

## Risk Factors Comparison 2024-10-03 to 2023-09-28 Form: 10-K

Legend: **New Text** ~~Removed Text~~ Unchanged Text **Moved Text** Section

Interest Rate Risk Rising interest rates may hurt our profits and asset values. **Beginning in March, 2022** In response to the COVID-19 virus pandemic, the Federal Reserve Board's Open Market Committee ("FOMC") ~~decreased~~ **started raising** interest rates to **combat** near zero in March 2020. The low interest rate environment remained in effect until March 2022. However, in light of elevated inflation and a strong labor market, the FOMC commenced. **Rates continued to** increasing **increase** the target range for the federal funds rate. Since maintaining a federal funds rate target in the range of 0% to 0.25% from March 2020 through 2021, the Federal Reserve Board made multiple rate increases during 2022 and 2023 increasing the target federal funds rate to a range of 5.00% to 5.25% as of June 2023, and subsequently to a range of 5.25% to 5.50% as of August 2023. ~~The future direction and levels of interest rates remain uncertain.~~ The increase in interest rates has caused our net interest income to decline. Net ~~interest~~ income decreased \$ 657,000 **1.8 million** or ~~41~~ **20** .3% compared to the fiscal year ended June 30, ~~2022~~ **2023** primarily due to ~~decreased net~~ **an increase in interest expense of \$ 5.4 million or 137.9%, offset somewhat by an increase in** interest income, ~~decreased non-interest income, increased provision for loan losses, and increased non-interest expenses, which were somewhat offset by decreased income taxes.~~ Net interest income decreased \$ 304,000 or ~~3.5~~ **3** % and totaled \$ 8.9 million for the year just ended, as interest income increased \$ 1.8 million or ~~16~~ **27** .9 ~~6~~ % to \$ 12.8 million and interest expense increased \$ 2.1 million or ~~122.5~~ % to \$ 3.9 million. Our funding sources repriced more quickly during the interest rate increases than our assets. Consequently, the increase in our interest expense was attributed primarily to higher average rates paid on both deposits and FHLB advances, while the increase in our interest income was a combination of both higher average balances and higher rates earned on those assets. ~~If~~ **In September 2024, the FOMC decided to lower the target range for the federal funds rate by 50 basis points to 43/4 to 5 percent. Nevertheless, if** interest rates ~~continue to rise in the future~~, our net interest income may decline in the short term since, due to the generally shorter terms of interest-bearing liabilities, interest expense paid on interest-bearing liabilities, increases more quickly than interest income earned on interest-earning assets, such as loans and investments. In addition, rising interest rates may hurt our income because of reduced demand for new loans and refinancing loans may in turn result in reduced interest and fee income earned on new loans and loan refinancings. While we believe that modest interest rate increases will not significantly hurt our interest rate spread over the long term due to our high level of liquidity and the presence of a significant amount of adjustable-rate mortgage loans in our loan portfolio, interest rate increases may initially reduce our interest rate spread until such time as our loans and investments reprice to higher levels. Changes in interest rates also affect the value of our interest-earning assets, and in particular our securities portfolio. Generally, the value of fixed-rate securities fluctuates inversely with changes in interest rates. Unrealized gains and losses on securities available for sale are reported as separate components of equity. Decreases in the fair value of securities available for sale resulting from increases in interest rates therefore could have an adverse effect on stockholders' equity. **At June 30, 2024, this decrease in fair value of the securities, otherwise known as Accumulated other comprehensive loss totaled \$ 336,000 or 3.4% of our securities portfolio.** Rising interest rates may adversely affect the ability of borrowers to repay loans. We offer fixed-rate and adjustable-rate mortgage loans with terms of up to 30 years; however, across our loan portfolio, interest rates and payments adjust annually after a one-, three-, five- or seven- year initial fixed period. At June 30, ~~2023~~ **2024**, ~~87~~ **83** .5 ~~3~~ % of our residential real estate loan portfolio were adjustable-rate loans. Rising interest rates could have a negative impact on our results of operations by reducing the ability of borrowers to repay their current loan obligations as interest rates rise, the borrower's payments rise, increasing the potential for delinquencies and defaults. Risks Related to Our Lending Activities Inflationary pressures and rising prices may affect our results of operations and financial condition. Inflation has risen sharply since the end of 2021 to levels not seen for over 40 years. Inflationary pressures are currently expected to remain elevated throughout ~~2023~~ **2024**. Inflation could lead to increased costs to our customers, making it more difficult for them to repay their loans or other obligations. High interest rates may be needed to tame persistent inflationary price pressures, which could also push down asset prices and weaken economic activity. A deterioration in economic conditions in the United States and our markets could result in an increase in loan delinquencies and non-performing assets, decreases in loan collateral values and a decrease in demand for our products and services, all of which, in turn, would adversely affect our business, financial condition and results of operations. If our allowance for ~~loan credit~~ losses is not sufficient to cover actual loan losses, our results of operations would be negatively affected. In determining the amount of the allowance for ~~loan credit~~ losses ~~loss~~, we analyze our loss and delinquency experience by loan categories and we consider the effect of existing economic conditions. In addition, we make various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of our loans. If the actual results are different from our estimates, or our analyses are incorrect, our allowance for ~~loan credit~~ losses ~~loss~~ may not be sufficient to cover losses inherent in our loan portfolio, which would require additions to our allowance and would decrease our net income. **Our An** emphasis on loan growth ~~and on increasing our~~ **or portfolio shifting the types of loans the banks make**, as well as any future credit deterioration, ~~will~~ **could** require us to increase our allowance further in the future. In addition, our banking regulators periodically review our allowance for loan losses and could require us to increase our provision for loan losses. Any increase in our allowance for ~~loan credit~~ losses ~~loss~~ or loan charge-offs as required by regulatory authorities may have a material adverse effect on our results of operations and financial condition. A large percentage of our loans are collateralized by real estate and disruptions in the real estate market may result in losses and hurt our earnings. Approximately 96.3 ~~1~~ % of our loan portfolio at June 30, ~~2023~~ **2024** was comprised of loans collateralized by

real estate. Disruptions in the real estate market could significantly impair the value of our collateral and our ability to sell the collateral upon foreclosure. The real estate collateral in each case provides an alternate source of repayment in the event of default by the borrower and may deteriorate in value during the time the credit is extended. If real estate values decline, it will become more likely that we would be required to increase our allowance for loan losses. If during a period of reduced real estate values, we are required to liquidate the collateral securing a loan to satisfy the debt or to increase our allowance for loan losses, it could materially reduce our profitability and adversely affect our financial condition. Our concentration of residential mortgage loans exposes us to increased lending risks. At June 30, 2023-2024, \$ 240-256.1 million, or 76.15%, of our loan portfolio was secured by one- to- four family real estate, all of which is located in the Commonwealth of Kentucky, and we intend to continue this type of lending in the foreseeable future. One- to- four family residential mortgage lending is generally sensitive to regional and local economic conditions that significantly impact the ability of borrowers to meet their loan payment obligations, making loss levels difficult to predict. A decline in residential real estate values as a result of a downturn in the local housing markets or in the markets in neighboring states in which we originate residential mortgage loans could reduce the value of the real estate collateral securing these types of loans. Declines in real estate values could cause some of our residential mortgages to be inadequately collateralized, which would expose us to a greater risk of loss if we seek to recover on defaulted loans by selling the real estate collateral. The distressed economy in First Federal of Hazard's market area could hurt our profits and slow our growth. Our banks operate in three distinct market areas. First Federal of Hazard's market area consists of Perry and surrounding counties in eastern Kentucky. The economy in this market area has been distressed in recent years due to the decline in the coal industry on which the economy has been dependent. While the region has seen improvement in the economy from the influx of other industries, such as health care and manufacturing, the competition provided by new methods of extracting natural gas has recently hurt the coal industry. As a consequence, the economy in First Federal of Hazard's market area continues to lag behind the economies of Kentucky and the United States and First Federal of Hazard has experienced insufficient loan demand in its market area. Moreover, the slow economy in First Federal of Hazard's market area will limit our ability to grow our asset base in that market. Our mortgage banking revenue and the value of our mortgage servicing rights can be volatile. We plan to continue to sell our longer- term, conforming and non- conforming fixed- rate loans that we originate to generate noninterest income. We also earn revenue from fees we receive for servicing mortgage loans. Changes in interest rates may impact our mortgage banking revenues, which could negatively impact our noninterest income. When rates rise, the demand for mortgage loans usually tends to fall, reducing loan origination volume and the related amount of gains on the sales of loans. Under the same conditions, net revenue from our mortgage servicing activities can increase due to slower prepayments, which reduces our amortization expense for mortgage servicing rights. When rates fall, mortgage originations usually tend to increase and the value of our mortgage servicing rights usually tends to decline, also with some offsetting revenue effect. During the fiscal year ended June 30, 2023-2024, non- interest income decreased \$ 213-51,000 or 41-16.49% and totaled \$ 302-251,000, primarily due to decreased gains on loan sales participation and service fee income. In addition, our results of operations are affected by the amount of noninterest expenses associated with mortgage banking activities, such as salaries and employee benefits (including commissions), occupancy, equipment and data processing expense, and other operating costs. During periods of reduced loan demand, our results of operations may be adversely affected to the extent that we are unable to reduce expenses commensurate with the decline in mortgage loan origination activity. Liquidity Risk Financial challenges at other banking institutions could lead to depositor concerns that spread within the banking industry causing disruptive and destabilizing deposit outflows. In March 2023, Silicon Valley Bank and Signature Bank experienced large deposit outflows coupled with insufficient liquidity to meet withdrawal demands, resulting in the institutions being placed into FDIC receivership. In May 2023, First Republic Bank was also placed into FDIC receivership. In the aftermath of these events, there has been substantial market disruption and concerns that diminished depositor confidence could spread across the banking industry, leading to deposit outflows that could destabilize other institutions. To strengthen public confidence in the banking system, the FDIC took action to protect funds held in uninsured deposit accounts at Silicon Valley Bank, Signature Bank and First Republic Bank. However, the FDIC has not committed to protecting uninsured deposits in other institutions that experience outsized withdrawal demands. To further bolster the banking system, the Federal Reserve Board created a new Bank Term Funding Program to provide an additional source of liquidity. At June 30, 2023-2024, we had \$ 20-27.29 million in available liquidity, including \$ 8-18.23 million in cash and cash equivalents. Our uninsured deposits are estimated to be approximately \$ 13-17.85 million or 6.10-83% of total deposits. At June 30, 2023-2024, we had off- balance sheet liquidity sources totaling \$ 89.3 million, including \$ 87-71.34 million in additional borrowing capacity at the Federal Home Loan Bank of Cincinnati. Notwithstanding our significant liquidity, large deposit outflows could adversely affect our financial condition and results of operations and could result in the closure of the Banks. Furthermore, the recent bank failures may result in strengthening of capital and liquidity rules which, if the revised rules apply to us, could adversely affect our financial condition and results of operations. Insufficient liquidity or liquidity related concerns could impair our ability to fund operations, pay dividends on outstanding shares of stock, and jeopardize our financial condition, growth and prospects. We require sufficient liquidity to fund loan commitments, satisfy depositor withdrawal requests, make payments on our debt obligations as they become due, and meet other cash commitments. Liquidity risk is the potential that we will be unable to meet our obligations as they become due because of an inability to liquidate assets or obtain adequate funding at a reasonable cost, in a timely manner and without adverse conditions or consequences. Our sources of liquidity consist primarily of cash, assets readily convertible to cash (such as investment securities), increases in deposits, advances, as needed, from the FHLB, borrowings, as needed, from the Federal Reserve Bank of Cleveland and other borrowings. Our access to funding sources in amounts adequate to finance our activities or on acceptable terms could be impaired by factors that affect our organization specifically or the financial services industry or economy in general. Any substantial, unexpected, and / or prolonged change in the level or cost of liquidity, or any liquidity related requirements imposed by our regulators, could impair our ability to fund operations, pay dividends on outstanding shares

of stock, enact stock repurchases, and meet our obligations as they become due and could have a material adverse effect on our business, financial condition and results of operations. **On January 16, 2024, the Company announced the suspension of quarterly dividends indefinitely. The suspension of our quarterly cash dividend could have an adverse impact on the market price of our common stock. Holders of our common stock are only entitled to receive such dividends as our Board of Directors may declare out of funds available for such payments under applicable law and regulatory guidance. Although we have historically declared cash dividends on our common stock, we are not required to do so, and on January 16, 2024, the Company announced the suspension of quarterly dividends indefinitely. We cannot predict when or whether the Company will be able to pay future common stock dividends and if so, the amount of any such common stock dividends. The suspension of our common stock dividend could adversely affect the market price of our common stock.**

**Risks Related to Our Business and Industry Generally** We expect that the implementation of a new accounting standard could require us to increase our allowance for loan losses and may have a material adverse effect on our financial condition and results of operations. The Financial Accounting Standards Board (“FASB”) has adopted a new accounting standard that will be effective for the Kentucky First, First Federal of Hazard and First Federal of Kentucky for our fiscal year beginning July 1, 2023. This standard, referred to as Current Expected Credit Loss, or CECL, will require financial institutions to determine periodic estimates of lifetime expected credit losses on loans, and provide for the expected credit losses as allowances for loan losses. This will change the current method of providing allowances for loan losses that are probable, which we expect could require us to increase our allowance for loan losses, and will likely greatly increase the data we would need to collect and review to determine the appropriate level of the allowance for loan losses. Any increase in our allowance for loan losses, or expenses incurred to determine the appropriate level of the allowance for loan losses, may have a material adverse effect on our financial condition and results of operations. Our FDIC deposit insurance premiums and assessments may increase, which would reduce our profitability. On March 12, 2023, the Department of the Treasury, the Federal Reserve and the FDIC issued a joint statement relating to the resolution of Silicon Valley Bank and Signature Bank that stated that losses to support uninsured deposits of those banks would be recovered via a special assessment on banks. On May 11, 2023 the FDIC Board of Directors approved a notice of proposed rulemaking, which would implement a special assessment to recover the cost associated with protecting uninsured depositors following the closures of Silicon Valley Bank and Signature Bank. In general, large banks with large amounts of uninsured deposits benefitted most from the protection of uninsured depositors. Banking organizations with total assets over \$ 50 billion would pay more than 95 percent of the special assessment and banking organizations with total assets under \$ 5 billion would not be subject to the special assessment. Under the current provisions of this notice of proposed rulemaking, we believe that we would not be impacted by the special assessment associated with the most recent banking organization closures. Strong competition within our market areas could hurt our profits and slow growth. Although we consider ourselves competitive in our market areas, we face intense competition both in making loans and attracting deposits. Price competition for loans and deposits might result in our earning less on our loans and paying more on our deposits, which reduces net interest income. Some of the institutions with which we compete have substantially greater resources than we have and may offer services that we do not provide. We expect competition to increase in the future as a result of legislative, regulatory and technological changes and the continuing trend of consolidation in the financial services industry. Our profitability will depend upon our continued ability to compete successfully in our market areas.

**Risks Related to Laws and Regulations** **We are required to comply with the terms of a formal written agreement and IMCRs issued by the OCC, and lack of compliance could result in monetary penalties and / or additional regulatory actions. On August 13, 2024, First Federal of Kentucky entered into a formal written agreement (the “ Agreement ”) with the OCC, which became effective as of the same date. As a result of the Agreement, pursuant to 12 C. F. R. § 5. 51 (c) (7) (ii), First Federal of Kentucky is in “ troubled condition, ” and is not an “ eligible savings association ” for purposes of 12 C. F. R. § 5. 3, unless otherwise informed in writing by the OCC. In addition to the formal written Agreement, the OCC has also imposed individual minimum capital requirements (“ IMCRs ”) on First Federal of Kentucky. The IMCRs require First Federal of Kentucky to maintain a common equity tier 1 capital ratio of at least 9. 0 %, a tier 1 capital ratio of at least 11. 0 %, a total capital ratio of at least 12. 0 %, and a leverage ratio of at least 9. 0 %. At June 30, 2024, First Federal of Kentucky exceeded the requirements of the IMCRs as its common equity tier 1 capital ratio was 16. 25 %, its tier 1 capital ratio was 16. 25 %, its total capital ratio was 16. 25 %, and its leverage ratio was 10. 24 %. Under the terms of the Agreement, First Federal of Kentucky is required to take the following actions within the time frames specified in the Agreement: • create a compliance committee composed of at least three of First Federal of Kentucky’ s directors to monitor and oversee First Federal of Kentucky’ s compliance with the provisions of the Agreement and submit quarterly evaluation reports to First Federal of Kentucky’ s board of directors regarding actions First Federal of Kentucky has taken to comply with the Agreement and the results and status of such actions; • submit to the OCC, adopt and implement an acceptable revised written three- year strategic plan establishing objectives for First Federal of Kentucky’ s overall risk profile, balance sheet mix, funding structure, interest rate risk, liquidity and capital adequacy, earnings performance, and asset and core deposit growth, together with strategies to achieve those objectives; • submit to the OCC, adopt and implement an acceptable revised written succession plan for First Federal of Kentucky that is designed to promote adequate staffing and continuity of capable management; • adopt a revised written liquidity risk management program for First Federal of Kentucky that provides for the identification, measurement, monitoring, and control of First Federal of Kentucky’ s liquidity risk exposure, and that emphasizes the importance of cash flow projections, diversified funding sources, a cushion of highly liquid assets, robust liquidity stress testing scenario analyses, and a formal, well- developed contingency funding plan as primary tools for measuring and managing liquidity risk; and • adopt a revised written interest rate risk program that includes risk management systems to identify, measure, monitor, and control interest rate risk. The Agreement requires First Federal of Kentucky’ s Board to (i) ensure that First Federal of Kentucky timely adopts and implements all corrective actions**

**required by the Agreement and (ii) verify that First Federal of Kentucky adheres to the corrective actions and that they are effective in addressing First Federal of Kentucky's deficiencies that resulted in the Agreement. The Agreement will remain in effect until it is amended by First Federal of Kentucky and the OCC, or the OCC modifies, waives or terminates the Agreement. While First Federal of Kentucky is subject to the Agreement, we expect that the Board and management will be required to focus considerable time and attention on taking corrective actions to comply with its terms. First Federal of Kentucky's Board and management are committed to fully addressing the provisions of the Agreement within the required time frames. The OCC may determine, however, in its sole discretion that the issues raised by the Agreement have not been addressed satisfactorily, or that any current or past actions, violations or deficiencies could be the subject of further regulatory enforcement actions. If the OCC were to determine that First Federal of Kentucky was not in compliance with the Agreement, it would have available various remedies, including among others, the power to enjoin "unsafe or unsound" practices, to require affirmative action to correct any conditions resulting from any violation or practice, to direct an increase in capital, to restrict the growth of First Federal of Kentucky, to remove officers and / or directors, to assess civil monetary penalties, and to impose limitations on our business at First Federal of Kentucky, any of which could negatively affect our ability to implement our business plan and pay dividends on or our common stock, and may negatively affect the value of our common stock as well as our financial condition and results of operations.**

Changes in laws and regulations and the cost of regulatory compliance with new laws and regulations may adversely affect our operations and / or increase our costs of operations. The Banks are subject to extensive regulation, supervision and examination by the OCC. The Company is subject to extensive regulation, supervision and examination by the Federal Reserve Board. Such regulation and supervision govern the activities in which an institution and its holding company may engage and is intended primarily for the protection of the federal deposit insurance fund and the depositors of the Banks rather than the protection of the Company's stockholders. Regulatory authorities have extensive discretion in their supervisory and enforcement activities, including the imposition of restrictions on our operations, the classification of our assets and determination of the adequacy of the level of our allowance for ~~loan~~ **credit** losses. These regulations, along with existing tax, accounting, securities, insurance and monetary laws, rules, standards, policies, and interpretations, control the methods by which financial institutions conduct business, implement strategic initiatives and tax compliance, and govern financial reporting and disclosures. Any change in such regulation and oversight, whether in the form of regulatory policy, regulations, legislation or supervisory action, may have a material impact on our operations. Further, changes in accounting standards can be both difficult to predict and involve judgment and discretion in their interpretation by us and our independent accounting firm. These changes could materially impact, potentially even retroactively, how we report our financial condition and results of operations. Non-compliance with the USA PATRIOT Act, Bank Secrecy Act, or other laws and regulations could result in fines or sanctions. The USA PATRIOT and Bank Secrecy Acts require financial institutions to develop programs to prevent financial institutions from being used for money laundering and terrorist activities. If such activities are suspected, financial institutions are obligated to file suspicious activity reports with the U. S. Treasury's Office of Financial Crimes Enforcement Network. These rules require financial institutions to establish procedures for identifying and verifying the identity of customers seeking to open new financial accounts. Failure to comply with these regulations could result in fines or sanctions, including restrictions on pursuing any acquisitions or establishing or acquiring new branches. The policies and procedures we have adopted that are designed to assist in compliance with these laws and regulations may not be effective in preventing violations of these laws and regulations. Furthermore, these rules and regulations continue to evolve and expand. We have not been subject to fines or other penalties, or have suffered business or reputational harm, as a result of money laundering activities in the past. Monetary policies and regulations of the Federal Reserve Board could adversely affect our business, financial condition and results of operations. In addition to being affected by general economic conditions, our earnings and growth are affected by the policies of the Federal Reserve Board. An important function of the Federal Reserve Board is to regulate the money supply and credit conditions. Among the instruments used by the Federal Reserve Board to implement these objectives are open market purchases and sales of U. S. government securities, adjustments to the discount rate and changes in banks' reserve requirements against bank deposits. These instruments are used in varying combinations to influence overall economic growth and the distribution of credit, bank loans, investments and deposits. Their use also affects interest rates charged on loans or paid on deposits. The monetary policies and regulations of the Federal Reserve Board have had a significant effect on the operating results of financial institutions in the past and are expected to continue to do so in the future. The effects of such policies upon our business, financial condition and results of operations cannot be predicted. We may be adversely affected by recent changes in U. S. tax laws and regulations. Changes in tax laws contained in the Tax Cuts and Jobs Act, which was enacted in December 2017, include a number of provisions that will have an impact on the banking industry, borrowers and the market for residential real estate. Included in this legislation were: (i) a lower limit on the deductibility of mortgage interest on single-family residential mortgage loans, (ii) the elimination of interest deductions for home equity loans, (iii) a limitation on the deductibility of business interest expense and (iv) a limitation on the deductibility of property taxes and state and local income taxes. The recent changes in the tax laws may have an adverse effect on the market for, and valuation of, residential properties, and on the demand for such loans in the future, and could make it harder for borrowers to make their loan payments. If home ownership becomes less attractive, demand for mortgage loans could decrease. The value of the properties securing loans in our loan portfolio may be adversely impacted as a result of the changing economics of home ownership, which could require an increase in our provision for loan losses, which would reduce our profitability and could materially adversely affect our business, financial condition and results of operations. We may be subject to more stringent capital requirements which could result in lower returns on equity, require the raising of additional capital, and limit our ability to pay dividends or repurchase shares of our common stock. Federal regulations establish minimum capital requirements for insured depository institutions, including minimum risk-based capital and leverage ratios, and define "capital

” for calculating these ratios. The minimum capital requirements are: (i) a new common equity Tier 1 capital ratio of 4.5 %; (ii) a Tier 1 to risk-based assets capital ratio of 6 % (increased from 4 %); (iii) a total capital ratio of 8 % (unchanged from current rules); and (iv) a Tier 1 leverage ratio of 4 %. The regulations also establish a “ capital conservation ” buffer of 2.5 %, and will result in the following minimum ratios: (i) a common equity Tier 1 capital ratio of 7 %; (ii) a Tier 1 to risk-based assets capital ratio of 8.5 %; and (iii) a total capital ratio of 10.5 %. The new capital conservation buffer requirement was phased in beginning in January 2016 at 0.625 % of risk-weighted assets and increased each year until fully implemented in January 2019. An institution will be subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations will establish a maximum percentage of eligible retained income that can be utilized for such actions. As of June 30, 2023-2024, the capital levels of First Federal of Hazard and First Federal of Kentucky exceed the required capital amounts according to the Community Bank Leverage Ratio regulations and we believe they also meet the fully-phased-in minimum capital requirements. **As previously discussed, in August 2024, First Federal of Kentucky entered into an Agreement with the OCC. The OCC has also imposed IMCRs which require First Federal of Kentucky to achieve and maintain capital levels in excess of the minimum capital standards required under OCC’s Prompt Corrective Action framework. Under the IMCRs, First Federal of Kentucky must achieve and maintain a common equity tier 1 capital ratio of at least 9.0 %, a tier 1 capital ratio of at least 11.0 %, a total capital ratio of at least 12.0 %, and a leverage ratio of at least 9.0 %. At June 30, 2024, First Federal of Kentucky exceeded the requirements of the IMCRs as its common equity tier 1 capital ratio was 16.25 %, its tier 1 capital ratio was 16.25 %, its total capital ratio was 16.25 %, and its leverage ratio was 10.24 %** See Note K- Stockholders’ Equity and Regulatory Capital of Notes to Consolidated Financial Statements. The application of more stringent capital requirements for us could among other things, result in lower returns on equity, require the raising of additional capital, and result in regulatory actions constraining us from paying dividends or repurchasing shares if we were unable to comply with such requirements. See “ Regulation and Supervision — Regulation of Federal Savings Associations — Capital Requirements. ” The Federal Reserve Board may require us to commit capital resources to support the Banks. Federal law requires that a holding company act as a source of financial and managerial strength to its subsidiary banks and to commit resources to support such subsidiary banks. Under the “ source of strength ” doctrine, the Federal Reserve Board may require a holding company to make capital injections into a troubled subsidiary bank and may charge the holding company with engaging in unsafe and unsound practices for failure to commit resources to a subsidiary bank. A capital injection may be required at times when the holding company may not have the resources to provide it and therefore may be required to borrow the funds or raise capital. Thus, any borrowing or funds needed to raise capital required to make a capital injection may be more expensive or difficult to obtain and could have an adverse effect on our business, financial condition and results of operations. Risks Related to Accounting Matters Changes in management’s estimates and assumptions may have a material impact on our consolidated financial statements and our financial condition or operating results. In preparing the periodic reports and consolidated financial statements we file under the Securities Exchange Act of 1934, as amended, our management is and will be required under applicable rules and regulations to make estimates and assumptions as of a specified date. These estimates and assumptions are based on management’s best estimates and experience as of that date and are subject to substantial risk and uncertainty. Materially different results may occur as circumstances change and additional information becomes known. Areas requiring significant estimates and assumptions by management include our evaluation of the adequacy of our allowance for loan losses, the valuation of mortgage servicing rights, and the fair value of financial instruments. Changes in accounting standards could affect reported earnings. The bodies responsible for establishing accounting standards, including the Financial Accounting Standards Board, the Securities and Exchange Commission and other regulatory bodies, periodically change the financial accounting and reporting guidance that governs the preparation of our financial statements. These changes can be hard to predict and can materially impact how we record and report our consolidated financial condition and results of operations. In some cases, we could be required to apply new or revised guidance retroactively. If we are required to impair our goodwill, intangibles, or other long-lived assets, our financial condition and results of operations would be adversely affected. Pursuant to Accounting Standards Codification (“ ASC ”) 350, Intangibles- Goodwill and Other and ASC 360, Property, Plant and Equipment, we are required to perform an annual impairment review of goodwill, intangibles and other long-lived assets which could result in an impairment charge if it is determined that the carrying value of the assets are in excess of the fair value. We perform the impairment test annually during our fourth fiscal quarter. Goodwill, intangibles and other long-lived assets are also tested more frequently if changes in circumstances or the occurrence of events indicates that a potential impairment exists. When changes in circumstances, such as changes in the variables associated with the judgments, assumptions and estimates made in assessing the appropriate fair value indicate the carrying amount of certain assets may not be recoverable, the assets are evaluated for impairment. If actual operating results differ from these assumptions, it may result in an asset impairment. As of June 30, 2020, management early adopted ASU 2017- 04, Intangibles- Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment, which simplifies the required method for estimating the fair value of the Company. Future write-downs of intangibles and other long-lived assets could affect certain of the financial covenants under our debt agreements, could restrict our financial flexibility, and would impact our results of operations. **In the period ended June 30, 2024, the Company recorded a goodwill impairment charge, which had no tax impact, of \$ 947, 000, which represents 100.0 % of goodwill previously reported**. Risks Related to Operational Matters We are subject to certain risks in connection with our use of technology. Our security measures may not be sufficient to mitigate the risk of a cyber attack. Communications and information systems are essential to the conduct of our business, as we use such systems to manage our customer relationships, our general ledger and virtually all other aspects of our business. Our operations rely on the secure processing, storage, and transmission of confidential and other information in our computer systems and networks. Although we take protective measures and endeavor to modify them as circumstances warrant, the security of our computer systems, software, and networks may be vulnerable to breaches, unauthorized access, misuse,

computer viruses, or other malicious code and cyber attacks that could have a security impact. If one or more of these events occur, this could jeopardize our or our customers' confidential and other information processed and stored in, and transmitted through, our computer systems and networks, or otherwise cause interruptions or malfunctions in our operations or the operations of our customers or counterparties. We may be required to expend significant additional resources to modify our protective measures or to investigate and remediate vulnerabilities or other exposures, and we may be subject to litigation and financial losses that are either not insured against or not fully covered through any insurance maintained by us. We could also suffer significant reputational damage. Security breaches in our Internet banking activities could further expose us to possible liability and damage our reputation. Any compromise of our security also could deter customers from using our Internet banking services that involve the transmission of confidential information. We rely on standard Internet security systems to provide the security and authentication necessary to effect secure transmission of data. These precautions may not protect our systems from compromises or breaches of our security measures, which could result in significant legal liability and significant damage to our reputation and our business. Our security measures may not protect us from systems failures or interruptions. While we have established policies and procedures to prevent or limit the impact of systems failures and interruptions, there can be no assurance that such events will not occur or that they will be adequately addressed if they do. In addition, we outsource certain aspects of our data processing and other operational functions to certain third- party providers. If our third- party providers encounter difficulties, or if we have difficulty in communicating with them, our ability to adequately process and account for transactions could be affected, and our business operations could be adversely impacted. Threats to information security also exist in the processing of customer information through various other vendors and their personnel. The occurrence of any failures or interruptions may require us to identify alternative sources of such services, and we cannot assure you that we could negotiate terms that are as favorable to us —or could obtain services with similar functionality as found in our existing systems without the need to expend substantial resources, if at all. Further, the occurrence of any systems failure or interruption could damage our reputation and result in a loss of customers and business, could subject us to additional regulatory scrutiny, or could expose us to legal liability. Any of these occurrences could have a material adverse effect on our financial condition and results of operations. We must keep pace with technological change to remain competitive. Financial products and services have become increasingly technology- driven. Our ability to meet the needs of our customers competitively, and in a cost- efficient manner, is dependent on the ability to keep pace with technological advances and to invest in new technology as it becomes available, as well as related essential personnel. In addition, technology has lowered barriers to entry into the financial services market and made it possible for financial technology companies and other non- bank entities to offer financial products and services traditionally provided by banks. The ability to keep pace with technological change is important, and the failure to do so, due to cost, proficiency or otherwise, could have a material adverse impact on our business and therefore on our financial condition and results of operations.

Risks Related to Our Holding Company Structure First Federal MHC owns a majority of our common stock and is able to exercise voting control over most matters put to a vote of stockholders, including preventing sale or merger transactions you may like or a second- step conversion by First Federal MHC. First Federal MHC owns a majority of our common stock and, through its Board of Directors, is able to exercise voting control over most matters put to a vote of stockholders. As a federally chartered mutual holding company, the board of directors of First Federal MHC must ensure that the interests of depositors of First Federal of Hazard are represented and considered in matters put to a vote of stockholders of Kentucky First. Therefore, the votes cast by First Federal MHC may not be in your personal best interests as a stockholder. For example, First Federal MHC may exercise its voting control to prevent a sale or merger transaction in which stockholders could receive a premium for their shares, prevent a second- step conversion transaction by First Federal MHC or defeat a stockholder nominee for election to the Board of Directors of Kentucky First Federal. However, implementation of a stock- based incentive plan will require approval of Kentucky First Federal' s stockholders other than First Federal MHC. Federal Reserve Board regulations would likely prevent an acquisition of Kentucky First other than by another mutual holding company or a mutual institution. Our ability to pay **future** dividends is subject to the ability of First Federal of Hazard and First Federal of Kentucky to make capital distributions to Kentucky First Federal and the waiver of dividends by First Federal MHC. **On January 16, 2024, we announced that the Board had determined to suspend the payment of dividends indefinitely**. Our long- term ability to pay dividends to our stockholders is based primarily upon the ability of the Banks to make capital distributions to Kentucky First Federal, and also on the availability of cash at the holding company level in the event earnings are not sufficient to pay dividends according to the cash dividend payout policy. Under Office of the Comptroller of the Currency safe harbor regulations, the Banks may each distribute to Kentucky First capital not exceeding net retained income for the current calendar year and the prior two calendar years. First Federal MHC owns a majority of Kentucky First Federal' s outstanding stock. First Federal MHC has historically waived its right to dividends on the Kentucky First common shares it owns **and, in which case without the waiver of such dividends,** the amount of dividends paid to public stockholders is significantly higher than it would be if First Federal MHC accepted dividends. First Federal MHC is not required to waive dividends, but Kentucky First expects this practice to continue, subject to member and regulatory approval annually, **to the extent Kentucky First continues to pay dividends in future periods**. First Federal MHC is required to obtain a waiver from the Federal Reserve Board allowing it to waive its right to dividends. The Federal Reserve Board in 2011 issued regulations that govern the activities of Kentucky First Federal and First Federal MHC and the regulations were implemented in the fourth quarter of 2011. Under Section 239.8(d) of the Federal Reserve Board' s Regulation MM governing dividend waivers, a mutual holding company may waive its right to dividends on shares of its subsidiary if the mutual holding company gives written notice of the waiver to the Federal Reserve Board and the Federal Reserve Board does not object. For a company such as First Federal MHC that waived dividends prior to December 1, 2009, the Federal Reserve Board may not object to a dividend waiver if such waiver would not be detrimental to the safety and soundness of the savings association subsidiary and the board of directors of the mutual holding company expressly determines that such dividend waiver is consistent with the board' s fiduciary duties to the members of the mutual

holding company. To address concerns with respect to the conflict of interest created by dividend waivers, Regulation MM requires the board of directors of the mutual holding company to adopt a resolution that describes the conflict of interest that exists because of a director's ownership of stock in the subsidiary declaring the dividends and any actions the mutual holding company board have taken to eliminate the conflict of interest, such as the directors' waiving their right to receive dividends. Also, the resolution must contain an affirmation that a majority of the mutual members eligible to vote have, within the 12 months prior to the declaration date of the dividend, voted to approve the waiver of dividends. First Federal MHC has received Federal Reserve Board approval to waive quarterly dividends totaling \$ 0. 40 per share annually beginning with the dividend paid on September 28, 2012 and continuing through the dividend payable in the third quarter of 2024. It is expected that First Federal MHC will continue to waive future dividends **, to the extent Kentucky First continues to pay dividends in future periods**, except to the extent dividends are needed to fund First Federal MHC's continuing operations, subject to the ability of First Federal MHC to obtain regulatory approval of its requests to waive dividends and to its ability to obtain member approval of dividend waivers. We cannot predict whether members will continue to approve annual dividend waiver requests or whether the Federal Reserve Board will grant future dividend waiver requests and, if granted, there can be no assurance as to the conditions, if any, the Federal Reserve Board will place on future dividend waiver requests by grandfathered mutual holding companies such as First Federal MHC. If First Federal MHC is unable to waive the receipt of dividends, our ability to pay dividends to our stockholders may be substantially impaired and the amounts of any such dividends may be significantly reduced. **On January 16, 2024, we announced that the Board had determined to suspend the payment of dividends indefinitely. For additional information regarding suspension of our quarterly dividend, please see " Liquidity Risk- On January 16, 2024, the Company announced the suspension of quarterly dividends indefinitely. The suspension of our quarterly cash dividend could have an adverse impact on the market price of our common stock. " 26**