

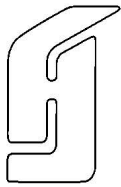
**FIRST FEDERAL BANCORP, MHC**

**Parent Company for  
First Federal Bank**

**Audited Consolidated Financial Statements**

**As of December 31, 2021 and 2020 and  
For the Years then Ended**

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



## **Independent Auditors' 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, 2021 and 2020, and the related consolidated statements of earnings, comprehensive 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, 2021 and 2020, 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.

***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, 2021, 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 28, 2022 expressed an unmodified opinion.

*Hacker, Johnson & Smith PA*

HACKER, JOHNSON & SMITH PA  
Tampa, Florida  
March 28, 2022

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

<b>Assets</b>	<b>At December 31,</b>	
	<b>2021</b>	<b>2020</b>
Cash and due from banks	\$ 9,038	\$ 10,545
Interest-bearing deposits with banks	488,885	154,653
Total cash and cash equivalents	497,923	165,198
Restricted cash	281,817	220,265
Time deposits	9,012	17,774
Debt securities available for sale	1,264,227	713,306
Loans held for sale, net	191,170	477,566
Loans, net of allowance for loan losses of \$24,208 and \$26,494	879,326	1,198,662
Accrued interest receivable	13,043	11,618
Premise and equipment, net	39,485	38,950
Right of Use lease asset	651	1,004
Federal Home Loan Bank stock, at cost	2,097	4,642
Cash surrender value of bank-owned life insurance	36,978	36,328
Loan servicing rights, net	101,800	67,897
Goodwill	28,965	28,965
Other assets	75,036	75,373
Total	\$ 3,421,530	\$ 3,057,548
<b>Liabilities and Equity</b>		
Liabilities:		
Noninterest-bearing demand deposits	822,424	636,020
Interest bearing checking and money-market deposits	1,710,089	1,432,582
Savings deposits	137,819	99,827
Time deposits	267,518	365,695
Total deposits	2,937,850	2,534,124
Federal Home Loan Bank advances	15,000	63,000
Junior subordinated debt	6,053	5,969
Other borrowings	30,000	30,100
Operating lease liabilities	657	1,014
Deferred income taxes	14,498	13,284
Other liabilities	61,815	82,359
Total liabilities	3,065,873	2,729,850
Commitments and contingencies (Notes 3, 13, 18 and 19)		
Equity:		
Noncontrolling interest	-	51
Retained earnings	340,856	294,588
Accumulated other comprehensive income	14,801	33,059
Total equity	355,657	327,698
Total	\$ 3,421,530	\$ 3,057,548

See accompanying Notes to Consolidated Financial Statements

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

	<u>Year Ended December 31,</u>	
	<u>2021</u>	<u>2020</u>
Interest income:		
Loans	\$ 59,428	70,178
Debt securities, taxable	14,226	11,522
Debt securities, tax exempt	5,882	5,155
Other	<u>3,728</u>	<u>3,490</u>
Total interest income	<u>83,264</u>	<u>90,345</u>
Interest expense:		
Deposits	3,734	7,911
Junior subordinated debt	156	222
Other borrowings	<u>3,487</u>	<u>4,482</u>
Total interest expense	<u>7,377</u>	<u>12,615</u>
Net interest income	75,887	77,730
(Credit) provision for loan losses	<u>(2,051)</u>	<u>20,782</u>
Net interest income after (credit) provision for loan losses	<u>77,938</u>	<u>56,948</u>
Noninterest income:		
Loan servicing fees	21,814	12,361
Servicing rights retained from loans sold	18,591	17,338
Mortgage banking revenue	37,673	114,238
Service charges on deposit accounts	5,465	4,620
Other service charges and fees	2,173	957
Gain on sale of debt securities available for sale	611	2,298
Gain on termination of interest rate cap	4,582	-
Income from bank-owned life insurance	650	921
Interchange income	6,166	4,999
Other	<u>424</u>	<u>1,940</u>
Total noninterest income	<u>98,149</u>	<u>159,672</u>
Noninterest expense:		
Salaries and employee benefits	82,430	83,732
Occupancy and equipment	11,964	11,137
Professional fees	3,242	9,283
Data processing	6,411	5,994
Charitable contributions	620	5,020
Repurchase reserves	1,430	4,156
Other expenses	<u>13,614</u>	<u>12,206</u>
Total noninterest expense	<u>119,711</u>	<u>131,528</u>
Earnings before income taxes	56,376	85,092
Income tax expense	<u>10,123</u>	<u>21,130</u>
Net earnings	46,253	63,962
Less: net (loss) income attributable to noncontrolling interest	<u>(15)</u>	<u>21</u>
Net earnings attributable to members	\$ <u>46,268</u>	<u>63,941</u>

See accompanying Notes to Consolidated Financial Statements

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

	<u>Year Ended December 31,</u>	
	<u>2021</u>	<u>2020</u>
Net earnings	\$ <u>46,253</u>	<u>63,962</u>
Other comprehensive (loss) income:		
Change in unrealized gain on debt securities available for sale:		
Unrealized gain arising during the year	(26,748)	39,082
Reclassification adjustment for realized gains	<u>(611)</u>	<u>(2,298)</u>
Net change in unrealized gain	(27,359)	36,784
Net change in fair value of cash flow hedges	3,847	(362)
Deferred income tax expense on above change	<u>5,254</u>	<u>(7,845)</u>
Total other comprehensive (loss) income	(18,258)	<u>28,577</u>
Comprehensive income	<u>27,995</u>	<u>92,539</u>
Comprehensive income attributable to noncontrolling interest	<u>15</u>	<u>(21)</u>
Comprehensive income attributable to members	\$ <u>28,010</u>	<u>92,518</u>

See accompanying Notes to Consolidated Financial Statements.

**FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES**  
**Consolidated Statements of Equity**

**Years Ended December 31, 2021 and 2020**  
**(In thousands)**

	<u>Noncontrolling Interest</u>	<u>Retained Earnings</u>	<u>Accumulated Other Compre- hensive Income</u>	<u>Total</u>
Balance at December 31, 2019	\$ -	230,647	4,482	235,129
Net earnings	21	63,941		63,962
Net change in unrealized gain on debt securities available for sale, net of income taxes of \$8,032	-	-	28,752	28,752
Net change in unrealized loss on derivative instrument, net of income tax benefit of \$187	-	-	(175)	(175)
Noncontrolling interest	<u>30</u>	<u>-</u>	<u>-</u>	<u>30</u>
Balance at December 31, 2020	51	294,588	33,059	327,698
Net earnings	(15)	46,268	-	46,253
Net change in unrealized loss on debt securities available for sale, net of income taxes of \$6,297	-	-	(21,062)	(21,062)
Net change in unrealized gain on derivative instrument, net of income tax expense of \$1,043	-	-	2,804	2,804
Noncontrolling interest	<u>(36)</u>	<u>-</u>	<u>-</u>	<u>(36)</u>
Balance at December 31, 2021	\$ <u>-</u>	<u>340,856</u>	<u>14,801</u>	<u>355,657</u>

See accompanying Notes to Consolidated Financial Statements

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

	<b>Year Ended December 31,</b>	
	<b>2021</b>	<b>2020</b>
Cash flows from operating activities:		
Net earnings	\$ 46,253	63,962
Adjustments to reconcile net earnings to net cash used provided by (used in) operating activities:		
(Credit) provision for loan losses	(2,051)	20,782
Depreciation and amortization	2,422	2,348
Deferred income tax benefit	6,468	(1,635)
Net amortization of premiums and discounts on debt securities	5,198	4,841
Gain on sale of debt securities available for sale	(611)	(2,298)
Origination of loans held for sale, net	(4,228,116)	(5,104,648)
Proceeds from sale of loans held for sale and loan securitizations	4,552,185	4,971,583
Mortgage banking revenue	(37,673)	(114,239)
Net amortization of deferred loan costs (fees)	1,410	1,940
Loss (gain) on sale of premise and equipment	17	(347)
Net amortization of operating leases	(4)	4
Net gain on sale of foreclosed real estate	(321)	(868)
Write-down of foreclosed real estate	-	98
Income from bank-owned life insurance	(650)	(921)
Increase in accrued interest receivable	(1,425)	(4,693)
Increase in mortgage servicing rights	(33,903)	(23,433)
Decrease in other assets	5,398	49,405
(Decrease) increase in other liabilities	(20,544)	44,261
	<u>294,053</u>	<u>(93,858)</u>
Net cash provided by (used in) operating activities		
Cash flows from investing activities:		
Purchases of debt securities available for sale	(787,944)	(408,516)
Principal repayments of debt securities available for sale	66,699	64,066
Maturities and calls of debt securities available for sale	3,415	-
Net proceeds from sales of debt securities available for sale	134,963	157,397
Purchase of time deposits	-	(498)
Maturities of time deposits	8,762	758
Net decrease (increase) in loans	318,201	(218,491)
Purchases of premise and equipment, net	(3,107)	(2,806)
Proceeds from sale of premise and equipment, net	133	1,659
Proceeds from sale of foreclosed real estate	883	5,760
Redemption of Federal Home Loan Bank stock	2,545	75
Proceeds from bank-owned life insurance	-	340
	<u>(255,450)</u>	<u>(400,256)</u>
Net cash used in investing activities		
Cash flows from financing activities:		
Increase in deposits	403,726	746,306
(Decrease) increase in Federal Home Loan Bank advances	(48,000)	(9,500)
Net (decrease) increase in Junior Subordinated Debt and other borrowings	(16)	84
Noncontrolling interest	(36)	30
	<u>355,674</u>	<u>736,920</u>
Net cash provided by financing activities		
Net increase in cash, cash equivalents and restricted cash	394,277	242,806
Cash, cash equivalents and restricted cash at beginning of year	<u>385,463</u>	<u>142,657</u>
Cash, cash equivalents and restricted cash at end of year	<u>\$ 779,740</u>	<u>385,463</u>

(continued)



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

	<u>Year Ended December 31,</u>	
	<u>2021</u>	<u>2020</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Income taxes	\$ <u>13,721</u>	<u>18,812</u>
Interest	\$ <u>7,546</u>	<u>12,762</u>
Noncash transactions:		
Loans transferred to foreclosed real estate	\$ <u>1,776</u>	<u>3,487</u>
Capitalized servicing rights	\$ <u>34,953</u>	<u>34,446</u>
Right of Use lease asset obtained in exchange for operating lease liabilities	\$ <u>427</u>	<u>308</u>
Net change in unrealized gain on debt securities available for sale, net of taxes	\$ <u>(21,062)</u>	<u>28,752</u>
Net change in unrealized gain (loss) on derivative instruments, net of taxes	\$ <u>2,804</u>	<u>(175)</u>

See accompanying Notes to Consolidated Financial Statements

**FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**

**At December 31, 2021 and 2020 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) (“FFBI”) owns First Federal Bank (the “Bank” or “First Federal”) which serves its customers through 25 branches across Florida and South Carolina. The Bank has three loan production offices located in Florida, Georgia (operating as *CBC Mortgage at First Federal*) and Wisconsin (operating as *QRL Financial Services*). Lines of business include a mortgage processing company, wholesale lending, Small Business Administration (“SBA”) and U.S. Department of Agriculture (“USDA”) lending, warehouse lending, consumer direct lending and manufactured housing lending. The Bank operates two subsidiaries. FFBI Investments, Inc. is a Delaware based company performing investment management for the Bank. Loan Closing Experts, LLC provides title and closing services for borrowers. Loan Closing Experts, LLC was 51% owned by the Bank and began business in April of 2020. The non-controlling members exited Loan Closing Experts, LLC during 2021 and the Bank closed the business. 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 balance sheet date through March 28, 2022, which is the date the consolidated financial statements were available to be issued, determining no events require additional disclosure in the consolidated financial statements.

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

**Estimates.** The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in its near term relate to the allowance for loan losses, valuation of loan servicing rights and goodwill.

(continued)

**FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements, 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, 2021, as well as December 31, 2020, 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 in response to the COVID-19 pandemic.

***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, 2021 and 2020, the balances on deposit with the State were \$281.8 million and \$220.3 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 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.

(continued)

**FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements, 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 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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**FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements, Continued**

**(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, 2021 and 2020.

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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**FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements, Continued**

**(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.

*Purchase Credit-Impaired Loans.* The Company acquired loans, some of which have shown evidence of credit deterioration since origination. These purchase credit-impaired ("PCI") loans were determined to be credit impaired based on borrower payment history, past due status, loan credit grading, value of underlying collateral and other factors that affect the collectability of contractual cash flows. Under GAAP, loans acquired in the same fiscal quarter may be assembled into one or more pools with common characteristics. Once pooled, a single composite interest rate is used to determine aggregate expected cash flows for the pool.

PCI loans are accounted for individually or aggregated into pools of loans based on common risk characteristics such as, credit score, loan type, and date of origination. The Company estimates the amount and timing of expected cash flows for each loan or pool, and the expected cash flows in excess of amount paid is recorded as interest income over the remaining life of the loan or pool (accretable yield). The excess of the loan or pool's contractual principal and interest over expected cash flows is not recorded (nonaccretable difference). On a quarterly basis, the Company has updated the amount of loan principal and interest cash flows expected to be collected, incorporating assumptions regarding default rates, loss severities, the amounts and timing of prepayments and other factors that are reflective of current market conditions. Probable decreases in expected loan principal cash flows trigger recognition of impairment, which is then measured as the present value of the expected principal loss plus any related foregone interest cash flows discounted at the loan's effective interest rate. Impairments that have occurred after the acquisition date have been recognized through the allowance for loan losses; any remaining increases have been recognized prospectively as adjustments to interest income. Disposals of loans, which may include sale of loans, receipt of payments in full by the borrower, or foreclosures, result in the removal of the loan from the PCI portfolio.

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**FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements, Continued**

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

***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, 2021 and 2020, 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.

***Foreclosed Real Estate.*** Real estate acquired through, or in lieu of, foreclosure, is initially recorded at fair value less selling costs establishing a new cost basis. After foreclosure, valuations are periodically performed by management and the foreclosed real estate is carried at the lower of the new cost basis or fair value less selling costs. Revenue and expenses from operations and changes in the valuation allowance are included in earnings. The foreclosed real estate was included in Other Assets in the accompanying consolidated balance sheets and at December 31, 2021 and 2020 was \$1,223,000 and \$9,000, respectively.

***Goodwill and Core Deposit Intangibles.*** 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, 2021 and 2020 and therefore has determined that there was no impairment of goodwill during the years ended December 31, 2021 and 2020. There can be no assurance that future goodwill impairment tests will not result in a charge to earnings. As of December 31, 2021 and 2020, the Company had goodwill in the amount of \$29.0 million for both years.

(continued)

**FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements, Continued**

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

***Goodwill and Core Deposit Intangibles, Continued.*** The core deposit intangibles (“CDI”) are intangible assets arising from either branch acquisitions or whole bank acquisitions. CDI are initially measured at fair value and then amortized up to ten years on a straight-line basis using projected decay rates of the underlying core deposits. The principal factors considered when valuing the CDI consist of the following: (1) the rate and maturity structure of the interest-bearing liabilities, (2) estimated retention rates for each deposit liability category, (3) the current interest rate environment and (4) estimated noninterest income potential of the acquired relationship. The CDI is evaluated periodically for impairment.

As of December 31, 2021 the Company determined the CDI was not impaired.

The Company’s CDI is as follows (dollars in thousands):

<u>Acquisition</u>	<u>Core Deposit Intangible Acquired</u>	<u>Period of Amortization</u>	<u>Amortization Recognized in</u>		<u>Remaining Core Deposit Intangible at December 31,</u>	
			<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
CBC Bank	\$ <u>6,453</u>	69 months	\$ <u>1,138</u>	<u>1,138</u>	\$ <u>2,238</u>	<u>3,376</u>

The CDI was included in Other Assets in the accompanying consolidated balance sheets.

The future expected amortization of CDI with determinable useful lives as of December 31, 2021 is as follows (in thousands):

<u>Year Ending December 31,</u>	<u>Amount</u>
2022	\$ 1,138
2023	<u>1,100</u>
	\$ <u>2,238</u>

***Other Investments.*** At December 31, 2021 and 2020, the Company has a \$2.74 million and \$1.45 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 was also committed to investing approximately \$15.8 million in total funds into the limited liability company at December 31, 2021.

At December 31, 2021, the Company’s maximum exposure to loss associated with the limited liability company was limited to the Company’s recorded investment.

(continued)



**FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements, Continued**

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

***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, 2021 and 2020, the debenture balance was \$2.8 million and \$2.7 million, respectively. The debenture carries a floating rate equal to the 3-month LIBOR plus 2.75%, adjusted quarterly (2.87% at December 31, 2021). 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, 2021 and 2020, the debenture balance was \$3.3 million and \$3.2 million, respectively. The debenture carries a floating rate equal to the 3-month LIBOR plus 1.60%, adjusted quarterly (1.82% at December 31, 2021).

All of the common securities of Trust I and Trust II are owned by the Company.

***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 Recognition.*** The Company recognizes revenue in accordance with Accounting Standards Updated (“ASU”) ASU 2014-09 Revenue from Contracts with Customers and all subsequent amendments to the ASU (collectively, “ASC 606”). 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 ASC 606. Company's services that fall within the scope of ASC 606 are presented within noninterest income and are recognized as revenue as the Company satisfies its obligation to the customer.

(continued)

**FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements, Continued**

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

**Revenue Recognition, Continued.** The following summarizes the Company's revenue recognition accounting policies for certain noninterest income activities within the scope of ASC 606:

**Gains (Losses) on Sales of Foreclosed Real Estate.** The Company records a gain or loss from the sale of foreclosed real estate when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When the Company finances the sale of the property, the Company assesses whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable.

Once these criteria are met, the asset is derecognized and the gain or loss on sale is recorded upon the transfer of control of the property to the buyer. In determining the gain or loss on the sale, the Company adjusts the transaction price and related gain (loss) on sale if a significant financing component is present.

**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 is 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.

**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.

(continued)

**FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements, Continued**

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

**Income Taxes.** There are two components of income taxes: current and deferred. Current income taxes reflect taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax 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, 2021, 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.

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

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

(continued)

**FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements, Continued**

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

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

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

***Interest Rate Cap.*** During 2020, the Company entered into 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 Company recorded a premium and transaction costs of \$5.8 million in other assets in the consolidated balance sheets and amortizes the premium to interest expense based upon decreases in time value of the caps. Amortization expense was \$400,000 for the year ending December 31, 2020. The original notional amount of the contract was \$100 million at December 31, 2020 and expires in tranches through 2030. The interest rate cap agreement was terminated in 2021, with \$4.6 million gain recognized in earnings.

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

(continued)

**FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements, Continued**

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

***Interest Rate Cap, Continued.*** Hedges of variable-rate debt are accounted for as cash flow hedges, with changes in fair value recorded in derivative assets or liabilities and other comprehensive income. The net settlement (upon close out or termination) that offsets changes in the value of the hedged debt is deferred and amortized into net interest income over the life of the hedged debt. Hedges of fixed-rate liabilities are accounted for as fair value hedges, with changes in fair value recorded in derivative liabilities and interest income.

The net settlement (upon close out or termination) that offsets changes in the value of the liabilities adjusts the basis of the liabilities and is deferred and amortized to interest income over the life of the liability. The portion, if any, of the net settlement amount that did not offset changes in the value of the hedged asset or liability is recognized immediately in noninterest income.

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

The Company utilizes forward loan sale contracts to mitigate the interest-rate risk inherent in the Company's mortgage loan pipeline or rate-lock commitments and held-for-sale portfolio. Forward loan sale contracts are contracts for future delivery of mortgage loans. The Company agrees to deliver on a specified future date, a specified amount of loans, at a specified price or yield. However, the contract may allow for cash settlement.

The credit risk inherent to the Company arises from the potential inability of counterparties to meet the terms of their contracts. In the event of nonacceptance by the counterparty, the Company would be subject to the credit risk of the loans retained. Such contracts are accounted for as derivatives and, along with related fees paid to investors, are recorded at fair value in derivative assets or liabilities, with changes in fair value recorded in mortgage banking revenue. Fair value is based on the estimated amounts that the Company would receive or pay to terminate the commitment at the reporting date.

(continued)

**FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements, Continued**

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

***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 collateralized mortgage and debt obligations, U.S. Government agency bonds, corporate bonds, municipal bonds, and certain high-yield debt 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)

**FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements, 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. 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 and Foreclosed Real Estate.*** 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 and foreclosed real estate 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.

(continued)

**FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements, Continued**

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

***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.

***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.

(continued)



**FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements, Continued**

**(1) Organization and Summary of Significant Accounting Principles, Continued**  
***Fair Values of Financial Instruments, Continued.***

***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.

***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):

	<u>At December 31,</u>	
	<u>2021</u>	<u>2020</u>
Net unrealized gain on debt securities available for sale	\$ 15,284	42,643
Net unrealized gain (loss) on fair value of cash flow hedges	<u>3,465</u>	<u>(382)</u>
Gross unrealized amount	18,749	42,261
Income tax expense	<u>(3,948)</u>	<u>(9,202)</u>
Net unrealized amount	\$ <u>14,801</u>	<u>33,059</u>

***Reclassifications.*** Certain amounts in the 2020 consolidated financial statements have been reclassified to conform to the 2021 presentation.

(continued)

**FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements, Continued**

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

**Recent Pronouncements.** In June 2016, the FASB issued 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 will take effect for fiscal years, and for interim periods within fiscal years, beginning after December 15, 2022 (as amended). Early adoption is permitted. The Company is in the process of determining the effect of the ASU on its consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, *Simplifying the Test for Goodwill Impairment*, to simplify how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. In computing the implied fair value of goodwill under Step 2, an entity had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities (including unrecognized assets and liabilities) following the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination.

Instead, under the amendments in this update, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Additionally, an entity should consider income tax effects from any tax-deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. FASB also eliminated the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. Therefore, the same impairment assessment applies to all reporting units.

(continued)

**FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements, Continued**

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

**Recent Pronouncements, Continued.** An entity is required to disclose the amount of goodwill allocated to each reporting unit with a zero or negative carrying amount of net assets. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary.

The ASU is effective for fiscal years beginning after December 15, 2022, as amended, including interim periods within those fiscal years. Early adoption is permitted. The Company is in the process of determining the effect of the ASU on its consolidated financial statements, but it is not expected to have a material impact.

**(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):

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
<b>Debt Securities Available for Sale:</b>				
<i>At December 31, 2021:</i>				
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	<u>318,523</u>	<u>5,726</u>	<u>(3,460)</u>	<u>320,789</u>
	<u>\$ 1,248,943</u>	<u>28,408</u>	<u>(13,124)</u>	<u>1,264,227</u>
<i>At December 31, 2020:</i>				
Corporate bonds	\$ 12,250	53	(3)	12,300
Municipal securities	390,296	27,141	(228)	417,209
Collateralized mortgage obligations	87,019	5,116	(59)	92,076
SBA pool securities	308	2	-	310
Asset-based securities	42,393	102	(447)	42,048
Mortgage-backed securities	<u>138,397</u>	<u>11,087</u>	<u>(121)</u>	<u>149,363</u>
	<u>\$ 670,663</u>	<u>43,501</u>	<u>(858)</u>	<u>713,306</u>

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

	<u>Year Ended December 31,</u>	
	<u>2021</u>	<u>2020</u>
Proceeds	\$ <u>134,963</u>	<u>157,397</u>
Gross gains	2,043	3,076
Gross losses	<u>(1,432)</u>	<u>(778)</u>
Net gain	\$ <u>611</u>	<u>2,298</u>

(continued)

**FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements, Continued**

**(2) Debt Securities, Continued**

The scheduled maturities of debt securities at December 31, 2021 are as follows (in thousands):

	<u>Amortized Cost</u>	<u>Fair Value</u>
Due before one year	\$ 1,206	1,225
Due after one year through five years	15,146	15,118
Due after five years through ten years	536,301	550,915
Due thereafter	36,908	36,744
Collateralized mortgage obligations	281,711	280,286
SBA pool securities	27,711	27,772
Asset-backed securities	31,437	31,378
Mortgage-backed securities	<u>318,523</u>	<u>320,789</u>
	<u>\$ 1,248,943</u>	<u>1,264,227</u>

There were \$407.5 million and \$151.2 million in debt securities pledged as collateral for FHLB advances at December 31, 2021 and 2020, respectively.

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):

	<u>Less Than Twelve Months</u>		<u>Over Twelve Months</u>	
	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
<i>December 31, 2021:</i>				
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	<u>(3,428)</u>	<u>189,082</u>	<u>(32)</u>	<u>720</u>
Total	<u>\$ (12,528)</u>	<u>691,926</u>	<u>(596)</u>	<u>37,262</u>
<i>December 31, 2020:</i>				
Corporate bonds	\$ (3)	3,247	-	-
Municipal securities	(228)	36,430	-	-
Collateralized mortgage obligations	(32)	2,957	(27)	839
Asset-backed securities	(45)	2,433	(402)	30,963
Mortgage-backed securities	<u>(11)</u>	<u>957</u>	<u>(110)</u>	<u>10,306</u>
Total	<u>\$ (319)</u>	<u>46,024</u>	<u>(539)</u>	<u>42,108</u>

(continued)

**FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements, Continued**

**(2) Debt Securities, Continued**

At December 31, 2021 and 2020, the unrealized losses on 115 and 21 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):

	<u>At December 31,</u>	
	<u>2021</u>	<u>2020</u>
Real estate mortgage loans:		
Commercial real estate	\$ 290,776	303,560
Residential real estate	242,977	345,974
Construction and land	<u>58,353</u>	<u>59,020</u>
Total real estate mortgage loans	<u>592,106</u>	<u>708,554</u>
Commercial loans:		
Warehouse lines of credit	130,498	259,277
Paycheck Protection Program (PPP) loans	12,880	86,665
Other commercial	<u>62,143</u>	<u>58,922</u>
Total commercial loans	<u>205,521</u>	<u>404,864</u>
Consumer loans	<u>110,920</u>	<u>118,115</u>
Subtotal	908,547	1,231,533
Deduct (add):		
Allowance for loan losses	24,208	26,494
Loan discount	5,654	7,204
Net deferred loan origination costs	<u>(641)</u>	<u>(827)</u>
Loans, net	\$ <u>879,326</u>	<u>1,198,662</u>

(continued)

**FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements, Continued**

**(3) Loans, Continued**

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

	<b>Real Estate Mortgage Loans</b>	<b>Commercial Loans</b>	<b>Consumer Loans</b>	<b>Total</b>
<b>Year Ended December 31, 2021:</b>				
Beginning balance	\$ 15,907	5,717	4,870	26,494
Provision (credit) for loan losses	1,664	(2,349)	(1,366)	(2,051)
Charge-offs	(101)	-	(640)	(741)
Recoveries	<u>161</u>	<u>7</u>	<u>338</u>	<u>506</u>
Ending balance	\$ <u>17,631</u>	<u>3,375</u>	<u>3,202</u>	<u>24,208</u>
<b>Year Ended December 31, 2020:</b>				
Beginning balance	\$ 3,673	1,033	1,223	5,929
Provision for loan losses	12,223	4,693	3,866	20,782
Charge-offs	(74)	(13)	(398)	(485)
Recoveries	<u>85</u>	<u>4</u>	<u>179</u>	<u>268</u>
Ending balance	\$ <u>15,907</u>	<u>5,717</u>	<u>4,870</u>	<u>26,494</u>
<b>Year Ended December 31, 2021:</b>				
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	<u>16,942</u>	<u>3,364</u>	<u>3,201</u>	<u>23,507</u>
Ending balance	\$ <u>17,631</u>	<u>3,375</u>	<u>3,202</u>	<u>24,208</u>
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	<u>477,559</u>	<u>202,734</u>	<u>105,818</u>	<u>786,111</u>
Ending balance	\$ <u>592,106</u>	<u>205,521</u>	<u>110,920</u>	<u>908,547</u>
<b>Year Ended December 31, 2020:</b>				
Balance in allowance for loan losses:				
Individually evaluated for impairment	\$ 245	-	1	246
Loans acquired	-	-	-	-
Loans acquired with deteriorated credit quality	607	8	-	615
Collectively evaluated for impairment	<u>15,055</u>	<u>5,709</u>	<u>4,869</u>	<u>25,633</u>
Ending balance	\$ <u>15,907</u>	<u>5,717</u>	<u>4,870</u>	<u>26,494</u>
Recorded investment:				
Individually evaluated for impairment	\$ 5,194	-	37	5,231
Loans acquired	155,777	3,148	7,119	166,044
Loans acquired with deteriorated credit quality	10,253	294	-	10,547
Collectively evaluated for impairment	<u>537,330</u>	<u>401,422</u>	<u>110,959</u>	<u>1,049,711</u>
Ending balance	\$ <u>708,554</u>	<u>404,864</u>	<u>118,115</u>	<u>1,231,533</u>

(continued)

**FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements, 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 three classes: warehouse lines of credit, PPP loans 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)

**FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements, Continued**

**(3) Loans, Continued**

The Company took action to support its clients and help its communities by participating in the Payroll Protection Plan (“PPP”). The company originated 1,584 PPP loans for a total dollar amount of \$174.5 million. These loans are 100% guaranteed by the Small Business Administration (the “SBA”). The Company had the option to fund PPP loans through the Federal Reserve Bank’s Paycheck Protection Program Liquidity Facility (The “PPPLF”). Loans pledged to secure PPPLF advances are excluded from the calculation of the Company’s regulatory capital ratios. At December 31, 2021, there were no outstanding borrowings under the PPPLF.

**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):

	<u>Real Estate Mortgage Loans</u>			<u>Commercial Loans</u> <sup>(1)</sup>	<u>Consumer Loans</u>	<u>Total</u>
	<u>Commercial Real Estate</u>	<u>Residential Real Estate</u>	<u>Construction and Land</u>			
<i>Credit Risk Profile by Internally Assigned Grade:</i>						
<i>At December 31, 2021:</i>						
Grade:						
Pass	\$ 275,274	241,130	58,353	204,268	110,570	889,595
Special mention	6,015	-	-	86	-	6,101
Substandard	<u>9,487</u>	<u>1,847</u>	<u>-</u>	<u>1,167</u>	<u>350</u>	<u>12,851</u>
Total	<u>\$ 290,776</u>	<u>242,977</u>	<u>58,353</u>	<u>205,521</u>	<u>110,920</u>	<u>908,547</u>
<i>At December 31, 2020:</i>						
Grade:						
Pass	\$ 284,602	342,106	58,458	403,448	117,936	1,206,550
Special mention	8,278	50	-	61	-	8,389
Substandard	<u>10,680</u>	<u>3,818</u>	<u>562</u>	<u>1,355</u>	<u>179</u>	<u>16,594</u>
Total	<u>\$ 303,560</u>	<u>345,974</u>	<u>59,020</u>	<u>404,864</u>	<u>118,115</u>	<u>1,231,533</u>

<sup>(1)</sup> At December 31, 2021 and 2020, 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)



**FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements, 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)

**FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements, Continued**

**(3) Loans, Continued**

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

	<u>Accruing Loans</u>				<u>Current</u>	<u>Nonaccrual Loans</u>	<u>Total Loans</u>
	<u>30-59 Days Past Due</u>	<u>60-89 Days Past Due</u>	<u>Than 90 Days Past Due</u>	<u>Total Past Due</u>			
<b><i>At December 31, 2021:</i></b>							
Real estate mortgage loans:							
Commercial real estate	\$ -	11	-	11	286,122	4,643	290,776
Residential real estate <sup>(2)</sup>	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
PPP loans	-	-	-	-	12,880	-	12,880
Other commercial	148	85	11	244	61,161	738	62,143
Consumer loans <sup>(1)</sup>	<u>2,933</u>	<u>1,274</u>	<u>3,430</u>	<u>7,637</u>	<u>103,283</u>	<u>-</u>	<u>110,920</u>
Total	\$ <u>7,244</u>	<u>2,325</u>	<u>28,951</u>	<u>38,520</u>	<u>863,959</u>	<u>6,068</u>	<u>908,547</u>
<b><i>At December 31, 2020:</i></b>							
Real estate mortgage loans:							
Commercial real estate	\$ 76	-	-	76	299,623	3,861	303,560
Residential real estate <sup>(2)</sup>	5,355	2,082	107,842	115,279	227,806	2,889	345,974
Construction and land	1,017	-	-	1,017	57,441	562	59,020
Commercial loans:							
Warehouse lines of credit	-	-	-	-	259,277	-	259,277
PPP loans	-	-	-	-	86,665	-	86,665
Other commercial	10	23	-	33	57,830	1,059	58,922
Consumer loans <sup>(1)</sup>	<u>1,550</u>	<u>608</u>	<u>1,312</u>	<u>3,470</u>	<u>114,645</u>	<u>-</u>	<u>118,115</u>
Total	\$ <u>8,008</u>	<u>2,713</u>	<u>109,154</u>	<u>119,875</u>	<u>1,103,287</u>	<u>8,371</u>	<u>1,231,533</u>

<sup>(1)</sup> At December 31, 2021 and 2020, guaranteed student loans were \$39.3 million and \$8.5 million, respectively. Guaranteed student loans of \$3.3 million and \$974,000 at December 31, 2021 and 2020 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, 2021 and 2020, there were \$64,000 and \$68,000, respectively, of student loans 270+ days past due and accruing. At December 31, 2021 and 2020, FHA Title I loans were \$22.5 million and \$36.3 million, respectively. FHA Title I loans of \$83,000 and \$248,000 at December 31, 2021 and 2020, 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.

<sup>(2)</sup> Guaranteed loans in the process of collection or being rehabilitated to be held for sale were \$102.1 million and \$126.1 million at December 31, 2021 and 2020, respectively.

(continued)

**FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements, Continued**

**(3) Loans, Continued**

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

	<u>With No Related Allowance Recorded</u>		<u>With an Allowance Recorded</u>			<u>Total</u>		
	<u>Recorded Investment</u>	<u>Unpaid Contractual Principal Balance</u>	<u>Recorded Investment</u>	<u>Unpaid Contractual Principal Balance</u>	<u>Related Allowance</u>	<u>Recorded Investment<sup>(1)</sup></u>	<u>Unpaid Contractual Principal Balance</u>	<u>Related Allowance</u>
<b>December 31, 2021:</b>								
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
	\$ -	-	<u>4,188</u>	<u>4,545</u>	<u>187</u>	<u>4,188</u>	<u>4,545</u>	<u>187</u>
<b>December 31, 2020:</b>								
Real estate mortgage loans:								
Commercial real estate	\$ -	-	1,922	2,403	164	1,922	2,403	164
Residential real estate	-	-	2,710	3,177	67	2,710	3,177	67
Construction and land	-	-	562	566	14	562	566	14
Consumer loans	-	-	37	38	1	37	38	1
	\$ -	-	<u>5,231</u>	<u>6,184</u>	<u>246</u>	<u>5,231</u>	<u>6,184</u>	<u>246</u>

<sup>(1)</sup> The recorded investment of impaired loans does not include \$4.0 and \$5.4 million at December 31, 2021 and 2020, respectively, 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):

	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>	<u>Interest Income Received</u>
<b>Year Ended December 31, 2021:</b>			
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
	\$ <u>5,710</u>	<u>232</u>	<u>350</u>
<b>Year Ended December 31, 2020:</b>			
Real estate mortgage loans:			
Commercial real estate	\$ 2,604	104	125
Residential real estate	2,618	94	158
Construction and land	358	-	-
Other commercial loans	25	-	-
Consumer loans	48	3	10
	\$ <u>5,653</u>	<u>201</u>	<u>293</u>

(continued)

**FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements, Continued**

**(3) Loans, Continued**

Troubled debt restructurings (“TDR”) entered into during the years ended December 31, 2021 and 2020 are as follows (dollars in thousands):

	2021		
<u>Number Of Contracts</u>	<u>Pre-Modification Outstanding Recorded Investment</u>	<u>Post-Modification Outstanding Recorded Investment</u>	
<b><i>Troubled Debt Restructurings:</i></b>			
Commercial loan:			
Modified interest rate, principal and amortization	<u>1</u>	\$ <u>152</u>	\$ <u>185</u>
	2020		
<u>Number Of Contracts</u>	<u>Pre-Modification Outstanding Recorded Investment</u>	<u>Post-Modification Outstanding Recorded Investment</u>	
<b><i>Troubled Debt Restructurings:</i></b>			
Real estate mortgage loans:			
Modified interest rate, principal and amortization	<u>1</u>	\$ <u>265</u>	\$ <u>161</u>

The allowance for loan losses on all classes of loans that have been restructured and are considered TDRs is included in the Company’s specific reserve. The specific reserve is determined on a loan-by-loan basis by either the present value of expected future cash flows discounted at the loan’s effective interest rate, or the fair value of the collateral if the loan is collateral-dependent. TDRs that have subsequently defaulted are considered collateral-dependent. There were no TDRs modified during the years ended December 31, 2021 and 2020 that subsequently defaulted during the same year.

***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,	
	2021	2020
Beginning balance	\$ (827)	(1,308)
Deferred loan origination fees	1,903	1,567
Capitalized direct underwriting costs	(3,158)	(3,592)
Net amortization	<u>1,441</u>	<u>2,506</u>
Ending balance	\$ <u>(641)</u>	<u>(827)</u>

***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 Suwanee. 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.

(continued)

**FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements, Continued**

**(3) Loans, Continued**

The Company is subject to risks related to the public health crisis associated with the coronavirus global pandemic (“COVID-19”). COVID-19 has negatively impacted the global economy, disrupted global supply chains, created significant volatility and disruption in financial markets. The extent to which COVID-19 impacts the Company’s business, results of operations, and financial condition, as well as loan quality, regulatory capital and liquidity ratios, will depend on future developments, the duration of the pandemic, and actions taken by governmental authorities to slow the spread of the disease or to mitigate its effects.

In accordance with relief granted by government authorities the Company has modified certain loans at the request of its borrowers. Through December 31, 2021, the Company had received and granted 925 requests for modification or to be placed in forbearance on loans totaling \$153.2 million. As of December 31, 2021, almost all of the loans modified had reverted back to their original pre-modification terms and are being paid as agreed except for 114 loans totaling \$19.3 million. Management is closely monitoring these loans and believes the allowance for loan losses at December 31, 2021 is adequate.

**(4) Purchase Credit Impaired Loans (“PCI”)**

The carrying amounts of PCI loans acquired are detailed in the following (in thousands):

	<u>As of December 31,</u>	
	<u>2021</u>	<u>2020</u>
Beginning contractually required principal and interest	\$ 14,253	20,620
Principal and interest received	<u>(4,289)</u>	<u>(6,367)</u>
Ending contractually required principal and interest	9,964	14,253
Nonaccretable yield discount	<u>(2,046)</u>	<u>(3,257)</u>
Cash flows expected to be collected	7,918	10,996
Accretable yield	<u>(1,821)</u>	<u>(2,647)</u>
Carrying value	6,097	8,349
Allowance for loan losses	<u>(514)</u>	<u>(615)</u>
Carrying value less allowance for loan losses	\$ <u>5,583</u>	<u>7,734</u>

In the following is the reconciliation of the accretable yield adjustment (in thousands):

	<u>Year Ended December 31,</u>	
	<u>2021</u>	<u>2020</u>
Beginning accretable yield	\$ (2,647)	(6,505)
Accretion	<u>826</u>	<u>3,858</u>
Ending accretable yield	\$ <u>(1,821)</u>	<u>(2,647)</u>

(continued)

**FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements, Continued**

**(5) 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):

	<u>At December 31,</u>	
	<u>2021</u>	<u>2020</u>
Mortgage loan portfolios serviced for:		
Government agencies:		
FHLB	\$ 2,863	4,011
FHLMC	5,261,578	4,400,186
GNMA	1,399,351	1,843,797
FNMA	3,597,472	2,221,352
All other	<u>262,256</u>	<u>235,759</u>
	<u>\$ 10,523,520</u>	<u>8,705,105</u>

Custodial escrow balances maintained in connection with loans serviced for others were \$53.4 million and \$48.4 million at December 31, 2021 and 2020, respectively. The escrow balances are included in noninterest-bearing demand deposits in the accompanying consolidated balance sheets.

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

	<u>Year Ended December 31,</u>	
	<u>2021</u>	<u>2020</u>
Beginning balance	\$ 77,591	45,316
Additions from loans originated and sold	20,488	19,509
Additions from servicing rights purchased, sold and other	14,465	14,937
Amortization	<u>(1,897)</u>	<u>(2,171)</u>
Ending balance	110,647	77,591
Allowance	(727)	(1,694)
Discount	<u>(8,120)</u>	<u>(8,000)</u>
Servicing rights, net	<u>\$ 101,800</u>	<u>67,897</u>
Allowance for impairment beginning balance	\$ 1,694	835
Additions	-	932
Reductions	<u>(967)</u>	<u>(73)</u>
Allowance for impairment ending balance	<u>\$ 727</u>	<u>1,694</u>

(continued)

**FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements, Continued**

**(5) Loan Servicing, Continued**

During the year ended December 31, 2021, the fair value of mortgage servicing rights was determined using discount rates ranging from 9.00% to 11.50% for all loans serviced and constant prepayment rates (CPR) ranging from 7.63% to 29.80%, depending on the stratification of the specific rights. For the year ended December 31, 2020, the discount rates ranged from 9.00% to 11.50% with CPRs ranging from 8.32% to 38.35%.

During the year ended December 31, 2021, the fair value of servicing rights for SBA loans was determined using discount rates ranging from 5.98% to 49.59% for all loans serviced and constant prepayment rates (CPR) ranging from 10.21% to 49.59%, depending on the stratification of the specific rights. For the year ended December 31, 2020, the discount rates ranged from 3.41% to 43.41% with CPRs ranging from 11.49% to 31.13%.

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

	<b>At Ended December 31,</b>			
	<b>2021</b>		<b>2020</b>	
	<b>Carrying Value</b>	<b>Fair Value</b>	<b>Carrying Value</b>	<b>Fair Value</b>
Servicing Rights, at fair market value	\$ 97,940	97,940	63,107	63,107
Servicing Rights, at lower of cost or market value	<u>3,860</u>	<u>5,264</u>	<u>4,790</u>	<u>5,282</u>
Total	\$ <u>101,800</u>	<u>103,204</u>	<u>67,897</u>	<u>68,389</u>

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

	<b>Year Ended December 31,</b>	
	<b>2021</b>	<b>2020</b>
Servicing fees received from investors net of servicing expense	\$ <u>21,814</u>	<u>12,361</u>
Servicing rights additions from loans originated and sold	20,488	19,509
Less amortization of servicing rights	<u>(1,897)</u>	<u>(2,171)</u>
	<u>18,591</u>	<u>17,338</u>
Income from servicing rights	\$ <u>40,405</u>	<u>29,699</u>

(continued)

**FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements, Continued**

**(6) Premises and Equipment**

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

	<u>At December 31,</u>	
	<u>2021</u>	<u>2020</u>
Land	\$ 10,705	10,402
Buildings and improvements	33,087	33,125
Furniture and equipment	<u>24,480</u>	<u>22,415</u>
Total, at cost	68,272	65,942
Less accumulated depreciation and amortization	<u>28,787</u>	<u>26,992</u>
Premise and equipment, net	\$ <u>39,485</u>	<u>38,950</u>

**(7) Leases**

The Company adopted ASU 2016-02, *Leases*, on January 1, 2020, which initially resulted in the recognition of twenty-seven operating leases on the consolidated balance sheets in 2020 and thirty in 2021. We determine if a contract contains a lease at inception and recognize operating lease right-of-use assets and operating lease liabilities based on the present value of the future minimum lease payments at the adoption date. 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).

	<u>Year Ended December 31,</u>	
	<u>2021</u>	<u>2020</u>
Operating lease cost	\$ 717	683
Operating lease expense recognized	\$ 731	721

	<u>At December 31,</u>	
	<u>2021</u>	<u>2020</u>
Operating lease right-of-use assets	\$ 651	1,004
Operating lease liabilities	\$ 657	1,014
Weighted-average remaining lease term	1.9 years	2.5 years
Weighted-average discount rate	2.08%	2.18%

(continued)



**FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements, Continued**

**(7) Leases, Continued**

Future minimum lease payments under noncancellable leases, reconciled to our discounted operating lease liabilities at December 31, 2021 are as follows, (in thousands):

2022	\$ 467
2023	129
2024	58
2025	5
Thereafter	<u>-</u>
Total future minimum lease payments	\$ 659
Less: imputed interest	<u>(2)</u>
Total operating lease liability	\$ <u>657</u>

**(8) Deposits and Economic Dependence**

The aggregate amount of time deposits with a denominations of over \$250,000 was approximately \$105.0 million and \$89.3 million at December 31, 2021 and 2020, respectively.

A schedule of maturities of time deposits at December 31, 2021 is as follows (in thousands):

<b>Year Ending December 31,</b>	
2022	\$ 235,288
2023	21,884
2024	4,706
2025	3,347
2026 and thereafter	<u>2,293</u>
	<u>\$ 267,518</u>

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 \$706.1 million and \$507.4 million at December 31, 2021 and 2020, respectively.

**(9) 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):

	<b>At December 31,</b>	
	<b>2021</b>	<b>2020</b>
Deposits	\$ <u>5,717</u>	<u>5,224</u>
Loans	\$ <u>2,236</u>	<u>1,747</u>

(continued)

**FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements, Continued**

**(10) Federal Home Loan Bank (“FHLB”) Advances**

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

<u>Description</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>At December 31,</u>	
			<u>2021</u>	<u>2020</u>
Fixed Rate Hybrid	05/21/2021	2.329%	\$ -	28,000
Fixed Rate Hybrid	06/17/2021	1.936%	-	20,000
Convertible	02/28/2030	0.530%	<u>15,000</u>	<u>15,000</u>
			\$ <u>15,000</u>	<u>63,000</u>

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 \$140.5 million at December 31, 2021. In addition, the Company may pledge marketable debt securities as collateral where the qualifying loans are insufficient. At December 31, 2021, debt securities with a fair value of \$407.5 million were pledged as collateral for FHLB advances. At December 31, 2021, the Company had available credit if additional collateral were pledged of \$970.4 million.

**(11) Other Borrowings**

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, 2021, the Company was in compliance with the covenants.

The Company had a line of credit at a financial institution that would allow the Company to borrow up to \$12 million. The agreement required that the Company maintain a \$100,000 balance which was the amount outstanding at December 31, 2020. The agreement was terminated in 2021.

(continued)

**FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements, Continued**

**(12) Income Taxes**

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

	<u>Year Ended December 31,</u>	
	<u>2021</u>	<u>2020</u>
Current:		
Federal	\$ 3,082	17,689
State	<u>573</u>	<u>5,076</u>
Total current	<u>3,655</u>	<u>22,765</u>
Deferred:		
Federal	4,992	(1,228)
State	<u>1,476</u>	<u>(407)</u>
Total deferred	<u>6,468</u>	<u>(1,635)</u>
Income tax expense	<u>\$ 10,123</u>	<u>21,130</u>

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

	<u>Year Ended December 31,</u>			
	<u>2021</u>		<u>2020</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Income taxes at statutory Federal rate	\$ 11,844	21.0%	\$ 17,869	21.0%
Increase (decrease) in taxes resulting from:				
State taxes, net of Federal tax benefit	1,619	2.9	3,689	4.3
Income from bank-owned life insurance	(137)	(0.2)	(193)	(0.2)
Tax-exempt interest income	(1,297)	(2.3)	(1,179)	(1.4)
Other	<u>(1,906)</u>	<u>(3.5)</u>	<u>944</u>	<u>1.1</u>
Total	<u>\$ 10,123</u>	<u>17.9%</u>	<u>\$ 21,130</u>	<u>24.8%</u>

(continued)

**FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements, Continued**

**(12) Income Taxes, Continued**

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

	<u>At December 31,</u>	
	<u>2021</u>	<u>2020</u>
Deferred tax assets:		
Allowance for loan losses	\$ 6,128	6,707
Deferred compensation	3,962	3,601
Nonaccrual interest income	113	470
Impaired debt securities	107	107
Unrealized loss on derivative instrument	-	192
Accrued expenses	3,204	3,243
Fair market value adjustment	1,166	1,319
Other	<u>557</u>	<u>662</u>
Total deferred tax assets	<u>15,237</u>	<u>16,301</u>
Deferred tax liabilities:		
Deferred loan costs	(1,098)	(1,057)
Mortgage servicing rights	(21,808)	(16,942)
Unrealized gain in debt securities available for sale	(3,097)	(9,394)
Unrealized gain on derivative instrument	(851)	-
Depreciation	(2,265)	(1,624)
Prepaid expenses	<u>(616)</u>	<u>(568)</u>
Total deferred tax liabilities	<u>(29,735)</u>	<u>(29,585)</u>
Net deferred tax liability	\$ <u>(14,498)</u>	<u>(13,284)</u>

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 2018.

**(13) 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)

**FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements, Continued**

**(13) 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, 2021 follows (in thousands):

	<b><u>Contract Amount</u></b>
Unused lines of credit	\$ <u>41,845</u>
Undisbursed loans in process	\$ <u>85,950</u>
Commitments to extend credit	\$ <u>59,378</u>
Standby letters of credit	\$ <u>2,831</u>

(continued)

**FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements, Continued**

**(14) Derivative Financial Instruments**

**Interest-Rate Risk Management-Cash Flow Hedging Instruments.** The information pertaining to outstanding interest-rate swap agreements used to hedge variable rate debt is as follows (\$ in thousands):

	<u>At December 31,</u>	
	<u>2021</u>	<u>2020</u>
Notional amount	\$ 122,000	122,000
Pay rate fixed	0.83%	0.83%
Weighted-average receive rate variable	0.13%	0.61%
Weighted-average maturity in years	4.49	5.49
Unrealized gain (loss) relating to interest-rate swap	\$ 3,465	(1,071)
Amount estimated to be reclassified from OCI as an increase to interest expense during the next twelve months	\$ 259	790

This agreement provides for the Company to receive payments at a variable rate determined by a specified index (USD LIBOR) in exchange for making payments at a fixed-rate.

The interest-rate cap agreement used to hedge variable rate debt was terminated in April, 2021 for a gain of \$4.6 million. Information pertaining to the agreement at December 31, 2020 is as follows (\$ in thousands):

Notional amount	\$ 100,000
Purchase strike rate	0.70%
Maturity in year	8.29
Unrealized gain relating to interest-rate cap	\$ 689
Amount estimated to be reclassified from OCI as an increase to interest expense during the next twelve months	\$ 639

**Rate-Lock Commitments.** The total outstanding rate-lock commitments at December 31, 2021 and 2020 were approximately \$206.9 million and \$322.0 million, respectively. The fair value of rate-lock commitments at December 31, 2021 and 2020 were \$3.6 million and \$15.4 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, 2021 and 2020 were \$307 million and \$772 million, respectively. The fair value of forward loan sale commitments were \$191,000 and \$5.8 million at December 31, 2021 and 2020, respectively, are included in other liabilities in the accompanying consolidated balance sheets.

(continued)

**FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements, Continued**

**(15) Fair Value of Financial Instruments**

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

	At December 31,			
	2021		2020	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Financial assets:				
Cash and cash equivalents	\$ 497,923	497,923	165,198	165,198
Restricted cash	281,817	281,817	220,265	220,265
Time deposits	9,012	9,012	17,774	17,774
Debt securities available for sale	1,264,227	1,264,227	713,306	713,306
Loans held for sale, net	191,171	191,171	477,566	477,566
Loans	879,326	885,702	1,198,662	1,220,127
Accrued interest receivable	13,043	13,043	11,618	11,618
Federal Home Loan Bank stock	2,097	2,097	4,642	4,642
Servicing rights	101,800	103,204	67,897	68,389
Interest-rate cap	-	-	689	689
Interest-rate swap	3,693	3,693	-	-
Rate-lock commitments	3,671	3,671	15,439	15,439
Forward loan sale contracts	203	203	-	-
Financial liabilities:				
Deposits	2,937,850	2,927,360	2,534,124	2,442,785
Federal Home Loan Bank advances	15,000	15,143	63,000	63,819
Other borrowings	36,053	32,670	36,069	33,540
Interest-rate swap	228	228	1,071	1,071
Rate-lock commitments	62	62	-	-
Forward loan sale contracts	394	394	5,828	5,828
Off-balance-sheet financial instruments	-	-	-	-

(continued)

**FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements, Continued**

**(16) Regulatory Matters**

The Bank is 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 Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts, and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

The Bank is 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, 2021 and 2020, the Bank's capital conservation buffer exceeds the minimum requirement of 2.50%.

As of December 31, 2021 and 2020, 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, 2021, that the Bank meets all capital adequacy requirements to which it is subject. The Bank's actual capital amounts and percentages are presented in the table (\$ in thousands):

	<u>Actual</u>		<u>For Capital Adequacy Purposes</u>		<u>Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
<i>As of December 31, 2021:</i>						
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
<i>As of December 31, 2020:</i>						
Common equity tier 1 capital ratio	\$ 292,394	15.44%	\$ 85,233	4.50%	\$ 123,115	6.50%
Tier 1 capital ratio	292,394	15.44	113,645	6.00	151,526	8.00
Total capital ratio	316,178	16.69	151,526	8.00	189,407	10.00
Tier 1 leverage ratio	292,394	9.79	119,486	4.00	149,358	5.00

(continued)



**FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements, Continued**

**(17) 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 \$5.2 million and \$5.4 million for the years ended December 31, 2021 and 2020, respectively.

**(18) 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.

**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, 2021 and 2020, \$6.4 million and \$4.1 million, respectively, was accrued under all of these plans. During the years ended December 31, 2021 and 2020, \$643,000 and \$444,000, respectively, was expensed under all of these plans.

(continued)

**FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements, Continued**

**(19) 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.

**(20) Fair Value Measurements**

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

	<u>Fair Value</u>	<u>Quoted Prices In Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<i>At December 31, 2021:</i>				
<i>Available-for-Sale Debt Securities:</i>				
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	<u>320,789</u>	<u>-</u>	<u>320,789</u>	<u>-</u>
Total	\$ <u>1,264,227</u>	<u>-</u>	<u>1,264,227</u>	<u>-</u>
Loans held for sale, net	\$ <u>191,170</u>	<u>-</u>	<u>191,170</u>	<u>-</u>
Rate-lock commitments, net	\$ <u>3,609</u>	<u>-</u>	<u>-</u>	<u>3,609</u>
Forward loan sale contracts, net	\$ <u>(191)</u>	<u>-</u>	<u>-</u>	<u>(191)</u>
Servicing rights at fair value	\$ <u>97,940</u>	<u>-</u>	<u>-</u>	<u>97,940</u>
Derivative instruments, interest rate contracts	\$ <u>3,465</u>	<u>-</u>	<u>3,465</u>	<u>-</u>

(continued)

**FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements, Continued**

**(20) Fair Value Measurements, Continued**

	<u>Fair Value</u>	<u>Quoted Prices In Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<i>At December 31, 2020:</i>				
<i>Available-for-Sale Debt Securities:</i>				
Corporate bonds	\$ 12,299	-	12,299	-
Municipal securities	417,210	-	417,210	-
Collateralized mortgage obligations	92,076	-	92,076	-
SBA pool securities	309	-	309	-
Asset-backed securities	42,048	-	42,048	-
Mortgage-backed securities	<u>149,363</u>	<u>-</u>	<u>149,363</u>	<u>-</u>
Total	\$ <u>713,305</u>	<u>-</u>	<u>713,305</u>	<u>-</u>
Loans held for sale, net	\$ <u>477,566</u>	<u>-</u>	<u>477,566</u>	<u>-</u>
Rate-lock commitments, net	\$ <u>15,439</u>	<u>-</u>	<u>-</u>	<u>15,439</u>
Forward loan sale contracts, net	\$ <u>(5,828)</u>	<u>-</u>	<u>-</u>	<u>(5,828)</u>
Servicing rights at fair value	\$ <u>63,107</u>	<u>-</u>	<u>-</u>	<u>63,107</u>
Derivative instruments, interest rate contracts	\$ <u>382</u>	<u>-</u>	<u>382</u>	<u>-</u>

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):

	<u>Year Ended December 31,</u>					
	<u>2021</u>			<u>2020</u>		
	<u>Rate-Lock Commitments Net</u>	<u>Forward Loan Sale Contracts Net</u>	<u>MSR at FMV</u>	<u>Rate-Lock Commitments Net</u>	<u>Forward Loan Sale Contracts Net</u>	<u>MSR at FMV</u>
Balance at beginning of year	\$ 15,439	(5,828)	63,107	1,986	(393)	36,661
Total gains or losses (realized/unrealized) purchases, issuances and net settlements	<u>(11,830)</u>	<u>5,637</u>	<u>34,833</u>	<u>13,453</u>	<u>(5,435)</u>	<u>26,446</u>
Balance at end of year	\$ <u>3,609</u>	<u>(191)</u>	<u>97,940</u>	<u>15,439</u>	<u>(5,828)</u>	<u>63,107</u>

(continued)

**FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements, Continued**

**(20) 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):

	<b>Classification of Gains and Losses (Realized/Unrealized) Included in Earnings Year Ended December 31,</b>	
	<b><u>2021</u> Net <u>Derivatives</u></b>	<b><u>2020</u> Net <u>Derivatives</u></b>
Mortgage-banking revenue	\$ (6,193)	<u>8,018</u>
Servicing rights retained from loans sold	\$ <u>20,488</u>	<u>19,509</u>

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

	<b><u>Fair Value</u></b>	<b><u>At Year End</u></b>				<b>(Recoveries) Losses Recorded in Earnings for the Year Ended</b>
		<b><u>Level 1</u></b>	<b><u>Level 2</u></b>	<b><u>Level 3</u></b>	<b><u>Total Losses</u></b>	
<b><i>At December 31, 2021:</i></b>						
Impaired loans:						
Commercial real estate	\$ 2,141	-	-	2,141	667	4
Residential real estate	1,805	-	-	1,805	397	33
Commercial	-	-	-	-	-	-
Consumer loans	<u>6</u>	<u>-</u>	<u>-</u>	<u>6</u>	<u>1</u>	<u>(1)</u>
Total	\$ <u>3,952</u>	<u>-</u>	<u>-</u>	<u>3,952</u>	<u>1,065</u>	<u>36</u>
Mortgage servicing rights at lower of cost or market	\$ <u>5,264</u>	<u>-</u>	<u>-</u>	<u>5,264</u>	<u>-</u>	<u>(967)</u>
<b><i>At December 31, 2020:</i></b>						
Impaired loans:						
Commercial real estate	\$ 1,758	-	-	1,758	624	(27)
Residential real estate	2,191	-	-	2,191	273	116
Construction	548	-	-	548	14	14
Consumer loans	<u>487</u>	<u>-</u>	<u>-</u>	<u>487</u>	<u>207</u>	<u>26</u>
Total	\$ <u>4,984</u>	<u>-</u>	<u>-</u>	<u>4,984</u>	<u>1,118</u>	<u>129</u>
Mortgage servicing rights at lower of cost or market	\$ <u>5,282</u>	<u>-</u>	<u>-</u>	<u>5,282</u>	<u>859</u>	<u>859</u>

(continued)

**FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements, Continued**

**(21) Consolidating Financial Statements**

**Consolidating Balance Sheet**  
**At December 31, 2021**  
(in thousands)

	<u>First Federal Bancorp, Inc. Consolidation</u>						
	First Federal Bancorp, MHC	First Federal Bancorp, Inc.	First Federal Bank Consolidated	Consolidating Entries Debit (Credit)	Consolidated	Consolidating Entries Debit (Credit)	Consolidated
<b>Assets</b>							
Cash and due from banks	\$ 200	6,701	8,712	(6,375)	9,038	(200) <sup>(a)</sup>	9,038
Interest-bearing deposits	-	-	488,885	-	488,885	-	488,885
Restricted cash	-	-	281,817	-	281,817	-	281,817
Time deposits	-	-	9,012	-	9,012	-	9,012
Debt securities available for sale	-	-	1,264,227	-	1,264,227	-	1,264,227
Investment in subsidiaries	355,457	384,265	-	(384,265)	-	(355,457) <sup>(b)</sup>	-
Loans, net	-	-	1,070,496	-	1,070,496	-	1,070,496
Accrued interest receivable	-	-	13,043	-	13,043	-	13,043
Premises and equipment, net	-	-	39,485	-	39,485	-	39,485
Right of Use lease asset	-	-	651	-	651	-	651
Federal Home Loan Bank stock, at cost	-	-	2,097	-	2,097	-	2,097
Cash surrender value of bank-owned life insurance	-	-	36,978	-	36,978	-	36,978
Servicing rights, net	-	-	101,800	-	101,800	-	101,800
Goodwill	-	-	28,965	-	28,965	-	28,965
Other assets	-	711	74,325	-	75,036	-	75,036
<b>Total assets</b>	<b>\$ <u>355,657</u></b>	<b><u>391,677</u></b>	<b><u>3,420,493</u></b>	<b><u>(390,640)</u></b>	<b><u>3,421,530</u></b>	<b><u>(355,657)</u></b>	<b><u>3,421,530</u></b>
<b>Liabilities and Equity</b>							
<b>Liabilities:</b>							
Deposits	-	-	2,944,425	(6,375)	2,938,050	(200) <sup>(a)</sup>	2,937,850
Federal Home Loan Bank advances	-	-	15,000	-	15,000	-	15,000
Junior Subordinated Debt	-	6,053	-	-	6,053	-	6,053
Other borrowings	-	30,000	-	-	30,000	-	30,000
Operating leases	-	-	657	-	657	-	657
Deferred income taxes	-	151	14,347	-	14,498	-	14,498
Other liabilities	-	16	61,799	-	61,815	-	61,815
<b>Total liabilities</b>	<b>-</b>	<b>36,220</b>	<b>3,036,228</b>	<b>(6,375)</b>	<b>3,066,073</b>	<b>(200)</b>	<b>3,065,873</b>
<b>Equity:</b>							
Capital stock	-	-	1	(1)	-	-	-
Retained earnings and accumulated other comprehensive income	355,657	355,457	384,264	(384,264)	355,457	(355,457) <sup>(b)</sup>	355,657
<b>Total liabilities and equity</b>	<b>\$ <u>355,657</u></b>	<b><u>391,677</u></b>	<b><u>3,420,493</u></b>	<b><u>(390,640)</u></b>	<b><u>3,421,530</u></b>	<b><u>(355,657)</u></b>	<b><u>3,421,530</u></b>

<sup>(a)</sup> Elimination of intercompany accounts

<sup>(b)</sup> Elimination of investment in subsidiaries

(continued)

**FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements, Continued**

**(21) Consolidating Financial Statements, Continued**

**Consolidating Statement of Earnings**  
**At December 31, 2021**

(in thousands)

	First Federal Bancorp, Inc. Consolidation						
	First Federal Bancorp, MHC	First Federal Bancorp, Inc.	First Federal Bank Consolidated	Consolidating Entries Debit (Credit)	Consolidated	Consolidating Entries Debit (Credit)	Consolidated
Interest income:							
Loans	\$ -	-	59,428	-	59,428	-	59,428
Debt securities	-	-	20,108	-	20,108	-	20,108
Other	-	82	3,646	-	3,728	-	3,728
Total interest income	<u>-</u>	<u>82</u>	<u>83,182</u>	<u>-</u>	<u>83,264</u>	<u>-</u>	<u>83,264</u>
Interest expense							
Deposits	-	-	3,734	-	3,734	-	3,734
Borrowings	-	1,994	1,649	-	3,643	-	3,643
Total interest expense	<u>-</u>	<u>1,994</u>	<u>5,383</u>	<u>-</u>	<u>7,377</u>	<u>-</u>	<u>7,377</u>
Net interest income	<u>-</u>	<u>(1,912)</u>	<u>77,799</u>	<u>-</u>	<u>75,887</u>	<u>-</u>	<u>75,887</u>
Credit for loan losses	<u>-</u>	<u>-</u>	<u>(2,051)</u>	<u>-</u>	<u>(2,051)</u>	<u>-</u>	<u>(2,051)</u>
Net interest income after credit for loan losses	<u>-</u>	<u>(1,912)</u>	<u>79,850</u>	<u>-</u>	<u>77,938</u>	<u>-</u>	<u>77,938</u>
Noninterest income:							
Loan servicing fees	-	-	21,814	-	21,814	-	21,814
Servicing rights retained from loans sold	-	-	18,591	-	18,591	-	18,591
Mortgage banking revenue	-	-	37,673	-	37,673	-	37,673
Service charges on deposit accounts	-	-	5,465	-	5,465	-	5,465
Other service charges and fees	-	-	2,173	-	2,173	-	2,173
Gain on sale of debt securities available for sale	-	-	611	-	611	-	611
Gain on termination of interest rate cap	-	-	4,582	-	4,582	-	4,582
Income from bank-owned life insurance	-	-	650	-	650	-	650
Interchange income	-	-	6,166	-	6,166	-	6,166
Other	46,268	47,936	460	(47,972) <sup>(a)</sup>	424	(46,268) <sup>(a)</sup>	424
Total noninterest income	<u>46,268</u>	<u>47,936</u>	<u>98,185</u>	<u>(47,972)</u>	<u>98,149</u>	<u>(46,268)</u>	<u>98,149</u>
Noninterest expenses:							
Salaries and employee benefits	-	9	82,430	(9)	82,430	-	82,430
Occupancy and equipment	-	2	11,964	(2)	11,964	-	11,964
Professional fees	-	25	3,242	(25)	3,242	-	3,242
Other	-	196	21,879	-	22,075	-	22,075
Total noninterest expenses	<u>-</u>	<u>232</u>	<u>119,515</u>	<u>(36)</u>	<u>119,711</u>	<u>-</u>	<u>119,711</u>
Earnings before income taxes	46,268	45,792	58,520	(47,936)	56,376	(46,268)	56,376
Income tax	<u>-</u>	<u>(476)</u>	<u>10,599</u>	<u>-</u>	<u>10,123</u>	<u>-</u>	<u>10,123</u>
Noncontrolling interest	<u>-</u>	<u>-</u>	<u>(15)</u>	<u>-</u>	<u>(15)</u>	<u>-</u>	<u>(15)</u>
Net earnings attributable to members	\$ <u>46,268</u>	<u>46,268</u>	<u>47,936</u>	<u>(47,936)</u>	<u>46,268</u>	<u>(46,268)</u>	<u>46,268</u>

<sup>(a)</sup> Elimination of income of subsidiaries