

FIRST FEDERAL BANCORP, MHC
Parent Company for



First Federal
BANK *of* FLORIDA

Audited Consolidated Financial Statements

**December 31, 2015 and 2014 and
the Years then Ended**

(Together with Independent Auditors' Report)



Independent Auditors' Report

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

We have audited the accompanying consolidated financial statements of First Federal Bancorp, MHC and Subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2015 and 2014, 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, 2015 and 2014, 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
Tampa, Florida
March 28, 2016

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Consolidated Balance Sheets
(In thousands)

Assets	<u>At December 31,</u>	
	<u>2015</u>	<u>2014</u>
Cash and due from banks	\$ 5,499	14,386
Interest-earning deposits with banks	<u>41,719</u>	<u>34,400</u>
Total cash and cash equivalents	47,218	48,786
Restricted cash	20,521	61,323
Time deposits	5,942	12,852
Securities available for sale	241,052	218,570
Securities held to maturity	120	181
Loans held for sale, net	41,614	42,939
Loans, net of allowance for loan losses of \$5,305 and \$5,911	538,876	495,038
Accrued interest receivable	5,274	4,957
Premises and equipment, net	20,704	26,469
Federal Home Loan Bank stock, at cost	875	889
Foreclosed real estate	767	1,999
Income taxes receivable	2,178	475
Cash surrender value of bank-owned life insurance	28,183	27,542
Mortgage servicing rights, net	29,336	24,100
Other assets	<u>12,918</u>	<u>12,388</u>
Total	<u>\$ 995,578</u>	<u>978,508</u>
 Liabilities and Equity		
Liabilities:		
Noninterest-bearing demand deposits	218,843	201,866
Interest checking and money-market deposits	405,128	409,526
Savings deposits	57,478	52,445
Time deposits	<u>135,460</u>	<u>153,364</u>
Total deposits	816,909	817,201
Deferred income taxes	7,354	5,510
Other liabilities	<u>17,997</u>	<u>14,746</u>
Total liabilities	842,260	837,457
Commitments and contingencies (Notes 5, 10 and 16)		
Retained earnings	151,041	137,298
Accumulated other comprehensive income	<u>2,277</u>	<u>3,753</u>
Total	<u>\$ 995,578</u>	<u>978,508</u>

See accompanying Notes to Consolidated Financial Statements.

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Consolidated Statements of Earnings

(In thousands)

	<u>Year Ended December 31,</u>	
	<u>2015</u>	<u>2014</u>
Interest income:		
Loans.....	\$ 27,855	26,032
Securities	6,725	5,875
Other	<u>1,643</u>	<u>962</u>
Total interest income.....	<u>36,223</u>	<u>32,869</u>
Interest expense:		
Deposits	1,489	1,733
Borrowings	<u>84</u>	<u>633</u>
Total interest expense.....	<u>1,573</u>	<u>2,366</u>
Net interest income	34,650	30,503
Credit for loan losses.....	<u>(124)</u>	<u>(490)</u>
Net interest income after credit for loan losses.....	<u>34,774</u>	<u>30,993</u>
Noninterest income:		
Loan servicing fees	5,925	6,771
Mortgage servicing rights retained from loans sold	4,975	3,253
Mortgage banking revenue	6,475	2,249
Service charges on deposit accounts.....	3,839	4,197
Other service charges and fees.....	2,277	2,310
Gain on sale of securities available for sale.....	968	4,747
Other than temporary impairment of securities	(144)	(39)
Income from bank-owned life insurance	641	528
Debit card interchange income	2,708	2,668
Other	<u>1,527</u>	<u>1,306</u>
Total noninterest income.....	<u>29,191</u>	<u>27,990</u>
Noninterest expense:		
Salaries and employee benefits.....	27,464	25,769
Occupancy and equipment.....	5,723	5,810
Professional fees	1,164	1,263
Other expenses.....	<u>9,062</u>	<u>11,520</u>
Total noninterest expense.....	<u>43,413</u>	<u>44,362</u>
Earnings before income taxes	20,552	14,621
Income taxes.....	<u>6,809</u>	<u>3,572</u>
Net earnings	\$ <u>13,743</u>	<u>11,049</u>

See accompanying Notes to Consolidated Financial Statements.

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES**Consolidated Statements of Comprehensive Income**

(In thousands)

	Year Ended December 31,	
	<u>2015</u>	<u>2014</u>
Net earnings	\$ <u>13,743</u>	<u>11,049</u>
Other comprehensive (loss) income:		
Change in unrealized gain on securities available for sale:		
Unrealized (loss) gain arising during the period	(1,509)	9,760
Reclassification adjustment for realized gains	(968)	(4,747)
Reclassification adjustment for other-than-temporary impairment losses recognized	<u>144</u>	<u>-</u>
Net change in unrealized gain.....	(2,333)	5,013
Net change in fair value of cash flow hedges	<u>-</u>	<u>308</u>
Total other comprehensive (loss) income before (benefit) taxes.....	(2,333)	5,321
Deferred income (benefit) taxes on above change	<u>(857)</u>	<u>1,987</u>
Total other comprehensive (loss) income	<u>(1,476)</u>	<u>3,334</u>
Comprehensive income.....	\$ <u>12,267</u>	<u>14,383</u>

See accompanying Notes to Consolidated Financial Statements.

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Consolidated Statements of Equity

Years Ended December 31, 2015 and 2014

(In thousands)

	<u>Retained</u> <u>Earnings</u>	Accumulated Other Compre- hensive <u>Income</u>	<u>Total</u>
Balance at December 31, 2013.....	\$ 126,249	419	126,668
Net earnings	11,049	-	11,049
Net change in unrealized gain on securities available for sale, net of tax of \$1,879	-	3,134	3,134
Net change in unrealized loss on derivative instrument, net of tax of \$108	<u>-</u>	<u>200</u>	<u>200</u>
Balance at December 31, 2014.....	137,298	3,753	141,051
Net earnings	13,743	-	13,743
Net change in unrealized gain on securities available for sale, net of tax of \$857	<u>-</u>	<u>(1,476)</u>	<u>(1,476)</u>
Balance at December 31, 2015.....	\$ <u>151,041</u>	<u>2,277</u>	<u>153,318</u>

See accompanying Notes to Consolidated Financial Statements.

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Consolidated Statements of Cash Flows
(In thousands)

	<u>Year Ended December 31,</u>	
	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Net earnings	\$ 13,743	11,049
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Credit for loan losses.....	(124)	(490)
Depreciation.....	1,723	2,056
Deferred income taxes	2,701	1,397
Net amortization of premiums and discounts on securities	2,894	2,839
Net amortization of deferred loan costs.....	90	69
Gain on sale of securities available for sale	(968)	(4,747)
Other than temporary impairment	144	39
Net loss on sale of foreclosed real estate.....	100	219
Write-down of foreclosed real estate.....	220	296
Net gain on sale of branch office	(1,176)	(57)
Origination of loans held for sale, net	(917,168)	(650,266)
Proceeds from sale of loans held for sale and loan securitizations.....	922,202	679,697
Mortgage banking revenue.....	(3,709)	(555)
Income from bank-owned life insurance.....	(641)	(528)
Increase in accrued interest receivable	(317)	(11)
Net increase in mortgage servicing rights	(5,236)	(2,615)
Net loss on FDIC loss share receivable	-	640
Increase in other assets.....	(530)	(490)
Increase in income tax receivable	(1,703)	(475)
Decrease in income taxes payable.....	-	(628)
Increase in other liabilities	<u>3,251</u>	<u>6,132</u>
Net cash provided by operating activities.....	<u>15,496</u>	<u>43,571</u>
Cash flows from investing activities:		
Decrease (increase) in restricted cash.....	40,802	(15,700)
Purchases of securities available for sale.....	(102,888)	(119,804)
Principal repayments of securities available for sale	13,195	19,542
Maturities and calls of securities available for sale	29,375	2,315
Net proceeds from sales of securities available for sale.....	33,433	105,942
Principal repayments of securities held to maturity.....	61	70
Purchase of time deposits	(250)	(2,893)
Sale of time deposits	325	-
Maturities of time deposits	6,835	-
Net increase in loans	(44,755)	(3,492)
Purchases of premises and equipment, net	(892)	(892)
Proceeds from sale of premise and equipment, net	6,110	881
Proceeds from sale of foreclosed real estate	1,863	7,175
Redemption of Federal Home Loan Bank stock.....	14	342
Cash disbursed in sale of branch office deposits	(38,165)	(2,023)
Net cash proceeds received for FDIC loss share receivable	<u>-</u>	<u>3,471</u>
Net cash used in investing activities.....	<u>(54,937)</u>	<u>(5,066)</u>
Cash flows from financing activities:		
Increase (decrease) in deposits	37,873	(27,782)
Repayment of Federal Home Loan Bank advances	-	(1,000)
Decrease in other borrowings.....	<u>-</u>	<u>(5,000)</u>
Net cash provided by (used in) financing activities.....	<u>37,873</u>	<u>(33,782)</u>
Net (decrease) increase in cash and cash equivalents	(1,568)	4,723
Cash and cash equivalents at beginning of year	<u>48,786</u>	<u>44,063</u>
Cash and cash equivalents at end of year	\$ <u>47,218</u>	<u>48,786</u>

(continued)

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

	<u>Year Ended December 31,</u>	
	<u>2015</u>	<u>2014</u>
Supplemental disclosure of cash flow information –		
Cash paid during the year for:		
Income taxes	\$ <u>4,846</u>	<u>2,260</u>
Interest	\$ <u>1,571</u>	<u>2,432</u>
Noncash transactions:		
Covered loans transferred to loans	\$ <u>-</u>	<u>25,157</u>
Loans transferred to foreclosed real estate	\$ <u>951</u>	<u>6,099</u>
Net change in unrealized gain on securities available for sale, net of taxes	\$ <u>(1,476)</u>	<u>3,134</u>
Net change in unrealized loss on derivative instruments, net of taxes	\$ <u>-</u>	<u>200</u>

See accompanying Notes to Consolidated Financial Statements.

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements

At December 31, 2015 and 2014 and for the Years Then Ended

(1) Organization and Summary of Significant Accounting Policies

Organization. First Federal Bancorp, MHC is a federally-chartered, mutual holding company. The Company through its subsidiary First Federal Bancorp, Inc. (a federal corporation) ("FFBI") owns First Federal Bank of Florida (the "Bank") 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, 2016, which is the date the consolidated financial statements were available to be issued, determining no events require additional disclosure in the consolidated financial statements.

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

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

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

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

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

The Company may be required under Federal Reserve Board regulations to maintain reserves, generally consisting of cash, interest-bearing deposits with the Federal Reserve Bank or noninterest-earning accounts with qualifying banks, against its transaction accounts. Required reserves were \$1.8 million and \$7.4 million at December 31, 2015 and 2014, 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)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

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

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

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

Loans. Loans are reported at their outstanding principal adjusted for any charge-offs, the allowance for loan losses, and any deferred fees or costs.

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

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

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

Allowance for Loan Losses. The allowance for loan losses is established as losses are estimated to have occurred through a credit for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. There were no changes in the Company's accounting policies or methodology during the years ended December 31, 2015 or 2014.

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

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

Allowance for Loan Losses, Continued. The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

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

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

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

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

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

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

Servicing. Servicing assets are recognized as separate assets when rights are acquired through purchase or through sale of financial assets. Capitalized servicing rights are amortized in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets. Prior to 2014, the Company recorded servicing assets based on the lower of cost or market. Beginning in 2014, the Company began recording servicing assets at fair value. Servicing assets are evaluated for impairment based upon the fair value of the rights compared to amortized cost. Impairment is determined by stratifying rights by predominant characteristics, such as interest rates and terms. Fair value is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market-based assumptions. Impairment is recognized through a valuation allowance for an individual stratum, to the extent that fair value is less than the capitalized amount for the stratum. At December 31, 2015 and 2014, 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, 2015 and 2014 and therefore has determined that there was no impairment of goodwill during the years ended December 31, 2015 and 2014. There can be no assurance that future goodwill impairment tests will not result in a charge to earnings. As of December 31, 2015 and 2014, the Company had goodwill in the amount of \$1.73 million which is included in other assets in the accompanying consolidated balance sheets.

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FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

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

Goodwill and Core Deposit Intangibles, Continued. The core deposit intangibles ("CDI") are intangible assets arising from either branch acquisitions or whole bank acquisitions. CDI are initially measured at fair value and then amortized up to ten years on a straight-line basis using projected decay rates of the underlying core deposits. The principal factors considered when valuing the CDI consist of the following: (1) the rate and maturity structure of the interest bearing liabilities, (2) estimated retention rates for each deposit liability category, (3) the current interest rate environment and (4) estimated noninterest income potential of the acquired relationship. The CDI is evaluated periodically for impairment. As of December 31, 2015 and 2014, the Company determined the CDI was not impaired.

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

<u>Acquisition</u>	<u>Core Deposit Intangible Acquired</u>	<u>Period of Amortization</u>	<u>Amortization Recognized in</u>		<u>Remaining Core Deposit Intangible at December 31,</u>	
			<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Flagship Bank, N.A.	\$ 353	93 months	\$ 115	45	-	115
The Bank of Bonifay.....	777	90 months	103	103	193	296
Chipola Community.....	6	33 months	2	2	1	3
Bank of Jackson County	<u>556</u>	48 months	<u>139</u>	<u>139</u>	<u>278</u>	<u>417</u>
	<u>\$ 1,692</u>		<u>\$ 359</u>	<u>289</u>	<u>472</u>	<u>831</u>

The CDI is included in Other Assets.

The future expected amortization of CDI with determinable useful lives as of December 31, 2015 are as follows (in thousands):

<u>Year Ending December 31,</u>	<u>Amount</u>
2016.....	\$ 244
2017.....	<u>228</u>
	<u>\$ 472</u>

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

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

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

Mortgage Banking Revenue. Mortgage banking revenue includes gains on the sale of loans originated for sale, gains on the sale of loans originated for securitization by third parties and the fair market value adjustment on loans held for sale at fair value. The Company recognizes mortgage banking revenue from mortgage loans originated and securitized in the consolidated statement 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, 2015, management is not aware of any uncertain tax positions that would have a material effect on the Company's consolidated financial statements.

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

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

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

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

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

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

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

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

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

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

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

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

Interest-Rate Swap Agreements, Continued. At December 31, 2015 and 2014, the Company had no interest-rate swap agreements.

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

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

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

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

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

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

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

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

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

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

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

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

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

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

Fair Value Measurements, Continued.

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. The carrying amounts of cash approximate fair value.

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

Securities. Fair values for securities held to maturity and available for sale are based on the framework for measuring fair value.

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

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

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

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

Fair Value of Financial Instruments, Continued.

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

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

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

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

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.

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

	<u>At December 31,</u>	
	<u>2015</u>	<u>2014</u>
Unrealized gain on securities available for sale.....	\$ 3,676	6,009
Income taxes	<u>1,399</u>	<u>2,256</u>
Net unrealized amount.....	\$ <u>2,277</u>	<u>3,753</u>

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

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

Reclassifications. Certain amounts in the 2014 consolidated financial statements have been reclassified to conform to the 2015 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, (public entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes), 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 balance sheet.

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 financial statements. For nonpublic companies, the ASU is effective for fiscal years beginning after December 15, 2019 and for interim periods within fiscal years beginning after December 15, 2020. The Company is in the process of determining the effect of the ASU on its consolidated balance sheet and statement of earnings. Early application will be permitted for all organizations.

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(2) Securities

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

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
Securities Available for Sale:				
<i>At December 31, 2015:</i>				
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	<u>51,072</u>	<u>34</u>	<u>(490)</u>	<u>50,616</u>
	\$ <u>237,376</u>	<u>5,351</u>	<u>(1,675)</u>	<u>241,052</u>
<i>At December 31, 2014:</i>				
U.S. Government agency bonds	3,549	-	(139)	3,410
Corporate bonds.....	4,080	16	(26)	4,070
Municipal securities.....	97,525	4,472	(83)	101,914
Collateralized mortgage obligations	78,930	2,323	(614)	80,639
SBA pool securities	14,741	126	(40)	14,827
Mortgage-backed securities	<u>13,736</u>	<u>35</u>	<u>(61)</u>	<u>13,710</u>
	\$ <u>212,561</u>	<u>6,972</u>	<u>(963)</u>	<u>218,570</u>
Securities Held to Maturity:				
<i>At December 31, 2015-</i>				
Corporate bonds	\$ <u>120</u>	<u>31</u>	<u>-</u>	<u>151</u>
<i>At December 31, 2014-</i>				
Corporate bonds	\$ <u>181</u>	<u>-</u>	<u>-</u>	<u>181</u>

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(2) Securities, Continued

The following summarizes sales of securities (in thousands):

	<u>Year Ended December 31,</u>	
	<u>2015</u>	<u>2014</u>
Proceeds.....	\$ <u>33,433</u>	<u>105,942</u>
Gross gains	1,117	4,982
Gross losses	<u>(149)</u>	<u>(235)</u>
Net gain.....	\$ <u>968</u>	<u>4,747</u>

The scheduled maturities of securities at December 31, 2015 are as follows (in thousands):

	<u>Securities Available</u>		<u>Securities Held</u>	
	<u>for Sale</u>		<u>to Maturity</u>	
	<u>Amortized</u>	<u>Fair</u>	<u>Amortized</u>	<u>Fair</u>
	<u>Cost</u>	<u>Value</u>	<u>Cost</u>	<u>Value</u>
Due before one year.....	\$ 1,938	1,969	-	-
Due after one year through five years.....	21,206	22,231	-	-
Due after five through ten years ...	48,739	50,408	-	-
Due thereafter	2,447	2,664	120	151
Collateralized mortgage obligations	95,652	96,865	-	-
SBA pool securities	16,322	16,299	-	-
Mortgage-backed securities	<u>51,072</u>	<u>50,616</u>	<u>-</u>	<u>-</u>
	\$ <u>237,376</u>	<u>241,052</u>	<u>120</u>	<u>151</u>

At December 31, 2015 and 2014, the Company pledged, as collateral for state and municipal deposits and treasury tax and loan accounts, securities with a carrying value of \$52,428,000 and \$63,852,000, respectively.

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(2) Securities, Continued

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

	<u>Less Than Twelve Months</u>		<u>Over Twelve Months</u>	
	<u>Gross</u>	<u>Fair</u>	<u>Gross</u>	<u>Fair</u>
	<u>Unrealized</u>	<u>Value</u>	<u>Unrealized</u>	<u>Value</u>
	<u>Losses</u>		<u>Losses</u>	<u>Value</u>
<i>December 31, 2015:</i>				
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	<u>(489)</u>	<u>50,239</u>	<u>(1)</u>	<u>53</u>
Total.....	\$ <u>(1,211)</u>	<u>129,909</u>	<u>(464)</u>	<u>22,165</u>
<i>December 31, 2014:</i>				
U.S. Government agency bonds	\$ -	-	(139)	3,410
Corporate bonds.....	(26)	3,554	-	-
Municipal securities.....	(27)	5,647	(56)	6,130
Collateralized mortgage obligations	(253)	26,337	(361)	11,198
SBA pool securities	(8)	4,612	(32)	3,196
Mortgage-backed securities	<u>(60)</u>	<u>10,575</u>	<u>(1)</u>	<u>48</u>
Total.....	\$ <u>(374)</u>	<u>50,725</u>	<u>(589)</u>	<u>23,982</u>

At December 31, 2015 the unrealized losses on 66 investment securities available for sale were caused by market conditions. It is expected that the securities would not be settled at a price less than the par value of the investments. Because the decline in fair value is attributable to changes in market conditions and not credit quality, and because the Company has the ability and intent to hold these investments until a market price recovery or maturity, these investments are not considered other-than-temporarily impaired.

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(2) Securities, Continued

The Company invests in residential Collateralized Mortgage Obligations ("CMO's") included in securities available for sale and corporate bonds held to maturity. Quarterly, management stress tests all CMO's and corporate bonds via a third party resource that takes into account housing price appreciation (depreciation), interest rates, expected loss trends, both nationally and in geographic areas represented by the CMO and future cash flows of the corporate bonds. These stress tests are done, where data is available, at the individual loan level, opposed to using averages from services such as Bloomberg. If these stress tests indicate, on a present value basis, the Company will not receive the contracted cash flows; the Company makes an other-than-temporary impairment charge through the consolidated statements of earnings. Based on the lack of an active market and the results of the Company's continuing valuation of the underlying collateral and cash flows of these securities, these securities have been deemed as other-than-temporarily impaired. Based on current accounting policies, the portion of losses deemed as credit losses is charged against earnings and the portion deemed as noncredit losses is included in other comprehensive (loss) income. As of December 31, 2015, the Company's management does not intend to sell these securities, nor is it more likely than not that the Company will be required to sell the securities for liquidity or other reasons.

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

	<u>Year Ended December 31,</u>			
	<u>2015</u>		<u>2014</u>	
	<u>Impairment Losses</u>	<u>Fair Value</u>	<u>Impairment Losses</u>	<u>Fair Value</u>
<i>Securities Available for Sale-</i>				
Collateralized mortgage obligations	\$ <u>(144)</u>	<u>829</u>	<u>-</u>	<u>537</u>
<i>Securities Held to Maturity-</i>				
Corporate bonds.....	\$ <u>-</u>	<u>151</u>	<u>(39)</u>	<u>181</u>

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

	<u>Year Ended December 31,</u>	
	<u>2015</u>	<u>2014</u>
Estimated credit losses, beginning balance.....	\$ 4,548	4,509
Additions for credit losses not previously recognized	<u>144</u>	<u>39</u>
Estimated credit losses, ending balance	\$ <u>4,692</u>	<u>4,548</u>

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

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(3) Loans

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

	<u>At December 31,</u>	
	<u>2015</u>	<u>2014</u>
Real estate mortgage loans:		
Commercial real estate	\$ 143,669	160,069
Residential real estate	115,689	126,264
Construction and land.....	<u>36,700</u>	<u>29,210</u>
Total real estate mortgage loans.....	296,058	315,543
Commercial loans	152,138	122,620
Consumer loans	<u>100,152</u>	<u>67,582</u>
Subtotal.....	548,348	505,745
Less:		
Allowance for loan losses.....	5,305	5,911
Loan discount	4,270	4,620
Net deferred loan origination (costs) fees.....	<u>(103)</u>	<u>176</u>
Loans, net	\$ <u>538,876</u>	<u>495,038</u>

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(3) Loans, Continued

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

	Real Estate Mortgage Loans	Commercial Loans	Consumer Loans	Total
<i>Year Ended December 31, 2015:</i>				
Beginning balance.....	\$ 4,025	966	920	5,911
(Credit) provision for loan losses.....	(950)	118	708	(124)
Charge-offs.....	(289)	-	(452)	(741)
Recoveries.....	<u>125</u>	<u>61</u>	<u>73</u>	<u>259</u>
Ending balance.....	\$ <u>2,911</u>	<u>1,145</u>	<u>1,249</u>	<u>5,305</u>
<i>Year Ended December 31, 2014:</i>				
Beginning balance.....	5,204	1,239	411	6,854
(Credit) provision for loan losses.....	(836)	(340)	686	(490)
Charge-offs.....	(758)	(50)	(259)	(1,067)
Recoveries.....	<u>415</u>	<u>117</u>	<u>82</u>	<u>614</u>
Ending balance.....	\$ <u>4,025</u>	<u>966</u>	<u>920</u>	<u>5,911</u>
<i>At December 31, 2015:</i>				
Balance in allowance for loan losses:				
Individually evaluated for impairment.....	\$ 74	-	-	74
Collectively evaluated for impairment.....	<u>2,837</u>	<u>1,145</u>	<u>1,249</u>	<u>5,231</u>
Total ending allowance balance.....	\$ <u>2,911</u>	<u>1,145</u>	<u>1,249</u>	<u>5,305</u>
Recorded investment:				
Individually evaluated for impairment.....	11,201	6	420	11,627
Collectively evaluated for impairment.....	<u>284,857</u>	<u>152,132</u>	<u>99,732</u>	<u>536,721</u>
Total ending loan balance.....	\$ <u>296,058</u>	<u>152,138</u>	<u>100,152</u>	<u>548,348</u>
<i>At Ended December 31, 2014:</i>				
Balance in allowance for loan losses:				
Individually evaluated for impairment.....	359	-	-	359
Collectively evaluated for impairment.....	<u>3,666</u>	<u>966</u>	<u>920</u>	<u>5,552</u>
Total ending allowance balance.....	\$ <u>4,025</u>	<u>966</u>	<u>920</u>	<u>5,911</u>
Recorded investment:				
Individually evaluated for impairment.....	13,176	15	580	13,771
Collectively evaluated for impairment.....	301,660	122,605	67,002	491,267
Loans acquired with deteriorated credit quality.....	<u>707</u>	<u>-</u>	<u>-</u>	<u>707</u>
Total ending loan balance.....	\$ <u>315,543</u>	<u>122,620</u>	<u>67,582</u>	<u>505,745</u>

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(3) Loans, Continued

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

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

Commercial Loans. Commercial loans are 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)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(3) Loans, Continued

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

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

	<u>Real Estate Mortgage Loans</u>			<u>Commercial Loans</u>	<u>Consumer Loans</u>	<u>Total</u>
	<u>Commercial Real Estate</u>	<u>Residential Estate</u>	<u>Construction and Land</u>			
<i>Credit Risk Profile by Internally Assigned Grade:</i>						
<i>At December 31, 2015:</i>						
Grade:						
Pass	\$ 125,649	109,747	36,168	151,823	99,080	522,467
Special mention.....	7,607	294	-	232	61	8,194
Substandard.....	<u>10,413</u>	<u>5,648</u>	<u>532</u>	<u>83</u>	<u>1,011</u>	<u>17,687</u>
Total	\$ <u>143,669</u>	<u>115,689</u>	<u>36,700</u>	<u>152,138</u>	<u>100,152</u>	<u>548,348</u>
<i>At December 31, 2014:</i>						
Grade:						
Pass	132,293	119,062	29,133	122,354	66,216	469,058
Special mention.....	11,217	365	-	173	128	11,883
Substandard.....	<u>16,559</u>	<u>6,837</u>	<u>77</u>	<u>93</u>	<u>1,238</u>	<u>24,804</u>
Total	\$ <u>160,069</u>	<u>126,264</u>	<u>29,210</u>	<u>122,620</u>	<u>67,582</u>	<u>505,745</u>

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(3) Loans, Continued

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

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

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

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

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

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

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

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(3) Loans, Continued

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

	<u>Accruing Loans</u>				<u>Current</u>	<u>Nonaccrual Loans</u>	<u>Total Loans</u>
	<u>30-59 Days Past Due</u>	<u>60-89 Days Past Due</u>	<u>Greater Than 90 Days Past Due</u>	<u>Total Past Due</u>			
<i>At December 31, 2015:</i>							
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⁾	<u>2,202</u>	<u>1,331</u>	<u>3,844</u>	<u>7,377</u>	<u>92,396</u>	<u>379</u>	<u>100,152</u>
Total	<u>\$ 7,729</u>	<u>2,571</u>	<u>21,924</u>	<u>32,224</u>	<u>509,018</u>	<u>7,106</u>	<u>548,348</u>
<i>At December 31, 2014:</i>							
Real estate mortgage loans:							
Commercial real estate	1,049	139	-	1,188	155,703	3,178	160,069
Residential real estate ⁽²⁾	5,427	2,927	11,339	19,693	104,142	2,429	126,264
Construction and land	1,118	295	-	1,413	27,720	77	29,210
Commercial loans	21	27	-	48	122,493	79	122,620
Consumer loans ⁽¹⁾	<u>1,379</u>	<u>752</u>	<u>2,735</u>	<u>4,866</u>	<u>62,217</u>	<u>499</u>	<u>67,582</u>
Total	<u>\$ 8,994</u>	<u>4,140</u>	<u>14,074</u>	<u>27,208</u>	<u>472,275</u>	<u>6,262</u>	<u>505,745</u>

⁽¹⁾ At December 31, 2015 and 2014, guaranteed student loans were \$26.3 million and \$23.6 million, respectively. Guaranteed student loans of \$3.7 million and \$2.7 million at December 31, 2015 and 2014 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, 2015 and 2014, there were \$300,000 and \$182,000, 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 \$18.0 million and \$11.3 million at December 31, 2015 and 2014, respectively.

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(3) Loans, Continued

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

	<u>With No Related Allowance Recorded</u>		<u>With an Allowance Recorded</u>			<u>Total</u>		
	<u>Unpaid Contractual</u>		<u>Unpaid Contractual</u>			<u>Unpaid Contractual</u>		
	<u>Recorded Investment</u>	<u>Principal Balance</u>	<u>Recorded Investment</u>	<u>Principal Balance</u>	<u>Related Allowance</u>	<u>Recorded Investment</u>	<u>Principal Balance</u>	<u>Related Allowance</u>
<i>December 31, 2015:</i>								
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	<u>420</u>	<u>539</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>420</u>	<u>539</u>	<u>-</u>
	\$ <u>11,248</u>	<u>13,278</u>	<u>379</u>	<u>387</u>	<u>74</u>	<u>11,627</u>	<u>13,665</u>	<u>74</u>
<i>December 31, 2014:</i>								
Real estate mortgage loans:								
Commercial real estate.....	7,259	8,071	1,277	1,306	359	8,536	9,377	359
Residential real estate	4,563	5,590	-	-	-	4,563	5,590	-
Construction and land	77	77	-	-	-	77	77	-
Commercial loans	15	16	-	-	-	15	16	-
Consumer loans	<u>580</u>	<u>715</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>580</u>	<u>715</u>	<u>-</u>
	\$ <u>12,494</u>	<u>14,469</u>	<u>1,277</u>	<u>1,306</u>	<u>359</u>	<u>13,771</u>	<u>15,775</u>	<u>359</u>

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

	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>	<u>Interest Income Received</u>
<i>Year Ended December 31, 2015:</i>			
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	<u>796</u>	<u>9</u>	<u>28</u>
	\$ <u>14,781</u>	<u>408</u>	<u>713</u>
<i>Year Ended December 31, 2014:</i>			
Real estate mortgage loans:			
Commercial real estate	10,474	375	563
Residential real estate	5,697	148	194
Construction and land	406	15	13
Commercial loans	47	3	3
Consumer loans	<u>867</u>	<u>12</u>	<u>25</u>
	\$ <u>17,491</u>	<u>553</u>	<u>798</u>

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(3) Loans, Continued

Troubled debt restructurings ("TDR") during the years ended December 31, 2015 and 2014 are as follows (dollars in thousands):

	2015			2014		
	Number of Contracts	Pre- Modification Outstanding Recorded Investment	Post- Modification Outstanding Recorded Investment	Number of Contracts	Pre- Modification Outstanding Recorded Investment	Post- Modification Outstanding Recorded Investment
<i>Troubled Debt Restructurings:</i>						
Real estate mortgage loans:						
Commercial real estate:						
Modified interest rate, principal and amortization	-	\$ -	-	2	\$ 55	33
Modified interest rate and amortization	3	466	466	3	487	487
Residential real estate:						
Modified amortization.....	2	197	197	1	204	204
Modified interest rate and amortization	3	162	162	7	403	403
Modified interest rate, principal and amortization	1	89	89	6	544	388
Commercial loans-						
Modified amortization.....	-	-	-	1	6	6
Consumer loans:						
Modified interest rate and amortization	-	-	-	4	111	111
Modified interest rate	1	35	35	-	-	-
Modified interest rate, principal and amortization	<u>2</u>	<u>126</u>	<u>66</u>	<u>2</u>	<u>75</u>	<u>39</u>
	<u>12</u>	\$ <u>1,075</u>	<u>1,015</u>	<u>26</u>	\$ <u>1,885</u>	<u>1,671</u>

The allowance for loan losses on all classes or loans that have been restructured and are considered TDRs is included in the Company's specific reserve. The specific reserve is determined on a loan by loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, or the fair value of the collateral if the loan is collateral-dependent. TDR's that have subsequently defaulted are considered collateral-dependent. There were no TDRs modified during the years ended December 31, 2015 or 2014 that subsequently defaulted during the same year.

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(3) Loans, Continued

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

	Year Ended December 31,	
	2015	2014
Beginning balance	\$ 176	12
Deferred loan origination fees	202	405
Capitalized direct underwriting costs	(571)	(310)
Net amortization	90	69
Ending balance	\$(103)	176

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,	
	2015	2014
Mortgage loan portfolios serviced for:		
Government agencies:		
FHLB	\$ 13,415	17,628
FHLMC	2,431,189	2,182,141
GNMA	1,055,839	904,519
FNMA	9,419	5,544
All other	181,124	163,998
	\$ 3,690,986	3,273,830

Custodial escrow balances maintained in connection with loans serviced for others were \$21,874,000 and \$19,316,000 at December 31, 2015 and 2014, respectively. The escrow balances are included in noninterest-bearing demand deposits in the accompanying consolidated balance sheets.

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(4) Loan Servicing, Continued

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

	<u>Year Ended December 31,</u>	
	<u>2015</u>	<u>2014</u>
Beginning balance.....	\$ 24,938	22,044
Additions from loans originated and sold.....	8,638	6,957
Amortization.....	(3,663)	(3,704)
Loss.....	<u>(24)</u>	<u>(359)</u>
Ending balance.....	29,889	24,938
Allowance.....	(380)	(482)
Discount.....	<u>(173)</u>	<u>(356)</u>
Mortgage servicing rights, net.....	\$ <u>29,336</u>	<u>24,100</u>
Allowance for impairment beginning balance.....	482	45
Additions.....	79	446
Reductions.....	<u>(181)</u>	<u>(9)</u>
Allowance for impairment ending balance.....	\$ <u>380</u>	<u>482</u>

The fair value of mortgage servicing rights was determined using discount rates ranging from 9.50% to 13.50% for all loans serviced and prepayment speeds ranging from 124.00% to 454.00%, depending on the stratification of the specific rights.

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

	<u>At Ended December 31,</u>			
	<u>2015</u>		<u>2014</u>	
	<u>Carrying</u>	<u>Fair</u>	<u>Carrying</u>	<u>Fair</u>
	<u>Value</u>	<u>Value</u>	<u>Value</u>	<u>Value</u>
Mortgage Service Rights, at fair market value.....	\$ 15,237	15,237	6,599	6,599
Mortgage Service Rights, at lower of cost or market value.....	<u>14,099</u>	<u>19,482</u>	<u>17,501</u>	<u>24,385</u>
Total	\$ <u>29,336</u>	<u>34,719</u>	<u>24,100</u>	<u>30,984</u>

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(4) Loan Servicing, Continued

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

	<u>Year Ended December 31,</u>	
	<u>2015</u>	<u>2014</u>
Servicing fees received from investors net of servicing expense.....	\$ 5,925	6,771
Mortgage servicing rights additions from loans originated and sold	8,638	6,957
Less amortization of mortgage servicing rights	<u>(3,663)</u>	<u>(3,704)</u>
	4,975	3,253
Income from servicing and rights	<u>\$ 10,900</u>	<u>10,024</u>

(5) Premises and Equipment

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

	<u>At December 31,</u>	
	<u>2015</u>	<u>2014</u>
Land	\$ 5,354	8,363
Buildings and improvements	19,106	21,126
Furniture and equipment.....	<u>13,146</u>	<u>13,327</u>
Total, at cost	37,606	42,816
Less accumulated depreciation	<u>16,902</u>	<u>16,347</u>
Premises and equipment, net	<u>\$ 20,704</u>	<u>26,469</u>

The Company leases office space for its operations under noncancellable leases which expire in 2016 and 2017. Rent expense was \$370,000 and \$389,000 for the years ended December 31, 2015 and 2014, respectively. Future minimum rental commitments under these leases are \$232,000 in 2016 and \$56,000 for 2017.

During 2015, the Company sold three branch offices located in Sarasota and Manatee County and had a realized gain of \$1,176,000. During 2014, the Company sold a branch office in Sarasota County and had a realized gain of \$57,000. This is reported under other noninterest income.

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(6) Deposits and Economic Dependence

The aggregate amount of time deposits with a minimum denomination of \$100,000 was approximately \$72.0 million and \$80.4 million at December 31, 2015 and 2014, respectively.

A schedule of maturities of time deposits at December 31, 2015 is as follows (in thousands):

<u>Year Ending December 31,</u>	
2016.....	\$ 101,268
2017.....	18,273
2018.....	8,685
2019.....	3,809
2020 and thereafter.....	<u>3,425</u>
	<u>\$ 135,460</u>

In the ordinary course of business, the Company accepts deposits from various governmental agencies and public institutions. The aggregate amount of these deposits was approximately \$218.3 million and \$196.1 million at December 31, 2015 and 2014, respectively.

(7) Related Parties

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

	<u>December 31,</u>	
	<u>2015</u>	<u>2014</u>
Deposits	\$ <u>3,943</u>	<u>4,287</u>
Loans	\$ <u>8,131</u>	<u>5,413</u>

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

There were no outstanding advances from the FHLB at December 31, 2015 and 2014. From time to time the Company may borrow from the FHLB. 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 \$80,542,000 at December 31, 2015. In addition, the Company may pledge additional marketable securities as collateral where the qualifying loans are insufficient. At December 31, 2015, securities with a fair value of \$76,890,000 were pledged as collateral for FHLB advances. At December 31, 2015, the Company had available credit if additional collateral were pledged of \$285.6 million.

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(9) Income Taxes

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

	<u>Year Ended December 31,</u>	
	<u>2015</u>	<u>2014</u>
Current:		
Federal	\$ 3,381	1,610
State	<u>727</u>	<u>565</u>
Total current	<u>4,108</u>	<u>2,175</u>
Deferred:		
Federal	2,236	1,182
State	<u>465</u>	<u>215</u>
Total deferred	<u>2,701</u>	<u>1,397</u>
Income taxes	<u>\$ 6,809</u>	<u>3,572</u>

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

	<u>Year Ended December 31,</u>			
	<u>2015</u>		<u>2014</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Income taxes at statutory Federal rate.....	\$ 7,193	35.0%	\$ 5,117	35.0%
Increase (decrease) in taxes resulting from:				
State taxes, net of Federal tax benefit.....	775	3.8	507	3.5
Income from bank-owned life insurance	(224)	(1.1)	(181)	(1.2)
Tax-exempt interest income	(1,007)	(4.9)	(1,332)	(9.1)
Other	<u>72</u>	<u>0.3</u>	<u>(539)</u>	<u>(3.8)</u>
Total.....	<u>\$ 6,809</u>	<u>33.1%</u>	<u>\$ 3,572</u>	<u>24.4%</u>

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(9) Income Taxes, Continued

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

	<u>At December 31,</u>	
	<u>2015</u>	<u>2014</u>
Deferred tax assets:		
Allowance for loan losses.....	\$ 2,064	2,299
Deferred compensation.....	1,762	1,464
Nonaccrual interest income	171	211
Charitable contributions	62	79
Impaired securities.....	107	73
Accrued expenses	437	525
Purchase accounting on FDIC-assisted transactions ...	236	-
Other	<u>140</u>	<u>217</u>
Total deferred tax assets	<u>4,979</u>	<u>4,868</u>
Deferred tax liabilities:		
Purchase accounting on FDIC-assisted transactions ...	-	(103)
Deferred loan costs	(359)	(287)
Mortgage servicing rights.....	(8,646)	(5,736)
Unrealized gain in securities available for sale	(1,399)	(2,256)
Depreciation	(1,418)	(1,542)
Prepaid expenses	<u>(511)</u>	<u>(454)</u>
Total deferred tax liabilities	<u>(12,333)</u>	<u>(10,378)</u>
Net deferred tax liability.....	\$ <u>(7,354)</u>	<u>(5,510)</u>

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 2012.

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(10) Off-Balance-Sheet Financial Instruments

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

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

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

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. All outstanding letters of credit expire in the next twelve months. The Company has in some cases obtained guarantees securing these agreements.

A summary of the amounts of the Company's off-balance-sheet financial instruments at December 31, 2015 follows (in thousands):

	<u>Contract Amount</u>
Unused lines of credit	\$ <u>21,763</u>
Undisbursed loans in process.....	\$ <u>25,855</u>
Commitments to extend credit.....	\$ <u>192,850</u>
Standby letters of credit	\$ <u>773</u>

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(11) Derivative Financial Instruments

Rate-Lock Commitments. The total outstanding rate-lock commitments at December 31, 2015 and 2014 were approximately \$96.3 million and \$59.0 million, respectively. The fair value of rate-lock commitments at December 31, 2015 and 2014 were \$1.4 million and \$821,000, respectively, and are included in other assets in the accompanying consolidated balance sheets.

Forward Loan Sale Contracts. The notional amounts of forward loan sale contracts outstanding at December 31, 2015 and 2014 were \$122.1 million and \$87.0 million, respectively. The fair value of forward loan sale commitments were \$167,000 and \$524,000 at December 31, 2015 and 2014, respectively, are included in other liabilities and other assets, respectively, in the accompanying consolidated balance sheets.

(12) Fair Value of Financial Instruments

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

	<u>At December 31,</u>			
	<u>2015</u>		<u>2014</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Financial assets:				
Cash and cash equivalents	\$ 47,218	47,218	48,786	48,786
Restricted cash	20,521	20,521	61,323	61,323
Time deposits	5,942	5,942	12,852	12,852
Securities available for sale	241,052	241,052	218,570	218,570
Securities held to maturity	120	151	181	181
Loans held for sale, net	41,614	41,614	42,939	42,939
Loans	538,876	545,168	495,038	503,863
Accrued interest receivable	5,274	5,274	4,957	4,957
Federal Home Loan Bank stock	875	875	889	889
Mortgage servicing rights	29,336	34,719	24,100	30,984
Rate-lock commitments	1,455	1,455	827	827
Forward loan sale contracts	58	58	-	-
Financial liabilities:				
Deposits	816,909	817,511	817,201	790,224
Accrued interest payable	13	13	11	11
Rate-lock commitments	74	74	6	6
Forward loan sale contracts	225	225	524	524
Off-balance-sheet financial instruments	-	-	-	-

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, 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.

As of December 31, 2015 and 2014, 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.

	<u>Actual</u>		<u>For Capital Adequacy Purposes</u>		<u>Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
<i>As of December 31, 2015:</i>						
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
<i>As of December 31, 2014:</i>						
Tier I capital ratio.....	129,032	19.12	26,993	4.00	40,489	6.00
Total capital ratio	135,719	20.11	53,986	8.00	67,482	10.00
Tier I leverage ratio	129,032	13.36	38,647	4.00	48,308	5.00

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(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 \$1,315,000 and \$1,243,000 for the years ended December 31, 2015 and 2014, 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.

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.

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(15) Deferred Compensation Plans, Continued

At December 31, 2015 and 2014, \$2.6 million and \$2.2 million respectively, were accrued in total under all of these plans. During the years ended December 31, 2015 and 2014, \$339,000 and \$349,000, 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.

(17) Fair Value Measurements

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

	<u>Fair Value</u>	<u>Quoted Prices In Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<i>At December 31, 2015:</i>				
<i>Available-for-Sale Securities:</i>				
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	<u>50,616</u>	<u>-</u>	<u>50,616</u>	<u>-</u>
Total	\$ <u>241,052</u>	<u>-</u>	<u>241,052</u>	<u>-</u>
Loans held for sale, net	\$ <u>41,614</u>	<u>-</u>	<u>41,614</u>	<u>-</u>
Rate-lock commitments, net	\$ <u>1,381</u>	<u>-</u>	<u>-</u>	<u>1,381</u>
Forward loan sale contracts, net	\$ <u>167</u>	<u>-</u>	<u>-</u>	<u>167</u>
Mortgage servicing rights at fair market value	\$ <u>15,237</u>	<u>-</u>	<u>-</u>	<u>15,237</u>

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(17) Fair Value Measurements, Continued

	<u>Fair Value</u>	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<i>At December 31, 2014:</i>				
<i>Available-for-Sale Securities:</i>				
U.S. Government agency bonds	\$ 3,410	-	3,410	-
Corporate bonds	4,070	-	4,070	-
Municipal securities	101,914	-	101,914	-
Collateralized mortgage obligations	80,639	-	80,639	-
SBA pool securities	14,827	-	14,827	-
Mortgage-backed securities	<u>13,710</u>	<u>-</u>	<u>13,710</u>	<u>-</u>
Total	\$ <u>218,570</u>	<u>-</u>	<u>218,570</u>	<u>-</u>
Loans held for sale, net	\$ <u>42,939</u>	<u>-</u>	<u>42,939</u>	<u>-</u>
Rate-lock commitments, net	\$ <u>821</u>	<u>-</u>	<u>-</u>	<u>821</u>
Forward loan sale contracts, net	\$ <u>524</u>	<u>-</u>	<u>-</u>	<u>524</u>
Mortgage servicing rights at fair market value	\$ <u>6,599</u>	<u>-</u>	<u>-</u>	<u>6,599</u>

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

	<u>Year Ended December 31,</u>					
	<u>2015</u>			<u>2014</u>		
	Rate-Lock Commitments <u>Net</u>	Forward Loan Sale Contracts <u>Net</u>	MSR at <u>FMV</u>	Rate-lock Commitments <u>Net</u>	Forward Loan Sale Contracts <u>Net</u>	MSR at <u>FMV</u>
Balance at beginning of year...	\$ 821	(524)	6,599	934	1,207	-
Total gains or losses (realized / unrealized) – purchases, issuances and net settlements	<u>560</u>	<u>357</u>	<u>8,638</u>	<u>(113)</u>	<u>(1,731)</u>	<u>6,599</u>
Balance at end of year	\$ <u>1,381</u>	<u>(167)</u>	<u>15,237</u>	<u>821</u>	<u>(524)</u>	<u>6,599</u>

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(17) Fair Value Measurements, Continued

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

	Classification of Gains and Losses (Realized/ Unrealized) Included in Earnings Year Ended December 31,	
	2015	2014
	Net	Net
	Derivatives	Derivatives
Mortgage-banking revenue	\$ <u>916</u>	<u>(1,844)</u>

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

	At Year or Period End				Total (recov- eries) Losses	(Recoveries) Losses Recorded In earnings For The Year Ended
	Fair Value	Level 1	Level 2	Level 3		
At December 31, 2015:						
Impaired loans:						
Commercial real estate.....	\$ 457	-	-	457	216	(238)
Residential real estate	231	-	-	231	92	77
Consumer loans.....	<u>279</u>	<u>-</u>	<u>-</u>	<u>279</u>	<u>106</u>	<u>51</u>
Total	\$ <u>967</u>	<u>-</u>	<u>-</u>	<u>967</u>	<u>414</u>	<u>(110)</u>
Foreclosed real estate.....	\$ <u>767</u>	<u>-</u>	<u>-</u>	<u>767</u>	<u>135</u>	<u>135</u>
Mortgage servicing rights at lower of cost or market	\$ <u>19,482</u>	<u>-</u>	<u>-</u>	<u>19,482</u>	<u>(91)</u>	<u>(91)</u>
At December 31, 2014:						
Impaired loans:						
Commercial real estate.....	\$ 1,120	-	-	1,120	497	(201)
Residential real estate	897	-	-	897	320	71
Consumer loans.....	<u>506</u>	<u>-</u>	<u>-</u>	<u>506</u>	<u>146</u>	<u>88</u>
Total	\$ <u>2,523</u>	<u>-</u>	<u>-</u>	<u>2,523</u>	<u>963</u>	<u>(42)</u>
Foreclosed real estate.....	\$ <u>1,999</u>	<u>-</u>	<u>-</u>	<u>1,999</u>	<u>296</u>	<u>296</u>
Mortgage servicing rights at lower of cost or market	\$ <u>24,385</u>	<u>-</u>	<u>-</u>	<u>24,385</u>	<u>796</u>	<u>796</u>

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(18) Consolidating Financial Statements

Consolidating Balance Sheet

At December 31, 2015

(In thousands)

	First Federal Bancorp, MHC	First Federal Bancorp, Inc. Consolidation			Consolidating Entries Debit (Credit)	Consolidated	Consolidating Entries Debit (Credit)	Consolidated
		First Federal Bancorp, Inc.	First Federal Bank of Florida Consolidated	Consolidating Entries Debit (Credit)				
Assets								
Cash and due from banks	\$ 10	1,393	4,676	(570)	5,499	(10)	5,499	
Interest-bearing deposits	-	14	41,705	-	41,719	-	41,719	
Restricted cash	-	-	20,521	-	20,521	-	20,521	
Time deposits	-	2,318	3,624	-	5,942	-	5,942	
Securities	-	1,954	239,218	-	241,172	-	241,172	
Investment in subsidiaries	153,308	147,641	-	(147,641)	-	(153,308)	-	
Loans, net	-	-	580,490	-	580,490	-	580,490	
Accrued interest receivable	-	3	5,271	-	5,274	-	5,274	
Premises and equipment, net	-	-	20,704	-	20,704	-	20,704	
Federal Home Loan Bank stock, at cost	-	-	875	-	875	-	875	
Foreclosed real estate	-	-	767	-	767	-	767	
Income taxes receivable	-	-	2,178	-	2,178	-	2,178	
Cash surrender value of bank-owned life insurance	-	-	28,183	-	28,183	-	28,183	
Mortgage servicing rights, net	-	-	29,336	-	29,336	-	29,336	
Other assets	-	-	12,918	-	12,918	-	12,918	
Total assets	\$ <u>153,318</u>	<u>153,323</u>	<u>990,466</u>	<u>(148,211)</u>	<u>995,578</u>	<u>(153,318)</u>	<u>995,578</u>	
Liabilities, Capital Stock and Retained Earnings and Accumulated Other Comprehensive Income								
Liabilities:								
Deposits	-	-	817,489	(570)	816,919	(10)	816,909	
Deferred income taxes	-	(2)	7,356	-	7,354	-	7,354	
Other liabilities	-	17	17,980	-	17,997	-	17,997	
Total liabilities	-	15	842,825	(570)	842,270	(10)	842,260	
Capital stock	-	-	1	(1)	-	-	-	
Retained earnings and accumulated other comprehensive income	<u>153,318</u>	<u>153,308</u>	<u>147,640</u>	<u>(147,640)</u>	<u>153,308</u>	<u>(153,308)</u>	<u>153,318</u>	
Total liabilities, capital stock and retained earnings and accumulated other comprehensive income	\$ <u>153,318</u>	<u>153,323</u>	<u>990,466</u>	<u>(148,211)</u>	<u>995,578</u>	<u>(153,318)</u>	<u>995,578</u>	

(continued)

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

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(18) Consolidating Financial Statements, Continued

Consolidating Statement of Earnings

Year Ended December 31, 2015

(In thousands)

	First Federal Bancorp, MHC	First Federal Bancorp, Inc. Consolidation			Consolidating Entries Debit (Credit)	Consolidated	Consolidating Entries Debit (Credit)	Consolidated
		First Federal Bancorp, Inc.	First Federal Bank of Florida Consolidated	Consolidated				
Interest income:								
Loans.....	\$ -	-	27,855	-	27,855	-	27,855	
Securities.....	-	31	6,694	-	6,725	-	6,725	
Other.....	-	4	1,639	-	1,643	-	1,643	
Total interest income.....	-	35	36,188	-	36,223	-	36,223	
Interest expense:								
Deposits.....	-	-	1,489	-	1,489	-	1,489	
Borrowings.....	-	-	84	-	84	-	84	
Total interest expense.....	-	-	1,573	-	1,573	-	1,573	
Net interest income.....	-	35	34,615	-	34,650	-	34,650	
Credit for loan losses.....	-	-	(124)	-	(124)	-	(124)	
Net interest income after credit for loan losses.....	-	35	34,739	-	34,774	-	34,774	
Noninterest income:								
Loan servicing fees.....	-	-	5,925	-	5,925	-	5,925	
Mortgage servicing rights retained from loans sold.....	-	-	4,975	-	4,975	-	4,975	
Mortgage banking revenue.....	-	-	6,475	-	6,475	-	6,475	
Service charges on deposit accounts.....	-	-	3,839	-	3,839	-	3,839	
Other service charges and fees.....	-	-	2,277	-	2,277	-	2,277	
Gain on sale of securities available for sale.....	-	-	968	-	968	-	968	
Other than temporary impairment on securities available for sale.....	-	-	(144)	-	(144)	-	(144)	
Income from bank-owned life insurance.....	-	-	641	-	641	-	641	
Debit card interchange income.....	-	-	2,708	-	2,708	-	2,708	
Other.....	13,743	13,717	1,536	(13,726)	1,527	(13,743)	1,527	
Total noninterest income.....	13,743	13,717	29,200	(13,726)	29,191	(13,743)	29,191	
Noninterest expenses:								
Salaries and employee benefits.....	-	-	27,464	-	27,464	-	27,464	
Occupancy and equipment.....	-	-	5,723	-	5,723	-	5,723	
Professional fees.....	-	-	1,164	-	1,164	-	1,164	
Other.....	-	9	9,062	(9)	9,062	-	9,062	
Total noninterest expenses.....	-	9	43,413	(9)	43,413	-	43,413	
Earnings before income taxes.....	13,743	13,743	20,526	(13,717)	20,552	(13,743)	20,552	
Income tax.....	-	-	6,809	-	6,809	-	6,809	
Net earnings.....	\$ 13,743	13,743	13,717	(13,717)	13,743	(13,743)	13,743	

(a) Elimination of income of subsidiaries.