

**FIRST FEDERAL BANCORP, MHC**

**Parent Company for**



*First Federal*  
BANK of FLORIDA

**Audited Consolidated Financial Statements**

**March 31, 2009 and 2008 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 balance sheets of First Federal Bancorp, MHC and Subsidiaries (the "Company") at March 31, 2009 and 2008 and the related consolidated statements of earnings, retained earnings and accumulated other comprehensive loss, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company at March 31, 2009 and 2008, and the results of its operations and its 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  
June 5, 2009

**FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES**

**Consolidated Balance Sheets**

(In thousands)

<b>Assets</b>	<u>At March 31,</u>	
	<u>2009</u>	<u>2008</u>
Cash and due from banks .....	\$ 53,114	14,656
Interest-bearing deposits with banks.....	<u>185</u>	<u>49,264</u>
Total cash and cash equivalents .....	53,299	63,920
Time deposits .....	18,824	24,208
Securities available for sale .....	153,387	89,393
Securities held to maturity .....	985	15,762
Loans held for sale .....	3,999	4,092
Loans, net of allowance for loan losses of \$6,883 and \$5,109 .....	352,295	383,066
Accrued interest receivable.....	2,528	2,650
Premises and equipment, net.....	16,370	16,573
Federal Home Loan Bank stock, at cost .....	2,282	2,176
Foreclosed real estate.....	1,622	69
Deferred income taxes .....	3,395	1,831
Cash surrender value of bank owned life insurance .....	15,367	14,758
Other assets .....	<u>4,511</u>	<u>3,301</u>
Total .....	<u>\$ 628,864</u>	<u>621,799</u>
<b>Liabilities, Retained Earnings and Accumulated Other Comprehensive Loss</b>		
Liabilities:		
Noninterest-bearing demand deposits .....	67,284	64,732
Interest checking and money-market deposits.....	238,602	276,536
Savings deposits .....	16,058	14,272
Time deposits.....	<u>156,040</u>	<u>134,911</u>
Total deposits .....	477,984	490,451
Federal Home Loan Bank advances .....	26,000	25,000
Other borrowings.....	44,702	34,849
Income taxes payable.....	642	196
Other liabilities .....	<u>8,592</u>	<u>7,155</u>
Total liabilities .....	557,920	557,651
Commitments and contingencies (Notes 5, 10 and 17)		
Retained earnings.....	72,239	64,956
Accumulated other comprehensive loss .....	<u>(1,295)</u>	<u>(808)</u>
Total .....	<u>\$ 628,864</u>	<u>621,799</u>

See accompanying Notes to Consolidated Financial Statements.

**FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES**

**Consolidated Statements of Earnings**

(In thousands)

	<u>Year Ended March 31,</u>	
	<u>2009</u>	<u>2008</u>
Interest income:		
Loans .....	\$ 24,290	29,227
Securities .....	7,679	5,515
Other .....	<u>557</u>	<u>780</u>
Total interest income.....	<u>32,526</u>	<u>35,522</u>
Interest expense:		
Deposits .....	7,174	13,086
Borrowings .....	<u>1,826</u>	<u>1,958</u>
Total interest expense .....	<u>9,000</u>	<u>15,044</u>
Net interest income .....	23,526	20,478
Provision for loan losses .....	<u>2,641</u>	<u>1,610</u>
Net interest income after provision for loan losses.....	<u>20,885</u>	<u>18,868</u>
Noninterest income:		
Service charges on deposit accounts .....	3,698	3,420
Other service charges and fees .....	1,645	1,633
Gain on sale of loans .....	1,192	1,336
Gain on sale of securities available for sale .....	1,634	17
Other than temporary impairment of securities available for sale.....	(1,713)	-
Income from bank owned life insurance .....	609	547
Debit card interchange income .....	1,131	1,082
Gain on sale of assets.....	-	356
Other .....	<u>399</u>	<u>447</u>
Total noninterest income.....	<u>8,595</u>	<u>8,838</u>
Noninterest expense:		
Salaries and employee benefits.....	11,699	11,435
Occupancy and equipment.....	2,679	2,527
Debit card interchange expense.....	536	440
Printing and office supplies .....	254	234
Telephone and data communications .....	330	290
Other .....	<u>2,601</u>	<u>2,388</u>
Total noninterest expense .....	<u>18,099</u>	<u>17,314</u>
Earnings before income taxes .....	11,381	10,392
Income taxes .....	<u>3,825</u>	<u>3,598</u>
Net earnings .....	\$ <u>7,556</u>	<u>6,794</u>

See accompanying Notes to Consolidated Financial Statements.

**FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES**

**Consolidated Statements of Retained Earnings and  
Accumulated Other Comprehensive Income (Loss)**

**Years Ended March 31, 2009 and 2008**  
(In thousands)

	<u>Retained Earnings</u>	<u>Accumulated Other Compre- hensive Income (Loss)</u>	<u>Total</u>
Balance at March 31, 2007 .....	\$ 58,162	43	<u>58,205</u>
Comprehensive income:			
Net earnings .....	6,794	-	6,794
Net change in unrealized loss on securities available for sale, net of tax benefit of \$306.....	-	(511)	(511)
Net change in unrealized loss on derivative instrument, net of tax benefit of \$183 .....	-	(340)	<u>(340)</u>
Comprehensive income .....	<u>        </u>	<u>        </u>	<u>5,943</u>
Balance at March 31, 2008 .....	64,956	(808)	64,148
Adjustment for adoption of SFAS 159 .....	<u>12</u>	<u>-</u>	<u>12</u>
Balance as adjusted for change in accounting principle .....	64,968	(808)	<u>64,160</u>
Comprehensive income:			
Net earnings .....	7,556	-	7,556
Net change in unrealized loss on securities available for sale, net of tax benefit of \$180.....	-	(292)	(292)
Net change in unrealized loss on derivative instrument, net of tax benefit of \$106 .....	-	(195)	<u>(195)</u>
Comprehensive income .....	<u>        </u>	<u>        </u>	7,069
Cumulative effect adjustment related to deferred compensation plans.....	<u>(285)</u>	<u>-</u>	<u>(285)</u>
Balance at March 31, 2009 .....	\$ <u>72,239</u>	<u>(1,295)</u>	<u>70,944</u>

See accompanying Notes to Consolidated Financial Statements.

**FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES**

**Consolidated Statements of Cash Flows**  
(In thousands)

	<u>Year Ended March 31,</u>	
	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Net earnings.....	\$ 7,556	6,794
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Provision for loan losses .....	2,641	1,610
Depreciation .....	1,046	1,052
Deferred income taxes.....	(1,278)	(313)
Net amortization of premiums and discounts on securities .....	(370)	(538)
Net amortization of deferred loan fees.....	(76)	(173)
Gain on sale of securities available for sale .....	(1,634)	(17)
Other than temporary impairment .....	1,713	-
Net loss (gain) on sale of foreclosed real estate .....	1	(17)
Origination of loans held for sale.....	(77,087)	(79,434)
Proceeds from sale of loans held for sale.....	78,372	87,942
Gain on sale of loans held for sale .....	(1,192)	(1,692)
Income from bank owned life insurance .....	(609)	(547)
Decrease in accrued interest receivable .....	122	171
(Increase) decrease in other assets .....	(1,210)	817
Increase in income taxes payable .....	446	327
Increase (decrease) in other liabilities.....	<u>851</u>	<u>(1,673)</u>
Net cash provided by operating activities.....	<u>9,292</u>	<u>14,309</u>
Cash flows from investing activities:		
Purchases of securities available for sale .....	(198,532)	(93,183)
Principal repayments of securities available for sale .....	21,949	11,489
Maturities and calls of securities available for sale.....	27,585	17,927
Net proceeds from sales of securities available for sale.....	99,337	35,872
Principal repayments of securities held to maturity .....	275	1,965
Purchase of securities held to maturity.....	-	(1,043)
Purchase of time deposits .....	(25,212)	(10,000)
Proceeds from sale of time deposits .....	596	98
Maturities of time deposits .....	30,000	-
Net decrease (increase) in loans .....	26,630	(7,373)
Purchases of premises and equipment, net .....	(843)	(2,456)
Proceeds from sale of foreclosed real estate.....	22	206
Purchases of Federal Home Loan Bank stock.....	(106)	(1,200)
Decrease of bank owned life insurance .....	<u>-</u>	<u>(3,217)</u>
Net cash used in investing activities .....	<u>(18,299)</u>	<u>(50,915)</u>
Cash flows from financing activities:		
Net (decrease) increase in deposits.....	(12,467)	43,334
Proceeds from Federal Home Loan Bank advances .....	1,000	25,000
Net increase (decrease) in other borrowings .....	<u>9,853</u>	<u>(10,659)</u>
Net cash (used in) provided by financing activities.....	<u>(1,614)</u>	<u>57,675</u>
Net (decrease) increase in cash and cash equivalents.....	(10,621)	21,069
Cash and cash equivalents at beginning of year .....	<u>63,920</u>	<u>42,851</u>
Cash and cash equivalents at end of year .....	\$ <u>53,299</u>	<u>63,920</u>

See accompanying Notes to Consolidated Financial Statements.

# FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

For the Years Ended March 31, 2009 and 2008

### (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) owns a subsidiary First Federal Bank of Florida (the "Bank") which provides a variety of community banking services to individuals and businesses through ten full-service banking offices in Baker, Nassau, Hamilton, Lafayette, Suwannee and Columbia Counties, Florida. Its deposits are insured by the Federal Deposit Insurance Corporation. Subsidiaries 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."

In December of 2007, the Bank's Mutual Members approved by a member vote the Bank reorganizing from a unitary mutual thrift charter to a three tier mutual holding company structure. This corporate structure change, while transparent to the Bank's customers, allows the Bank access to the capital markets and allows it to consider opportunities not available to it as a unitary thrift to growth through acquisitions. As part of the reorganization, the Bank changed its name from "First Federal Savings Bank of Florida" to "First Federal Bank of Florida." The reorganization process also provides that the mutual holding company may sell, as provided by Federal Regulations, up to 49% of the Capital Stock of the Bank without a further vote of the members. The sale of more than 49% will require an additional member vote.

The accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States of America and to general practices within the thrift industry. The following summarizes the more significant of these policies and practices:

**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 accounting principles generally accepted in the United States of America 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 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-bearing deposits with banks, all of which mature within ninety days.

The Company is required under Federal Reserve Board regulations to maintain reserves, generally consisting of cash or noninterest-earning accounts, against its transaction accounts. At March 31, 2008, balances maintained as reserves were \$332,000. No reserves were required at March 31, 2009.

**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 loss. Other than temporary impairment is recognized in earnings when determined to be other than temporary as a charge to earnings. 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.

**Loans.** Loans management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding principal adjusted for any charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans. 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 loans is discontinued at the time the loan is ninety days delinquent. 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.

**Loans Held for Sale.** The Company has elected to account for loans held for sale in accordance with Statement of Financial Accounting Standard ("SFAS") No. 159 the *Fair Value Options for Financial Assets and Financial Liabilities* ("SFAS 159"). See further discussion of SFAS 159 under the heading *Fair Value Measurements* in Note 1 to the consolidated financial statements.

(continued)

# FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

## Notes to Consolidated Financial Statements, Continued

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

**Loan Losses.** The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

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 all other loans and is based on historical loss experience, adjusted for qualitative factors, such as economic conditions and other trends or uncertainties that could affect management's estimate of probable losses.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility 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.

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 commercial, commercial real estate and real estate construction 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.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer deposit account loans and residential loans for impairment disclosures.

(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 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. Servicing assets are evaluated for impairment based upon the fair value of the rights compared to amortized cost. Fair value is determined using prices for similar assets with similar characteristics. Impairment is recognized through a valuation allowance, to the extent that fair value is less than the capitalized amount.

***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 method. Interest costs are capitalized in connection with the construction of new banking offices.

***Foreclosed Real Estate.*** Property acquired by foreclosure or deed in lieu of foreclosure is carried at the lower of estimated fair value or the balance of the loan on the property at date of acquisition. Costs relating to the development and improvement of property are capitalized, whereas those relating to holding the property are charged to expense. Valuations are periodically performed by management and losses are charged to earnings if the carrying value of the property exceeds its estimated fair value.

***Transfer of Financial Assets.*** Transfers of financial assets 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.

***Securities Commissions and Fees.*** FFFSC has a third party marketing contract with Raymond James Financial Services ("Raymond James") for the provision of bank financial services to customers. A company owned by a director of the Company provides staffing and management services to FFFSC. Certain employees of this company are dual employees of Raymond James and FFFSC. Raymond James accounts for the revenues, and maintains customer account records and provides the Company with a monthly settlement. For the years ending March 31, 2009 and 2008, FFFSC received securities commissions and fees of \$1,464,000 and \$1,869,000 respectively and paid \$1,349,000 and \$1,718,000, respectively, to the Company owned by a director for services rendered as provided by the Management Services Agreement between FFFSC and the company.

(continued)

# FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

## Notes to Consolidated Financial Statements, Continued

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

**Income Taxes.** Deferred income tax assets and liabilities are recorded to reflect the tax consequences on future years of temporary differences between revenues and expenses reported for financial statement and those reported for income tax purposes. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be realized or settled. Valuation allowances are provided against assets which are not likely to be realized.

**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 or related fees are incurred or received.

**Derivative Financial Instruments.** Derivative financial instruments are recognized as assets or liabilities in the 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.

The Company utilizes interest-rate swap agreements 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 income. Derivative hedge contracts must meet specific effectiveness tests (i.e., over time the change in their fair values due to the designated hedge risk must be within 80 to 125 percent of the opposite change in the fair values of the hedged assets or liabilities). Changes in fair value of the derivative financial instruments must be effective at offsetting changes in the fair value of the hedged items due to the designated hedge risk during the term of the hedge. Further, if the underlying financial instrument differs from the hedged asset or liability, there must be a clear economic relationship between the prices of the two financial instruments. If periodic assessment indicates derivatives no longer provide an effective hedge, the derivatives contracts would be closed out and settled or classified as a trading activity.

(continued)

# FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

## Notes to Consolidated Financial Statements, Continued

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

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

**Rate-Lock Commitments.** 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 manages the interest-rate risk on rate lock commitments by entering into forward loan sale contracts, whereby the selling party obtains the right to deliver residential loans to investors in the future at a specified yield. 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 the net gain or loss on sale of mortgage loans. 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.** Effective April 1, 2008, the Company adopted SFAS No. 157, *Fair Value Measurements* ("SFAS 157") and SFAS 159. SFAS 157 defines fair value, establishes a framework for measuring fair value and enhances disclosures about fair value measurements. SFAS 159 allows an entity the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on a contract-by-contract basis. The impact of adopting both SFAS 157 and SFAS 159 increased the beginning balance of retained earnings as of April 1, 2009 by \$12,000. Subsequent changes in fair value of these financial assets and liabilities are recognized in earnings when they occur.

SFAS 157 defines fair value as 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. SFAS 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure 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 Measurements, Continued.*** Level 1: Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.

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

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

In February 2008, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position (FSP) No. FAS 157-2, *Effective Date of FASB Statement No. 157*. This FSP delays the effective date of FAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value on a recurring basis (at least annually) to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. The impact of adoption was not material.

In October 2008, the FASB issued FSP No. 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active*. This FSP clarifies the application of SFAS 157, in determining the fair value of a financial asset when the market for that financial asset is not active. This FSP was effective upon issuance.

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 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.

(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.*

*Derivatives.* Exchange-traded derivatives 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. 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.

*Impaired Loans.* Estimates of fair value is 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 are classified as Level 3.

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

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

*Cash and Cash Equivalents.* The carrying amounts of cash and cash equivalents approximates fair values.

*Time Deposits.* The carrying amounts of time deposits approximates fair values.

*Securities.* Fair values for securities held to maturity and available for sale are based on the framework for measuring fair value established by SFAS 157. The carrying values of Federal Home Loan Bank stock approximates 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 established by SFAS 157.

(continued)

# FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

## Notes to Consolidated Financial Statements, Continued

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

#### *Fair Values of Financial Instruments, Continued.*

***Loans Held for Sale.*** The fair value of loans held for sale is based on the framework for measuring fair value established by SFAS 157.

***Accrued Interest Receivable.*** The carrying amounts of accrued interest approximate their fair values.

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

***Federal Home Loan Bank Advances.*** Fair values of Federal Home Loan Bank advances are estimated by discounting the estimated future cash flows using current rates at which similar advances are offered.

***Other Borrowings.*** These short term liabilities are estimated by discounting the estimated future cash flows using current rates at which similar borrowings are offered.

***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.

***Derivative Financial Instruments.*** Fair values for interest rate swap agreements are based upon the amounts required to settle the contracts. Fair values for commitments to originate loans held for sale and forward loan sale contracts are based on fees currently charged to enter into similar agreements, and for fixed-rate commitments also considered the difference between current levels of interest rates and the commitment rates.

(continued)

**FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements, Continued**

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

**Comprehensive Loss.** Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net 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 loss. The components of comprehensive loss and related tax effects are as follows (in thousands):

	<b>Year Ended March 31,</b>	
	<b>2009</b>	<b>2008</b>
Available for sale securities:		
Net unrealized losses .....	\$(1,434)	(963)
Tax effect .....	<u>(537)</u>	<u>(358)</u>
Net-of-tax amount.....	<u>(897)</u>	<u>(605)</u>
Derivative instruments:		
Holding losses on derivative instrument.....	(613)	(312)
Tax effect .....	<u>(215)</u>	<u>(109)</u>
Net-of-tax amount.....	<u>(398)</u>	<u>(203)</u>
Accumulated other comprehensive loss .....	\$( <u>1,295</u> )	( <u>808</u> )

**Reclassifications.** Certain amounts in the 2008 financial statements have been reclassified to conform to the 2009 presentation.

(continued)

# FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

## Notes to Consolidated Financial Statements, Continued

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

**Recent Accounting Pronouncements.** In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* ("SFAS 141(R)"). SFAS 141(R) is effective for the Company's financial statements for the year beginning April 1, 2009. SFAS 141(R) requires the acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction; establishes the acquisition date fair value as the measurement objective for all assets acquired and liabilities assumed; and requires the acquirer to disclose to investors and other users all of the information they need to evaluate and understand the nature and financial effect of the business combination. Acquisition related costs including finder's fees, advisory, legal, accounting valuation and other professional and consulting fees are required to be expensed as incurred. SFAS 141(R) will have no current effect on the Company's financial condition or results of operations.

In December 2007, the FASB issued SFAS No.160, *Noncontrolling Interests in Consolidated Financial Statements* ("SFAS 160"). SFAS 160 requires the Company to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 is effective for the Company's financial statements for the year beginning April 1, 2009. The adoption of SFAS 160 had no effect on the Company.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* ("SFAS 161"). This standard requires enhanced disclosures regarding derivative instruments and hedging activities so as to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. SFAS No. 161 is effective for the Company's financial statements for the year beginning April 1, 2009. The adoption of SFAS 161 had no effect on the Company.

(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 approximate fair value are summarized as follows (in thousands):

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
<b>Securities Available for Sale:</b>				
<i>At March 31, 2009:</i>				
Agency bonds .....	\$ 5,000	15	-	5,015
Municipal securities .....	23,875	259	(290)	23,844
Preferred stock.....	49	-	(31)	18
CMO .....	98,654	1,934	(3,327)	97,261
Mortgage-backed securities.....	22,564	38	(32)	22,570
Corporate bonds .....	<u>4,679</u>	<u>-</u>	<u>-</u>	<u>4,679</u>
	\$ <u>154,821</u>	<u>2,246</u>	<u>(3,680)</u>	<u>153,387</u>
<i>At March 31, 2008:</i>				
Municipal securities .....	16,427	106	(208)	16,325
Preferred stock.....	962	-	(230)	732
CMO .....	45,263	364	(1,244)	44,383
Mortgage-backed securities.....	<u>27,704</u>	<u>258</u>	<u>(9)</u>	<u>27,953</u>
	\$ <u>90,356</u>	<u>728</u>	<u>(1,691)</u>	<u>89,393</u>
<b>Securities Held to Maturity:</b>				
<i>At March 31, 2009-</i>				
Corporate bonds .....	\$ <u>985</u>	<u>-</u>	<u>(453)</u>	<u>532</u>
<i>At March 31, 2008:</i>				
Corporate bonds .....	997	-	-	997
Mortgage-backed securities.....	<u>14,765</u>	<u>494</u>	<u>-</u>	<u>15,259</u>
	\$ <u>15,762</u>	<u>494</u>	<u>-</u>	<u>16,256</u>

(continued)

**FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements, Continued**

**(2) Securities, Continued**

Available for sale securities at March 31, 2009 measured at fair value on a recurring basis are summarized below (in thousands):

		<u>Fair Value Measurements at March 31, 2009 Using</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>
	<u>Fair Value</u>			
Available-for-sale securities....	\$ <u>153,387</u>	<u>-</u>	<u>115,547</u>	<u>37,840</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) for the year ended March 31, 2009. Level 3 instruments presented in the table were carried at fair value prior to the adoption of SFAS 157. During the year ended March 31, 2009, available for sale securities were transferred from Level 2 to Level 3 due to the lack of current observable market activity. These instruments were valued using pricing models and discounted cash flow methodologies incorporating assumptions that, in management's judgment, reflect the assumptions a marketplace participant would use at March 31, 2009 (in thousands):

		<u>Total Fair Value Measurements Year Ended March 31, 2009</u>
		<u>Available- For-Sale Securities</u>
Balance, April 1, 2008.....		\$ -
Total gains or losses (realized/unrealized):		
Included in operations.....		-
Included in other comprehensive loss.....		956
Purchases, issuances, and settlements .....		-
Transfer in to/out of Level 3 .....		<u>36,884</u>
Balance, March 31, 2009 .....		\$ <u>37,840</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 March 31,</u>	
	<u>2009</u>	<u>2008</u>
Proceeds.....	\$ <u>99,337</u>	<u>35,872</u>
Gross gains .....	1,704	378
Gross losses .....	<u>(70)</u>	<u>(361)</u>
Net gain (loss).....	\$ <u>1,634</u>	<u>17</u>

The scheduled maturities of securities are as follows (in thousands):

	<u>Securities Available for Sale</u>		<u>Securities Held to Maturity</u>	
	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>
<i>At March 31, 2009:</i>				
Due after one year through five years.....	\$ 7,778	7,866	-	-
Due after five through ten years ...	18,285	18,294	-	-
Due thereafter .....	7,491	7,378	-	-
Preferred stock.....	49	18	-	-
Corporate bonds.....	-	-	985	532
CMO .....	98,654	97,261	-	-
Mortgage-backed securities.....	<u>22,564</u>	<u>22,570</u>	<u>-</u>	<u>-</u>
	\$ <u>154,821</u>	<u>153,387</u>	<u>985</u>	<u>532</u>

At March 31, 2009 and 2008, the Company pledged, as collateral for state and municipal deposits and treasury tax and loan accounts, securities with a carrying value of \$49,497,000 and \$39,875,000, respectively. At March 31, 2009, the Company obtained a \$30 million collateralized letter of credit from the Federal Home Loan Bank of Atlanta as additional collateral for these deposits.

(continued)

**FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements, Continued**

**(2) Securities, Continued**

The Company's thirty-nine securities with gross unrealized losses at March 31, 2009, 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>Value</u>	<u>Losses</u>	<u>Value</u>
<i>Securities Available for Sale:</i>				
CMO's.....	\$ 3,142	32,832	185	5,258
Mortgage-backed securities.....	32	20,241	-	-
Preferred stock.....	-	-	31	19
Municipal securities.....	<u>70</u>	<u>3,201</u>	<u>220</u>	<u>7,682</u>
Total.....	\$ <u>3,244</u>	<u>56,274</u>	<u>436</u>	<u>12,959</u>
<i>Securities Held to Maturity-</i>				
Corporate bonds.....	\$ <u>453</u>	<u>532</u>	<u>-</u>	<u>-</u>

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. In 2009, the Company recorded other than temporary impairment losses of \$1,713,000 relating to \$4.4 million in preferred stock and asset backed securities.

The unrealized losses on 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.

The Bank invests in residential Collateralized Mortgage Obligations ("CMO's"). These CMO's are, at origination, investment grade, generally AAA. Quarterly, management stress tests all CMO's via a third party resource that takes into account housing price appreciation (depreciation); interest rates, expected loss trends, both nationally and in geographic area represented by the CMO. 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, we will not receive the contracted cash flows; we make an impairment charge through the statement of earnings.

(continued)

**FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements, Continued**

**(3) Loans**

The components of loans are summarized as follows (in thousands):

	<u>At March 31,</u>	
	<u>2009</u>	<u>2008</u>
Residential real estate .....	\$ 93,052	102,242
Commercial real estate .....	139,564	151,009
Consumer loans .....	85,365	92,647
Commercial loans .....	21,266	28,541
Deposit account loans .....	1,940	2,545
Real estate construction loans .....	<u>18,277</u>	<u>11,536</u>
Subtotal.....	359,464	388,520
Less:		
Net deferred loan origination fees .....	(286)	(345)
Allowance for loan losses.....	<u>(6,883)</u>	<u>(5,109)</u>
Loans, net .....	\$ <u>352,295</u>	<u>383,066</u>

**Loan Impairment and Losses.** The following summarizes the amount of impaired loans, all of which are collateral dependent (in thousands):

	<u>At March 31,</u>	
	<u>2009</u>	<u>2008</u>
Loans identified as impaired:		
Gross loans with no related allowance for losses.....	\$ -	-
Gross loans with related allowance for losses recorded.....	3,120	427
Less: Allowances on these loans .....	<u>(1,543)</u>	<u>(171)</u>
Net investment in impaired loans .....	\$ <u>1,577</u>	<u>256</u>

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

	<u>Year Ended March 31,</u>	
	<u>2009</u>	<u>2008</u>
Average investment in impaired loans .....	\$ <u>3,107</u>	<u>425</u>
Interest income recognized on impaired loans .....	\$ <u>148</u>	<u>16</u>
Interest income received on impaired loans .....	\$ <u>148</u>	<u>16</u>

(continued)

**FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements, Continued**

**(3) Loans, Continued**

Impaired collateral-dependent loans are carried at the lower of cost or fair value. At March 31, 2009, those impaired collateral-dependent loans which are measured at fair value or a nonrecurring basis are as follows (in thousands):

<u>Fair Value<sup>(1)</sup></u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Losses</u>	<u>Losses Recorded in Operations in 2009</u>
\$ <u>1,577</u>	<u>-</u>	<u>-</u>	<u>1,577</u>	<u>1,543</u>	<u>1,543</u>

Nonaccrual and past due loans were as follows (in thousands):

	<u>At March 31,</u>	
	<u>2009</u>	<u>2008</u>
Nonaccrual loans .....	\$ 4,641	2,225
Past due ninety days or more, but still accruing.....	<u>-</u>	<u>-</u>
	<u>\$ 4,641</u>	<u>2,225</u>

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

	<u>Year Ended March 31,</u>	
	<u>2009</u>	<u>2008</u>
Balance at beginning of year .....	\$ 5,109	3,600
Provision (credit) for loan losses .....	2,641	1,610
Charge-offs, net .....	<u>(867)</u>	<u>(101)</u>
Balance at end of year .....	<u>\$ 6,883</u>	<u>5,109</u>

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

	<u>Year Ended March 31,</u>	
	<u>2009</u>	<u>2008</u>
Beginning balance .....	\$(345)	(411)
Deferred loan origination fees .....	(344)	(596)
Capitalized direct underwriting costs .....	327	489
Net amortization .....	<u>76</u>	<u>173</u>
Ending balance .....	<u>\$(286)</u>	<u>(345)</u>

(continued)

**FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements, Continued**

**(3) Loans, Continued**

**Related Party Loans.** All loans from the Company involving directors and executive officers were made in the ordinary course of business. Such loans were made on substantially the same terms, including interest rate and collateral, if any, as those prevailing at the time for comparable transactions with unaffiliated persons and did not involve more than normal risk of collectibility or present other unfavorable features. An analysis of the change in related party loans follows (in thousands):

	<u>Year Ended March 31,</u>	
	<u>2009</u>	<u>2008</u>
Beginning balance .....	\$ 6,755	6,667
Principal additions .....	1,399	100
Principal payments .....	(1,834)	(12)
Ending balance .....	\$ <u>6,320</u>	<u>6,755</u>

**Concentrations of Credit Risk.** The Company grants the majority of its loans to borrowers throughout North Central Florida Counties of Columbia, Suwannee, Baker, Hamilton, Nassau, and Lafayette. 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. The Company does have loans, generally with original terms of 10 years or less, aggregating \$20.6 million at March 31, 2009 and loans aggregating \$28.3 million at March 31, 2008, the primary source of repayment is the sale of the related collateral or the conversion of the existing debt into debt at another financial institution. Additionally, most of these loans have contractual secondary repayment sources, such as guarantees from parties deemed verification by the Company to have the financial strength to carry the projects to completion independent of the liquidation of the underlying collateral pledged by the primary borrower. The majority of these loans are located in Columbia and Suwannee Counties.

With the uncertain real estate market in Florida obtaining refinancing or sale of the collateral may be difficult or impossible at this time. Even though most of the projects being financed are completed and ready to market, it is likely many of these loans will be extended and may be modified to allow the developers to market the projects in an orderly manner. Management is closely monitoring these loans and believes the loan loss allowance at March 31, 2009 is adequate.

(continued)

**FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements, Continued**

**(4) Loan Servicing**

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

	<u>At March 31,</u>	
	<u>2009</u>	<u>2008</u>
Mortgage loan portfolios serviced for:		
FHLB .....	\$ 48,257	56,492
FHLMC .....	149,006	115,293
GNMA .....	<u>44,340</u>	<u>19,147</u>
	<u>\$ 241,603</u>	<u>190,932</u>

Custodial escrow balances maintained in connection with the foregoing loan servicing were \$1,222,000 and \$876,000 at March 31, 2009 and 2008, respectively.

The following summarizes mortgage servicing rights activity (in thousands):

	<u>Year Ended March 31,</u>	
	<u>2009</u>	<u>2008</u>
Beginning balance.....	\$ 1,845	1,431
Additions from loans originated and sold.....	964	804
Amortization .....	<u>(570)</u>	<u>(390)</u>
Ending balance.....	<u>\$ 2,239</u>	<u>1,845</u>

The value of mortgage servicing rights was determined using a discount rate of 8.50% for FHLMC and FHLB and 9.50% for GNMA, a prepayment speed ranging from 130.00% to 682.50%, depending on the stratification of the specific rights.

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

	<u>Year Ended March 31,</u>	
	<u>2009</u>	<u>2008</u>
Servicing fees received from investors .....	\$ 592	432
Less amortization of mortgage servicing rights.....	<u>(570)</u>	<u>(390)</u>
Gain from servicing .....	<u>\$ 22</u>	<u>42</u>

(continued)

**FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements, Continued**

**(5) Premises and Equipment**

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

	<u>At March 31,</u>	
	<u>2009</u>	<u>2008</u>
Land.....	\$ 4,796	4,584
Buildings and improvements.....	13,116	11,349
Furniture and equipment.....	7,298	6,700
Construction in process .....	<u>223</u>	<u>2,066</u>
 Total, at cost .....	 25,433	 24,699
 Less accumulated depreciation.....	 <u>9,063</u>	 <u>8,126</u>
 Premises and equipment, net .....	 \$ <u>16,370</u>	 <u>16,573</u>

The Company leased office space for its operations under noncancellable leases. Rent expense was approximately \$50,000 for both years ended March 31, 2009 and 2008, respectively. At March 31, 2009, there were no future minimum rental commitments.

**(6) Deposits**

The aggregate amount of time deposits with a minimum denomination of \$100,000 was approximately \$78.2 million and \$60.7 million at March 31, 2009 and 2008, respectively.

A schedule of maturities of time deposits follows (in thousands):

<u>Year Ending</u> <u>March 31,</u>	<u>Amount</u>
2010.....	\$ 127,738
2011.....	9,173
2012.....	17,861
2013.....	532
2014.....	<u>736</u>
	 \$ <u>156,040</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 \$137.0 million and \$136.0 million at March 31, 2009 and 2008, respectively.

(continued)

**FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements, Continued**

**(7) Federal Home Loan Bank Advances**

The maturity and interest rate on the advances from the Federal Home Loan Bank of Atlanta ("FHLB") are as follows (\$ in thousands):

<b>Maturing in the Year Ending <u>March 31,</u></b>	<b>Fixed or Variable Rate</b>	<b>Interest Rate</b>	<b>March 31,</b>	
			<b><u>2009</u></b>	<b><u>2008</u></b>
2009	Fixed	4.85-5.08%	\$ -	10,000
2010	Fixed	2.06%	10,000	10,000
2011	Adjustable	1.55%	5,000	-
2012	Fixed	3.02%	5,000	-
2013	Convertible*	4.11%	5,000	5,000
2016	Adjustable	2.40%	<u>1,000</u>	<u>-</u>
			<b>\$ <u>26,000</u></b>	<b><u>25,000</u></b>

\* Callable May 29, 2009.

The collateral agreement with FHLB includes a blanket lien covering qualifying loans such as first mortgage, commercial real estate, one-to-four family residential loans, and home equity lines of credit owned by the company. In addition, the Company may pledge additional marketable securities as collateral where the qualifying loans are insufficient.

**(8) Other Borrowings**

The following summarizes the Company's other borrowings (\$ in thousands).

<b><u>Name</u></b>	<b>Borrowings Outstanding at March 31,</b>	
	<b><u>2009</u></b>	<b><u>2008</u></b>
Repurchase agreements:		
Citibank.....	\$ 15,000	-
JP Morgan Chase .....	5,000	5,000
Retail repurchase agreements.....	<u>24,702</u>	<u>29,849</u>
Total .....	<b>\$ <u>44,702</u></b>	<b><u>34,849</u></b>

(continued)

**FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements, Continued**

**(8) Other Borrowings, Continued**

Securities sold under agreements to repurchase were delivered to the broker-dealers who arranged the transactions. Securities collateralizing customer repurchase agreements are held by a third party. Information concerning securities sold under agreements to repurchase is summarized as follows (\$ in thousands):

	<u>Year Ended March 31,</u>	
	<u>2009</u>	<u>2008</u>
Average balance during the year .....	\$ 27,123	29,022
Average interest rate during the year .....	0.758%	3.893%
Maximum month-end balance during the year.....	\$ 41,797	45,023

Information concerning these agreements is as follows (\$ in thousands):

	<u>Matures</u>	<u>Year Ended March 31,</u>			
		<u>2009</u>		<u>2008</u>	
		<u>Rate</u>	<u>Balance</u>	<u>Rate</u>	<u>Balance</u>
JP Morgan.....	June 3, 2015	3.25%*	\$ 5,000	5.25%	5,000
Citibank .....	April 30, 2018	4.61**	10,000	- %	-
Citibank .....	April 30, 2018	2.36***	<u>5,000</u>	- %	<u>-</u>
			<u>\$ 20,000</u>		<u>5,000</u>

\* Rate is adjustable to the Wall Street Journal Prime Rate.

\*\* Rate is fixed until April 30, 2012, then adjusts to two times three month LIBOR less 3.40%.

\*\*\* Rate is fixed until July 30, 2010, then adjusts to seven percent less three month LIBOR.

The Company pledged securities as collateral for these agreements with a carrying value of \$24,798,000 and \$4,687,000 at March 31, 2009 and 2008, respectively.

The Company also enters into investment repurchase agreements with its customers. These agreements mature daily and require the Company to pledge securities and time deposits as collateral for the balance in the accounts. The balance was \$24,702,000 and \$29,849,000 at March 31, 2009 and 2008, respectively and the Company pledged securities and time deposits as collateral for these agreements with a carrying value of \$27,172,000 and \$32,834,000, respectively.

(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 March 31,</u>	
	<u>2009</u>	<u>2008</u>
Current:		
Federal .....	\$ 4,322	3,321
State .....	<u>781</u>	<u>590</u>
Total current .....	<u>5,103</u>	<u>3,911</u>
Deferred (benefit):		
Federal .....	(1,091)	(268)
State .....	<u>(187)</u>	<u>(45)</u>
Total deferred (benefit) .....	<u>(1,278)</u>	<u>(313)</u>
Income taxes.....	\$ <u>3,825</u>	<u>3,598</u>

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

	<u>Year Ended March 31,</u>			
	<u>2009</u>		<u>2008</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Income taxes at statutory Federal rate .....	\$ 3,870	34.0%	\$ 3,533	34.0%
Increase (decrease) in taxes resulting from:				
State taxes, net of Federal tax benefit.....	392	3.4	360	3.5
Income from bank owned life insurance.....	(208)	(1.8)	(186)	(1.8)
Tax-exempt income .....	(260)	(2.3)	(146)	(1.4)
Other .....	<u>31</u>	<u>.3</u>	<u>37</u>	<u>.3</u>
Total.....	\$ <u>3,825</u>	<u>33.6%</u>	\$ <u>3,598</u>	<u>34.6%</u>

(continued)

**FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements, Continued**

**(9) Income Taxes, Continued**

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

	<u>At March 31,</u>	
	<u>2009</u>	<u>2008</u>
Deferred tax assets:		
Allowance for loan losses.....	\$ 2,590	1,922
Deferred compensation.....	1,136	1,038
Nonaccrual interest income .....	61	39
Unrealized losses on securities available for sale .....	538	358
Unrealized loss on derivative instrument .....	215	109
Charitable contributions .....	98	94
Impaired securities .....	645	-
Other .....	<u>265</u>	<u>209</u>
Total gross deferred tax assets .....	<u>5,548</u>	<u>3,769</u>
Deferred tax liabilities:		
Deferred loan costs.....	(352)	(355)
Mortgage servicing rights.....	(842)	(694)
Federal Home Loan Bank stock .....	(55)	(55)
Depreciation .....	(721)	(646)
Prepaid expenses .....	<u>(183)</u>	<u>(188)</u>
Total gross deferred tax liabilities.....	<u>(2,153)</u>	<u>(1,938)</u>
Net deferred tax asset .....	\$ <u>3,395</u>	<u>1,831</u>

(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 at March 31, 2009 expire in the next twelve months. The Company has collateral securing these agreements, amounting to \$872,000, and in some cases guarantees.

A summary of the amounts of the Company's off-balance-sheet financial instruments at March 31, 2009 follows (in thousands):

	<b><u>Contract Amount</u></b>
Unused lines of credit .....	\$ <u>45,231</u>
Undisbursed loans in process.....	\$ <u>3,861</u>
Commitments to extend credit.....	\$ <u>20,785</u>
Standby letters of credit .....	\$ <u>1,385</u>

(continued)

**FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements, Continued**

**(11) Derivative Financial Instruments**

**Interest-Rate Risk Management-Cash Flow Hedging Instruments.** The Company uses short-term and long-term variable rate debt as a source of funds for use in the Company's lending and investment activities and other general business purposes. These debt obligations expose the Bank to variability in interest payments due to changes in interest rates. If interest rates increase, interest expense increases. Conversely, if interest rates decrease, interest expense decreases. Management believes it is prudent to limit the variability of a portion of its interest payments and, therefore, generally hedges a portion of its variable-rate interest payments. To meet this objective, management enters into interest-rate swap agreements whereby the Company receives variable interest-rate payments and makes fixed interest rate payments during the contract period.

The information pertaining to outstanding interest-rate swap agreement used to hedge variable rate debt is as follows (\$ in thousands):

	<b>March 31,</b>	
	<b>2009</b>	<b>2008</b>
Notional amount.....	\$ 5,000	5,000
Weighted-average pay rate fixed .....	4.52%	4.52%
Weighted-average receive rate variable.....	2.29%	5.19%
Weighted-average maturity in years .....	6.18	7.18
Unrealized (loss) relating to interest-rate swaps.....	\$ (613)	(312)

These agreements provided for the Company to receive payments at a variable rate determined by a specified index (three month LIBOR plus seven basis points) in exchange for making payments at a fixed-rate.

Risk management results for the year ended March 31, 2009 and 2008 related to the balance sheet hedging of debt indicate that the hedges were 100% effective and that there was no component of the derivative instruments' gain or loss which was excluded from the assessment of hedge effectiveness.

**Rate-Lock Commitments.** The total outstanding commitments to originate loans that the Company intends to sell (rate-lock commitments) at March 31, 2009 and 2008 were approximately \$21.8 million and \$7.8 million, respectively. The fair value of rate-lock commitments at March 31, 2009 and 2008 were approximately \$85,000 and \$21,000, respectively, and are included in other assets and other liabilities in the accompanying balance sheets.

(continued)

**FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements, Continued**

**(11) Derivative Financial Instruments, Continued**

**Forward Loan Sale Contracts.** The Company utilizes forward loan sale contracts to mitigate the interest rate risk inherent in the Company's mortgage loan pipeline and held-for-sale portfolio. Forward loan sale contracts are contracts for delayed delivery of mortgage loans. The Company agrees to deliver on a specified future date, a specified instrument, 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. The notional amounts of forward loan sale contracts outstanding at March 31, 2009 and 2008 were \$17.0 million and \$4.0 million, respectively. The fair value of forward loan sale commitments was approximately \$21,000 and \$11,000 at March 31, 2009 and 2008, respectively, and are included in other assets and accrued liabilities in the accompanying 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 March 31,</u>			
	<u>2009</u>		<u>2008</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Financial assets:				
Cash and cash equivalents.....	\$ 53,299	53,299	63,920	63,920
Time deposits .....	18,824	18,824	24,208	24,208
Securities available for sale.....	153,387	153,387	89,393	89,393
Securities held to maturity.....	985	532	15,762	16,256
Loans held for sale .....	3,999	4,097	4,092	4,121
Loans .....	352,295	360,753	383,066	396,561
Accrued interest receivable .....	2,528	2,528	2,650	2,650
Federal Home Loan Bank stock .....	2,282	2,282	2,176	2,176
Financial liabilities:				
Deposits.....	477,984	460,335	490,451	491,907
Federal Home Loan Bank advances .....	26,000	26,148	25,000	24,775
Other borrowings .....	44,702	42,563	34,849	34,849
Off balance sheet financial Instruments.....	-	-	-	-
On-balance-sheet derivative financial instruments:				
Interest rate swap agreements – (liability) asset.....	(613)	(613)	(312)	(312)
Rate-lock commitments:				
Assets .....	94	94	28	28
Liabilities .....	9	9	7	7
Forward sales contacts:				
Assets .....	56	56	12	12
Liabilities .....	35	35	1	1

(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 federal 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.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined). Management believes, as of March 31, 2009, that the Bank meets all capital adequacy requirements to which it is subject.

As of March 31, 2009, the most recent notification from regulatory authorities categorized the Bank as 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.

The Bank's actual regulatory capital amounts and percentages are presented in the table (dollars in thousands).

	<u>Actual</u>		<u>For Capital Adequacy Purposes</u>		<u>Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
<i>As of March 31, 2009:</i>						
Total capital to Risk-Weighted assets .....	\$ 75,523	17.79%	\$ 33,963	8.00%	\$ 42,454	10.00%
Tier I Capital to Risk-Weighted Assets .....	70,202	16.54	16,981	4.00	25,472	6.00
Tier I Capital to Total Assets .....	70,202	11.13	25,238	4.00	31,547	5.00
<i>As of March 31, 2008:</i>						
Total capital to Risk-Weighted assets .....	68,983	15.70	35,141	8.00	43,927	10.00
Tier I Capital to Risk-Weighted Assets .....	63,874	14.54	17,571	4.00	26,356	6.00
Tier I Capital to Total Assets .....	63,874	10.27	24,880	4.00	31,100	5.00

(continued)

# FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

## Notes to Consolidated Financial Statements, Continued

### (14) Profit Sharing Plan

The Bank 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 Bank's contributions to the Plan are discretionary and are determined annually. Expenses relating to the Bank's contributions to the Plan, included in the accompanying consolidated financial statements, were \$554,000 and \$576,000 for the years ended March 31, 2009 and 2008, respectively.

### (15) Deferred Compensation Plans

**Officers.** The Company provides deferred compensation for certain officers through a nonqualified benefit plan (the "Officers' Plan"). The terms of the Officers' Plan provide for accrual of interest on benefits earned at prime plus two percent, and are payable in one lump sum at the earlier of completion of twenty years of service or the attainment of the age of sixty. The Company has purchased life insurance policies on the participants in the Officers' Plan which although not formally linked, have future cash values that approximate the estimated future benefits.

During 2007, the FASB issued EITF No. 06-4, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsed Split-Dollar Life Insurance Arrangements* ("EITF 06-4"), which requires an employer to recognize a liability for postretirement death benefits provided under endorsement split-dollar agreements. An endorsement split-dollar agreement is an arrangement whereby an employer owns a life insurance policy that covers the life of an employee and, pursuant to a separate agreement, endorses a portion of the policy's death benefits to the insured employee's beneficiary. EITF 06-4 was effective on April 1, 2008. The Company has entered into Supplemental Death Benefit Agreements with certain of its executive officers pursuant to which the Company has agreed to pay a portion of the death benefit payable under certain life insurance policies owned by the Company to the directors' or executives' beneficiaries upon their death. As a result of the adoption of EITF 06-4, the Company recognized a cumulative effect adjustment to retained earnings of \$285,000 representing the additional liability required to be provided under EITF 06-4 on April 1, 2008 relating to the agreements.

**Directors.** The Company has a deferred compensation plan for members of the Board of Directors (the "Directors Plan"). The terms of the Directors' Plan provide for accrual of an estimated future benefit over a eight -year period as the benefits vest. The terms of the plan provide for accrual of interest on benefits earned at prime plus two percent. The benefits are payable in one lump sum upon completion of eight-year service.

Amounts accrued under the Officers and Directors Plans were \$94,000 and \$112,000 at March 31, 2009 and 2008, respectively.

(continued)

**FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements, Continued**

**(16) Supplemental Disclosure of Cash Flow Information**

	<u>Year Ended March 31,</u>	
	<u>2009</u>	<u>2008</u>
	<u>(In thousands)</u>	
Supplemental disclosure of cash flow information -		
Cash paid during the year for:		
Income taxes .....	\$ <u>4,657</u>	<u>3,598</u>
Interest .....	\$ <u>8,936</u>	<u>15,134</u>
Noncash transactions:		
Loans reclassified to foreclosed real estate .....	\$ <u>1,576</u>	<u>100</u>
Net change in unrealized loss on securities available for sale, net of taxes .....	\$ <u>(292)</u>	<u>(511)</u>
Net change in unrealized (loss) on derivative instruments, net of taxes .....	\$ <u>(195)</u>	<u>(340)</u>
Accrual of benefits related for deferred compensation .....	\$ <u>285</u>	<u>-</u>
Transfer of securities incorrectly classified as held to maturity to available for sale .....	\$ <u>14,502</u>	<u>-</u>

**(17) Contingencies**

Various legal claims also arise from time to time in the normal course of business which, in the opinion of management of the Company, will not have a material effect on the Company's consolidated financial statements.

(continued)

**FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements, Continued**

**(18) Consolidating Financial Statements**

**Consolidating Balance Sheet**

**At March 31, 2009**

**(In thousands)**

<b>Assets</b>	<b>Federal Bancorp, MHC</b>	<b>First Federal Bancorp, Inc.</b>	<b>First Federal Bank of Florida</b>	<b>First Federal Financial Services, Inc.</b>	<b>Suwannee Valley Service Corporation</b>	<b>Community Tax Stabilization Fund Inc.</b>	<b>Consolidating Entries Debit (Credit)</b>	<b>Consolidated</b>
Cash and due from banks.....	\$ 10	2,260	53,114	1	-	-	(2,271)	53,114
Interest-bearing deposits .....	-	-	185	-	-	-	-	185
Time deposits.....	-	-	18,824	-	-	-	-	18,824
Securities .....	-	-	154,372	-	-	-	-	154,372
Investment in subsidiaries.....	70,934	68,674	-	-	-	-	(139,608)	-
Loans, net.....	-	-	356,294	-	-	-	-	356,294
Accrued interest receivable.....	-	-	2,528	-	-	-	-	2,528
Premises and equipment, net.....	-	-	16,370	-	-	-	-	16,370
Federal Home Loan Bank stock, at cost.....	-	-	2,282	-	-	-	-	2,282
Foreclosed real estate.....	-	-	1,622	-	-	-	-	1,622
Deferred tax assets.....	-	-	3,395	-	-	-	-	3,395
Life insurance .....	-	-	15,367	-	-	-	-	15,367
Other assets.....	-	-	4,512	-	-	-	(1)	4,511
<b>Total assets .....</b>	<b>\$ <u>70,944</u></b>	<b><u>70,934</u></b>	<b><u>628,865</u></b>	<b><u>1</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>(141,880)</u></b>	<b><u>628,864</u></b>
<b>Liabilities, Retained Earnings and Accumulated Other Comprehensive Income (Loss)</b>								
<b>Liabilities:</b>								
Deposits .....	-	-	480,255	-	-	-	2,271	477,984
Federal Home Loan Bank advances .....	-	-	26,000	-	-	-	-	26,000
Other borrowed money .....	-	-	44,702	-	-	-	-	44,702
Income taxes payable.....	-	-	642	-	-	-	-	642
Other liabilities .....	-	-	8,592	-	-	-	-	8,592
<b>Total liabilities.....</b>	<b>-</b>	<b>-</b>	<b>560,191</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,271</b>	<b>557,920</b>
Capital stock .....	-	-	1	-	-	-	1	-
Retained earnings and accumulated other comprehensive income .....	<u>70,944</u>	<u>70,934</u>	<u>68,673</u>	<u>1</u>	<u>-</u>	<u>-</u>	<u>139,608</u>	<u>70,944</u>
<b>Total liabilities and capital .....</b>	<b>\$ <u>70,944</u></b>	<b><u>70,934</u></b>	<b><u>628,865</u></b>	<b><u>1</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>141,880</u></b>	<b><u>628,864</u></b>

(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**

**At March 31, 2009**

(In thousands)

	<u>Federal Bancorp, MHC</u>	<u>First Federal Bancorp, Inc.</u>	<u>First Federal Bank of Florida</u>	<u>First Federal Financial Services, Inc.</u>	<u>Suwannee Valley Service Corporation</u>	<u>Community Tax Stabilization Fund Inc.</u>	<u>Consolidating Entries Debit (Credit)</u>	<u>Consolidated</u>
Interest income:								
Loans .....	\$ -	-	24,290	-	-	-	-	24,290
Securities .....	-	-	7,679	-	-	-	-	7,679
Other .....	-	-	557	-	-	-	-	557
Total interest income .....	-	-	<u>32,526</u>	-	-	-	-	<u>32,526</u>
Interest expense:								
Deposits .....	-	-	7,174	-	-	-	-	7,174
Borrowings .....	-	-	1,826	-	-	-	-	1,826
Total interest expense .....	-	-	<u>9,000</u>	-	-	-	-	<u>9,000</u>
Net interest income before provision for loan losses ....	-	-	<u>23,526</u>	-	-	-	-	<u>23,526</u>
Provision for loan losses .....	-	-	2,641	-	-	-	-	2,641
Net interest income after provision for loan losses .....	-	-	<u>20,885</u>	-	-	-	-	<u>20,885</u>
Noninterest income:								
Service charges on deposit accounts .....	-	-	3,698	-	-	-	-	3,698
Other service charges and fees .....	-	-	1,645	-	-	-	-	1,645
Gain on sale of loans .....	-	-	1,192	-	-	-	-	1,192
Gain on sale of securities available for sale .....	-	-	1,634	-	-	-	-	1,634
Other than temporary impairment on securities available for sale .....	-	-	(1,713)	-	-	-	-	(1,713)
Income from bank owned life insurance .....	-	-	609	-	-	-	-	609
Debit card interchange income .....	-	-	1,131	-	-	-	-	1,131
Other .....	7,556	7,556	399	(6)	-	-	15,106	399
Total noninterest income .....	<u>7,556</u>	<u>7,556</u>	<u>8,595</u>	<u>(6)</u>	-	-	<u>15,106</u>	<u>8,595</u>
Noninterest expenses:								
Salaries and employee benefits .....	-	-	11,699	-	-	-	-	11,699
Occupancy and equipment .....	-	-	2,679	-	-	-	-	2,679
Debit card interchange expense .....	-	-	536	-	-	-	-	536
Printing and office supplies .....	-	-	254	-	-	-	-	254
Telephone and communications .....	-	-	330	-	-	-	-	330
Other .....	-	-	2,601	-	-	-	-	2,601
Total noninterest expenses .....	-	-	<u>18,099</u>	-	-	-	-	<u>18,099</u>
Earnings before income taxes .....	7,556	7,556	11,381	(6)	-	-	15,106	11,381
Income tax .....	-	-	3,825	-	-	-	-	3,825
Net income (loss) .....	<u>\$ 7,556</u>	<u>7,556</u>	<u>7,556</u>	<u>(6)</u>	<u>-</u>	<u>-</u>	<u>15,106</u>	<u>7,556</u>

(a) Elimination of income of subsidiaries.