# FIRST FEDERAL BANCORP, MHC

## Parent Company for

First Federal
BANK of FLORIDA

**Audited Consolidated Financial Statements**

**December 31, 2014 and 2013 and the Years then Ended**

**(Together with Independent Auditors' Report)**

HACKER, JOHNSON & SMITH PA

Fort Lauderdale
Orlando
Tampa

Certified Public Accountants

## Independent Auditors' Report

The Board of Directors
First Federal Bancorp, MHC
Lake City, Florida:

We have audited the accompanying consolidated financial statements of First Federal Bancorp, MHC and Subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of earnings, comprehensive income, equity and cash flows for the years then ended, and the related notes to 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.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits 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 of 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 auditor's 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 of the Company as of December 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Hacker, Johnson & Smith PA

HACKER, JOHNSON & SMITH PA
Tampa, Florida
March 31, 2015

500 North Westshore Boulevard, Post Office Box 20368, Tampa, Florida 33622-0368, (813) 286-2424
A Registered Public Accounting Firm

## FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

### Consolidated Balance Sheets

**(In thousands)**

| | At December 31, 2014 | 2013 |
|---|---|---|
| **Assets** | | |
| Cash and due from banks | $ 14,386 | 19,964 |
| Interest-bearing deposits with banks | 95,723 | 69,722 |
| Total cash and cash equivalents | 110,109 | 89,686 |
| Time deposits | 12,852 | 9,959 |
| Securities available for sale | 218,570 | 219,644 |
| Securities held to maturity | 181 | 290 |
| Loans held for sale, net | 42,939 | 71,815 |
| Loans, net of allowance for loan losses of $5,911 and $6,854 | 495,038 | 472,042 |
| Covered loans, net of discount | - | 25,157 |
| FDIC loss share receivable | - | 4,111 |
| Accrued interest receivable | 4,957 | 4,946 |
| Premises and equipment, net | 26,469 | 28,457 |
| Federal Home Loan Bank stock, at cost | 889 | 1,231 |
| Foreclosed real estate | 1,999 | 3,615 |
| Income taxes receivable | 475 | - |
| Cash surrender value of bank-owned life insurance | 27,542 | 27,014 |
| Mortgage servicing rights, net | 24,100 | 21,485 |
| Other assets | 12,388 | 11,590 |
| Total | $ 978,508 | 991,042 |
| **Liabilities and Equity** | | |
| Liabilities: | | |
| Noninterest-bearing demand deposits | 201,866 | 189,859 |
| Interest checking and money-market deposits | 409,526 | 412,751 |
| Savings deposits | 52,445 | 48,986 |
| Time deposits | 153,364 | 195,410 |
| Total deposits | 817,201 | 847,006 |
| Federal Home Loan Bank advances | - | 1,000 |
| Other borrowings | - | 5,000 |
| Deferred income taxes | 5,510 | 2,126 |
| Income taxes payable | - | 628 |
| Other liabilities | 14,746 | 8,614 |
| Total liabilities | 837,457 | 864,374 |
| Commitments and contingencies (Notes 8, 15 and 21) | | |
| Retained earnings | 137,298 | 126,249 |
| Accumulated other comprehensive income | 3,753 | 419 |
| Total | $ 978,508 | 991,042 |

See accompanying Notes to Consolidated Financial Statements.

## FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

### Consolidated Statements of Earnings
**(In thousands)**

| | Year Ended December 31, 2014 | 2013 |
|---|---|---|
| Interest income: | | |
| Loans | $ 26,032 | 24,077 |
| Securities | 5,875 | 5,939 |
| Other | 962 | 1,092 |
| Total interest income | 32,869 | 31,108 |
| Interest expense: | | |
| Deposits | 1,733 | 1,950 |
| Borrowings | 633 | 218 |
| Total interest expense | 2,366 | 2,168 |
| Net interest income | 30,503 | 28,940 |
| Credit for loan losses | (490) | (200) |
| Net interest income after credit for loan losses | 30,993 | 29,140 |
| Noninterest income: | | |
| Bargain purchase gain on acquisition | - | 2,787 |
| Service charges on deposit accounts | 4,197 | 4,055 |
| Other service charges and fees | 15,229 | 14,860 |
| Mortgage banking revenue | 555 | 3,057 |
| Gain on sale of securities available for sale | 4,747 | 1,022 |
| Other than temporary impairment of securities | (39) | (97) |
| Income from bank-owned life insurance | 528 | 984 |
| Debit card interchange income | 2,668 | 2,541 |
| Other | 1,306 | 763 |
| Total noninterest income | 29,191 | 29,972 |
| Noninterest expense: | | |
| Salaries and employee benefits | 25,769 | 27,278 |
| Occupancy and equipment | 5,810 | 5,766 |
| Otherexpenses | 13,984 | 10,539 |
| Total noninterest expense | 45,563 | 43,583 |
| Earnings before income taxes | 14,621 | 15,529 |
| Income taxes | 3,572 | 4,732 |
| Net earnings | $ 11,049 | 10,797 |

See accompanying Notes to Consolidated Financial Statements.

## FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

### Consolidated Statements of Comprehensive Income
**(In thousands)**

| | Year Ended December 31, 2014 | 2013 |
|---|---|---|
| Net earnings | $ 11,049 | 10,797 |
| Other comprehensive income (loss): | | |
| Change in unrealized gain on securities available for sale: | | |
| Unrealized gain (loss) arising during the period | 9,760 | (4,192) |
| Reclassification adjustment for realized gains | (4,747) | (1,022) |
| Reclassification adjustment for other-than-temporary impairment losses recognized | - | 97 |
| Net change in unrealized gain | 5,013 | (5,117) |
| Net change in fair value of cash flow hedges | 308 | 199 |
| Total other comprehensive income (loss) before taxes (benefit) | 5,321 | (4,918) |
| Deferred income taxes (benefit) on above change | 1,987 | (1,846) |
| Total other comprehensive income (loss) | 3,334 | (3,072) |
| Comprehensive income | $ 14,383 | 7,725 |

See accompanying Notes to Consolidated Financial Statements.

## FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

### Consolidated Statements of Equity

### Years Ended December 31, 2014 and 2013

**(In thousands)**

| | Retained Earnings | Accumulated Other Compre- hensive Income | Total |
|---|---|---|---|
| Balance at December 31, 2012 | $ 115,452 | 3,491 | 118,943 |
| Net earnings available to members | 10,797 | - | 10,797 |
| Net change in unrealized gain on securities available for sale, net of tax of $1,915 | - | (3,202) | (3,202) |
| Net change in unrealized loss on derivative instrument, net of tax of $69 | - | 130 | 130 |
| Balance at December 31, 2013 | 126,249 | 419 | 126,668 |
| Net earnings available to members | 11,049 | - | 11,049 |
| Net change in unrealized gain on securities available for sale, net of tax of $1,879 | - | 3,134 | 3,134 |
| Net change in unrealized loss on derivative instrument, net of tax of $108 | - | 200 | 200 |
| Balance at December 31, 2014 | $ 137,298 | 3,753 | 141,051 |

See accompanying Notes to Consolidated Financial Statements.

## FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

### Consolidated Statements of Cash Flows
**(In thousands)**

| | Year Ended December 31, 2014 | 2013 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net earnings | $ 11,049 | 10,797 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | |
| Credit for loan losses | (490) | (200) |
| Depreciation | 2,056 | 1,983 |
| Deferred income tax (benefit) | 1,397 | (299) |
| Net amortization of premiums and discounts on securities | 2,839 | 2,075 |
| Net amortization of deferred loan cost | 69 | 46 |
| Gain on sale of securities available for sale | (4,747) | (1,022) |
| Other than temporary impairment | 39 | 97 |
| Net loss on sale of foreclosed real estate | 219 | 211 |
| Write-down of foreclosed real estate | 296 | 550 |
| Net gain on sale of premise and equipment | (57) | - |
| Origination of loans held for sale, net | (650,266) | (793,356) |
| Proceeds from sale of loans held for sale and loan securitizations | 679,697 | 831,059 |
| Mortgage banking revenue | (555) | (3,057) |
| Income from bank-owned life insurance | (528) | (984) |
| Increase in accrued interest receivable | (11) | (470) |
| Net increase in mortgage servicing rights | (2,615) | (3,339) |
| Net loss on FDIC loss share receivable | 640 | - |
| (Increase) decrease in other assets | (490) | 1,045 |
| (Increase) decrease in income tax receivable | (475) | 84 |
| (Decrease) increase in income taxes payable | (628) | 628 |
| Increase (decrease) in other liabilities | 6,132 | (8,671) |
| Net cash provided by operating activities | 43,571 | 37,177 |
| Cash flows from investing activities: | | |
| Purchases of securities available for sale | (119,804) | (105,396) |
| Principal repayments of securities available for sale | 19,542 | 31,293 |
| Maturities and calls of securities available for sale | 2,315 | 3,331 |
| Net proceeds from sales of securities available for sale | 105,942 | 15,872 |
| Principal repayments of securities held to maturity | 70 | - |
| Purchase of time deposits | (2,893) | (249) |
| Maturities of time deposits | - | 1,141 |
| Net (increase) decrease in loans | (3,492) | 36,041 |
| Net decrease in covered loans | - | 9,759 |
| Purchases of premises and equipment, net | (892) | (2,145) |
| Proceeds from sale of premise and equipment, net | 881 | - |
| Proceeds from sale of foreclosed real estate | 7,175 | 5,873 |
| Redemption of Federal Home Loan Bank stock | 342 | 372 |
| Cash disbursed in sale of Cattlemen office | (2,023) | - |
| Net cash proceeds received for FDIC loss share receivable | 3,471 | 4,172 |
| Cash proceeds from FDIC assisted transactions | - | 23,900 |
| Purchase of bank owned life insurance | - | (5,000) |
| Proceeds from bank owned life insurance claim | - | 771 |
| Net cash provided by investing activities | 10,634 | 19,735 |
| Cash flows from financing activities: | | |
| (Decrease) in deposits | (27,782) | (14,019) |
| Repayment of Federal Home Loan Bank advances | (1,000) | (2,000) |
| (Decrease) in other borrowings | (5,000) | - |
| Net cash used in financing activities | (33,782) | (16,019) |
| Net increase in cash and cash equivalents | 20,423 | 40,893 |
| Cash and cash equivalents at beginning of year | 89,686 | 48,793 |
| Cash and cash equivalents at end of year | $ 110,109 | 89,686 |

(continued)

## Consolidated Statements of Cash Flows, Continued
**(In thousands)**

| | Year Ended December 31, 2014 | 2013 |
|---|---|---|
| Supplemental disclosure of cash flow information – | | |
| Cash paid during the year for: | | |
| Income taxes | $ 2,260 | 3,297 |
| Interest | $ 2,432 | 2,106 |
| Noncash transactions: | | |
| Covered loans transferred to foreclosed real estate | $ - | 3,509 |
| Covered loans transferred to loans | $ 25,157 | - |
| Loans transferred to foreclosed real estate | $ 6,099 | 1,945 |
| Net change in unrealized gain on securities available for sale, net of taxes | $ 3,134 | (3,202) |
| Net change in unrealized loss on derivative instruments, net of taxes | $ 200 | 130 |
| Securitization of loans held for sale | $ 676,553 | 859,593 |
| In connection with the acquisitions the following assets were acquired and liabilities assumed (at fair value): | | |
| Securities available for sale | $ - | 8,867 |
| Loans | $ - | 28,584 |
| Premises and equipment | $ - | 1,205 |
| Other assets | $ - | 915 |
| Deposits | $ - | 60,159 |
| Other liabilities | $ - | 525 |

See accompanying Notes to Consolidated Financial Statements.

## (1) Organization and Summary of Significant Accounting Policies

***Organization.*** First Federal Bancorp, MHC is a federally-chartered, mutual holding company. This company through its subsidiary First Federal Bancorp, Inc. (a federal corporation) ("FFBI") owns First Federal Bank of Florida (the "Bank") which provides a variety of community banking services to individuals and businesses through seventeen full-service banking offices in Baker, Columbia, Hamilton, Holmes, Jackson, Lafayette, Manatee, Nassau, Sarasota, Suwannee and Washington Counties, Florida. There is also a retail wholesale loan production office that operates in Duval County. The Bank's deposits are insured up to the applicable limits by the Federal Deposit Insurance Corporation ("FDIC"). Subsidiaries include First Federal Financial Services Corporation ("FFFSC"), an investment advisor, Suwannee Valley Service Corporation, a real estate development company, and Community Tax Stabilization Fund, Inc., formerly FF Purchasing Corporation, a company that invests in tax liens. Collectively the entities are referred to as the "Company."

The accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States of America ("GAAP"). The following summarizes the more significant of these policies and practices:

***Subsequent Events.*** Management has evaluated all significant events occurring subsequent to the balance sheet date through March 31, 2015, which is the date the consolidated financial statements were available to be issued, determining no events require additional disclosure in the consolidated financial statements.

***Principles of Consolidation.*** The consolidated financial statements include the accounts of First Federal Bancorp, MHC and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

***Estimates.*** The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in its near term relate to the determination of whether a security is other-than-temporarily impaired, the allowance for loan losses and valuation of foreclosed real estate.

(continued)

**(1) Organization and Summary of Significant Accounting Policies, Continued**

***Acquisitions.*** The Company accounted for all its acquisitions using the acquisition method of accounting. The acquisition method of accounting requires the Company to estimate the fair value of the tangible assets and identifiable assets acquired and liabilities assumed. The estimated fair values are based on available information and current economic conditions at the date of acquisition. Fair value may be obtained from independent appraisers, discounted cash flow present value techniques, management valuation models, quoted prices on national markets or quoted market prices from brokers. These fair value estimates will affect future earnings through the disposition or amortization of the underlying assets and liabilities. While management believes the sources utilized to arrive at the fair value estimates are reliable, different sources or methods could have yielded different fair value estimates. Such different value estimates could affect future earnings through different values being utilized for the disposition or amortization of the underlying assets and liabilities acquired.

***Cash and Cash Equivalents.*** For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash, due from banks and interest-bearing deposits with banks, all of which have original maturities of less than ninety days.

The Company may be required under Federal Reserve Board regulations to maintain reserves, generally consisting of cash or interest-earning accounts, against its transaction accounts. Required reserves were met by cash on hand at December 31, 2014 and 2013.

***Securities.*** The Company may classify its securities as either trading, held to maturity or available for sale. Trading securities are held principally for resale and recorded at their fair values. Unrealized gains and losses on trading securities are included immediately in earnings. Held-to-maturity securities are those which the Company has the positive intent and ability to hold to maturity and are reported at amortized cost. Available-for-sale securities consist of securities not classified as trading securities nor as held-to-maturity securities. Unrealized holding gains and temporary losses, net of tax, on available-for-sale securities are excluded from earnings and reported in accumulated other comprehensive income. Gains and losses on the sale of securities are determined using the specific-identification method. Premiums and discounts on securities available for sale and held to maturity are recognized in interest income using the interest method over the period to maturity.

(continued)

**(1) Organization and Summary of Significant Accounting Policies, Continued**

***Securities, Continued.*** The Company assesses individual securities in its investment securities portfolio for impairment at least on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. An investment is impaired if the fair value of the security is less than its carrying value at the financial statement date. When a security is impaired, the Company then determines whether this impairment is temporary or other-than-temporary. In estimating other-than-temporary impairment ("OTTI") losses, management assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of these criteria is met, the entire difference between amortized cost and fair value is recognized in earnings. For securities that do not meet the aforementioned criteria, the amount of impairment recognized in earnings is limited to the amount related to credit losses, while impairment related to other factors is recognized in accumulated other comprehensive income. Management utilizes cash flow models to segregate impairments to distinguish between impairment related to credit losses and impairment related to other factors. To assess for OTTI, management considers, among other things, (i) the severity and duration of the impairment; (ii) the ratings of the security; (iii) the overall transaction structure (the Company's position within the structure, the aggregate, near-term financial performance of the underlying collateral, delinquencies, defaults, loss severities, recoveries, prepayments, cumulative loss projections, and discounted cash flows); and (iv) the timing and magnitude of a break in modeled cash flows.

***Loans Held for Sale, Net.*** Mortgage loans originated and intended for sale in the secondary market are carried at market value in the aggregate. Net unrealized gains and (losses), if any, are recognized through a valuation allowance and are included in earnings.

***Loans.*** Loans management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding principal adjusted for any charge-offs, the allowance for loan losses, and any deferred fees or costs.

Loan origination fees are deferred and certain direct origination costs are capitalized. Both are recognized as an adjustment of the yield of the related loan.

(continued)

**(1) Organization and Summary of Significant Accounting Policies, Continued**

***Loans, Continued.*** The accrual of interest on all portfolio classes is discontinued at the time the loan is ninety days delinquent unless the loan is well collateralized and in process of collection. Guaranteed loans that are 90+ days past due and accruing are well secured by guarantees from the U.S. Government and are in the process of collection or being rehabilitated to be held for sale. Guarantees cover the principal basis in these loans and interest will be paid by the guarantor through the claim payment date. Loans which are guaranteed through U.S. Government programs that are in the process of foreclosure are placed on nonaccrual as recovery of the contract interest is no longer covered by the guarantee. Generally claims on guaranteed student loans cannot be filed until the loan has been delinquent more than 270 days. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual 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.

***Allowance for Loan Losses.*** The allowance for loan losses is established as losses are estimated to have occurred through a credit 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. There were no changes in the Company's accounting policies or methodology during the years ended December 31, 2014 or 2013.

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 specific and general components. The specific component relates to loans that are classified as impaired. For such loans, an allowance is established when the discounted cash flows or the collateral value of the impaired loan is lower than the carrying value of that loan. The general component covers nonimpaired and is based on historical loss experience, adjusted for qualitative factors.

(continued)

**(1) Organization and Summary of Significant Accounting Policies, Continued**

***Allowance for Loan Losses, Continued.*** The historical loss component of the allowance is determined by losses recognized by portfolio segment over the preceding two years. This is supplemented by the risks for each portfolio segment. Risk factors impacting loans in each of the portfolio segments include any deterioration of property values, reduced consumer and business spending as a result of unemployment and reduced credit availability and lack of confidence in the economy. The historical experience is adjusted for qualitative factors including, economic conditions, industry specific factors, portfolio and other trends or uncertainties that could affect management's estimate of probable losses.

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. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls 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 for all loans 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.

(continued)

**(1) Organization and Summary of Significant Accounting Policies, Continued**

***FDIC Loss Share Receivable*** On August 19, 2014 the Company agreed to terminate the shared-loss agreements with the FDIC. Proceeds of $3.5 million were applied to the existing loss share receivable which resulted in a loss of $640,000 which is included in other noninterest expense. The Purchased Discount Receivable was not affected and remains available for future losses or to be amortized in to earnings as applicable.

***Servicing.*** Servicing assets are recognized as separate assets when rights are acquired through purchase or through sale of financial assets. Capitalized servicing rights are amortized in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets. Servicing assets are evaluated for impairment based upon the fair value of the rights compared to amortized cost. Impairment is determined by stratifying rights by predominant characteristics, such as interest rates and terms. Fair value is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market-based assumptions. Impairment is recognized through a valuation allowance for an individual stratum, to the extent that fair value is less than the capitalized amount for the stratum. At December 31, 2014 and 2013, there was no impairment of servicing assets.

***Premises and Equipment.*** Land is carried at cost. Building and improvements and furniture and equipment are carried at cost, less accumulated depreciation computed using the straight-line method over the estimated life of the assets. Interest costs are capitalized in connection with the construction of new banking offices.

***Foreclosed Real Estate.*** Real estate acquired through, or in lieu of, foreclosure, is initially recorded at fair value less selling costs establishing a new cost basis. After foreclosure, valuations are periodically performed by management and the foreclosed real estate is carried at the lower of the new cost basis or fair value less selling costs. Revenue and expenses from operations and changes in the valuation allowance are included in earnings.

***Goodwill and Core Deposit Intangibles.*** Goodwill represents the excess of the acquisition cost over the fair value of the net assets acquired in acquisitions. GAAP requires goodwill to be tested for impairment on an annual basis and between annual tests in certain circumstances, and written down when impaired. Management has internally evaluated goodwill in accordance with GAAP and determined, based on a qualitative assessment, that it is not more-likely-than-not that the fair value of the reporting unit is less than its carrying value as of December 31, 2014 and 2013 and therefore has determined that there was no impairment of goodwill during the years ended December 31, 2014 and 2013. There can be no assurance that future goodwill impairment tests will not result in a charge to earnings. As of December 31, 2014 and 2013, the Company had goodwill in the amount of $1.73 million which is included in other assets in the accompanying consolidated balance sheets.

(continued)

**(1) Organization and Summary of Significant Accounting Policies, Continued**

The core deposit intangibles ("CDI") are intangible assets arising from either branch acquisitions or whole bank acquisitions. CDI are initially measured at fair value and then amortized up to ten years on a straight-line basis using projected decay rates of the underlying core deposits. The principal factors considered when valuing the CDI consist of the following: (1) the rate and maturity structure of the interest bearing liabilities, (2) estimated retention rates for each deposit liability category, (3) the current interest rate environment and (4) estimated noninterest income potential of the acquired relationship. The CDI is evaluated periodically for impairment. As of December 31, 2014 and 2013, the Company determined the CDI was not impaired.

***Transfer of Financial Assets.*** Transfers of financial assets or a participating interest in an entire financial asset are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity. A participating interest is a portion of an entire financial asset that (1) conveys proportionate ownership rights with equal priority to each participating interest holder (2) involves no recourse (other than standard representations and warranties) to, or subordination by, any participating interest holder, and (3) does not entitle any participating interest holder to receive cash before any other participating interest holder.

***Securities Commissions and Fees***. The Bank had a third party marketing contract with Raymond James Financial Services ("Raymond James") with respect to providing the bank financial services to customers. A company owned by a director of the Company provided staffing and management services to the Bank. Certain employees of this Company were dual employees of Raymond James. Raymond James accounted for the revenues, maintained customer account records and provided the Company with a monthly settlement. In July of 2013, the Company sold the business unit to a related party resulting in a $500,000 gain on sale which is included in other noninterest income. For the year ended December 31, 2013, the Bank received securities commissions and fees of $99,000, and paid $21,000 to the company owned by a director for services rendered as provided by the Management Services Agreement between the Bank and the company.

***Mortgage Banking Revenue.*** Mortgage banking revenue includes gains on the sale of loans originated for sale, gains on the sale of loans originated for securitization and sale and the fair market value adjustment on loans held for sale at fair value. The Company recognizes mortgage banking revenue from mortgage loans originated and securitized in the consolidated statement of earnings upon sale of the loans.

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**(1) Organization and Summary of Significant Accounting Policies, Continued**

***Income Taxes.*** There are two components of income taxes: current and deferred. Current income taxes reflect 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 the 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 taxes result 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 processes, 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 a 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. As of December 31, 2014, management is not aware of any uncertain tax positions that would have a material effect on the Company's consolidated financial statements.

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

The Holding Companies and the Bank file consolidated income tax returns. Income taxes are allocated proportionately to the Holding Company and the Bank as though separate income tax returns were filed.

***Off-Balance-Sheet Financial Instruments.*** In the ordinary course of business the Company has entered into off-balance-sheet financial instruments consisting of unused lines of credit, undisbursed loans in process, commitments to extend credit and standby letters of credit. Such financial instruments are recorded in the consolidated financial statements when they are funded.

***Derivative Financial Instruments.*** Derivative financial instruments are recognized as assets or liabilities in the accompanying consolidated balance sheets and measured at fair value.

(continued)

## (1) Organization and Summary of Significant Accounting Policies, Continued

***Interest-Rate Swap Agreements.*** For asset/liability management purposes, the Company uses interest-rate swap agreements to hedge various exposures or to modify interest rate characteristics of various balance sheet accounts. Such derivatives are used as part of the asset/liability management process and are linked to specific assets or liabilities, and have high correlation between the contract and the underlying item being hedged, both at inception and throughout the hedge period.

The Company used an interest-rate swap agreement to convert a portion of its variable-rate debt to a fixed rate (cash flow hedge). Interest-rate swaps are contracts in which a series of interest rate flows are exchanged over a prescribed period. The notional amount on which the interest payments are based is not exchanged.

Interest-rate derivative financial instruments receive hedge accounting treatment only if they are designated as a hedge and are expected to be, and are, effective in substantially reducing interest- rate risk arising from the assets and liabilities identified as exposing the Company to risk. Those derivative financial instruments that do not meet the hedging criteria discussed below would be classified as trading activities and would be recorded at fair value with changes in fair value recorded in earnings. Derivative hedge contracts must meet specific effectiveness tests (i.e., over time the change in their fair values due to the designated hedge risk must be within 80 to 125 percent of the opposite change in the fair values of the hedged assets or liabilities). Changes in fair value of the derivative financial instruments must be effective at offsetting changes in the fair value of the hedged items due to the designated hedge risk during the term of the hedge. Further, if the underlying financial instrument differs from the hedged asset or liability, there must be a clear economic relationship between the prices of the two financial instruments. If periodic assessment indicates derivatives no longer provide an effective hedge, the derivatives contracts would be closed out and settled or classified as a trading activity.

Hedges of variable-rate debt are accounted for as cash flow hedges, with changes in fair value recorded in derivative assets or liabilities and other comprehensive income (loss). The net settlement (upon close out or termination) that offsets changes in the value of the hedged debt is deferred and amortized into net interest income over the life of the hedged debt. Hedges of fixed-rate liabilities are accounted for as fair value hedges, with changes in fair value recorded in derivative liabilities and interest income. The net settlement (upon close out or termination) that offsets changes in the value of the liabilities adjusts the basis of the liabilities and is deferred and amortized to interest income over the life of the liability. The portion, if any, of the net settlement amount that did not offset changes in the value of the hedged asset or liability is recognized immediately in noninterest income.

The Company purchased a swaption which gave the Company the right to enter into an interest rate swap agreement by December 12, 2014. The swaption was considered to be a derivative. Accordingly, the swaption, along with the fees paid were recorded at fair value in derivative assets, with changes in fair value recorded in earnings. The swaption expired unexercised.

(continued)

**(1) Organization and Summary of Significant Accounting Policies, Continued**

***Rate-Lock Commitments and Forward Loan Sale Contracts.*** The Company enters into commitments to originate loans whereby the interest-rate on the loan is determined prior to funding (rate lock commitments). Rate-lock commitments on mortgage loans that are intended to be sold are considered to be derivatives. Accordingly, such commitments, along with any related fees received from potential borrowers, are recorded at fair value in derivative assets or liabilities, with changes in fair value recorded in the net gain or loss on sale of mortgage loans. Fair value is based on fees currently charged to enter into similar agreements, and for fixed-rate commitments, the difference between current levels of interest rates and the committed rates is also considered.

The Company utilizes forward loan sale contracts to mitigate the interest rate risk inherent in the Company's mortgage loan pipeline or rate lock commitments and held-for-sale portfolio. Forward loan sale contracts are contracts for future delivery of mortgage loans. The Company agrees to deliver on a specified future date, a specified instrument, at a specified price or yield. However, the contract may allow for cash settlement. The credit risk inherent to the Company arises from the potential inability of counterparties to meet the terms of their contracts. In the event of nonacceptance by the counterparty, the Company would be subject to the credit risk of the loans retained. Such contracts are accounted for as derivatives and, along with related fees paid to investors, are recorded at fair value in derivative assets or liabilities, with changes in fair value recorded in mortgage banking revenue. Fair value is based on the estimated amounts that the Company would receive or pay to terminate the commitment at the reporting date.

***Fair Value Measurements.*** Fair value is the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The fair value hierarchy requires the Company to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The hierarchy describes three levels of inputs that may be used to measure fair value:

Level 1: Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities that are not active; and model-driven valuations whose inputs are observable or whose significant value drivers are observable. Valuations may be obtained from, or corroborated by, third-party pricing services.

Level 3: Unobservable inputs to measure fair value of assets and liabilities for which there is little, if any market activity at the measurement date, using reasonable inputs and assumptions based upon the best information at the time, to the extent that inputs are available without undue cost and effort.

(continued)

**(1) Organization and Summary of Significant Accounting Policies, Continued**

***Fair Value Measurements, Continued.*** The following describes valuation methodologies used for assets and liabilities 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.

*Derivatives.* Exchange-traded derivatives that are valued using quoted prices are classified within Level 1 of the valuation hierarchy. However, few classes of derivative contracts are listed on an exchange; thus, the majority of the Company's derivative positions are valued by the Company's investment banker using their models and are classified within Level 2 of the valuation hierarchy. Such derivatives are interest rate swaps and swaptions. Derivatives that are valued based upon models with significant unobservable market parameters and that are normally traded less actively or have trade activity that is one way are classified within Level 3 of the valuation hierarchy and are also valued by the Company's investment banker. Such derivatives are rate-lock commitments or forward sale contracts.

*Impaired Loans.* The Company's impaired loans are normally collateral dependent and, as such, are carried at the lower of the Company's net recorded investment in the loan or the estimated fair value of the collateral less estimated selling costs. 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. Accordingly, fair value estimates for impaired loans is classified as Level 3.

*Loans Held for Sale, Net.* Loans held for sale, net primarily consist of loans that are valued based on traded market prices of similar assets, a Level 2 measurement.

(continued)

**(1) Organization and Summary of Significant Accounting Policies, Continued**
***Fair Value Measurements, Continued.***

*Foreclosed Real Estate.* The Company's foreclosed real estate is recorded at the lower of cost or fair value less estimated selling costs. 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 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. Accordingly, the fair values estimates for foreclosed real estate are classified as Level 3.

*Mortgage Servicing Rights.* The fair value of mortgage servicing rights is based on a valuation model that calculates the present value of estimated net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income. The Company is able to compare the valuation model inputs and results to widely available published industry data for reasonableness. Mortgage servicing rights were valued using Level 3 inputs.

*Acquired Assets and Assumed Liabilities.* All assets acquired and liabilities assumed through acquisitions were recorded at estimated fair value at the date of acquisition. Estimates of fair values were determined based on a variety of information. Acquired assets and assumed liabilities were valued based on estimated cash flows and other unobservable inputs and are classified as Level 3, with the exception of acquired securities which were classified as a Level 2.

***Fair Values of Financial Instruments.*** The following methods and assumptions were used by the Company in estimating fair values of financial instruments:

***Cash and Cash Equivalents.*** The carrying amounts of cash and cash equivalents approximates fair values.

***Time Deposits.*** The carrying amounts of time deposits approximates fair values.

***Securities.*** Fair values for securities held to maturity and available for sale are based on the framework for measuring fair value. The carrying values of Federal Home Loan Bank stock approximates fair value.

***Loans Held for Sale, Net.*** The fair value of loans held for sale, net is based on the framework for measuring fair value.

(continued)

**(1) Organization and Summary of Significant Accounting Policies, Continued**

***Fair Values of Financial Instruments, Continued.***

***Loans and Covered Loans.*** For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. The fair values for fixed-rate mortgage loans (for example, fixed-rate one-to-four family residential) and consumer loans are estimated by discounting the estimated future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings for the same remaining maturities. Fair values for impaired loans are based on the framework for measuring fair value.

***FDIC Loss Share Receivable.*** The fair value was determined to be projected cash flows from the covered assets based on expected reimbursements for losses at the applicable loss sharing percentages based on the terms of the loss share agreements. Cash flows were discounted to reflect the timing and receipt of the loss sharing reimbursements from the FDIC.

***Accrued Interest.*** The carrying amounts of accrued interest receivable and payable approximate their fair values.

***Deposits.*** The fair value estimated for demand deposits (e.g., interest and noninterest-bearing NOW accounts, passbook savings, and money-market accounts) is, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). Fair values for fixed-rate time deposits are estimated using a discounted cash flow calculation that applies interest rates currently being offered on time deposits to a schedule of aggregate expected monthly time deposit maturities.

***Federal Home Loan Bank Advances.*** Fair values of Federal Home Loan Bank advances are estimated by discounting the estimated future cash flows using current rates at which similar advances are offered.

***Other Borrowings.*** These short term liabilities are estimated by discounting the estimated future cash flows using current rates at which similar borrowings are offered.

***Derivative Financial Instruments.*** Fair values for interest rate swap and swaption agreements are based upon the amounts required to settle the contracts. Fair values for commitments to originate loans held for sale, net and forward loan sale contracts are based on fees currently charged to enter into similar agreements, and for fixed-rate commitments also considered the difference between current levels of interest rates and the commitment rates.

***Off-Balance Sheet Instruments.*** Fair values of off-balance sheet lending commitments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standings.

(continued)

**(1) Organization and Summary of Significant Accounting Policies, Continued**

***Comprehensive Income.*** Accounting principles generally require that recognized revenue, expenses, gains and losses be included in earnings. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities and derivative instruments, are reported as a separate component of the equity section of the consolidated balance sheet, such items, along with net earnings, are components of comprehensive income.

The components of accumulated other comprehensive income are as follows (in thousands):

| | At December 31, | |
|---|---|---|
| | **2014** | **2013** |
| Unrealized gain on securities available for sale | $ 6,009 | 996 |
| Unrealized loss on fair value of cash flow hedges | - | (308) |
| Gross unrealized amount | 6,009 | 688 |
| Income taxes | 2,256 | 269 |
| Net unrealized amount | $ 3,753 | 419 |

***Reclassifications.*** Certain amounts in the 2013 consolidated financial statements have been reclassified to conform to the 2014 presentation.

***Recent Pronouncements.*** In January 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-04, *Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure – a consensus of the FASB Emerging Issues Task Force,* which clarifies when a creditor is considered to have received physical possession (resulting from an in-substance repossession or foreclosure) of residential real estate collateralizing a consumer mortgage loan. This guidance is effective December 15, 2014. Upon adoption, this guidance did not materially impact the Company's consolidated financial statements.

In August 2014, the FASB Issued ASU No. 2014-14, *Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure - a consensus of the FASB Emerging Issues Task Force,* which clarifies the conditions under which a creditor must derecognize a government-guaranteed mortgage loan and recognize a separate "other receivable" upon foreclosure. This guidance is effective January 1, 2015. Upon adoption, this guidance did not materially impact the Company's consolidated financial statements.

(continued)

**(1) Organization and Summary of Significant Accounting Policies, Continued**

***Recent Regulatory Developments***

***Basel III Rules.*** On July 2, 2013, the Federal Reserve Board ("FRB") approved the final rules implementing the Basel Committee on Banking Supervision's capital guidelines for U.S. banks. Under the final rules, minimum requirements will increase for both the quantity and quality of capital held by the Bank. The rules include a new common equity Tier 1 capital to risk-weighted assets ratio of 4.5% and a common equity Tier 1 capital conservation buffer of 2.5% of risk-weighted assets. The final rules also raise the minimum ratio of Tier 1 capital to risk-weighted assets from 4.0% to 6.0% and require a minimum leverage ratio of 4.0%. The final rules also implement strict eligibility criteria for regulatory capital instruments. On July 9, 2013, the FDIC also approved, as an interim final rule, the regulatory capital requirements for U.S. banks, following the actions of the FRB. The FDIC's rule is identical in substance to the final rules issued by the FRB.

The phase-in period for the final rules began for the Bank on January 1, 2015, with full compliance with all of the final rule's requirements phased in over a multi-year schedule. The Bank has evaluated the provisions of the final rules and estimate the impact to cause a decline in capital ratios between 70bp and 125bp.

(continued)

## (2) Acquisitions

During the year ended December 31, 2013, the Company and the Bank completed the following acquisitions:

On April 19, 2013, the Bank entered into a purchase and assumption agreement with the FDIC, as a receiver of Chipola Community Bank ("Chipola"), Marianna, Florida. The Bank assumed $36.1 million in liabilities and purchased $29.7 million of Chipola Community Bank's assets and received $6.4 million in cash from the FDIC, which resulted in a bargain purchase gain of $1.7 million. The Bank acquired these assets and assumed these liabilities in order to enhance its branch network. The Bank incurred approximately $10,000 in acquisition expenses which are included in other noninterest expenses.

On October 30, 2013, the Bank entered into a purchase and assumption agreement with the FDIC, as a receiver of The Bank of Jackson County ("Jackson"), Marianna, Florida. The Bank assumed $24.1 million in liabilities and purchased $20.5 million of Jackson's assets and received $3.6 million in cash from the FDIC, which resulted in a bargain purchase gain of $1.1 million. The Bank acquired these assets and assumed these liabilities in order to enhance its branch network. The Bank incurred approximately $10,000 in acquisition expenses which are included in other non-interest expenses.

The table below summarizes the fair value of the assets and liabilities assumed on the date of the acquisitions (in thousands):

| | Chipola | Jackson | Total |
|---|---|---|---|
| Assets acquired: | | | |
| Cash and due from banks | $ 14,096 | 9,804 | 23,900 |
| Securities available for sale | 7,867 | 1,000 | 8,867 |
| Loans | 14,427 | 14,157 | 28,584 |
| Premises and equipment | 1,205 | - | 1,205 |
| Other assets | 188 | 727 | 915 |
| Total assets acquired | 37,783 | 25,688 | 63,471 |
| Liabilities assumed: | | | |
| Deposits | 36,069 | 24,090 | 60,159 |
| Other liabilities | 22 | 503 | 525 |
| Total liabilities assumed | 36,091 | 24,593 | 60,684 |
| Bargain purchase gain | 1,692 | 1,095 | 2,787 |
| Net assets acquired | $ - | - | - |

The Chipola and Jackson acquisition resulted in no purchased credit impaired loans.

(continued)

## (3) Securities

Securities have been classified according to management's intention. The carrying amounts of securities and their fair value are summarized as follows (in thousands):

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| **Securities Available for Sale:** | | | | |
| ***At December 31, 2014:*** | | | | |
| U.S. Government agency bonds .... | $ 3,549 | - | (139) | 3,410 |
| Corporate bonds............................ | 4,080 | 16 | (26) | 4,070 |
| Municipal securities...................... | 97,525 | 4,472 | (83) | 101,914 |
| Collateralized mortgage obligations ............................. | 78,930 | 2,323 | (614) | 80,639 |
| SBA pool securities ....................... | 14,741 | 126 | (40) | 14,827 |
| Mortgage-backed securities........... | 13,736 | 35 | 61) | 13,710 |
| | $ 212,561 | 6,972 | (963) | 218,570 |
| ***At December 31, 2013:*** | | | | |
| U.S. Government agency bonds .... | 6,145 | - | (208) | 5,937 |
| Corporate bonds............................ | 1,000 | - | (11) | 989 |
| Municipal securities...................... | 136,953 | 2,192 | (2,758) | 136,387 |
| Preferred stock.............................. | 1 | 95 | - | 96 |
| Collateralized mortgage obligations ............................. | 47,887 | 2,407 | (765) | 49,529 |
| SBA pool securities ....................... | 12,167 | 17 | (42) | 12,142 |
| Mortgage-backed securities........... | 14,495 | 124 | (55) | 14,564 |
| | $ 218,648 | 4,835 | (3,839) | 219,644 |
| **Securities Held to Maturity:** | | | | |
| ***At December 31, 2014-*** | | | | |
| Corporate bonds ............................ | $ 181 | - | - | 181 |
| ***At December 31, 2013-*** | | | | |
| Corporate bonds ............................ | $ 290 | - | - | 290 |

(continued)

**(3) Securities, Continued**

The following summarizes sales of securities (in thousands):

| | Year Ended December 31, 2014 | 2013 |
|---|---|---|
| Proceeds | $ 105,942 | 15,872 |
| Gross gains | 4,982 | 1,034 |
| Gross losses | (235) | (12) |
| Net gain | $ 4,747 | 1,022 |

The scheduled maturities of securities at December 31, 2014 are as follows (in thousands):

| | Securities Available for Sale | | Securities Held to Maturity | |
|---|---|---|---|---|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| Due before one year | $ 17,579 | 18,136 | - | - |
| Due after one year through five years | 5,160 | 5,274 | - | - |
| Due after five through ten years | 78,898 | 82,268 | - | - |
| Due thereafter | 3,517 | 3,716 | 181 | 181 |
| Collateralized mortgage obligations | 78,930 | 80,639 | - | - |
| SBA pool securities | 14,741 | 14,827 | - | - |
| Mortgage-backed securities | 13,736 | 13,710 | - | - |
| | $ 212,561 | 218,570 | 181 | 181 |

At December 31, 2014 and 2013, the Company pledged, as collateral for state and municipal deposits and treasury tax and loan accounts, securities with a carrying value of $63,852,000 and $88,724,000, respectively.

(continued)

## (3) Securities, Continued

The Company's securities available for sale with gross unrealized losses aggregated by investment category and length of time that individual securities have been in a continuous loss position, is as follows (in thousands):

| | Less Than Twelve Months | | Over Twelve Months | |
|---|---|---|---|---|
| | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value |
| *December 31, 2014:* | | | | |
| U.S. Government agency bonds | $ - | - | (139) | 3,410 |
| Corporate bonds | (26) | 3,554 | - | - |
| Municipal securities | (27) | 5,647 | (56) | 6,130 |
| Collateralized mortgage obligations | (253) | 26,337 | (361) | 11,198 |
| SBA pool securities | (8) | 4,612 | (32) | 3,196 |
| Mortgage-backed securities | (60) | 10,575 | (1) | 48 |
| Total | $ (374) | 50,725 | (589) | 23,982 |
| *December 31, 2013:* | | | | |
| U.S. Government agency bonds | (208) | 3,643 | - | - |
| Corporate bonds | (11) | 989 | - | - |
| Municipal securities | (2,758) | 70,261 | - | - |
| Collateralized mortgage obligations | (296) | 19,119 | (469) | 11,534 |
| SBA pool securities | (15) | 1,901 | (27) | 2,867 |
| Mortgage-backed securities | (36) | 4,158 | (19) | 2,635 |
| Total | $ (3,324) | 100,071 | (515) | 17,036 |

At December 31, 2014 the unrealized losses on 50 investment securities available for sale were caused by market conditions. It is expected that the securities would not be settled at a price less than the par value of the investments. Because the decline in fair value is attributable to changes in market conditions and not credit quality, and because the Company has the ability and intent to hold these investments until a market price recovery or maturity, these investments are not considered other-than-temporarily impaired.

The following tables provide various information regarding the Company's securities deemed other-than-temporarily impaired (in thousands):

| | Year Ended December 31, | | | |
|---|---|---|---|---|
| | 2014 | | 2013 | |
| | Impairment Losses | Fair Value | Impairment Losses | Fair Value |
| *Securities Available for Sale-* | | | | |
| Collateralized mortgage obligations | $ - | 537 | (97) | 1,045 |
| *Securities Held to Maturity-* | | | | |
| Corporate bonds | $ (39) | 181 | - | - |

(continued)

**(3) Securities, Continued**

The Company invests in residential Collateralized Mortgage Obligations ("CMO's") included in securities available for sale and corporate bonds held to maturity. The CMO's are, at origination, investment grade, generally AAA. Quarterly, management stress tests all CMO's and corporate bonds via a third party resource that takes into account housing price appreciation (depreciation), interest rates, expected loss trends, both nationally and in geographic areas represented by the CMO and future cash flows of the corporate bonds. These stress tests are done, where data is available, at the individual loan level, as opposed to using averages from services such as Bloomberg. If these stress tests indicate, on a present value basis, the Company will not receive the contracted cash flows; the Company makes an other-than-temporary impairment charge through the consolidated statements of earnings. Based on the lack of an active market and the results of the Company's continuing valuation of the underlying collateral and cash flows of these securities, these securities have been deemed as other-than-temporarily impaired. Based on current accounting policies, the portion of losses deemed as credit losses is charged against earnings and the portion deemed as non-credit losses is included in other comprehensive income (loss). As of December 31, 2014, the Company's management does not intend to sell these securities, nor is it more likely than not that the Company will be required to sell the securities for liquidity or other reasons.

The table below provides a cumulative roll forward of credit losses recognized in earnings relating to the Company's debt securities deemed other-than-temporarily impaired (in thousands):

| | Year Ended December 31, 2014 | 2013 |
|---|---|---|
| Estimated credit losses, beginning balance | $ 4,509 | 4,412 |
| Additions for credit losses not previously recognized | 39 | 97 |
| Estimated credit losses, ending balance | $ 4,548 | 4,509 |

The Company will continue to evaluate the investment ratings in the securities portfolio, severity in pricing declines, market price quotes along with timing and receipt of amounts contractually due. Based upon these and other factors, the securities portfolio may experience further impairment.

(continued)

## (4) Loans

The segments and classes of loans are summarized as follows (in thousands):

| | At December 31, 2014 | 2013 |
|---|---|---|
| Real estate mortgage loans: | | |
| Commercial real estate | $ 160,069 | 174,322 |
| Residential real estate | 126,264 | 139,254 |
| Construction and land | 29,210 | 36,174 |
| Total real estate mortgage loans | 315,543 | 349,750 |
| Commercial loans | 122,620 | 99,142 |
| Consumer loans | 67,582 | 63,362 |
| Subtotal | 505,745 | 512,254 |
| Less: | | |
| Discount on covered loans | - | 5,639 |
| Allowance for loan losses | 5,911 | 6,854 |
| Loan discount | 4,620 | 2,550 |
| Net deferred loan origination fees | 176 | 12 |
| Loans and covered loans, net | $ 495,038 | 497,199 |
| Consolidated balance sheets: | | |
| Loans, net of allowance for loan losses of $5,911 and $6,854 | 495,038 | 472,042 |
| Covered loans, net | - | 25,157 |
| | $ 495,038 | 497,199 |

(continued)

## (4) Loans, Continued

An analysis of the change in the allowance for loan losses follows (in thousands):

| | Real Estate Mortgage Loans | Commercial Loans | Consumer Loans | Total |
|---|---|---|---|---|
| ***Year Ended December 31, 2014:*** | | | | |
| Beginning balance | $ 5,204 | 1,239 | 411 | 6,854 |
| Provision (credit) for loan losses | (836) | (340) | 686 | (490) |
| Charge-offs | (758) | (50) | (259) | (1,067) |
| Recoveries | 415 | 117 | 82 | 614 |
| Ending balance | $ 4,025 | 966 | 920 | 5,911 |
| ***Year Ended December 31, 2013:*** | | | | |
| Beginning balance | 5,936 | 2,740 | 403 | 9,079 |
| Provision (credit) for loan losses | 990 | (1,424) | 234 | (200) |
| Charge-offs | (2,001) | (110) | (281) | (2,392) |
| Recoveries | 279 | 33 | 55 | 367 |
| Ending balance | $ 5,204 | 1,239 | 411 | 6,854 |

(continued)

## (4) Loans, Continued

| | Real Estate Mortgage Loans | Commercial Loans | Consumer Loans | Total |
|---|---|---|---|---|
| ***Year Ended December 31, 2014:*** | | | | |
| Balance in allowance for loan losses: | | | | |
| Individually evaluated for impairment | $ 359 | - | - | 359 |
| Collectively evaluated for impairment | 3,666 | 966 | 920 | 5,552 |
| Loans acquired with deteriorated credit quality | - | - | - | - |
| Total ending allowance balance | $ 4,025 | 966 | 920 | 5,911 |
| Recorded investment: | | | | |
| Individually evaluated for impairment | 13,176 | 15 | 580 | 13,771 |
| Collectively evaluated for impairment | 301,660 | 122,605 | 67,002 | 491,267 |
| Loans acquired with deteriorated credit quality | 707 | - | - | 707 |
| Total ending loan balance | $ 315,543 | 122,620 | 67,582 | 505,745 |
| ***Year Ended December 31, 2013:*** | | | | |
| Balance in allowance for loan losses: | | | | |
| Individually evaluated for impairment | 853 | - | - | 853 |
| Collectively evaluated for impairment | 4,351 | 1,239 | 411 | 6,001 |
| Covered loans acquired with deteriorated credit quality | - | - | - | - |
| Covered loans acquired and collectively evaluated | - | - | - | - |
| Total ending allowance balance | $ 5,204 | 1,239 | 411 | 6,854 |
| Recorded investment: | | | | |
| Individually evaluated for impairment | 14,681 | 295 | 2,959 | 17,935 |
| Collectively evaluated for impairment | 310,813 | 98,011 | 60,338 | 469,162 |
| Covered loans acquired with deteriorated credit quality | 5,245 | - | - | 5,245 |
| Covered loans acquired and collectively evaluated | 19,011 | 836 | 65 | 19,912 |
| Total ending loan balance | $ 349,750 | 99,142 | 63,362 | 512,254 |

(continued)

## (4) Loans, Continued

The Company has divided the loan portfolio into three portfolio segments, each with different risk characteristics and methodologies for assessing risk. All loans are underwritten based upon standards set forth in the policies approved by the Company's Board of Directors. The portfolio segments identified by the Company are as follows:

***Real Estate Mortgage Loans.*** Real estate mortgage loans are typically segmented into three classes: Commercial real estate, Residential real estate and Construction and Land. Commercial real estate loans are secured by the subject property and are approved based on standards that include, among other factors, loan to value limits, cash flow coverage and general creditworthiness of the obligors. Residential real estate loans are underwritten based on repayment capacity and source, value of the underlying property, credit history and stability. Construction loans to borrowers are to finance the construction of owner occupied and lease properties. These loans are categorized as construction loans during the construction period, later converting to commercial or residential real estate loans after the construction is complete and amortization of the loan begins. Construction loans are approved based on an analysis of the borrower and guarantor, the viability of the project and on an acceptable percentage of the appraised value of the property securing the loan. Construction loan funds are disbursed periodically based on the percentage of construction completed. The Company carefully monitors these loans with on-site inspections and requires the receipt of lien waivers on funds advanced. Construction loans are typically secured by the properties under development or construction, and personal guarantees are typically obtained. Further, to assure that reliance is not placed solely on the value of the underlying property, the Company considers the market conditions and feasibility of proposed projects, the financial condition and reputation of the borrower and guarantors, the amount of the borrower's equity in the project, independent appraisals, costs estimates and pre-construction sale information. The Company also makes loans on occasion for the purchase of land for future development by the borrower. Land loans are extended for the future development for either commercial or residential use by the borrower. The Company carefully analyzes the intended use of the property and the viability thereof.

***Commercial Loans.*** Commercial loans are primarily underwritten on the basis of the borrowers' ability to service such debt from income. The cash flows of borrowers, however, may not be as expected and the collateral securing these loans may fluctuate in value. As a general practice, the Bank take as collateral a security interest in mortgage loans, any available equipment, or other chattel, although loans may also be made on an unsecured basis. Collateralized working capital loans typically are secured by short-term assets whereas long-term loans are primarily secured by long-term assets. Warehouse lines of credit are typically secured by residential mortgage loans.

(continued)

**(4) Loans, Continued**

***Consumer Loans.*** Consumer loans and are extended for various purposes, including purchases of automobiles, recreational vehicles, and boats. The Company also offers lines of credit, personal loans, and deposit account collateralized loans. Consumer loans include guaranteed student loans purchased at approximately 99% of principal balance outstanding and the principal balance of such loans is approximately 98% guaranteed by the U.S. Department of Education. Repayment of these loans is primarily dependent on the personal income of the borrowers, which can be impacted by economic conditions in their market areas such as unemployment levels. Loans to consumers are extended after a credit evaluation, including the creditworthiness of the borrower(s), the purpose of the credit, and the secondary source of repayment. Consumer loans are made at fixed and variable interest rates and may be made on terms of up to ten years. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

The following summarizes the loan credit quality (in thousands):

| | Real Estate Mortgage Loans | | | | | |
|---|---|---|---|---|---|---|
| | Commercial Real Estate | Residential Real Estate | Construction and Land | Commercial Loans | Consumer Loans | Total |
| ***Credit Risk Profile by Internally Assigned Grade:*** | | | | | | |
| ***At December 31, 2014:*** | | | | | | |
| Grade: | | | | | | |
| Pass | $ 132,293 | 119,062 | 29,133 | 122,354 | 66,216 | 469,058 |
| Special mention | 11,217 | 365 | - | 173 | 128 | 11,883 |
| Substandard | 16,559 | 6,837 | 77 | 93 | 1,238 | 24,804 |
| Total | $ 160,069 | 126,264 | 29,210 | 122,620 | 67,582 | 505,745 |
| ***At December 31, 2013:*** | | | | | | |
| Grade: | | | | | | |
| Pass | 133,937 | 129,433 | 36,174 | 98,569 | 61,828 | 459,941 |
| Special mention | 10,862 | 1,111 | - | 145 | 552 | 12,670 |
| Substandard | 29,523 | 8,710 | - | 428 | 982 | 39,643 |
| Total | $ 174,322 | 139,254 | 36,174 | 99,142 | 63,362 | 512,254 |

At December 31, 2013, substandard loans included $13.8 million of covered loans and special mention loans included $680,000 of covered loans.

(continued)

**(4) Loans, Continued**

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis includes non-homogeneous loans, such as commercial and commercial real estate loans. This analysis is performed on at least an annual basis.

Loans excluded from the review process above are generally classified as pass credits until: (a) they become past due; (b) management becomes aware of a 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 or even charged-off. The Company uses the following definitions for risk ratings:

**Pass –** A Pass loan's primary source of loan repayment is satisfactory, with secondary sources very likely to be realized if necessary.

**Special Mention –** A Special Mention loan has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in the deterioration of the repayment prospects for the asset or the Company's credit position at some future date. Special Mention loans are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification.

**Substandard –** A Substandard loan is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

**Doubtful –** A loan classified Doubtful has all the weaknesses inherent in one classified Substandard with the added characteristics that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

**Loss –** A loan classified Loss is considered uncollectible and of such little value that continuance as a bankable asset is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be affected in the future.

(continued)

## (4) Loans, Continued

An analysis of past-due loans is as follows (in thousands):

| | Accruing Loans | | | | | | |
|---|---|---|---|---|---|---|---|
| | 30-59 Days Past Due | 60-89 Days Past Due | Greater Than 90 Days Past Due | Total Past Due | Current | Nonaccrual Loans[3] | Total Loans |
| ***At December 31, 2014:*** | | | | | | | |
| Real estate mortgage loans: | | | | | | | |
| Commercial real estate | $ 1,049 | 139 | - | 1,188 | 155,703 | 3,178 | 160,069 |
| Residential real estate[2] | 5,427 | 2,927 | 11,339 | 19,693 | 104,142 | 2,429 | 126,264 |
| Construction and land | 1,118 | 295 | - | 1,413 | 27,720 | 77 | 29,210 |
| Commercial loans | 21 | 27 | - | 48 | 122,493 | 79 | 122,620 |
| Consumer loans [1] | 1,379 | 752 | 2,735 | 4,866 | 62,217 | 499 | 67,582 |
| Total | $ 8,994 | 4,140 | 14,074 | 27,208 | 472,275 | 6,262 | 505,745 |
| ***At December 31, 2013:*** | | | | | | | |
| Real estate mortgage loans: | | | | | | | |
| Commercial real estate | 545 | 404 | - | 949 | 163,125 | 10,248 | 174,322 |
| Residential real estate[2] | 5,544 | 664 | 9,914 | 16,122 | 110,098 | 13,034 | 139,254 |
| Construction and land | - | - | - | - | 36,174 | - | 36,174 |
| Commercial loans | 56 | 39 | - | 95 | 98,794 | 253 | 99,142 |
| Consumer loans [1] | 2,504 | 70 | - | 2,574 | 60,299 | 489 | 63,362 |
| Total | $ 8,649 | 1,177 | 9,914 | 19,740 | 468,490 | 24,024 | 512,254 |

(1) At December 31, 2014 and 2013, guaranteed student loans were $23.6 million and $25.3 million, respectively. Guaranteed student loans of $2.7 million and $0 million at December 31, 2014 and 2013 that are 90+ days past due and accruing are well secured by guarantees from the U.S. Government and are in the process of collection. Guarantees cover the principal basis in these loans and interest will be paid by the guarantor through the claim payment date. Generally claims on guaranteed student loans cannot be filed until the loan has been delinquent more than 270 days. As of December 31, 2014 and 2013, there were $182,000 and $0, respectively, of student loans 270+ days past due and accruing.

(2) Guaranteed loans in the process of collection or being rehabilitated to be held for sale.

(3) At December 31, 2014 the Company changed its policy toward government guaranteed loans. The Company accrues interest at either the stated rate or debenture rate, whichever is applicable. At December 31, 2013, nonaccrual loans include $13.5 million in residential real estate loans and $615,000 in commercial real estate loans that are guaranteed by the U.S. Government and as such are not considered impaired.

At December 31, 2013, nonaccrual loans above include $5.2 million which were covered loans.

(continued)

## (4) Loans, Continued

The following summarizes the amount of impaired loans excluding covered loans (in thousands):

| | With No Related Allowance Recorded | | With an Allowance Recorded | | | Total | | |
|---|---|---|---|---|---|---|---|---|
| | Recorded Investment | Unpaid Contractual Principal Balance | Recorded Investment | Unpaid Contractual Principal Balance | Related Allowance | Recorded Investment | Unpaid Contractual Principal Balance | Related Allowance |
| ***December 31, 2014:*** | | | | | | | | |
| Real estate mortgage loans: | | | | | | | | |
| Commercial real estate | $ 7,259 | 8,071 | 1,277 | 1,306 | 359 | 8,536 | 9,377 | 359 |
| Residential real estate | 4,563 | 5,590 | - | - | - | 4,563 | 5,590 | - |
| Construction and land | 77 | 77 | - | - | - | 77 | 77 | - |
| Commercial loans | 15 | 16 | - | - | - | 15 | 16 | - |
| Consumer loans | 580 | 715 | - | - | - | 580 | 715 | - |
| | $ 12,494 | 14,469 | 1,277 | 1,306 | 359 | 13,771 | 15,775 | 359 |
| ***December 31, 2013:*** | | | | | | | | |
| Real estate mortgage loans: | | | | | | | | |
| Commercial real estate | 6,588 | 7,499 | 4,571 | 4,571 | 853 | 11,159 | 12,070 | 853 |
| Residential real estate | 3,522 | 4,465 | - | - | - | 3,522 | 4,465 | - |
| Commercial loans | 295 | 295 | - | - | - | 295 | 295 | - |
| Consumer loans | 2,959 | 3,705 | - | - | - | 2,959 | 3,705 | - |
| | $ 13,364 | 15,964 | 4,571 | 4,571 | 853 | 17,935 | 20,535 | 853 |

The average net investment in impaired loans and interest income recognized and received on impaired loans excluding covered loans are as follows (in thousands):

| | Average Recorded Investment | Interest Income Recognized | Interest Income Received |
|---|---|---|---|
| ***Year Ended December 31, 2014:*** | | | |
| Real estate mortgage loans: | | | |
| Commercial real estate | $ 10,474 | 375 | 563 |
| Residential real estate | 5,697 | 148 | 194 |
| Construction and land | 406 | 15 | 13 |
| Commercial loans | 47 | 3 | 3 |
| Consumer loans | 867 | 12 | 25 |
| | $ 17,491 | 553 | 798 |
| ***Year Ended December 31, 2013:*** | | | |
| Real estate mortgage loans: | | | |
| Commercial real estate | 11,964 | 335 | 541 |
| Residential real estate | 6,230 | 81 | 216 |
| Commercial loans | 301 | 1 | 9 |
| Consumer loans | 575 | 4 | 28 |
| | $ 19,070 | 421 | 794 |

(continued)

## (4) Loans, Continued

Troubled debt restructurings ("TDR") excluding covered loans during the years ended December 31, 2014 and 2013 are as follows (dollars in thousands):

| | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| | Number of Contracts | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment | Number of Contracts | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment |
| ***Troubled Debt Restructurings:*** | | | | | | |
| Real estate mortgage loans: | | | | | | |
| Commercial real estate: | | | | | | |
| Modified interest rate, principal and amortization | 2 | $ 55 | 33 | 1 | $ 142 | 99 |
| Modified interest rate and amortization | 3 | 487 | 487 | 3 | 3,613 | 3,613 |
| Residential real estate: | | | | | | |
| Modified amortization | 1 | 204 | 204 | - | - | - |
| Modified amortization and principal | - | - | - | 3 | 534 | 417 |
| Modified interest rate | - | - | - | 5 | 517 | 517 |
| Modified interest rate and amortization | 7 | 403 | 403 | 1 | 90 | 40 |
| Modified interest rate, principal and amortization | 6 | 544 | 388 | - | - | - |
| Commercial loans- | | | | | | |
| Modified interest rate and amortization | - | - | - | 1 | 21 | 21 |
| Modified amortization | 1 | 6 | 6 | - | - | - |
| Consumer loans: | | | | | | |
| Modified interest rate and amortization | 4 | 111 | 111 | 1 | 54 | 54 |
| Modified interest rate, principal and amortization | 2 | 75 | 39 | - | - | - |
| | 26 | $ 1,885 | 1,671 | 15 | $ 4,971 | 4,761 |

The allowance for loan losses on all classes or loans that have been restructured and are considered TDRs is included in the Company's specific reserve. The specific reserve is determined on a loan by loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, or the fair value of the collateral if the loan is collateral-dependent. TDR's that have subsequently defaulted are considered collateral-dependent. There were no TDRs modified during the years ended December 31, 2014 or 2013, that subsequently defaulted during the same year.

(continued)

## (4) Loans, Continued

***Net Deferred Loan Origination Fees (Costs).*** The following is an analysis of the change in the net deferred loan origination fees (costs) (in thousands):

| | Year Ended December 31, 2014 | 2013 |
|---|---|---|
| Beginning balance | $ 12 | (22) |
| Deferred loan origination fees | 405 | 116 |
| Capitalized direct underwriting costs | (310) | (128) |
| Net amortization | 69 | 46 |
| Ending balance | $ 176 | 12 |

***Concentrations of Credit Risk.*** The Company grants the majority of its loans to borrowers throughout the Florida counties of Baker, Columbia, Hamilton, Holmes, Jackson, Lafayette, Manatee, Nassau, Sarasota, Suwanee, and Washington. Although the Company has a diversified loan portfolio, a significant portion of its borrowers' ability to honor their contracts is dependent upon the economy in the North Central Florida area. The Company does not have significant concentrations to any one industry or customer. Nor does the Company have any significant loan exposure outside of this area.

## (5) FDIC Loss Share Receivable

The activity in the FDIC loss share receivable which resulted from the October 23, 2009 acquisition of Flagship National Bank is as follows (in thousands):

| | At December 31, 2014 | 2013 |
|---|---|---|
| Balance, beginning of the year | $ 4,111 | 8,283 |
| Cash proceeds from the FDIC | - | (4,172) |
| Cash proceeds to terminate the loss share agreement | (3,471) | - |
| Loss on termination of loss share agreement | (640) | - |
| Balance, end of the year | $ - | 4,111 |

(continued)

## (6) Loan Servicing

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of these loans are summarized as follows (in thousands):

| | At December 31, | |
|---|---|---|
| | **2014** | **2013** |
| Mortgage loan portfolios serviced for: | | |
| Government agencies: | | |
| FHLB | $ 17,628 | 20,361 |
| FHLMC | 2,182,141 | 2,011,439 |
| GNMA | 904,519 | 734,958 |
| FNMA | 5,544 | 6,384 |
| All other | 163,998 | 155,220 |
| | $ 3,273,830 | 2,928,362 |

Custodial escrow balances maintained in connection with loans serviced for others were $19,316,000 and $14,775,000 at December 31, 2014 and 2013, respectively.

(continued)

## (6) Loan Servicing, Continued

The following summarizes mortgage servicing rights activity, along with the aggregate activity in related valuation allowances (in thousands):

| | Year Ended December 31, 2014 | 2013 |
|---|---|---|
| Beginning balance | $ 22,044 | 19,019 |
| Additions from loans originated and sold | 6,957 | 8,855 |
| Amortization | (3,704) | (5,830) |
| Loss | (359) | - |
| Ending balance | 24,938 | 22,044 |
| Allowance | (482) | (45) |
| Discount | (356) | (514) |
| Mortgage servicing rights, net | $ 24,100 | 21,485 |
| Allowance for impairment beginning balance | 45 | 223 |
| Additions | 446 | - |
| Reductions | (9) | (178) |
| Allowance for impairment ending balance | $ 482 | 45 |

The fair value of mortgage servicing rights was determined using discount rates ranging from 7.00% to 15.00% for all loans serviced and prepayment speeds ranging from 175.00% to 594.00%, depending on the stratification of the specific rights.

Loan servicing income has been recognized as follows (in thousands):

| | Year Ended December 31, 2014 | 2013 |
|---|---|---|
| Servicing fees received from investors | $ 7,972 | 5,892 |
| Less amortization of mortgage servicing rights | (3,704) | (5,830) |
| Gain from servicing | $ 4,268 | 62 |

(continued)

## (7) Foreclosed Real Estate

At December 31, 2013, foreclosed real estate of $3,615,000 included $2,070,000 of foreclosed real estate which were covered by the Shared-Loss Agreements.

Expenses applicable to foreclosed real estate follows (in thousands):

| | Year Ended December 31, 2014 | 2013 |
|---|---|---|
| Net loss on sales of foreclosed real estate | $ 219 | 211 |
| Write-down of foreclosed real estate | 296 | 550 |
| Operating expenses | 70 | 172 |
| Total included in other noninterest expenses | $ 585 | 933 |

## (8) Premises and Equipment

The components of premises and equipment are summarized as follows (in thousands):

| | At December 31, 2014 | 2013 |
|---|---|---|
| Land | $ 8,363 | 8,914 |
| Buildings and improvements | 21,126 | 21,192 |
| Furniture and equipment | 13,327 | 13,294 |
| Total, at cost | 42,816 | 43,400 |
| Less accumulated depreciation | 16,347 | 14,943 |
| Premises and equipment, net | $ 26,469 | 28,457 |

The Company leases office space for its operations under noncancellable leases which expire in 2016 and beyond. Rent expense was approximately $389,000 and $426,000 for the years ended December 31, 2014 and 2013, respectively. Future minimum rental commitments under these leases are $204,000 in 2015 and $180,000 for 2016.

During 2014, the Company sold a branch office located in Sarasota County and had a realized gain of $57,000. This is reported under other noninterest income.

(continued)

**(9) Core Deposit Intangible**

Asset acquired through acquisitions included intangible assets consisting of CDI are as follows (dollars in thousands):

| Acquisition | Core Deposit Intangible Acquired | Period of Amortization | Amortization Recognized in 2014 | 2013 | Remaining Core Deposit Intangible at December 31, 2014 | 2013 |
|---|---|---|---|---|---|---|
| Flagship Bank, N.A. .......... | 353 | 93 months | $ 45 | 45 | 115 | 160 |
| The Bank of Bonifay.......... | 777 | 90 months | 103 | 103 | 296 | 399 |
| Chipola Community........... | 6 | 33 months | 2 | 1 | 3 | 5 |
| Bank of Jackson County .... | 556 | 48 months | 139 | - | 417 | 556 |
| | | | $ 289 | 149 | 831 | 1,120 |

The CDI is included in Other Assets.

The future expected amortization of CDI with determinable useful lives as of December 31, 2014 are as follows (in thousands):

| Year Ending December 31, | Amount |
|---|---|
| 2015 ........................................................................ | $ 290 |
| 2016 ........................................................................ | 288 |
| 2017 ........................................................................ | 251 |
| | $ 829 |

**(10) Deposits**

The aggregate amount of time deposits with a minimum denomination of $100,000 was approximately $80.4 million and $99.1 million at December 31, 2014 and 2013, respectively. A schedule of maturities of time deposits at December 31, 2014 is as follows (in thousands):

| Year Ending December 31, | |
|---|---|
| 2015.......................................................................... | $ 96,648 |
| 2016.......................................................................... | 40,688 |
| 2017.......................................................................... | 6,078 |
| 2018.......................................................................... | 6,506 |
| 2019 and thereafter................................................... | 3,444 |
| | $ 153,364 |

In the ordinary course of business, the Company accepts deposits from various governmental agencies and public institutions. The aggregate amount of these deposits was approximately $196.1 million and $207.4 million at December 31, 2014 and 2013, respectively.

(continued)

**(11) Related Parties**

The Company enters into transactions in the ordinary course of business with officers and directors of the Company and their affiliates (related parties). The following summarizes these transactions (in thousands):

| | December 31, 2014 | December 31, 2013 |
|---|---|---|
| Deposits | $ 4,287 | 4,157 |
| Loans | $ 5,413 | 5,967 |

**(12) Federal Home Loan Bank Advances**

At December 31, 2014, there were no outstanding advances from the Federal Home Loan Bank of Atlanta ("FHLB"). The maturity and interest rate on the advances from the FHLB at December 31, 2013 are as follows ($ in thousands):

| Maturing in the Year Ending December 31, | Fixed or Variable Rate | Interest Rate | |
|---|---|---|---|
| 2014 | Adjustable | 1.22% | $ 1,000 |

The collateral agreement with FHLB includes a blanket lien covering qualifying loans such as first mortgage, one-to-four family residential loans, and home equity lines of credit owned by the Company with a carrying value of $71,609,000. In addition, the Company may pledge additional marketable securities as collateral where the qualifying loans are insufficient. At December 31, 2014 and 2013, securities with a fair value of $22,348,000 and $20,830,000, respectively, were pledged as collateral for FHLB advances. At December 31, 2014, the Company had available credit if additional collateral were pledged of $230.4 million.

(continued)

**(13) Other Borrowings**

At December 31, 2014 there were no outstanding other borrowings. The following summarizes the Company's other borrowings at December 31, 2013 (in thousands):

| | |
|---|---|
| Securities sold under repurchase agreements- | |
| JP Morgan Chase ........................................................................ | $ 5,000 |

Securities sold under repurchase agreements were delivered to the broker-dealers who arranged the transactions. Securities collateralizing retail repurchase agreements are held by a third party. Information concerning retail repurchase agreements is summarized as follows ($ in thousands):

| | Year Ended December 31, | |
|---|---|---|
| | 2014 | 2013 |
| Average balance during the year ............................................... | $ 4,986 | 5,000 |
| Average interest rate during the year.......................................... | 4.52% | 4.52% |
| Maximum month-end balance during the year........................... | $ 5,000 | 5,000 |

Information concerning securities sold under repurchase agreements is as follows ($ in thousands):

| | Matures | Rate | Balance |
|---|---|---|---|
| JP Morgan.......... | June 3, 2015 | 4.52% | $ 5,000 |

Securities sold under repurchase agreements had a carrying value of $5,138,000 at December 31, 2013.

(continued)

## (14) Income Taxes

Allocation of Federal and state income taxes between current and deferred portions is as follows (in thousands):

| | Year Ended December 31, 2014 | 2013 |
|---|---|---|
| Current: | | |
| Federal | $ 1,610 | 4,190 |
| State | 565 | 841 |
| Total current | 2,175 | 5,031 |
| Deferred (benefit): | | |
| Federal | 1,182 | (256) |
| State | 215 | (43) |
| Total deferred (benefit) | 1,397 | (299) |
| Income taxes | $ 3,572 | 4,732 |

The effective income tax rate differs from the statutory Federal income tax rate for the following reasons (dollars in thousands):

| | Year Ended December 31, 2014 | | 2013 | |
|---|---|---|---|---|
| | Amount | % | Amount | % |
| Income taxes at statutory Federal rate | $ 5,117 | 35.0% | $ 5,435 | 35.0% |
| Increase (decrease) in taxes resulting from: | | | | |
| State taxes, net of Federal tax benefit | 507 | 3.5 | 519 | 3.4 |
| Income from bank-owned life insurance | (181) | (1.2) | (350) | (2.3) |
| Tax-exempt interest income | (1,332) | (9.1) | (1,088) | (7.0) |
| Other | (539) | (3.8) | 216 | 1.4 |
| Total | $ 3,572 | 24.4% | $ 4,732 | 30.5% |

(continued)

**(14) Income Taxes, Continued**

The components of the net deferred tax (liability) asset are as follows (in thousands):

| | At December 31, | |
|---|---|---|
| | **2014** | **2013** |
| Deferred tax assets: | | |
| Allowance for loan losses | $ 2,299 | 2,644 |
| Deferred compensation | 1,464 | 1,318 |
| Nonaccrual interest income | 211 | 463 |
| Unrealized loss on derivative instrument | - | 108 |
| Charitable contributions | 79 | 82 |
| Impaired securities | 73 | 473 |
| Accrued expenses | 525 | 629 |
| Other | 217 | 352 |
| Total deferred tax assets | 4,868 | 6,069 |
| Deferred tax liabilities: | | |
| Purchase accounting on FDIC-assisted transactions | (103) | (1,617) |
| Deferred loan costs | (287) | (238) |
| Mortgage servicing rights | (5,736) | (4,284) |
| Unrealized gain in securities available for sale | (2,256) | (377) |
| Depreciation | (1,542) | (1,216) |
| Prepaid expenses | (454) | (463) |
| Total deferred tax liabilities | (10,378) | (8,195) |
| Net deferred tax liability | $ (5,510) | (2,126) |

The Company files consolidated income tax returns in the U.S. federal jurisdiction and the State of Florida. The Company is no longer subject to U.S. federal, or state and local income tax examinations by taxing authorities for years before 2011.

(continued)

## (15) Off-Balance-Sheet Financial Instruments

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments are unused lines of credit, undisbursed loans in process, commitments to extend credit and standby letters of credit and involve, to varying degrees, elements of credit and interest-rate risk in excess of the amount recognized in the consolidated balance sheet. The contract amounts of these instruments reflect the extent of involvement the Company has in these financial instruments.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit, unused lines of credit, undisbursed loans in process and standby letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments as it does for on-balance-sheet loans instruments.

Commitments to extend 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. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Company upon extension of credit is based on management's credit evaluation of the counterparty.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. All outstanding letters of credit expire in the next twelve months. The Company generally has no collateral securing these agreements at December 31, 2014, however in some cases the Company has obtained guarantees.

A summary of the amounts of the Company's off-balance-sheet financial instruments at December 31, 2014 follows (in thousands):

| | Contract Amount |
|---|---|
| Unused lines of credit | $ 22,023 |
| Undisbursed loans in process | $ 31,049 |
| Commitments to extend credit | $ 169,629 |
| Standby letters of credit | $ 1,759 |

(continued)

**(16) Derivative Financial Instruments**

***Interest-Rate Risk Management-Cash Flow Hedging Instruments.*** There were no outstanding interest rate swap agreements at December 31, 2014. The information pertaining to outstanding interest-rate swap agreement at December 31, 2013 used to hedge variable rate debt is as follows ($ in thousands):

| | |
|---|---|
| Notional amount | $ 5,000 |
| Pay rate fixed | 4.52% |
| Weighted-average receive rate variable | 0.347% |
| Maturity in years | 1.43 |
| Unrealized loss relating to interest-rate swaps | $ (308) |

These agreements provided for the Company to receive payments at a variable rate determined by a specified index (three month LIBOR plus seven basis points) in exchange for making payments at a fixed-rate.

Risk management results for the years ended December 31, 2013 related to the balance sheet hedging of debt indicated that the hedges were 100% effective and that there was no component of the derivative instruments' gain or loss which was excluded from the assessment of hedge effectiveness.

***Swaption.*** The fair value of the swaption at December 31, 2013 was $839,000 and were included in other assets in the accompanying consolidated balance sheets. During the year ended December 31, 2014, the swaption expired unexercised.

***Rate-Lock Commitments.*** The total outstanding rate-lock commitments at December 31, 2014 and 2013 were approximately $59.0 million and $73.2 million, respectively. The fair value of rate-lock commitments at December 31, 2014 and 2013 were $821,000 and $934,000, respectively, and are included in other assets in the accompanying consolidated balance sheets.

***Forward Loan Sale Contracts.*** The notional amounts of forward loan sale contracts outstanding at December 31, 2014 and 2013 were $87.0 million and $128.5 million, respectively. The fair value of forward loan sale commitments were $524,000 and $1.2 million at December 31, 2014 and 2013, respectively, are included in other liabilities and other assets, respectively, in the accompanying consolidated balance sheets.

(continued)

## (17) Fair Value of Financial Instruments

The estimated fair values of the Company's financial instruments are as follows (in thousands):

| | At December 31, | | | |
|---|---|---|---|---|
| | 2014 | | 2013 | |
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Financial assets: | | | | |
| Cash and cash equivalents | $ 110,109 | 110,109 | 89,686 | 89,686 |
| Time deposits | 12,852 | 12,852 | 9,959 | 9,959 |
| Securities available for sale | 218,570 | 218,570 | 219,644 | 219,644 |
| Securities held to maturity | 181 | 181 | 290 | 290 |
| Loans held for sale, net | 42,939 | 42,939 | 71,815 | 71,815 |
| Loans and covered loans | 495,038 | 503,863 | 497,199 | 497,518 |
| FDIC loss share receivable | - | - | 4,111 | 4,111 |
| Accrued interest receivable | 4,957 | 4,957 | 4,946 | 4,946 |
| Federal Home Loan Bank stock | 889 | 889 | 1,231 | 1,231 |
| Mortgage servicing rights | 24,100 | 24,100 | 21,485 | 21,485 |
| Derivative assets | 827 | 827 | 3,033 | 3,033 |
| Financial liabilities: | | | | |
| Deposits | 817,201 | 790,224 | 847,006 | 778,266 |
| Accrued interest payable | 2 | 2 | 68 | 68 |
| Federal Home Loan Bank advances | - | - | 1,000 | 1,017 |
| Other borrowings | - | - | 5,000 | 4,694 |
| Derivative liabilities | 530 | 530 | 360 | 360 |
| Off-balance-sheet financial instruments | - | - | - | - |

(continued)

## (18) Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory-and possibly additional discretionary-actions by regulators that, if undertaken, could have a direct material effect on the Bank's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined). Management believes, as of December 31, 2014 and 2013, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2014 and 2013, the Bank was well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage percentages as set forth in the table. There are no conditions or events since that notification that management believes have changed the institution's category.

The Bank's actual regulatory capital amounts and percentages are presented in the table (dollars in thousands).

| | **Actual** | | **For Capital Adequacy Purposes** | | **Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions** | |
|---|---|---|---|---|---|---|
| | **Amount** | **%** | **Amount** | **%** | **Amount** | **%** |
| ***As of December 31, 2014:*** | | | | | | |
| Total capital to Risk-Weighted assets | $ 135,719 | 20.11% | $ 53,986 | 8.00% | $ 67,482 | 10.00% |
| Tier I Capital to Risk-Weighted Assets | 129,032 | 19.12 | 26,993 | 4.00 | 40,489 | 6.00 |
| Tier I Capital to Total Assets | 129,032 | 13.36 | 38,647 | 4.00 | 48,308 | 5.00 |
| ***As of December 31, 2013:*** | | | | | | |
| Total capital to Risk-Weighted assets | 125,519 | 18.63 | 53,908 | 8.00 | 67,385 | 10.00 |
| Tier I Capital to Risk-Weighted Assets | 117,730 | 17.47 | 26,954 | 4.00 | 40,431 | 6.00 |
| Tier I Capital to Total Assets | 117,730 | 11.97 | 39,346 | 4.00 | 49,182 | 5.00 |

(continued)

## (19) Profit Sharing Plan

The Company sponsors a Section 401(k) profit sharing plan (the "Plan") which is available to all employees electing to participate after meeting certain length-of-service requirements. The Company's contributions to the Plan are discretionary and are determined annually. Expenses relating to the Company's contributions to the Plan, included in the accompanying consolidated financial statements, were $1,243,000 and $1,204,000 for the years ended December 31, 2014 and 2013, respectively.

## (20) Deferred Compensation Plans

***Officers.*** The Company provides deferred compensation for certain officers through two nonqualified benefit plans (the "Officers' Plan"). The terms of the first Officers' Plan provide for accrual of a lump sum of $200,000 every year and will be paid in a lump sum around retirement. The Company has purchased life insurance policies on the participants in the Officers' Plan which although not formally linked, have future cash values that approximate the estimated future benefits. At December 31, 2014 and 2013, $750,000 and $550,000, respectively, was accrued under this plan.

The terms of the second plan allow the participants to receive a cash payment equal to the appreciation of the Company's equity accounts as determined by the Board of Directors. The term of the plan is twenty years with periodic payments every five years. The Company records the expense relating to the plan over the term of the plan. At December 31, 2014 and 2013, $685,000 and $547,000, respectively, was accrued under this plan.

The Company recognizes a liability for postretirement death benefits provided under endorsement split-dollar agreements. An endorsement split-dollar agreement is an arrangement whereby a Company owns a life insurance policy that covers the life of an employee and, pursuant to a separate agreement, endorses a portion of the policy's death benefits to the insured employee's beneficiary. The Company has entered into Supplemental Death Benefit Agreements with certain of its executive officers pursuant to which the Company has agreed to pay a portion of the death benefit payable under certain life insurance policies owned by the Company to the executives' beneficiaries upon their death. At December 31, 2014 and 2013, $490,000 and $440,000, respectively, was accrued under this plan.

In addition, the Company has a Key Employee Deferred Compensation Plan. All employees with key responsibilities are eligible for participation. The amount of accrual on this plan is discretionary. Determination of the amount and participant are made annually in the month of March. Annual benefit payments are made within sixty days of April 1$^{st}$ of each succeeding year, and said payments will equal to 16.667% of the value of the key employee's account assets as of the preceding April 1$^{st}$. Balance on key employee's account assets is disbursed upon vesting. At December 31, 2014 and 2013, $281,000 and $289,000, respectively, was accrued under this plan. During the years ended December 31, 2014 and 2013, $299,000 and $271,000, respectively, was expensed under these plans.

(continued)

## (21) Contingencies

Various legal claims also arise from time to time in the normal course of business which, in the opinion of management of the Company, will not have a material effect on the Company's consolidated financial statements.

## (22) Fair Value Measurements

Assets and (liabilities) measured at fair value on a recurring basis are summarized below (in thousands):

| | Fair Value | Quoted Prices In Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| ***At December 31, 2014:*** | | | | |
| ***Available-for-Sale Securities:*** | | | | |
| U.S. Government agency bonds | $ 3,410 | - | 3,410 | - |
| Corporate bonds | 4,070 | - | 4,070 | - |
| Municipal securities | 101,914 | - | 101,914 | - |
| Collateralized mortgage obligations | 80,639 | - | 80,639 | - |
| SBA pool securities | 14,827 | - | 14,827 | - |
| Mortgage-backed securities | 13,710 | - | 13,710 | - |
| Total | $ 218,570 | - | 218,570 | - |
| Loans held for sale, net | $ 42,939 | - | 42,939 | - |
| Rate-lock commitments, net | $ 821 | - | - | 821 |
| Forward loan sale contracts, net | $ 524 | - | - | 524 |

(continued)

## (23) Fair Value Measurements, Continued

| | Fair Value | Quoted Prices In Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| ***At December 31, 2013:*** | | | | |
| ***Available-for-Sale Securities:*** | | | | |
| U.S. Government agency bonds | $ 5,937 | - | 5,937 | - |
| Corporate bonds | 989 | - | 989 | - |
| Municipal securities | 136,387 | - | 136,387 | - |
| Preferred stock | 96 | - | 96 | - |
| Collateralized mortgage obligations | 49,529 | - | 49,529 | - |
| SBA pool securities | 12,142 | - | 12,142 | - |
| Mortgage-backed securities | 14,564 | - | 14,564 | - |
| Total | $ 219,644 | - | 219,644 | - |
| Loans held for sale, net | $ 71,815 | - | 71,815 | - |
| Rate-lock commitments, net | $ 934 | - | - | 934 |
| Forward loan sale contracts, net | $ 1,207 | - | - | 1,207 |
| Interest rate swaps | $ (308) | - | (308) | - |
| Swaption | $ 839 | - | 839 | - |

The table below presents a reconciliation for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) (in thousands):

| | Year Ended December 31, | | | |
|---|---|---|---|---|
| | 2014 | | 2013 | |
| | Rate-Lock Commitments, Net | Forward Loan Sale Contracts, Net | Rate-Lock Commitments, Net | Forward Loan Sale Contracts, Net |
| Balance at beginning of year | $ 934 | 1,207 | 2,413 | (497) |
| Total gains or losses (realized/unrealized)- | | | | |
| Purchases, issuances and net settlements | (113) | (683) | (1,479) | 1,704 |
| Balance at end of year | $ 821 | 524 | 934 | 1,207 |

(continued)

## (23) Fair Value Measurements, Continued

Gains and losses due to changes in fair value, including both realized and unrealized gains and losses, recorded in earnings for Level 3 assets are as follows (in thousands):

| | Classification of Gains and Losses (Realized/ Unrealized) Included in Earnings Year Ended December 31, | |
|---|---|---|
| | 2014 Net Derivatives | 2013 Net Derivatives |
| Mortgage-banking income | $(1,844) | 225 |

Assets and liabilities measured at fair value on a nonrecurring basis are summarized below (in thousands):

| | At Year or Period End | | | | | (Recoveries) Losses Absorbed by ALLL |
|---|---|---|---|---|---|---|
| | Fair Value | Level 1 | Level 2 | Level 3 | Total Losses | the Year Ended |
| ***At December 31, 2014:*** | | | | | | |
| Impaired loans: | | | | | | |
| Commercial real estate | $ 1,120 | - | - | 1,120 | 497 | (201) |
| Residential real estate | 897 | - | - | 897 | 320 | 71 |
| Consumer loans | 506 | - | - | 506 | 146 | 88 |
| Total | $ 2,523 | - | - | 2,523 | 963 | (42) |
| Foreclosed real estate | $ 1,999 | - | - | 1,999 | 296 | 296 |
| Mortgage servicing rights | $ 24,100 | - | - | 24,100 | 796 | 796 |

(continued)

## (23) Fair Value Measurements, Continued

| | At Year or Period End | | | | | Losses Absorbed by ALLL |
|---|---|---|---|---|---|---|
| | Fair Value | Level 1 | Level 2 | Level 3 | Total Losses | the Year Ended |
| ***At December 31, 2013:*** | | | | | | |
| Impaired loans: | | | | | | |
| Commercial real estate | $ 4,968 | - | - | 4,968 | 1,354 | 285 |
| Residential real estate | 1,537 | - | - | 1,537 | 763 | 551 |
| Consumer loans | 736 | - | - | 736 | 533 | 432 |
| Total | $ 7,241[1] | - | - | 7,241 | 2,650 | 1,268 |
| Foreclosed real estate | $ 3,615 | - | - | 3,615 | 550 | 550 |
| Mortgage servicing rights | $ 21,485 | - | - | 21,485 | (178) | (178) |
| Acquired assets: | | | | | | |
| Securities | $ 8,867 | - | - | 8,867 | - | - |
| Loans | $ 28,584 | - | - | 28,584 | - | - |
| All other acquired assets | $ 2,120 | - | - | 2,120 | - | - |
| Deposits | $ 60,159 | - | - | 60,159 | - | - |
| Assumed liabilities | $ 525 | - | - | 525 | - | - |

(1) Excludes covered loans.

(continued)

## (24) Consolidating Financial Statements

### Consolidating Balance Sheet

### At December 31, 2014
(In thousands)

| | First Federal Bancorp, MHC | First Federal Bancorp, Inc. Consolidation: First Federal Bancorp, Inc. | First Federal Bank of Florida Consolidated | Consolidating Entries Debit (Credit) | Consolidated | Consolidating Entries Debit (Credit) | Consolidated |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash and due from banks | $ 10 | 542 | 13,888 | (44) | 14,386 | (10) | 14,386 |
| Interest-bearing deposits | - | 10 | 95,713 | - | 95,723 | - | 95,723 |
| Time deposits | - | 2,643 | 10,209 | - | 12,852 | - | 12,852 |
| Securities | - | 2,403 | 216,348 | - | 218,751 | - | 218,751 |
| Investment in subsidiaries | 141,041 | 135,416 | - | (135,416) | - | (141,041) | - |
| Loans, net | - | - | 537,977 | - | 537,977 | - | 537,977 |
| Accrued interest receivable | - | 4 | 4,953 | - | 4,957 | - | 4,957 |
| Premises and equipment, net | - | - | 26,469 | - | 26,469 | - | 26,469 |
| Federal Home Loan Bank stock, at cost | - | - | 889 | - | 889 | - | 889 |
| Foreclosed real estate | - | - | 1,999 | - | 1,999 | - | 1,999 |
| Income taxes receivable | - | - | 492 | (17) | 475 | - | 475 |
| Cash surrender value of bank-owned life insurance | - | - | 27,542 | - | 27,542 | - | 27,542 |
| Mortgage servicing rights, net | - | - | 24,100 | - | 24,100 | - | 24,100 |
| Other assets | - | - | 12,388 | - | 12,388 | - | 12,388 |
| Total assets | $ 141,051 | 141,018 | 972,967 | (135,477) | 978,508 | (141,051) | 978,508 |
| **Liabilities, Capital Stock and Retained Earnings and Accumulated Other Comprehensive Income** | | | | | | | |
| Liabilities: | | | | | | | |
| Deposits | - | - | 817,255 | (44) | 817,211 | (10) | 817,201 |
| Deferred income taxes | - | (40) | 5,550 | - | 5,510 | - | 5,510 |
| Other liabilities | - | 17 | 14,746 | (17) | 14,746 | - | 14,746 |
| Total liabilities | - | (23) | 837,551 | (61) | 837,467 | (10) | 837,457 |
| Capital stock | - | - | 1 | (1) | - | - | - |
| Retained earnings and accumulated other comprehensive income | 141,051 | 141,041 | 135,415 | (135,415) | 141,041 | (141,041) | 141,051 |
| Total liabilities, capital stock and retained earnings and accumulated other comprehensive income | $ 141,051 | 141,018 | 972,967 | (135,477) | 978,508 | (141,051) | 978,508 |

(continued)

[a] Elimination of intercompany accounts.
[b] Elimination of investment in subsidiaries.

## (24) Consolidating Financial Statements, Continued

### Consolidating Statement of Earnings

### Year Ended December 31, 2014
(In thousands)

| | First Federal Bancorp, MHC | First Federal Bancorp, Inc. Consolidation: First Federal Bancorp, Inc. | First Federal Bancorp, Inc. Consolidation: First Federal Bank of Florida Consolidated | First Federal Bancorp, Inc. Consolidation: Consolidating Entries Debit (Credit) | First Federal Bancorp, Inc. Consolidation: Consolidated | Consolidating Entries Debit (Credit) | Consolidated |
|---|---|---|---|---|---|---|---|
| Interest income: | | | | | | | |
| Loans | $ - | - | 26,032 | - | 26,032 | - | 26,032 |
| Securities | - | 43 | 5,832 | - | 5,875 | - | 5,875 |
| Other | - | - | 962 | - | 962 | - | 962 |
| Total interest income | - | 43 | 32,826 | - | 32,869 | - | 32,869 |
| Interest expense: | | | | | | | |
| Deposits | - | - | 1,733 | - | 1,733 | - | 1,733 |
| Borrowings | - | - | 633 | - | 633 | - | 633 |
| Total interest expense | - | - | 2,366 | - | 2,366 | - | 2,366 |
| Net interest income | - | 43 | 30,460 | - | 30,503 | - | 30,503 |
| Credit for loan losses | - | - | (490) | - | (490) | - | (490) |
| Net interest income after credit for loan losses | - | 43 | 30,950 | - | 30,993 | - | 30,993 |
| Noninterest income: | | | | | | | |
| Service charges on deposit accounts | - | - | 4,197 | - | 4,197 | - | 4,197 |
| Other service charges and fees | - | - | 15,229 | - | 15,229 | - | 15,229 |
| Gain on sale of loans and securitizations | - | - | 555 | - | 555 | - | 555 |
| Gain on sale of securities available for sale | - | - | 4,747 | - | 4,747 | - | 4,747 |
| Other than temporary impairment on securities available for sale | - | - | (39) | - | (39) | - | (39) |
| Income from bank-owned life insurance | - | - | 528 | - | 528 | - | 528 |
| Debit card interchange income | - | - | 2,668 | - | 2,668 | - | 2,668 |
| Other | 11,049 | 11,015 | 1,315 | (11,024) | 1,306 | (11,049) | 1,306 |
| Total noninterest income | 11,049 | 11,015 | 29,200 | (11,024) | 29,191 | (11,049) | 29,191 |
| Noninterest expenses: | | | | | | | |
| Salaries and employee benefits | - | - | 25,769 | - | 25,769 | - | 25,769 |
| Occupancy and equipment | - | - | 5,810 | - | 5,810 | - | 5,810 |
| Debit card interchange expense | - | - | 1,114 | - | 1,114 | - | 1,114 |
| Printing and office supplies | - | - | 369 | - | 369 | - | 369 |
| Telephone and communications | - | - | 2,209 | - | 2,209 | - | 2,209 |
| Other | - | 9 | 10,292 | (9) | 10,292 | - | 10,292 |
| Total noninterest expenses | - | 9 | 45,563 | (9) | 45,563 | - | 45,563 |
| Earnings before income taxes | 11,049 | 11,049 | 14,587 | (11,015) | 14,621 | (11,049) | 14,621 |
| Income tax | - | - | 3,572 | - | 3,572 | - | 3,572 |
| Net earnings | $ 11,049 | 11,049 | 11,015 | (11,015) | 11,049 | (11,049) | 11,049 |

[a] Elimination of income of subsidiaries.