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

09/27/2017
Date of Signature

For holding companies not registered with the SEC–
Indicate status of Annual Report to Shareholders:
- [x] 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, 2017
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

City	State	Zip Code
Dunn	NC	28335

200 E. Divine Street Dunn, NC 28334
Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Lynn Coats — CFO, First Federal Bank
Name — Title

910-891-2804
Area Code / Phone Number / Extension

910-892-5468
Area Code / FAX Number

lcoats@firstfederalbanknc.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 1=Yes: 0

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."

For Use By Tiered Holding Companies

Top-tiered holding companies must list the names, mailing address, and physical locations of each of their subsidiary holding companies below.

Legal Title of Subsidiary Holding Company

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

City State Zip Code

Physical Location (if different from mailing address)

Legal Title of Subsidiary Holding Company

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

City State Zip Code

Physical Location (if different from mailing address)

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City State Zip Code

Physical Location (if different from mailing address)

Item 1: Annual Report to Shareholders
FR Y-6
First Federal Financial Corporation
Fiscal Year Ending June 30, 2017

An electronic copy of the audited financial statement for First Federal Financial Corporation is included in this package. The 2 hard copies will be sent via UPS to the Federal Reserve when they are received from the external accounting firm of Carr, Riggs & Ingram.

First Federal Financial Corporation and Subsidiary

CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017 and 2016

CARR RIGGS & INGRAM
CPAs and Advisors
CRIcpa.com

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June 30, 2017

Carr, Riggs & Ingram, LLC
911 Paverstone Drive
Suite A
Raleigh, North Carolina 27615

(919) 848-1259
(919) 848-1296 (fax)
www.cricpa.com

INDEPENDENT AUDITORS' REPORT

To the Audit Committee of the Board of Directors
of First Federal Financial Corporation

We have audited the accompanying consolidated financial statements of First Federal Financial Corporation and Subsidiary (the Company), which comprise the consolidated balance sheets as of June 30, 2017 and 2016, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position First Federal Financial Corporation and Subsidiary as of June 30, 2017, 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.

Carr, Riggs & Ingram, L.L.C

CARR, RIGGS & INGRAM, L.L.C.

Certified Public Accountants

September 26, 2017

First Federal Financial Corporation and Subsidiary
Consolidated Balance Sheets

June 30,	2017	2016
Assets		
Cash and cash equivalents		
Cash and due from banks	**$ 13,866,140**	$ 19,631,124
Federal funds sold	**50,000**	50,000
Total cash and cash equivalents	**13,916,140**	19,681,124
Interest bearing deposits in banks	**1,489,388**	497,061
Securities available for sale	**43,231,860**	28,319,705
Other securities, at cost	**151,610**	213,010
Loans, net	**113,268,818**	113,268,161
Premises and equipment, net	**1,570,429**	1,402,841
Foreclosed assets	**688,576**	727,499
Bank owned life insurance	**2,234,868**	2,170,419
Deferred tax asset	**1,982,850**	1,417,974
Other assets	**916,849**	890,083
Total assets	**$ 179,451,388**	$ 168,587,877
Liabilities and Stockholders' Equity		
Liabilities		
Deposits		
Interest bearing	**$ 113,989,995**	$ 107,439,504
Non-interest bearing	**43,436,900**	39,699,048
Total deposits	**157,426,895**	147,138,552
Accrued interest payable and other liabilities	**1,263,287**	1,185,613
Total liabilities	**158,690,182**	148,324,165
Stockholders' equity		
Common stock (voting; $1 par value; 1,000,000 shares authorized; 221,976 shares issued and outstanding at June 30, 2016 and 2015)	**221,976**	221,976
Additional paid-in capital	**4,783,283**	4,783,283
Retained earnings	**14,584,116**	14,528,062
Accumulated other comprehensive loss	**(998,739)**	(1,377,554)
Noncontrolling interest	**2,170,570**	2,107,945
Total stockholders' equity	**20,761,206**	20,263,712
Total liabilities and stockholders' equity	**$ 179,451,388**	$ 168,587,877

See the accompanying notes to the consolidated financial statements.

First Federal Financial Corporation and Subsidiary
Consolidated Statements of Income

Years ended June 30,		2017		2016
Interest Income				
Loans, including fees	$	**5,735,531**	$	5,637,087
Investment securities		**588,357**		326,354
Other interest and dividends		**103,488**		78,047
Total interest income		**6,427,376**		6,041,488
Interest Expense				
Deposits		**773,731**		847,524
Borrowings		**1,356**		-
Total interest expense		**775,087**		847,524
Net interest income		**5,652,289**		5,193,964
Noninterest Income				
Service charges and other fees		**564,169**		574,150
Net gain on sale of securities		**-**		152,181
Net gain on sale of foreclosed assets		**7,113**		310,771
Other		**102,611**		119,628
Total noninterest income		**673,893**		1,156,730
Noninterest Expense				
Salaries and employee benefits		**3,836,154**		3,439,243
Occupancy and equipment		**601,383**		549,619
Data processing fees		**506,646**		490,028
Professional services		**195,218**		214,382
Telephone and courier		**147,125**		189,710
Supplies		**103,918**		95,087
Maintenance costs		**96,320**		122,466
FDIC insurance premiums		**68,198**		115,452
Foreclosed assets, net		**24,520**		306,359
Other general and administrative		**610,621**		523,408
Total noninterest expense		**6,190,103**		6,045,754
Income Before Provision for Income Taxes		**136,079**		304,940
Provision for income taxes		**66,802**		(82,232)
Net Income		**69,277**		387,172
Net income attributable to noncontrolling interest		**(13,223)**		(51,277)
Net income attributable to First Federal Financial Corporation and Subsidiary	$	**56,054**	$	335,895
Earnings per Share	$	**0.31**	$	1.74

See the accompanying notes to the consolidated financial statements.

Consolidated Statements of Comprehensive Income

Years ended June 30,	2017	2016
Net income attributable to First Federal Financial Corporation and Subsidiary	**$ 56,054**	$ 335,895
Other comprehensive (loss) income:		
Unrealized holding (losses) gains arising during the period, net of tax of $238,549 and ($660,025), respectively	**(639,543)**	1,109,479
Less: reclassification adjustment for gains included in net income, net of tax of $56,306.	**-**	95,875
Change in unfunded status of pension, net of tax of $66,329 and $234,589, respectively	**(177,826)**	(352,288)
Unrealized gains (losses) on interest rate swaps, arising during the period, net of tax of ($464,604) and $922,170, respectively	**1,245,586**	(1,550,137)
Other comprehensive loss	**428,217**	(697,071)
Other comprehensive loss attributable to noncontrolling interest	**49,402**	(80,418)
Other comprehensive loss attributable to First Financial Corporation and Subsidiary	**378,815**	(616,653)
Total comprehensive loss	**$ 434,869**	$ (280,758)

See the accompanying notes to the consolidated financial statements.

Consolidated Statements of Stockholders' Equity

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interest	Total
Balance at June 30, 2015	$ 221,976	$ 4,783,283	$ 14,192,167	$ (760,900)	$ 2,137,085	$ 20,573,611
Comprehensive income						
Net income	-	-	335,895	-	51,277	387,172
Change in unfunded status of pension, net	-	-	-	(311,647)	(40,641)	(352,288)
Change in net unrealized loss on securities available for sale, net				1,066,298	139,056	1,205,354
Unrealized gain on interest rate swaps, net	-	-	-	(1,371,305)	(178,832)	(1,550,137)
Total comprehensive income (loss)	-	-	335,895	(616,654)	(29,140)	(309,899)
Balance at June 30, 2016	221,976	4,783,283	14,528,062	(1,377,554)	2,107,945	20,263,712
Comprehensive income						
Net income	-	-	56,054	-	13,223	69,277
Change in unfunded status of pension, net				(157,311)	(20,515)	(177,826)
Change in net unrealized loss on securities available for sale, net	-	-	-	(565,762)	(73,781)	(639,543)
Unrealized loss on interest rate swaps, net	-	-	-	1,101,888	143,698	1,245,586
Total comprehensive income	-	-	56,054	378,815	62,625	497,494
Balance at June 30, 2017	**$ 221,976**	**$ 4,783,283**	**$ 14,584,116**	**$ (998,739)**	**$ 2,170,570**	**$ 20,761,206**

See the accompanying notes to the consolidated financial statements.

First Federal Financial Corporation and Subsidiary
Consolidated Statements of Cash Flows

Years ended June 30,	**2017**	2016
Operating Activities		
Net Income	**$ 69,277**	$ 387,172
Net income attributable to noncontrolling interest	**(13,223)**	(51,277)
Net income attributable to First Federal Financial Corporation and Subsidiary	**56,054**	335,895
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	**213,356**	191,468
Loss on disposal of premises and equipment	**(168,548)**	-
Net amortization of securities	**120,616**	81,564
Net gain on sale of investment securities	**-**	(152,181)
Impairment loss on securities recognized in earnings	**28,827**	-
Impairment of foreclosed assets	**11,030**	23,534
Net gain on sale of foreclosed assets	**(7,113)**	(321,037)
Deferred income tax expense (benefit)	**(178,852)**	38,453
Bank owned life insurance income	**(64,449)**	(62,594)
Postretirement benefit income and deferred compensation expense	**166,882**	-
Changes in operating assets and liabilities:		
Other assets	**(26,766)**	(182,833)
Accrued expenses and other liabilities	**(267,035)**	(408,135)
Net cash used in operating activities	**(115,998)**	(455,866)
Investing Activities		
Change in interest bearing deposits in banks	**(992,327)**	-
Proceeds from calls, maturities, and prepayments of securities, available for sale	**1,757,823**	806,103
Proceeds from sale of securities, available for sale	**-**	2,714,448
Purchases of securities, available for sale	**(16,599,401)**	(6,442,326)
Proceeds from sales of other securities, at cost	**61,400**	-
Loan originations and principal collections, net	**(657)**	(4,246,966)
Proceeds from sale of premises and equipment	**-**	6,202
Purchases of premises and equipment	**(212,396)**	(117,391)
Proceeds from sale of foreclosed assets	**35,006**	743,904
Net cash used in investing activities	**(15,950,552)**	(6,536,026)
Financing Activities		
Net increase in deposits	**10,288,343**	7,289,818
Net cash provided by financing activities	**10,288,343**	7,289,818
Net (Decrease) Increase in Cash	**(5,764,984)**	297,926
Cash and Cash Equivalents, beginning of year	**19,681,124**	19,383,198
Cash and Cash Equivalents, end of year	**$ 13,916,140**	$ 19,681,124

See the accompanying notes to the consolidated financial statements.

Years ended June 30,		**2017**		2016
Supplementary cash flow information:				
Interest paid on deposits and borrowed funds	**$**	**791,948**	$	861,740
Income taxes paid	**$**	**2,153**	$	3,615
Schedule of noncash investing and financing activities:				
Foreclosure of assets	**$**	**-**	$	27,893
Change in unfunded pension liability, net of income taxes	**$**	**(177,826)**	$	(352,288)
Charge-offs	**$**	**(6,465)**	$	(8,384)

See the accompanying notes to the consolidated financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of 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 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 fair value of foreclosed assets, and the valuation of the Company's defined benefit pension obligation.

Significant Group 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. Notes 2, 3, and 19 discuss the types of securities in which the Company invests in. Note 4 discusses the types of lending in which the Company engages. The Company does not have any 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 consist of cash and due from banks and federal funds sold at June 30, 2017 and 2016.

Interest Bearing Deposits in Banks

Interest bearing deposits in banks are comprised primarily of federally insured certificates of deposit and corporate certificates which mature within one to seven years. Such amounts are carried at cost, which approximate market value, at June 30, 2017 and 2016.

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, including equity securities with readily determinable fair values, 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.

Derivatives

At the inception of a derivative contract, the Company designates the derivative as one of three types based on the Company’s intentions and belief as to likely effectiveness as a hedge. These three types are (1) a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment (“fair value hedge”), (2) a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability (“cash flow hedge”), or (3) an instrument with no hedging designation (“stand-alone derivative”). For a fair value hedge, the gain or loss on the derivative, as well as the offsetting loss or gain on the hedged item, is recognized in current earnings as fair values change. For a cash flow hedge, the gain or loss on the derivative is reported in other comprehensive income and is reclassified into earnings in the same periods during which the hedged transaction affects earnings. For both types of hedges, changes in the fair value of derivatives that are not highly effective in hedging the changes in fair value or expected cash flows of the hedged item are recognized immediately in current earnings. Changes in the fair value of derivatives that do not qualify for hedge accounting are reported currently in earnings, as non-interest income. The Company held no derivatives designated as cash flow hedges or stand-alone derivatives for the years ended June 30, 2017 and 2016.

Net cash settlements on derivatives that qualify for hedge accounting are recorded in interest income or interest expense, based on the item being hedged. Net cash settlements on derivatives that do not qualify for hedge accounting are reported in non-interest income. Cash flows on hedges are classified in the cash flow statement the same as the cash flows of the items being hedged.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derivatives (continued)

The Company formally documents the relationship between derivatives and hedged items, as well as the risk-management objective and the strategy for undertaking hedge transactions at the inceptions of the hedging relationship. This documentation includes linking fair value hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivative instruments that are used are highly effective in offsetting changes in fair values or cash flows of the hedged items. The Company discontinues hedge accounting when it determines that the derivative is no longer effective in offsetting changes in the fair value or cash flows of the hedged item, the derivative is settled or terminates, a hedged forecasted transaction is no longer probable, a hedged firm commitment is no longer firm, or treatment of the derivative as a hedge is no longer appropriate or intended.

When hedge accounting is discontinued, subsequent changes in fair value of the derivative are recorded as non-interest income. When a fair value hedge is discontinued, the hedged asset or liability is no longer adjusted for changes in fair value and the existing basis adjustment is amortized or accreted over the remaining life of the asset or liability.

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 and costs, net of certain direct origination fees and 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans (continued)

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.

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) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified 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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses (continued)

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 if the loan is collateral dependent.

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.

Premises and Equipment

Land is carried at cost. Bank premises and furniture, 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

The Company accounts for income taxes in accordance with income tax accounting guidance (FASB 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.

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, 2017, management is not aware of any uncertain tax positions that would have a material effect on the Company's financial statements.

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

Bank Owned Life Insurance

The Company 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, 2017 and 2016.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Stock Compensation

Stock compensation accounting guidance (FASB ASC 718, *Compensation – Stock Compensation*) requires that the compensation cost related to stock-based payment transactions be recognized in financial statements. That cost will be measured based on the grant date of the equity or liability instruments issued. The stock compensation accounting guidance covers a wide range of stock-based compensation arrangements including stock options, restricted stock plans, performance-based awards, stock appreciation rights and employee stock purchase plans.

The stock compensation accounting guidance requires that compensation cost for all stock awards be calculated and recognized over the employees' service period, generally defined as the vesting period. For awards with grade-vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award. A Black-Sholes model is used to estimate the fair value of the stock options.

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 18. 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 $60,988 and $61,750 for the years ended June 30, 2017 and 2016, respectively.

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.

Subsequent Events

The Company evaluated all events or transactions that occurred after June 30, 2017 through September 26, 2017, the date the Company issued these financial statements. During this period, the Company did not have any material subsequent events that required recognition in the financial statements or disclosures for the year ended the June 30, 2017.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reclassification

Certain amounts in the 2016 consolidated financial statements have been reclassified to conform to the 2017 presentation. The reclassification had no impact on net income for 2016.

Recently Issued Accounting Standards

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842): *Presentation of Comprehensive Income*. For finance leases, amendments to current accounting guidance require lessees to (1) recognize leases on the entities balance sheets by recording a right-of-use asset and a lease liability, initially measured at the present value of lease payments, (2) recognize interest on the lease liability separately from amortization of the right-of-use asset in the statement of comprehensive income, and (3) classify repayments of the principal portion of the lease liability within financing activities and payments of interest on the lease liability and variable lease payments within operating activities in the statement of cash flows. For operating leases, amendments to current accounting guidance require lessees to (1) recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in the statement of financial position, (2) recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term on a generally straight-line basis, and (3) classify all cash payments within operating activities in the statement of cash flows. The accounting by a lessor is largely unchanged from that applied under previous accounting standards. This ASU is effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted. The Company is currently evaluating the impact of this amendment on the consolidated financial statements.

In March 2016, the FASB issued ASU 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue versus Net) ("ASU 2016-08")*. The amendments clarify the implementation guidance on principal versus agent considerations in the new revenue recognition standard. ASU 2016-08 clarifies how an entity should identify the unit of accounting for the principal versus agent evaluation and how it should apply the control principle to certain types of arrangements. The amendments in ASU 2016-08 affect the guidance in ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and have similar effective dates and transition requirements which are for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted only as of annual reporting periods beginning after December 15, 2016, and interim reporting periods within annual reporting periods beginning one year after the annual reporting period in which the entity first applies the guidance of ASU 2014-09. The Company is currently evaluating the impact of this amendment on the consolidated financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In May 2016, the FASB issued ASU 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients*. The amendments in this update do not change the core principles of the guidance in Topic 606. Rather these amendments affect only narrow aspects of Topic 606 and add some practical expedients. These amendments are effective at the same date that Topic 606 is effective. Topic 606 is effective for annual reporting periods, and interim reporting periods within those annual reporting periods, beginning after December 15, 2018. This ASU is not expected to have a material impact on the Company's consolidated financial statements.

In June 2016, the FASB issued *ASU 2016-13, Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments* (the ASU), which introduces the current expected credit losses methodology. Among other things, the ASU requires the measurement of all expected credit losses for financial assets, including available-for-sale debt securities, held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts that affect the collectibility of the reported amount. The new model will require institutions to calculate all probable and estimable losses that are expected to be incurred through the loan's entire life. ASU 2016-13 also requires the allowance for credit losses for purchased financial assets with credit deterioration since origination to be determined in a manner similar to that of other financial assets measured at amortized cost; however, the initial allowance will be added to the purchase price rather than recorded as credit loss expense. The disclosure of credit quality indicators related to the amortized cost of financing receivables will be further disaggregated by year of origination (or vintage). Disaggregation by vintage will be optional for nonpublic business entities. Institutions are to apply the changes through a cumulative-effect adjustment to their retained earnings as of the beginning of the first reporting period in which the standard is effective. The amendments are effective for fiscal years beginning after December 15, 2020. Early application will be permitted for fiscal years beginning after December 15, 2018. The Company is currently evaluating the impact of these amendments on the consolidated financial statements.

NOTE 2 – SECURITIES

The amortized cost and fair value of securities, with gross unrealized gains and losses, follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Gross Unrealized Losses from Interest Rate Swaps	Fair Value
June 30, 2017					
Securities available for sale:					
Municipal securities	**$ 17,538,634**	**$ 276,498**	**$ (4,406)**	**$ (284,055)**	**$ 17,526,671**
SBA pools	**14,254,441**	**4,353**	**(301,819)**	**-**	**13,956,975**
Mortgage backed securities	**11,335,208**	**8,421**	**(93,097)**	**-**	**11,250,532**
Corporate securities	**503,093**	**-**	**(5,411)**	**-**	**497,682**
	$ 43,631,376	**$ 289,272**	**$ (404,733)**	**$ (284,055)**	**$ 43,231,860**
June 30, 2016					
Securities available for sale:					
Municipal securities	$ 17,540,226	$ 876,920	$ -	$ (1,500,817)	$ 16,916,329
SBA pools	7,679,019	48,444	(25,800)	-	7,701,663
Mortgage backed securities	3,691,172	10,541	-	-	3,701,713
	$ 28,910,417	$ 935,905	$ (25,800)	$ (1,500,817)	$ 28,319,705

Other securities on the balance sheet are comprised of $151,610 and $213,010 in FHLB stock at June 30, 2017 and 2016.

Securities with a carrying value of $6,024,494 and $7,447,602 at June 30, 2017 and 2016, respectively, were pledged to secure public deposits and for other purposes as required or permitted by law.

NOTE 2 – SECURITIES (Continued)

The amortized cost and fair values of debt securities by contractual maturity at June 30, 2017 follows:

	Available for Sale	
	Amortized Cost	Fair Value
Over one year through five years	4,416,497	4,453,627
After five years through ten years	6,446,282	6,534,866
Over ten years	7,178,948	7,319,915
	18,041,727	18,308,408
Fair Value of Interest Rate Swaps	-	(284,055)
	-	(284,055)
Municipal and corporate securities, net of fair value of interest rate swaps	18,041,727	18,024,353
SBA pools	14,254,441	13,956,975
Mortgage backed securities	11,335,208	11,250,532
	$ 43,631,376	$ 43,231,860

No sales of securities occurred for the year ended June 30, 2017. For the year ended June 30, 2016, proceeds from sales of securities available for sale amounted to $2,714,448. Gross realized gains on available for sale securities the year ended June 30, 2016 were $152,181. Gross realized losses on available for sale securities were $62,636 for the year ended June 30, 2016.

NOTE 2 – SECURITIES (Continued)

Temporarily Impaired Securities

The following table shows the gross unrealized losses and fair value of the Company's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position:

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
June 30, 2017						
Securities available for sale:						
Municipal securities	**$ 17,526,671**	**$ 288,461**	**$ -**	**$ -**	**$ 17,526,671**	**$ 288,461**
SBA pools	**-**	**-**	**13,956,975**	**301,819**	**13,956,975**	**301,819**
Mortgage backed securities	**-**	**-**	**11,250,532**	**93,097**	**11,250,532**	**93,097**
Corporate securities	**497,682**	**5,411**	**-**	**-**	**497,682**	**5,411**
	$ 18,024,353	**$ 293,872**	**$ 25,207,507**	**$ 394,916**	**$ 43,231,860**	**$ 688,788**
June 30, 2016						
Securities available for sale:						
Municipal securities	$ 16,916,329	$ 1,500,817	$ -	$ -	$ 16,916,329	$ 1,500,817
SBA pools	-	-	7,701,663	25,800	7,701,663	25,800
	$ 16,916,329	$ 1,500,817	$ 7,701,663	$ 25,800	$ 24,617,992	$ 1,526,617

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.

Municipal Securities

The unrealized losses on twenty-nine investments in Municipal resulted from interest rate changes and other temporary market influences on interest rate swap contracts on these securities. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the

NOTE 2 – SECURITIES (Continued)

investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at June 30, 2017.

SBA Pools

The unrealized losses on thirteen investments in SBA Pools resulted from interest rate changes and other temporary market influences. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at June 30, 2017.

Mortgage Backed Securities

The decline in fair value of ten mortgage backed securities was a result of changes in interest rates and illiquidity, not declines in credit quality. The Company purchased those investments at a discount relative to their face amount, and the contractual cash flows of those investments are guaranteed by an agency of the U.S. Government. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost bases of the Company's investments. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at June 30, 2017.

Corporate Securities

The unrealized loss on one investment in a corporate bond was caused by market interest rate changes since the time these investments were acquired. The contractual terms of the investments does not permit the issuer to settle the security at a price less than the amortized cost bases of the investments. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider the investments to be other-than-temporarily impaired at June 30, 2017.

In 2017 and 2016, the Company recognized no other-than-temporary losses.

NOTE 3 – DERIVATIVE INSTRUMENTS

The Company is exposed to certain risks relating to its ongoing business operations. In December 2014, the Company purchased asset-backed securities with interest rate swap agreements to manage interest rate risk associated with the Company's earnings on loans. The derivatives and hedging accounting guidance (ASC 815-10) requires that the Company recognize all derivative instruments as either assets or liabilities at fair value in the balance sheet. In accordance with this guidance, the Company designates the asset-backed securities as fair value hedges.

Derivative instruments are generally either negotiated over-the-counter (OTC) contracts or standardized contracts executed on a recognized exchange. Negotiated OTC derivative contracts are generally entered into between two counterparties that negotiate specific agreement terms, including the underlying instrument, amount, exercise prices and maturity.

The Company is exposed to credit-related losses in the event of nonperformance by the counterparties to these agreements. The Company controls the credit risk of its financial contracts through credit approvals, limits and monitoring procedures, and does not expect any counterparties to fail their obligations. The Company only deals with primary dealers.

As permitted under the derivatives and hedging accounting guidance (ASC 815-10-45), the Company has elected to net derivative receivables and derivative payables and the related cash collateral received and paid when a legally enforceable master netting agreement exists. The Company has made an accounting policy decision to offset fair value amounts pursuant to this guidance (ASC 815-10-45-5), which has been applied consistently. The Company has not offset fair value amounts recognized for derivative instruments without offsetting fair value amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral.

NOTE 3 – DERIVATIVE INSTRUMENTS (Continued)

If certain hedging criteria specified in derivatives and hedging accounting guidance are met, including testing for hedge effectiveness, hedge accounting may be applied. The hedge effectiveness assessment methodologies for similar hedges are performed in a similar manner and are used consistently throughout the hedging relationships.

Fair Value Hedges

For hedges of asset-backed securities, the hedge documentation specifies the terms of the hedged items and the interest rate swaps. The documentation also indicates that the derivative is hedging a fixed-rate item, that the hedge exposure is to the changes in the fair value of the hedged item, and that the strategy is to eliminate fair value variability by converting fixed-rate interest earnings into LIBOR interest earnings plus interest rate spreads.

For derivative instruments that are designated and qualify as fair value hedges, the gain or losses on the derivatives as well as the offsetting losses or gains on the hedged items attributable to the hedged risks are recognized as current earnings. The Company includes the gain or loss on the hedged items in the same line item, interest income, as the offsetting loss or gain on the related interest rate swaps.

The twenty-nine asset-backed securities hedged have lives ranging from twelve to twenty-nine years and twenty-four of the hedged securities are callable at varying times depending on the individual hedging agreements. These securities are hedged with “pay fixed rate, receive variable rate” swaps wherein the Company pays fixed interest rates varying from 2.82% to 4.75% and receiving interest income of LIBOR and interest rate spreads ranging from 23 to 138 basis points.

Additionally, twenty-four of the municipal bonds include callable features that could result in termination of the investment holdings. The municipal bonds and values of the interest rate swaps are included as securities available for sale on the balance sheet and in Note 2 and Note 18. Unrealized gains and losses on the interest rate swaps are included in accumulated other comprehensive income, while gains and losses resulting from ineffectiveness of the interest rate swaps are charged to earnings in the periods in which they occur.

NOTE 3 – DERIVATIVE INSTRUMENTS (Continued)

The ineffective portions of the hedged assets are recognized in the other expenses caption in non-interest expenses on the consolidated statements of income.

The summary of the effects of the interest rate swap derivatives on the balance sheet for the years ended June 30, 2017 and 2016 are noted below:

June 30,	**2017**	**2016**
Unrealized loss on derivative contracts	**$ (288,004)**	$ (1,533,591)
Interest income (effective portion)	**61,598**	32,774
Unrealized loss (effective portion)	**$ (226,406)**	$ (1,500,817)

The summary of the effects of the interest rate swap derivatives on the income statement for the years ended June 30, 2017 and 2016 are noted below:

For the year ended June 30,	**2017**	**2016**
Interest income from variable rate swaps	**$ 360,729**	$ 390,028
Interest expense from fixed rate agreements	**(299,131)**	(357,254)
Interest income recognized (ineffective portion)	**$ 61,598**	$ 32,774

NOTE 4 – LOANS

The composition of the loan portfolio by portfolio segment was as follows:

June 30,	**2017**	2016
Real estate		
Residential	**$ 69,763,652**	$ 76,639,794
Construction	**11,657,133**	14,273,227
Nonresidential	**24,341,319**	19,789,587
Commercial	**8,066,154**	2,824,339
Consumer	**1,345,225**	1,794,200
Total loans	**115,173,483**	115,321,147
Deferred loan fees and costs, net	**(75,782)**	(221,642)
Allowance for loan losses	**(1,828,883)**	(1,831,344)
Net loans	**$ 113,268,818**	$ 113,268,161

NOTE 4 – LOANS (Continued)

The Company grants real estate, commercial, and consumer loans to its customers. Although the Company has a diversified loan portfolio, 94.3% and 97.9% of the portfolio is concentrated in loans secured by real estate as of June 30, 2017 and 2016, respectively.

Real Estate – Residential

The Company originates mortgage residential 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.

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 single-family homes, 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.

NOTE 4 – LOANS (Continued)

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.

An analysis of the change in allowance for loan losses is as follows:

	Real Estate						
	Residential	Construction	Nonresidential	Commercial	Consumer	Unallocated	Total
June 30, 2017							
Beginning balance	$ 459,099	$ 331,914	$ 261,957	$ 69,759	$ 47,951	$ 660,664	$ 1,831,344
Provision for loan losses	341,434	(270,526)	(57,223)	36,781	22,243	(72,709)	-
Charge-offs	(3,695)	-	(1,235)	-	(1,536)	-	(6,466)
Recoveries	705	-	-	3,000	300	-	4,005
	$ 797,543	$ 61,388	$ 203,499	$ 109,540	$ 68,958	$ 587,955	$ 1,828,883
Impaired Loans Individually evaluated for impairment:							
Recorded investment	$ 509,277	$ 329,043	$ 216,781	$ -	$ -	$ -	$ 1,055,101
Balance in allowance for loan losses	-	-	-	-	-	-	-
Impaired Loans collectively evaluated for impairment:							
Recorded investment	$ 397,431	29,483	300,071	-	2,186	-	$ 729,171
Balance in allowance for loan losses	1,880	74	720	-	44	-	2,718
Loans Collectively evaluated for impairment:							
Recorded investment	$ 68,856,944	$ 11,298,607	$ 23,824,467	$ 8,066,154	$ 1,343,039	$ -	$ 113,389,211
Balance in allowance for loan losses	795,662	61,315	202,780	95,002	83,451	587,955	1,826,165
Total evaluated for impairment:							
Recorded investment	$ 69,366,221	$ 11,627,650	$ 24,041,248	$ 8,066,154	$ 1,343,039	$ -	$ 115,173,483
Balance in allowance for loan losses	797,542	61,389	203,500	95,002	83,495	587,955	1,828,883

NOTE 4 – LOANS (Continued)

	Real Estate						
	Residential	Construction	Nonresidential	Commercial	Consumer	Unallocated	Total
June 30, 2016							
Beginning balance	$ 514,570	$ 203,398	$ 352,732	$ 32,211	$ 47,821	$ 680,679	$ 1,831,411
Provision for loan losses	(55,779)	128,516	(90,775)	31,548	6,505	(20,015)	-
Charge-offs	(1,341)	-	-	-	(7,043)	-	(8,384)
Recoveries	1,649	-	-	6,000	668	-	8,317
	$ 459,099	$ 331,914	$ 261,957	$ 69,759	$ 47,951	$ 660,664	$ 1,831,344
Impaired Loans Individually evaluated for impairment:							
Recorded investment	$ 523,382	$ 414,052	$ 981,639	$ -	$ -	$ -	$ 1,919,073
Balance in allowance for loan losses	-	-	-	-	-	-	-
Impaired Loans collectively evaluated for impairment:							
Recorded investment	$ 471,315	22,904	-	-	11,780	-	$ 505,999
Balance in allowance for loan losses	688	37	-	-	99		824
Loans Collectively evaluated for impairment:							
Recorded investment	$ 75,645,097	$ 13,836,271	$ 18,807,948	$ 2,824,339	$ 1,782,420	$ -	$ 112,896,075
Balance in allowance for loan losses	459,099	331,914	261,957	69,759	47,951	660,664	1,831,344
Total evaluated for impairment:							
Recorded investment	$ 76,639,794	$ 14,273,227	$ 19,789,587	$ 2,824,339	$ 1,794,200	$ -	$ 115,321,147
Balance in allowance for loan losses	459,099	331,914	261,957	69,759	47,951	660,664	1,831,344

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.

NOTE 4 – LOANS (Continued)

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.

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.

Weak Pass. These loans are not classified, but contain unsatisfactory characteristics or trends. These credits have potential of developing weaknesses that deserve extra attention for the bank, and if not corrected, may result in deterioration of the borrower's ability to repay the bank's debt in the future.

Special Mention. These loans exhibit some signs of "Watch", but to a greater magnitude. These credits constitute a moderately high risk. They 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. They 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.

NOTE 4 – LOANS (Continued)

The table below illustrates the carrying amount of loans by credit quality indicator:

	Pass	Special Mention	Substandard	Total
June 30, 2017				
Real estate				
Residential	**$ 67,925,645**	**$ 714,517**	**$ 1,123,490**	**$ 69,763,652**
Construction	**11,144,223**	**170,085**	**342,825**	**11,657,133**
Nonresidential	**23,539,192**	**801,413**	**714**	**24,341,319**
Commercial	**8,066,154**	**-**	**-**	**8,066,154**
Consumer	**1,341,679**	**1,360**	**2,186**	**1,345,225**
	$ 112,016,893	**$ 1,687,375**	**$ 1,469,215**	**$ 115,173,483**
June 30, 2016				
Real estate				
Residential	$ 74,882,585	$ 761,783	$ 995,426	$ 76,639,794
Construction	13,684,184	152,086	436,957	14,273,227
Nonresidential	18,455,454	352,494	981,639	19,789,587
Commercial	2,823,409	930	-	2,824,339
Consumer	1,780,044	2,376	11,780	1,794,200
	$ 111,625,676	$ 1,269,669	$ 2,425,802	$ 115,321,147

The following table provides an aging analysis of past due loans and non-accrual loans:

	Accruing Loans					
	30-89 Days	Greater than 90 Days	Total	Non-Accrual	Current Loans	Total
June 30, 2017						
Real estate						
Residential	**$ 436,852**	**$ 393,173**	**$ 830,025**	**$ 1,227,718**	**$ 67,705,909**	**$ 69,763,652**
Construction	**319,798**	**-**	**319,798**	**552**	**11,336,783**	**11,657,133**
Nonresidential	**-**	**-**	**-**	**-**	**24,341,319**	**24,341,319**
Commercial	**-**	**-**	**-**	**-**	**8,066,154**	**8,066,154**
Consumer	**-**	**-**	**-**	**2,186**	**1,343,039**	**1,345,225**
	$ 756,650	**$ 393,173**	**$ 1,149,823**	**$ 1,230,456**	**$ 112,793,204**	**$ 115,173,483**
June 30, 2016						
Real estate						
Residential	$ 27,916	$ 249,455	$ 277,371	$ 930,160	$ 75,432,263	$ 76,639,794
Construction	-	-	-	2,571	14,270,656	14,273,227
Nonresidential	-	-	-	-	19,789,587	19,789,587
Commercial	-	-	-	-	2,824,339	2,824,339
Consumer	1,248	-	1,248	11,780	1,781,172	1,794,200
	$ 29,164	$ 249,455	$ 278,619	$ 944,511	$ 114,098,017	$ 115,321,147

NOTE 4 – LOANS (Continued)

The following is a summary of information pertaining to impaired loans:

	With no Related Allowance Recorded		With an Allowance Recorded		
	Recorded Investment	Unpaid Contractual Principal Balance	Recorded Investment	Unpaid Contractual Principal Balance	Related Allowance
June 30, 2017					
Real estate					
Residential	**$ 509,277**	**$ 509,277**	**$ 397,431**	**$ 397,431**	**$ 1,881**
Construction	**329,043**	**329,043**	**29,483**	**29,483**	**74**
Nonresidential	**216,781**	**216,781**	**300,071**	**300,071**	**720**
Consumer	**-**	**-**	**2,186**	**2,186**	**44**
	$ 1,055,101	**$ 1,055,101**	**$ 729,171**	**$ 729,171**	**$ 2,719**
June 30, 2016					
Real estate					
Residential	$ 523,382	$ 523,382	$ 471,315	$ 471,315	$ 688
Construction	414,052	414,052	22,904	22,904	37
Nonresidential	981,639	981,639	-	-	-
Consumer	-	-	11,780	11,780	99
	$ 1,919,073	$ 1,919,073	$ 505,999	$ 505,999	$ 824

As of June 30, 2017 and 2016, there were no specific reserves on impaired loans.

A loan is considered impaired, in accordance with the impairment accounting guidance (FASB ASC 310-10-35-16), 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.

NOTE 4 – LOANS (Continued)

The average net investment in impaired loans and interest income recognized and received on impaired loans are as follows:

	Average Recorded Investment	Interest Income Recognized	Interest Income Received
June 30, 2017			
Real estate			
Residential	**$ 950,703**	**$ 93,012**	**$ 93,012**
Construction	**397,741**	**21,907**	**21,907**
Nonresidential	**749,246**	**21,437**	**21,437**
Consumer	**6,983**	**-**	**-**
	$ 2,104,673	**$ 136,356**	**$ 136,356**
June 30, 2016			
Real estate			
Residential	$ 479,652	$ 7,728	$ 7,728
Construction	469,063	11,815	12,445
Nonresidential	998,555	30,823	32,814
Consumer	5,890	-	-
	$ 1,947,270	$ 50,366	$ 52,987

Modifications of terms for loans and their inclusion as troubled debt restructurings are based on individual facts and circumstances. Loan modifications that are included as troubled debt restructurings 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 troubled debt restructurings during the years ended June 30, 2017 and 2016.

The following is a summary of troubled debt restructured loans:

June 30,	**2017**	2016
Loans secured by real estate:		
1-4 family residential	**$ 697,723**	$ 494,863
Other construction loans	**15,701**	20,042
	$ 713,424	$ 514,905

NOTE 4 – LOANS (Continued)

Troubled debt restructurings totaling $482,617 were on nonaccrual status at June 30, 2017 and were classified as Substandard. Loans retain their accrual status at the time of their modification. As a result, if a loan is on nonaccrual at the time it was modified, it stays on nonaccrual, and if a loan is on accrual at the time of modification, it generally stays on accrual. A loan on nonaccrual 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, 2017 and 2016, there were no commitments to lend additional funds to any borrower whose loan terms have been modified in a troubled debt restructuring.

NOTE 5 – PREMISES AND EQUIPMENT

A summary of the cost and accumulated depreciation of premises and equipment follows:

June 30,	**2017**	2016
Land	**$ 565,671**	$ 565,671
Bank premises	**2,772,947**	2,758,090
Furniture, fixtures, and equipment	**2,235,602**	2,054,513
	5,574,220	5,378,274
Accumulated depreciation	**(4,003,791)**	(3,975,433)
Premises and equipment, net	**$ 1,570,429**	$ 1,402,841

Depreciation expense for the years ended June 30, 2017 and 2016 amounted to $213,356 and $191,468, respectively.

The Company was a party to four non-cancellable leases as of June 30, 2017. Future minimum lease payments under the operating leases are summarized as follows:

2018	164,709
2019	164,709
2020	120,784
2021	72,000
2022	6,000
	$ 528,202

Rental expense relating to the operating lease amounted to approximately $136,920 and $137,552, respectively, for the years ending June 30, 2017 and 2016.

NOTE 6 – FORECLOSED ASSETS

A summary of the activity in foreclosed assets for the years ending June 30, 2017 and 2016 is as follows:

June 30,	**2017**	2016
Balance, beginning of year	**$ 727,499**	$ 1,146,007
Additions	**-**	27,893
Disposals	**(27,893)**	(422,867)
Impairment recognized	**(11,030)**	(23,534)
Balance, end of year	**$ 688,576**	$ 727,499

NOTE 7 – DEPOSITS

The aggregate amount of time deposits in denominations of $250,000 or more at June 30, 2017 and 2016 were $17,074,935 and $17,005,785, respectively.

At June 30, 2017, the scheduled maturities of time deposits are as follows:

2017	$ 24,994,085
2018	22,486,827
2019	3,549,865
2020	350,000
2021 and thereafter	1,029,577
	$ 52,410,354

NOTE 8 – BORROWINGS

The Company has a federal funds line of credit with FHLB enabling the Company to borrow up to 25% of total assets. As of June 30, 2017, the Company would be able to access an additional $43,710,500 of FHLB credit products based on the Company's current financial and operational conditions and upon pledging of sufficient collateral.

As of June 30, 2017, 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, 2017 and 2016, the Company had no outstanding advances.

NOTE 9 – INCOME TAXES

Allocation of federal and state income taxes between current and deferred portions is as follows:

Year ended June 30,		**2017**		2016
Current tax provision:				
Federal	**$**	**223,921**	$	(121,190)
State		**21,733**		505
Deferred tax (benefit) expense		**(178,852)**		38,453
Total provision for income taxes	**$**	**66,802**	$	(82,232)

The 2017 and 2016 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 net deferred tax assets and liabilities, included in other assets are as follows:

Year ended June 30,		**2017**		2016
Deferred tax assets				
Provision for loan losses	**$**	**682,173**	$	683,091
Non-accrual loan interest		**15,001**		9,230
Impairment of foreclosed assets		**16,900**		12,786
Premises and equipment		**170,724**		177,193
Pension liability		**496,962**		370,121
Net unrealized losses on securities available for sale		**43,460**		-
Net operating loss		**1,070,795**		912,989
		2,496,015		2,165,410
Deferred tax liabilities				
Net deferred loan fees and costs		**15,298**		(26,152)
Prepaid expenses		**(528,463)**		(378,720)
Net unrealized gains on securities available for sale		**-**		(342,564)
		(513,165)		(747,436)
Net deferred tax asset	**$**	**1,982,850**	$	1,417,974

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 2012.

NOTE 10 – 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, 2017 and 2016, the following financial instruments were outstanding whose contract amounts represent credit risk:

June 30,	**2017**	**2016**
Unfunded commitments under lines of credit	**$ 18,316,176**	$ 19,679,403
Standby letters of credit	**10,000**	37,773

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.

Standby letters of credit are conditional lending commitments issued by the Company to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support public and private borrowing arrangements. Essentially all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

NOTE 11 – LEGAL CONTINGENCIES

Various legal claims arise from time to time in the normal course of business which, in the opinion of management, will have no material effect on the Company's consolidated financial statements.

NOTE 12 – 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 by January 1, 2019. The capital conversion buffer is being phased in from 0.00% for 2015 to 2.50% by 2019. The capital conversion buffer for 2017 and 2016 is 1.25% and 0.625%, respectively. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. Management believes as of June 30, 2017, the Company and Bank meet all capital adequacy requirements to which they are subject.

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 year-end 2017 and 2016, 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.

NOTE 12 – MINIMUM REGULATORY CAPITAL REQUIREMENTS (Continued)

The Company's and the Bank's actual capital amounts and ratios as of June 30, 2017 and 2016 are also presented in the following table:

	Actual		Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
June 30, 2017						
Total capital to risk weighted assets						
Company	**$ 18,781**	**21.77%**	**$ 6,902**	**8.00%**	**N/A**	**N/A**
Bank	**21,230**	**21.77%**	**7,802**	**8.00%**	**9,753**	**10.00%**
Tier 1 capital to risk weighted assets						
Company	**17,693**	**20.51%**	**3,451**	**4.00%**	**N/A**	**N/A**
Bank	**20,000**	**20.51%**	**3,901**	**4.00%**	**5,852**	**6.00%**
Common Tier 1 to risk weighted assets						
Company	**17,693**	**20.51%**	**3,882**	**4.50%**	**N/A**	**N/A**
Bank	**20,000**	**20.51%**	**4,389**	**4.50%**	**6,339**	**6.50%**
Tier 1 capital to average assets						
Company	**17,693**	**11.73%**	**6,034**	**4.00%**	**N/A**	**N/A**
Bank	**20,000**	**11.73%**	**6,821**	**4.00%**	**8,526**	**5.00%**
June 30, 2016						
Total capital to risk weighted assets						
Company	$ 18,613	23.23%	$ 6,410	8.00%	N/A	N/A
Bank	21,040	23.23%	7,246	8.00%	9,057	10.00%
Tier 1 capital to risk weighted assets						
Company	17,597	21.96%	3,205	4.00%	N/A	N/A
Bank	19,892	21.96%	3,623	4.00%	5,434	6.00%
Common Tier 1 to risk weighted assets						
Company	17,597	21.96%	3,605	4.50%	N/A	N/A
Bank	19,892	21.96%	4,076	4.50%	5,887	6.50%
Tier 1 capital to average assets						
Company	17,597	12.13%	5,802	4.00%	N/A	N/A
Bank	19,892	12.13%	6,558	4.00%	8,198	5.00%

NOTE 13 – 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.

NOTE 14 – STOCKHOLDERS' EQUITY

The Company and the Bank are subject to certain restrictions on the amount of dividends that they may declare without regulatory approval.

NOTE 15 – 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 Bank'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 Bank'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, 2017 and 2016, no stock options were outstanding and exercisable, and no stock options were granted or exercised.

NOTE 16 – COMPREHENSIVE INCOME

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

The components of accumulated other comprehensive loss, included in stockholders' equity, are as follows:

June 30,	**2017**	2016
Unrealized holding gains, net of tax of $43,460 and ($342,563), respectively	**$ (72,000)**	$ 567,542
Actuarial losses, net of unamortized pension service costs of ($141,400) and ($125,342) and tax of $118,551 and $351,666, respectively	**(768,968)**	(591,140)
Unrealized losses on interest rate swaps, net of tax $120,436 and $892,828, respectively	**(288,004)**	(1,533,591)
Total accumulated other comprehensive loss	**(1,128,972)**	(1,557,189)
Accumulated other comprehensive loss attributable to noncontrolling interest	**(130,233)**	(179,635)
Accumulated other comprehensive loss attributable to First Federal Financial Corporation and Subsidiary	**$ (998,739)**	$ (1,377,554)

NOTE 17 – EMPLOYEE BENEFIT PLAN

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 approved a discretionary matching contribution of $0.25 for every $1.00 contributed by employees up to a maximum of 4.00% of employees' salaries beginning January 1, 2015. The Company contributed $17,381 and $16,965, respectively in discretionary matching for the years ended June 30, 2017 and 2016.

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. The plan assets consist of interest bearing certificates of deposits at the Company.

Benefit Obligation

Year ended June 30,	**2017**	2016
Benefit obligation at beginning of year	**$ 5,995,368**	$ 5,383,676
Service cost	**139,553**	96,583
Interest cost	**336,011**	333,937
Benefits paid	**(330,401)**	(333,690)
Actuarial loss during year	**193,706**	514,862
Benefit obligations, end of year	**$ 6,334,237**	$ 5,995,368

Plan Assets

Year ended June 30,	**2017**	2016
Fair value of plan assets at beginning of year	**$ 5,802,519**	$ 5,364,251
Actual return on plan assets	**163,258**	221,958
Actual employer contribution	**600,000**	550,000
Benefits paid	**(330,401)**	(333,690)
Fair value of plan assets at end of year	**$ 6,235,376**	$ 5,802,519
Funded status	**$ (98,861)**	$ (192,849)
Unfunded pension liability included in other liabilities	**$ (98,861)**	$ (192,849)

The accumulated benefit obligation for the non-contributory defined benefit plan was $5,958,560 and $5,665,894, respectively at June 30, 2017 and 2016.

NOTE 17 – EMPLOYEE BENEFIT PLAN (Continued)

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

	Pension Benefits	
Year ended June 30,	**2017**	**2016**
Net actuarial loss	**$ (910,368)**	$ (716,482)
Prior service cost	**141,400**	125,342
Accumulated other comprehensive loss	**$ (768,968)**	$ (591,140)

Net Periodic Pension Costs

The following table shows the components of net periodic pension costs related to the pension plan for the years ended June 30, 2017 and 2016.

Year ended June 30,	**2017**	**2016**
Service cost	**$ 139,553**	$ 96,583
Interest cost	**336,011**	333,937
Expected return on plan assets	**(336,371)**	(325,715)
Amortization of prior service costs	**(16,914)**	(16,914)
Amortization of net losses	**43,678**	24,193
Net periodic pension cost	**$ 165,957**	$ 112,084

At June 30, 2017 and 2016, the assumptions used to determine the benefit obligation and net periodic pension costs were as follows:

Year ended June 30,	**2017**	**2016**
Discount rates for net periodic pension cost	**5.75%**	6.00%
Expected rate of return on plan assets	**5.75%**	5.75%
Rates of increase in compensation levels	**2.50%**	2.50%

The Company's pension plan weighted average asset allocations at June 30, 2017 and 2016 were as follows:

Year ended June 30,	**2017**	**2016**
Cash and cash equivalents	**0.10%**	0.10%
Certificates of deposit	**99.90%**	99.90%
	100.00%	100.00%

NOTE 17 – EMPLOYEE BENEFIT PLAN (Continued)

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 certificates of deposits. 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.

Cash Flows

The Company expects to contribute $150,000 to the pension plan in fiscal year 2018. Estimated future benefit payments which reflect expected future benefit service, as appropriate are as follows:

Fiscal Year Ending June 30,		
2018	$	350,000
2019		350,000
2020		340,000
2021		350,000
2022		350,000
2023-2027		2,200,000

Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income

Year ended June 30,		**2017**		**2016**
Current year actuarial loss	**$**	**366,819**	$	618,619
Amortization of prior service costs		**16,914**		16,914
Amortization of net losses		**(43,678)**		(24,193)
Total recognized in accumulated other comprehensive loss		**340,055**	$	611,340
Net periodic pension cost		**165,957**		112,084
Total recognized in net periodic benefit cost and other comprehensive income	**$**	**506,012**	$	723,424

NOTE 18 – 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:

		2017		2016
Beginning balance	**$**	**578,489**	$	1,275,133
New loans		**-**		2,431
Repayments		**(203,689)**		(699,075)
Ending balance	**$**	**374,800**	$	578,489

Deposits from related parties held by the Company amounted to $5,867,726 and $3,576,330, respectively, at June 30, 2017 and 2016.

NOTE 19 – 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.

NOTE 19 – FAIR VALUE OF ASSETS AND 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 Available for Sale: 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.

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%, depending on the respective foreclosed asset. Accordingly, the fair value estimates for foreclosed real estate are classified as Level 3.

NOTE 19 – FAIR VALUE OF ASSETS AND LIABILITIES (Continued)

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

	Fair Value Measurements at Reporting Date Using			
	Fair Value	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Observable Inputs (Level 3)**
June 30, 2017				
Municipal securities	**$ (284,055)**	**$ 832,833**	**$ 16,693,838**	**$ -**
SBA pools	**-**	**1,019,671**	**12,937,304**	**-**
Mortgage backed securities	**-**	**-**	**11,250,532**	**-**
Corporate securities	**497,682**	**497,682**	**-**	**-**
June 30, 2016				
Municipal securities	(1,500,817)	$ -	(1,500,817)	$ -
SBA pools	-	-	-	-
Mortgage backed securities	-	-	-	-

Assets measured at fair value on a nonrecurring basis are summarized below:

	Fair Value Measurements at Reporting Date Using			
	Fair Value	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Observable Inputs (Level 3)**
June 30, 2017				
Impaired loans:				
Real estate				
Residential	**$ 395,551**	**$ -**	**$ -**	**$ 395,551**
Construction	**29,409**	**-**	**-**	**29,409**
Nonresidential	**299,351**	**-**	**-**	**299,351**
Consumer	**2,142**	**-**	**-**	**2,142**
Foreclosed assets:				
Residential	**688,576**	**-**	**-**	**688,576**

NOTE 19 – FAIR VALUE OF ASSETS AND LIABILITIES (Continued)

		Fair Value Measurements at Reporting Date Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Observable Inputs (Level 3)
June 30, 2016				
Impaired loans				
Real estate				
Residential	$ 470,627	$ -	$ -	$ 470,627
Construction	22,867	-	-	22,867
Consumer	11,681	-	-	11,681
Foreclosed assets				
Residential	727,499	-	-	727,499
Commercial	-	-	-	-

As of June 30, 2017 and 2016, there were no impaired loans measured at fair value.

The following methods and assumptions were used by the Company in estimating fair value disclosures for financial statements:

Cash and Due from Banks

The carrying amounts of cash and due from banks approximate fair values.

Federal Funds Sold

The carrying amounts of interest bearing deposits in banks approximate fair values.

Interest Bearing Deposits in Banks

The carrying amounts of certificates of deposit approximate fair values.

Securities Available for Sale

Fair values for securities available for sale are based on the framework for measuring fair value.

Other securities, at cost

The fair value of these securities is based on their redemption values.

NOTE 19 – FAIR VALUE OF ASSETS AND LIABILITIES (Continued)

Loans

Fair values for loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Fair values for non-performing loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

Deposits

The fair values disclosed for non-interest bearing demand deposits are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). Interest-bearing demand deposit (e.g. NOW, savings, and money market accounts) fair values are based on the estimated discounted cash flow calculation assuming a life of ten years at the interest rate as of the reporting date. Fair values for other deposits (e.g. variable and fixed rate certificates of deposit) are estimated using a discounted cash flow calculation that applies interest rates currently being offered on similar deposits to a schedule of aggregated expected monthly maturities.

Accrued Interest

The carrying amount of accrued interest approximates fair values.

NOTE 19 – FAIR VALUE OF ASSETS AND LIABILITIES (Continued)

The estimated fair value, and related carrying or notional amounts, of the Company's financial instruments are as follows (dollars in thousands):

	Carrying Amount	Fair Value
Year ended June 30, 2017		
Financial assets:		
Cash and due from banks	**$ 13,866**	**$ 13,866**
Federal funds sold	**50**	**50**
Interest bearing deposits in banks	**1,489**	**1,954**
Securities available for sale	**43,232**	**43,232**
Other securities, at cost	**152**	**152**
Loans, net	**113,269**	**112,990**
Accrued interest receivable	**371**	**114**
Financial liabilities:		
Deposits	**157,426**	**153,958**
Accrued interest payable	**10**	**10**
Year ended June 30, 2016		
Financial assets:		
Cash and due from banks	$ 19,631	$ 19,631
Federal funds sold	50	$ 50
Interest bearing deposits in banks	497	500
Securities available for sale	28,320	28,320
Other securities, at cost	213	213
Loans, net	113,268	113,732
Accrued interest receivable	346	176
Financial liabilities:		
Deposits	147,139	136,909
Accrued interest payable	7	31

The carrying amounts in the preceding table are included in the balance sheet under the applicable captions.

Item 2a: Organization Chart
Form FR Y-6
First Federal Financial Corporation
Fiscal Year Ending June 30, 2017

First Federal Financial Corporation
Dunn, NC
Incorporated in North Carolina
LEI 549300JW8Z4H2SFHB196

88%

First Federal Bank
Dunn, NC
Incorporated in North Carolina
LEI 5493004W7AEPOP0B0249

100%

Diversified Growth and Development Corporation
Raleigh, North Carolina
Incorporated in North Carolina
No LEI

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 06/30/2017. Data reflects information that was received and processed through 07/06/2017.

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, 2017

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 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		169,823			

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, 2017

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%	0.56% First Federal Bank	Wellons Realty, Inc. 100% Wellons Construction, Inc. 100% Freedom Constructors, Inc. 40% Leisure Living - RPW, LLC 100% Four W's, Inc. 25% Prestige Mortgage Corporation 25% WMJ Developers, LLC 25% KR/O, LLC 25% Cheyenne Developers, LLC 50% RP Wellons Land & Development, LLC 40% Navaho 50% Aho 25% R P Wellons, CECO, LLC 40%
Don Wellons (1) Dunn, NC USA	Real Estate	Director Vice Chairman of the Board	N\A	President - Don G. Wellons Properties, Inc.	12.78%	0.94% 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% Leisure Living - DGW, LLC 100% Southview Self Storage 100% Aho 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% SWS, LLC 100% Four W's, Inc. 25% Craft Investments, LLC 50% 2004 Cumberland, LLC 33 1/3%
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 - JHW, LLC 100% Aho 25%
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%	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%

Item 4: Insiders*
Form FR Y-6
First Federal Financial Corporation
Fiscal Year Ending June 30, 2017

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)
Joy W. Moore (2) Morehead City, NC USA	Real Estate	Director	N\A	Sec\Treas - C.G.W., Inc.	6.48%	0.01%	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% Moore Appraisal Services, LLC 50%
Clement E. Medley Dunn, NC USA	Retired	Director	Vice-Chairman of First Federal Bank Board	N\A	0.10%	0.54% 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	0.00%	0.98% First Federal Bank	Triangle Investment Company 33% Hudson, Inc. 50% Cedar Creek Park, LLC 100% Charlestown Henderson, LLC 100% CWH Properties, LLC 100% Real Estate Associates, Inc. 33% REA Eno Square, Inc. 33% REA Landcom, Inc. 33% REA Residential, Inc. 33% Rental Partners 33% Bowling Ventures, Inc. 33% REA Recreation, Inc. 33% REA Riddle Road 33% REA Lake Boone Trail, LLC 33% Arrowwood Lane, LLC 33% Riverside LNC, LLC 25%

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