FIRST FEDERAL BANCORP, MHC

Parent Company for

First Federal
BANK of FLORIDA

Audited Consolidated Financial Statements

**December 31, 2016 and 2015 and
the Years then Ended**

(Together with Independent Auditors' Report)

HACKER, JOHNSON & SMITH PA

Fort Lauderdale
Orlando
Tampa

Certified Public Accountants

Independent Auditors' Report

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

We have audited the accompanying consolidated financial statements of First Federal Bancorp, MHC and Subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of earnings, comprehensive income, equity and cash flows for the years then ended, and the related notes to financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2016 and 2015, 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.

Hacker, Johnson & Smith PA

HACKER, JOHNSON & SMITH PA
Tampa, Florida
March 28, 2017

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

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Consolidated Balance Sheets
(In thousands)

	At December 31, 2016	At December 31, 2015
Assets		
Cash and due from banks	$ 5,854	5,499
Interest-earning deposits with banks	104,761	41,719
Total cash and cash equivalents	110,615	47,218
Restricted cash	83,140	20,521
Time deposits	16,980	5,942
Securities available for sale	238,843	241,052
Securities held to maturity	120	120
Loans held for sale, net	20,654	41,614
Loans, net of allowance for loan losses of $4,797 and $5,305	551,829	538,876
Accrued interest receivable	4,903	5,274
Premises and equipment, net	20,544	20,704
Federal Home Loan Bank stock, at cost	4,077	875
Foreclosed real estate	1,065	767
Income taxes receivable	2,578	2,178
Cash surrender value of bank-owned life insurance	28,787	28,183
Mortgage servicing rights, net	35,823	29,336
Other assets	94,370	12,918
Total	$ 1,214,328	995,578
Liabilities and Equity		
Liabilities:		
Noninterest-bearing demand deposits	249,528	218,843
Interest checking and money-market deposits	492,974	405,128
Savings deposits	65,277	57,478
Time deposits	134,550	135,460
Total deposits	942,329	816,909
Federal Home Loan Bank advances	75,000	-
Deferred income taxes	9,795	7,354
Other liabilities	20,439	17,997
Total liabilities	1,047,563	842,260
Commitments and contingencies (Notes 5, 10 and 16)		
Retained earnings	165,663	151,041
Accumulated other comprehensive income	1,102	2,277
Total	$ 1,214,328	995,578

See accompanying Notes to Consolidated Financial Statements.

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Consolidated Statements of Earnings
(In thousands)

	Year Ended December 31, 2016	2015
Interest income:		
Loans	$ 31,024	27,855
Securities	6,652	6,725
Other	2,463	1,643
Total interest income	40,139	36,223
Interest expense:		
Deposits	1,922	1,489
Borrowings	359	84
Total interest expense	2,281	1,573
Net interest income	37,858	34,650
Credit for loan losses	-	(124)
Net interest income after credit for loan losses	37,858	34,774
Noninterest income:		
Loan servicing fees	6,543	5,925
Mortgage servicing rights retained from loans sold	6,162	4,975
Mortgage banking revenue	7,926	6,475
Service charges on deposit accounts	3,691	3,839
Other service charges and fees	2,379	2,277
Gain on sale of securities available for sale	332	968
Other than temporary impairment of securities	(32)	(144)
Income from bank-owned life insurance	604	641
Debit card interchange income	2,809	2,708
Other	485	1,527
Total noninterest income	30,899	29,191
Noninterest expense:		
Salaries and employee benefits	30,093	27,464
Occupancy and equipment	5,597	5,723
Professional fees	1,275	1,164
Other expenses	9,425	9,062
Total noninterest expense	46,390	43,413
Earnings before income taxes	22,367	20,552
Income taxes	7,745	6,809
Net earnings	$ 14,622	13,743

See accompanying Notes to Consolidated Financial Statements.

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income
(In thousands)

	Year Ended December 31, 2016	2015
Net earnings	$ 14,622	13,743
Other comprehensive loss:		
Change in unrealized gain on securities available for sale:		
Unrealized loss arising during the year	(1,795)	(1,509)
Reclassification adjustment for realized gains	(332)	(968)
Reclassification adjustment for other-than-temporary impairment losses recognized	32	144
Net change in unrealized gain	(2,095)	(2,333)
Deferred income tax benefit on above change	(920)	(857)
Total other comprehensive loss	(1,175)	(1,476)
Comprehensive income	$ 13,447	12,267

See accompanying Notes to Consolidated Financial Statements.

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Consolidated Statements of Equity

Years Ended December 31, 2016 and 2015
(In thousands)

	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance at December 31, 2014	$ 137,298	3,753	141,051
Net earnings	13,743	-	13,743
Net change in unrealized loss on securities available for sale, net of tax benefit of $857	-	(1,476)	(1,476)
Balance at December 31, 2015	151,041	2,277	153,318
Net earnings	14,622	-	14,622
Net change in unrealized loss on securities available for sale, net of tax benefit of $920	-	(1,175)	(1,175)
Balance at December 31, 2016	$ 165,663	1,102	166,765

See accompanying Notes to Consolidated Financial Statements.

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Consolidated Statements of Cash Flows
(In thousands)

	Year Ended December 31, 2016	2015
Cash flows from operating activities:		
Net earnings	$ 14,622	13,743
Adjustments to reconcile net earnings to net cash (used in) provided by operating activities:		
Credit for loan losses	-	(124)
Depreciation	1,543	1,723
Deferred income taxes	3,361	2,701
Net amortization of premiums and discounts on securities	2,540	2,894
Net amortization of deferred loan costs	69	90
Loss on sale of premise and equipment	121	-
Gain on sale of securities available for sale	(332)	(968)
Other than temporary impairment of securities	32	144
Net loss on sale of foreclosed real estate	4	100
Write-down of foreclosed real estate	24	220
Net gain on sale of branch office	-	(1,176)
Origination of loans held for sale, net	(936,807)	(917,168)
Proceeds from sale of loans held for sale and loan securitizations	965,693	922,202
Mortgage banking revenue	(7,926)	(3,709)
Income from bank-owned life insurance	(604)	(641)
Decrease (increase) in accrued interest receivable	371	(317)
Net increase in mortgage servicing rights	(6,487)	(5,236)
Increase in other assets	(81,452)	(530)
Increase in income tax receivable	(400)	(1,703)
Increase in other liabilities	2,442	3,251
Net cash (used in) provided by operating activities	(43,186)	15,496
Cash flows from investing activities:		
(Increase) decrease in restricted cash	(62,619)	40,802
Purchases of securities available for sale	(71,997)	(102,888)
Principal repayments of securities available for sale	33,792	13,195
Maturities and calls of securities available for sale	6,158	29,375
Net proceeds from sales of securities available for sale	29,921	33,433
Principal repayments of securities held to maturity	-	61
Purchase of time deposits	(13,666)	(250)
Sale of time deposits	-	325
Maturities of time deposits	2,628	6,835
Net increase in loans	(14,747)	(44,755)
Purchases of premises and equipment, net	(1,603)	(892)
Proceeds from sale of premise and equipment, net	99	6,110
Proceeds from sale of foreclosed real estate	1,399	1,863
(Purchase) redemption of Federal Home Loan Bank stock	(3,202)	14
Cash disbursed in sale of branch office deposits	-	(38,165)
Net cash used in investing activities	(93,837)	(54,937)
Cash flows from financing activities:		
Increase in deposits	125,420	37,873
Increase in Federal Home Loan Bank advances	75,000	-
Net cash provided by financing activities	200,420	37,873
Net increase (decrease) in cash and cash equivalents	63,397	(1,568)
Cash and cash equivalents at beginning of year	47,218	48,786
Cash and cash equivalents at end of year	$ 110,615	47,218

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Consolidated Statements of Cash Flows, Continued

(In thousands)

	Year Ended December 31, 2016	2015
Supplemental disclosure of cash flow information –		
Cash paid during the year for:		
Income taxes	$ 4,786	4,846
Interest	$ 2,278	1,571
Noncash transactions:		
Loans transferred to foreclosed real estate	$ 1,725	951
Amortization of mortgage servicing rights	$ 2,820	3,663
Net change in unrealized gain on securities available for sale, net of taxes	$(1,175)	(1,476)

See accompanying Notes to Consolidated Financial Statements.

(1) Organization and Summary of Significant Accounting Policies

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

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

Subsequent Events. Management has evaluated all significant events occurring subsequent to the balance sheet date through March 28, 2017, 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)

(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 $2.2 million and $1.8 million at December 31, 2016 and 2015, 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 is held in trust by the State of Florida and can be released by request of the Bank so long as the required collateral is maintained.

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

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)

(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, 2016 or 2015.

(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)

(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, 2016 and 2015, 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, 2016 and 2015 and therefore has determined that there was no impairment of goodwill during the years ended December 31, 2016 and 2015. There can be no assurance that future goodwill impairment tests will not result in a charge to earnings. As of December 31, 2016 and 2015, the Company had goodwill in the amount of $1.73 million which is included in other assets in the accompanying consolidated balance sheets.

(continued)

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

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 and 2015, the Company determined the CDI was not impaired.

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

Acquisition	Core Deposit Intangible Acquired	Period of Amortization	Amortization Recognized in 2016	Amortization Recognized in 2015	Remaining Core Deposit Intangible at December 31, 2016	Remaining Core Deposit Intangible at December 31, 2015
Flagship Bank, N.A.	$ 353	93 months	$ -	115	-	-
The Bank of Bonifay..........	777	90 months	103	103	90	193
Chipola Community...........	6	33 months	1	2	-	1
Bank of Jackson County	556	48 months	139	139	139	278
	$ 1,692		$ 243	359	229	472

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

The future expected amortization of CDI with determinable useful lives as of December 31, 2016 are as follows (in thousands):

Year Ending December 31,	Amount
2017	$ 229

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)

(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, 2016, 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)

(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)

(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)

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

Fair Value Measurements, 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)

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

(continued)

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

Reclassifications. Certain amounts in the 2015 consolidated financial statements have been reclassified to conform to the 2016 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)

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

Recent Pronouncements. In March 2016, the FASB issued ASU No. 2016-09, *Compensation-Stock Compensation (Topic 718)* intended to improve the accounting for employee share-based payments. The ASU affects all organizations that issue share-based payment awards to their employees. The ASU simplifies several aspects of the accounting for share-based payment award transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The amendments are effective for annual periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. Early adoption is permitted. The Company is in the process of determining the effect of the ASU on its consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments-Credit Losses (Topic 326)*. The ASU requires the Company to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. The Company will continue to use judgment to determine which loss estimation method is appropriate for their circumstances. The ASU requires enhanced disclosures to help investors and other 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 September 2016, the FASB issued ASU No. 2016-18, *Restricted Cash – a consensus of the FASB Emerging Issues Task Force* requiring that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The ASU is effective for fiscal years beginning after December 15, 2018, and for interim periods within fiscal years beginning after December 15, 2019. Early application is permitted. The adoption of this guidance is not expected to have a material impact on the Company's 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):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale:				
At December 31, 2016:				
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	48,933	61	(495)	48,499
	$ 237,262	4,014	(2,433)	238,843
At December 31, 2015:				
U.S. Government agency bonds	$ 3,042	-	(72)	2,970
Corporate bonds	1,000	10	(10)	1,000
Municipal securities	70,288	3,141	(127)	73,302
Collateralized mortgage obligations	95,652	2,101	(888)	96,865
SBA pool securities	16,322	65	(88)	16,299
Mortgage-backed securities	51,072	34	(490)	50,616
	$ 237,376	5,351	(1,675)	241,052
Securities Held to Maturity:				
At December 31, 2016-				
Corporate bonds	$ 120	77	-	197
At December 31, 2015-				
Corporate bonds	$ 120	31	-	151

(continued)

(2) Securities, Continued

The following summarizes sales of securities (in thousands):

	Year Ended December 31, 2016	2015
Proceeds	$ 29,921	33,433
Gross gains	982	1,117
Gross losses	(650)	(149)
Net gain	$ 332	968

The scheduled maturities of securities at December 31, 2016 are as follows (in thousands):

	Securities Available for Sale		Securities Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due before one year	$ 479	501	-	-
Due after one year through five years	29,119	30,484	-	-
Due after five through ten years	25,108	25,359	-	-
Due thereafter	1,864	1,959	120	197
Collateralized mortgage obligations	103,066	103,573	-	-
SBA pool securities	11,898	11,802	-	-
Asset-backed securities	16,795	16,666	-	-
Mortgage-backed securities	48,933	48,499	-	-
	$ 237,262	238,843	120	197

At December 31, 2016 and 2015, the Company pledged, as collateral for state and municipal deposits, securities with a carrying value of $0 and $52,428,000, respectively.

(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):

	Less Than Twelve Months		Over Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
December 31, 2016:				
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	(407)	19,501	(88)	2,527
Total	$(1,695)	106,920	(738)	32,223
December 31, 2015:				
U.S. Government agency bonds	$ (13)	1,016	(59)	1,954
Corporate bonds	(10)	490	-	-
Municipal securities	(127)	11,700	-	-
Collateralized mortgage obligations	(516)	58,104	(372)	16,744
SBA pool securities	(56)	8,360	(32)	3,414
Mortgage-backed securities	(489)	50,239	(1)	53
Total	$(1,211)	129,909	(464)	22,165

At December 31, 2016 and 2015 the unrealized losses on 59 and 66 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)

(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, 2016, 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):

	Year Ended December 31,			
	2016		2015	
	Impairment Losses	Fair Value	Impairment Losses	Fair Value
Securities Available for Sale-				
Collateralized mortgage obligations	$ (32)	806	(144)	829
Securities Held to Maturity-				
Corporate bonds	$ -	197	-	151

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)

(3) Loans

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

	At December 31, 2016	2015
Real estate mortgage loans:		
Commercial real estate	$ 141,780	143,669
Residential real estate	105,599	115,689
Construction and land	28,466	36,700
Total real estate mortgage loans	275,845	296,058
Commercial loans	174,020	152,138
Consumer loans	109,198	100,152
Subtotal	559,063	548,348
Deduct (add):		
Allowance for loan losses	4,797	5,305
Loan discount	2,429	4,270
Net deferred loan origination fees (costs)	8	(103)
Loans, net	$ 551,829	538,876

(continued)

(3) Loans, Continued

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

	Real Estate Mortgage Loans	Commercial Loans	Consumer Loans	Total
Year Ended December 31, 2016:				
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	45	16	283	344
Ending balance	$ 2,593	1,114	1,090	4,797
Year Ended December 31, 2015:				
Beginning balance	$ 4,025	966	920	5,911
(Credit) provision for loan losses	(950)	118	708	(124)
Charge-offs	(289)	-	(452)	(741)
Recoveries	125	61	73	259
Ending balance	$ 2,911	1,145	1,249	5,305
At December 31, 2016:				
Balance in allowance for loan losses:				
Individually evaluated for impairment	$ 158	-	-	158
Collectively evaluated for impairment	2,435	1,114	1,090	4,639
Total ending allowance balance	$ 2,593	1,114	1,090	4,797
Recorded investment:				
Individually evaluated for impairment	$ 11,426	171	152	11,749
Collectively evaluated for impairment	264,419	173,849	109,046	547,314
Total ending loan balance	$ 275,845	174,020	109,198	559,063
At December 31, 2015:				
Balance in allowance for loan losses:				
Individually evaluated for impairment	$ 74	-	-	74
Collectively evaluated for impairment	2,837	1,145	1,249	5,231
Total ending allowance balance	$ 2,911	1,145	1,249	5,305
Recorded investment:				
Individually evaluated for impairment	$ 11,201	6	420	11,627
Collectively evaluated for impairment	284,857	152,132	99,732	536,721
Total ending loan balance	$ 296,058	152,138	100,152	548,348

(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 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. Warehouse lines of credit are typically secured by residential mortgage loans.

(continued)

(3) Loans, Continued

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

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

	Real Estate Mortgage Loans					
	Commercial Real Estate	Residential Real Estate	Construction and Land	Commercial Loans	Consumer Loans	Total
Credit Risk Profile by Internally Assigned Grade:						
At December 31, 2016:						
Grade:						
Pass	$ 126,754	102,168	26,907	173,525	108,961	538,315
Special mention	5,007	168	-	281	21	5,477
Substandard	10,019	3,263	1,559	214	216	15,271
Total	$ 141,780	105,599	28,466	174,020	109,198	559,063
At December 31, 2015:						
Grade:						
Pass	$ 125,649	109,747	36,168	151,823	99,080	522,467
Special mention	7,607	294	-	232	61	8,194
Substandard	10,413	5,648	532	83	1,011	17,687
Total	$ 143,669	115,689	36,700	152,138	100,152	548,348

(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)

(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
At December 31, 2016:							
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]	1,279	1,061	2,068	4,408	104,661	129	109,198
Total	$ 6,873	2,875	23,663	33,411	519,615	6,037	559,063
At December 31, 2015:							
Real estate mortgage loans:							
Commercial real estate	$ 1,339	19	-	1,358	138,913	3,398	143,669
Residential real estate[2]	3,796	1,218	18,080	23,094	89,800	2,795	115,689
Construction and land	312	-	-	312	35,855	533	36,700
Commercial loans	80	3	-	83	152,054	1	152,138
Consumer loans [1]	2,202	1,331	3,844	7,377	92,396	379	100,152
Total	$ 7,729	2,571	21,924	32,224	509,018	7,106	548,348

(1) At December 31, 2016 and 2015, guaranteed student loans were $16.1 million and $26.3 million, respectively. Guaranteed student loans of $1.9 million and $3.7 million at December 31, 2016 and 2015 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, 2016 and 2015, there were $211,000 and $300,000, respectively, of student loans 270+ days past due and accruing.

(2) Guaranteed loans in the process of collection or being rehabilitated to be held for sale were $21.6 million and $18.0 million at December 31, 2016 and 2015, respectively.

(continued)

(3) Loans, Continued

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

	With No Related Allowance Recorded		With an Allowance Recorded			Total		
	Recorded Investment	Unpaid Contractual Principal Balance	Recorded Investment	Unpaid Contractual Principal Balance	Related Allowance	Recorded Investment	Unpaid Contractual Principal Balance	Related Allowance
December 31, 2016:								
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	152	181	-	-	-	152	181	-
	$ 10,914	12,055	835	851	158	11,749	12,906	158
December 31, 2015:								
Real estate mortgage loans:								
Commercial real estate	$ 6,688	7,670	379	387	74	7,067	8,057	74
Residential real estate	3,601	4,528	-	-	-	3,601	4,528	-
Construction and land	533	535	-	-	-	533	535	-
Commercial loans	6	6	-	-	-	6	6	-
Consumer loans	420	539	-	-	-	420	539	-
	$ 11,248	13,278	379	387	74	11,627	13,665	74

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

	Average Recorded Investment	Interest Income Recognized	Interest Income Received
Year Ended December 31, 2016:			
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	377	4	19
	$ 11,744	323	680
Year Ended December 31, 2015:			
Real estate mortgage loans:			
Commercial real estate	$ 8,624	278	479
Residential real estate	4,789	120	200
Construction and land	558	-	5
Commercial loans	14	1	1
Consumer loans	796	9	28
	$ 14,781	408	713

(continued)

(3) Loans, Continued

Troubled debt restructurings ("TDR") during the years ended December 31, 2016 and 2015 are as follows (dollars in thousands):

	2016			2015		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings:						
Real estate mortgage loans:						
Commercial real estate:						
Modified amortization	1	$ 161	161	-	$ -	-
Modified interest rate, principal and amortization	3	576	456	-	-	-
Modified interest rate and amortization	-	-	-	3	466	466
Residential real estate:						
Modified amortization	4	365	365	2	197	197
Modified interest rate and amortization	1	67	67	3	162	162
Modified interest rate, principal and amortization	2	96	87	1	89	89
Consumer loans:						
Modified interest rate and amortization	3	37	37	-	-	-
Modified interest rate	-	-	-	1	35	35
Modified interest rate, principal and amortization	1	6	6	2	126	66
	15	$ 1,308	1,179	12	$ 1,075	1,015

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, 2016 or 2015 that subsequently defaulted during the same year.

(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, 2016	2015
Beginning balance	$(103)	176
Deferred loan origination fees	567	202
Capitalized direct underwriting costs	(525)	(571)
Net amortization	69	90
Ending balance	$ 8	(103)

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. Nor does the Company have any significant loan exposure outside of this area.

(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, 2016	2015
Mortgage loan portfolios serviced for:		
Government agencies:		
FHLB	$ 10,192	13,415
FHLMC	2,601,463	2,431,189
GNMA	1,130,967	1,055,839
FNMA	32,492	9,419
All other	177,952	181,124
	$ 3,953,066	3,690,986

Custodial escrow balances maintained in connection with loans serviced for others were $22,514,000 and $21,874,000 at December 31, 2016 and 2015, respectively. The escrow balances are included in noninterest-bearing demand deposits in the accompanying consolidated balance sheets.

(continued)

(4) Loan Servicing, Continued

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

	Year Ended December 31, 2016	2015
Beginning balance	$ 29,889	24,938
Additions from loans originated and sold	8,982	8,638
Amortization	(2,820)	(3,663)
Recovery (Loss)	1	(24)
Ending balance	36,052	29,889
Allowance	(178)	(380)
Discount	(51)	(173)
Mortgage servicing rights, net	$ 35,823	29,336
Allowance for impairment beginning balance	380	482
Additions	332	79
Reductions	(534)	(181)
Allowance for impairment ending balance	$ 178	380

The fair value of mortgage servicing rights was determined using discount rates ranging from 9.51% to 14.00% for all loans serviced and prepayment speeds ranging from 112.00% to 409.00%, depending on the stratification of the specific rights.

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

	At Ended December 31, 2016		2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Mortgage Service Rights, at fair market value	$ 24,219	24,219	15,237	15,237
Mortgage Service Rights, at lower of cost or market value	11,604	16,515	14,099	19,482
Total	$ 35,823	40,734	29,336	34,719

(continued)

(4) Loan Servicing, Continued

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

	Year Ended December 31, 2016	2015
Servicing fees received from investors net of servicing expense	$ 6,543	5,925
Mortgage servicing rights additions from loans originated and sold	8,982	8,638
Less amortization of mortgage servicing rights	(2,820)	(3,663)
	6,162	4,975
Income from servicing and rights	$ 12,705	10,900

(5) Premises and Equipment

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

	At December 31, 2016	2015
Land	$ 5,354	5,354
Buildings and improvements	19,274	19,106
Furniture and equipment	13,992	13,146
Total, at cost	38,620	37,606
Less accumulated depreciation	18,076	16,902
Premises and equipment, net	$ 20,544	20,704

The Company leases office space for its operations under noncancellable leases which expire in 2017 and 2018. Rent expense was $452,000 and $370,000 for the years ended December 31, 2016 and 2015, respectively. Future minimum rental commitments under these leases are $195,000 in 2017 and $348,000 for 2018 and thereafter.

During 2015, the Company sold three branch offices located in Sarasota and Manatee Counties and had a realized gain of $1,176,000. This is reported under other noninterest income in the accompanying consolidated statements of earnings.

(continued)

(6) Deposits and Economic Dependence

The aggregate amount of time deposits with a minimum denomination of $100,000 was approximately $75.5 million and $72.0 million at December 31, 2016 and 2015, respectively.

A schedule of maturities of time deposits at December 31, 2016 is as follows (in thousands):

Year Ending December 31,	
2017	$ 83,879
2018	20,628
2019	9,767
2020	6,299
2021 and thereafter	13,977
	$ 134,550

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 $231.5 million and $218.3 million at December 31, 2016 and 2015, 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):

	December 31, 2016	December 31, 2015
Deposits	$ 3,909	3,943
Loans	$ 7,822	8,131

(8) Federal Home Loan Bank Advances

There were $75 million in outstanding advances at December 31, 2016. This advance is a fixed rate credit maturing on January 31, 2017 at a rate of 0.624%. There were no advances outstanding at December 31, 2015. 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 $100,120,000 at December 31, 2016. In addition, the Company may pledge additional marketable securities as collateral where the qualifying loans are insufficient. At December 31, 2016, securities with a fair value of $97,105,000 were pledged as collateral for FHLB advances. At December 31, 2016, the Company had available credit if additional collateral were pledged of $306 million.

(continued)

(9) Income Taxes

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

	Year Ended December 31, 2016	2015
Current:		
Federal	$ 3,642	3,381
State	742	727
Total current	4,384	4,108
Deferred:		
Federal	2,799	2,236
State	562	465
Total deferred	3,361	2,701
Income taxes	$ 7,745	6,809

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

	Year Ended December 31, 2016		2015	
	Amount	%	Amount	%
Income taxes at statutory Federal rate	$ 7,828	35.0%	$ 7,193	35.0%
Increase (decrease) in taxes resulting from:				
State taxes, net of Federal tax benefit	848	3.8	775	3.8
Income from bank-owned life insurance	(209)	(0.9)	(224)	(1.1)
Tax-exempt interest income	(892)	(4.0)	(1,007)	(4.9)
Other	170	0.7	72	0.3
Total	$ 7,745	34.6%	$ 6,809	33.1%

(continued)

(9) Income Taxes, Continued

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

	At December 31, 2016	2015
Deferred tax assets:		
Allowance for loan losses	$ 1,866	2,064
Deferred compensation	1,933	1,762
Nonaccrual interest income	72	171
Charitable contributions	80	62
Impaired securities	119	107
Accrued expenses	437	437
Purchase accounting on FDIC-assisted transactions	-	236
Other	139	140
Total deferred tax assets	4,646	4,979
Deferred tax liabilities:		
Purchase accounting on FDIC-assisted transactions	(50)	-
Deferred loan costs	(391)	(359)
Mortgage servicing rights	(11,696)	(8,646)
Unrealized gain in securities available for sale	(479)	(1,399)
Depreciation	(1,455)	(1,418)
Prepaid expenses	(370)	(511)
Total deferred tax liabilities	(14,441)	(12,333)
Net deferred tax liability	$ (9,795)	(7,354)

The Company files consolidated income tax returns in the U.S. federal jurisdiction and the State of Florida. The Company is no longer subject to U.S. federal, or state and local income tax examinations by taxing authorities for years before 2013.

(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, 2016 follows (in thousands):

	Contract Amount
Unused lines of credit	$ 16,899
Undisbursed loans in process	$ 32,749
Commitments to extend credit	$ 260,606
Standby letters of credit	$ 557

(continued)

(11) Derivative Financial Instruments

Rate-Lock Commitments. The total outstanding rate-lock commitments at December 31, 2016 and 2015 were approximately $86.3 million and $96.3 million, respectively. The fair value of rate-lock commitments at December 31, 2016 and 2015 were $1.4 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, 2016 and 2015 were $92.2 million and $122.1 million, respectively. The fair value of forward loan sale commitments were $168,000 and $167,000 at December 31, 2016 and 2015, 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):

	At December 31,			
	2016		2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	$ 110,615	110,615	47,218	47,218
Restricted cash	83,140	83,140	20,521	20,521
Time deposits	16,980	16,980	5,942	5,942
Securities available for sale	238,843	238,843	241,052	241,052
Securities held to maturity	120	197	120	151
Loans held for sale, net	20,654	20,654	41,614	41,614
Loans	551,829	558,153	538,876	545,168
Accrued interest receivable	4,903	4,903	5,274	5,274
Federal Home Loan Bank stock	4,077	4,077	875	875
Mortgage servicing rights	35,823	40,734	29,336	34,719
Rate-lock commitments	1,489	1,489	1,455	1,455
Forward loan sale contracts	428	428	58	58
Financial liabilities:				
Deposits	942,349	941,473	816,909	817,511
Accrued interest payable	11	11	13	13
Federal Home Loan Bank advances	75,000	74,989	-	-
Rate-lock commitments	107	107	74	74
Forward loan sale contracts	260	260	225	225
Off-balance-sheet financial instruments	-	-	-	-

(continued)

(13) Regulatory Matters

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

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 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. Under the new regulations in the first quarter of 2015, the Bank elected an irreversible one-time opt-out to exclude accumulated other comprehensive income from regulatory capital.

Beginning January 1, 2016, 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, 2016, the Bank's capital conservation buffer exceeds the minimum requirement of 0.625% for 2016. The required buffer is to be phased in over three years.

As of December 31, 2016 and 2015, 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)

(13) Regulatory Matters, Continued

	Actual		For Capital Adequacy Purposes		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	%	Amount	%	Amount	%
As of December 31, 2016:						
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
As of December 31, 2015:						
Common equity tier 1 capital ratio	139,226	19.73	31,747	4.50	45,857	6.50
Tier I capital ratio	139,226	19.73	42,329	6.00	56,439	8.00
Total capital ratio	145,338	20.60	56,439	8.00	70,549	10.00
Tier 1 leverage ratio	139,226	12.45	44,739	4.00	55,923	5.00

(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 $1,427,000 and $1,315,000 for the years ended December 31, 2016 and 2015, respectively.

(15) Deferred Compensation Plans

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.

(continued)

(15) Deferred Compensation Plans, Continued

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 mean 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, 2016 and 2015, $3.4 million and $2.6 million respectively, was accrued in total under all of these plans. During the years ended December 31, 2016 and 2015, $423,000 and $371,000, respectively, was expensed in total under all of these plans.

(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.

(continued)

(17) Fair Value Measurements

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

	Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
At December 31, 2016:				
Available-for-Sale Securities:				
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	48,499	-	48,499	-
Total	$ 238,843	-	238,843	-
Loans held for sale, net	$ 20,654	-	20,654	-
Rate-lock commitments, net	$ 1,382	-	-	1,382
Forward loan sale contracts, net	$ 168	-	-	168
Mortgage servicing rights at fair market value	$ 24,219	-	-	24,219

(continued)

(17) Fair Value Measurements, Continued

	Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
At December 31, 2015:				
Available-for-Sale Securities:				
U.S. Government agency bonds	$ 2,970	-	2,970	-
Corporate bonds	1,000	-	1,000	-
Municipal securities	73,302	-	73,302	-
Collateralized mortgage obligations	96,865	-	96,865	-
SBA pool securities	16,299	-	16,299	-
Mortgage-backed securities	50,616	-	50,616	-
Total	$ 241,052	-	241,052	-
Loans held for sale, net	$ 41,614	-	41,614	-
Rate-lock commitments, net	$ 1,381	-	-	1,381
Forward loan sale contracts, net	$ 167	-	-	167
Mortgage servicing rights at fair market value	$ 15,237	-	-	15,237

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

	Year Ended December 31,					
	2016			2015		
	Rate-Lock Commitments Net	Forward Loan Sale Contracts Net	MSR at FMV	Rate-lock Commitments Net	Forward Loan Sale Contracts Net	MSR at FMV
Balance at beginning of year...	$ 1,381	(167)	15,237	821	(524)	6,599
Total gains or losses (realized / unrealized) – purchases, issuances and net settlements	1	335	8,982	560	357	8,638
Balance at end of year……..	$ 1,382	168	24,219	1,381	(167)	15,237

(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, 2016 Net Derivatives	2015 Net Derivatives
Mortgage-banking revenue	$ 336	917

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

	At Year or Period End					(Recoveries) Losses Recorded In earnings For The Year Ended
	Fair Value	Level 1	Level 2	Level 3	Total (recov-eries) Losses	
At December 31, 2016:						
Impaired loans:						
Commercial real estate	$ 829	-	-	829	260	54
Residential real estate	145	-	-	145	69	28
Consumer loans	76	-	-	76	95	77
Total	$ 1,050	-	-	1,050	424	159
Foreclosed real estate	$ 1,065	-	-	1,065	18	18
Mortgage servicing rights at lower of cost or market	$ 16,515	-	-	16,515	(202)	(202)
At December 31, 2015:						
Impaired loans:						
Commercial real estate	$ 457	-	-	457	216	(238)
Residential real estate	231	-	-	231	92	77
Consumer loans	279	-	-	279	106	51
Total	$ 967	-	-	967	414	(110)
Foreclosed real estate	$ 767	-	-	767	135	135
Mortgage servicing rights at lower of cost or market	$ 19,482	-	-	19,482	(91)	(91)

(continued)

(18) Consolidating Financial Statements

Consolidating Balance Sheet

At December 31, 2016
(In thousands)

	First Federal Bancorp, MHC	First Federal Bancorp, Inc. Consolidation: First Federal Bancorp, Inc.	First Federal Bancorp, Inc. Consolidation: First Federal Bank of Florida Consolidated	First Federal Bancorp, Inc. Consolidation: Consolidating Entries Debit (Credit)	First Federal Bancorp, Inc. Consolidation: Consolidated	Consolidating Entries Debit (Credit)	Consolidated
Assets							
Cash and due from banks	$ 10	1,960	5,131	(1,237)	5,854	(10)[a]	5,854
Interest-bearing deposits	-	17	104,744	-	104,761	-	104,761
Restricted cash	-	-	83,140	-	83,140	-	83,140
Time deposits	-	2,318	14,662	-	16,980	-	16,980
Securities	-	1,433	237,530	-	238,963	-	238,963
Investment in subsidiaries	166,755	161,032	-	(161,032)	-	(166,755)[b]	-
Loans, net	-	-	572,483	-	572,483	-	572,483
Accrued interest receivable	-	3	4,900	-	4,903	-	4,903
Premises and equipment, net	-	-	20,544	-	20,544	-	20,544
Federal Home Loan Bank stock, at cost	-	-	4,077	-	4,077	-	4,077
Foreclosed real estate	-	-	1,065	-	1,065	-	1,065
Income taxes receivable	-	(17)	2,595	-	2,578	-	2,578
Cash surrender value of bank-owned life insurance	-	-	28,787	-	28,787	-	28,787
Mortgage servicing rights, net	-	-	35,823	-	35,823	-	35,823
Other assets	-	-	94,370	-	94,370	-	94,370
Total assets	$ 166,765	166,746	1,209,851	(162,269)	1,214,328	(166,765)	1,214,328
Liabilities, Capital Stock and Retained Earnings and Accumulated Other Comprehensive Income							
Liabilities:							
Deposits	-	-	943,576	(1,237)	942,339	(10)[a]	942,329
Federal Home Loan Bank Advances			75,000		75,000		75,000
Deferred income taxes	-	(9)	9,804	-	9,795	-	9,795
Other liabilities	-	-	20,439	-	20,439	-	20,439
Total liabilities	-	(9)	1,048,819	(1,237)	1,047,573	(10)	1,047,563
Capital stock	-	-	1	(1)	-	-	-
Retained earnings and accumulated other comprehensive income	166,765	166,755	161,031	(161,031)	166,755	(166,755)[b]	166,765
Total liabilities, capital stock and retained earnings and accumulated other comprehensive income	$ 166,765	166,746	1,209,851	(162,269)	1,214,328	(166,765)	1,214,328

(continued)

(a) Elimination of intercompany accounts.
(b) Elimination of investment in subsidiaries.

(18) Consolidating Financial Statements, Continued

Consolidating Statement of Earnings

Year Ended December 31, 2016
(In thousands)

	First Federal Bancorp, MHC	First Federal Bancorp, Inc. Consolidation: First Federal Bancorp, Inc.	First Federal Bancorp, Inc. Consolidation: First Federal Bank of Florida Consolidated	First Federal Bancorp, Inc. Consolidation: Consolidating Entries Debit (Credit)	First Federal Bancorp, Inc. Consolidation: Consolidated	Consolidating Entries Debit (Credit)	Consolidated
Interest income:							
Loans	$ -	-	31,024	-	31,024	-	31,024
Securities	-	21	6,631	-	6,652	-	6,652
Other	-	4	2,459	-	2,463	-	2,463
Total interest income	-	25	40,114	-	40,139	-	40,139
Interest expense:							
Deposits	-	-	1,922	-	1,922	-	1,922
Borrowings	-	-	359	-	359	-	359
Total interest expense	-	-	2,281	-	2,281	-	2,281
Net interest income	-	25	37,833	-	37,858	-	37,858
Credit for loan losses	-	-	-	-	-	-	-
Net interest income after credit for loan losses	-	25	37,833	-	37,858	-	37,858
Noninterest income:							
Loan servicing fees	-	-	6,543	-	6,543	-	6,543
Mortgage servicing rights retained from loans sold	-	-	6,162	-	6,162	-	6,162
Mortgage banking revenue	-	-	7,926	-	7,926	-	7,926
Service charges on deposit accounts	-	-	3,691	-	3,691	-	3,691
Other service charges and fees	-	-	2,379	-	2,379	-	2,379
Gain on sale of securities available for sale	-	-	332	-	332	-	332
Other than temporary impairment on securities available for sale	-	-	(32)	-	(32)	-	(32)
Income from bank-owned life insurance	-	-	604	-	604	-	604
Debit card interchange income	-	-	2,809	-	2,809	-	2,809
Other	14,622	14,606	494	(14,615)[a]	485	(14,622)[a]	485
Total noninterest income	14,622	14,606	30,908	(14,615)	30,899	(14,622)	30,899
Noninterest expenses:							
Salaries and employee benefits	-	-	30,093	-	30,093	-	30,093
Occupancy and equipment	-	-	5,597	-	5,597	-	5,597
Professional fees	-	-	1,275	-	1,275	-	1,275
Other	-	9	9,425	(9)	9,425	-	9,425
Total noninterest expenses	-	9	46,390	(9)	46,390	-	46,390
Earnings before income taxes	14,622	14,622	22,351	(14,606)	22,367	(14,622)	22,367
Income tax	-	-	7,745	-	7,745	-	7,745
Net earnings	$ 14,622	14,622	14,606	(14,606)	14,622	(14,622)	14,622

[a] Elimination of income of subsidiaries.