FIRST FEDERAL BANCORP, MHC

Parent Company for
First Federal Bank

Audited Consolidated Financial Statements

As of December 31, 2022 and 2021 and
For the Years then Ended

(Together with Independent Auditors' Report)

HACKER, JOHNSON & SMITH PA

Fort Lauderdale
Orlando
Tampa

Certified Public Accountants

Independent Auditor's Report

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

Opinion

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, 2022 and 2021, and the related consolidated statements of earnings, comprehensive (loss) income, equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with GAAP, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a period of one year subsequent to the date of this report.

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A Registered Public Accounting Firm

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

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

Report on Internal Control Over Financial Reporting

We also have audited, in accordance with auditing standards generally accepted in the United States of America, the Company's internal control over financial reporting as of December 31, 2022, based on criteria established in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 29, 2023 expressed an unmodified opinion.

Hacker, Johnson & Smith PA

HACKER, JOHNSON & SMITH PA
Tampa, Florida
March 29, 2023

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES
Consolidated Balance Sheets
(In thousands)

	At December 31,	
Assets	**2022**	**2021**
Cash and due from banks	$ 6,995	$ 9,038
Interest-bearing deposits with banks	94,547	488,885
Total cash and cash equivalents	101,542	497,923
Restricted cash	208	281,817
Time deposits.	4,977	9,012
Debt securities available for sale	2,176,095	1,264,227
Loans held for sale, net	32,020	191,170
Loans, net of allowance for loan losses of $10,146 and $24,208	1,019,753	879,326
Accrued interest receivable	15,613	13,043
Premise and equipment, net	39,481	39,485
Operating lease right-of-use assets	1,337	651
Federal Home Loan Bank stock, at cost	7,836	2,097
Cash surrender value of bank-owned life insurance	36,083	36,978
Loan servicing rights, net	178,179	101,800
Deferred tax asset	32,125	-
Goodwill	28,965	28,965
Other assets	65,147	75,036
Total	$ 3,739,361	$ 3,421,530
Liabilities and Equity		
Liabilities:		
Noninterest-bearing demand deposits	789,447	822,424
Interest bearing checking and money-market deposits	1,583,184	1,710,089
Savings deposits	139,618	137,819
Time deposits	843,492	267,518
Total deposits	3,355,741	2,937,850
Federal Home Loan Bank advances	50,000	15,000
Junior Subordinated Debt	6,137	6,053
Other borrowings	30,000	30,000
Operating lease liabilities	1,345	657
Deferred income taxes	-	14,498
Other liabilities	76,688	61,815
Total liabilities	3,519,911	3,065,873
Commitments and contingencies (Notes 7, 12, 17 and 18)		
Equity:		
Retained earnings	381,153	340,856
Accumulated other comprehensive (loss) income	(161,703)	14,801
Total equity	219,450	355,657
Total	$ 3,739,361	$ 3,421,530

See accompanying Notes to Consolidated Financial Statements

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES
Consolidated Statements of Earnings
(In thousands)

	Year Ended December 31, 2022	2021
Interest income:		
Loans	$ 52,615	59,428
Debt securities, taxable	52,102	14,226
Debt securities, tax exempt	4,959	5,882
Other	2,342	3,728
Total interest income	112,018	83,264
Interest expense:		
Deposits	13,428	3,734
Junior Subordinated Debt	394	240
Other borrowings	4,068	3,569
Total interest expense	17,890	7,543
Net interest income	94,128	75,721
Credit for loan losses	(14,291)	(2,051)
Net interest income after credit for loan losses	108,419	77,772
Noninterest income:		
Loan servicing fees	24,394	21,814
Servicing rights retained from loans sold	13,614	18,591
Mortgage banking revenue	8,344	37,673
Service charges on deposit accounts	6,139	5,465
Other service charges and fees	6,349	2,173
(Loss) Gain on sale of debt securities available for sale	(18,226)	611
Gain on termination of interest rate cap	-	4,582
Income from bank-owned life insurance	1,042	650
Interchange income	6,702	6,166
Other	1,013	424
Total noninterest income	49,371	98,149
Noninterest expense:		
Salaries and employee benefits	70,388	82,430
Occupancy and equipment	12,554	11,964
Professional fees	6,558	3,242
Data processing	5,980	6,411
Other expenses	11,846	15,498
Total noninterest expense	107,326	119,545
Earnings before income taxes	50,464	56,376
Income tax expense	10,167	10,123
Net earnings	40,297	46,253
Less: net loss attributable to noncontrolling interest	-	(15)
Net earnings attributable to members	$ 40,297	46,268

See accompanying Notes to Consolidated Financial Statements

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES
Consolidated Statements of Comprehensive (Loss) Income
(In thousands)

	Year Ended December 31, 2022	2021
Net earnings	$ 40,297	46,253
Other comprehensive loss:		
Change in unrealized loss on debt securities available for sale:		
Unrealized loss arising during the year	(252,900)	(26,748)
Reclassification adjustment for realized (loss) gain	18,226	(611)
Net change in unrealized loss	(234,674)	(27,359)
Net change in fair value of hedges	4,486	3,847
Deferred income tax benefit on above change	53,684	5,254
Total other comprehensive loss	(176,504)	(18,258)
Comprehensive (loss) income	(136,207)	27,995
Comprehensive income attributable to noncontrolling interest	-	15
Comprehensive (loss) income attributable to members	$ (136,207)	28,010

See accompanying Notes to Consolidated Financial Statements

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES
Consolidated Statements of Equity

Years Ended December 31, 2022 and 2021
(In thousands)

	Noncontrolling Interest	Retained Earnings	Accumulated Other Compre-hensive Income (Loss)	Total
Balance at December 31, 2020	$ 51	294,588	33,059	327,698
Net earnings	(15)	46,268	-	46,253
Net change in unrealized gain on debt securities available for sale, net of income taxes of $6,297	-	-	(21,062)	(21,062)
Net change in unrealized loss on derivative instrument, net of income tax expense of $1,043	-	-	2,804	2,804
Noncontrolling interest	(36)	-	-	(36)
Balance at December 31, 2021	-	340,856	14,801	355,657
Net earnings	-	40,297	-	40,297
Net change in unrealized loss on debt securities available for sale, net of income tax benefit of $54,789	-	-	(179,885)	(179,885)
Net change in unrealized gain on derivative instruments, net of income tax expense of $1,105	-	-	3,381	3,381
Balance at December 31, 2022	$ -	381,153	(161,703)	219,450

See accompanying Notes to Consolidated Financial Statements

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(In thousands)

	Year Ended December 31, 2022	2021
Cash flows from operating activities:		
Net earnings	$ 40,297	46,253
Adjustments to reconcile net earnings to net cash used provided by operating activities:		
Credit for loan losses	(14,291)	(2,051)
Depreciation and amortization	2,490	2,422
Deferred income tax benefit	7,068	6,468
Net amortization of premiums and discounts on debt securities	5,255	5,198
Loss (gain) on sale of debt securities available for sale	18,226	(611)
Origination of loans held for sale, net	(1,572,998)	(4,228,116)
Proceeds from sale of loans held for sale and loan securitizations	1,740,492	4,552,185
Mortgage banking revenue	(8,344)	(37,673)
Net amortization of deferred loan costs (fees)	432	1,410
Loss on sale of premise and equipment	176	17
Net amortization of operating leases	2	(4)
Net gain on sale of foreclosed real estate	-	(321)
Income from bank-owned life insurance	(1,042)	(650)
Increase in accrued interest receivable	(2,570)	(1,425)
Increase in mortgage servicing rights, net	(76,379)	(33,903)
Amortization of debt offering cost	84	(16)
Decrease in other assets	14,368	5,398
Increase (decrease) in other liabilities	14,873	(20,544)
Net cash provided by operating activities	168,139	294,037
Cash flows from investing activities:		
Purchases of debt securities available for sale	(1,683,641)	(787,944)
Principal repayments of debt securities available for sale	155,425	66,699
Maturities and calls of debt securities available for sale	13,033	3,415
Net proceeds from sales of debt securities available for sale	345,160	134,963
Maturities of time deposits	4,035	8,762
Net (increase) decrease in loans	(126,568)	318,201
Purchases of premise and equipment, net	(2,768)	(3,107)
Proceeds from sale of premise and equipment, net	106	133
Proceeds from sale of foreclosed real estate	-	883
(Purchase) Redemption of Federal Home Loan Bank stock	(5,739)	2,545
Proceeds from bank-owned life insurance	1,937	-
Net cash used in investing activities	(1,299,020)	(255,450)
Cash flows from financing activities:		
Increase in deposits	417,891	403,726
Increase (decrease) in Federal Home Loan Bank advances	35,000	(48,000)
Noncontrolling interest	-	(36)
Net cash provided by financing activities	452,891	355,690
Net (decrease) increase in cash, cash equivalents and restricted cash	(677,990)	394,277
Cash, cash equivalents and restricted cash at beginning of year	779,740	385,463
Cash, cash equivalents and restricted cash at end of year	$ 101,750	779,740

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES
Consolidated Statements of Cash Flows, Continued
(In thousands)

		Year Ended December 31, 2022	2021
Supplemental disclosure of cash flow information:			
Cash (received) paid during the year for:			
Income taxes	$	(3,145)	13,721
Interest	$	15,042	7,546
Noncash transactions:			
Loans transferred to foreclosed real estate	$	-	1,776
Capitalized servicing rights	$	74,002	34,953
Right of Use lease asset obtained in exchange for operating lease liabilities	$	1,466	427
Net change in unrealized loss on debt securities available for sale, net of tax benefit	$	(179,885)	(21,062)
Net change in unrealized gain on derivative instruments, net of taxes	$	3,381	2,804

See accompanying Notes to Consolidated Financial Statements

At December 31, 2022 and 2021 and for the Years Then Ended

(1) Organization and Summary of Significant Accounting Principles

Organization. First Federal Bancorp, MHC is a federally-chartered, mutual holding company. The Company through its subsidiary First Federal Bancorp, Inc. (a federal corporation) owns First Federal Bank (the "Bank" or "First Federal") which serves its customers through 27 branches across Florida and South Carolina. The Bank has residential loan fulfillment centers in Jacksonville, Florida, Alpharetta, Georgia, and Madison, Wisconsin. These units provide residential lending on a national basis. Residential lines of business include, 1-4 family residential lending in the retail, wholesale and correspondent channels, as well as residential loan servicing. The Bank offers traditional banking services under the First Federal Bank brand, including residential, commercial, and consumer loans as well as loans guaranteed by the US Small Business Administration (SBA) and US Department of Agriculture (USDA). The Bank purchases pools of loans for investment from other lenders. The Bank operates one subsidiary, FFBF Investments, Inc. a Delaware based investment management company. The Bank's deposits are insured up to the applicable limits by the Federal Deposit Insurance Corporation ("FDIC").

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 consolidated balance sheet date through March 29, 2023, which is the date the consolidated financial statements were available to be issued, determining no events require additional disclosure in the consolidated financial statements, except as noted in the following. In March 2023, the Company entered into interest rate swap transactions with notional amounts totaling $250 million to hedge the risk of changes in the fair value of fixed rate debt securities.

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 allowance for loan losses, valuation of loan servicing rights, derivatives and goodwill.

(continued)

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

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

Banks are required to maintain cash reserves in the form of vault cash, in a non-interest earning account with the Federal Reserve Bank or in non-interest earning accounts with other qualified banks. This requirement is based on the amount of the Bank’s transaction deposit accounts. As of December 31, 2022, and 2021, the Bank did not have a reserve requirement as the Federal Reserve Board reduced reserve requirements for all depository institutions to zero effective March 26, 2020.

Restricted Cash. As a qualified public depository in Florida, the Company pledges assets, including cash, to the Florida Chief Financial Officer for collateral purposes as required by law for the benefit of public (governmental) customers. The Florida Chief Financial Officer places the cash on deposit in the State of Florida’s Special Purpose Investment Account. At December 31, 2022 and 2021, the balances on deposit with the State were $208,000 and $281.8 million, respectively.

Debt Securities. The Company may classify its debt 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. Debt securities held-to-maturity are those which the Company has the positive intent and ability to hold to maturity and are reported at amortized cost. Debt securities available for sale consist of debt securities not classified as trading debt securities nor as debt securities held-to-maturity. Unrealized holding gains and unrealized losses, net of tax, on debt securities available for sale are excluded from earnings and reported in accumulated other comprehensive (loss) income. Gains and losses on the sale of debt securities are determined using the specific-identification method. Premiums and discounts on debt securities available for sale and held to maturity are recognized in interest income using the interest method over the period to maturity or the next call date.

(continued)

(1) Organization and Summary of Significant Accounting Principles, Continued

Debt Securities, Continued. The Company assess individual debt securities in its investment 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 debt security is less than its carrying value at the consolidated financial statement date. When a debt 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 it will be required to sell, a debt 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 debt 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 (loss) 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 debt 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 fair value in the aggregate. Net unrealized gains and (losses), if any, are recognized through a valuation allowance and are included in earnings.

Loans. Loans 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.

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.

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(1) Organization and Summary of Significant Accounting Principles, Continued

Loans, Continued. 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.

Allowances 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, 2022 and 2021.

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.

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.

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(1) Organization and Summary of Significant Accounting Principles, Continued

Allowances for Loan Losses, Continued. 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.

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. The Company has chosen to account for these servicing rights under the fair value or lower of cost or market methods. 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, 2022 and 2021, all impairment of servicing assets has been recognized through the valuation allowance.

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

Goodwill. Goodwill represents the excess of the acquisition cost over the fair value of the net assets acquired in acquisition. 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, 2022 and 2021 and therefore has determined that there was no impairment of goodwill during the years ended December 31, 2022 and 2021. There can be no assurance that future goodwill impairment tests will not result in a charge to earnings. As of December 31, 2022 and 2021, the Company had goodwill in the amount of $29.0 million for both years.

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(1) Organization and Summary of Significant Accounting Principles, Continued

Other Investments. At December 31, 2022 and 2021, the Company has a $6.48 million and $2.74 million, respectively, investment in a limited liability company for which it is a limited partner. The investment is in a project that qualifies for a low-income housing tax credit program. The investment is accounted for using the proportional amortization method with the Company's allocable share of the operations of the partnership recognized in income tax expense. The Company is committed to investing approximately $15.8 million in total funds into the limited liability company. It is estimated to be fully funded by 2035. At December 31, 2022, the Company's maximum exposure to loss associated with the limited liability company was limited to the Company's recorded investment. This investment was included in Other Assets in the accompanying consolidated balance sheets.

At December 31, 2022 and 2021, the Company has a $10 million direct investment in Change Lending, LLC ("Change"), a United States Department of Treasury-certified Community Development Financial Institution ("CDFI"). The subject investment is a preferred equity investment made to Change with a primary purpose of originating CRA-eligible loans within the Company's assessment areas with an emphasis on low and moderate income borrowers and/or census tracts. The investment in CDFI is accounted for at cost and periodically evaluated for impairment. The investment in CDFI was included in Other Assets in the accompanying consolidated balance sheets. At December 31, 2022 and 2021 the Company determined the investment was not impaired.

Junior Subordinated Debt. With the acquisition of CBC the Company assumed two Trust Preferred Securities. Coastal Banking Company Statutory Trust I ("Trust I") is a non-consolidated subsidiary issued in May 2004 with a maturity date of July 23, 2034. The Trust used the proceeds from the sale of its Trust Preferred Securities and from the issuance of the common interests in the Trust to acquire Junior Subordinated Debt (the "Debenture") issued by the Company. As of December 31, 2022 and 2021, the debenture balance was $2.8 million for both years. The debenture carries a floating rate equal to the 3-month LIBOR plus 2.75%, adjusted quarterly (7.07% at December 31, 2022). Coastal Banking Company Statutory Trust II ("Trust II") is a non-consolidated subsidiary issued in June 2006 with a maturity date of September 30, 2036. As of December 31, 2022 and 2021, the debenture balance was $3.3 million for both years. The debenture carries a floating rate equal to the 3-month LIBOR plus 1.60%, adjusted quarterly (6.33% at December 31, 2022). All of the common securities of Trust I and Trust II are owned by the Company.

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(1) Organization and Summary of Significant Accounting Principles, Continued

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.

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 by third parties and the fair market value adjustment on loans held for sale. The Company recognized mortgage banking revenue from mortgage loans originated and securitized in the consolidated statements of earnings upon sale of the loans.

Revenue from Contracts with Customers. The majority of the Company's revenues come from interest income and financial assets, including loans, securities, derivatives, loan servicing assets, bank owned life insurance and gain on sales of financial assets which are outside the scope of the Accounting guidance with respect to revenue from contracts with customers. Company's services that fall within the scope of this guidance are presented within noninterest income and are recognized as revenue as the Company satisfies its obligation to the customer.

The following summarizes the Company's revenue recognition accounting policies for certain noninterest income activities:

Service Charges on Deposit Accounts. Deposit related fees consist of fees earned on transaction-based, account maintenance, and overdraft services. Transaction-based fees, which include services such as wire fees, ATM use fees, debit card interchange fees, stop payment charges, statement rendering, and ACH fees, are recognized at the time the transaction is executed as that it the point in time the Company fulfills the customer's request. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Company satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the customer's account balance.

Interchange Income. The Company earns interchange fees from debit/credit cardholder transactions conducted through the Visa/MasterCard payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder.

(continued)

(1) Organization and Summary of Significant Accounting Principles, Continued

Revenue from Contracts with Customers, Credit Card Fee Income. Credit card fee income includes annual, late and over-limit fees as well as fees earned from interchange, cash advances and other miscellaneous transactions and is presented net of direct costs. Interchange fees are recognized upon settlement of the credit and debit card payment transactions and are generally determined on a percentage basis for credit cards and fixed rates for debit cards based on the corresponding payment network's rates. Substantially all card fees are recognized at the transaction date, except for certain time-based fees such as annual fees, which are recognized over twelve months. Credit card fee income is included with interchange income in other noninterest income.

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 basis 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 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 taxes, 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, 2022, 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, if any, as a component of income tax expense.

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

(continued)

(1) Organization and Summary of Significant Accounting Principles, Continued

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.

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

Net cash settlements on derivatives that qualify for hedge accounting are recorded in interest income or interest expense, based on the item being hedged. Net cash settlements on stand-alone derivatives are reported in other noninterest income. Cash flows on hedges are classified in the consolidated statements of cash flows the same as the cash flows of the items being hedged.

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

(continued)

(1) Organization and Summary of Significant Accounting Principles, Continued

Derivative Financial Instruments, Continued. When hedge accounting is discontinued, subsequent changes in fair value of the derivative are recorded as other noninterest income. When a fair value hedge is discontinued, the hedged asset or liability is no longer adjusted for changes in fair value and the existing basis adjustment is amortized or accreted over the remaining life of the asset or liability. When a cash flow hedge is discontinued but the hedged cash flows or forecasted transactions are still expected to occur, gains or losses that were in accumulated other comprehensive (loss) income are amortized into earnings over the same periods which the hedged transactions will affect earnings.

The Company is exposed to losses if a counterparty fails to make its payments under a contract in which the Company is in the net receiving position. The Company anticipates that the counterparties will be able to fully satisfy their obligations under the agreements. All the contracts to which the Company is a party settle monthly or quarterly. In addition, the Company obtains collateral above certain thresholds of the fair value of its derivatives for each counterparty based upon their credit standing and the Company has netting agreements with the dealers with which it does business.

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 agreements to convert a portion of its variable-rate debt to a fixed rate (cash flow hedge). In addition, the Company had an interest rate swap agreement which was designated as a fair value last of layer hedge of certain debt securities available for sale. 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 Cap. The Company had an interest rate cap agreement to hedge the risk of a rise in interest rates and associated cash flows on the variable rate debt. The interest rate cap agreement was terminated in 2021, with $4.6 million gain recognized in earnings.

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.

(continued)

(1) Organization and Summary of Significant Accounting Principles, Continued

Rate-Lock Commitments and Forward Loan Sale Contracts, Continued. 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 amount of loans, at a specified price or yield. However, the contract may allow for cash settlement.

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.

The following describes valuation methodologies used for assets and liabilities measured at fair value:

Debt Securities Available for Sale. Where quoted prices are available in an active market, debt securities are classified within Level 1 of the valuation hierarchy. Level 1 debt 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 U.S. Treasuries, collateralized mortgage obligations, corporate bonds, municipal securities, mortgage-backed securities, asset-based securities and SBA pool securities. In certain cases where there is limited activity or loss transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy. Debt securities classified within Level 3 include certain residual interests in securitizations and other less liquid securities.

(continued)

(1) Organization and Summary of Significant Accounting Principles, Continued

Fair Value Measurements, Continued.

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 derivative positions are valued by the investment banker using their models and are classified within Level 2 of the valuation hierarchy such as interest rate swap agreements. 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 sales contracts.

Impaired Loans. 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 conditions in the area the property is located in assessing estimates of fair value. Accordingly, fair value estimates for impaired loans are classified as Level 3.

Loans Held for Sale, Net. The fair value of loans held for sale, net is determined using quoted prices for similar assets, adjusted for specific attributes of that loan or other observable market data, such as outstanding commitments from third party investors, a Level 2 measurement.

Servicing Rights. The fair value of servicing rights is based on a valuation model that calculated 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. Servicing rights were valued using Level 3 inputs.

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

Cash, Cash Equivalents and Restricted Cash. The carrying amounts of cash, cash equivalents and restricted cash approximate fair value.

Time Deposits. The carrying amounts of time deposits approximate fair value.

Debt Securities. Fair values for debt securities available for sale are based on the framework for measuring 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 Principles, Continued

Fair Values of Financial Instruments, Continued.

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.

Accrued Interest Receivable. The carrying amount of accrued interest receivable approximates its fair value.

Federal Home Loan Bank Stock. The stock is not publicly traded and the estimated fair value is based on its redemption value.

Servicing Rights. The fair value of servicing rights is based on the framework for measuring fair value.

Deposits. The fair value estimated for demand deposits (e.g., interest and noninterest-bearing checking accounts, 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 ("FHLB") Advances. The fair value of FHLB Advances is estimated using discounted cash flow analysis based on the Company's current incremental borrowing rates for similar types of borrowings.

Junior Subordinated Debt and Other Borrowings. The fair value of the Junior Subordinated Debt and other borrowings is estimated using discounted cash flow analysis based on current rates of similar debt.

Derivative Financial Instruments. The fair value of derivative financial instruments is based on the framework for measuring fair value.

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 Principles, Continued

Comprehensive Income. GAAP requires that recognized revenue, expenses, gains and losses be included in earnings. Although certain changes in consolidated assets and liabilities, such as unrealized gains and losses on debt securities available for sale and fair value adjustments on cash flow hedges, 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, 2022	At December 31, 2021
Net unrealized (loss) gain on debt securities available for sale	$ (219,390)	15,284
Net unrealized gain on fair value of cash flow hedges	7,951	3,465
Gross unrealized amount	(211,439)	18,749
Income tax expense	49,736	(3,948)
Net unrealized amount	$ (161,703)	14,801

Reclassifications. Certain amounts in the 2021 consolidated financial statements have been reclassified to conform to the 2022 presentation.

(continued)

(1) Organization and Summary of Significant Accounting Principles, Continued

Recent Pronouncements. In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-13, *Financial Instruments-Credit Losses (Topic 326)*. The ASU requires the Company to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. The Company will continue to use judgment to determine which loss estimation method is appropriate for their circumstances. The ASU requires enhanced disclosures to help investors and other consolidated financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio.

These disclosures include qualitative and quantitative requirements that provide additional information about the amounts recorded in the consolidated financial statements. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The ASU was effective on January 1, 2023.

The Company currently estimates the allowance for loan losses will increase by a range of $1.5 million to $2 million. In addition, the Company expects to recognize additional liability for unfunded commitments by a range of $400,000 to $500,000 for the year ending December 31, 2023. The impact of adoption will not be material to the Company's regulatory capital. The Company will elect to phase-in, over a three-year period, the standard's initial impact on regulatory capital as permitted by the regulatory transition rules. The Company will finalize the adoption during the first quarter of 2023.

In March 2022, the FASB issued ASU No. *2022-01, Derivatives and Hedging (Topic 815) – Fair Value Hedging – Portfolio Layer Method.* The amendments in this update expand the current last-of-layer method that permits only one hedged layer to allow multiple hedged layers of a single closed portfolio. To reflect that expansion, the last-of-layer method is renamed the portfolio layer method. Also, the update expands the scope of the portfolio layer method to include non-prepayable financial assets, specify that eligible hedging instruments in a single-layer hedge may include spot-starting or forward-starting constant-notional swaps, or spot-or-forwardstarting amortizing notional swaps and that the number of hedged layers (that is, single or multiple) corresponds with the number of hedges designated. In addition, this ASU provide additional guidance on the accounting for and disclosure of hedge basis adjustments that are applicable to the portfolio layer method whether a single hedged layer or multiple hedged layers are designated and specify how hedge basis adjustments should be considered when determining credit losses for the assets included in the closed portfolio. For public business entities, the amendments in this update are effective for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. The Company has early adopted this ASU. The effect of adopting this standard was not material to consolidated financial statements.

(continued)

(2) Debt Securities

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt Securities Available for Sale:				
At December 31, 2022:				
U.S. Treasuries	$ 134,724	-	(8,953)	125,771
Corporate bonds	20,500	-	(2,877)	17,623
Municipal securities	536,592	173	(83,274)	453,491
Collateralized mortgage obligations	959,100	413	(76,111)	883,402
SBA pool securities	28,202	-	(4,927)	23,275
Asset-based securities	257,210	6	(19,421)	237,795
Mortgage-backed securities	459,157	1,345	(25,764)	434,738
	$ 2,395,485	1,937	(221,327)	2,176,095
At December 31, 2021:				
U.S. Treasuries	$ 105,374	-	(560)	104,814
Corporate bonds	20,500	77	(178)	20,399
Municipal securities	463,687	20,058	(4,956)	478,789
Collateralized mortgage obligations	281,711	2,467	(3,892)	280,286
SBA pool securities	27,711	61	-	27,772
Asset-based securities	31,437	19	(78)	31,378
Mortgage-backed securities	318,523	5,726	(3,460)	320,789
	$ 1,248,943	28,408	(13,124)	1,264,227

The following summarizes sales of debt securities (in thousands):

	Year Ended December 31, 2022	2021
Proceeds	$ 345,160	134,963
Gross gains	148	2,043
Gross losses	(18,374)	(1,432)
Net gain	$ (18,226)	611

(continued)

(2) Debt Securities, Continued

The scheduled maturities of debt securities at December 31, 2022 are as follows (in thousands):

	Amortized Cost	Fair Value
Due before one year	$ 370	370
Due after one year through five years	311,726	290,287
Due after five years through ten years	156,413	130,143
Due thereafter	223,307	176,085
Collateralized mortgage obligations	959,100	883,402
SBA pool securities	28,202	23,275
Asset-backed securities	257,210	237,795
Mortgage-backed securities	459,157	434,738
	$ 2,395,485	2,176,095

There were $1.0 billion and $407.5 million in debt securities pledged at December 31, 2022 and 2021, respectively, as collateral for FHLB Advances and deposits under the State of Florida's Public Depositor program.

The Company's debt securities available for sale with gross unrealized losses aggregated by investment category and length of time that individual debt 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, 2022:				
U.S. Treasuries	$ -	-	(8,953)	125,771
Corporate bonds	(184)	2,816	(2,693)	14,807
Municipal securities	(24,958)	265,006	(58,316)	184,202
Collateralized mortgage obligations	(51,081)	740,116	(25,030)	143,109
SBA pool securities	(4,927)	23,275	-	-
Asset-backed securities	(10,607)	161,888	(8,814)	71,724
Mortgage-backed securities	(12,012)	248,686	(13,752)	126,923
Total	$(103,769)	1,441,787	(117,558)	666,536
December 31, 2021:				
U.S. Treasuries	$ (560)	104,814	-	-
Corporate bonds	(115)	14,134	(63)	1,937
Municipal securities	(4,507)	174,569	(449)	13,252
Collateralized mortgage obligations	(3,882)	201,899	(10)	226
Asset-backed securities	(36)	7,428	(42)	21,127
Mortgage-backed securities	(3,428)	189,082	(32)	720
Total	$ (12,528)	691,926	(596)	37,262

(continued)

(2) Debt Securities, Continued

At December 31, 2022 and 2021, the unrealized losses on 311 and 115 debt securities available for sale, respectively, 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.

(3) Loans

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

	At December 31, 2022	At December 31, 2021
Real estate mortgage loans:		
Commercial real estate	$ 318,683	290,776
Residential real estate	257,937	242,977
Construction and land	74,674	58,353
Total real estate mortgage loans	651,294	592,106
Commercial loans:		
Warehouse lines of credit	79,908	130,498
Other commercial	110,670	75,023
Total commercial loans	190,578	205,521
Consumer loans	184,375	110,920
Subtotal	1,026,247	908,547
Deduct (add):		
Allowance for loan losses	10,146	24,208
Loan discount	1,897	5,654
Premium on purchased loans	(4,775)	-
Net deferred loan origination costs	(774)	(641)
Loans, net	$ 1,019,753	879,326

(continued)

(3) 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, 2022:				
Beginning balance	$ 17,631	3,375	3,202	24,208
Credit for loan losses	(11,762)	(1,150)	(1,379)	(14,291)
Charge-offs	(37)	-	(292)	(329)
Recoveries	403	6	149	558
Ending balance	$ 6,235	2,231	1,680	10,146
Year Ended December 31, 2021:				
Beginning balance	$ 15,907	5,717	4,870	26,494
Provision for loan losses	1,664	(2,349)	(1,366)	(2,051)
Charge-offs	(101)	-	(640)	(741)
Recoveries	161	7	338	506
Ending balance	$ 17,631	3,375	3,202	24,208
Year Ended December 31, 2022:				
Balance in allowance for loan losses:				
Individually evaluated for impairment	$ 188	-	-	188
Loans acquired	-	-	-	-
Collectively evaluated for impairment	6,047	2,231	1,680	9,958
Ending balance	$ 6,235	2,231	1,680	10,146
Recorded investment:				
Individually evaluated for impairment	$ 2,809	-	-	2,809
Loans acquired	72,559	1,748	3,778	78,085
Collectively evaluated for impairment	575,926	188,830	180,597	945,353
Ending balance	$ 651,294	190,578	184,375	1,026,247
Year Ended December 31, 2021:				
Balance in allowance for loan losses:				
Individually evaluated for impairment	$ 186	-	1	187
Loans acquired	-	-	-	-
Loans acquired with deteriorated credit quality	503	11	-	514
Collectively evaluated for impairment	16,942	3,364	3,201	23,507
Ending balance	$ 17,631	3,375	3,202	24,208
Recorded investment:				
Individually evaluated for impairment	$ 4,182	-	6	4,188
Loans acquired	104,486	2,569	5,096	112,151
Loans acquired with deteriorated credit quality	5,879	218	-	6,097
Collectively evaluated for impairment	477,559	202,734	105,818	786,111
Ending balance	$ 592,106	205,521	110,920	908,547

(continued)

(3) 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 financial condition and reputation of the borrower and guarantors, the amount of the borrower's equity in the project, independent appraisals, cost 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 segmented into two classes: warehouse lines of credit and other commercial loans. Warehouse lending provides a line of credit to mortgage bankers throughout the United States who use the lines to fund 1-4 family residential lending for sale within 90 days into the secondary market. Other 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 Company takes 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.

(continued)

(3) Loans, Continued

Consumer Loans. Consumer loans are executed 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[1]	Consumer Loans	Total
Credit Risk Profile by Internally Assigned Grade:						
At December 31, 2022:						
Grade:						
Pass	$ 307,350	256,810	74,674	190,145	184,255	1,013,234
Special mention	3,606	-	-	67	-	3,673
Substandard	7,727	1,127	-	366	120	9,340
Total	$ 318,683	257,937	74,674	190,578	184,375	1,026,247
At December 31, 2021:						
Grade:						
Pass	$ 275,274	241,130	58,353	204,268	110,570	889,595
Special mention	6,015	-	-	86	-	6,101
Substandard	9,487	1,847	-	1,167	350	12,851
Total	$ 290,776	242,977	58,353	205,521	110,920	908,547

(1) At December 31, 2022 and 2021, all special mention and substandard loans listed under Commercial Loans were Other Commercial Loans.

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 nonhomogeneous loans, such as commercial and commercial real estate loans. This analysis is performed on at least an annual basis.

(continued)

(3) Loans, Continued

Loans excluded from the review process above are generally classified as pass credits until: (a) they become past due; (b) management becomes aware of 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)

(3) 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	Than 90 Days Past Due	Total Past Due	Current	Nonaccrual Loans	Total Loans
At December 31, 2022:							
Real estate mortgage loans:							
Commercial real estate	$ -	-	1,282	1,282	317,288	113	318,683
Residential real estate[(2)]	8,322	691	33,385	42,398	215,274	265	257,937
Construction and land	-	-	10	10	74,664	-	74,674
Commercial loans:							
Warehouse lines of credit	-	-	-	-	79,908	-	79,908
Other commercial	-	-	-	-	110,670	-	110,670
Consumer loans[(1)]	2,394	1,143	2,833	6,370	178,005	-	184,375
Total	$ 10,716	1,834	37,510	50,060	975,809	378	1,026,247
At December 31, 2021:							
Real estate mortgage loans:							
Commercial real estate	$ -	11	-	11	286,122	4,643	290,776
Residential real estate[(2)]	4,055	955	25,510	30,520	211,770	687	242,977
Construction and land	108	-	-	108	58,245	-	58,353
Commercial loans:							
Warehouse lines of credit	-	-	-	-	130,498	-	130,498
Other commercial	148	85	11	244	74,041	738	75,023
Consumer loans[(1)]	2,933	1,274	3,430	7,637	103,283	-	110,920
Total	$ 7,244	2,325	28,951	38,520	863,959	6,068	908,547

[(1)] At December 31, 2022 and 2021, guaranteed student loans were $38.6 million and $39.3 million, respectively. Guaranteed student loans of $2.7 million and $3.3 million at December 31, 2022 and 2021 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, 2022 and 2021, there were $51,000 and $64,000, respectively, of student loans 270+ days past due and accruing. At December 31, 2022 and 2021, FHA Title I loans were $15.1 million and $22.5 million, respectively. FHA Title I loans of $87,000 and $83,000 at December 31, 2022 and 2021, respectively, 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.

[(2)] Guaranteed loans in the process of collection or being rehabilitated to be held for sale were $67.2 million and $102.1 million at December 31, 2022 and 2021, respectively.

(continued)

(3) Loans, Continued

The following summarizes the amount of impaired 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[1]	Unpaid Contractual Principal Balance	Related Allowance
December 31, 2022:									
Real estate mortgage loans:									
Commercial real estate	$	-	-	1,532	1,688	160	1,532	1,688	160
Residential real estate		-	-	1,277	1,686	28	1,277	1,686	28
	$	-	-	2,809	3,374	188	2,809	3,374	188
December 31, 2021:									
Real estate mortgage loans:									
Commercial real estate	$	-	-	2,331	2,228	151	2,331	2,228	151
Residential real estate		-	-	1,851	2,311	35	1,851	2,311	35
Consumer loans		-	-	6	6	1	6	6	1
	$	-	-	4,188	4,545	187	4,188	4,545	187

[1] The recorded investment of impaired loans does not include $4.0 million at December 31, 2021, of loans acquired which are in nonaccrual status and covered by a discount.

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

		Average Recorded Investment	Interest Income Recognized	Interest Income Received
Year Ended December 31, 2022:				
Real estate mortgage loans:				
Commercial real estate	$	2,264	123	138
Residential real estate		1,823	52	103
Construction and land		290	15	14
Consumer loans		7	1	1
	$	4,384	191	256
Year Ended December 31, 2021:				
Real estate mortgage loans:				
Commercial real estate	$	3,076	128	166
Residential real estate		2,570	103	164
Construction and land		50	-	-
Consumer loans		14	1	20
	$	5,710	232	350

(continued)

(3) 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, 2022	2021
Beginning balance	$ (641)	(827)
Deferred loan origination fees	2,326	1,903
Capitalized direct underwriting costs	(2,737)	(3,158)
Net amortization	278	1,441
Ending balance	$ (774)	(641)

Concentrations of Credit Risk. The Company grants the majority of its loans to borrowers throughout the Florida counties of Baker, Bay, Columbia, Duval, Holmes, Jackson, Marion, Nassau, and Suwannee. Since the acquisition of CBC in 2018, the Company also has concentrations in the Atlanta, Georgia and Beaufort, South Carolina areas. 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 these areas. The Company does not have significant concentrations to any one industry or customer other than warehouse lines of credit.

(4) Loan Servicing

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, 2022	2021
Mortgage loan portfolios serviced for:		
Government agencies:		
FHLB	$ 2,265	2,863
FHLMC	5,721,193	5,261,578
GNMA	1,540,251	1,399,351
FNMA	4,452,478	3,597,472
All other	2,197	262,256
	$ 11,718,384	10,523,520

Custodial escrow balances maintained in connection with loans serviced for others were $62.5 million and $91.4 million at December 31, 2022 and 2021, respectively. The escrow balances are included in noninterest-bearing demand deposits in the accompanying consolidated balance sheets.

(continued)

(4) Loan Servicing, Continued

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

	Year Ended December 31, 2022	2021
Beginning balance	$ 110,647	77,591
Additions from loans originated and sold	14,768	20,488
Additions from servicing rights purchased, sold and other	59,234	14,465
Amortization	(1,154)	(1,897)
Ending balance	183,495	110,647
Allowance	(316)	(727)
Discount	(5,000)	(8,120)
Servicing rights, net	$ 178,179	101,800
Allowance for impairment beginning balance	$ 727	1,694
Additions	85	-
Reductions	(496)	(967)
Allowance for impairment ending balance	$ 316	727

During the year ended December 31, 2022, the fair value of mortgage servicing rights was determined using discount rates ranging from 8.25% to 10.75% for all loans serviced and constant prepayment rates (CPR) ranging from 5.81% to 16.46%, depending on the stratification of the specific rights. For the year ended December 31, 2021, the discount rates ranged from 9.00% to 11.50% with CPRs ranging from 7.63% to 29.80%.

During the year ended December 31, 2022, the fair value of servicing rights for SBA loans was determined using discount rates ranging from 8.59% to 37.12% for all loans serviced and constant prepayment rates (CPR) ranging from 0.11% to 32.66%, depending on the stratification of the specific rights. For the year ended December 31, 2021, the discount rates ranged from 5.98% to 49.59% with CPRs ranging from 10.21% to 49.59%.

(continued)

(4) Loan Servicing, Continued

The following is a summary of Servicing Rights by accounting method (in thousands):

	At Ended December 31,			
	2022		2021	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Servicing Rights, at fair market value	$ 175,062	175,062	97,940	97,940
Servicing Rights, at lower of cost or market value	3,117	6,695	3,860	5,264
Total	$ 178,179	181,757	101,800	103,204

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

	Year Ended December 31,	
	2022	2021
Servicing fees received from investors net of servicing expense	$ 24,394	21,814
Servicing rights additions from loans originated and sold	14,768	20,488
Less amortization of servicing rights	(1,154)	(1,897)
	13,614	18,591
Income from servicing rights	$ 38,008	40,405

(continued)

(5) Premises and Equipment

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

	At December 31, 2022	2021
Land	$ 10,571	10,705
Buildings and improvements	34,829	33,087
Furniture and equipment	23,784	24,480
Total, at cost	69,184	68,272
Less accumulated depreciation and amortization	29,703	28,787
Premise and equipment, net	$ 39,481	39,485

(6) Leases

When a contract contains a lease at inception the Company recognizes an operating lease right-of-use asset and operating lease liability based on the present value of the future minimum lease payments at inception. As our leases do not provide implicit rates, we use our incremental borrowing rate based on the information available at the lease inception date in determining the present value of future payments. Lease agreements that have lease and non-lease components are accounted for as a single lease component. Lease expense is recognized on a straight-line basis over the lease term ($ in thousands).

	Year Ended December 31, 2022	2021
Operating Lease Cost	$ 645	717
Operating Lease Expense Recognized	$ 676	731

	At December 31, 2022	2021
Operating lease right-of-use assets	$ 1,337	651
Operating lease liabilities	$ 1,345	657
Weighted-average remaining lease term	3.8 years	1.9 years
Weighted-average discount rate	2.96%	2.08%

(continued)

(6) Leases, Continued

Future minimum lease payments under noncancellable leases, reconciled to our discounted operating lease liabilities at December 31, 2022 are as follows (in thousands):

2023	$	487
2024		334
2025		253
2026		221
2027		103
Total future minimum lease payments		1,398
Less: imputed interest		(53)
Total operating lease liability	$	1,345

(7) Deposits and Economic Dependence

The aggregate amount of time deposits with a denominations of over $250,000 was approximately $722.0 million and $105.0 million at December 31, 2022 and 2021, respectively.

A schedule of maturities of time deposits at December 31, 2022 is as follows (in thousands):

Year Ending December 31,		
2023	$	774,708
2024		33,952
2025		31,198
2026		2,098
2027		1,536
	$	843,492

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 $831.1 million and $706.1 million at December 31, 2022 and 2021, respectively.

(8) 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):

		At December 31,	
		2022	2021
Deposits	$	7,966	5,717
Loans	$	700	2,236

(continued)

(9) Federal Home Loan Bank ("FHLB") Advances

The maturities and interest rates on FHLB advances were as follows ($ in thousands):

Description	Maturity Date	Interest Rate	At December 31, 2022	At December 31, 2021
Convertible	02/28/2030	0.530%	$ -	15,000
Adjustable Rate Credit	05/11/2023	4.520%	50,000	-
			$ 50,000	15,000

The collateral agreement with the 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 $73.4 million at December 31, 2022. In addition, the Company may pledge marketable debt securities as collateral where the qualifying loans are insufficient. At December 31, 2022, debt securities with a fair value of $580.4 million were pledged as collateral for FHLB advances. At December 31, 2022, the Company had available credit if additional collateral were pledged of $843.2 million.

The Company has obtained a letter of credit at the FHLB of Atlanta, in favor of the State of Florida, in the amount of $200 million, as collateral for the public deposit program. This letter, in effect at December 31, 2022, reduces the Company's available borrowing capacity at the FHLB but is not an extension of credit if and until the State of Florida calls upon it. There were no letters of credit in effect at December 31, 2021.

(10) Other Borrowings and Lines of Credit

The Company has issued $30 million face value of subordinated debt (the "Subordinated Debt") due December 27, 2028. The Subordinated Debt bears a fixed annual interest rate of 6.125% until December 27, 2023, at which time the rate will become an annual floating rate equal to three-month LIBOR, determined quarterly, plus 326.7 basis points. If at any time while the Subordinated Debt is outstanding LIBOR ceases to exist or be reported, the Company shall select an alternative rate. Interest is payable in arrears on March 31, June 30, September 30, and December 31, of each year through the maturity date, unless redeemed. The Company may, at its option, beginning December 27, 2023, and on any scheduled interest payment date thereafter, redeem the Subordinated Debt, in whole or in part, at 100% of the principal amount of the Subordinated Debt plus any accrued and unpaid interest. The Subordinated Debt was structured to comply with certain regulatory requirements which provide for qualification as Tier 2 Capital. The Subordinated Debt is subject to certain affirmative and negative covenants and at December 31, 2022, the Company was in compliance with the covenants.

At December 31, 2022 and 2021, the Company had $85 million available under federal funds purchase facilities from correspondent banks. Disbursements on the lines of credit are subject to the approval of the correspondent banks. At December 31, 2022 and 2021 the Company did not have any borrowings outstanding under these facilities.

(continued)

(10) Other Borrowings and Lines of Credit, Continued.

At December 31, 2022 and 2021, the Company may borrow up to $222.3 million and $250.7 million, respectively, from the Federal Reserve Bank's discount window. Borrowings from the discount window would be secured by loans and/or debt securities in an amount determined by the Federal Reserve Bank based on the type of collateral pledged. At December 31, 2022 and 2021 the Company did not have any borrowings outstanding under these lines. The Company does maintain a pledge of loans to the Federal Reserve Bank as a stand-by pledge. The loans pledged totaled $396.6 million and $399.8 million, respectively, at December 31, 2022 and 2021.

(11) Income Taxes

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

	Year Ended December 31, 2022	2021
Current:		
Federal	$ 3,259	3,082
State	(160)	573
Total current	3,099	3,655
Deferred:		
Federal	6,483	4,992
State	585	1,476
Total deferred	7,068	6,468
Income tax expense	$ 10,167	10,123

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

	Year Ended December 31, 2022		2021	
	Amount	%	Amount	%
Income taxes at statutory Federal rate	$ 10,597	21.0%	$ 11,844	21.0%
Increase (decrease) in taxes resulting from:				
State taxes, net of Federal tax benefit	336	0.7	1,619	2.9
Income from bank-owned life insurance	(219)	(0.4)	(137)	(0.2)
Tax-exempt interest income	(1,090)	(2.2)	(1,297)	(2.3)
Other	543	1.0	(1,906)	(3.5)
Total	$ 10,167	20.1%	$ 10,123	17.9%

(continued)

(11) Income Taxes, Continued

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

	At December 31, 2022	At December 31, 2021
Deferred tax assets:		
Allowance for loan losses	$ 2,444	6,128
Deferred compensation	3,837	3,962
Nonaccrual interest income	143	113
Impaired debt securities	107	107
Unrealized loss in debt securities available for sale	51,692	-
Accrued expenses	2,808	3,204
Fair market value adjustment	499	1,166
Other	4,142	557
Total deferred tax assets	65,672	15,237
Deferred tax liabilities:		
Deferred loan costs	(1,019)	(1,098)
Mortgage servicing rights	(27,949)	(21,808)
Unrealized gain in debt securities available for sale	-	(3,097)
Unrealized gain on derivative instrument	(1,956)	(851)
Depreciation	(2,068)	(2,265)
Prepaid expenses	(555)	(616)
Total deferred tax liabilities	(33,547)	(29,735)
Net deferred tax asset (liability)	$ 32,125	(14,498)

The Company files consolidated income tax returns in the U.S. federal jurisdiction and various states as required. The Company is no longer subject to U.S. federal or state and local income tax examinations by taxing authorities for years before 2019.

(12) 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 loan instruments.

(continued)

(12) Off-Balance-Sheet Financial Instruments, Continued

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 has in some cases obtained guarantees securing these agreements.

A summary of the amounts of the Company's off-balance-sheet financial instruments at December 31, 2022 follows (in thousands):

	Contract Amount
Unused lines of credit	$ 59,560
Undisbursed loans in process	$ 67,840
Commitments to extend credit	$ 63,399
Standby letters of credit	$ 3,277

(continued)

(13) Derivative Financial Instruments

Interest-Rate Risk Management-Hedging Instruments. The information pertaining to the outstanding agreements used to hedge various interest sensitive items is as follows ($ in thousands):

		Cash Flow Pay Fixed	Cash Flow Receive Fixed	Fair Value Pay Fixed
At December 31, 2022:				
Notional amount	$	100,000	100,000	50,000
Pay rate fixed		0.64%	-	3.95%
Receive rate fixed		-	1.89%	-
Weighted-average pay rate variable		-	3.63%	-
Weighted-average receive rate variable		3.97%	-	3.97%
Weighted average maturity in years		4.29	1.71	12.75
Unrealized gain (loss) relating to swap	$	13,203	(4,280)	(972)
Amount estimated to be reclassified from OCI as an increase (decrease) to interest expense during the next twelve months	$	(3,182)	(2,174)	(367)
At December 31, 2021:				
Notional amount	$	122,000	-	-
Pay rate fixed		0.83%	-	-
Receive rate fixed		-	-	-
Weighted-average pay rate variable		-	-	-
Weighted-average receive rate variable		0.13%	-	-
Weighted average maturity in years		4.49	-	-
Unrealized gain (loss) relating to swap	$	3,465	-	-
Amount estimated to be reclassified from OCI as an increase (decrease) to interest expense during the next twelve months	$	259	-	-

The following are stand-alone derivative instruments:

Rate-Lock Commitments. The total outstanding rate-lock commitments at December 31, 2022 and 2021 were approximately $48.7 million and $206.9 million, respectively. The fair value of rate-lock commitments at December 31, 2022 and 2021 were $473,000 and $3.6 million, 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, 2022 and 2021 were $74.5 million and $307 million, respectively. The fair value of forward loan sale commitments were $544,000 and $191,000 at December 31, 2022 and 2021, respectively, are included in other liabilities in the accompanying consolidated balance sheets.

(continued)

(14) Fair Value of Financial Instruments

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

	At December 31,			
	2022		2021	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	$ 101,542	101,542	497,923	497,923
Restricted cash	208	208	281,817	281,817
Time deposits	4,977	4,977	9,012	9,012
Debt securities available for sale	2,176,095	2,176,095	1,264,227	1,264,227
Loans held for sale, net	32,020	32,020	191,171	191,171
Loans	1,019,753	1,007,331	879,326	885,702
Accrued interest receivable	15,613	15,613	13,043	13,043
Federal Home Loan Bank stock	7,836	7,836	2,097	2,097
Servicing rights	178,179	181,757	101,800	103,204
Interest-rate swap	13,203	13,203	3,693	3,693
Rate-lock commitments	578	578	3,671	3,671
Forward loan sale contracts	566	566	203	203
Financial liabilities:				
Deposits	3,355,742	3,351,331	2,937,850	2,927,360
Federal Home Loan Bank advances	50,000	49,961	15,000	15,143
Other borrowings	36,137	34,747	36,053	32,670
Interest-rate swap	5,252	5,252	228	228
Rate-lock commitments	105	105	62	62
Forward loan sale contracts	22	22	394	394
Off-balance-sheet financial instruments	-	-	-	-

(continued)

(15) Regulatory Matters

The Company and the Bank are subject to various regulatory capital requirements administered by the 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 Company and the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of the Company and the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company and the Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. The Company has elected to opt-out of reporting accumulated other comprehensive (loss) income in its calculation of regulatory capital.

The Company and the Bank are subject to the capital conservation buffer rules which place limitations on distributions, including dividend payments, and certain discretionary bonus payments to executive officers. In order to avoid these limitations, a bank must hold a capital conservation buffer above its minimum risk-based capital requirements. As of December 31, 2022 and 2021, the Bank's capital conservation buffer exceeds the minimum requirement of 2.50%.

As of December 2022 and 2021, 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 1 risk-based, and Tier 1 leverage percentages as set forth in the table below. Management believes, as of December 31, 2022, that the Company and the Bank meet all capital adequacy requirements to which we are subject. The Company and the Bank's actual capital amounts and percentages are presented in the table ($ in thousands):

	Actual		For Capital Adequacy Purposes		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	**%**	**Amount**	**%**	**Amount**	**%**
As of December 31, 2022:						
Bank:						
Common equity tier 1 capital ratio	$ 340,071	17.28%	$ 88,567	4.50%	$ 127,929	6.50%
Tier 1 capital ratio	340,071	17.28	118,089	6.00	157,452	8.00
Total capital ratio	353,937	17.98	157,452	8.00	196,815	10.00
Tier 1 leverage ratio	340,071	8.78	154,848	4.00	193,560	5.00
Company:						
Common equity tier 1 capital ratio	$ 311,762	15.84%	$ 85,262	4.50%	N/A	N/A
Tier 1 capital ratio	311,762	15.84	113,683	6.00	N/A	N/A
Total capital ratio	361,765	18.38	151,577	8.00	N/A	N/A
Tier 1 leverage ratio	311,762	8.04	119,780	4.00	N/A	N/A

(continued)

(15) Regulatory Matters, Continued

	Actual		For Capital Adequacy Purposes		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	%	Amount	%	Amount	%
As of December 31, 2021:						
Bank:						
Common equity tier 1 capital ratio	$ 338,829	18.96%	$ 80,420	4.50%	$ 116,162	6.50%
Tier 1 capital ratio	338,829	18.96	107,226	6.00	142,968	8.00
Total capital ratio	361,271	20.22	142,968	8.00	178,710	10.00
Tier 1 leverage ratio	338,829	10.26	132,117	4.00	165,146	5.00
Company:						
Common equity tier 1 capital ratio	$ 310,020	16.75%	$ 80,420	4.50%	N/A	N/A
Tier 1 capital ratio	310,020	16.75	107,226	6.00	N/A	N/A
Total capital ratio	369,297	19.95	142,968	8.00	N/A	N/A
Tier 1 leverage ratio	310,020	9.36	132,117	4.00	N/A	N/A

(16) 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 $4.4 million and $5.2 million for the years ended December 31, 2022 and 2021, respectively.

(17) Deferred Compensation Plans

General. The Company has established several deferred compensation and other non-qualified benefit programs for selected key managers. The individual programs have different program features and are based on reaching certain performance goals. All of these plans are unfunded programs recorded only on the books of the Company as liabilities are subject to the claims of creditors in the event of bankruptcy or receivership. The plans include two Discretionary Non-Contributory Money Purchase Plans, as well as a Longevity Reward and Retention Plan, and a Death Benefit program. All of the plans require vesting periods, and if not met, the unvested balances forfeit back to the Company. All programs provide immediate vesting in the event of in-service death or disability.

Discretionary Non-Contributory Money Purchase Plans. One plan (Plan A) is a program where the Company makes a contribution to the plan for selected key managers. A portion of the balance is paid out annually based on a formula after the first six years. These funds are not credited with any interest or earnings. The contributions and manager participation are determined solely at the discretion of the Company. The other plan (Plan B) is similar except that the money is converted to units and earns a return each year. The units are a means to compound the returns. The plan is funded via mandatory reductions for the employees earned incentive compensation, in an amount determined by the Company. The second plan also has limited immediate vesting in change of control situations. A portion of the balance is paid out every five years based on a formula. Both plans have a 20 year vesting.

(continued)

(17) Deferred Compensation Plans, Continued

Death Benefit Plan. The Company provides a program where selected key managers who meet vesting and other requirements share in a death benefit provided by a life insurance policy owned by the Company on the life of the employee. The amount of the benefit varies and is subject to reduction based upon the Company recovering the reported cash surrender values of the policies as described in the contract with the employee.

Longevity and Retention Plan. The Company has established an employment contract to reward longevity and promote manager retention. This benefit is payable due to death or disability of a participant, or for separation of service and change of control. Participation is determined by the Board of Directors.

At December 31, 2022 and 2021, $8.5 million and $6.4 million, respectively, was accrued under all of these plans. During the years ended December 31, 2022 and 2021, $652,000 and $643,000, respectively, was expensed under all of these plans.

(18) 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.

(19) 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, 2022:				
Available-for-Sale Debt Securities:				
U.S. Treasuries	$ 125,771	-	125,771	-
Corporate bonds	17,623	-	17,623	-
Municipal securities	453,491	-	453,491	-
Collateralized mortgage obligations	883,402	-	883,402	-
SBA pool securities	23,275	-	23,275	-
Asset-backed securities	237,795	-	237,795	-
Mortgage-backed securities	434,738	-	434,738	-
Total	$ 2,176,095	-	2,176,095	-
Loans held for sale, net	$ 32,020	-	32,020	-
Rate-lock commitments, net	$ 473	-	-	473
Forward loan sale contracts, net	$ 544	-	-	544
Servicing rights at fair value	$ 175,062	-	-	175,062
Derivative instruments, interest rate swaps	$ 7,951	-	7,951	-

(continued)

(19) 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, 2021:				
Available-for-Sale Debt Securities:				
U.S. Treasuries	$ 104,814	-	104,814	-
Corporate bonds	20,399	-	20,399	-
Municipal securities	478,789	-	478,789	-
Collateralized mortgage obligations	280,286	-	280,286	-
SBA pool securities	27,772	-	27,772	-
Asset-backed securities	31,378	-	31,378	-
Mortgage-backed securities	320,789	-	320,789	-
Total	$ 1,264,227	-	1,264,227	-
Loans held for sale, net	$ 191,170	-	191,170	-
Rate-lock commitments, net	$ 3,609	-	-	3,609
Forward loan sale contracts, net	$ (191)	-	-	(191)
Servicing rights at fair value	$ 97,940	-	-	97,940
Derivative instruments, interest rate contracts	$ 3,465	-	3,465	-

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,					
	2022			2021		
	Rate-Lock Commitments Net	Forward Loan Sale Contracts Net	MSR at FMV	Rate-Lock Commitments Net	Forward Loan Sale Contracts Net	MSR at FMV
Balance at beginning of year	$ 3,609	(191)	97,940	15,439	(5,828)	63,107
Total gains or losses (realized/unrealized) purchases, issuances and net settlements	(3,136)	735	77,122	(11,830)	5,637	34,833
Balance at end of year	$ 473	544	175,062	3,609	(191)	97,940

(continued)

(19) 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, 2022 Net Derivatives	2021 Net Derivatives
Mortgage-banking revenue	$ (2,401)	(6,193)
Servicing rights retained from loans sold	$ 14,768	20,488

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

	Fair Value	At Year End Level 1	Level 2	Level 3	Total Losses	(Recoveries) Losses Recorded in Earnings for the Year Ended
At December 31, 2022:						
Impaired loans:						
Commercial real estate	$ 340	-	-	340	566	-
Residential real estate	290	-	-	290	275	-
Total	$ 630	-	-	630	841	-
Mortgage servicing rights at Lower of cost or market	$ 6,695	-	-	6,695	-	411
At December 31, 2021:						
Impaired loans:						
Commercial real estate	$ 2,141	-	-	2,141	667	4
Residential real estate	1,805	-	-	1,805	397	33
Construction	-	-	-	-	-	-
Consumer loans	6	-	-	6	1	(1)
Total	$ 3,952	-	-	3,952	1,065	36
Mortgage servicing rights at Lower of cost or market	$ 5,264	-	-	5,264	-	(967)

(continued)

(20) Consolidating Financial Statements

Consolidating Balance Sheet
At December 31, 2022
(in thousands)

	First Federal Bancorp, MHC	First Federal Bancorp, Inc. Consolidation: First Federal Bancorp, Inc.	First Federal Bank Consolidated	Consolidating Entries Debit (Credit)	Consolidated	Consolidating Entries Debit (Credit)	Consolidated
Assets							
Cash and due from banks	$ 200	7,624	6,995	(7,624)	6,995	(200)[a]	6,995
Interest-bearing deposits	-	-	94,547	-	94,547	-	94,547
Restricted cash	-	-	208	-	208	-	208
Time deposits	-	-	4,977	-	4,977	-	4,977
Debt Securities	-	-	2,176,095	-	2,176,095	-	2,176,095
Investment in subsidiaries	219,250	247,558	-	(247,558)	-	(219,250)[b]	-
Loans, net	-	-	1,051,773	-	1,051,773	-	1,051,773
Accrued interest receivable	-	2	15,611	-	15,613	-	15,613
Premises and equipment, net	-	-	39,481	-	39,481	-	39,481
Operating lease right-of-use assets	-	-	1,337	-	1,337	-	1,337
Federal Home Loan Bank stock, at cost	-	-	7,836	-	7,836	-	7,836
Cash surrender value of bank-owned life insurance	-	-	36,083	-	36,083	-	36,083
Loan servicing rights, net	-	-	178,179	-	178,179	-	178,179
Deferred tax asset	-	(151)	32,276	-	32,125	-	32,125
Goodwill	-	-	28,965	-	28,965	-	28,965
Other assets	-	417	64,730	-	65,147	-	65,147
Total assets	$ 219,450	255,450	3,739,093	(255,182)	3,739,361	(219,450)	3,739,361
Liabilities and Equity							
Liabilities:							
Deposits	-	-	3,363,565	(7,624)	3,355,941	(200)[a]	3,355,741
Federal Home Loan Bank Advances	-	-	50,000	-	50,000	-	50,000
Junior Subordinated Debt	-	6,137	-	-	6,137	-	6,137
Other Borrowings	-	30,000	-	-	30,000	-	30,000
Operating lease liabilities	-	-	1,345	-	1,345	-	1,345
Other liabilities	-	63	76,625	-	76,688	-	76,688
Total Liabilities	-	36,200	3,491,535	(7,624)	3,520,111	(200)	3,519,911
Equity:							
Capital stock	-	-	1	(1)	-	-	-
Retained earnings and accumulated other comprehensive loss	219,450	219,250	247,557	(247,557)	219,250	(219,250)[b]	219,450
Total Liabilities and Equity	$ 219,450	255,450	3,739,093	(255,182)	3,739,361	(219,450)	3,739,361

[a] Elimination of intercompany accounts

[b] Elimination of investment in subsidiaries

(continued)

(20) Consolidating Financial Statements, Continued

Consolidating Statement of Earnings
At December 31, 2022
(in thousands)

	First Federal Bancorp, MHC	First Federal Bancorp, Inc. Consolidation: First Federal Bancorp, Inc.	First Federal Bank Consolidated	Consolidating Entries Debit (Credit)	Consolidated	Consolidating Entries Debit (Credit)	Consolidated
Interest income:							
Loans	$ -	-	52,615	-	52,615	-	52,615
Debt Securities	-	-	57,061	-	57,061	-	57,061
Other	-	40	2,302	-	2,342	-	2,342
Total interest income	-	40	111,978	-	112,018	-	112,018
Interest expense							
Deposits	-	-	13,428	-	13,428	-	13,428
Borrowings	-	2,313	2,149	-	4,462	-	4,462
Total interest expense	-	2,313	15,577	-	17,890	-	17,890
Net interest income	-	(2,273)	96,401	-	94,128	-	94,128
Credit for loan losses	-	-	(14,291)	-	(14,291)	-	(14,291)
Net interest income after credit for loan losses	-	(2,273)	110,692	-	108,419	-	108,419
Noninterest income:							
Loan servicing fees	-	-	24,394	-	24,394	-	24,394
Servicing rights retained from loans sold	-	-	13,614	-	13,614	-	13,614
Mortgage banking revenue	-	-	8,344	-	8,344	-	8,344
Service charges on deposit accounts	-	-	6,139	-	6,139	-	6,139
Other service charges and fees	-	-	6,349	-	6,349	-	6,349
Loss on sale of debt securities available for sale	-	-	(18,226)	-	(18,226)	-	(18,226)
Income from bank-owned life insurance	-	-	1,042	-	1,042	-	1,042
Interchange income	-	-	6,702	-	6,702	-	6,702
Other	40,297	42,097	1,049	(42,133)[a]	1,013	(40,297)[a]	1,013
Total noninterest income	40,297	42,097	49,407	(42,133)	49,371	(40,297)	49,371
Noninterest expenses:							
Salaries and employee benefits	-	9	70,388	(9)	70,388	-	70,388
Occupancy and equipment	-	2	12,554	(2)	12,554	-	12,554
Professional fees	-	25	6,558	(25)	6,558	-	6,558
Data processing	-	-	5,980	-	5,980	-	5,980
Other	-	4	11,842	-	11,846	-	11,846
Total noninterest expenses	-	40	107,322	(36)	107,326	-	107,326
Earnings before income taxes	40,297	39,784	52,777	(42,097)	50,464	(40,297)	50,464
Income tax expense	-	(513)	10,680	-	10,167	-	10,167
Net earnings attributable to members	$ 40,297	40,297	42,097	(42,097)	40,297	(40,297)	40,297

[a] Elimination of income of subsidiaries