taxes, net of federal effect	20,507	8,150
Other	<u>8,543</u>	<u>(36,398)</u>
Total	<u>\$ 162,525</u>	<u>\$ (20,157)</u>

First Federal Financial Corporation and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

Note 7. Income Taxes, Continued

Income tax expense is summarized as follows at June 30:

	<u>2022</u>	<u>2021</u>
Current income tax expense (benefit):		
Federal	\$ 4,946	\$ (2,467)
State	177	185
Deferred tax expense (benefit)	<u>157,402</u>	<u>(17,875)</u>
Total provision for income taxes	<u>\$ 162,525</u>	<u>\$ (20,157)</u>

The 2022 and 2021 provisions for federal and state income taxes differs from that computed by applying federal and state statutory rates to income before federal and state income tax expense primarily due to tax exempt interest income and other non-deductible expenses.

The components of the net deferred tax assets are as follows at June 30:

	<u>2022</u>	<u>2021</u>
Deferred tax assets:		
Provision for loan losses	\$ 421,743	\$ 421,745
Non-accrual loan interest	16,280	13,989
Deferred loan costs, net	-	23,692
Premises and equipment	159,822	152,807
Pension liability	737,132	499,565
Net operating loss	577,884	493,929
Unrealized securities losses	2,148,731	-
Other	<u>6,596</u>	<u>4,781</u>
	4,068,188	1,610,508
Deferred tax liabilities:		
Prepaid pension	(803,130)	(660,131)
Net deferred loan fees and costs	(37,859)	-
Net unrealized gains on securities available for sale	-	(108,017)
Prepaid expenses	<u>(10,487)</u>	<u>(6,462)</u>
Total net deferred tax liabilities	<u>(851,476)</u>	<u>(774,610)</u>
Net deferred tax asset before valuation allowance	<u>3,216,712</u>	<u>-</u>
Valuation allowance	<u>(43,901)</u>	<u>-</u>
Deferred tax asset, net	<u>\$ 3,172,811</u>	<u>\$ 835,898</u>

The Company and its subsidiary file income tax returns in the United States federal jurisdiction and North Carolina. With few exceptions, the Company is no longer subject to United States federal, state and local income tax examinations by tax authorities for years before 2019.

First Federal Financial Corporation and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

Note 8. Off-Balance Sheet Activities

The Company is a party to credit related financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets.

The Company's exposure to credit loss is represented by the contractual amount of these commitments. The Company follows the same credit policies in making commitments as it does for on balance sheet instruments.

At June 30, 2022 and 2021, the following financial instruments were outstanding whose contract amounts represent credit risk:

	<u>2022</u>	<u>2021</u>
Unfunded commitments	<u>\$ 39,468,368</u>	<u>\$ 36,015,597</u>

Unfunded commitments under lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments for lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Company, is based on management's credit evaluation of the customer.

Note 9. Legal Contingencies

Various legal claims arise from time to time in the normal course of business. Management is of the opinion that no current claims exist that will have a material effect on the Company's consolidated financial statements.

Note 10. Minimum Regulatory Capital Requirements

Banks and bank holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules) became effective for the Company on January 1, 2015 with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in on January 1, 2019. The capital conversion buffer was phased in from 0.0% for 2015 to 2.5% by 2019. The capital conversion buffer for 2022 is 2.5%. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. Management believes as of June 30, 2022, the Bank met all capital adequacy requirements to which they are subject.

First Federal Financial Corporation and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

Note 10. Minimum Regulatory Capital Requirements, Continued

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At June 30, 2022 and 2021, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

The following table summarizes the capital amounts and ratios of the Bank and the regulatory minimum requirements:

(Dollars in thousands)

	Actual		For Capital Adequacy Purposes		To Be Well-Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
June 30, 2022						
Total capital						
(to risk-weighted assets)	\$ 24,829	17.51%	\$ 11,345	8.00%	\$ 14,181	10.00%
Tier 1 capital						
(to risk-weighted assets)	23,056	16.26%	8,508	6.00%	11,345	8.00%
Common Tier 1 capital						
(to risk-weighted assets)	23,056	16.26%	6,381	4.50%	9,218	6.50%
Tier 1 capital						
(to average assets)	23,056	10.13%	9,102	4.00%	11,378	5.00%

(Dollars in thousands)

	Actual		For Capital Adequacy Purposes		To Be Well-Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
June 30, 2021						
Total capital						
(to risk-weighted assets)	\$ 23,492	20.01%	\$ 9,390	8.00%	\$ 11,737	10.00%
Tier 1 capital						
(to risk-weighted assets)	22,021	18.76%	7,042	6.00%	9,390	8.00%
Common Tier 1 capital						
(to risk-weighted assets)	22,021	18.76%	5,282	4.50%	7,629	6.50%
Tier 1 capital						
(to average assets)	22,021	10.39%	8,477	4.00%	10,596	5.00%

Note 11. Concentrations and Cash Reserve Requirements

At various times throughout the year, the Company maintained cash balances with financial institutions that exceeded federally insured limits. The Company monitors the capital adequacy of these financial institutions on a quarterly basis. The Company is required to maintain certain cash reserves relating to its deposit liabilities. This reserve requirement is ordinarily satisfied by cash on hand.

First Federal Financial Corporation and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

Note 12. Stock-Based Compensation

Under the Company's First Federal Savings Bank 1991 Stock Option Plan (the "Plan"), the Company may grant up to 25,000 options for the purchase of the Company's common stock to directors, officers, and employees. Option prices may not be less than 100% of the estimated fair value of the common stock at the grant dates under the Plan, and option prices may not be less than 110% of the estimated fair value of the common stock at the grant dates for employees who own 10% or more of the Company's outstanding Common Stock. Option terms may not exceed 5 years for employees owning 10% or more of outstanding common stock, or 5 years for all others. Vesting of options is specified in individual option agreements. Options shall become immediately exercisable in the event of a change of control as defined by the Plan.

During the years ended June 30, 2022 and 2021, no stock options were outstanding and exercisable, and no stock options were granted or exercised.

Note 13. Comprehensive Income

Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities and unrealized gains and losses on the defined benefit pension plan obligation, which are recognized as separate components of equity.

The components of accumulated other comprehensive loss, included in stockholders' equity, are as follows for the year ended June 30:

	<u>2022</u>	<u>2021</u>
Balance as of June 30, 2021	\$ (1,115,790)	\$ (1,159,295)
Unrealized holding losses arising during the period, net of tax	(7,196,451)	(102,547)
Actuarial gains (losses), net of unamortized pension service costs and tax	<u>(796,371)</u>	<u>146,052</u>
Total accumulated other comprehensive loss	(9,108,612)	(1,115,790)
Accumulated other comprehensive loss attributable to noncontrolling interest	<u>(1,037,019)</u>	<u>(114,922)</u>
Accumulated other comprehensive loss attributable to First Federal Financial Corporation and Subsidiary	<u>\$ (8,071,593)</u>	<u>\$ (1,000,868)</u>

Note 14. Employee Benefit Plans

401(k) plan:

The Company has a 401(k) defined contribution plan that covers all employees over age 21 with one year of service. The Board of Directors approved a discretionary matching contribution of \$0.50 for every \$1.00 contributed by employees up to a maximum of 4.00% of employees' salaries beginning January 1, 2015. The Company contributed \$58,269 and \$64,297 in discretionary matching for the years ended June 30, 2022 and 2021, respectively.

First Federal Financial Corporation and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

Note 14. Employee Benefit Plans, Continued

Defined benefit pension plan:

The Company maintains a non-contributory defined benefit pension plan covering substantially all its employees. Benefits are based on the final average salary and service of the employees integrated with social security. Effective July 1, 2019, the Company elected to freeze its pension plan.

Benefit obligation for the year ended June 30:

	<u>2022</u>	<u>2021</u>
Benefit obligation at beginning of year	\$ 7,218,387	\$ 6,936,060
Interest cost	302,056	314,714
Benefits paid	(352,179)	(387,089)
Curtailement	-	-
Actuarial (gain) loss during year	<u>(15,229)</u>	<u>354,702</u>
Benefit obligation, end of year	<u>\$ 7,153,035</u>	<u>\$ 7,218,387</u>

Plan assets for the year ended June 30:

	<u>2022</u>	<u>2021</u>
Fair value of plan assets at beginning of year	\$ 7,917,259	\$ 6,472,594
Actual return on plan assets	(674,783)	831,754
Actual employer contribution	550,000	1,000,000
Benefits paid	<u>(352,179)</u>	<u>(387,089)</u>
Fair value of plan assets at end of year	<u>\$ 7,440,297</u>	<u>\$ 7,917,259</u>
Funded status	<u>\$ 287,262</u>	<u>\$ 698,872</u>
Funded status included in other assets	<u>\$ 287,262</u>	<u>\$ 698,872</u>

Pension benefits for the year ended June 30:

Amounts included in accumulated other comprehensive income (loss), net of tax consist of the following:

	<u>2022</u>	<u>2021</u>
Net actuarial income (loss)	<u>\$ 15,229</u>	<u>\$ (354,702)</u>
Accumulated other comprehensive income (loss)	<u>\$ 15,229</u>	<u>\$ (354,702)</u>

First Federal Financial Corporation and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

Note 14. Employee Benefit Plans, Continued

Net periodic pension (income) cost for the year ended June 30:

The following table shows the components of net periodic pension (income) cost related for the years ended June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Interest cost	\$ 302,056	\$ 314,714
Expected return on plan assets	(425,610)	(346,232)
Amortization of net losses	51,142	58,796
Effect of curtailment	-	-
Net periodic pension (income) cost	<u>\$ (72,412)</u>	<u>\$ 27,278</u>

At June 30, 2022 and 2021, the assumptions used to determine the benefit obligation and net periodic pension (income) cost were as follows for the year ended June 30:

	<u>2022</u>	<u>2021</u>
Discount rates for net periodic pension cost	4.38%	4.25%
Expected rate of return on plan assets	5.50%	5.50%
Rates of increase in compensation levels	2.50%	2.50%

The Company's pension plan weighted average asset allocations at June 30, 2022 and 2021 were as follows for the year ended June 30:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	5.80%	9.10%
Mutual funds	<u>94.20%</u>	<u>90.90%</u>
	<u>100.00%</u>	<u>100.00%</u>

Determination of expected long-term rate of return:

The expected long-term rate of return reflects assumptions as to continued execution of the plan's investment strategy.

Investment policy and strategy:

The Company's pension plan funds are primarily invested in cash and mutual funds. Investment decisions regarding the plan's assets seek to achieve a favorable annual return that will provide needed capital appreciation and cash flow to allow both current and future obligations to be paid.

First Federal Financial Corporation and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

Note 14. Employee Benefit Plans, Continued

Cash flows:

The Company expects to contribute \$0 to the pension plan in fiscal year 2023. Estimated future benefit payments which reflect expected future benefit service, as appropriate are as follows:

2023	\$	380,000
2024		410,000
2025		480,000
2026		510,000
2027		500,000
2028-2032		2,470,000

Other changes in plan assets and benefit obligations recognized in other comprehensive income for the year ended June 30:

	<u>2022</u>	<u>2021</u>
Current year actuarial (income) loss	\$ 1,085,164	\$ (130,820)
Amortization of net losses	<u>(51,142)</u>	<u>(58,796)</u>
Total recognized in accumulated other comprehensive (income) loss	1,034,022	(189,616)
Total net periodic pension (income) cost	<u>(72,412)</u>	<u>27,278</u>
Total recognized in net periodic benefit cost and other comprehensive income	<u>\$ 961,610</u>	<u>\$ (162,338)</u>

Note 15. Related Party Transactions

In the ordinary course of business, the Company has granted loans to principal officers and directors and their affiliates. Annual activity consisted of the following:

	<u>2022</u>	<u>2021</u>
Beginning balance	\$ 1,361,460	\$ 1,041,146
New loans	2,047,137	858,882
Repayments	<u>(293,750)</u>	<u>(538,568)</u>
Ending balance	<u>\$ 3,114,847</u>	<u>\$ 1,361,460</u>

Deposits from related parties held by the Company amounted to \$19,052,732 and \$16,983,714 at June 30, 2022 and 2021, respectively.

First Federal Financial Corporation and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

Note 16. Fair Value of Assets and Liabilities

FASB ASC 825, *Financial Instruments*, permits entities to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The election to use the fair value option is available when an entity first recognizes a financial asset or financial liability or upon entering into a Company commitment. Subsequent changes must be recorded in earnings.

FASB ASC 820, *Fair Value Measurement*, clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Under this guidance, fair value measurements are not adjusted for transaction costs. This guidance establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy under this guidance are described below.

- Level 1: Valuations for assets and liabilities traded in active exchange markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.
- Level 2: Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or comparable assets or liabilities which use 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.

A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The following describes valuation methodologies used for assets measured at fair value.

Securities: Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include highly liquid government bonds, certain mortgage products and exchange-traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows. Examples of such instruments, which would generally be classified within Level 2 of the valuation hierarchy, include certain collateralized mortgage and debt obligations and certain high-yield debt securities. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy. Securities classified within Level 3 include certain residual interests in securitizations and other less liquid securities.

First Federal Financial Corporation and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

Note 16. Fair Value of Assets and Liabilities, Continued

Impaired Loans: A loan is considered to be impaired when it is probable the Company will be unable to collect all principal and interest payments due in accordance with the contractual terms of the loan agreement. Estimates of fair value are determined based on a variety of information, including the use of available appraisals, estimates of market value by licensed appraisers or local real estate brokers and the knowledge and experience of the Company's management related to values of properties in the Company's market areas. Management takes into consideration the type, location and occupancy of the property as well as current economic conditions in the area the property is located in assessing estimates of fair value. Management's unobservable inputs resulted in a quantitative decrease of 5% - 10%. Accordingly, fair value estimates for impaired loans are classified as Level 3.

Foreclosed Assets: Estimates of fair values are determined based on a variety of information, including the use of available appraisals, estimates of market value by licensed appraisers or local real estate brokers and the knowledge and experience of the Company's senior lending officers related to values of properties in the Company's market areas. These officers take into consideration the type, location and occupancy of the property as well as current economic conditions in the area the property is located in assessing estimates of fair value. Management's unobservable inputs resulted in a quantitative decrease of 5% - 10%. Accordingly, the fair value estimates for foreclosed real estate are classified as Level 3.

The tables below present the balances of assets and liabilities measured at fair value on a recurring basis by level within the hierarchy.

	June 30, 2022			
	Total	Level 1	Level 2	Level 3
Municipal securities	\$ 25,429,155	\$ -	\$ 25,429,155	\$ -
SBA loan pooled securities	12,725,855	-	12,725,855	-
Mortgage backed securities	19,246,849	-	19,246,849	-
Corporate securities	477,457	-	477,457	-
Total	<u>\$ 57,879,316</u>	<u>\$ -</u>	<u>\$ 57,879,316</u>	<u>\$ -</u>

	June 30, 2021			
	Total	Level 1	Level 2	Level 3
Municipal securities	\$ 30,580,089	\$ -	\$ 30,580,089	\$ -
SBA loan pooled securities	8,622,009	-	8,622,009	-
Mortgage backed securities	18,436,919	-	18,436,919	-
Total	<u>\$ 57,639,017</u>	<u>\$ -</u>	<u>\$ 57,639,017</u>	<u>\$ -</u>

First Federal Financial Corporation and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

Note 16. Fair Value of Assets and Liabilities, Continued

The tables below present the balances of assets and liabilities measured at fair value on a nonrecurring basis by level within the hierarchy.

	<u>June 30, 2022</u>			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Impaired loans				
Real estate				
Residential	\$ 1,520,602	\$ -	\$ -	\$ 1,520,602
Nonresidential	133,416	-	-	133,416
Consumer	3,600	-	-	3,600
Total	<u>\$ 1,657,618</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,657,618</u>
	<u>June 30, 2021</u>			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Impaired loans				
Real estate				
Residential	\$ 1,777,416	\$ -	\$ -	\$ 1,777,416
Nonresidential	167,055	-	-	167,055
Consumer	4,918	-	-	4,918
Total	<u>\$ 1,949,389</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,949,389</u>