

FIRST FEDERAL BANCORP, MHC

Parent Company for



First Federal
BANK of FLORIDA

Audited Consolidated Financial Statements

**As of December 31, 2017 and 2016 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:

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, 2017 and 2016, and the related consolidated statements of earnings, comprehensive income, equity and cash flows for the years then ended, and the related notes to financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of their operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

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, 2017, 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, 2018 expressed an unmodified opinion.

A handwritten signature in black ink that reads "Hacker, Johnson & Smith PA". The signature is written in a cursive, flowing style.

HACKER, JOHNSON & SMITH PA
Tampa, Florida
March 28, 2018

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Consolidated Balance Sheets
(In thousands)

Assets	<u>At December 31,</u>	
	<u>2017</u>	<u>2016</u>
Cash and due from banks	\$ 8,443	5,854
Interest-earning deposits with banks	<u>49,367</u>	<u>104,761</u>
Total cash and cash equivalents	57,810	110,615
Restricted cash	-	83,140
Time deposits	21,957	16,980
Securities available for sale	461,053	238,843
Securities held to maturity at cost (fair value of \$136 and \$197)	88	120
Loans held for sale, net	29,037	20,654
Loans, net of allowance for loan losses of \$5,435 and \$4,797	654,575	551,829
Accrued interest receivable	7,265	4,903
Premises and equipment, net	24,014	20,544
Federal Home Loan Bank stock, at cost	2,893	4,077
Foreclosed real estate	216	1,065
Income taxes receivable	2,335	2,578
Cash surrender value of bank-owned life insurance	28,914	28,787
Mortgage servicing rights, net	38,546	35,823
Other assets	<u>51,835</u>	<u>94,370</u>
Total	\$ <u>1,380,538</u>	<u>1,214,328</u>
 Liabilities and Equity		
Liabilities:		
Noninterest-bearing demand deposits	268,562	249,528
Interest checking and money-market deposits	648,320	492,974
Savings deposits	65,533	65,277
Time deposits	<u>138,006</u>	<u>134,550</u>
Total deposits	1,120,421	942,329
Federal Home Loan Bank advances	42,500	75,000
Deferred income taxes	10,109	9,795
Other liabilities	<u>20,338</u>	<u>20,439</u>
Total liabilities	1,193,368	1,047,563
Commitments and contingencies (Notes 1, 5, 11, 15 and 16)		
Retained earnings	181,879	165,663
Accumulated other comprehensive income	<u>5,291</u>	<u>1,102</u>
Total	\$ <u>1,380,538</u>	<u>1,214,328</u>

See accompanying Notes to Consolidated Financial Statements.

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Consolidated Statements of Earnings
(In thousands)

	Year Ended December 31,	
	<u>2017</u>	<u>2016</u>
Interest income:		
Loans.....	\$ 32,423	31,024
Securities	12,191	6,652
Other	<u>1,209</u>	<u>2,463</u>
Total interest income.....	<u>45,823</u>	<u>40,139</u>
Interest expense:		
Deposits	3,884	1,922
Borrowings	<u>836</u>	<u>359</u>
Total interest expense.....	<u>4,720</u>	<u>2,281</u>
Net interest income	41,103	37,858
Provision for loan losses	<u>1,445</u>	<u>-</u>
Net interest income after provision for loan losses.....	<u>39,658</u>	<u>37,858</u>
Noninterest income:		
Loan servicing fees	7,115	6,543
Mortgage servicing rights retained from loans sold	2,793	6,162
Mortgage banking revenue	8,104	7,926
Service charges on deposit accounts.....	3,566	3,691
Other service charges and fees.....	2,455	2,379
Gain on sale of securities available for sale.....	740	332
Other than temporary impairment of securities	-	(32)
Income from bank-owned life insurance	911	604
Debit card interchange income	2,949	2,809
Other	<u>385</u>	<u>485</u>
Total noninterest income.....	<u>29,018</u>	<u>30,899</u>
Noninterest expense:		
Salaries and employee benefits.....	31,931	30,093
Occupancy and equipment.....	5,816	5,597
Professional fees	2,848	1,275
Other expenses.....	<u>11,162</u>	<u>9,425</u>
Total noninterest expense.....	<u>51,757</u>	<u>46,390</u>
Earnings before income taxes	16,919	22,367
Income tax (benefit) expense	<u>(161)</u>	<u>7,745</u>
Net earnings	\$ <u>17,080</u>	<u>14,622</u>

See accompanying Notes to Consolidated Financial Statements.

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

	Year Ended December 31,	
	<u>2017</u>	<u>2016</u>
Net earnings	\$ <u>17,080</u>	<u>14,622</u>
Other comprehensive income (loss):		
Change in unrealized gain on securities available for sale:		
Unrealized gain (loss) arising during the year	6,243	(1,795)
Reclassification adjustment for realized gains	(740)	(332)
Reclassification adjustment for other-than-temporary impairment losses recognized	<u>-</u>	<u>32</u>
Net change in unrealized gain.....	5,503	(2,095)
Deferred income tax benefit on above change	(1,314)	(920)
One-time reclassification for newly enacted corporate tax rate	<u>(864)</u>	<u>-</u>
Total other comprehensive income (loss)	<u>3,325</u>	<u>(1,175)</u>
Comprehensive income.....	\$ <u>20,405</u>	<u>13,447</u>

See accompanying Notes to Consolidated Financial Statements.

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Consolidated Statements of Equity

Years Ended December 31, 2017 and 2016

(In thousands)

	<u>Retained</u> <u>Earnings</u>	<u>Accumulated</u> <u>Other</u> <u>Compre-</u> <u>hensive</u> <u>Income</u>	<u>Total</u>
Balance at December 31, 2015.....	\$ 151,041	2,277	153,318
Net earnings	14,622	-	14,622
Net change in unrealized gain on securities available for sale, net of income taxes of \$920	<u> -</u>	<u>(1,175)</u>	<u>(1,175)</u>
Balance at December 31, 2016.....	165,663	1,102	166,765
Net earnings	17,080	-	17,080
Net change in unrealized gain on securities available for sale, net of income taxes of \$1,314 and reclassification of newly enacted corporate tax rate	<u> (864)</u>	<u> 4,189</u>	<u> 3,325</u>
Balance at December 31, 2017.....	\$ <u>181,879</u>	<u> 5,291</u>	<u>187,170</u>

See accompanying Notes to Consolidated Financial Statements.

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Consolidated Statements of Cash Flows
(In thousands)

	<u>Year Ended December 31,</u>	
	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Net earnings	\$ 17,080	14,622
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Provision for loan losses	1,445	-
Depreciation	1,627	1,543
Deferred income tax (benefit) expense	(1,864)	3,361
Net amortization of premiums and discounts on securities	6,619	2,540
Net amortization of deferred loan costs.....	183	69
Loss on sale of premise and equipment.....	-	121
Gain on sale of securities available for sale	(740)	(332)
Other than temporary impairment of securities	-	32
Net loss on sale of foreclosed real estate.....	9	4
Write-down of foreclosed real estate.....	49	24
Origination of loans held for sale, net	(698,350)	(936,807)
Proceeds from sale of loans held for sale and loan securitizations.....	698,071	965,693
Mortgage banking revenue.....	(8,104)	(7,926)
Income from bank-owned life insurance.....	(911)	(604)
(Increase) decrease in accrued interest receivable.....	(2,362)	371
Net increase in mortgage servicing rights	(2,723)	(6,487)
Decrease (increase) in other assets.....	42,535	(81,452)
Decrease (increase) in income tax receivable.....	243	(400)
(Decrease) increase in other liabilities	(101)	2,442
Net cash provided by (used in) operating activities.....	<u>52,706</u>	<u>(43,186)</u>
Cash flows from investing activities:		
Decrease (increase) in restricted cash.....	83,140	(62,619)
Purchases of securities available for sale.....	(399,407)	(71,997)
Principal repayments of securities available for sale	73,395	33,792
Maturities and calls of securities available for sale	9,582	6,158
Net proceeds from sales of securities available for sale.....	93,844	29,921
Principal repayments of securities held to maturity	32	-
Purchase of time deposits	(4,977)	(13,666)
Maturities of time deposits	-	2,628
Net increase in loans	(104,755)	(14,747)
Purchases of premises and equipment, net	(5,097)	(1,603)
Proceeds from sale of premise and equipment, net	-	99
Proceeds from sale of foreclosed real estate	1,172	1,399
Redemption (purchase) of Federal Home Loan Bank stock.....	1,184	(3,202)
Proceeds from BOLI claim.....	784	-
Net cash used in investing activities.....	<u>(251,103)</u>	<u>(93,837)</u>
Cash flows from financing activities:		
Increase in deposits	178,092	125,420
Increase in Federal Home Loan Bank advances.....	<u>(32,500)</u>	<u>75,000</u>
Net cash provided by financing activities.....	<u>145,592</u>	<u>200,420</u>
Net (decrease) increase in cash and cash equivalents.....	(52,805)	63,397
Cash and cash equivalents at beginning of year	<u>110,615</u>	<u>47,218</u>
Cash and cash equivalents at end of year	\$ <u>57,810</u>	<u>110,615</u>

(continued)

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

	<u>Year Ended December 31,</u>	
	<u>2017</u>	<u>2016</u>
Supplemental disclosure of cash flow information –		
Cash paid during the year for:		
Income taxes	\$ <u>1,228</u>	<u>4,786</u>
Interest	\$ <u>4,686</u>	<u>2,278</u>
Noncash transactions:		
Loans transferred to foreclosed real estate	\$ <u>381</u>	<u>1,725</u>
Capitalized mortgage servicing rights	\$ <u>4,701</u>	<u>8,982</u>
Net change in unrealized gain on securities available for sale, net of taxes	\$ <u>(3,325)</u>	<u>(1,175)</u>
One-time reclassification for newly enacted tax rate	\$ <u>(864)</u>	<u>-</u>

See accompanying Notes to Consolidated Financial Statements.

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements

At December 31, 2017 and 2016 and for the Years Then Ended

(1) Organization and Summary of Significant Accounting Policies

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 of Florida (the "Bank" or "First Federal") which serves its customers through 17 branches across North Florida. The Bank has two loan production offices located in Florida and Wisconsin. Lines of business include a mortgage processing company, wholesale lending, warehouse lending, consumer direct lending and manufactured housing lending. The Bank's deposits are insured up to the applicable limits by the Federal Deposit Insurance Corporation ("FDIC"). During the year ended December 31, 2017 the Company dissolved subsidiaries of the Bank. These were First Federal Financial Services Corporation ("FFFSC"), an investment advisor, Suwannee Valley Service Corporation, a real estate development company, and Community Tax Stabilization Fund, Inc., formerly FF Purchasing Corporation, a company that invested in tax liens.

On November 7, 2017, the Company announced the signing of a definitive merger agreement under which the Company will acquire Coastal Banking Company, Inc. (CBCO). Under the terms of the agreement the Company will pay \$21.50 per share for each CBCO common share and stock option outstanding in a transaction valued at approximately \$83.2 million. The Company has received all regulatory approvals and has a tentative closing date of April 2, 2018.

In April of 2017 the Company established a new subsidiary of the Bank. FFBF Investments, Inc., is a Delaware based company to perform investment management for the Bank.

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, 2018, which is the date the consolidated financial statements were available to be issued, determining no events require additional disclosure in the consolidated financial statements.

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

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

(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.

The Company may be required under Federal Reserve Board regulations to maintain reserves, generally consisting of cash, interest-bearing deposits with the Federal Reserve Bank or noninterest-earning accounts with qualifying banks, against its transaction accounts. Required reserves were \$2.3 million and \$2.2 million at December 31, 2017 and 2016, respectively.

Restricted Cash. The Bank may use cash as well as securities to collateralize its participation in the State of Florida Qualified Public Depositor Program. The cash was held in trust by the State of Florida and can be released by request of the Bank so long as the required collateral was maintained. There was no restricted cash at December 31, 2017.

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

The Company assesses individual securities in its investment securities portfolio for impairment at least on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. An investment is impaired if the fair value of the security is less than its carrying value at the financial statement date. When a security is impaired, the Company then determines whether this impairment is temporary or other-than-temporary. In estimating other-than-temporary impairment ("OTTI") losses, management assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of these criteria is met, the entire difference between amortized cost and fair value is recognized in earnings. For securities that do not meet the aforementioned criteria, the amount of impairment recognized in earnings is limited to the amount related to credit losses, while impairment related to other factors is recognized in accumulated other comprehensive income. Management utilizes cash flow models to segregate impairments to distinguish between impairment related to credit losses and impairment related to other factors.

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

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

Securities, Continued. To assess for OTTI, management considers, among other things, (i) the severity and duration of the impairment; (ii) the ratings of the security; (iii) the overall transaction structure (the Company's position within the structure, the aggregate, near-term financial performance of the underlying collateral, delinquencies, defaults, loss severities, recoveries, prepayments, cumulative loss projections, and discounted cash flows); and (iv) the timing and magnitude of a break in modeled cash flows.

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

Loans. Loans 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.

All interest accrued but not collected for loans that are placed on nonaccrual or charged-off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Loan Losses. The allowance for loan losses is established as losses are estimated to have occurred through a credit for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. There were no changes in the Company's accounting policies or methodology during the years ended December 31, 2017 or 2016.

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

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

Allowance for Loan Losses, Continued. 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.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for all loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral-dependent.

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(1) Organization and Summary of Significant Accounting Policies, 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. Prior to 2014, the Company recorded servicing assets based on the lower of cost or market. Beginning in 2014, the Company began recording servicing assets at fair value. 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, 2017 and 2016, all impairment of servicing assets has been recorded.

Premises and Equipment. Land is carried at cost. Building and improvements and furniture and equipment are carried at cost, less accumulated depreciation computed using the straight-line 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.

Goodwill and Core Deposit Intangibles. Goodwill represents the excess of the acquisition cost over the fair value of the net assets acquired in acquisitions. GAAP requires goodwill to be tested for impairment on an annual basis and between annual tests in certain circumstances, and written down when impaired. Management has internally evaluated goodwill in accordance with GAAP and determined, based on a qualitative assessment, that it is not more-likely-than-not that the fair value of the reporting unit is less than its carrying value as of December 31, 2017 and 2016 and therefore has determined that there was no impairment of goodwill during the years ended December 31, 2017 and 2016. There can be no assurance that future goodwill impairment tests will not result in a charge to earnings. As of December 31, 2017 and 2016, the Company had goodwill in the amount of \$1.73 million which is included in other assets in the accompanying consolidated balance sheets.

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(1) Organization and Summary of Significant Accounting Policies, 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, 2016 the Company determined the CDI was not impaired.

Asset acquired through acquisitions included intangible assets consisting of CDI are 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>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
The Bank of Bonifay.....	\$ 777	90 months	\$ 90	103	-	90
Chipola Community.....	6	33 months	-	1	-	-
Bank of Jackson County	<u>556</u>	48 months	<u>139</u>	<u>139</u>	<u>-</u>	<u>139</u>
	\$ <u>1,339</u>		\$ <u>229</u>	<u>243</u>	<u>-</u>	<u>229</u>

The CDI was included in other assets in accompanying consolidated balance sheets.

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.

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

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

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 at fair value. The Company recognizes mortgage banking revenue from mortgage loans originated and securitized in the consolidated statements of earnings upon sale of the loans.

Income Taxes. There are two components of income taxes: current and deferred. Current income taxes reflect taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur. Deferred income taxes result from changes in deferred tax assets and liabilities between periods.

Deferred tax assets are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized. As of December 31, 2017, 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 Holding Companies and the Bank file consolidated income tax returns. Income taxes are allocated proportionately to the Holding Company and the Bank as though separate income tax returns were filed.

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

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

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

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

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.

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.

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

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

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:

Securities Available for Sale. Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include highly liquid government bonds, certain mortgage products and exchange-traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows. Examples of such instruments, which would generally be classified within Level 2 of the valuation hierarchy, include certain collateralized mortgage and debt obligations, U.S. Government agency bonds, corporate bonds, municipal bonds, and certain high-yield debt securities. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy. Securities classified within Level 3 include certain residual interests in securitizations and other less liquid securities.

Derivatives. Exchange-traded derivatives that are valued using quoted prices are classified within Level 1 of the valuation hierarchy. However, few classes of derivative contracts are listed on an exchange; thus, the majority of the 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 sale contracts.

Impaired Loans. The Company's impaired loans are normally collateral dependent and, as such, are carried at the lower of the Company's net recorded investment in the loan or the estimated fair value of the collateral less estimated selling costs. Estimates of fair value are determined based on a variety of information, including the use of available appraisals, estimates of market value by licensed appraisers or local real estate brokers and the knowledge and experience of the Company's management related to values of properties in the Company's market areas. Management takes into consideration the type, location and occupancy of the property as well as current economic conditions in the area the property is located in assessing estimates of fair value. Accordingly, fair value estimates for impaired loans is classified as Level 3.

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

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

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

Foreclosed Real Estate. The Company's foreclosed real estate is recorded at the lower of cost or fair value less estimated selling costs. Estimates of fair values are determined based on a variety of information, including the use of available appraisals, estimates of market value by licensed appraisers or local real estate brokers and the knowledge and experience of the Company's management related to values of properties in the Company's market areas. Management takes into consideration the type, location and occupancy of the property as well as current economic conditions in the area the property is located in assessing estimates of fair value. Accordingly, the fair values estimates for foreclosed real estate are classified as Level 3.

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

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

Cash and Cash Equivalents. The carrying amounts of cash approximate fair value.

Restricted Cash: The carrying amounts of restricted cash approximate fair value.

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

Securities. Fair values for securities held to maturity and 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.

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

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

Fair Value of Financial Instruments, Continued.

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.

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

Federal Home Loan Bank (“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.

Accrued Interest Payable. The carrying amount of accrued interest payable approximates its fair value.

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 assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the consolidated balance sheet, such items, along with net earnings and the one-time reclassification of the newly enacted corporate tax rate, are components of comprehensive income. The tax effects of items included in accumulated other comprehensive income are released as each individual item matures, sold or dispose of.

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

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

Reclassifications. Certain amounts in the 2016 consolidated financial statements have been reclassified to conform to the 2017 presentation.

Recent Pronouncements. In January 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which is intended to enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information. The ASU requires equity investments to be measured at fair value with changes in fair values recognized in net earnings, simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment and eliminates the requirement to disclose fair values, the methods and significant assumptions used to estimate the fair value of financial instruments, measured at amortized cost. The ASU also clarifies that the Company should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale debt securities in combination with the Company's other deferred tax assets. These amendments are effective for the Company beginning January 1, 2019. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Lease (Topic 842)* which will require lessees to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases with a term of more than twelve months. Consistent with current GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. The new ASU will require both types of leases to be recognized on the consolidated balance sheets. The ASU also will require disclosures to help investors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements, providing additional information about the amounts recorded in the consolidated financial statements. The ASU is effective for fiscal years beginning after December 15, 2019 and for interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted. The Company is in the process of determining the effect of the ASU on its consolidated financial statements.

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

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

Recent Pronouncements, Continued. In June 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-13 *Financial Instruments-Credit Losses (Topic 326)*. The ASU requires the Company to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. The Company will continue to use judgment to determine which loss estimation method is appropriate for their circumstances. The ASU requires enhanced disclosures to help investors and other 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 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 is effective for fiscal years beginning after December 15, 2020, and for interim periods within fiscal years beginning after December 15, 2021. Early adoption is permitted. The Company is in the process of determining the effect of the ASU on its consolidated financial statements.

In March 2017, the FASB issued ASU No. 2017-08, *Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities*. The ASU shortens the amortization period for certain callable debt securities held at a premium, the ASU requires the premium to be amortized to the earliest call date. No accounting change is required for securities held at a discount. The ASU is effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted. The Company has early adopted this ASU and did not have a material impact on the Company's consolidated financial statements.

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

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

Recent Pronouncements, Continued. In January 2017, the FASB issued ASU No. 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*. The ASU provides a screen to determine when an integrated set of assets and activities (a "set") is not a business. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. This screen reduces the number of transactions that need to be further evaluated. If the screen is not met, the ASU (1) requires that to be considered a business, a set must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output and (2) remove the evaluation of whether a market participant could replace missing elements. The amendments provide a framework to assist entities in evaluating whether both an input and a substantive process are present. The framework includes two sets of criteria to consider that depend on whether a set has outputs. Although outputs are not required for a set to be a business, outputs generally are a key element of a business. The ASU is effective for annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. Early adoption is permitted. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

In August 2017, the FASB issued ASU No. 2017-12, *Derivatives and Hedging (Topic 815) Targeted Improvements to Accounting for Hedge Activities*. The ASU better aligns an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. To meet that objective, the ASU expands and refines hedge accounting for both nonfinancial and financial risk components and aligns the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. The ASU is effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

In February 2018, the FASB issued ASU No. 2018-02, *Income Statement Reporting Comprehensive Income (Topic 220)*. The ASU provides an option for a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the newly enacted federal corporate income tax rate. The amount of the reclassification would be the difference between the historical corporate income tax rate and the newly enacted 21% corporate income tax rate. The Company early adopted the ASU. The effects of the ASU were to increase accumulated other comprehensive income by \$864,000 and decrease retained earnings by the same amount.

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(2) Securities

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

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
Securities Available for Sale:				
<i>At December 31, 2017:</i>				
U.S. Government agency bonds	\$ 1,027	-	(24)	1,003
Corporate bonds.....	4,500	157	-	4,657
Municipal securities.....	212,551	5,804	(132)	218,223
Collateralized mortgage obligations	111,243	2,130	(736)	112,637
SBA pool securities	87,057	326	(95)	87,288
Asset-backed securities	15,420	81	-	15,501
Mortgage-backed securities	<u>22,171</u>	<u>28</u>	<u>(455)</u>	<u>21,744</u>
	\$ <u>453,969</u>	<u>8,526</u>	<u>(1,442)</u>	<u>461,053</u>
<i>At December 31, 2016:</i>				
U.S. Government agency bonds	\$ 2,484	-	(42)	2,442
Corporate bonds.....	1,000	29	-	1,029
Municipal securities.....	53,086	2,189	(443)	54,832
Collateralized mortgage obligations	103,066	1,707	(1,200)	103,573
SBA pool securities	11,898	28	(124)	11,802
Asset-backed securities	16,795	-	(129)	16,666
Mortgage-backed securities	<u>48,933</u>	<u>61</u>	<u>(495)</u>	<u>48,499</u>
	\$ <u>237,262</u>	<u>4,014</u>	<u>(2,433)</u>	<u>238,843</u>
Securities Held to Maturity:				
<i>At December 31, 2017-</i>				
Corporate bonds	\$ <u>88</u>	<u>48</u>	<u>-</u>	<u>136</u>
<i>At December 31, 2016-</i>				
Corporate bonds	\$ <u>120</u>	<u>77</u>	<u>-</u>	<u>197</u>

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(2) Securities, Continued

The following summarizes sales of securities (in thousands):

	<u>Year Ended December 31,</u>	
	<u>2017</u>	<u>2016</u>
Proceeds.....	\$ <u>93,844</u>	<u>29,921</u>
Gross gains	996	982
Gross losses	<u>(256)</u>	<u>(650)</u>
Net gain.....	\$ <u>740</u>	<u>332</u>

The scheduled maturities of securities at December 31, 2017 are as follows (in thousands):

	<u>Securities Available</u>		<u>Securities Held</u>	
	<u>for Sale</u>		<u>to Maturity</u>	
	<u>Amortized</u>	<u>Fair</u>	<u>Amortized</u>	<u>Fair</u>
	<u>Cost</u>	<u>Value</u>	<u>Cost</u>	<u>Value</u>
Due before one year.....	\$ 1,980	2,045	-	-
Due after one year through five years.....	17,296	18,342	-	-
Due after five through ten years ...	196,860	201,247	-	-
Due thereafter	1,942	2,249	88	136
Collateralized mortgage obligations	111,243	112,637	-	-
SBA pool securities	87,057	87,288	-	-
Asset-backed securities.....	15,420	15,501		
Mortgage-backed securities	<u>22,171</u>	<u>21,744</u>	<u>-</u>	<u>-</u>
	\$ <u>453,969</u>	<u>461,053</u>	<u>88</u>	<u>136</u>

At December 31, 2017 and 2016, the Company pledged, as collateral for state and municipal deposits, securities with a carrying value of \$109,148,000 and \$0, respectively.

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(2) Securities, Continued

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

	<u>Less Than Twelve Months</u>		<u>Over Twelve Months</u>	
	<u>Gross</u>	<u>Fair</u>	<u>Gross</u>	<u>Fair</u>
	<u>Unrealized</u>	<u>Value</u>	<u>Unrealized</u>	<u>Value</u>
	<u>Losses</u>		<u>Losses</u>	<u>Value</u>
<i>December 31, 2017:</i>				
U.S. Government agency bonds	\$ -	-	(24)	1,003
Municipal securities.....	(40)	11,932	(92)	8,136
Collateralized mortgage obligations	(456)	48,710	(280)	17,517
SBA pool securities	(36)	20,479	(59)	4,548
Mortgage-backed securities	<u>(116)</u>	<u>10,362</u>	<u>(339)</u>	<u>6,752</u>
Total.....	\$ <u>(648)</u>	<u>91,483</u>	<u>(794)</u>	<u>37,956</u>
<i>December 31, 2016:</i>				
U.S. Government agency bonds	\$ (15)	1,009	(27)	1,433
Municipal securities.....	(443)	11,601	-	-
Collateralized mortgage obligations	(587)	50,577	(613)	27,678
SBA pool securities	(114)	7,566	(10)	586
Asset-backed securities.....	(129)	16,666	-	-
Mortgage-backed securities	<u>(407)</u>	<u>19,501</u>	<u>(88)</u>	<u>2,527</u>
Total.....	\$ <u>(1,695)</u>	<u>106,920</u>	<u>(738)</u>	<u>32,224</u>

At December 31, 2017 and 2016 the unrealized losses on 55 and 59 investment 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.

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(2) Securities, Continued

The Company invests in residential Collateralized Mortgage Obligations ("CMO's") included in securities available for sale and corporate bonds held to maturity. Quarterly, management stress tests all CMO's and corporate bonds via a third party resource that takes into account housing price appreciation (depreciation), interest rates, expected loss trends, both nationally and in geographic areas represented by the CMO and future cash flows of the corporate bonds. These stress tests are done, where data is available, at the individual loan level, opposed to using averages from services such as Bloomberg. If these stress tests indicate, on a present value basis, the Company will not receive the contracted cash flows; the Company makes an other-than-temporary impairment charge through the consolidated statements of earnings. Based on the lack of an active market and the results of the Company's continuing valuation of the underlying collateral and cash flows of these securities, these securities have been deemed as other-than-temporarily impaired. Based on current accounting policies, the portion of losses deemed as credit losses is charged against earnings and the portion deemed as noncredit losses is included in other comprehensive loss. As of December 31, 2017, the Company's management does not intend to sell these securities, nor is it more likely than not that the Company will be required to sell the securities for liquidity or other reasons.

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

	<u>Year Ended December 31,</u>			
	<u>2017</u>		<u>2016</u>	
	<u>Impairment Losses</u>	<u>Fair Value</u>	<u>Impairment Losses</u>	<u>Fair Value</u>
<i>Securities Available for Sale-</i>				
Collateralized mortgage				
obligations	\$ <u>-</u>	<u>706</u>	<u>(32)</u>	<u>806</u>
<i>Securities Held to Maturity-</i>				
Corporate bonds.....	\$ <u>-</u>	<u>136</u>	<u>-</u>	<u>197</u>

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

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(3) Loans

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

	<u>At December 31,</u>	
	<u>2017</u>	<u>2016</u>
Real estate mortgage loans:		
Commercial real estate	\$ 156,821	141,780
Residential real estate	110,193	105,599
Construction and land.....	<u>41,310</u>	<u>28,466</u>
Total real estate mortgage loans.....	308,324	275,845
Commercial loans:		
Warehouse lines of credit	148,325	130,756
Other Commercial	<u>52,040</u>	<u>43,264</u>
Total commercial loans	200,365	174,020
Consumer loans	<u>152,577</u>	<u>109,198</u>
Subtotal.....	661,266	559,063
Deduct (add):		
Allowance for loan losses.....	5,435	4,797
Loan discount	1,321	2,429
Net deferred loan origination fees (costs).....	<u>(65)</u>	<u>8</u>
Loans, net	\$ <u>654,575</u>	<u>551,829</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):

	Real Estate Mortgage Loans	Commercial Loans	Consumer Loans	Total
<i>Year Ended December 31, 2017:</i>				
Beginning balance.....	\$ 2,593	1,114	1,090	4,797
Provision (credit) for loan losses.....	512	(190)	1,123	1,445
Charge-offs.....	(330)	(38)	(832)	(1,200)
Recoveries.....	<u>209</u>	<u>7</u>	<u>177</u>	<u>393</u>
Ending balance.....	\$ <u>2,984</u>	<u>893</u>	<u>1,558</u>	<u>5,435</u>
<i>Year Ended December 31, 2016:</i>				
Beginning balance.....	\$ 2,911	1,145	1,249	5,305
(Credit) provision for loan losses.....	(101)	(43)	144	-
Charge-offs.....	(262)	(4)	(586)	(852)
Recoveries.....	<u>45</u>	<u>16</u>	<u>283</u>	<u>344</u>
Ending balance.....	\$ <u>2,593</u>	<u>1,114</u>	<u>1,090</u>	<u>4,797</u>
<i>At December 31, 2017:</i>				
Balance in allowance for loan losses:				
Individually evaluated for impairment.....	\$ 95	1	-	96
Collectively evaluated for impairment.....	<u>2,889</u>	<u>892</u>	<u>1,558</u>	<u>5,339</u>
Total ending allowance balance.....	\$ <u>2,984</u>	<u>893</u>	<u>1,558</u>	<u>5,435</u>
Recorded investment:				
Individually evaluated for impairment.....	\$ 6,917	2	111	7,030
Collectively evaluated for impairment.....	<u>301,407</u>	<u>200,363</u>	<u>152,466</u>	<u>654,236</u>
Total ending loan balance.....	\$ <u>308,324</u>	<u>200,365</u>	<u>152,577</u>	<u>661,266</u>
<i>At December 31, 2016:</i>				
Balance in allowance for loan losses:				
Individually evaluated for impairment.....	\$ 158	-	-	158
Collectively evaluated for impairment.....	<u>2,435</u>	<u>1,114</u>	<u>1,090</u>	<u>4,639</u>
Total ending allowance balance.....	\$ <u>2,593</u>	<u>1,114</u>	<u>1,090</u>	<u>4,797</u>
Recorded investment:				
Individually evaluated for impairment.....	\$ 11,426	171	152	11,749
Collectively evaluated for impairment.....	<u>264,419</u>	<u>173,849</u>	<u>109,046</u>	<u>547,314</u>
Total ending loan balance.....	\$ <u>275,845</u>	<u>174,020</u>	<u>109,198</u>	<u>559,063</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 Company considers the market conditions and feasibility of proposed projects, the financial condition and reputation of the borrower and guarantors, the amount of the borrower's equity in the project, independent appraisals, costs estimates and pre-construction sale information. The Company also makes loans on occasion for the purchase of land for future development by the borrower. Land loans are extended for the future development for either commercial or residential use by the borrower. The Company carefully analyzes the intended use of the property and the viability thereof.

Commercial Loans. Commercial loans are segmented into two classes: warehouse lines of credit and other commercial loans. Warehouse lending provides a line of credit to mortgage bankers throughout the United States who use the lines to fund 1-4 family residential lending for sale within 90 days into the secondary market. Other commercial loans are primarily underwritten on the basis of the borrowers' ability to service such debt from income. The cash flows of borrowers, however, may not be as expected and the collateral securing these loans may fluctuate in value. As a general practice, the Bank 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

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

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

	<u>Real Estate Mortgage Loans</u>			<u>Commercial Loans</u>	<u>Consumer Loans</u>	<u>Total</u>
	<u>Commercial Real Estate</u>	<u>Residential Estate</u>	<u>Construction and Land</u>			
<i>Credit Risk Profile by Internally Assigned Grade:</i>						
<i>At December 31, 2017:</i>						
Grade:						
Pass	\$ 131,195	106,370	40,286	199,531	151,855	629,237
Special mention.....	17,760	119	-	805	95	18,779
Substandard.....	<u>7,866</u>	<u>3,704</u>	<u>1,024</u>	<u>29</u>	<u>627</u>	<u>13,250</u>
Total	\$ <u>156,821</u>	<u>110,193</u>	<u>41,310</u>	<u>200,365</u>	<u>152,577</u>	<u>661,266</u>
<i>At December 31, 2016:</i>						
Grade:						
Pass	\$ 126,754	102,168	26,907	173,525	108,961	538,315
Special mention.....	5,007	168	-	281	21	5,477
Substandard.....	<u>10,019</u>	<u>3,263</u>	<u>1,559</u>	<u>214</u>	<u>216</u>	<u>15,271</u>
Total	\$ <u>141,780</u>	<u>105,599</u>	<u>28,466</u>	<u>174,020</u>	<u>109,198</u>	<u>559,063</u>

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(3) Loans, Continued

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

Loans excluded from the review process above are generally classified as pass credits until: (a) they become past due; (b) management becomes aware of a deterioration in the credit worthiness of the borrower; or (c) the customer contacts the Company for a modification. In these circumstances, the loan is specifically evaluated for potential classification as to special mention, substandard or even charged-off. The Company uses the following definitions for risk ratings:

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

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

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

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

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

(continued)

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):

	Accruing Loans						
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Nonaccrual Loans	Total Loans
<i>At December 31, 2017:</i>							
Real estate mortgage loans:							
Commercial real estate	\$ 165	23	-	188	156,082	551	156,821
Residential real estate ⁽²⁾	3,325	1,536	31,617	36,478	72,024	1,691	110,193
Construction and land	2,052	-	-	2,052	38,603	655	41,310
Commercial loans	446	25	-	471	199,892	2	200,365
Consumer loans ⁽¹⁾	<u>1,725</u>	<u>1,140</u>	<u>1,857</u>	<u>4,722</u>	<u>147,759</u>	<u>96</u>	<u>152,577</u>
Total	\$ <u>7,713</u>	<u>2,724</u>	<u>33,474</u>	<u>43,911</u>	<u>614,360</u>	<u>2,995</u>	<u>661,266</u>
<i>At December 31, 2016:</i>							
Real estate mortgage loans:							
Commercial real estate	\$ 967	144	-	1,111	137,481	3,188	141,780
Residential real estate ⁽²⁾	2,566	1,670	21,595	25,831	78,114	1,654	105,599
Construction and land	2,005	-	-	2,005	25,416	1,045	28,466
Commercial loans	56	-	-	56	173,943	21	174,020
Consumer loans ⁽¹⁾	<u>1,279</u>	<u>1,061</u>	<u>2,068</u>	<u>4,408</u>	<u>104,661</u>	<u>129</u>	<u>109,198</u>
Total	\$ <u>6,873</u>	<u>2,875</u>	<u>23,663</u>	<u>33,411</u>	<u>519,615</u>	<u>6,037</u>	<u>559,063</u>

⁽¹⁾ At December 31, 2017 and 2016, guaranteed student loans were \$13.5 million and \$16.1 million, respectively. Guaranteed student loans of \$1.4 million and \$1.9 million at December 31, 2017 and 2016 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, 2017 and 2016, there were \$135,000 and \$211,000, respectively, of student loans 270+ days past due and accruing. At December 31, 2017 and 2016, FHA Title I loans were \$48.8 million and \$17.0 million, respectively. FHA Title I loans of \$450,000 and \$120,000 at December 31, 2017 and 2016, respectively, that are 90+ days past due and accruing are well secured by guarantees from the U.S Government and are in the process of collection.

⁽²⁾ Guaranteed loans in the process of collection or being rehabilitated to be held for sale were \$38.1 million and \$21.6 million at December 31, 2017 and 2016, 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>Unpaid Contractual</u>		<u>Unpaid Contractual</u>			<u>Unpaid Contractual</u>		
	<u>Recorded Investment</u>	<u>Principal Balance</u>	<u>Recorded Investment</u>	<u>Principal Balance</u>	<u>Related Allowance</u>	<u>Recorded Investment</u>	<u>Principal Balance</u>	<u>Related Allowance</u>
<i>December 31, 2017:</i>								
Real estate mortgage loans:								
Commercial real estate.....	\$ 2,264	2,619	399	444	95	2,663	3,063	95
Residential real estate	3,599	4,267	-	-	-	3,599	4,267	-
Construction and land	655	828	-	-	-	655	828	-
Commercial loans	-	-	2	7	1	2	7	1
Consumer loans	<u>111</u>	<u>118</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>111</u>	<u>118</u>	<u>-</u>
	\$ <u>6,629</u>	<u>7,832</u>	<u>401</u>	<u>451</u>	<u>96</u>	<u>7,030</u>	<u>8,283</u>	<u>96</u>
<i>December 31, 2016:</i>								
Real estate mortgage loans:								
Commercial real estate.....	\$ 6,238	6,749	835	851	158	7,073	7,600	158
Residential real estate	3,308	3,897	-	-	-	3,308	3,897	-
Construction and land	1,045	1,057	-	-	-	1,045	1,057	-
Commercial loans	171	171	-	-	-	171	171	-
Consumer loans	<u>152</u>	<u>181</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>152</u>	<u>181</u>	<u>-</u>
	\$ <u>10,914</u>	<u>12,055</u>	<u>835</u>	<u>851</u>	<u>158</u>	<u>11,749</u>	<u>12,906</u>	<u>158</u>

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>
<i>Year Ended December 31, 2017:</i>			
Real estate mortgage loans:			
Commercial real estate	\$ 4,051	141	235
Residential real estate	3,482	110	236
Construction and land	1,635	6	111
Commercial loans	66	-	5
Consumer loans	<u>126</u>	<u>4</u>	<u>9</u>
	\$ <u>9,360</u>	<u>261</u>	<u>596</u>
<i>Year Ended December 31, 2016:</i>			
Real estate mortgage loans:			
Commercial real estate	\$ 7,000	224	443
Residential real estate	3,565	89	193
Construction and land	710	1	15
Commercial loans	92	5	10
Consumer loans	<u>377</u>	<u>4</u>	<u>19</u>
	\$ <u>11,744</u>	<u>323</u>	<u>680</u>

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(3) Loans, Continued

Troubled debt restructurings ("TDR") during the years ended December 31, 2017 and 2016 are as follows (dollars in thousands):

	2017			2016		
	Number of Contracts	Pre- Modification Outstanding Recorded Investment	Post- Modification Outstanding Recorded Investment	Number of Contracts	Pre- Modification Outstanding Recorded Investment	Post- Modification Outstanding Recorded Investment
<i>Troubled Debt Restructurings:</i>						
Real estate mortgage loans:						
Commercial real estate:						
Modified amortization.....	2	\$ 60	60	1	\$ 161	161
Modified interest rate, principal and amortization	3	311	263	3	576	456
Residential real estate:						
Modified amortization.....	1	47	49	4	365	365
Modified interest rate and amortization	-	-	-	1	67	67
Modified interest rate, principal and amortization	3	222	171	2	96	87
Consumer loans:						
Modified interest rate and amortization	-	-	-	3	37	37
Modified interest rate, principal and amortization	-	-	-	1	6	6
	<u>9</u>	<u>\$ 640</u>	<u>543</u>	<u>15</u>	<u>\$ 1,308</u>	<u>1,179</u>

The allowance for loan losses on all classes or loans that have been restructured and are considered TDRs is included in the Company's specific reserve. The specific reserve is determined on a loan by loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, or the fair value of the collateral if the loan is collateral-dependent. TDR's that have subsequently defaulted are considered collateral-dependent. There were no TDRs modified during the years ended December 31, 2017 or 2016 that subsequently defaulted during the same year.

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(3) Loans, Continued

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

	Year Ended December 31,	
	2017	2016
Beginning balance	\$ 8	(103)
Deferred loan origination fees	396	567
Capitalized direct underwriting costs	(652)	(525)
Net amortization	183	69
Ending balance	\$ (65)	8

Concentrations of Credit Risk. The Company grants the majority of its loans to borrowers throughout the Florida counties of Baker, Columbia, Hamilton, Holmes, Jackson, Lafayette, Nassau, Suwanee, and Washington. Although the Company has a diversified loan portfolio, a significant portion of its borrowers' ability to honor their contracts is dependent upon the economy in the North Central Florida area. The Company does not have significant concentrations to any one industry or customer and other than warehouse lines of credit.

(4) Loan Servicing

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

	At December 31,	
	2017	2016
Mortgage loan portfolios serviced for:		
Government agencies:		
FHLB	\$ 7,092	10,192
FHLMC	2,715,406	2,601,463
GNMA	1,151,730	1,130,967
FNMA	53,029	32,492
All other	199,292	177,952
	\$ 4,126,549	3,953,066

Custodial escrow balances maintained in connection with loans serviced for others were \$23,913,000 and \$22,514,000 at December 31, 2017 and 2016, respectively. The escrow balances are included in noninterest-bearing demand deposits in the accompanying consolidated balance sheets.

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(4) Loan Servicing, Continued

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

	<u>Year Ended December 31,</u>	
	<u>2017</u>	<u>2016</u>
Beginning balance.....	\$ 36,052	29,889
Additions from loans originated and sold.....	4,701	8,982
Amortization.....	(1,908)	(2,820)
Recovery.....	<u> -</u>	<u> 1</u>
Ending balance.....	38,845	36,052
Allowance.....	(248)	(178)
Discount.....	<u> (51)</u>	<u> (51)</u>
Mortgage servicing rights, net.....	\$ <u>38,546</u>	<u>35,823</u>
Allowance for impairment beginning balance.....	178	380
Additions.....	101	332
Reductions.....	<u> (31)</u>	<u> (534)</u>
Allowance for impairment ending balance.....	\$ <u> 248</u>	<u> 178</u>

During the year ended December 31, 2017, the fair value of mortgage servicing rights was determined using discount rates ranging from 9.50% to 13.25% for all loans serviced and prepayment speeds ranging from 132.00% to 459.00%, depending on the stratification of the specific rights. For the year ended December 31, 2016, the discount rates ranged from 9.51% to 14.00% with prepayment speeds ranging from 112.00% to 409.00%.

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

	<u>At Ended December 31,</u>			
	<u>2017</u>		<u>2016</u>	
	<u>Carrying</u>	<u>Fair</u>	<u>Carrying</u>	<u>Fair</u>
	<u>Value</u>	<u>Value</u>	<u>Value</u>	<u>Value</u>
Mortgage Service Rights, at fair market value.....	\$ 28,920	28,920	24,219	24,219
Mortgage Service Rights, at lower of cost or market value.....	<u> 9,626</u>	<u> 14,034</u>	<u> 11,604</u>	<u> 16,515</u>
Total	\$ <u>38,546</u>	<u>42,954</u>	<u>35,823</u>	<u>40,734</u>

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(4) Loan Servicing, Continued

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

	<u>Year Ended December 31,</u>	
	<u>2017</u>	<u>2016</u>
Servicing fees received from investors net of servicing expense.....	\$ <u>7,115</u>	<u>6,543</u>
Mortgage servicing rights additions from loans originated and sold	4,701	8,982
Less amortization of mortgage servicing rights	<u>(1,908)</u>	<u>(2,820)</u>
	<u>2,793</u>	<u>6,162</u>
Income from servicing and rights	\$ <u>9,908</u>	<u>12,705</u>

(5) Premises and Equipment

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

	<u>At December 31,</u>	
	<u>2017</u>	<u>2016</u>
Land	\$ 6,170	5,354
Buildings and improvements	20,537	19,274
Furniture and equipment.....	<u>15,984</u>	<u>13,992</u>
Total, at cost	42,691	38,620
Less accumulated depreciation	<u>18,677</u>	<u>18,076</u>
Premises and equipment, net	\$ <u>24,014</u>	<u>20,544</u>

The Company leases office space for its operations under noncancellable leases which expire in 2018 and 2019. Rent expense was \$388,000 and \$452,000 for the years ended December 31, 2017 and 2016, respectively. Future minimum rental commitments under these leases are \$265,000 in 2018 and \$474,000 in 2019.

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(6) Deposits and Economic Dependence

The aggregate amount of time deposits with a minimum denomination of \$100,000 was approximately \$77.7 million and \$75.5 million at December 31, 2017 and 2016, respectively.

A schedule of maturities of time deposits at December 31, 2017 is as follows (in thousands):

<u>Year Ending December 31,</u>	
2018.....	\$ 90,167
2019.....	20,045
2020.....	9,844
2021.....	13,525
2022 and thereafter.....	<u>4,425</u>
	<u>\$ 138,006</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 \$247.9 million and \$231.5 million at December 31, 2017 and 2016, respectively.

(7) 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):

	<u>December 31,</u>	
	<u>2017</u>	<u>2016</u>
Deposits	\$ <u>4,439</u>	<u>3,909</u>
Loans	\$ <u>6,721</u>	<u>7,822</u>

(8) Federal Home Loan Bank Advances

There were \$42.5 million in outstanding advances at December 31, 2017. One advance of \$25 million is a fixed rate credit maturing on January 31, 2018 at a rate of 1.42%. The other advance of \$17.5 million is a daily rate credit maturing on December 31, 2018 with a current rate of 1.59%. Advances outstanding at December 31, 2016 were \$75 million. 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 \$67 million at December 31, 2017. In addition, the Company may pledge additional marketable securities as collateral where the qualifying loans are insufficient. At December 31, 2017, securities with a fair value of \$55.6 million were pledged as collateral for FHLB advances. At December 31, 2017, the Company had available credit if additional collateral were pledged of \$368 million.

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(9) 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>2017</u>	<u>2016</u>
Current:		
Federal	\$ 1,336	3,642
State	<u>367</u>	<u>742</u>
Total current	<u>1,703</u>	<u>4,384</u>
Deferred:		
Federal	(2,245)	2,799
State	<u>381</u>	<u>562</u>
Total deferred	<u>(1,864)</u>	<u>3,361</u>
Income (benefit) taxes	\$ <u>(161)</u>	<u>7,745</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>2017</u>		<u>2016</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Income taxes at statutory Federal rate.....	\$ 5,922	35.0%	\$ 7,828	35.0%
Increase (decrease) in taxes resulting from:				
State taxes, net of Federal tax benefit.....	487	2.9	848	3.8
Income from bank-owned life insurance	(319)	(1.9)	(209)	(0.9)
Reduction in federal income tax rate.....	(4,097)	(24.2)	-	-
Tax-exempt interest income	(1,996)	(11.8)	(892)	(4.0)
Other	<u>(158)</u>	<u>(0.1)</u>	<u>170</u>	<u>0.7</u>
Total.....	\$ <u>(161)</u>	<u>(0.1)%</u>	\$ <u>7,745</u>	<u>34.6%</u>

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(9) Income Taxes, Continued

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

	<u>At December 31,</u>	
	<u>2017</u>	<u>2016</u>
Deferred tax assets:		
Allowance for loan losses.....	\$ 1,377	1,866
Deferred compensation.....	1,605	1,933
Nonaccrual interest income	63	72
Charitable contributions	37	80
Impaired securities.....	78	119
Accrued expenses	319	437
Other	<u>-</u>	<u>139</u>
Total deferred tax assets	<u>3,479</u>	<u>4,646</u>
Deferred tax liabilities:		
Purchase accounting on FDIC-assisted transactions ...	(51)	(50)
Deferred loan costs	(289)	(391)
Mortgage servicing rights	(9,448)	(11,696)
Unrealized gain in securities available for sale	(1,793)	(479)
Depreciation	(1,003)	(1,455)
Prepaid expenses	(288)	(370)
Other	<u>(716)</u>	<u>-</u>
Total deferred tax liabilities	<u>(13,588)</u>	<u>(14,441)</u>
Net deferred tax liability.....	\$ <u>(10,109)</u>	<u>(9,795)</u>

The Company files consolidated income tax returns in the U.S. federal jurisdiction and the State of Florida, Wisconsin and Delaware. The Company is no longer subject to U.S. federal, or state and local income tax examinations by taxing authorities for years before 2014.

On December 22, 2017, the “Tax Cuts and Jobs Act of 2017,” or the Tax Act, was signed into law. The Tax Act, among other things, reduced the maximum statutory federal corporate income tax rate from 35% to 21% effective January 1, 2018. As a result of the enactment of the Tax Act, the Company revalued its net deferred tax liability. This revaluation resulted in a reduction to the income tax provision of \$4.1 million.

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(10) Off-Balance-Sheet Financial Instruments

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

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

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed-expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Company upon extension of credit is based on management's credit evaluation of the counterparty.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. All outstanding letters of credit expire in the next twelve months. The Company 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, 2017 follows (in thousands):

	<u>Contract Amount</u>
Unused lines of credit	\$ <u>16,036</u>
Undisbursed loans in process.....	\$ <u>52,455</u>
Commitments to extend credit.....	\$ <u>30,809</u>
Standby letters of credit	\$ <u>529</u>

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(11) Derivative Financial Instruments

Rate-Lock Commitments. The total outstanding rate-lock commitments at December 31, 2017 and 2016 were approximately \$62.9 million and \$86.3 million, respectively. The fair value of rate-lock commitments at December 31, 2017 and 2016 were \$1.1 million and \$1.4 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, 2017 and 2016 were \$78.7 million and \$92.2 million, respectively. The fair value of forward loan sale commitments were \$93,000 and \$168,000 at December 31, 2017 and 2016, respectively, are included in other liabilities and other assets, respectively, in the accompanying consolidated balance sheets.

(12) Fair Value of Financial Instruments

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

	<u>At December 31,</u>			
	<u>2017</u>		<u>2016</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Financial assets:				
Cash and cash equivalents	\$ 57,810	57,810	110,615	110,615
Restricted cash.....	-	-	83,140	83,140
Time deposits.....	21,957	21,957	16,980	16,980
Securities available for sale	461,053	461,053	238,843	238,843
Securities held to maturity	88	136	120	197
Loans held for sale, net.....	29,037	29,037	20,654	20,654
Loans	654,575	658,944	551,829	558,153
Accrued interest receivable.....	7,265	7,265	4,903	4,903
Federal Home Loan Bank stock.....	2,893	2,893	4,077	4,077
Mortgage servicing rights	38,546	42,954	35,823	40,734
Rate-lock commitments	1,085	1,085	1,489	1,489
Forward loan sale contracts	32	32	428	428
Financial liabilities:				
Deposits	1,120,421	1,119,010	942,349	941,473
Accrued interest payable.....	40	40	11	11
Federal Home Loan Bank advances	42,500	42,495	75,000	74,989
Rate-lock commitments	2	2	107	107
Forward loan sale contracts	125	125	260	260
Off-balance-sheet financial instruments	-	-	-	-

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(13) Regulatory Matters

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

Effective January 1, 2015, the Bank became subject to the new Basel III capital level threshold requirements under the Prompt Corrective Action regulations with full compliance with all the final rule's requirements phased in over a multi-year schedule. These new regulations were designed to ensure that banks maintain strong capital positions even in the event of severe economic downturns or unforeseen losses.

Changes that could affect the Company and the Bank going forward include additional constraints on the inclusion of deferred tax assets in capital and increased risk weightings for nonperforming loans and acquisition/development loans in regulatory capital.

Beginning January 1, 2016, the Company and the Bank became 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, 2017 and 2016, the Company and the Bank's capital conservation buffer exceeds the minimum requirement of 1.25% and 0.625%, respectively. The required buffer will be phased in at 0.625% on each January 1st over the next two years.

As of December 31, 2017 and 2016, the Bank was well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage percentages as set forth in the table. There are no conditions or events since that notification that management believes have changed the institution's category.

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(13) Regulatory Matters, Continued

	<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, 2017:</i>						
<i>Bank:</i>						
Common equity tier 1						
capital ratio	\$ 164,305	20.13%	\$ 36,730	4.50%	\$ 53,050	6.50%
Tier I capital ratio	164,305	20.13	48,970	6.00	65,300	8.00
Total capital ratio	170,555	20.90	65,290	8.00	81,620	10.00
Tier 1 leverage ratio	164,305	11.34	57,977	4.00	72,471	5.00
<i>Company:</i>						
Common equity tier 1						
capital ratio	170,008	20.81	36,770	4.50	N/A	N/A
Tier I capital ratio	170,008	20.81	49,020	6.00	N/A	N/A
Total capital ratio	176,258	21.57	65,350	8.00	N/A	N/A
Tier 1 leverage ratio	170,008	11.68	58,200	4.00	N/A	N/A
<i>As of December 31, 2016:</i>						
<i>Bank:</i>						
Common equity tier 1						
capital ratio	149,697	18.31	36,795	4.50	53,148	6.50
Tier I capital ratio	149,697	18.31	49,060	6.00	65,413	8.00
Total capital ratio	155,215	18.98	65,413	8.00	81,766	10.00
Tier 1 leverage ratio	149,697	12.09	49,521	4.00	61,902	5.00
<i>Company:</i>						
Common equity tier 1						
capital ratio	155,436	18.99	36,840	4.50	N/A	N/A
Tier I capital ratio	155,436	18.99	49,150	6.00	N/A	N/A
Total capital ratio	160,954	19.66	65,490	8.00	N/A	N/A
Tier 1 leverage ratio	155,436	12.50	49,750	4.00	N/A	N/A

(14) Profit Sharing Plan

The Company sponsors a Section 401(k) profit sharing plan (the "Plan") which is available to all employees electing to participate after meeting certain length-of-service requirements. The Company's contributions to the Plan are discretionary and are determined annually. Expenses relating to the Company's contributions to the Plan, included in the accompanying consolidated financial statements, were \$1,546,000 and \$1,427,000 for the years ended December 31, 2017 and 2016, respectively.

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(15) 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 and 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 in the discretion of the Company. The other plan (Plan B) is similar except that the money is converted to units and earns a return equal to the Company's return on equity each year. The units are a means to compound the returns. In the event the Company was to have publicly traded stock, the units would be priced at the public stock price. The plan is funded via mandatory reductions from 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, 2017 and 2016, \$3.6 million and \$3.4 million respectively, was accrued in total under all of these plans. During the years ended December 31, 2017 and 2016, \$458,000 and \$423,000, respectively, was expensed in total under all of these plans.

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(16) 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.

(17) 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, 2017:</i>				
<i>Available-for-Sale Securities:</i>				
U.S. Government agency bonds	\$ 1,003	-	1,003	-
Corporate bonds	4,657	-	4,657	-
Municipal securities	218,223	-	218,223	-
Collateralized mortgage obligations	112,637	-	112,637	-
SBA pool securities	87,288	-	87,288	-
Asset-backed securities.....	15,501	-	15,501	-
Mortgage-backed securities	<u>21,744</u>	<u>-</u>	<u>21,744</u>	<u>-</u>
 Total	 \$ <u>461,053</u>	 <u>-</u>	 <u>461,053</u>	 <u>-</u>
 Loans held for sale, net.....	 \$ <u>29,037</u>	 <u>-</u>	 <u>29,037</u>	 <u>-</u>
 Rate-lock commitments, net	 \$ <u>1,083</u>	 <u>-</u>	 <u>-</u>	 <u>1,083</u>
 Forward loan sale contracts, net.....	 \$ <u>93</u>	 <u>-</u>	 <u>-</u>	 <u>93</u>
 Mortgage servicing rights at fair market value.....	 \$ <u>28,920</u>	 <u>-</u>	 <u>-</u>	 <u>28,920</u>

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(17) Fair Value Measurements, Continued

	<u>Fair Value</u>	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<i>At December 31, 2016:</i>				
<i>Available-for-Sale Securities:</i>				
U.S. Government agency bonds	\$ 2,442	-	2,442	-
Corporate bonds	1,029	-	1,029	-
Municipal securities	54,832	-	54,832	-
Collateralized mortgage obligations	103,573	-	103,573	-
SBA pool securities	11,802	-	11,802	-
Asset-backed securities.....	16,666	-	16,666	-
Mortgage-backed securities	<u>48,499</u>	<u>-</u>	<u>48,499</u>	<u>-</u>
Total	\$ <u>238,843</u>	<u>-</u>	<u>238,843</u>	<u>-</u>
Loans held for sale, net.....	\$ <u>20,654</u>	<u>-</u>	<u>20,654</u>	<u>-</u>
Rate-lock commitments, net	\$ <u>1,382</u>	<u>-</u>	<u>-</u>	<u>1,382</u>
Forward loan sale contracts, net.....	\$ <u>168</u>	<u>-</u>	<u>-</u>	<u>168</u>
Mortgage servicing rights at fair market value.....	\$ <u>24,219</u>	<u>-</u>	<u>-</u>	<u>24,219</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>2017</u>			<u>2016</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.....	\$ 1,382	168	24,219	1,381	(167)	15,237
Total gains or losses (realized / unrealized) – purchases, issuances and net settlements	<u>(299)</u>	<u>(261)</u>	<u>4,701</u>	<u>1</u>	<u>335</u>	<u>8,982</u>
Balance at end of year.....	\$ <u>1,083</u>	<u>(93)</u>	<u>28,920</u>	<u>1,382</u>	<u>168</u>	<u>24,219</u>

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(17) Fair Value Measurements, Continued

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

	Classification of Gains and Losses (Realized/ Unrealized) Included in Earnings Year Ended December 31,	
	2017	2016
	Net	Net
	Derivatives	Derivatives
Mortgage-banking revenue	\$ <u>(560)</u>	<u>336</u>
Mortgage servicing rights retained from loans sold	\$ <u>4,701</u>	<u>8,982</u>

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

	At Year or Period End				Total (recov- eries) Losses	(Recoveries) Losses Recorded In Earnings For The Year Ended
	Fair Value	Level 1	Level 2	Level 3		
At December 31, 2017:						
Impaired loans:						
Commercial real estate.....	\$ 944	-	-	944	445	47
Residential real estate	727	-	-	727	340	21
Commercial.....	2	-	-	2	5	5
Construction.....	382	-	-	382	165	165
Consumer loans.....	<u>259</u>	<u>-</u>	<u>-</u>	<u>259</u>	<u>252</u>	<u>28</u>
Total	\$ <u>2,314</u>	<u>-</u>	<u>-</u>	<u>2,314</u>	<u>1,207</u>	<u>266</u>
Foreclosed real estate.....	\$ <u>216</u>	<u>-</u>	<u>-</u>	<u>216</u>	<u>-</u>	<u>-</u>
Mortgage servicing rights at lower of cost or market	\$ <u>14,034</u>	<u>-</u>	<u>-</u>	<u>14,034</u>	<u>70</u>	<u>70</u>
At December 31, 2016:						
Impaired loans:						
Commercial real estate.....	\$ 1,631	-	-	1,631	625	54
Residential real estate	810	-	-	810	319	28
Consumer loans.....	<u>300</u>	<u>-</u>	<u>-</u>	<u>300</u>	<u>235</u>	<u>77</u>
Total	\$ <u>2,741</u>	<u>-</u>	<u>-</u>	<u>2,741</u>	<u>1,179</u>	<u>159</u>
Foreclosed real estate.....	\$ <u>1,065</u>	<u>-</u>	<u>-</u>	<u>1,065</u>	<u>18</u>	<u>18</u>
Mortgage servicing rights at lower of cost or market	\$ <u>16,515</u>	<u>-</u>	<u>-</u>	<u>16,515</u>	<u>(202)</u>	<u>(202)</u>

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(18) Consolidating Financial Statements

Consolidating Balance Sheet

At December 31, 2017

(In thousands)

	First Federal Bancorp, MHC	First Federal Bancorp, Inc. Consolidation			Consolidating Entries Debit (Credit)	Consolidated	Consolidating Entries Debit (Credit)	Consolidated
		First Federal Bancorp, Inc.	First Federal Bank of Florida Consolidated	Consolidating Entries Debit (Credit)				
Assets								
Cash and due from banks	\$ 10	2,353	7,620	(1,530)	8,443	(10) ^(a)	8,443	
Interest-bearing deposits	-	21	49,346	-	49,367	-	49,367	
Restricted cash	-	-	-	-	-	-	-	
Time deposits	-	2,318	19,639	-	21,957	-	21,957	
Securities	-	1,003	460,138	-	461,141	-	461,141	
Investment in subsidiaries	187,160	181,472	-	(181,472)	-	(187,160) ^(b)	-	
Loans, net	-	-	683,612	-	683,612	-	683,612	
Accrued interest receivable	-	2	7,263	-	7,265	-	7,265	
Premises and equipment, net	-	-	24,014	-	24,014	-	24,014	
Federal Home Loan Bank stock, at cost	-	-	2,893	-	2,893	-	2,893	
Foreclosed real estate	-	-	216	-	216	-	216	
Income taxes receivable	-	-	2,335	-	2,335	-	2,335	
Cash surrender value of bank-owned life insurance	-	-	28,914	-	28,914	-	28,914	
Mortgage servicing rights, net	-	-	38,546	-	38,546	-	38,546	
Other assets	-	-	51,835	-	51,835	-	51,835	
Total assets	\$ 187,170	187,169	1,376,371	(183,002)	1,380,538	(187,170)	1,380,538	
Liabilities, Capital Stock and Retained Earnings and Accumulated Other Comprehensive Income								
Liabilities:								
Deposits	-	-	1,121,961	(1,530)	1,120,431	(10) ^(a)	1,120,421	
Federal Home Loan Bank Advances	-	-	42,500	-	42,500	-	42,500	
Deferred income taxes	-	(8)	10,117	-	10,109	-	10,109	
Other liabilities	-	17	20,321	-	20,338	-	20,338	
Total liabilities	-	9	1,194,899	(1,530)	1,193,378	(10)	1,193,368	
Capital stock	-	-	1	(1)	-	-	-	
Retained earnings and accumulated other comprehensive income	187,170	187,160	181,471	(181,471)	187,160	(187,160) ^(b)	187,170	
Total liabilities, capital stock and retained earnings and accumulated other comprehensive income	\$ 187,170	187,169	1,376,371	(183,002)	1,380,538	(187,170)	1,380,538	

(continued)

^(a) Elimination of intercompany accounts.

^(b) Elimination of investment in subsidiaries.

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(18) Consolidating Financial Statements, Continued

Consolidating Statement of Earnings

Year Ended December 31, 2017

(In thousands)

	First Federal Bancorp, MHC	First Federal Bancorp, Inc. Consolidation			Consolidated	Consolidating Entries Debit (Credit)	Consolidated
		First Federal Bancorp, Inc.	First Federal Bank of Florida Consolidated	Consolidating Entries Debit (Credit)			
Interest income:							
Loans	\$ -	-	32,423	-	32,423	-	32,423
Securities	-	14	12,177	-	12,191	-	12,191
Other	-	8	1,201	-	1,209	-	1,209
Total interest income	-	22	45,801	-	45,823	-	45,823
Interest expense:							
Deposits	-	-	3,884	-	3,884	-	3,884
Borrowings	-	-	836	-	836	-	836
Total interest expense	-	-	4,720	-	4,720	-	4,720
Net interest income	-	22	41,081	-	41,103	-	41,103
Provision for loan losses	-	-	1,445	-	1,445	-	1,445
Net interest income after provision for loan losses	-	22	39,636	-	39,658	-	39,658
Noninterest income:							
Loan servicing fees	-	-	7,115	-	7,115	-	7,115
Mortgage servicing rights retained from loans sold	-	-	2,793	-	2,793	-	2,793
Mortgage banking revenue	-	-	8,104	-	8,104	-	8,104
Service charges on deposit accounts	-	-	3,566	-	3,566	-	3,566
Other service charges and fees	-	-	2,455	-	2,455	-	2,455
Gain on sale of securities available for sale	-	-	740	-	740	-	740
Income from bank-owned life insurance	-	-	911	-	911	-	911
Debit card interchange income	-	-	2,949	-	2,949	-	2,949
Other	17,080	17,116	443	(17,174) ^(a)	385	(17,080) ^(a)	385
Total noninterest income	17,080	17,116	29,076	(17,174)	29,018	(17,080)	29,018
Noninterest expenses:							
Salaries and employee benefits	-	-	31,931	-	31,931	-	31,931
Occupancy and equipment	-	-	5,816	-	5,816	-	5,816
Professional fees	-	-	2,848	-	2,848	-	2,848
Other	-	58	11,162	(58)	11,162	-	11,162
Total noninterest expenses	-	58	51,757	(58)	51,757	-	51,757
Earnings before income taxes	17,080	17,080	16,955	(17,116)	16,919	(17,080)	16,919
Income tax	-	-	(161)	-	(161)	-	(161)
Net earnings	\$ 17,080	17,080	17,116	(17,116)	17,080	(17,080)	17,080

^(a) Elimination of income of subsidiaries.