FIRST BANCORP OF INDIANA, INC.
AND SUBSIDIARIES
EVANSVILLE, INDIANA

CONSOLIDATED
FINANCIAL STATEMENTS

YEARS ENDED
JUNE 30, 2011 AND 2010

FIRST BANCORP OF INDIANA, INC. AND SUBSIDIARIES

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MONROE SHINE
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Independent Auditor's Report

Board of Directors and Stockholders
First Bancorp of Indiana, Inc. and Subsidiaries
Evansville, Indiana

We have audited the accompanying consolidated balance sheets of **First Bancorp of Indiana, Inc. and Subsidiaries** as of June 30, 2011 and 2010, and the related consolidated statements of income, stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 financial position of **First Bancorp of Indiana, Inc. and Subsidiaries** as of June 30, 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.

Monroe Shine

New Albany, Indiana
September 28, 2011

FIRST BANCORP OF INDIANA, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
JUNE 30, 2011 AND 2010

	2011	2010
ASSETS		
Cash and due from banks	$ 2,165,866	$ 1,499,436
Interest-bearing demand deposits with bank	22,099,903	25,587,187
Reverse repurchase agreements	18,000,000	-
Money market fund	80,388	2,188,578
Total cash and cash equivalents	42,346,157	29,275,201
Interest-bearing time deposits	1,096,080	99,000
Securities available for sale, at fair value	126,647,006	107,137,915
Loans held for sale	466,700	1,027,100
Loans, net	149,551,880	169,694,750
Federal Home Loan Bank stock, at cost	4,305,200	4,564,700
Premises and equipment	8,945,490	9,127,748
Foreclosed real estate	3,162,457	3,423,443
Accrued interest receivable	1,285,121	1,413,883
Cash surrender value of life insurance	7,046,426	6,773,926
Goodwill	6,229,152	6,229,152
Core deposit intangible	494,642	588,860
Other assets	4,544,981	4,397,002
Total Assets	$ 356,121,292	$ 343,752,680
LIABILITIES		
Deposits:		
Noninterest-bearing	$ 14,777,086	$ 10,936,544
Interest-bearing	220,171,812	200,708,724
Total deposits	234,948,898	211,645,268
Repurchase agreement	8,000,000	8,000,000
Advances from Federal Home Loan Bank	70,000,000	82,000,000
Other borrowings	5,155,000	5,155,000
Accrued interest payable	289,414	373,405
Advance payments by borrowers for taxes and insurance	633,916	598,723
Accrued expenses and other liabilities	4,016,743	3,152,760
Total Liabilities	323,043,971	310,925,156
STOCKHOLDERS' EQUITY		
Preferred stock of $0.01 par value per share		
Authorized 1,000,000 shares; none issued	-	-
Common stock of $0.01 par value per share		
Authorized 9,000,000 shares; issued 2,526,505 shares	25,265	25,265
Additional paid-in capital	27,768,076	27,727,506
Retained earnings	18,632,037	18,813,986
Accumulated other comprehensive loss	(1,406,368)	(1,733,856)
Unearned ESOP shares	-	(77,283)
Less treasury stock, at cost - 776,763 shares (775,527 shares in 2010)	(11,941,689)	(11,928,094)
Total Stockholders' Equity	33,077,321	32,827,524
Total Liabilities and Stockholders' Equity	$ 356,121,292	$ 343,752,680

See notes to consolidated financial statements.

FIRST BANCORP OF INDIANA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
INTEREST INCOME		
Loans, including fees	$ 10,478,945	$ 12,541,676
Investment securities	3,749,602	4,662,168
Federal Home Loan Bank dividends	96,391	105,520
Interest-bearing deposits with banks	75,006	49,321
Reverse repurchase agreements	59,524	-
Other	10,813	11,646
Total interest income	14,470,281	17,370,331
INTEREST EXPENSE		
Deposits	2,029,234	3,416,353
Repurchase agreements	361,756	361,756
Advances from Federal Home Loan Bank	3,344,567	3,600,555
Other borrowings	355,953	355,953
Total interest expense	6,091,510	7,734,617
Net interest income	8,378,771	9,635,714
Provision for loan losses	550,000	1,150,000
Net interest income after provision for loan losses	7,828,771	8,485,714
NONINTEREST INCOME		
Service charges on deposit accounts	751,141	840,407
Net realized gain on sale of available for sale securities	36,941	42,308
Gain on trading securities	-	16,024
Other-than-temporary impairment loss on securities	(739,157)	(464,335)
Net gain on sales of mortgage loans	985,232	556,898
Increase in cash surrender value of life insurance	272,500	230,750
ATM transaction and point-of-sale interchange fees	521,667	442,245
Other income	547,007	525,633
Total noninterest income	2,375,331	2,189,930
NONINTEREST EXPENSE		
Compensation and benefits	4,726,304	4,367,901
Occupancy and equipment	1,333,986	1,318,391
Data processing	474,809	504,526
Professional fees	233,951	275,495
Deposit insurance expense	405,234	440,568
Advertising expense	274,175	213,349
Other expenses	1,869,203	2,052,144
Total noninterest expense	9,317,662	9,172,374
Income before income taxes	886,440	1,503,270
Income tax expense (benefit)	(16,989)	112,273
Net Income	$ 903,429	$ 1,390,997

See notes to consolidated financial statements.

FIRST BANCORP OF INDIANA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED JUNE 30, 2011 AND 2010

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Unearned ESOP Shares	Treasury Stock	Total
Balances at July 1, 2009	$ 25,265	$ 27,591,809	$ 18,504,073	$ (4,861,272)	$ (231,935)	$ (12,078,600)	$ 28,949,340
COMPREHENSIVE INCOME							
Net income	-	-	1,390,997	-	-	-	1,390,997
Other comprehensive income:							
Change in unrealized loss on securities available for sale, net of deferred tax of $1,756,433	-	-	-	2,865,759	-	-	2,865,759
Less: Reclassification adjustment for realized gains in earnings, net of deferred tax of $16,077	-	-	-	(26,231)	-	-	(26,231)
Less: Reclassification adjustment for impairment losses, net of deferred tax of $176,447	-	-	-	287,888	-	-	287,888
Total comprehensive income							4,518,413
Dividends on common stock, $0.62 per share	-	-	(1,081,084)	-	-	-	(1,081,084)
Shares released by ESOP trust	-	(17,814)	-	-	154,652	-	136,838
Stock options exercised (11,462 shares)	-	(71,726)	-	-	-	176,317	104,591
Tax benefit of employee benefit plans	-	225,237	-	-	-	-	225,237
Purchase of 2,895 common shares	-	-	-	-	-	(25,811)	(25,811)
Balances at June 30, 2010	25,265	27,727,506	18,813,986	(1,733,856)	(77,283)	(11,928,094)	32,827,524
COMPREHENSIVE INCOME							
Net income	-	-	903,429	-	-	-	903,429
Other comprehensive income:							
Change in unrealized loss on securities available for sale, net of deferred tax of $66,124	-	-	-	(107,886)	-	-	(107,886)
Less: Reclassification adjustment for realized gains in earnings, net of deferred tax of $14,038	-	-	-	(22,903)	-	-	(22,903)
Less: Reclassification adjustment for impairment losses, net of deferred tax of $280,880	-	-	-	458,277	-	-	458,277
Total comprehensive income							1,230,917
Dividends on common stock, $0.62 per share	-	-	(1,085,378)	-	-	-	(1,085,378)
Shares released by ESOP trust	-	(1,762)	-	-	77,283	-	75,521
Tax benefit of employee benefit plans	-	42,332	-	-	-	-	42,332
Purchase of 1,236 common shares	-	-	-	-	-	(13,595)	(13,595)
Balances at June 30, 2011	$ 25,265	$ 27,768,076	$ 18,632,037	$ (1,406,368)	$ -	$ (11,941,689)	$ 33,077,321

See notes to consolidated financial statements.

FIRST BANCORP OF INDIANA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 903,429	$ 1,390,997
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of premium and accretion of discount on securities, net	(95,491)	(151,614)
Net realized gain on sale of available for sale securities	(36,941)	(42,308)
Gain on trading securities	-	(16,024)
Other-than-temporary impairment loss on securities	739,157	464,335
Mortgage loans originated for sale	(32,604,867)	(17,506,645)
Proceeds from sales of mortgage loans	34,150,499	19,615,243
Net gain on sales of mortgage loans	(985,232)	(556,898)
Provision for loan losses	550,000	1,150,000
Depreciation and amortization	641,922	628,322
Deferred income tax	(25,000)	(125,000)
ESOP compensation expense	75,521	136,838
Decrease in accrued interest receivable	128,762	181,181
Decrease in accrued interest payable	(83,991)	(181,448)
Increase in cash surrender value of life insurance	(272,500)	(230,750)
Gain on sale of premises and equipment	(1,743)	(5,567)
Net realized and unrealized (gain) loss on real estate owned	(13,743)	85,214
Net change in other assets and liabilities	582,618	(765,858)
Net Cash Provided By Operating Activities	3,652,400	4,070,018
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in interest bearing time deposits	(997,080)	-
Purchase of securities available for sale	(96,656,168)	(56,383,683)
Maturities and principal repayments on securities available for sale	72,049,661	44,189,413
Proceeds from sales of securities available for sale	5,018,897	3,425,510
Purchases of securities held-to-maturity	-	(3,153,393)
Maturities and principal repayments on securities held-to-maturity	-	913,298
Proceeds from sale of trading securities	-	117,730
Net decrease in loans	19,553,772	29,758,932
Proceeds on redemption of Federal Home Loan Bank stock	259,500	-
Purchase of premises and equipment	(411,118)	(133,672)
Proceeds from sales of premises and equipment	47,415	7,395
Proceeds from sale of foreclosed real estate	359,420	902,202
Capital improvements to foreclosed real estate	(45,593)	(161,539)
Net Cash Provided By (Used In) Investing Activities	(821,294)	19,482,193
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in deposits	23,303,630	(17,102,626)
Repayment of advances from Federal Home Loan Bank	(12,000,000)	(500,000)
Net increase (decrease) in advance payments by borrowers for taxes and insuranc	35,193	(371,678)
Options exercised	-	104,591
Dividends paid	(1,085,378)	(1,081,084)
Purchase of treasury shares	(13,595)	(25,811)
Net Cash Provided By (Used In) Financing Activities	10,239,850	(18,976,608)
Net Increase in Cash and Cash Equivalents	13,070,956	4,575,603
Cash and cash equivalents at beginning of year	29,275,201	24,699,598
Cash and Cash Equivalents at End of Year	$ 42,346,157	$ 29,275,201

See notes to consolidated financial statements.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

First Bancorp of Indiana, Inc. (the Company) is a savings and loan holding company whose principal activity is the ownership and management of its wholly owned subsidiary, First Federal Savings Bank (the Bank). The Bank operates under a federal savings bank charter and provides a variety of banking services to individuals and business customers through nine locations in Southwestern Indiana. The Bank operates some of its branches under Home Building Savings Bank, a division of the Bank. As a federally chartered savings bank, the Bank is subject to regulation by the Office of Thrift Supervision. The Bank has three wholly owned service corporation subsidiaries, FFSL Service Corporation (FFSL), FFSB Financial Corporation (FFSB Financial), and White River Service Corporation (WRSC). FBEI Investments, Inc. (FBEII), a wholly owned subsidiary, manages an investment securities portfolio. In August 2007, the Company completed the placement of fixed/floating rate subordinated debentures through First Bancorp of Indiana Statutory Trust I (Trust), a trust formed by the Company. The consolidated financial statements reflect the subordinated debt issued by the Company to the Trust because the trust is not included in the consolidation.

Principles of Consolidation and Reclassifications

The consolidated financial statements include the accounts of the Company, Bank, FFSL, FBEII, FFSB Financial and WRSC and have been prepared in accordance with generally accepted accounting principles and conform to general practices within the banking industry. All material intercompany balances and transactions have been eliminated in consolidation. Certain prior year amounts have been reclassified to conform to current year presentation.

Statement of Cash Flows

For purposes of the statements of cash flows, the Company has defined cash and cash equivalents as cash and amounts due from banks, interest-bearing demand deposits with other banks and reverse repurchase agreements.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 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 relate to the determination of the allowance for loan losses and the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans. In connection with the determination of the allowance for loan losses and foreclosed real estate, management obtains independent appraisals for significant properties.

A majority of the Bank’s loan portfolio consists of single-family residential and commercial real estate loans in the Bank’s market area. Accordingly, the ultimate collectability of a substantial portion of the Bank’s loan portfolio and the recovery of the carrying amount of foreclosed real estate are susceptible to changes in local market conditions.

(1 - continued)

Use of Estimates – continued

While management uses available information to recognize losses on loans, further reductions in the carrying amounts of loans may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans. Such agencies may require the Bank to recognize additional losses based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the estimated losses on loans may change materially in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

Securities Lending and Financing Arrangements

Securities purchased under agreements to resell (reverse repurchase agreements) and securities sold under agreements to repurchase (repurchase agreements) are treated as collateralized lending and borrowing transactions, respectively, and are carried at the amounts at which the securities were initially acquired or sold.

Securities

Trading Securities: Securities that are held principally for resale in the near term are classified as trading account securities and recorded at fair value. Realized and unrealized gains and losses on trading account securities are included in noninterest income. Interest and dividends are included in interest income.

Securities Available for Sale: Securities available for sale consist of mortgage-backed and other debt securities and are carried at fair value. The Bank and its subsidiary hold mortgage-backed securities issued by the Government National Mortgage Association (GNMA), a U.S. government agency, and the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (FHLMC), government-sponsored enterprises, as well as privately-issued collateralized mortgage obligations and other mortgage-backed securities. Collateralized mortgage obligations are complex mortgage-backed securities that restructure the cash flows and risks of the underlying mortgage collateral. The Bank and its subsidiary also hold debt securities issued by FHLMC and FNMA (herein referred to as agency securities), pooled corporate trust preferred obligations (herein referred to as corporate obligations) and municipal bonds. Amortization of premiums and accretion of discounts are recognized in interest income using methods approximating the interest method over the remaining period to maturity, adjusted for anticipated prepayments. Unrealized gains and losses, net of tax, on securities available for sale are included in other comprehensive income and the accumulated unrealized holding gains and losses are reported as a separate component of equity until realized. Realized gains and losses on the sale of securities available for sale are determined using the specific identification method and are included in other noninterest income and, when applicable, are reported as a reclassification adjustment, net of tax, in other comprehensive income.

Securities Held to Maturity: Debt securities for which the Company has the positive intent and ability to hold to maturity are reported at cost, adjusted for amortization of premium and accretion of discount that are recognized in interest income using methods approximating the interest method over the period to maturity, adjusted for anticipated prepayments.

Declines in the fair value of individual available for sale below their amortized cost that are other than temporary result in write-downs of the individual securities to their fair value. The related write-downs are included in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than amortized cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment for a period of time sufficient to allow for any anticipated recovery in fair value.

(1 - continued)

Loans and Allowance for Loan Losses

The Bank grants real estate mortgage, commercial business and consumer loans to customers. Although the Bank has a diversified loan portfolio, the ability of the Bank's customers to honor their contracts is dependent upon the general economic conditions in its lending area.

Loans are stated at unpaid principal balances, less net deferred loan fees and the allowance for loan losses.

Loan origination and commitment fees, as well as certain direct costs of underwriting and closing loans, are deferred and amortized as a yield adjustment to interest income over the lives of the related loans using the interest method. Amortization of deferred loan fees is discontinued when a loan is placed on nonaccrual status.

The accrual of interest income on a loan is discontinued and previously accrued interest is reversed, when interest or principal payments become ninety (90) days past due unless, in the opinion of management, the outstanding interest remains collectible. Past due status is determined based on contractual terms. Generally, by applying the cash receipts method, interest income is subsequently recognized only as received until the loan is returned to accrual status. The cash receipts method is used when the likelihood of further loss on the loan is remote. Otherwise, the Bank applies the cost recovery method and applies all payments as a reduction of the unpaid principal balance until the loan qualifies for return to accrual status. A loan is restored to accrual status when all principal and interest payments are brought current and the borrower has demonstrated the ability to make future payments of principal and interest as scheduled. The Bank's practice is to charge off any loan or portion of a loan when the loan is determined by management to be uncollectible due to the borrower's failure to meet repayment terms, the borrower's deteriorating or deteriorated financial condition, the depreciation of the underlying collateral, the loan's classification as a loss by regulatory examiners, or for other reasons.

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 doubtful, substandard, or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors.

(1 - continued)

Loans and Allowance for Loan Losses – continued

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. 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 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 Bank does not separately identify individual consumer and residential mortgage loans for impairment disclosures.

Foreclosed Real Estate

Foreclosed real estate includes both formally foreclosed property and in-substance foreclosed property held for sale. In-substance foreclosed properties are those properties for which the institution has taken physical possession, regardless of whether formal foreclosure proceedings have taken place.

At the time of foreclosure, foreclosed real estate is recorded at the lower of fair value less estimated costs to sell or cost, which becomes the property's new basis. Any write-downs based on the property's fair value at date of acquisition are charged to the allowance for loan losses. After foreclosure, valuations are periodically performed by management and property held for sale is carried at the lower of the new cost basis or fair value less cost to sell. Costs incurred in maintaining foreclosed real estate and subsequent impairment adjustments to the carrying amount of a property, if any, are included in other noninterest expense.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation. The Bank uses the straight line method of computing depreciation at rates adequate to amortize the cost of the applicable assets over their estimated useful lives. Maintenance and repairs are expensed as incurred. The cost and related accumulated depreciation of assets sold, or otherwise disposed of, are removed from the related accounts and any gain or loss is included in earnings.

(1 - continued)

Goodwill and Other Intangibles

Goodwill recognized in a business combination represents the excess of the cost of the acquired entity over the net of the amounts assigned to assets acquired and liabilities assumed. Goodwill is carried at its implied fair value and is evaluated for possible impairment at least annually or more frequently upon the occurrence of an event or change in circumstances that would more likely than not reduce the fair value of the reporting unit below its carrying amount. Such circumstances could include, but are not limited to: (1) a significant adverse change in legal factors or in business climate, (2) unanticipated competition, or (3) an adverse action or assessment by a regulator. If the carrying amount of the goodwill exceeds its implied fair value, an impairment loss is recognized in earnings equal to that excess amount. The loss recognized cannot exceed the carrying amount of goodwill. After a goodwill impairment loss is recognized, the adjusted carrying amount of goodwill is its new accounting basis.

Other intangible assets consist of acquired core deposit intangibles. Core deposit intangibles are amortized over the estimated economic lives of the acquired core deposits. The carrying amount of core deposit intangibles and the remaining estimated economic life are evaluated annually or whenever events or circumstances indicate the carrying amount may not be recoverable or the remaining period of amortization requires revision. After an impairment loss is recognized, the adjusted carrying amount of the intangible asset is its new accounting basis.

Mortgage Banking Activities

Mortgage loans originated and intended for sale are carried at the lower of aggregate cost or market value. Aggregate market value is determined based on the quoted prices under a “best efforts” sales agreement with a third party. Net unrealized losses are recognized through a valuation allowance by charges to income. Realized gains on sales of mortgage loans are included in noninterest income. Mortgage servicing rights on originated loans that have been sold are initially recorded at fair value. Capitalized servicing rights are amortized in proportion to and over the period of estimated servicing revenues. Impairment of mortgage servicing rights is assessed based on the fair value estimated using discounted cash flows based on a current market interest rate. For purposes of measuring impairment, the rights are stratified based on the interest rates of the underlying loans which represents the predominate risk characteristic. The amount of impairment recognized is the amount by which the capitalized servicing rights for a stratum exceeds the fair value.

Commitments to originate mortgage loans held for sale are considered derivative financial instruments to be accounted for at fair value. The Bank’s mortgage loan commitments subject to derivative accounting are fixed-rate mortgage loan commitments at market rates when initiated. At June 30, 2011, the Bank had commitments to originate $567,000 of fixed-rate mortgage loans intended for sale in the secondary market after the loans are closed. Fair value is estimated based on fees that would be charged on commitments with similar terms.

Stock-Based Compensation

The Company has adopted the fair value based method of accounting for stock-based compensation prescribed in statement of Financial Accounting Standards (SFAS) 123R, *Share-Based Payment, (*Accounting Standards Codification (ASC) Topic 718) for its stock plans.

Advertising Costs

Advertising costs are charged to expense when incurred.

(1 - continued)

Cash Surrender Value of Life Insurance

The Bank has purchased life insurance policies on certain directors, officers and key employees to help offset costs associated with the Bank's compensation and benefit programs. Bank-owned life insurance is recorded at the amount that can be realized under the insurance contracts at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Income Taxes

When income tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while other positions are subject to some degree of uncertainty regarding the merits of the position taken or the amount of the position that would be sustained. The Bank recognizes the benefits of a tax position in the financial statements of the period during which, based on all available evidence, management believes it is more-likely-than-not (more than 50 percent probable) that the tax position would be sustained upon examination. Income tax positions that meet the more-likely-than-not threshold are measured as the largest amount of income tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with the income tax positions claimed on income tax returns that exceeds the amount measured as described above is reflected as a liability for unrecognized income tax benefits in the balance sheet, along with any associated interest and penalties that would be payable to the taxing authorities, if there were an examination. Interest and penalties associated with unrecognized income tax benefits are classified as additional income taxes in the consolidated statements of income.

Income taxes are provided for the tax effects of the transactions reported in the financial statements and consist of taxes currently due plus deferred income taxes. Income tax reporting and financial statement reporting rules differ in many respects. As a result, there will often be a difference between the carrying amount of an asset or liability as presented in the accompanying balance sheets and the amount that would be recognized as the tax basis of the same asset or liability computed based on the effects of tax positions recognized, as described in the preceding paragraph. These differences are referred to as temporary differences because they are expected to reverse in future years. Deferred income tax assets are recognized for temporary differences where their future reversal will result in future tax benefits. Deferred income tax assets are also recognized for the future tax benefits expected to be realized from net operating loss or tax credit carry forwards. Deferred income tax liabilities are recognized for temporary differences where their future reversal will result in the payment of future income taxes. Deferred income tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred income tax assets will not be realized. Deferred tax assets and liabilities are reflected at income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

(1 - continued)

Recent Accounting Pronouncements

The following are summaries of recently issued accounting pronouncements that impact the accounting and reporting practices of the Company:

In June 2009, the FASB issued two standards which change the way entities account for securitizations and special-purpose entities: SFAS No. 166, *Accounting for Transfers of Financial Assets* (ASC Topic 860) and SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)* (ASC Topic 810). SFAS No. 166 is a revision to SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, and requires more information about transfers of financial assets, including securitization transactions, and where entities have continuing exposure to the risks related to transferred financial assets. This statement eliminates the concept of a "qualifying special-purpose entity," changes the requirements for derecognizing financial assets, and requires additional disclosures. SFAS No. 167 is a revision to FASB Interpretation No. 46 (Revised December 2003), *Consolidation of Variable Interest Entities*, and changes how a reporting entity determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a reporting entity is required to consolidate another entity is based on, among other things, the other entity's purpose and design and the reporting entity's ability to direct the activities of the other entity that most significantly impact the other entity's economic performance. These new standards require a number of new disclosures. SFAS No. 167 requires a reporting entity to provide additional disclosures about its involvement with variable interest entities and any significant changes in risk exposure due to that involvement. A reporting entity will be required to disclose how its involvement with a variable interest entity affects the reporting entity's financial statements. SFAS No. 166 enhances information reported to users of financial statements by providing greater transparency about transfers of financial assets and an entity's continuing involvement in transferred financial assets. These statements will be effective at the beginning of a reporting entity's first fiscal year beginning after November 15, 2009. Early application is not permitted. The adoption of these statements did not have a material effect on the Company's consolidated financial position or results of operations.

In January 2010, the FASB issued ASU No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820) – Improving Disclosures about Fair Value Measurements*. This ASU provides amendments to ASC Topic 820 to provide users of financial statements with additional information regarding fair value. New disclosures required by the ASU include: (a) disclosure of significant transfers between Level 1 and Level 2 and the reasons for such transfers, (b) disclosure of the reasons for transfers in or out of Level 3 and the reconciliation of the changes in Level 3 fair value measurements should present separately information about purchases, sales, and settlements on a gross basis rather than as a net amount, (c) significant transfers into Level 3 be disclosed separately from significant transfers out of Level 3, (d) disclosure of the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements for Level 2 and Level 3 and the reason for any changes in valuation methods. This ASU will generally be effective for interim and annual periods beginning after December 15, 2009. However, disclosures of purchases, sales, issuances, and settlements in the roll forward activity in Level 3 fair value measurements will be effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of this ASU did not have a material effect on the Company's consolidated financial position or results of operations.

(1 - continued)

Recent Accounting Pronouncements – continued

In April 2010, the FASB issued ASU No. 2010-18, *Effect of a Loan Modification When the Loan Is Part of a Pool That Is Accounted for as a Single Asset* (Topic 310). Under the amendments, modifications of loans that are accounted for within pools under Subtopic 310-30 do not result in the removal of those loans from the pool even if the modification of those loans would otherwise be considered a troubled debt restructuring. An entity will continue to be required to consider whether the pool of assets in which the loan is included is impaired if expected cash flows for the pool change. However, loans within the scope of Subtopic 310-30 that are accounted for individually will continue to be subject to the troubled debt restructuring accounting provisions. The ASU is effective for modifications of loans accounted for within pools under Subtopic 310-30 occurring in the first interim or annual period ending after July 15, 2010. The adoption of this ASU did not have a material impact on the Company's consolidated financial position or results of operations.

In July 2010, the FASB issued ASU No. 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*. The guidance requires additional disclosure to facilitate financial statement users' evaluation of the following: (1) the nature of credit risk inherent in the entity's loan portfolio, (2) how that risk is analyzed and assessed in arriving at the allowance for loan losses, and (3) the changes and reasons for those changes in the allowance for loan losses. For nonpublic entities, the increased disclosures are effective for annual periods ending on or after December 15, 2011. The adoption of this ASU is not expected to have a material impact on the Company's consolidated financial position or results of operations.

In April 2011, the FASB issued ASU No. 2011-02, *A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring*. The new guidance is intended to assist creditors in determining when a loan modification or restructuring is considered a TDR, in order to address current diversity in practice and lead to more consistent application of accounting principles. In evaluating whether a restructuring constitutes a TDR, a creditor must separately conclude that the restructuring constitutes a concession and the debtor is experiencing financial difficulties. The amendments in the update are effective for the first interim period beginning on or after June 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption. The adoption of this ASU is not expected to have a material impact on the Company's consolidated financial position or results of operations.

In April 2011, the FASB issued ASU No. 2011-03, *Reconsideration of Effective Control for Repurchase Agreements*. The update removes from the assessment of effective control (1) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and (2) the collateral maintenance implementation guidance related to that criterion. Other criteria applicable to the assessment of effective control are not changed by the amendments in the update. The guidance in the update is effective for the first interim or annual period beginning on or after December 15, 2011, and should be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. Early adoption is not permitted. The adoption of this ASU is not expected to have a material impact on the Company's consolidated financial position or results of operations.

(1 - continued)

Recent Accounting Pronouncements – continued

In May 2011, the FASB issued ASU No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements by U.S. GAAP and IFRSs*. The amendments in this ASU generally represent clarifications of FASB ASC Topic 820, but also include some instances where a particular principle or requirement for measuring fair value or disclosing information about fair value measurements has changed. This ASU results in common principles and requirements for measuring fair value and for disclosing information about fair value measurements in accordance with U.S. GAAP and IFRSs. The amendments in this ASU are to be applied prospectively. For nonpublic entities, the amendments are effective for annual periods beginning after December 15, 2011. The adoption of this ASU is not expected to have a material impact on the Company's consolidated financial position or results of operations.

In June 2011, the FASB issued ASU No. 2011-05, *Amendments to Topic 220, Comprehensive Income*. Under the amendments in this ASU, an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. This ASU eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. The amendments in this ASU do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The amendments in this ASU should be applied retrospectively. For nonpublic entities, the amendments are effective for fiscal years ending after December 15, 2012, and interim and annual periods thereafter. Early adoption is permitted because compliance with the amendments is already permitted. The amendments do not require any transition disclosures. The adoption of this ASU is not expected to have any impact on the Company's consolidated financial position or results of operations.

In September 2011, the FASB issued ASU No. 2011-08, *Intangibles – Goodwill and Other (Topic 350) Testing Goodwill for Impairment*. Under the amendments in this ASU, an entity has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of the reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. However, if an entity concludes otherwise, then it is required to perform the first step of the two-step impairment test by calculating the fair value of the reporting unit and comparing the fair value with the carrying amount of the reporting unit, as described in Topic 350. If the carrying amount of a reporting unit exceeds its fair value, then the entity is required to perform the second step of the goodwill impairment test to measure the amount of the impairment loss, if any. Under the amendments in this ASU, an entity has the option to bypass the qualitative assessment for any reporting unit in any period and proceed directly to performing the first step of the two-step goodwill impairment test. An entity may resume performing the qualitative assessment in any subsequent period. The amendments in this ASU are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted. The adoption of this ASU is not expected to have a material impact on the Company's consolidated financial position or results of operations.

(2) RESTRICTION ON CASH AND DUE FROM BANKS

The Bank is required to maintain reserve balances on hand and with the Federal Reserve Bank. The amount of those Federal Reserve Bank reserve balances at June 30, 2011 was $6,780,000.

(3) INVESTMENT SECURITIES

Investment securities have been classified in the balance sheet according to management's intent. The investment in debt securities as of June 30, 2011 and 2010 is summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2011:				
Securities available for sale:				
Mortgage-backed securities	$ 42,949	$ 901	$ 1,331	$ 42,519
Agency securities	60,481	42	395	60,128
Corporate obligations	3,891	-	3,737	154
Municipal bonds	22,805	1,087	46	23,846
Total securities available for sale	$130,126	$ 2,030	$ 5,509	$126,647
June 30, 2010:				
Securities available for sale:				
Mortgage-backed securities	$ 32,216	$ 959	$ 1,799	$ 31,376
Agency securities	54,170	345	-	54,515
Corporate obligations	3,887	-	3,570	317
Municipal bonds	20,131	892	93	20,930
Total securities available for sale	$110,404	$2,196	$ 5,462	$107,138

The amortized cost and fair value of debt securities as of June 30, 2011, by contractual maturity, are shown below. Expected maturities of mortgage asset-backed securities may differ from contractual maturities because the residential mortgage loans underlying the obligations may be prepaid without penalty.

	Securities Available for Sale	
	Amortized Cost	Fair Value
Due in one year or less	$ 65	$ 65
Due after one year through five years	140	139
Due after five years through ten years	27,483	28,351
Due after ten years	59,489	55,573
	87,177	84,128
Mortgage-backed securities	42,949	42,519
	$ 130,126	$ 126,647

(3 - continued)

Certain available for sale securities were pledged to secure repurchase agreements and Federal Home Loan Bank advances at June 30, 2011. (See Notes 10 and 11)

During the year ended June 30, 2010, debt securities with an amortized cost of $25,973,000 were transferred from held to maturity to the available for sale classification due to a change in management's intent because of income tax planning considerations. A gross unrealized gain of $582,000 was recognized in accumulated other comprehensive income upon transfer of the securities to the available for sale classification.

The following table presents the fair values and gross unrealized losses for temporarily impaired available for sale securities as of June 30, 2011 aggregated by investment category and the length of time that individual securities have been in a continuous unrealized loss position.

	Number of Investment Positions	Fair Value	Gross Unrealized Losses
Continuous loss position less than twelve months:			
Mortgage-backed securities	11	$ 3,922	$ 30
Agency securities	24	36,954	395
Municipal bonds	4	2,528	46
Total less than twelve months	39	43,404	471
Continuous loss position more than twelve months:			
Mortgage-backed securities	21	6,345	1,301
Corporate obligations	5	154	3,737
Total more than twelve months	26	6,499	5,038
Total available for sale	65	$ 49,903	$ 5,509

(3 - continued)

Management evaluates securities for other-than-temporary impairment at least quarterly, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

The unrealized losses on municipal bonds related principally to current interest rates for similar types of securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government, its agencies or other governments, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. As the Company has the ability to hold the investments until maturity, or for the foreseeable future if classified as available for sale, no declines are deemed to be other-than-temporary.

During the years ended June 30, 2011 and 2010, the Company recognized aggregate other-than-temporary impairment write-down charges to earnings of $609,000 and $450,000, respectively, on corporate obligations relating to pooled trust securities. The credit losses on the securities were calculated by comparing expected discounted cash flows based on performance indicators of underlying assets in the security to the carrying value of the investment. Because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investment before recovery of the adjusted amortized cost basis, management does not consider the remaining investment these securities to be other-than-temporarily impaired at June 30, 2011.

The unrealized loss positions in mortgage-backed securities as of June 30, 2011 relate primarily to privately-issued CMO securities. During the years ended June 30, 2011 and 2010, the Company recognized aggregate other-than-temporary impairment write-down charges to earnings of $130,000 and $14,000, respectively, on privately-issued CMO securities. The aggregate credit losses were calculated by comparing the expected discounted cash flows for the privately-issued CMO securities in the portfolio to the carrying value of the each security. Because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investment before recovery of the adjusted amortized cost basis, management does not consider the remaining investment these securities to be other-than-temporarily impaired at June 30, 2011.

In the event securities demonstrate additional deterioration through an increase in defaults or loss severity that indicate the Company will not recover its expected cash flows or if the duration of relatively significant unrealized losses in these securities does not reverse, the Company will incur additional other-than-temporary impairments, which may result in material charges to earnings in future periods.

(4) LOANS

Loans at June 30, 2011 and 2010 consisted of the following:

	2011	2010
Mortgage loans:		
One-to-four family	$ 52,680	$ 69,714
Construction	1,374	527
Commercial and multi-family	34,167	28,431
Commercial business loans	20,153	18,426
Consumer loans	35,507	46,508
Consumer lines of credit	8,170	7,975
Loans to depositors secured by savings	75	176
Gross loans	152,126	171,757
Net deferred loan fees and costs	96	49
Undisbursed portion of construction loans	(692)	(179)
Allowance for loan losses	(1,978)	(1,932)
Loans, net	$ 149,552	$ 169,695

An analysis of the allowance for loan losses is as follows:

	2011	2010
Beginning balances	$ 1,932	$ 1,734
Provision for loan losses	550	1,150
Recoveries	227	233
Loans charged-off	(731)	(1,185)
Ending balances	$ 1,978	$ 1,932

At June 30, 2011 and 2010, the total recorded investment in loans on nonaccrual status amounted to approximately $2,222,000 and $2,160,000, respectively. At June 30, 2011 and 2010, the Bank had loans past due ninety days or more and still accruing interest of approximately $968,000 and $40,000, respectively. Information about impaired loans and the related allowance for loan losses is presented below.

	2011	2010
At end of year:		
Impaired loans with related allowance	$ 540	$ 230
Impaired loans with no allowance	1,540	1,643
Total impaired loans	$ 2,080	$ 1,873
Allowance related to impaired loans	$ 166	$ 118
Average balance of impaired loans during the year	1,929	1,815
Interest income recognized in the statements of income during the periods of impairment	117	-
Interest income received during the periods of impairment – cash receipts method	117	-

(4 - continued)

The Bank has entered into loan transactions with certain directors, officers and their affiliates (related parties). In the opinion of management, such indebtedness was incurred in the ordinary course of business on substantially the same terms as those prevailing at the time for comparable transactions with other persons and does not involve more than normal risk of collectability or present other unfavorable features.

The following table represents the aggregate activity for related party loans during the year ended June 30, 2011:

Beginning balance	$ 1,902
New loans and advances	334
Payments	(559)
Ending balance	$ 1,677

(5) PREMISES AND EQUIPMENT

Premises and equipment as of June 30, 2011 and 2010 are summarized as follows:

	2011	2010
Land	$ 2,108	$ 2,108
Buildings	8,346	8,107
Furniture and equipment	2,376	2,303
	12,830	12,518
Less accumulated depreciation	3,885	3,390
Totals	$ 8,945	$ 9,128

Depreciation expense was $548,000 and $534,000 for the years ended June 30, 2011 and 2010, respectively.

(6) FORECLOSED REAL ESTATE

At June 30, 2011 and 2010, the Company had foreclosed real estate held for sale of $3,162,000 and $3,423,000, respectively. During the years ended June 30, 2011 and 2010, foreclosure losses in the amount of $252,000 and $319,000, respectively, were charged-off to the allowance for loan losses. Losses on subsequent write downs of foreclosed real estate amounted to $11,000 and $55,000 in the fiscal years 2011 and 2010, respectively. Net realized gain (loss) from the sale of foreclosed real estate amounted to $24,000 and $(30,000) for the years ended June 30, 2011 and 2010, respectively. Real estate taxes and other expenses of holding foreclosed real estate amounted to $182,000 and $285,000 for the years ended June 30, 2011 and 2010, respectively. These expenses are reported in noninterest expense. Income from foreclosed real estate amounted to $286,000 and $274,000, for the years ended June 30, 2011 and 2010, respectively, and is reported in other noninterest income. At June 30, 2011 and 2010, deferred gains on the sale of foreclosed real estate financed by the Company amounted to $39,000 and $73,000, respectively.

(7) GOODWILL AND CORE DEPOSIT INTANGIBLE

The changes in the carrying amount of goodwill for the years ended June 30, 2011 and 2010 are summarized as follows:

	2011	2010
Balance, beginning of year	$ 6,229	$ 6,229
Changes in goodwill	-	-
Balance, end of year	$ 6,229	$ 6,229

The carrying basis and accumulated amortization of the core deposit intangible at June 30, 2011 and 2010 are summarized as follows:

	2011	2010
Gross carrying amount	$ 1,474	$ 1,474
Accumulated amortization	(979)	(885)
Net balance	$ 495	$ 589

Amortization expense for the years ended June 30, 2011 and 2010 was $94,000. Estimated amortization expense for each of the following five years is as follows:

Year ending June 30:

2012	$ 94
2013	94
2014	94
2015	94
2016	94
2017 and thereafter	25
Total	$ 495

(8) LOAN SERVICING

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balance of mortgage loans serviced for others was $88,897,000 and $72,915,000 at June 30, 2011 and 2010, respectively. Contractually specified servicing fees, late fees and "ancillary fees" of approximately $204,000 and $173,000 are included in loan servicing fees in the consolidated statements of income at June 30, 2011 and 2010, respectively.

Custodial escrow balances maintained in connection with the foregoing loan servicing and included in demand deposits, were approximately $418,000 and $383,000 at June 30, 2011 and 2010, respectively.

(8 - continued)

The aggregate fair value of capitalized mortgage-servicing rights at June 30, 2011 and 2010, approximated carrying value. A valuation model that calculates the present value of future cash flows was used to estimate fair value. For purposes of measuring impairment, risk characteristics including product type, investor type and interest rates were used to stratify the originated mortgage servicing rights. An analysis of mortgage servicing rights for the years ended June 30, 2011 and 2010 is as follows:

	2011	2010
Mortgage servicing rights		
Balance, beginning of year	$ 697	$ 613
Servicing rights capitalized	463	254
Amortization of servicing rights	(263)	(170)
Balance, end of year	$ 897	$ 697

(9) DEPOSITS

The aggregate amount of time deposit accounts of $100,000 or more amounted to approximately $15,805,000 and $61,813,000 at June 30, 2011 and 2010, respectively.

At June 30, 2011, scheduled maturities of time deposits were as follows:

Year ending June 30:	
2012	$ 37,188
2013	13,148
2014	2,775
2015	1,760
2016	970
2017 and thereafter	776
Total	$ 56,617

The Bank held deposits of approximately $2.1 million and $1.8 million for related parties at June 30, 2011 and 2010, respectively.

(10) REPURCHASE AGREEMENT

At June 30, 2011 and 2010, the Company had a structured repurchase agreement for $8,000,000 with an interest rate of 4.46% and a maturity date of July 17, 2017. The maximum amount outstanding at any given month end during 2011 and 2010 was $8,000,000 and the monthly average of such agreements totaled $8,000,000 during 2011 and 2010. The repurchase agreement is secured by U.S. agency securities and the collateral is held by a third-party safekeeping agent. As of June 30, 2011, debt securities underlying the agreement had a fair value of $10,096,000.

(11) ADVANCES FROM FEDERAL HOME LOAN BANK

At June 30, 2011 and 2010, advances from the Federal Home Loan Bank (FHLB) were as follows:

	2011		2010	
(Dollars in thousands)	Weighted Average Rate	Amount	Weighted Average Rate	Amount
Fixed rate putable advances	4.13%	$ 70,000	4.31%	$ 82,000

The following is a schedule of maturities for advances outstanding as of June 30, 2011:

(In thousands)	
Due in:	
2012	$ 10,000
2013	-
2014	-
2015	-
2016 and thereafter	60,000
Total	$ 70,000

The advances are secured under a blanket collateral agreement. At June 30, 2011, the carrying value of qualifying residential mortgage loans and investment securities pledged as security for the advances was $44,084,000 and $78,988,000, respectively.

The Company also has a $2,000,000 line of credit with the FHLB. There were no borrowings under this line of credit at June 30, 2011 and 2010. The line of credit matures in October 2011.

(12) OTHER BORROWINGS

Other borrowings outstanding as of June 30, 2011 and 2010 totaled $5,155,000 and consisted of junior subordinated debentures that were issued to the Trust on August 1, 2007. The Trust is wholly owned by the Company. The debentures mature in September 2037 and bear a fixed interest rate of 6.905% for the first five years and 141 basis points over the three-month London Interbank Offered Rate (LIBOR) for the remaining term. Interest is payable on a quarterly basis.

(13) INCOME TAXES

The components of income tax expense were as follows:

	2011	2010
Current	$ 8	$ 237
Deferred	(25)	(125)
Totals	$ (17)	$ 112

The reconciliation of income tax expense with the amount that would have been provided at the federal statutory rate of 34 percent follows:

	2011	2010
Provision at federal statutory rate	$ 301	$ 511
State income tax-net of federal tax benefit	41	11
Cash surrender value of life insurance	(93)	(78)
Tax exempt interest	(244)	(285)
Other	(22)	(47)
Total income tax expense	$ (17)	$ 112

Significant components of the Bank's net deferred tax asset as of June 30, 2011 and 2010 were as follows:

	2011	2010
Deferred tax assets (liabilities):		
Allowance for loan losses	$ 738	$ 720
Deferred gain on sale of foreclosed real estate	14	-
Deferred compensation and directors' fees	161	188
Unrealized loss on available for sale securities	862	1,063
Accrued vacation	77	70
Acquisition adjustments	26	31
State net operating loss carryforward	43	41
Other-than-temporary impairment loss on securities available for sale	449	173
Alternative minimum tax credit carryover	246	207
ESOP	-	187
Other	131	121
Subtotal – deferred tax assets	2,747	2,801
Depreciation	(280)	(256)
Federal Home Loan Bank stock dividends	(160)	(159)
Mortgage servicing rights	(335)	(260)
Core deposit intangible	(126)	(148)
Goodwill	(455)	(406)
Prepaid assets	(113)	(118)
Subtotal – deferred tax liabilities	(1,469)	(1,347)
Net deferred tax asset	$ 1,278	$ 1,454

(13 - continued)

The Company has Indiana net operating loss carryovers of $499,000 available to reduce Indiana taxable income in subsequent years. The net operating loss carryovers expires for the years ending June 30, 2029 through June 30, 2030.

At June 30, 2011 and 2010, the Company had no liability for unrecognized income tax benefits and does not anticipate any increase in the liability for unrecognized tax benefits during the next twelve months. The Company believes that its income tax positions would be sustained upon examination and does not anticipate any adjustments that would result in a material change to its financial position or results of operations. The Company files consolidated U.S. federal income tax returns and Indiana state income tax returns on a consolidated basis with its subsidiaries. Returns filed in these jurisdictions for tax years ended on or after June 30, 2008 are subject to examination by the relevant taxing authorities.

Retained earnings at June 30, 2011 and 2010 include approximately $4.1 million of cumulative deductions for which no deferred federal income tax liability has been recorded. This amount represents an allocation of income to bad debt deductions for tax purposes only. Reduction of these reserves for purposes other than tax bad debt losses or adjustments arising from carryback of net operating losses would create income for tax purposes subject to the then current corporate income tax rate. The unrecorded deferred liability on these amounts was approximately $1.4 million at June 30, 2011 and 2010.

(14) EMPLOYEE BENEFIT PLANS

Defined Contribution Plan

The Bank has a qualified defined contribution plan available to all eligible employees. The plan allows participating employees to make tax-deferred or after-tax ROTH contributions under Internal Revenue Code Section 401(k). The Bank made no matching contributions for the years ended June 30, 2011 and 2010.

Supplemental Retirement Plans

The Bank also has supplemental retirement plan arrangements for the benefit of certain officers. These arrangements are funded by life insurance contracts which have been purchased by the Bank. The Bank’s expense for the plan was $186,000 and $174,000 for the years ended June 30, 2011 and 2010, respectively. The Bank also has established deferred compensation arrangements with certain directors whereby, in lieu of currently receiving fees, the directors or their beneficiaries will be paid benefits for an established period following the director’s retirement or death. These arrangements are also funded by life insurance contracts which have been purchased by the Bank. The Bank’s expense for the plan was $40,000 and $41,000 for the years ended June 30, 2011 and 2010, respectively.

Employee Stock Ownership Plan

In 1999, the Bank established an employee stock ownership plan (ESOP) for the benefit of substantially all of its employees. At June 30, 1999, the ESOP trust borrowed $874,000 from the Company and used those funds to acquire 87,400 shares of the Company's common stock at $10 per share. During 2000, the ESOP trust borrowed an additional $980,000 from the Company and used those funds to acquire 94,392 shares of the Company's common stock at an average price of $10.39 per share.

(14 - continued)

Prior to January 1, 2011 the Bank made annual contributions to the ESOP trust equal to the debt service less dividends received by the ESOP trust. All dividends received by the ESOP trust were used for debt service. The shares held by the ESOP trust were pledged as collateral for its debt. As the debt was repaid, shares were released from collateral and allocated to participants, based on the proportion of debt service paid in the year to total expected debt service. The Bank accounts for the ESOP in accordance with ASC 718-40, *Employee Stock Ownership Plans*. Accordingly, the shares pledged as collateral are reported as unearned ESOP shares in the consolidated balance sheets. As shares are committed to be released from collateral, compensation expense is recognized equal to the current fair value of the shares. Dividends on allocated ESOP shares are recorded as a reduction of retained earnings; dividends on unallocated ESOP shares are recorded as a reduction of debt and accrued interest.

For the year ended June 30, 2010, 15,150 common shares with an average fair value of $9.03, were released or committed to be released, resulting in ESOP compensation expense of $137,000. At December 31, 2010, the ESOP loan from the Company was repaid in full. For the six month period ended December 31, 2010, 7,570 common shares with an average fair value of $9.98, were released or committed to be released, resulting in ESOP compensation expense of $76,000. Following the repayment of the Company loan and allocation to plan participants of all of the original common shares acquired by the ESOP trust as of December 31, 2010, the board of directors approved additional contributions to the ESOP trust of $15,000 per month resulting in additional ESOP compensation expense of $90,000 for the six month period ended June 30, 2011. The additional ESOP contributions are used to acquire Company shares from terminated participants or in the open market, and are allocated to plan participants on December 31 each year. The ESOP acquired 8,723 common shares from terminated participants or in the open market during the year ended June 30, 2011. These shares will be allocated to ESOP participants on December 31, 2011.

Shares held by the ESOP at June 30, 2011 and 2010 were as follows:

	2011	2010
Allocated shares	141,087	130,118
Shares committed to be released	-	811
Unallocated shares	8,723	15,117
Total ESOP shares	149,810	146,046
Fair value of unallocated shares and at June 30	$ 92,000	$ 155,000

(15) STOCK-BASED COMPENSATION PLANS

Stock Option Plan

The Company has a shareholder-approved stock option plan under which 327,240 shares were reserved for future issuance by the Company to directors and employees of the Company and the Bank. The plan has a term of 10 years, after which no awards may be made, unless earlier terminated by the board of directors. During 2011 and 2010, no options were granted.

Under the Company's stock option plan, the Company grants selected executives and other key employees stock option awards which vest according to a schedule fixed by a committee made up of two or more "disinterested" directors of the Company. The options become fully exercisable upon vesting. The Company generally issues shares from treasury stock to satisfy exercises of stock options.

The following is a summary of the status of the Company's stock option plan and changes in that plan as of and for the year ended June 30, 2011.

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at beginning of year	47,086	$ 16.54		
Granted	-	-		
Exercised	-	-		
Forfeited or expired	-	-		
Outstanding at end of year	47,086	$ 16.54	1.9	$ -
Exercisable at end of year	47,086	$ 16.54	1.9	$ -

The total intrinsic value of options exercised during the year ended June 30, 2010 was $13,000. There were no options exercised during the year ended June 30, 2011.

(16) COMMITMENTS AND CONTINGENT LIABILITIES

In the normal course of business, there are outstanding various commitments and contingent liabilities, such as commitments to extend credit and outstanding standby letters of credit which are not reflected in the financial statements.

Commitments under outstanding standby letters of credit totaled $1,172,000 and $1,128,000 at June 30, 2011 and 2010, respectively.

The following is a summary of commitments to extend credit at June 30, 2011 and 2010:

	2011	2010
Loan commitments:		
Fixed rate	$ 2,352	$ 2,652
Adjustable rate	950	10
Residential and commercial loans in process	694	181
Undisbursed commercial and personal lines of credit	17,032	17,807
Total commitments to extend credit	$ 21,028	$ 20,650

(17) FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

The Bank 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 include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the balance sheet.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit and standby letters of credit is represented by the contractual notional amount of those instruments (see Note 16). The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet 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 many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount and type of collateral obtained, if deemed necessary by the Bank upon extension of credit, varies and is based on management's credit evaluation of the counterparty.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Standby letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank's policy for obtaining collateral, and the nature of such collateral, is essentially the same as that involved in making commitments to extend credit.

The Bank has not been required to perform on any financial guarantees and has incurred no losses on its commitments in 2011 or 2010.

(18) DIVIDEND RESTRICTIONS

As an Indiana corporation, the Company is subject to Indiana law with respect to the payment of dividends. Under Indiana law, the Company may pay dividends so long as it is able to pay its debts as they become due in the usual course of business and its assets exceed the sum of its total liabilities, plus the amount that would be needed, if the Company were to be dissolved at the time of the dividend, to satisfy any rights that are preferential to the rights of the persons receiving the dividend. The ability of the Company to pay dividends depends primarily on the ability of the Bank to pay dividends to the Company.

The payment of dividends by the Bank is subject to regulation by the Office of Thrift Supervision (OTS). The Bank may not declare or pay a cash dividend or repurchase any of its capital stock if the effect thereof would cause the regulatory capital of the Bank to be reduced below regulatory capital requirements imposed by the OTS or below the amount of the liquidation account established upon completion of the conversion.

(19) REGULATORY MATTERS

The Bank is subject to various regulatory capital requirements administered by the OTS. 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 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 and ratios (set forth in the table below) of tangible capital to adjusted total assets (as defined), Tier I (core) capital (as defined) to adjusted total assets, Tier I capital to risk-weighted assets (as defined), and of total risk-based capital (as defined) to risk-weighted assets. Management believes, as of June 30, 2011, that the Bank meets all capital adequacy requirements to which it is subject.

As of June 30, 2011, the most recent notification from the OTS 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 ratios as set forth in the table below. There are no conditions or events since that notification that management believes have changed the institution's category.

The Bank's actual capital amounts and ratios are also presented in the table. No amount was deducted from capital for interest-rate risk in either period.

	Actual		**Minimum For Capital Adequacy Purposes:**		**Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions:**	
(Dollars in thousands)	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
As of June 30, 2011:						
Total capital (to risk weighted assets)	$ 33,602	15.46%	$ 17,388	8.00%	$ 21,734	10.00%
Tier I capital (to risk weighted assets)	$ 31,848	14.65%	$ 8,694	4.00%	$ 13,041	6.00%
Tier I capital (to adjusted total assets)	$ 31,848	9.09%	$ 14,013	4.00%	$ 17,516	5.00%
Tangible capital (to adjusted total assets)	$ 31,848	9.09%	$ 5,255	1.50%	N/A	
As of June 30, 2010:						
Total capital (to risk weighted assets)	$ 32,934	14.25%	$ 18,495	8.00%	$ 23,118	10.00%
Tier I capital (to risk weighted assets)	$ 31,183	13.49%	$ 9,247	4.00%	$ 13,871	6.00%
Tier I capital (to adjusted total assets)	$ 31,183	9.22%	$ 13,527	4.00%	$ 16,909	5.00%
Tangible capital (to adjusted total assets)	$ 31,183	9.22%	$ 5,073	1.50%	N/A	

(20) SUPPLEMENTAL DISCLOSURES FOR STATEMENTS OF CASH FLOWS

	2011	2010
Cash payments for:		
Interest	$ 6,176	$ 7,916
Income taxes (net of refunds received)	270	(70)
Noncash investing activities:		
Transfer of loans to foreclosed real estate	508	1,388
Loans to facilitate the sale of foreclosed real estate	217	-
Transfer of securities from held to maturity to available for sale	-	25,973

(21) DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

Generally accepted accounting principles (GAAP) requires disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instruments. GAAP excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company. The carrying value and estimated fair value of financial instruments at June 30, 2011 and 2010 are as follows:

	2011		2010	
(In thousands)	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:				
Cash and cash equivalents	$ 42,346	$ 42,346	$ 29,275	$ 29,275
Interest bearing deposit with bank	1,096	1,096	99	99
Securities available for sale	126,647	126,647	107,138	107,138
Loans held for sale	467	467	1,027	1,027
Loans	151,530	158,158	171,627	179,540
Less: allowance for loan losses	(1,978)	(1,978)	(1,932)	(1,932)
	149,552	156,180	169,695	177,608
Federal Home Loan Bank stock	4,305	4,305	4,565	4,565
Accrued interest receivable	1,285	1,285	1,414	1,414
Financial liabilities:				
Deposits	234,949	235,735	211,645	213,481
Borrowed funds	83,155	90,659	95,155	103,861
Accrued interest payable	289	289	373	373
Advance payments by borrowers for taxes and insurance	634	634	599	599
Off-balance-sheet financial instruments:				
Asset related to commitments to extent credit	-	29	-	181

(21 - continued)

The carrying amounts in the preceding table are included in the balance sheets under the applicable captions. The contractual or notional amounts of financial instruments with off-balance-sheet risk are disclosed in Note 16.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate that value:

Cash and Cash Equivalents

For cash and cash equivalents, including cash and due from banks, interest-bearing deposits with banks, reverse repurchase agreements and money market funds, the carrying amount is a reasonable estimate of fair value.

Investment Securities

For investment securities, the Company obtains fair value measurements from an independent pricing service and the fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, U.S. government and agency yield curves, live trading levels, trade execution data, market consensus prepayment speeds, credit information, and the security's terms and conditions, among other factors.

The fair values of privately issued CMO and corporate securities are calculated based on the expected future cash flows using known attributes of each security including, but not limited to, the current credit enhancement level and rules-based payment priority (discussed further in Note 22).

For Federal Home Loan Bank stock, a restricted equity security held for investment, the carrying amount is a reasonable estimate of fair value because the stock is not marketable.

Loans

The fair value of loans is estimated by discounting future cash flows using current lending rates for new loans with similar remaining maturities. The resulting value is reduced by an estimate of losses inherent in the portfolio. The carrying amount of accrued interest receivable approximates its fair value.

Deposits

The fair value of demand deposits, savings accounts, money market deposit accounts and other transaction accounts is the amount payable on demand at the balance sheet date. The fair value of fixed-maturity certificates of deposit is estimated by discounting the future cash flows using the rates currently offered for deposits of similar remaining maturities. The carrying amount of accrued interest payable approximates its fair value.

Borrowed Funds

The fair value of long-term repurchase agreements and fixed rate term FHLB advances is estimated by discounting the future cash flows using the current rates at which similar loans with the same remaining maturities could be obtained. The carrying amount of the junior subordinated debentures approximates its fair value.

Off-Balance-Sheet Financial Instruments

Commitments to extend credit were evaluated and fair value was estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, the fair value estimate considers the difference between current interest rates and the committed rates.

(22) FAIR VALUE MEASUREMENTS

FASB ASC Topic 820*, Fair Value Measurements,* provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC Topic 820 are described as follows:

Level 1: Inputs to the valuation methodology are quoted prices, unadjusted, for identical assets or liabilities in active markets. A quoted market price in an active market provides the most reliable evidence of fair value and shall be used to measure fair value whenever available.

Level 2: Inputs to the valuation methodology include quoted market prices for similar assets or liabilities in active markets; inputs to the valuation methodology include quoted market prices for identical or similar assets or liabilities in markets that are not active; or inputs to the valuation methodology that are derived principally from or can be corroborated by observable market data by correlation or other means.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Level 3 assets and liabilities include financial instruments whose value is determined using discounted cash flow methodologies, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. These valuation methodologies were applied to all of the Company's financial assets carried at fair value or the lower of cost or fair value. The table below presents the balances of assets measured at fair value on a recurring basis and assets measured at fair value on a nonrecurring basis as of June 30, 2011 and 2010. The Company had no liabilities measured at fair value as of June 30, 2011 and 2010.

	Carrying Value			
	Level 1	Level 2	Level 3	Total
June 30, 2011:				
Assets Measured on a Recurring Basis				
Securities available for sale	$ -	$ 126,521	$ 126	$ 126,647
Assets Measured on a Nonrecurring Basis				
Loans held for sale	-	467	-	467
Impaired loans	-	1,914	-	1,914
Foreclosed real estate	-	3,162	-	3,162
June 30, 2010:				
Assets Measured on a Recurring Basis				
Securities available for sale	$ -	$ 107,074	$ 64	$ 107,138
Assets Measured on a Nonrecurring Basis				
Loans held for sale	-	1,027	-	1,027
Impaired loans	-	1,755	-	1,755
Foreclosed real estate	-	3,423	-	3,423

(22 - continued)

In general, fair value is based upon quoted market prices, where available. If quoted market prices are not available, fair value is based on internally developed models or obtained from third parties that primarily use, as inputs, observable market-based parameters or a matrix pricing model that employs the Bond Market Association's standard calculations for cash flow and price/yield analysis and observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value, or the lower of cost or fair value. These adjustments may include unobservable parameters. Any such valuation adjustments have been applied consistently over time. The Bank's valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the Bank's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2011 and 2010.

Securities Available for Sale. Securities classified as available for sale are reported at fair value on a recurring basis. These securities are classified as Level 1 of the valuation hierarchy where quoted market prices from reputable third-party brokers are available in an active market. If quoted market prices are not available, the Bank obtains fair value measurements from an independent pricing service. These securities are reported using Level 2 inputs and the fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, U.S. government and agency yield curves, live trading levels, trade execution data, market consensus prepayment speeds, credit information, and the security's terms and conditions, among other factors. Changes in fair value of securities available for sale are recorded in other comprehensive income.

Loans Held for Sale. Loans held for sale are carried at the lower of cost or market value. The portfolio comprised of residential real estate loans and fair value is based on specific prices of underlying contracts for sales to investors. These measurements are carried at Level 2.

Impaired Loans. Impaired loans are carried at the present value of estimated future cash flows using the loan's existing rate or the fair value of collateral if the loan is collateral dependent. Impaired loans are evaluated and valued at the time the loan is identified as impaired at the lower of cost or market value. For collateral dependent impaired loans, market value is measured based on the value of the collateral securing these loans and is classified as Level 2 in the fair value hierarchy. Collateral may be real estate and/or business assets, including equipment, inventory and/or accounts receivable, and its fair value is generally determined based on real estate appraisals or other independent evaluations by qualified professionals. Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly, based on the same factors identified above. In cases where such inputs are unobservable, the loan balance is reflected within the Level 3 hierarchy.

Foreclosed Real Estate Held for Sale. Foreclosed real estate held for sale is reported at the lower of cost or fair value less estimated costs to dispose of the property using Level 2 inputs. The fair values are determined by real estate appraisals using valuation techniques consistent with the market approach using recent sales of comparable properties. In cases where such inputs are unobservable, the balance is reflected within the Level 3 hierarchy.

(22 - continued)

The following table presents a reconciliation of available for sale securities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended June 30, 2011 and 2010:

	2011	2010
Beginning balance	$ 64	$ 93
Total gains or (losses) (both realized/unrealized):		
Recognized in earnings (noninterest income)	-	-
Recognized in other comprehensive income	46	(36)
Purchases, sales, issuances and settlements, net	16	7
Transfers into Level 3	-	-
Ending balance	$ 126	$ 64

There were no transfers in or out of Level 3 assets for the years ended June 30, 2011 and 2010.

(23) SUBSEQUENT EVENTS

The Company has evaluated whether any subsequent events that require recognition or disclosure in the accompanying financial statements and related notes thereto have taken place through September 28, 2011, the date these financial statements were available to be issued.

On May 26, 2011, the Company, as sole shareholder of the Bank, authorized the conversion of the Bank from a federally-chartered savings bank to a state-chartered commercial bank pursuant to a Plan of Conversion adopted by the board of directors of the Bank. In connection with the conversion of the Bank, the Company will also complete a reorganization from a savings and loan holding company to a bank holding company. Management expects the charter conversion to be approved and become effective during the fourth calendar quarter of 2011.