

FIRST FEDERAL BANCORP, MHC
Parent Company for



First Federal
BANK *of* FLORIDA

Audited Consolidated Financial Statements

**March 31, 2011 and 2010 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, 2011 and 2010 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, 2011 and 2010, 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.

As discussed in Note 1 to the consolidated financial statements, the Company retrospectively adjusted assets acquired and liabilities assumed in a business combination as a measurement period adjustment.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

HACKER, JOHNSON & SMITH PA
Tampa, Florida
June 28, 2011

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Consolidated Balance Sheets

(In thousands)

| Assets | <u>At March 31,</u> | |
|--|---------------------|----------------|
| | <u>2011</u> | <u>2010</u> |
| Cash and due from banks | \$ 10,747 | 48,573 |
| Interest-bearing deposits with banks | <u>92,725</u> | <u>21,445</u> |
| Total cash and cash equivalents | 103,472 | 70,018 |
| Time deposits | 11,588 | 21,495 |
| Securities available for sale | 286,227 | 233,975 |
| Securities held to maturity | 559 | 977 |
| Loans held for sale, net | 20,352 | 19,729 |
| Loans, net of allowance for loan losses of \$7,226 and \$10,777 | 379,319 | 332,294 |
| Covered loans, net discount | 61,713 | 76,912 |
| FDIC loss share receivable | 16,396 | 21,712 |
| Accrued interest receivable | 3,643 | 3,690 |
| Premises and equipment, net | 26,981 | 23,344 |
| Federal Home Loan Bank stock, at cost | 2,841 | 3,180 |
| Foreclosed real estate | 6,393 | 4,366 |
| Income tax receivable | 4,200 | - |
| Cash surrender value of bank-owned life insurance | 20,773 | 15,807 |
| Other assets | <u>11,418</u> | <u>9,338</u> |
| Total | <u>\$ 955,875</u> | <u>836,837</u> |
| Liabilities, Retained Earnings and Accumulated Other Comprehensive Loss | | |
| Liabilities: | | |
| Noninterest-bearing demand deposits | 111,349 | 84,035 |
| Interest checking and money-market deposits | 357,307 | 313,192 |
| Savings deposits | 32,443 | 21,357 |
| Time deposits | <u>257,984</u> | <u>245,583</u> |
| Total deposits | 759,083 | 664,167 |
| Federal Home Loan Bank advances | 17,000 | 17,000 |
| Other borrowings | 64,008 | 50,667 |
| Deferred income taxes | 5,293 | 1,395 |
| Income taxes payable | - | 2,600 |
| Other liabilities | <u>9,961</u> | <u>11,628</u> |
| Total liabilities | 855,345 | 747,457 |
| Commitments and contingencies (Notes 7, 12 and 19) | | |
| Retained earnings | 99,250 | 90,913 |
| Accumulated other comprehensive income (loss) | <u>1,280</u> | <u>(1,533)</u> |
| Total | <u>\$ 955,875</u> | <u>836,837</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>2011</u> | <u>2010</u> |
| Interest income: | | |
| Loans | \$ 25,233 | 23,314 |
| Securities | 11,303 | 9,344 |
| Other | <u>297</u> | <u>216</u> |
| Total interest income..... | <u>36,833</u> | <u>32,874</u> |
| Interest expense: | | |
| Deposits | 6,616 | 5,477 |
| Borrowings | <u>1,264</u> | <u>1,330</u> |
| Total interest expense | <u>7,880</u> | <u>6,807</u> |
| Net interest income | 28,953 | 26,067 |
| Provision for loan losses | <u>3,088</u> | <u>6,460</u> |
| Net interest income after provision for loan losses..... | <u>25,865</u> | <u>19,607</u> |
| Noninterest income: | | |
| Bargain purchase gain on acquisition, FDIC assisted transaction..... | 686 | 22,263 |
| Service charges on deposit accounts | 4,375 | 3,809 |
| Other service charges and fees | 3,402 | 3,362 |
| Gain on sale of loans and securitizations | 4,684 | 2,702 |
| Gain on sale of securities available for sale | 1,536 | 876 |
| Other than temporary impairment of securities available for sale..... | (1,636) | (246) |
| Income from bank-owned life insurance | 595 | 444 |
| Debit card interchange income | 1,750 | 1,251 |
| Other | <u>751</u> | <u>466</u> |
| Total noninterest income..... | <u>16,143</u> | <u>34,927</u> |
| Noninterest expense: | | |
| Salaries and employee benefits..... | 17,888 | 14,918 |
| Occupancy and equipment..... | 3,929 | 2,901 |
| Debit card interchange expense..... | 734 | 502 |
| Printing and office supplies | 546 | 329 |
| Telephone and data communications | 618 | 426 |
| Other | <u>5,909</u> | <u>5,647</u> |
| Total noninterest expense | <u>29,624</u> | <u>24,723</u> |
| Earnings before income taxes | 12,384 | 29,811 |
| Income taxes | <u>4,047</u> | <u>11,137</u> |
| Net earnings | \$ <u>8,337</u> | <u>18,674</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, 2011 and 2010
(In thousands)

| | <u>Retained Earnings</u> | <u>Accumulated Other Compre- hensive Income (Loss)</u> | <u>Total</u> |
|---|------------------------------|--|----------------|
| Balance at March 31, 2009 | \$ 72,239 | (1,295) | <u>70,944</u> |
| Comprehensive income: | | | |
| Net earnings | 18,674 | - | 18,674 |
| Net change in unrealized loss on securities available for sale, net of tax benefit of \$207 | - | (347) | (347) |
| Net change in unrealized loss on derivative instrument, net of tax liability of \$59 | - | 109 | <u>109</u> |
| Comprehensive income..... | <u> </u> | <u> </u> | <u>18,436</u> |
| Balance at March 31, 2010 | 90,913 | (1,533) | <u>89,380</u> |
| Comprehensive income: | | | |
| Net earnings | 8,337 | - | 8,337 |
| Net change in unrealized loss on securities available for sale, net of tax liability of \$1,713..... | - | 2,856 | 2,856 |
| Net change in unrealized loss on derivative instrument, net of tax liability of \$23 | - | (43) | <u>(43)</u> |
| Comprehensive income..... | <u> </u> | <u> </u> | <u>11,150</u> |
| Balance at March 31, 2011 | <u>\$ 99,250</u> | <u>1,280</u> | <u>100,530</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>2011</u> | <u>2010</u> |
| Cash flows from operating activities: | | |
| Net earnings | \$ 8,337 | 18,674 |
| Adjustments to reconcile net earnings to net cash provided by (used in) operating activities: | | |
| Provision for loan losses | 3,088 | 6,460 |
| Depreciation | 1,484 | 1,060 |
| Deferred income taxes | 2,208 | 4,933 |
| Net amortization of premiums and discounts on securities | 2,400 | (15) |
| Net amortization of deferred loan fees | 19 | (33) |
| Bargain purchase gain on acquisition, FDIC-assisted transaction | (686) | (22,263) |
| Gain on sale of securities available for sale | (1,536) | (876) |
| Other than temporary impairment on securities available for sale | 1,636 | 246 |
| Net loss on sale of foreclosed real estate | 10 | 7 |
| Provision for losses on foreclosed real estate | 109 | 273 |
| Origination of loans held for sale, net | (240,208) | (164,160) |
| Proceeds from sale of loans held for sale, net | 244,269 | 149,337 |
| Gain on sale of loans held for sale, net | (4,684) | (2,702) |
| Income from bank-owned life insurance | (595) | (440) |
| Decrease (increase) in accrued interest receivable | 47 | (1,162) |
| Increase in other assets | (1,041) | (2,647) |
| Increase in income tax receivable | (4,200) | - |
| (Decrease) increase in income taxes payable | (2,600) | 1,958 |
| (Decrease) increase in other liabilities | (2,326) | 2,827 |
| Net cash provided by (used in) operating activities | <u>5,731</u> | <u>(8,523)</u> |
| Cash flows from investing activities: | | |
| Purchases of securities available for sale | (170,478) | (240,688) |
| Principal repayments of securities available for sale | 51,942 | 39,348 |
| Maturities and calls of securities available for sale | 30,480 | 16,000 |
| Net proceeds from sales of securities available for sale | 72,589 | 139,688 |
| Principal repayments of securities held to maturity | 207 | 2 |
| Purchase of time deposits | (6,786) | (8,427) |
| Proceeds from sale of time deposits | 496 | 1,439 |
| Maturities and call of time deposits | 16,197 | 4,317 |
| Net (increase) decrease in loans | (51,792) | 12,216 |
| Net decrease in covered loans | 11,982 | 6,719 |
| Purchases of premises and equipment, net | (5,121) | (8,004) |
| Proceeds from sale of foreclosed real estate | 4,674 | 723 |
| Purchase of bank-owned life insurance | (4,371) | - |
| Redemption of Federal Home Loan Bank stock | 339 | - |
| Cash proceeds from acquisition, FDIC-assisted transaction | 188,410 | 41,913 |
| Net cash proceeds received for covered loans | <u>5,316</u> | <u>13,005</u> |
| Net cash provided by investing activities | <u>144,084</u> | <u>18,251</u> |
| Cash flows from financing activities: | | |
| Net (decrease) increase in deposits | (129,702) | 20,480 |
| Repayment of Federal Home Loan Bank advances | - | (19,454) |
| Net increase in other borrowings | <u>13,341</u> | <u>5,965</u> |
| Net cash (used in) provided by financing activities | <u>(116,361)</u> | <u>6,991</u> |
| Net increase in cash and cash equivalents | 33,454 | 16,719 |
| Cash and cash equivalents at beginning of year | <u>70,018</u> | <u>53,299</u> |
| Cash and cash equivalents at end of year | \$ <u>103,472</u> | <u>70,018</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, 2011 and 2010

(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 eighteen full-service banking offices in Baker, Columbia, Hamilton, Holmes, Jackson, Lafayette, Manatee, Nassau, Sarasota, Suwannee and Washington Counties, Florida. There is also a retail wholesale loan production office that operates in Duval County. Its deposits are insured by the Federal Deposit Insurance Corporation ("FDIC"). 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."

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 June 28, 2011, which is the date the consolidated financial statements were available to be issued, determining no events require additional disclosure in the consolidated financial statements.

Measurement Period Adjustment. On October 23, 2009, the Bank entered into a Purchase and Assumption Agreement and Shared-Loss Agreements with the FDIC, as a receiver of Flagship National Bank in Bradenton, Florida ("Flagship"). The agreement was for the Bank to assume all deposits and essentially all assets of Flagship. In accordance with GAAP, the fair values initially assigned to the assets acquired and liabilities assumed were preliminary and subject to refinement for up to one year after the closing date of the acquisition as new information relative to closing date fair values became available.

The following tables presents the effect the measurement period adjustment had on the Consolidated Statement of Earnings for the year ended March 31, 2010 and the consolidated balance sheet at March 31, 2010:

| <u>Selected Statement of Earnings Data</u> | <u>As Previously Reported</u> | <u>Adjustment</u> | <u>As Adjusted</u> |
|--|-------------------------------|-------------------|--------------------|
| Bargain purchase gain on FDIC assisted transaction | \$ <u>20,220</u> | <u>2,043</u> | <u>22,263</u> |
| Income tax | \$ <u>10,368</u> | <u>769</u> | <u>11,137</u> |
| Net earnings | \$ <u>17,400</u> | <u>1,274</u> | <u>18,674</u> |

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(1) Organization and Summary of Significant Accounting Policies, Continued
Measurement Period Adjustment, Continued.

| <u>Selected Balance Sheet Data</u> | <u>As Previously Reported</u> | <u>Adjustment</u> | <u>As Adjusted</u> |
|------------------------------------|-------------------------------|-------------------|--------------------|
| Covered loans, net of discount | \$ <u>69,586</u> | <u>7,326</u> | <u>76,912</u> |
| FDIC loss share receivable | \$ <u>26,995</u> | <u>5,283</u> | <u>21,712</u> |
| Total assets | \$ <u>834,794</u> | <u>2,043</u> | <u>836,837</u> |
| Deferred income taxes | \$ <u>626</u> | <u>769</u> | <u>1,395</u> |
| Total liabilities | \$ <u>746,688</u> | <u>769</u> | <u>747,457</u> |
| Retained earnings | \$ <u>89,639</u> | <u>1,274</u> | <u>90,913</u> |

The measurement period adjustment did not have an effect on the Company's operating cash flows for the year ended March 31, 2010. The following table presents the effect on the individual line items within operating cash flows on the Company's Consolidated Statement of Cash Flows at March 31, 2010.

| <u>Selected Cash Flow Data</u> | <u>As Previously Reported</u> | <u>Adjustment</u> | <u>As Adjusted</u> |
|--|-------------------------------|-------------------|--------------------|
| Net earnings | \$ <u>17,400</u> | <u>1,274</u> | <u>18,674</u> |
| Deferred income taxes | \$ <u>4,169</u> | <u>764</u> | <u>4,933</u> |
| Bargain purchase gain on FDIC assisted transaction | \$ <u>20,220</u> | <u>2,043</u> | <u>22,263</u> |

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 the allowance for loan losses, deferred tax assets, valuation of foreclosed real estate and the determination of the FDIC loss share receivable.

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

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

Acquisition of Certain Assets and Liabilities of Flagship National Bank. On October 23, 2009, the Bank entered into a Purchase and Assumption Agreement and Shared-Loss Agreements with the FDIC, as a receiver of Flagship. The agreement was for the Bank to assume all deposits and essentially all assets of Flagship. As a result of the acquisition, the Bank assumed four full-service branches operating in Sarasota and Bradenton, Florida. The Bank acquired these assets and deposits in order to enhance its branch network, enter the Southwest Florida market and to enhance earnings. The Bank incurred approximately \$20,000 in acquisition expenses which are included in other non-interest expenses. The table below summarizes the assets acquired and liabilities assumed as adjusted on acquisition date (in thousands):

| | |
|--|------------------|
| Assets acquired: | |
| Cash and due from banks | \$ 41,913 |
| Securities available for sale | 33,774 |
| Covered loans, net of discount | 83,631 |
| FDIC loss share receivable..... | 34,717 |
| Premises and equipment..... | 30 |
| Foreclosed real estate | 2,389 |
| Other assets | <u>2,180</u> |
| | |
| Total assets acquired | <u>198,634</u> |
| | |
| Liabilities assumed: | |
| Demand deposits | 14,300 |
| Savings deposits | 9,883 |
| Time deposits | 141,520 |
| Federal Home Loan Bank advances | 10,454 |
| Other liabilities..... | <u>214</u> |
| | |
| Total liabilities assumed..... | <u>176,371</u> |
| | |
| Net assets acquired/gain from acquisition..... | \$ <u>22,263</u> |

The Bank received an exclusion option, after acquisition date, to purchase premises and equipment, which was exercised in the amount of \$5.4 million. Assets acquired included intangible assets of approximately \$353,000, consisting of core deposit intangibles. The principal factors considered when valuing the core deposit intangible 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 core deposit intangible is being amortized on the straight-line method over an eight year period or \$45,000 per year. For the year ended March 31, 2011 and 2010, the Company recognized \$45,000 and \$23,000 in amortization on the core deposit intangible. The core deposit intangible is evaluated periodically for impairment as of March 31, 2011 the Company determined the core deposit intangible was not impaired. At March 31, 2011 and 2010, the core deposit intangible was \$285,000 and \$330,000 and included in other assets.

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

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

The Shared-Loss Agreements cover approximately \$130.0 million of the loans ("covered loans") and \$2.4 million foreclosed real estate acquired by the Bank. Under these agreements, the FDIC will cover up to 80% of losses and related costs on the first \$51.0 million of losses and 95% of any excess over that amount. Single-family residential real estate loans have a 10 year term for losses and nonresidential real estate loans have eight years. The Bank recorded a shared-loss receivable due from the FDIC of \$34.7 million, which is the estimated fair value of the losses the Bank is expected to receive.

Acquisition of Certain Assets and Liabilities of The Bank of Bonifay. On May 7, 2010, First Federal Bank of Florida entered into a purchase and assumption agreement with the Federal Deposit Insurance Corporation ("FDIC"), as a receiver of The Bank of Bonifay, Bonifay, Florida. The Bank assumed \$225.2 million in liabilities and purchased \$71.9 million of the Bank of Bonifay's assets and received \$153.3 million in cash from the FDIC. The Bank acquired these assets and deposits in order to enhance its branch network. The Bank incurred approximately \$20,000 in acquisition expenses which are included in other non-interest expenses. The table below summarizes the assets acquired and liabilities assumed on acquisition date (in thousands):

| | |
|---|-------------------|
| Assets acquired: | |
| Cash and due from banks | \$ 188,410 |
| Securities available for sale | 34,505 |
| Loans | 1,943 |
| Other assets | <u>1,105</u> |
| Total assets acquired | <u>225,963</u> |
| Liabilities assumed: | |
| Demand deposits | 56,810 |
| Savings deposits | 9,820 |
| Time deposits | 157,988 |
| Other liabilities | <u>659</u> |
| Total liabilities assumed | \$ <u>225,277</u> |
| Net assets acquired/gain from acquisition | \$ <u>686</u> |

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

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

Acquisition of Certain Assets and Liabilities of The Bank of Bonifay, Continued. The Bank received an exclusion option, after the acquisition date, to purchase loans, premises and equipment. The Bank exercised its option to purchase premises and equipment of \$2.1 million and to purchase loan pools at book value of \$32.3 million.

Assets acquired included intangible assets of approximately \$777,000, consisting of core deposit intangibles. The principal factors considered when valuing the core deposit intangible 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 core deposit intangible is being amortized on the straight-line method over a seven and a half year period or \$103,000 per year. For the year ended March 31, 2011, the Company recognized \$95,000 in amortization on the core deposit intangible. The core deposit intangible is evaluated periodically for impairment. As of March 31, 2011 the Company determined the core deposit intangible was not impaired. At March 31, 2011, the core deposit intangible was \$682,000 and included in other assets.

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.

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 may be required under Federal Reserve Board regulations to maintain reserves, generally consisting of cash or noninterest-earning accounts, against its transaction accounts. Required reserves were met by cash on hand at March 31, 2011 or 2010.

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

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

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 views the determination of whether an investment security is temporarily or other-than-temporarily impaired as a critical accounting policy, as the estimate is susceptible to significant change from period to period because it requires management to make significant judgments, assumptions and estimates in the preparation of its consolidated financial statements. Management considers whether an investment security is other-than-temporarily impaired. 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 operations. For securities that do not meet the aforementioned criteria, the amount of impairment recognized in operations is limited to the amount related to credit losses, while impairment related to other factors is recognized in other comprehensive loss. Management utilizes cash flow models to segregate impairments to distinguish between impairment related to credit losses and impairment related to other factors. To assess for OTTI, management considers, among other things, (i) the severity and duration of the impairment; (ii) the ratings of the 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.

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

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

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.

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 unless the loan is well collateralized and in process of collection. 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 provision 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.

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.

(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. 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.

Accounting For Acquired Loans and Related FDIC Loss Share Receivable. GAAP requires the use of the purchase method of accounting. All identifiable assets acquired, including loans, are recorded at fair value. No allowance for loan losses related to the acquired loans is recorded on the acquisition date as the fair value of the loans acquired incorporates assumptions regarding credit risk. Loans acquired are recorded at fair value in accordance with the fair value methodology, exclusive of the FDIC loss share receivable. The fair value estimates associated with the loans include estimates related to expected prepayments and the amount and timing of undiscounted expected principal, interest and other cash flows.

Over the life of the acquired loans, the Company continues to estimate cash flows expected to be collected on individual loans or on pools of loans sharing common risk characteristics. The Company evaluates at each balance sheet date whether the estimated cash flows and corresponding present value of its loans, determined using the effective interest rates, has decreased and if so, recognizes a provision for loan loss in its consolidated statement of earnings. For any increases in cash flows expected to be collected, the Company adjusts the amount of accretable yield recognized on a prospective basis over the loan's or pool's remaining life.

Because the FDIC will reimburse the Company for certain acquired loans should the Company experience a loss, an indemnification asset is recorded at fair value at the acquisition date. The indemnification asset is recognized at the same time as the indemnified loans, and measured on the same basis, subject to collectability or contractual limitations. The shared loss agreements on the acquisition date reflect the reimbursements expected to be received from the FDIC, using an appropriate discount rate, which reflects counterparty credit risk and other uncertainties.

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

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

Accounting For Acquired Loans and Related FDIC Loss Share Receivable, Continued. The shared loss agreements continue to be measured on the same basis as the related indemnified loans, and the loss share receivable is impacted by changes in estimated cash flows associated with these loans. Deterioration in the credit quality on expected cash flows of the loans (immediately recorded as an adjustment to the allowance for loan losses) would immediately increase the loss share receivable, with the offset recorded through the consolidated statement of earnings. Increases in the credit quality or cash flows of loans (reflected as an adjustment to yield and accreted into income over the remaining life of the loans) decrease the basis of the shared loss agreements, with such decrease being amortized into income over 1) the life of the loan or 2) the life of the shared loss agreements, whichever is shorter. Loss assumptions used in the basis of the indemnified loans are consistent with the loss assumptions used to measure the indemnification asset. Fair value accounting incorporates into the fair value of the indemnification asset an element of the time value of money, which is accreted back into earnings over the life of the shared loss agreements.

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 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.

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

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

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.

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. 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, 2011 and 2010, FFFSC received securities commissions and fees of \$1,938,000 and \$1,203,000 respectively and paid \$1,793,000 and \$1,105,000, respectively, to the Company owned by a director for services rendered as provided by the Management Services Agreement between FFFSC and the company.

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.

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

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

Income Taxes, Continued. On April 1, 2009, the Company adopted accounting guidance relating to accounting for uncertainty in income taxes, which sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions. As of March 31, 2011, 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 as a component of income tax expense.

The Holding Company 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.

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.

(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. 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.

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

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

The Company 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.

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

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

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

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

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

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.

Derivatives. Exchange-traded derivatives 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. 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.

(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.

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.

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 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.

Acquired Assets and Assumed Liabilities. In the Flagship and Bonifay acquisitions, all assets acquired and liabilities assumed were recorded at estimated fair value at the date of acquisition. Estimates of fair values were determined based on a variety of information. Covered loans, net of discount, deposits and Federal Home Loan Bank advances were valued based on estimated cash flows and other unobservable inputs and are classified as Level 3.

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.

(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.

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

Accrued Interest Receivable. The carrying 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.

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, net 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.

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.

(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):

| | <u>Year Ended March 31,</u> | |
|---|-----------------------------|----------------|
| | <u>2011</u> | <u>2010</u> |
| Available for sale securities: | | |
| Unrealized gain (loss) on securities available for sale..... | \$ 2,481 | (1,358) |
| Less: | | |
| Reclassification adjustment for net gains realized in net earnings | 1,536 | 876 |
| Reclassification adjustment for other-than- temporary impairment losses recognized | (1,636) | (246) |
| Net unrealized gain (loss) | 2,581 | (1,988) |
| Tax effect | <u>968</u> | <u>(745)</u> |
| Net-of-tax amount | <u>1,613</u> | <u>(1,243)</u> |
| Derivative instruments: | | |
| Holding losses on derivative instrument..... | (512) | (446) |
| Tax effect | <u>(179)</u> | <u>(156)</u> |
| Net-of-tax amount | <u>(333)</u> | <u>(290)</u> |
| Accumulated other comprehensive loss | \$ <u>1,280</u> | <u>(1,533)</u> |

Reclassifications. Certain amounts in the 2010 financial statements have been reclassified to conform to the 2011 presentation.

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

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

Recent Pronouncements. In January 2010, the FASB issued new guidance that requires new disclosures about significant transfers in and/or out of Levels 1 and 2 of the fair value hierarchy and activity in Level 3 (Accounting Standards Update ("ASU") 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements*). In addition, this guidance provides clarification of existing disclosure requirements about (a) level of disaggregation and (b) inputs and valuation techniques. The update is effective for annual reporting periods beginning after December 15, 2009 and had no impact on the Company's consolidated financial statements other than the disclosure requirements which have been incorporated herein.

In July 2010, the FASB issued ASU No. 2010-20, *Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*. The new disclosures will require significantly more information about credit quality in a financial institution's loan portfolio. This statement addresses only disclosures and does not change recognition or measurement of the allowance. For nonpublic entities, the disclosures are effective for annual reporting periods ending on or after December 15, 2011. The adoption of the ASU is not expected to have a material impact on the Company's consolidated financial statements.

In April 2011, the FASB issued ASU No. 2011-02, *Receivables (Topic 310): A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring*. This guidance requires a creditor to consider whether a restructuring constitutes a concession and the debtor is experiencing financial difficulties in determining whether a restructuring is a troubled debt restructuring. The guidance also clarifies the creditor's evaluation of a concession and whether a debtor is experiencing financial difficulties. The update is effective for annual reporting periods beginning on or after June 15, 2011. The adoption of the ASU is not expected to have a material impact on the Company's consolidated financial statements.

(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> |
|---------------------------------------|---------------------------|---------------------------------------|--|-------------------------------------|
| Securities Available for Sale: | | | | |
| <i>At March 31, 2011:</i> | | | | |
| U.S. Government agency bonds | \$ 23,975 | 69 | (2) | 24,042 |
| U.S. Treasury securities..... | 2,994 | - | - | 2,994 |
| Municipal securities | 49,022 | 602 | (319) | 49,305 |
| Preferred stock..... | 1 | 59 | - | 60 |
| CMO | 161,181 | 3,565 | (1,392) | 163,354 |
| Mortgage-backed securities..... | <u>46,473</u> | <u>298</u> | <u>(299)</u> | <u>46,472</u> |
| | \$ <u>283,646</u> | <u>4,593</u> | <u>(2,012)</u> | <u>286,227</u> |
| <i>At March 31, 2010:</i> | | | | |
| U.S. Government agency bonds | 30,350 | 31 | (110) | 30,271 |
| Municipal securities | 15,700 | 279 | (49) | 15,930 |
| Preferred stock..... | 49 | - | (18) | 31 |
| CMO | 156,943 | 930 | (3,477) | 154,396 |
| Mortgage-backed securities..... | <u>32,921</u> | <u>428</u> | <u>(2)</u> | <u>33,347</u> |
| | \$ <u>235,963</u> | <u>1,668</u> | <u>(3,656)</u> | <u>233,975</u> |
| Securities Held to Maturity: | | | | |
| <i>At March 31, 2011-</i> | | | | |
| Corporate bonds | \$ <u>559</u> | <u>-</u> | <u>(445)</u> | <u>114</u> |
| <i>At March 31, 2010-</i> | | | | |
| Corporate bonds | \$ <u>977</u> | <u>-</u> | <u>(910)</u> | <u>67</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>2011</u> | <u>2010</u> |
| Proceeds..... | \$ <u>72,382</u> | <u>139,688</u> |
| Gross gains | 1,539 | 909 |
| Gross losses | <u>(3)</u> | <u>(33)</u> |
| Net gain | \$ <u>1,536</u> | <u>876</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, 2011:</i> | | | | |
| Due after one year through five years..... | \$ 21,906 | 22,020 | - | - |
| Due after five through ten years ... | 17,845 | 18,023 | - | - |
| Due thereafter | 36,240 | 36,298 | 559 | 114 |
| Preferred stock..... | 1 | 60 | - | - |
| CMO | 161,181 | 163,354 | - | - |
| Mortgage-backed securities..... | <u>46,473</u> | <u>46,472</u> | <u>-</u> | <u>-</u> |
| | \$ <u>283,646</u> | <u>286,227</u> | <u>559</u> | <u>114</u> |

At March 31, 2011 and 2010, the Company pledged, as collateral for state and municipal deposits and treasury tax and loan accounts, securities with a carrying value of \$103,788,000 and \$78,150,000, respectively. At March 31, 2011 and 2010, the Company had an outstanding \$41 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 seventy-nine securities with gross unrealized losses at March 31, 2011, 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> | | | | |
| U.S. Government agency bonds | \$ 2 | 3,422 | - | - |
| CMO's | 486 | 41,232 | 906 | 12,245 |
| Mortgage-backed securities | 299 | 31,244 | - | - |
| Municipal securities | <u>302</u> | <u>11,389</u> | <u>17</u> | <u>1,763</u> |
| Total | \$ <u>1,089</u> | <u>87,287</u> | <u>923</u> | <u>14,008</u> |
| <i>Securities Held to Maturity-</i> | | | | |
| Corporate bonds | \$ <u>-</u> | <u>-</u> | <u>445</u> | <u>114</u> |

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. Corporate bonds held to maturity have an unrealized loss of \$445,000 which is caused by market conditions. The Company obtained an independent valuation analysis of the present value of future cash flows that indicated the bonds were not other-than-temporarily impaired.

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

| | <u>Year Ended March 31,</u> | | | |
|---------------------------------------|-----------------------------|--------------|-------------------|--------------|
| | <u>2011</u> | | <u>2010</u> | |
| | <u>Impairment</u> | <u>Fair</u> | <u>Impairment</u> | <u>Fair</u> |
| | <u>Losses</u> | <u>Value</u> | <u>Losses</u> | <u>Value</u> |
| <i>Securities Available for Sale:</i> | | | | |
| CMO's | \$ 1,382 | 1,922 | 246 | 272 |
| Preferred stock | <u>49</u> | <u>60</u> | <u>-</u> | <u>-</u> |
| Total | \$ <u>1,431</u> | <u>1,982</u> | <u>246</u> | <u>272</u> |
| <i>Securities Held to Maturity-</i> | | | | |
| Corporate bonds | \$ <u>205</u> | <u>114</u> | <u>-</u> | <u>-</u> |

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(2) Securities, Continued

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, the Bank will not receive the contracted cash flows; the Bank makes an other-than-temporary impairment charge through the statement 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 investments have been deemed as other-than-temporarily impaired. Based on current accounting policies, the portion of losses deemed as credit losses is charged against operations and the portion deemed as non-credit losses is included in other comprehensive loss. As of March 31, 2011, 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 table below provides a cumulative roll forward of credit losses recognized in operations relating to the Company's securities deemed other-than-temporarily impaired (in thousands):

| | <u>Year Ended March 31,</u> | |
|--|-----------------------------|--------------|
| | <u>2011</u> | <u>2010</u> |
| Estimated credit losses, beginning balance..... | \$ 1,959 | 1,713 |
| Additions for credit losses not previously recognized..... | <u>1,636</u> | <u>246</u> |
| Estimated credit losses, ending balance..... | \$ <u>3,595</u> | <u>1,959</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 components of loans are summarized as follows (in thousands):

| | <u>At March 31,</u> | |
|--|---------------------|----------------|
| | <u>2011</u> | <u>2010</u> |
| Residential real estate | \$ 111,594 | 101,136 |
| Commercial real estate | 213,930 | 211,332 |
| Consumer loans | 90,194 | 86,590 |
| Commercial loans | 38,497 | 34,099 |
| Deposit account loans | 3,467 | 2,048 |
| Real estate construction loans | <u>8,286</u> | <u>8,976</u> |
| Subtotal..... | 465,968 | 444,181 |
| Less: | | |
| Discount on covered loans | 18,330 | 24,718 |
| Allowance for loan losses..... | 7,226 | 10,777 |
| Loan premium and discount | (508) | (699) |
| Net deferred loan origination fees | <u>(112)</u> | <u>179</u> |
| Loans and covered loans, net | \$ <u>441,032</u> | <u>409,206</u> |
| Consolidated balance sheets: | | |
| Loans, net of allowance for loan losses of \$7,226 and \$10,777 | 379,319 | 332,294 |
| Covered loans | <u>61,713</u> | <u>76,912</u> |
| | \$ <u>441,032</u> | <u>409,206</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>2011</u> | <u>2010</u> |
| Loans identified as impaired: | | |
| Gross covered loans with no related allowance for losses | \$ 21,536 | 24,459 |
| Gross loans with no related allowance for losses..... | 11,515 | 10,296 |
| Gross loans with related allowance for losses recorded | 7,653 | 14,623 |
| Less: Allowances on these loans | <u>(1,347)</u> | <u>(3,864)</u> |
| Net investment in impaired loans | \$ <u>39,357</u> | <u>45,514</u> |

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(3) Loans, Continued

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>2011</u> | <u>2010</u> |
| Average investment in impaired loans | \$ <u>44,494</u> | <u>46,243</u> |
| Interest income recognized on impaired loans | \$ <u>305</u> | <u>601</u> |
| Interest income received on impaired loans | \$ <u>305</u> | <u>601</u> |

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

| | <u>At March 31,</u> | |
|---|---------------------|---------------|
| | <u>2011</u> | <u>2010</u> |
| Nonaccrual loans | \$ 33,451 | 36,075 |
| Past due ninety days or more, but still accruing..... | <u>-</u> | <u>-</u> |
| | <u>\$ 33,451</u> | <u>36,075</u> |

At March 31, 2011 and 2010, nonaccrual loans above include \$21.5 million and \$24.4 million, of which were acquired through Flagship acquisition and are subject to the Shared-Loss Agreements with the FDIC.

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

| | <u>Year Ended March 31,</u> | |
|------------------------------------|-----------------------------|----------------|
| | <u>2011</u> | <u>2010</u> |
| Balance at beginning of year | \$ 10,777 | 6,883 |
| Provision for loan losses..... | 3,088 | 6,460 |
| Charge-offs, net | <u>(6,639)</u> | <u>(2,566)</u> |
| Balance at end of year | <u>\$ 7,226</u> | <u>10,777</u> |

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(3) Loans, Continued

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>2011</u> | <u>2010</u> |
| Beginning balance | \$(179) | (286) |
| Deferred loan origination fees | (208) | (171) |
| Capitalized direct underwriting costs | 518 | 245 |
| Net amortization | <u>(19)</u> | <u>33</u> |
| Ending balance | \$ <u>112</u> | (179) |

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 collectability or present other unfavorable features. An analysis of the change in related party loans follows (in thousands):

| | <u>Year Ended March 31,</u> | |
|---------------------------|-----------------------------|----------------|
| | <u>2011</u> | <u>2010</u> |
| Beginning balance | \$ 6,028 | 6,320 |
| Principal additions | 724 | 999 |
| Principal payments | <u>(1,130)</u> | <u>(1,291)</u> |
| Ending balance | \$ <u>5,622</u> | <u>6,028</u> |

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(3) Loans, Continued

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 \$14.9 million at March 31, 2011 and loans aggregating \$19.9 million at March 31, 2010, for which 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 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, 2011 is adequate.

(4) FDIC Loss Share Receivable

The activity in the FDIC loss share indemnification asset which resulted from the October 23, 2009 acquisition of Flagship is as follows (in thousands):

| | <u>2011</u> | <u>2010</u> |
|---|------------------|-----------------|
| Beginning of the year | \$ 21,712 | - |
| FDIC loss share receivable at acquisition | - | 34,717 |
| Cash proceeds from FDIC | <u>(5,316)</u> | <u>(13,005)</u> |
| End of the year..... | \$ <u>16,396</u> | <u>21,712</u> |

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(5) 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>2011</u> | <u>2010</u> |
| Mortgage loan portfolios serviced for: | | |
| FHLB | \$ 33,857 | 40,061 |
| FHLMC | 273,444 | 196,486 |
| GNMA | <u>254,069</u> | <u>132,538</u> |
| | <u>\$ 561,370</u> | <u>369,085</u> |

Custodial escrow balances maintained in connection with the foregoing loan servicing were \$2,972,000 and \$1,846,000 at March 31, 2011 and 2010, respectively.

The following summarizes mortgage servicing rights activity, the balances of which are included in other assets on the consolidated balance sheet (in thousands):

| | <u>Year Ended March 31,</u> | |
|---|-----------------------------|--------------|
| | <u>2011</u> | <u>2010</u> |
| Beginning balance..... | \$ 3,547 | 2,239 |
| Additions from loans originated and sold..... | 3,103 | 2,047 |
| Amortization | <u>(1,114)</u> | <u>(739)</u> |
| Ending balance..... | <u>\$ 5,536</u> | <u>3,547</u> |

The fair value of mortgage servicing rights was determined using a discount rate ranging from 8% to 15% for FHLMC, FHLB and GNMA, a prepayment speed ranging from 186.0% to 447.0%, 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>2011</u> | <u>2010</u> |
| Servicing fees received from investors..... | \$ 1,524 | 847 |
| Less amortization of mortgage servicing rights..... | <u>(1,114)</u> | <u>(739)</u> |
| Gain from servicing | <u>\$ 410</u> | <u>108</u> |

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(6) Foreclosed Real Estate

At March 31, 2011 and 2010, foreclosed real estate of \$6,393,000 and \$4,366,000 included \$3,085,000 and \$2,457,000, respectively, of foreclosed real estate acquired in the Flagship acquisition or from loans acquired in the Flagship acquisition that were subsequently foreclosed and which are covered by the Shared-Loss Agreements.

Expenses applicable to foreclosed real estate follows (in thousands):

| | <u>Year Ended March 31,</u> | |
|---|-----------------------------|----------------|
| | <u>2011</u> | <u>2010</u> |
| Net loss on sales of foreclosed real estate..... | \$ 10 | 7 |
| Provision for losses | 109 | 273 |
| Operating expenses | <u>123</u> | <u>108</u> |
| Total included in other noninterest expenses..... | \$ <u>242</u> | <u>388</u> |

(7) Premises and Equipment

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

| | <u>At March 31,</u> | |
|--|----------------------|-------------------|
| | <u>2011</u> | <u>2010</u> |
| Land..... | \$ 8,646 | 8,459 |
| Buildings and improvements | 19,109 | 15,625 |
| Furniture and equipment..... | 10,526 | 8,460 |
| Construction in process | <u>-</u> | <u>667</u> |
| Total, at cost | 38,281 | 33,211 |
| Less accumulated depreciation..... | <u>11,300</u> | <u>9,867</u> |
| Premises and equipment, net | \$ <u>26,981</u> | <u>23,344</u> |

The Company leased office space for its operations under noncancellable leases. Rent expense was approximately \$109,000 and \$89,500 for the years ended March 31, 2011 and 2010, respectively. The Company signed a new lease dated May 16, 2011 which calls for future minimum rental commitments of approximately \$64,000 in 2012 and \$17,000 in 2013. At March 31, 2011, there were no future minimum rental commitments.

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(8) Deposits

The aggregate amount of time deposits with a minimum denomination of \$100,000 was approximately \$84.6 million and \$86.2 million at March 31, 2011 and 2010, respectively.

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

| <u>Year Ending March 31,</u> | <u>Amount</u> |
|----------------------------------|-------------------|
| 2012..... | \$ 206,494 |
| 2013..... | 30,703 |
| 2014..... | 8,707 |
| 2015..... | 4,621 |
| 2016..... | <u>7,459</u> |
| | <u>\$ 257,984</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 \$186.0 million and \$176.0 million at March 31, 2011 and 2010, respectively.

(9) 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):

| <u>Maturing in the Year Ending March 31,</u> | <u>Fixed or Variable Rate</u> | <u>Interest Rate</u> | <u>March 31,</u> | |
|--|---------------------------------------|--------------------------|------------------|---------------|
| | | | <u>2011</u> | <u>2010</u> |
| 2012 | Adjustable | 0.69% | \$ 5,000 | 5,000 |
| 2013 | Convertible** | 4.05% | 6,000 | 6,000 |
| 2013 | Convertible* | 4.11% | 5,000 | 5,000 |
| 2017 | Adjustable | 1.28% | <u>1,000</u> | <u>1,000</u> |
| | | | <u>\$ 17,000</u> | <u>17,000</u> |

* Callable August 30, 2011.

** Callable September 7, 2011.

The collateral agreement with 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 \$110,827,000. In addition, the Company may pledge additional marketable securities as collateral where the qualifying loans are insufficient. At March 31, 2011, securities with a fair value of \$38,080,000 were pledged as collateral for FHLB advances.

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(10) Other Borrowings

The following summarizes the Company's other borrowings (in thousands):

| <u>Name</u> | <u>Borrowings Outstanding at March 31,</u> | |
|-----------------------------------|--|-------------------|
| | <u>2011</u> | <u>2010</u> |
| Repurchase agreements: | | |
| Citibank..... | \$ 15,000 | 15,000 |
| JP Morgan Chase | 5,000 | 5,000 |
| Retail repurchase agreements..... | <u>44,008</u> | <u>30,667</u> |
| Total | \$ <u>64,008</u> | <u>50,667</u> |

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

| | <u>Year Ended March 31,</u> | |
|--|-----------------------------|-------------|
| | <u>2011</u> | <u>2010</u> |
| Average balance during the year | \$ 38,375 | 24,088 |
| Average interest rate during the year | 0.281% | 0.285% |
| Maximum month-end balance during the year..... | \$ 86,171 | 40,644 |

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

| | <u>Matures</u> | <u>Year Ended March 31,</u> | | | |
|----------------|----------------|-----------------------------|----------------------|-------------|-------------------|
| | | <u>2011</u> | | <u>2010</u> | |
| | | <u>Rate</u> | <u>Balance</u> | <u>Rate</u> | <u>Balance</u> |
| JP Morgan..... | June 3, 2015 | 4.52% | \$ 5,000 | 4.52% | 5,000 |
| Citibank | April 30, 2018 | 4.61* | 10,000 | 4.61* | 10,000 |
| Citibank | April 30, 2018 | 4.71** | <u>5,000</u> | 2.36** | <u>5,000</u> |
| | | | \$ <u>20,000</u> | | <u>20,000</u> |

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

** Rate is seven percent less three month LIBOR, not to exceed 4.71%.

The Company pledged securities as collateral for these repurchase agreements with a carrying value of \$27,240,000 and \$26,032,000 at March 31, 2011 and 2010, respectively.

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(10) Other Borrowings, Continued

The Company also enters into retail 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 \$44,008,000 and \$30,667,000 at March 31, 2011 and 2010, respectively and the Company pledged securities and time deposits as collateral for these agreements with a carrying value of \$50,686,000 and \$44,464,000, respectively.

(11) 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>2011</u> | <u>2010</u> |
| Current: | | |
| Federal | \$ 1,513 | 5,265 |
| State | <u>326</u> | <u>934</u> |
| Total current | <u>1,839</u> | <u>6,199</u> |
| Deferred (benefit): | | |
| Federal | 1,898 | 4,217 |
| State | <u>310</u> | <u>721</u> |
| Total deferred (benefit) | <u>2,208</u> | <u>4,938</u> |
| Income taxes..... | <u>\$ 4,047</u> | <u>11,137</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>2011</u> | | <u>2010</u> | |
| | <u>Amount</u> | <u>%</u> | <u>Amount</u> | <u>%</u> |
| Income taxes at statutory Federal rate | \$ 4,211 | 34.0% | \$ 10,136 | 34.0% |
| Increase (decrease) in taxes resulting from: | | | | |
| State taxes, net of Federal tax benefit..... | 420 | 3.4 | 1,092 | 3.7 |
| Income from bank-owned life insurance | (202) | (1.6) | (151) | (.5) |
| Tax-exempt income | (431) | (3.5) | (222) | (.7) |
| Other | <u>49</u> | <u>.4</u> | <u>282</u> | <u>.9</u> |
| Total..... | <u>\$ 4,047</u> | <u>32.7%</u> | <u>\$ 11,137</u> | <u>37.4%</u> |

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(11) Income Taxes, Continued

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

| | <u>At March 31,</u> | |
|--|---------------------|-----------------|
| | <u>2011</u> | <u>2010</u> |
| Deferred tax assets: | | |
| Allowance for loan losses..... | \$ 2,719 | 4,055 |
| Deferred compensation..... | 1,416 | 1,682 |
| Nonaccrual interest income | 565 | 340 |
| Unrealized losses on securities available for sale | - | 745 |
| Unrealized loss on derivative instrument | 179 | 156 |
| Charitable contributions | 89 | 97 |
| Impaired securities | 950 | 737 |
| Accrued expenses | 61 | 695 |
| Other | <u>228</u> | <u>290</u> |
| Total gross deferred tax assets | <u>6,207</u> | <u>8,797</u> |
| Deferred tax liabilities: | | |
| Deferred gain on FDIC-assisted transaction | (6,968) | (7,352) |
| Deferred loan costs..... | (426) | (334) |
| Mortgage servicing rights..... | (2,083) | (1,335) |
| Federal Home Loan Bank stock | (49) | (55) |
| Unrealized gain in securities available for sale | (968) | - |
| Depreciation | (675) | (843) |
| Prepaid expenses | <u>(331)</u> | <u>(273)</u> |
| Total gross deferred tax liabilities..... | <u>(11,500)</u> | <u>(10,192)</u> |
| Net deferred tax liability..... | \$ <u>(5,293)</u> | <u>(1,395)</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 2007.

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(12) 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, 2011 expire in the next twelve months. The Company has collateral securing these agreements, amounting to \$954,000, and in some cases guarantees.

A summary of the amounts of the Company's off-balance-sheet financial instruments at March 31, 2011 follows (in thousands):

| | <u>Contract Amount</u> |
|-----------------------------------|-----------------------------------|
| Unused lines of credit | \$ <u>44,671</u> |
| Undisbursed loans in process..... | \$ <u>8,704</u> |
| Commitments to extend credit..... | \$ <u>31,511</u> |
| Standby letters of credit | \$ <u>1,221</u> |

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(13) 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):

| | March 31, | |
|--|------------------|-------------|
| | 2011 | 2010 |
| Notional amount..... | \$ 5,000 | 5,000 |
| Weighted-average pay rate fixed | 4.52% | 4.52% |
| Weighted-average receive rate variable..... | 0.379% | 0.325% |
| Weighted-average maturity in years | 4.18 | 5.18 |
| Unrealized (loss) relating to interest-rate swaps..... | \$ (512) | (446) |

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, 2011 and 2010 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 Company enters into rate-lock mortgage loan commitments with customers that the Company intends to sell (rate-lock commitments). These rate-lock commitments expose the Company to interest rate risk. The total outstanding rate-lock commitments at March 31, 2011 and 2010 were approximately \$25.0 million and \$24.0 million, respectively. The fair value of rate-lock commitments at March 31, 2011 were \$772,000 in other assets. The fair value of rate-lock commitments at March 31, 2010 were \$165,000 and \$(63,000) 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

(13) 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, 2011 and 2010 were \$38.1 million and \$42.7 million, respectively. The fair value of forward loan sale commitments were \$55,000 and \$(109,000) at March 31, 2011 and are included in other assets and other liabilities in the accompanying balance sheets. The fair value of forward loan sale commitments were \$735,000 and \$(234,000) at March 31, 2010 and are included in other assets and other liabilities in the accompanying balance sheets.

(14) 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>2011</u> | | <u>2010</u> | |
| | <u>Carrying Amount</u> | <u>Fair Value</u> | <u>Carrying Amount</u> | <u>Fair Value</u> |
| Financial assets: | | | | |
| Cash and cash equivalents..... | \$ 103,472 | 103,472 | 70,018 | 70,018 |
| Time deposits | 11,588 | 11,588 | 21,495 | 21,495 |
| Securities available for sale..... | 286,227 | 286,227 | 233,975 | 233,975 |
| Securities held to maturity..... | 559 | 114 | 977 | 67 |
| Loans held for sale, net | 20,352 | 20,352 | 19,729 | 19,729 |
| Loans and covered loans | 441,032 | 446,746 | 409,206 | 406,868 |
| Accrued interest receivable | 3,643 | 3,643 | 3,690 | 3,690 |
| Federal Home Loan Bank stock | 2,841 | 2,841 | 3,180 | 3,180 |
| Derivative assets..... | 827 | 827 | 900 | 900 |
| Financial liabilities: | | | | |
| Deposits..... | 759,083 | 718,573 | 664,167 | 640,683 |
| Federal Home Loan Bank advances..... | 17,000 | 17,740 | 17,000 | 17,740 |
| Other borrowings | 64,008 | 60,424 | 50,667 | 51,086 |
| Derivative liabilities | 621 | 621 | 743 | 743 |
| Off-balance-sheet financial instruments | - | - | - | - |

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(15) 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, 2011, that the Bank meets all capital adequacy requirements to which it is subject.

As of March 31, 2011, 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, 2011:</i> | | | | | | |
| Total capital to Risk-Weighted assets | \$ 100,680 | 23.60% | \$ 34,132 | 8.00% | \$ 42,665 | 10.00% |
| Tier I Capital to Risk-Weighted Assets | 95,323 | 22.34 | 17,066 | 4.00 | 25,599 | 6.00 |
| Tier I Capital to Total Assets | 95,323 | 10.05 | 37,944 | 4.00 | 47,430 | 5.00 |
| <i>As of March 31, 2010:</i> | | | | | | |
| Total capital to Risk-Weighted assets | 91,862 | 20.76 | 35,408 | 8.00 | 44,260 | 10.00 |
| Tier I Capital to Risk-Weighted Assets | 86,265 | 19.49 | 17,704 | 4.00 | 26,556 | 6.00 |
| Tier I Capital to Total Assets | 86,265 | 10.27 | 33,469 | 4.00 | 42,007 | 5.00 |

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(16) 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 \$694,000 and \$565,000 for the years ended March 31, 2011 and 2010, respectively.

(17) 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.

The Company recognizes a liability for postretirement death benefits provided under endorsement split-dollar agreements. An endorsement split-dollar agreement is an arrangement whereby a Company 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. 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.

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 an 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 \$86,000 and \$82,000 at March 31, 2011 and 2010, respectively.

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(18) Supplemental Disclosure of Cash Flow Information

| | <u>Year Ended March 31,</u> | |
|--|-----------------------------|----------------|
| | <u>2011</u> | <u>2010</u> |
| | (In thousands) | |
| Supplemental disclosure of cash flow information - | | |
| Cash paid during the year for: | | |
| Income taxes | \$ <u>8,639</u> | <u>4,389</u> |
| Interest | \$ <u>7,983</u> | <u>6,763</u> |
| Noncash transactions: | | |
| Covered loans reclassified to foreclosed real estate | \$ <u>3,217</u> | <u>857</u> |
| Loans reclassified to foreclosed real estate | \$ <u>3,603</u> | <u>1,232</u> |
| Net change in unrealized gain (loss) on securities available for sale, net of taxes | \$ <u>2,856</u> | <u>(347)</u> |
| Net change in unrealized loss on derivative instruments, net of taxes | \$ <u>(43)</u> | <u>109</u> |
| In connection with the acquisitions the following assets were acquired and liabilities assumed (at fair value): | | |
| Securities available for sale | \$ <u>34,505</u> | <u>33,774</u> |
| Loans | \$ <u>1,943</u> | <u>-</u> |
| Covered loans, net of discount | \$ <u>-</u> | <u>83,631</u> |
| FDIC loss share receivable | \$ <u>-</u> | <u>34,717</u> |
| Automobile | \$ <u>-</u> | <u>30</u> |
| Foreclosed real estate | \$ <u>-</u> | <u>2,389</u> |
| Other assets | \$ <u>1,105</u> | <u>2,180</u> |
| Deposits | \$ <u>224,618</u> | <u>165,703</u> |
| Federal Home Loan Bank advances | \$ <u>-</u> | <u>10,454</u> |
| Other liabilities | \$ <u>659</u> | <u>214</u> |

(19) Contingencies

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

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(20) Fair Value Measurements

Assets and liabilities at March 31, 2011 measured at fair value on a recurring basis are summarized below (in thousands):

| | Fair Value | Quoted Prices In Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|--|-----------------------|---|--|--|
| <i>Available-for-Sale Securities:</i> | | | | |
| U.S. Government agency bonds . | \$ 24,042 | - | 24,042 | - |
| U.S. Treasury securities | 2,994 | - | 2,994 | - |
| Municipal securities | 49,305 | - | 49,305 | - |
| Preferred stock | 60 | - | 60 | - |
| CMO | 163,354 | - | 161,712 | 1,642 |
| Mortgage-backed securities | <u>46,472</u> | <u>-</u> | <u>46,472</u> | <u>-</u> |
| Total | \$ <u>286,227</u> | <u>-</u> | <u>284,585</u> | <u>1,642</u> |
| Loans held for sale, net | \$ <u>20,352</u> | <u>-</u> | <u>20,352</u> | <u>-</u> |
| Rate-lock commitments, net | \$ <u>772</u> | <u>-</u> | <u>-</u> | <u>772</u> |
| Forward loan sale contracts, net | \$ <u>(54)</u> | <u>-</u> | <u>-</u> | <u>(54)</u> |
| Interest rate swaps | \$ <u>(512)</u> | <u>-</u> | <u>(512)</u> | <u>-</u> |

Assets and liabilities at March 31, 2010 measured at fair value on a recurring basis are summarized below (in thousands):

| | Fair Value | Quoted Prices In Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|--|-----------------------|---|--|--|
| Available-for-sale securities | \$ <u>233,975</u> | <u>-</u> | <u>233,975</u> | <u>-</u> |
| Loans held for sale, net | \$ <u>19,729</u> | <u>-</u> | <u>19,729</u> | <u>-</u> |
| Rate-lock commitments, net | \$ <u>102</u> | <u>-</u> | <u>-</u> | <u>102</u> |
| Forward loan sale contracts, net | \$ <u>501</u> | <u>-</u> | <u>-</u> | <u>501</u> |
| Interest rate swaps | \$ <u>(446)</u> | <u>-</u> | <u>(446)</u> | <u>-</u> |

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(20) Fair Value Measurements, Continued

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, 2011 (in thousands):

| | <u>Securities Available for Sale</u> | <u>Rate-lock Commitments, Net</u> | <u>Forward Loan Sale Contracts, Net</u> |
|--|--|---|---|
| Balance, April 1, 2010..... | \$ - | 102 | 501 |
| Total gains or losses (realized/unrealized): | | | |
| Purchases, issuances and net settlements | - | 670 | (555) |
| Transfer in to/out of Level 3..... | <u>1,642</u> | <u>-</u> | <u>-</u> |
| Balance, March 31, 2011..... | \$ <u>1,642</u> | <u>772</u> | <u>(54)</u> |

Securities available for sale of \$1,642,000 were transferred from a Level 2 measurement to a Level 3 measurement during the year ended March 31, 2011 due to a market value determination based on Level 3 inputs prepared by a third party valuation service. The Level 3 inputs were used because market (Level 2) inputs were unavailable.

The table below summarizes gains and losses due to changes in fair value, including both realized and unrealized gains and losses, recorded in earnings for Level 3 assets for the years ended March 31, 2011 and 2010 (in thousands):

| | <u>Classification of Gains and Losses (Realized/Unrealized) Included in Earnings for the Years Ended</u> | |
|------------------------------|--|--------------------|
| | <u>March 31,</u> | |
| | <u>2011</u> | <u>2010</u> |
| | <u>Net</u> | <u>Net</u> |
| | <u>Derivatives</u> | <u>Derivatives</u> |
| Mortgage-banking income..... | \$ <u>115</u> | <u>596</u> |

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(20) Fair Value Measurements, Continued

Assets and liabilities at March 31, 2011 measured at fair value on a nonrecurring basis are summarized below (in thousands):

| | March 31, 2011 | Quoted Prices In Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total Losses | Losses Recorded in Operations in 2011 |
|--|---------------------------------|---|--|--|-------------------------|--|
| Commercial real estate..... | \$ <u>39,198</u> ⁽¹⁾ | <u>-</u> | <u>-</u> | <u>39,198</u> | <u>3,386</u> | <u>2,462</u> |
| Other loans..... | \$ <u>159</u> | <u>-</u> | <u>-</u> | <u>159</u> | <u>225</u> | <u>225</u> |
| Foreclosed real estate..... | \$ <u>6,393</u> ⁽²⁾ | <u>-</u> | <u>-</u> | <u>6,393</u> | <u>183</u> | <u>109</u> |
| Assumed liabilities- Deposits | \$ <u>106,486</u> | <u>-</u> | <u>-</u> | <u>106,486</u> | <u>-</u> | <u>-</u> |

Assets and liabilities at March 31, 2010 measured at fair value on a nonrecurring basis are summarized below (in thousands):

| | March 31, 2010 | Quoted Prices In Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total Losses | Losses Recorded in Operations in 2010 |
|---|---------------------------------|---|--|--|-------------------------|--|
| Impaired loans..... | \$ <u>45,514</u> ⁽¹⁾ | <u>-</u> | <u>-</u> | <u>45,514</u> | <u>3,864</u> | <u>3,627</u> |
| Foreclosed real estate..... | \$ <u>4,366</u> ⁽²⁾ | <u>-</u> | <u>-</u> | <u>4,366</u> | <u>273</u> | <u>273</u> |
| Acquired assets and assumed liabilities: Covered loans, net of discount..... | \$ <u>44,029</u> ⁽³⁾ | <u>-</u> | <u>-</u> | <u>44,029</u> | <u>-</u> | <u>-</u> |
| Deposits | \$ <u>124,478</u> | <u>-</u> | <u>-</u> | <u>124,478</u> | <u>-</u> | <u>-</u> |
| Federal Home Loan Bank advances..... | \$ <u>6,000</u> | <u>-</u> | <u>-</u> | <u>6,000</u> | <u>-</u> | <u>-</u> |

⁽¹⁾ At March 31, 2011 and 2010, includes impaired loans acquired in the Flagship acquisition of \$21.5 million and \$24.4 million.

⁽²⁾ Includes foreclosed real estate acquired in the Flagship acquisition of (\$2.5 million 2010).

⁽³⁾ Excludes impaired loans acquired in the Flagship acquisition of \$24.4 million.

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(21) Consolidating Financial Statements

Consolidating Balance Sheet

At March 31, 2011

(In thousands)

| | First Federal Bancorp, MHC | First Federal Bancorp, Inc. | First Federal Bank of Florida | First Federal Financial Services, Inc. | Suwannee Valley Service Corporation | Community Tax Stabilization Fund Inc. | Consolidating Entries Debit (Credit) | Consolidated |
|--|---|--|--|---|--|--|---|---------------------|
| Assets | | | | | | | | |
| Cash and due from banks | \$ 10 | 16 | 10,747 | 1 | - | - | (27) ^(a) | 10,747 |
| Interest-bearing deposits | - | - | 92,725 | - | - | - | - | 92,725 |
| Time deposits | - | - | 11,588 | - | - | - | - | 11,588 |
| Securities | - | 2,994 | 283,792 | - | - | - | - | 286,786 |
| Investment in subsidiaries | 100,520 | 97,510 | - | - | - | - | (198,029) ^(b) | - |
| Loans, net | - | - | 399,671 | - | - | - | - | 399,671 |
| Covered loans, net | - | - | 61,713 | - | - | - | - | 61,713 |
| FDIC loss share receivable | - | - | 16,396 | - | - | - | - | 16,396 |
| Accrued interest receivable | - | - | 3,643 | - | - | - | - | 3,643 |
| Premises and equipment, net | - | - | 26,981 | - | - | - | - | 26,981 |
| Federal Home Loan Bank stock, at cost | - | - | 2,841 | - | - | - | - | 2,841 |
| Foreclosed real estate | - | - | 6,393 | - | - | - | - | 6,393 |
| Income tax receivable | - | - | 4,200 | - | - | - | - | 4,200 |
| Cash surrender value of bank-owned life insurance .. | - | - | 20,773 | - | - | - | - | 20,773 |
| Other assets | - | - | 11,419 | - | - | - | (1) ^(b) | 11,418 |
| Total assets | \$ 100,530 | 100,520 | 952,882 | 1 | - | - | (198,057) | 955,875 |
| Liabilities, Capital Stock and Retained Earnings and Accumulated Other Comprehensive Income | | | | | | | | |
| Liabilities: | | | | | | | | |
| Deposits | - | - | 759,110 | - | - | - | 27 ^(a) | 759,083 |
| Federal Home Loan Bank advances | - | - | 17,000 | - | - | - | - | 17,000 |
| Other borrowings | - | - | 64,008 | - | - | - | - | 64,008 |
| Deferred income taxes | - | - | 5,293 | - | - | - | - | 5,293 |
| Income taxes payable | - | - | - | - | - | - | - | - |
| Other liabilities | - | - | 9,961 | - | - | - | - | 9,961 |
| Total liabilities | - | - | 855,372 | - | - | - | - | 855,345 |
| Capital stock | - | - | 1 | - | - | - | 1 ^(b) | - |
| Retained earnings and accumulated other comprehensive income | 100,530 | 100,520 | 97,509 | 1 | - | - | 198,029 ^(b) | 100,530 |
| Total liabilities, capital stock and retained earnings and accumulated other comprehensive income | \$ 100,530 | 100,520 | 952,882 | 1 | - | - | 198,057 | 955,875 |

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

(continued)

FIRST FEDERAL BANCORP, MHC AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(21) Consolidating Financial Statements, Continued

Consolidating Statement of Earnings

At March 31, 2011

(In thousands)

| | <u>First 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 | \$ - | - | 25,233 | - | - | - | - | 25,233 |
| Securities | - | - | 11,303 | - | - | - | - | 11,303 |
| Other | - | - | 297 | - | - | - | - | 297 |
| Total interest income | - | - | <u>36,833</u> | - | - | - | - | <u>36,833</u> |
| Interest expense: | | | | | | | | |
| Deposits | - | - | 6,616 | - | - | - | - | 6,616 |
| Borrowings | - | - | 1,264 | - | - | - | - | 1,264 |
| Total interest expense | - | - | <u>7,880</u> | - | - | - | - | <u>7,880</u> |
| Net interest income | - | - | <u>28,953</u> | - | - | - | - | <u>28,953</u> |
| Provision for loan losses | - | - | <u>3,088</u> | - | - | - | - | <u>3,088</u> |
| Net interest income after provision for loan losses | - | - | <u>25,865</u> | - | - | - | - | <u>25,865</u> |
| Noninterest income: | | | | | | | | |
| Bargain purchase gain on acquisition | - | - | 686 | - | - | - | - | 686 |
| Service charges on deposit accounts | - | - | 4,375 | - | - | - | - | 4,375 |
| Other service charges and fees | - | - | 3,402 | - | - | - | - | 3,402 |
| Gain on sale of loans and securitizations | - | - | 4,684 | - | - | - | - | 4,684 |
| Gain on sale of securities available for sale | - | - | 1,536 | - | - | - | - | 1,536 |
| Other than temporary impairment on securities available for sale | - | - | (1,636) | - | - | - | - | (1,636) |
| Income from bank-owned life insurance | - | - | 595 | - | - | - | - | 595 |
| Debit card interchange income | - | - | 1,750 | - | - | - | - | 1,750 |
| Other | <u>8,337</u> | <u>8,337</u> | <u>751</u> | - | - | - | <u>16,674</u> ^(a) | <u>751</u> |
| Total noninterest income | <u>8,337</u> | <u>8,337</u> | <u>16,143</u> | - | - | - | <u>16,674</u> | <u>16,143</u> |
| Noninterest expenses: | | | | | | | | |
| Salaries and employee benefits | - | - | 17,888 | - | - | - | - | 17,888 |
| Occupancy and equipment | - | - | 3,929 | - | - | - | - | 3,929 |
| Debit card interchange expense | - | - | 734 | - | - | - | - | 734 |
| Printing and office supplies | - | - | 546 | - | - | - | - | 546 |
| Telephone and communications | - | - | 618 | - | - | - | - | 618 |
| Other | - | - | 5,909 | - | - | - | - | 5,909 |
| Total noninterest expenses | - | - | <u>29,624</u> | - | - | - | - | <u>29,624</u> |
| Earnings before income taxes | 8,337 | 8,337 | 12,384 | - | - | - | 16,674 | 12,384 |
| Income tax | - | - | <u>4,047</u> | - | - | - | - | <u>4,047</u> |
| Net earnings | <u>\$ 8,337</u> | <u>8,337</u> | <u>8,337</u> | - | - | - | <u>16,674</u> | <u>8,337</u> |

^(a) Elimination of income of subsidiaries.