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

CONSOLIDATED
FINANCIAL STATEMENTS

YEARS ENDED
JUNE 30, 2013 AND 2012

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of **First Bancorp of Indiana, Inc. and Subsidiaries**, which comprise the consolidated balance sheets as of June 30, 2013 and 2012, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of **First Bancorp of Indiana, Inc. and Subsidiaries** as of June 30, 2013 and 2012, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Monroe Shine

New Albany, Indiana
September 18, 2013

FIRST BANCORP OF INDIANA, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
JUNE 30, 2013 AND 2012

	2013	2012
ASSETS		
Cash and due from banks	$ 2,299,250	$ 1,706,118
Interest-bearing demand deposits with banks	34,089,869	38,018,034
Reverse repurchase agreements	-	5,000,000
Money market fund	465,367	1,085,353
Total cash and cash equivalents	36,854,486	45,809,505
Interest-bearing time deposits	744,000	249,830
Securities available for sale, at fair value	87,375,840	115,680,012
Loans held for sale	2,114,700	1,402,850
Loans, net	211,878,936	180,977,831
Federal Home Loan Bank stock, at cost	4,305,200	4,305,200
Premises and equipment	12,403,588	9,092,431
Foreclosed real estate	2,278,372	2,512,520
Accrued interest receivable	1,215,750	1,352,002
Cash surrender value of life insurance	7,329,028	7,286,426
Goodwill	6,229,152	6,229,152
Core deposit intangible	306,207	400,425
Other assets	3,904,256	5,887,733
Total Assets	$ 376,939,515	$ 381,185,917
LIABILITIES		
Deposits:		
Noninterest-bearing	$ 42,924,266	$ 21,637,229
Interest-bearing	222,023,236	247,559,931
Total deposits	264,947,502	269,197,160
Repurchase agreement	8,000,000	8,000,000
Advances from Federal Home Loan Bank	60,000,000	60,000,000
Other borrowings	5,155,000	5,155,000
Accrued interest payable	188,353	217,986
Advance payments by borrowers for taxes and insurance	931,561	814,690
Accrued expenses and other liabilities	3,262,611	3,022,977
Total Liabilities	342,485,027	346,407,813
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, outstanding 1,749,165 shares	25,265	25,265
Additional paid-in capital	27,772,593	27,772,593
Retained earnings	19,174,610	18,654,182
Accumulated other comprehensive income (loss)	(570,377)	273,667
Less treasury stock, at cost - 777,340 shares	(11,947,603)	(11,947,603)
Total Stockholders' Equity	34,454,488	34,778,104
Total Liabilities and Stockholders' Equity	$ 376,939,515	$ 381,185,917

See notes to consolidated financial statements.

FIRST BANCORP OF INDIANA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
INTEREST INCOME		
Loans, including fees	$ 10,302,215	$ 9,868,116
Investment securities:		
Taxable	1,599,752	2,691,379
Tax-exempt	944,431	829,473
Federal Home Loan Bank dividends	145,020	151,561
Interest-bearing deposits with banks	90,568	77,760
Reverse repurchase agreements	8,374	67,038
Other	4,766	10,816
Total interest income	13,095,126	13,696,143
INTEREST EXPENSE		
Deposits	873,879	1,495,009
Repurchase agreements	361,756	362,747
Advances from Federal Home Loan Bank	2,337,705	2,484,826
Other borrowings	145,368	355,953
Total interest expense	3,718,708	4,698,535
Net interest income	9,376,418	8,997,608
Provision for loan losses	380,000	345,000
Net interest income after provision for loan losses	8,996,418	8,652,608
NONINTEREST INCOME		
Service charges on deposit accounts	1,017,394	867,084
Net realized gain on sales of available for sale securities	1,146	-
Other-than-temporary impairment loss on securities	(50,861)	(201,895)
Net gain on sales of mortgage loans	1,367,091	1,147,765
Increase in cash surrender value of life insurance	242,000	240,000
ATM transaction and point-of-sale interchange fees	744,522	676,538
Other income	463,541	480,279
Total noninterest income	3,784,833	3,209,771
NONINTEREST EXPENSE		
Compensation and benefits	5,842,989	5,558,510
Occupancy and equipment	1,609,605	1,450,889
Data processing	649,334	564,724
Professional fees	322,015	266,964
Deposit insurance expense	318,483	263,948
Advertising expense	278,061	304,673
Other expenses	2,130,073	2,264,755
Total noninterest expense	11,150,560	10,674,463
Income before income taxes	1,630,691	1,187,916
Income tax expense	25,780	81,020
Net Income	$ 1,604,911	$ 1,106,896

See notes to consolidated financial statements.

FIRST BANCORP OF INDIANA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
Net Income	$ 1,604,911	$ 1,106,896
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX		
Change in unrealized gains (losses) on securities available for sale:		
Unrealized holding gains (losses) arising during the period	(1,411,076)	2,507,839
Income tax benefit (expense)	536,209	(952,979)
Net of tax amount	(874,867)	1,554,860
Less: reclassification adjustment for realized gains included in net income	(1,146)	-
Income tax expense	435	-
Net of tax amount	(711)	-
Less: reclassification adjustment for other-than-temporary impairment losses included in net income during the period	50,861	201,895
Income tax benefit	(19,327)	(76,720)
Net of tax amount	31,534	125,175
Other Comprehensive Income (Loss)	(844,044)	1,680,035
Total Comprehensive Income	$ 760,867	$ 2,786,931

See notes to consolidated financial statements.

FIRST BANCORP OF INDIANA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED JUNE 30, 2013 AND 2012

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Unearned ESOP Shares	Treasury Stock	Total
Balances at July 1, 2011	$ 25,265	$ 27,768,076	$ 18,632,037	$ (1,406,368)	$ -	$ (11,941,689)	$ 33,077,321
Net income	-	-	1,106,896	-	-	-	1,106,896
Other comprehensive income	-	-	-	1,680,035	-	-	1,680,035
Dividends on common stock, $0.62 per share	-	-	(1,084,751)	-	-	-	(1,084,751)
Tax benefit of employee benefit plans	-	4,517	-	-	-	-	4,517
Purchase of 577 common shares	-	-	-	-	-	(5,914)	(5,914)
Balances at June 30, 2012	25,265	27,772,593	18,654,182	273,667	-	(11,947,603)	34,778,104
Net income	-	-	1,604,911	-	-	-	1,604,911
Other comprehensive loss	-	-	-	(844,044)	-	-	(844,044)
Dividends on common stock, $0.62 per share	-	-	(1,084,483)	-	-	-	(1,084,483)
Balances at June 30, 2013	$ 25,265	$ 27,772,593	$ 19,174,610	$ (570,377)	$ -	$ (11,947,603)	$ 34,454,488

See notes to consolidated financial statements.

FIRST BANCORP OF INDIANA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 1,604,911	$ 1,106,896
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Amortization of premium and accretion of discount on securities, net	314,949	142,724
Net realized gain on sale of available for sale securities	(1,146)	-
Other-than-temporary impairment loss on securities	50,861	201,895
Mortgage loans originated for sale	(44,072,763)	(37,213,888)
Proceeds from sales of mortgage loans	44,728,004	37,425,503
Net gain on sales of mortgage loans	(1,367,091)	(1,147,765)
Provision for loan losses	380,000	345,000
Depreciation and amortization	777,701	693,029
Deferred income tax	(111,000)	(231,000)
Gain on life insurance	(41,251)	-
(Increase) decrease in accrued interest receivable	136,252	(73,038)
Decrease in accrued interest payable	(29,633)	(71,428)
Increase in cash surrender value of life insurance	(242,000)	(240,000)
(Gain) loss on sale of premises and equipment	(4,400)	6,648
Net realized and unrealized loss on foreclosed real estate	12,141	86,653
Net change in other assets and liabilities	2,768,482	(1,245,862)
Net Cash Provided By (Used In) Operating Activities	4,904,017	(214,633)
CASH FLOWS FROM INVESTING ACTIVITIES		
(Increase) decrease in interest bearing time deposits	(494,170)	846,250
Purchase of securities available for sale	(26,968,464)	(94,886,188)
Maturities and principal repayments on securities available for sale	49,441,283	108,061,762
Proceeds from sales of securities available for sale	4,188,274	-
Net increase in loans	(31,203,105)	(31,980,837)
Purchase of premises and equipment	(3,994,640)	(752,401)
Proceeds from sale of premises and equipment	4,400	-
Proceeds from life insurance	240,649	-
Proceeds from sale of foreclosed real estate	207,850	826,481
Capital improvements to foreclosed real estate	(63,843)	(53,311)
Net Cash Used In Investing Activities	(8,641,766)	(17,938,244)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in deposits	(4,249,658)	32,526,116
Repayment of advances from Federal Home Loan Bank	-	(10,000,000)
Net increase in advance payments by borrowers for taxes and insurance	116,871	180,774
Dividends paid	(1,084,483)	(1,084,751)
Purchase of treasury shares	-	(5,914)
Net Cash Provided By (Used In) Financing Activities	(5,217,270)	21,616,225
Net Increase (Decrease) in Cash and Cash Equivalents	(8,955,019)	3,463,348
Cash and cash equivalents at beginning of year	45,809,505	42,346,157
Cash and Cash Equivalents at End of Year	$ 36,854,486	$ 45,809,505

See notes to consolidated financial statements.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

First Bancorp of Indiana, Inc. (the Company) is a bank holding company whose principal activity is the ownership and management of its wholly owned subsidiary, First Federal Savings Bank (the Bank). The Bank operates as an Indiana commercial bank following its conversion from a federal savings bank charter in October 2011. As a result of the bank conversion, the Company also converted from a savings and loan holding company to a bank holding company.

The Bank 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 state chartered commercial bank, the Bank is subject to regulation by the Indiana Department of Financial Institutions and the Federal Deposit Insurance Corporation (FDIC). The Bank has three wholly owned service corporation subsidiaries, FFSL Service Corporation (FFSL), Elucidate Financial Solutions, Inc. (Elucidate), 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, Elucidate 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, reverse repurchase agreements and money market funds.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the 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 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 (collectively referred to as agency mortgage-backed securities), as well as privately-issued collateralized mortgage obligations (CMOs) and other asset-backed securities. CMOs are complex mortgage-backed securities that restructure the cash flows and risks of the underlying mortgage collateral. Asset-backed securities include securities backed by government-sponsored student loan programs and mortgage-backed securities issued by the Small Business Administration (SBA). The Bank and its subsidiary also hold debt securities issued by FNMA, FHLMC and Federal Home Loan Bank (FHLB) (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.

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.

Investments in non-marketable equity securities such as FHLB stock are carried at cost. Impairment testing on these investments is based on applicable accounting guidance and the cost basis is reduced when impairment is deemed to be other-than-temporary.

(1 - continued)

Loans and Allowance for Loan Losses

Loans Held for Investment

Loans are stated at unpaid principal balances, less net deferred loan fees and the allowance for loan losses. The Bank grants real estate mortgage, commercial business and consumer loans. A substantial portion of the loan portfolio is represented by mortgage loans to customers in southern Indiana. The ability of the Bank's customers to honor their contracts is dependent upon the real estate and general economic conditions in this area.

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 net deferred loan fees is discontinued when a loan is placed on nonaccrual status.

Nonaccrual Loans

The recognition of income on a loan is discontinued and previously accrued interest is reversed, when interest or principal payments become 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. Interest income on impaired loans is recognized using the cost recovery method, unless the likelihood of further loss on the loan is remote.

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, which generally requires that the borrower demonstrate a period of performance of at least six consecutive months.

Impaired Loans

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.

(1 - continued)

Loans and Allowance for Loan Losses - continued

Values for collateral dependent loans are generally based on appraisals obtained from independent licensed real estate appraisers, with adjustments applied for estimated costs to sell the property, costs to complete unfinished or repair damaged property and other known defects. New appraisals are generally obtained for all significant properties (if the value is estimated to exceed $250,000) when a loan is identified as impaired. Also, subsequent appraisals are obtained or an internal evaluation is prepared if management believes there has been a significant change in the market value of a collateral property securing an impaired loan. In instances where it is not deemed necessary to obtain a new appraisal, management bases its impairment evaluation on the original appraisal with adjustments for current conditions based on management's assessment of market factors and inspection of the property.

Troubled Debt Restructurings

The modification of a loan is considered to be a troubled debt restructuring (TDR) if the debtor is experiencing financial difficulties and the Bank grants a concession to the debtor that it would not otherwise consider. By granting the concession, the Bank expects to obtain more cash or other value from the debtor, or to increase the probability of receipt, than would be expected by not granting the concession. The concession may include, but is not limited to, reduction of the stated interest rate of the loan, reduction of accrued interest, extension of the maturity date or reduction of the face amount of the debt. A concession will be granted when, as a result of the restructuring, the Bank does not expect to collect all amounts due, including interest at the original stated rate. A concession may also be granted if the debtor is not able to access funds elsewhere at a market rate for debt with similar risk characteristics as the restructured debt. The Bank's determination of whether a loan modification is a TDR considers the individual facts and circumstances surrounding each modification.

A TDR can involve loans remaining on nonaccrual, moving to nonaccrual, or continuing on accrual status, depending on the individual facts and circumstances of the borrower. Generally, a nonaccrual loan that is modified in a TDR remains on nonaccrual status for a period of at least six months following the modification to ensure that the borrower performs in accordance with the modified terms including consistent and timely payments.

Allowance for Loan Losses

The allowance for loan losses reflects management's judgment of probable loan losses inherent in the loan portfolio at the balance sheet date. Additions to the allowance for loan losses are made by the provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The Bank uses a disciplined process and methodology to evaluate the allowance for loan losses on at least a quarterly basis that 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 individually evaluated for impairment or loans otherwise classified as doubtful, substandard, or special mention. For such loans that are 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.

(1 - continued)

Loans and Allowance for Loan Losses - continued

The general component covers non-classified loans and classified loans that are found, upon individual evaluation, to not be impaired. Such loans are pooled by segment and losses are modeled using annualized historical loss experience adjusted for qualitative factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Bank over the most recent three or five year period, whichever is greater. The Bank's actual loss experience is then adjusted for qualitative factors that are reviewed on a quarterly basis. Management considers changes and trends in the following qualitative loss factors: levels and trends in delinquencies and impaired loans, levels and trends in charge-offs and recoveries, trends in volume and terms of loans, economic trends and conditions, effects of changes in credit concentrations, changes in lending policies and procedures, and changes in lending and other relevant staff. Each qualitative factor is evaluated and an environmental factor adjustment is applied to the actual historical loss factors in determining the adjusted loss factors used in management's allowance for loan losses adequacy calculation.

Management exercises significant judgment in evaluating the relevant historical loss experience and the qualitative factors. Management also monitors the differences between estimated and actual incurred loan losses for loans considered impaired in order to evaluate the effectiveness of the estimation process and make any changes in the methodology as necessary.

The following portfolio segments are considered in the allowance for loan loss analysis: commercial one-to-four family mortgage, commercial and multi-family mortgage, secured commercial business, unsecured commercial business, residential one-to-four family mortgage, residential second mortgage and home equity lines of credit, and consumer.

Commercial one-to-four family mortgage loans primarily consist of loans secured by non-owner-occupied investment properties. Repayment of these loans is generally dependent on the borrower's ability to attract tenants at lease rates that provide for adequate cash flow to service the debt. These loans are also impacted by the market value of the property taken as collateral and general economic conditions of the local housing market.

Commercial and multi-family mortgage loans are comprised of loans secured by various types of collateral including office buildings, warehouses, retail space, mixed use buildings, apartment buildings and other multi-family properties located in the Bank's primary lending area. Risks related to commercial and multi-family real estate lending are related to the market value of the property taken as collateral, the underlying cash flows and general economic condition of the local real estate market. Repayment of these loans is generally dependent on the ability of the borrower to attract tenants at lease rates or general business operating cash flows that provide for adequate debt service and can be impacted by local economic conditions which impact vacancy rates and the general level of business activity. The Bank generally obtains loan guarantees from financially capable parties for commercial and multi-family mortgage loans.

Commercial business loans include lines of credit to businesses, term loans and letters of credit secured by business assets such as equipment, accounts receivable, inventory, or other assets excluding real estate and are generally made to finance capital expenditures or fund operations. Commercial loans contain risks related to the value of the collateral securing the loan and the repayment is primarily dependent upon the financial success and viability of the borrower. As with commercial real estate loans, the Bank generally obtains loan guarantees from financially capable parties for commercial business loans.

(1 - continued)

Loans and Allowance for Loan Losses - continued

Residential mortgage loans primarily consist of loans to individuals for the purchase or refinance of their primary residence. The Bank also grants second mortgage and home equity line of credit (HELOC) loans to qualifying borrowers that are generally secured by junior liens on the borrower's personal residence. The risks associated with residential real estate loans are closely correlated to the local housing market and general economic conditions.

Consumer loans consist primarily of automobile and truck loans, boat loans, loans secured by savings deposits, and other personal loans. The risks associated with these loans are related to the local housing market and local economic conditions including the unemployment level.

As noted above, at June 30, 2013, the historical loss experience used to determine the general component of the allowance for loan losses is based on the actual loss history experienced by the Bank over the most recent three or five year period, whichever is greater. At June 30, 2012, the historical loss experience used to determine the general component of the allowance for loan losses was based on the actual loss history for the previous three year period. This methodological change became appropriate to more closely approximate the effects of economic cycles, particularly in the commercial loan portfolio. The total provision for loan losses for 2013 did not change as a result of the change in methodology.

Loan Charge-Offs

For portfolio segments other than consumer loans, 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. A partial charge-off is recorded on a loan when the uncollectibility of a portion of the loan has been confirmed, such as when a loan is discharged in bankruptcy, the collateral is liquidated, a loan is restructured at a reduced principal balance, or other identifiable events that lead management to determine the full principal balance of the loan will not be repaid. A specific reserve is recognized as a component of the allowance for estimated losses on loans individually evaluated for impairment. Partial charge-offs are included in the Bank's historical loss experience used to estimate the general component of the allowance for loan losses as discussed above.

During 2013 and 2012, the Bank recognized partial charge-offs on loans totaling $21,000 and $101,000, respectively. At June 30, 2013, the Bank had two commercial loans and 20 consumer loans on which partial charge-offs of $79,000 and $68,000, respectively, had been recorded. At June 30, 2012, the Bank had two commercial loans and 16 consumer loans on which partial charge-offs of $79,000 and $49,000, respectively, had been recorded.

Consumer loans not secured by real estate are typically charged off at 90 days past due, or earlier if deemed uncollectible, unless the loans are in the process of collection. Overdrafts are charged off after 60 days past due. Charge-offs are typically recorded on loans secured by real estate when the property is foreclosed upon when the carrying value of the loan exceeds the property's fair value less the estimated costs to sell.

(1 - continued)

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 fair value less estimated costs to sell, 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 Company 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.

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.

(1 - continued)

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 exceed 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, 2013, the Bank had commitments to originate $1,564,000 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 Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 718 for its stock plans.

Advertising Costs

Advertising costs are charged to expense when incurred.

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 Company 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.

(1 - continued)

Income Taxes – continued

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 consolidated 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.

Comprehensive Income

Comprehensive income consists of reported net income and other comprehensive income. Other comprehensive income refers to revenue, expenses, gains and losses that are recorded as an element of equity but are excluded from reported net income. Other comprehensive income includes changes in the unrealized gains and losses on securities available for sale.

Loss Contingencies

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated.

Recent Accounting Pronouncements

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

In April 2011, the FASB issued Accounting Standards Update (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 annual periods ending on or after December 15, 2012. The adoption of this ASU did not have a material impact on the Company's financial position or results of operations.

(1 - continued)

Recent Accounting Pronouncements – continued

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 did not have a material impact on the Company's financial position or results of operations.

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 did not have a material impact on the Company's 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. The adoption of this ASU did not have a material impact on the Company's 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* and in July 2012 the FASB issued ASU No. 2012-02, *Intangibles – Goodwill and Other (Topic 350) Testing Indefinite-Lived Intangible Assets for Impairment*. Under the amendments in these ASUs, 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 goodwill or other indefinite-lived intangible assets are impaired. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the asset is impaired, then the entity is not required to take further action. However, if an entity concludes otherwise, then it is required to perform the quantitative impairment testing in accordance with Topic 350 and measure the amount of the impairment loss, if any. Under the amendments in these ASUs, an entity has the option to bypass the qualitative assessment in any period and proceed directly to performing the required quantitative impairment testing. An entity may resume performing the qualitative assessment in any subsequent period. The amendments in these ASUs are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011 (for ASU No. 2011-08) and September 15, 2012 (for ASU 2012-02). Early adoption is permitted. The adoption of these ASUs did not have a material impact on the Company's financial position or results of operations.

(1 - continued)

Recent Accounting Pronouncements – continued

In December 2011, the FASB issued ASU No. 2011-11, *Balance Sheet (Topic 210)*. The update requires an entity to disclose information about offsetting and related arrangements to enable users of the financial statements to understand the effect of netting arrangements on the entity's financial position. In January 2013, the FASB issued ASU No. 2013-01 to clarify that the scope of ASU No. 2011-11 applies to derivatives accounted for in accordance with Topic 815, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset or subject to an enforceable master netting agreement or similar agreement. The amendments in the updates are effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods, with disclosures required by the amendments provided retrospectively for all comparative periods presented. The adoption of these ASUs is not expected to have a material impact on the Company's financial position or results of operations.

In October 2012, the FASB issued ASU No. 2012-06, *Subsequent Accounting for an Indemnification Asset Recognized at the Acquisition Date as a Result of a Government-Assisted Acquisition of a Financial Institution*. The update indicates that when a reporting entity initially recognizes an indemnification asset as a result of a government-assisted acquisition of a financial institution and subsequently a change in the cash flows expected to be collected on the indemnification asset occurs, the reporting entity should subsequently account for the change in the measurement of the indemnification asset on the same basis as the change in the assets subject to indemnification. Any amortization of changes in value should be limited to the contractual term of the indemnification agreement (that is, the lesser of the term of the indemnification agreement and the remaining life of the indemnified assets). The amendments in the update are effective for fiscal years, and interim periods within those years, beginning on or after December 15, 2012, and should be applied prospectively to any new indemnification assets acquired after the date of adoption and to indemnification assets existing as of the date of adoption. Early adoption is permitted. The adoption of this ASU is not expected to have a material impact on the Company's financial position or results of operations.

In February 2013, the FASB issued ASU No. 2013-02, *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*. The update does not change the current requirements for reporting net income or other comprehensive income in financial statements. The amendments require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts. For nonpublic entities, the amendments in the update are effective prospectively for reporting periods beginning after December 15, 2013. Early adoption is permitted. The adoption of this ASU is not expected to have a material impact on the Company's financial position or results of operations.

In February 2013, the FASB issued ASU No. 2013-03, *Financial Instruments (Topic 825): Clarifying the Scope and Applicability of a Particular Disclosure to Nonpublic Entities*. The amendments clarify the intended scope of ASU No. 2011-04 to state that the requirement to disclose the level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2 or 3) does not apply to nonpublic entities for items that are not measured at fair value in the statement of financial position but for which fair value is disclosed. The amendments in the update are effective upon issuance. The adoption of this ASU did not have a material impact on the Company's 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, 2013 was $7,373,000.

(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, 2013 and 2012 is summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2013:				
Securities available for sale:				
Mortgage-backed securities	$ 27,072	$ 745	$ 302	$ 27,515
Asset-backed securities	5,985	60	-	6,045
SBA-backed securities	5,378	48	49	5,377
Agency securities	13,876	-	315	13,561
Corporate obligations	2,587	-	2,197	390
Municipal bonds	33,472	1,421	405	34,488
Total securities available for sale	$ 88,370	$ 2,274	$ 3,268	$ 87,376
June 30, 2012:				
Securities available for sale:				
Mortgage-backed securities	$ 41,132	$ 1,460	$ 1,034	$ 41,558
Asset-backed securities	5,650	21	5	5,666
SBA-backed securities	7,369	31	51	7,349
Agency securities	29,013	56	5	29,064
Corporate obligations	2,581	-	2,415	166
Municipal bonds	29,650	2,249	22	31,877
Total securities available for sale	$ 115,395	$ 3,817	$ 3,532	$ 115,680

The amortized cost and fair value of debt securities as of June 30, 2013, by contractual maturity, are shown below. Expected maturities of mortgage and other 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	$ 419	$ 425
Due after one year through five years	8,623	9,079
Due after five years through ten years	21,584	22,098
Due after ten years	19,309	16,837
	49,935	48,439
Mortgage-backed securities	27,072	27,515
Asset-backed securities	5,985	6,045
SBA-backed securities	5,378	5,377
	$ 88,370	$ 87,376

(3 - continued)

Certain available for sale securities were pledged to secure repurchase agreements and Federal Home Loan Bank advances at June 30, 2013. (See Notes 10 and 11)

The following is a schedule of gross gains and losses realized on sales of available for sale debt securities for the year ended June 30, 2013. There were no gains or losses realized on sales of available for sale debt securities for the year ended June 30, 2012.

Mortgage-backed securities:	
Gross gains	$ 7
Gross losses	(10)
	(3)
SBA-backed securities:	
Gross gains	2
Gross losses	(1)
	1
Municipal bonds:	
Gross gains	4
Gross losses	-
	4
Net gain	$ 1

The following table presents the fair values and gross unrealized losses for temporarily impaired available for sale securities as of June 30, 2013 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	8	$ 705	$ 9
SBA-backed securities	1	2,407	49
Agency securities	10	13,561	315
Municipal bonds	32	9,047	405
Total less than twelve months	51	25,720	778
Continuous loss position more than twelve months:			
Mortgage-backed securities	16	4,843	293
Corporate obligations	4	390	2,197
Total more than twelve months	20	5,233	2,490
Total available for sale	71	$ 30,953	$ 3,268

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.

(3 - continued)

The unrealized losses on asset-backed securities, SBA-backed securities, agency securities, and 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.

The Company did not recognize any other-than-temporary impairment write-down charges to earnings on corporate obligations relating to pooled trust securities during the year ended June 30, 2013. During the year ended June 30, 2012, the Company recognized aggregate other-than-temporary impairment write-down charges to earnings of $119,000 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 in these securities to be other-than-temporarily impaired at June 30, 2013.

The unrealized loss positions in mortgage-backed securities as of June 30, 2013 relate primarily to privately-issued CMO securities. During the years ended June 30, 2013 and 2012, the Company recognized aggregate other-than-temporary impairment write-down charges to earnings of $51,000 and $83,000, 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 in these securities to be other-than-temporarily impaired at June 30, 2013.

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, 2013 and 2012 consisted of the following:

	2013	2012
Commercial:		
One-to-four family mortgage	$ 5,087	$ 4,764
Commercial and multi-family mortgage	75,870	52,504
Commercial business (secured)	38,066	26,571
Commercial business (unsecured)	3,929	4,377
Residential:		
One-to-four family mortgage	46,243	41,788
Second mortgage and HELOCs	15,393	16,846
Consumer loans	29,277	35,975
Gross loans	213,865	182,825
Net deferred loan fees and costs	468	317
Allowance for loan losses	(2,454)	(2,164)
Loans, net	$ 211,879	$ 180,978

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, 2013. The beginning balance has been adjusted to reflect new directors and officers, as well as directors and officers that are no longer with the Company.

Beginning balance, as adjusted	$ 5,899
New loans and advances	3,741
Payments	(2,317)
Ending balance	$ 7,323

(4 - continued)

The following table provides the components of the Bank's recorded investment in loans at June 30, 2013:

	Commercial				Residential			
	One-to-Four Family Mortgage	**Commercial and Multi-Family Mortgage**	**Commercial Business (Secured)**	**Commercial Business (Unsecured)**	**One-to-Four Family Mortgage**	**Second Mortgage and HELOCs**	**Consumer**	**Total**
Principal loan balance	$ 5,087	$ 75,870	$ 38,066	$ 3,929	$ 46,243	$ 15,393	$ 29,277	$ 213,865
Accrued interest receivable	21	321	82	6	145	51	86	712
Net deferred loan origination fees and costs	(7)	464	(30)	(3)	(120)	-	164	468
Recorded investment in loans	$ 5,101	$ 76,655	$ 38,118	$ 3,932	$ 46,268	$ 15,444	$ 29,527	$ 215,045

The following table provides the components of the Bank's recorded investment in loans at June 30, 2012:

	Commercial				Residential			
	One-to-Four Family Mortgage	**Commercial and Multi-Family Mortgage**	**Commercial Business (Secured)**	**Commercial Business (Unsecured)**	**One-to-Four Family Mortgage**	**Second Mortgage and HELOCs**	**Consumer**	**Total**
Principal loan balance	$ 4,764	$ 52,504	$ 26,571	$ 4,377	$ 41,788	$ 16,846	$ 35,975	$ 182,825
Accrued interest receivable	13	255	110	10	140	55	107	690
Net deferred loan origination fees and costs	(6)	198	25	(5)	(133)	-	238	317
Recorded investment in loans	$ 4,771	$ 52,957	$ 26,706	$ 4,382	$ 41,795	$ 16,901	$ 36,320	$ 183,832

(4 - continued)

An analysis of the allowance for loan losses and recorded investment in loans as of and for the year ended June 30, 2013 is as follows:

	Commercial				Residential			
	One-to-Four Family Mortgage	Commercial and Multi-Family Mortgage	Commercial Business (Secured)	Commercial Business (Unsecured)	One-to-Four Family Mortgage	Second Mortgage and HELOCs	Consumer	Total
Allowance for Loan Losses:								
Beginning balance	$ 495	$ 594	$ 284	$ 35	$ 57	$ 134	$ 565	$ 2,164
Provisions	(13)	123	521	(13)	(13)	(43)	(182)	380
Charge-offs	(13)	(88)	-	-	-	-	(119)	(220)
Recoveries	8	-	-	-	-	-	122	130
Ending balance	$ 477	$ 629	$ 805	$ 22	$ 44	$ 91	$ 386	$ 2,454
Ending allowance balance attributable to loans:								
Individually evaluated for impairment	$ 7	$ 25	$ -	$ -	$ -	$ -	$ -	$ 32
Collectively evaluated for impairment	470	604	805	22	44	91	386	2,422
Ending balance	$ 477	$ 629	$ 805	$ 22	$ 44	$ 91	$ 386	$ 2,454
Recorded Investment in Loans:								
Individually evaluated for impairment	$ 487	$ 3,386	$ -	$ -	$ 176	$ 51	$ 224	$ 4,324
Collectively evaluated for impairment	4,614	73,269	38,118	3,932	46,092	15,393	29,303	210,721
Ending balance	$ 5,101	$ 76,655	$ 38,118	$ 3,932	$ 46,268	$ 15,444	$ 29,527	$ 215,045

(4 - continued)

An analysis of the allowance for loan losses and recorded investment in loans as of and for the year ended June 30, 2012 is as follows:

	Commercial				Residential			
	One-to-Four Family Mortgage	Commercial and Multi-Family Mortgage	Commercial Business (Secured)	Commercial Business (Unsecured)	One-to-Four Family Mortgage	Second Mortgage and HELOCs	Consumer	Total
Allowance for Loan Losses:								
Beginning balance	$ 498	$ 339	$ 391	$ 74	$ 49	$ 129	$ 498	$ 1,978
Provisions	92	296	(113)	(39)	8	5	96	345
Charge-offs	(130)	(41)	-	-	-	-	(201)	(372)
Recoveries	35	-	6	-	-	-	172	213
Ending balance	$ 495	$ 594	$ 284	$ 35	$ 57	$ 134	$ 565	$ 2,164
Ending allowance balance attributable to loans:								
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	495	594	284	35	57	134	565	2,164
Ending balance	$ 495	$ 594	$ 284	$ 35	$ 57	$ 134	$ 565	$ 2,164
Recorded Investment in Loans:								
Individually evaluated for impairment	$ 1,034	$ 2,469	$ 173	$ -	$ -	$ -	$ -	$ 3,676
Collectively evaluated for impairment	3,737	50,488	26,533	4,382	41,795	16,901	36,320	180,156
Ending balance	$ 4,771	$ 52,957	$ 26,706	$ 4,382	$ 41,795	$ 16,901	$ 36,320	$ 183,832

(4 - continued)

The following table summarizes the Bank's impaired loans as of and for the year ended June 30, 2013:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Interest Recognized – Cash Method
Loans with no related allowance recorded:						
Commercial:						
One-to-four family mortgage	$ 112	$ 112	$ -	$ 263	$ -	$ 17
Commercial and multi-family mortgage	3,362	3,382	-	2,231	43	41
Commercial business (secured)	-	-	-	13	-	3
Residential:						
One-to-four family mortgage	176	176	-	118	-	2
Second mortgage and HELOCs	51	51	-	34	-	3
Consumer	224	290	-	158	-	15
	3,925	4,011	-	2,817	43	81
Loans with an allowance recorded:						
Commercial:						
One-to-four family mortgage	375	408	7	360	-	14
Commercial and multi-family mortgage	24	25	25	310	-	47
	399	433	32	670	43	61
	$ 4,324	$ 4,444	$ 32	$ 3,487	$ 43	$ 142

The following table summarizes the Bank's impaired loans as of and for the year ended June 30, 2012. The Company did not have any loans with a specific allowance for loan losses recorded as of June 30, 2012.

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Interest Recognized – Cash Method
Commercial:						
One-to-four family mortgage	$ 1,001	$ 1,034	$ -	$ 893	$ 4	$ -
Commercial and multi-family mortgage	2,423	2,469	-	1,179	12	19
Commercial business (secured)	173	173	-	13	-	-
Residential:						
One-to-four family mortgage	30	30	-	57	-	4
Second mortgage and HELOCs	29	29	-	9	-	1
Consumer	76	125	-	63	-	10
	$ 3,732	$ 3,860	$ -	$ 2,214	$ 16	$ 34

(4 - continued)

Nonperforming loans consists of nonaccrual loans and loans over 90 days past due and still accruing interest. The following table presents the recorded investment in nonperforming loans at June 30, 2013:

	Nonaccrual Loans	Loans 90+ Days Past Due Still Accruing	Total Nonperforming Loans
Commercial:			
One-to-four family mortgage	$ 487	$ -	$ 487
Commercial and multi-family mortgage	2,636	-	2,636
Commercial business (secured)	-	-	-
Commercial business (unsecured)	-	-	-
Residential:		-	
One-to-four family mortgage	176	-	176
Second mortgage and HELOCs	51	-	51
Consumer	224	-	224
Total	$ 3,574	$ -	$ 3,574

The following table presents the recorded investment in nonperforming loans at June 30, 2012:

	Nonaccrual Loans	Loans 90+ Days Past Due Still Accruing	Total Nonperforming Loans
Commercial:			
One-to-four family mortgage	$ 1,047	$ -	$ 1,047
Commercial and multi-family mortgage	1,550	-	1,550
Commercial business (secured)	173	-	173
Commercial business (unsecured)	-	-	-
Residential:			
One-to-four family mortgage	30	-	30
Second mortgage and HELOCs	28	-	28
Consumer	146	-	146
Total	$ 2,974	$ -	$ 2,974

(4 - continued)

The following table presents the aging of the recorded investment loans at June 30, 2013:

	30-59 Days Past Due	60-89 Days Past Due	Over 90 Days Past Due	Total Past Due	Current	Total Loans
Commercial:						
One-to-four family mortgage	$ 471	$ 197	$ -	$ 668	$ 4,433	$ 5,101
Commercial and multi-family mortgage	25	1,352	1,155	2,532	74,123	76,655
Commercial business (secured)	1,059	263	-	1,322	36,796	38,118
Commercial business (unsecured)	-	-	-	-	3,932	3,932
Residential:						
One-to-four family mortgage	547	-	149	696	45,572	46,268
Second mortgage and HELOCs	157	13	55	225	15,219	15,444
Consumer	317	42	157	516	29,011	29,527
Total	$ 2,576	$ 1,867	$ 1,516	$ 5,959	$ 209,086	$ 215,045

The following table presents the aging of the recorded investment loans at June 30, 2012:

	30-59 Days Past Due	60-89 Days Past Due	Over 90 Days Past Due	Total Past Due	Current	Total Loans
Commercial:						
One-to-four family mortgage	$ 23	$ 206	$ 15	$ 244	$ 4,527	$ 4,771
Commercial and multi-family mortgage	1,132	449	93	1,674	51,283	52,957
Commercial business (secured)	224	106	-	330	26,376	26,706
Commercial business (unsecured)	-	-	-	-	4,382	4,382
Residential:						
One-to-four family mortgage	263	35	30	328	41,467	41,795
Second mortgage and HELOCs	43	-	29	72	16,829	16,901
Consumer	420	70	86	576	35,744	36,320
Total	$ 2,105	$ 866	$ 253	$ 3,224	$ 180,608	$ 183,832

(4 - continued)

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, public information, historical payment experience, credit documentation, and current economic trends, among other factors. The Company classifies loans based on credit risk at least quarterly. The Bank uses the following regulatory definitions for risk ratings:

Special Mention: Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

Substandard: Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful: Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loss: Loans classified as loss are considered uncollectible and of such little value that their continuance on the institution's books as an asset, without establishment of a specific valuation allowance or charge-off, is not warranted.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans.

(4 - continued)

The following table presents the recorded investment in loans by risk category as of June 30, 2013:

	Commercial				Residential			
	One-to-Four Family Mortgage	Commercial and Multi-Family Mortgage	Commercial Business (Secured)	Commercial Business (Unsecured)	One-to-Four Family Mortgage	Second Mortgage and HELOCs	Consumer	Total
Pass	$ 4,386	$ 72,546	$ 32,393	$ 3,932	$ 46,144	$ 15,426	$ 29,247	$ 204,074
Special mention	-	11	480	-	-	-	33	524
Substandard	715	4,098	5,245	-	124	18	247	10,447
Doubtful	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-
Total	$ 5,101	$ 76,655	$ 38,118	$ 3,932	$ 46,268	$ 15,444	$ 29,527	$ 215,045

The following table presents the recorded investment in loans by risk category as of June 30, 2012:

	Commercial				Residential			
	One-to-Four Family Mortgage	Commercial and Multi-Family Mortgage	Commercial Business (Secured)	Commercial Business (Unsecured)	One-to-Four Family Mortgage	Second Mortgage and HELOCs	Consumer	Total
Pass	$ 3,577	$ 49,765	$ 26,533	$ 4,382	$ 41,745	$ 16,901	$ 35,999	$ 178,902
Special mention	23	197	-	-	21	-	33	274
Substandard	1,171	2,995	173	-	29	-	288	4,656
Doubtful	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-
Total	$ 4,771	$ 52,957	$ 26,706	$ 4,382	$ 41,795	$ 16,901	$ 36,320	$ 183,832

(4 - continued)

The following table summarizes the Company's troubled debt restructurings (TDRs) by accrual status as of June 30, 2013 and 2012:

	Accruing	Nonaccrual	Total	Related Allowance
June 30, 2013:				
Commercial:				
One-to-four family mortgage	$ -	$ 375	$ 375	$ 7
Commercial and multi-family mortgage	754	1,865	2,619	-
Total	$ 754	$ 2,240	$ 2,994	$ 7
June 30, 2012:				
Commercial:				
One-to-four family mortgage	$ 35	$ 577	$ 612	$ -
Commercial and multi-family mortgage	87	906	993	-
Total	$ 122	$ 1,483	$ 1,605	$ -

At June 30, 2013 and 2012, commitments to lend additional funds to debtors whose loan terms have been modified in a TDR (both accruing and nonaccruing) totaled $737,000 and $612,000, respectively. These commitments represent the undisbursed portion of construction loans and letters of credit to borrowers that have outstanding loans classified as TDRs.

The following table summarizes loans that were restructured as TDRs during the years ended June 30, 2013 and 2012:

	Number of Contracts	Pre-Modification Outstanding Balance	Post-Modification Outstanding Balance
June 30, 2013:			
Commercial:			
Commercial and multi-family mortgage	5	$ 1,764	$ 1,796
June 30, 2012:			
Commercial:			
One-to-four family mortgage	2	$ 572	$ 577

For the TDRs restructured during the year ended June 30, 2013, the terms of modification included one loan with a temporary interest-only payment period, one loan with a reduction of the stated interest rate, one loan with an extension of the maturity date, and two loans where the monthly principal and interest rate was decreased. For the TDRs restructured during the year ended June 30, 2012, the terms of the modification included two that were originated or renewed where the debtor was unable to access funds elsewhere at a market interest rate for debt with similar risk characteristics. There were no principal charge-offs recorded as a result of TDRs during the years ended June 30, 2013 and 2012. There was no specific allowance for loan losses related to TDRs modified during the year ended June 30, 2013 at June 30, 2013. In the event that a TDR subsequently defaults, the Company evaluates the restructuring for possible impairment. As a result, the related allowance for loan losses may be increased or charge-offs may be taken to reduce the carrying amount of the loan.

(4 - continued)

The following table summarizes TDRs modified during the years ended June 30, 2013 and 2012 that had payment defaults (over 60 days past due) within the previous twelve months:

	Number of Contracts	Outstanding Balance
June 30, 2013:		
Commercial:		
Commercial and multi-family mortgage	3	$ 1,059
June 30, 2013:		
Commercial:		
One-to-four family mortgage	2	$ 576

(5) PREMISES AND EQUIPMENT

Premises and equipment as of June 30, 2013 and 2012 are summarized as follows:

	2013	2012
Land	$ 2,988	$ 2,136
Buildings	10,400	8,585
Furniture and equipment	2,805	2,461
Construction in process	888	188
	17,081	13,370
Less accumulated depreciation	4,677	4,278
Totals	$ 12,404	$ 9,092

Depreciation expense was $683,000 and $599,000 for the years ended June 30, 2013 and 2012, respectively.

In July 2012, the Bank acquired a commercial building adjacent to its main office for a total cost of $2.0 million. Additional costs to remodel the building, which will be utilized as an operations center, totaled approximately $888,000 through June 30, 2013. The remodeling was substantially complete at June 30, 2013 and the operations center was placed in service in July 2013.

(6) FORECLOSED REAL ESTATE

At June 30, 2013 and 2012, the Company had foreclosed real estate held for sale of $2,278,000 and $2,513,000, respectively. During the years ended June 30, 2013 and 2012, losses in the amount of $13,000 and $80,000, respectively, were charged-off to the allowance for loan losses at foreclosure. Losses on subsequent write downs of foreclosed real estate amounted to $10,000 and $48,000 in the fiscal years 2013 and 2012, respectively. Net realized loss from the sale of foreclosed real estate amounted to $3,000 and $39,000 for the years ended June 30, 2013 and 2012, respectively. Real estate taxes and other expenses of holding foreclosed real estate amounted to $180,000 and $261,000 for the years ended June 30, 2013 and 2012, respectively. These expenses are reported in noninterest expense. Income from foreclosed real estate amounted to $261,000 and $267,000, for the years ended June 30, 2013 and 2012, respectively, and is reported in other noninterest income. At June 30, 2013 and 2012, deferred gains on the sale of foreclosed real estate financed by the Company amounted to $24,000 and $38,000, respectively.

(7) GOODWILL AND CORE DEPOSIT INTANGIBLE

The changes in the carrying amount of goodwill for the years ended June 30, 2013 and 2012 are summarized as follows:

	2013	2012
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, 2013 and 2012 are summarized as follows:

	2013	2012
Gross carrying amount	$ 1,474	$ 1,474
Accumulated amortization	(1,168)	(1,074)
Net balance	$ 306	$ 400

Amortization expense for the years ended June 30, 2013 and 2012 was $94,000. Estimated amortization expense for each of the following five years is as follows:

Year ending June 30:	
2014	$ 94
2015	94
2016	94
2017	24
Total	$ 306

(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 $124,084,000 and $113,758,000 at June 30, 2013 and 2012, respectively. Contractually specified servicing fees, late fees and "ancillary fees" of approximately $317,000 and $286,000 are included in other noninterest income in the consolidated statements of income at June 30, 2013 and 2012, respectively.

Custodial escrow balances maintained in connection with the foregoing loan servicing and included in demand deposits, were approximately $768,000 and $631,000 at June 30, 2013 and 2012, respectively.

The aggregate fair value of capitalized mortgage-servicing rights at June 30, 2013 and 2012, 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, 2013 and 2012 is as follows:

	2013	2012
Mortgage servicing rights		
Balance, beginning of year	$ 1,051	$ 897
Servicing rights capitalized	585	522
Amortization of servicing rights	(445)	(368)
Balance, end of year	$ 1,191	$ 1,051

(9) DEPOSITS

The aggregate amount of time deposit accounts of $100,000 or more amounted to approximately $15,101,000 and $17,530,000 at June 30, 2013 and 2012, respectively.

At June 30, 2013, scheduled maturities of time deposits were as follows:

Year ending June 30:	
2014	$ 33,729
2015	9,833
2016	3,194
2017	2,577
2018	1,102
2019 and thereafter	1,978
Total	$ 52,413

The Bank held deposits of approximately $4.1 million and $2.6 million for related parties including directors, officers, employees and their affiliates at June 30, 2013 and 2012, respectively.

(10) REPURCHASE AGREEMENT

At June 30, 2013 and 2012, 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 2013 and 2012 was $8,000,000 and the monthly average of such agreements totaled $8,000,000 during 2013 and 2012. 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, 2013, debt securities underlying the agreement had a fair value of $10,186,000.

(11) ADVANCES FROM FEDERAL HOME LOAN BANK

At June 30, 2013 and 2012, advances from the FHLB were as follows:

	2013		2012	
(Dollars in thousands)	Weighted Average Rate	Amount	Weighted Average Rate	Amount
Fixed rate putable advances	3.62%	$ 60,000	4.02%	$ 60,000

The following is a schedule of maturities for advances outstanding as of June 30, 2013:

Due in the year ending June 30,:	
2014	$ -
2015	-
2016	-
2017	15,000
2018	35,000
2019	10,000
Total	$ 60,000

(11 - continued)

The advances are secured under a blanket collateral agreement. At June 30, 2013, the carrying value of qualifying residential mortgage loans and investment securities pledged as security for the advances was $66,359,000 and $26,844,000, 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, 2013 and 2012. The line of credit matures in January 2014.

(12) OTHER BORROWINGS

Other borrowings outstanding as of June 30, 2013 and 2012 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. The interest rate on the debentures was 1.690% and 6.905% at June 30, 2013 and 2012, respectively.

The Bank also has a $5 million federal funds line of credit agreement with another financial institution. The line of credit has an indefinite term and may be cancelled by either party with proper notice. There were no borrowings under this line of credit at June 30, 2013 and 2012.

(13) INCOME TAXES

The components of income tax expense were as follows:

	2013	2012
Current	$ 137	$ 312
Deferred	(111)	(231)
Totals	$ 26	$ 81

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

	2013	2012
Provision at federal statutory rate	$ 554	$ 404
State income tax-net of federal tax benefit	(20)	5
Cash surrender value of life insurance	(96)	(82)
Tax exempt interest	(340)	(285)
Other	(72)	39
Total income tax expense	$ 26	$ 81

(13 - continued)

Significant components of the Company's net deferred tax asset as of June 30, 2013 and 2012 were as follows:

	2013	2012
Deferred tax assets (liabilities):		
Allowance for loan losses	$ 930	$ 814
Deferred compensation and directors' fees	113	136
Unrealized loss on available for sale securities	423	-
Accrued vacation	97	87
Acquisition adjustments	18	22
State net operating loss carryforward	53	61
Other-than-temporary impairment loss on securities available for sale	520	522
Alternative minimum tax credit carryover	554	437
Charitable contribution carryover	5	10
Capital loss carryover	35	35
Indiana enterprise zone interest credit carryforwards	18	13
Other	98	60
Subtotal – deferred tax assets	2,864	2,197
Unrealized gain on available for sale securities	-	(11)
Depreciation	(331)	(317)
Federal Home Loan Bank stock dividends	(101)	(100)
Mortgage servicing rights	(451)	(395)
Core deposit intangible	(84)	(105)
Goodwill	(560)	(507)
Prepaid assets	(157)	(127)
Subtotal – deferred tax liabilities	(1,684)	(1,562)
Net deferred tax asset	$ 1,180	$ 635

The Company has charitable contributions carryovers of approximately $14,000 available to reduce federal taxable income in subsequent years. The carryovers expire for the year ending June 30, 2017.

The Company has a capital loss carryover of $84,000 available to reduce federal taxable income in subsequent years. The carryover expires for the year ending June 30, 2015.

The Company has Indiana net operating loss carryovers of approximately $621,000 available to reduce Indiana taxable income in subsequent years. The net operating loss carryovers expire for the years ending June 30, 2029 through 2031. The Company also has Indiana enterprise zone tax credits of $18,000 available to reduce Indiana franchise taxes in subsequent years. The credit carryovers expire for the years ending June 30, 2021 through 2023.

At June 30, 2013 and 2012, 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, 2010 are subject to examination by the relevant taxing authorities.

(13 - continued)

Retained earnings at June 30, 2013 and 2012 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, 2013 and 2012.

(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, 2013 and 2012.

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 $221,000 and $202,000 for the years ended June 30, 2013 and 2012, 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 $37,000 and $38,000 for the years ended June 30, 2013 and 2012, 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.

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.

(14 - continued)

At December 31, 2010, the ESOP loan from the Company was repaid in full. 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 $180,000 for the years ended June 30, 2013 and 2012. 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 had acquired 12,514 and 8,466 common shares from terminated participants or in the open market as of June 30, 2013 and 2012, respectively, that will be allocated to ESOP participants on December 31, 2013 and 2012, respectively.

Shares held by the ESOP at June 30, 2013 and 2012 were as follows:

	2013	2012
Allocated shares	158,653	157,452
Unallocated shares	12,514	8,466
Total ESOP shares	171,167	165,918
Fair value of unallocated shares and at June 30	$ 163,000	$ 92,000

(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 2013 and 2012, no options were granted.

Under the 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, 2013.

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at beginning of year	34,086	$ 17.75		
Granted	-	-		
Exercised	-	-		
Forfeited or expired	11,362	14.58		
Outstanding at end of year	22,724	$ 19.33	0.8	$ -
Exercisable at end of year	22,724	$ 19.33	0.8	$ -

(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 consolidated financial statements.

Commitments under outstanding standby letters of credit totaled $1,242,000 and $1,110,000 at June 30, 2013 and 2012, respectively.

The following is a summary of commitments to extend credit at June 30, 2013 and 2012:

	2013	2012
Loan commitments:		
Fixed rate	$ 1,683	$ 10,612
Adjustable rate	7,053	1,364
Residential and commercial loans in process	975	538
Undisbursed commercial and personal lines of credit	23,486	25,332
Total commitments to extend credit	$ 33,197	$ 37,846

(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 2013 or 2012.

(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 federal and state banking regulations. 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 federal and state banking regulations, or below the amount of the liquidation account established upon completion of the conversion of the Bank from mutual to stock form.

(19) 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 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, 2013, that the Bank meets all capital adequacy requirements to which it is subject.

As of June 30, 2013, the most recent notification from the FDIC 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.

(19 - continued)

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

(Dollars in thousands)	**Actual**		**Minimum For Capital Adequacy Purposes:**		**Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions:**	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
As of June 30, 2013:						
Total capital (to risk weighted assets)	$ 35,335	13.93%	$ 20,288	8.00%	$ 25,360	10.00%
Tier I capital (to risk weighted assets)	$ 32,881	12.97%	$ 10,144	4.00%	$ 15,216	6.00%
Tier I capital (to adjusted total assets)	$ 32,881	8.58%	$ 15,336	4.00%	$ 19,170	5.00%
Tangible capital (to adjusted total assets)	$ 32,881	8.58%	$ 5,751	1.50%	N/A	
As of June 30, 2012:						
Total capital (to risk weighted assets)	$ 34,501	14.51%	$ 19,021	8.00%	$ 23,777	10.00%
Tier I capital (to risk weighted assets)	$ 32,337	13.60%	$ 9,511	4.00%	$ 14,266	6.00%
Tier I capital (to adjusted total assets)	$ 32,337	8.51%	$ 15,196	4.00%	$ 18,996	5.00%
Tangible capital (to adjusted total assets)	$ 32,337	8.51%	$ 5,699	1.50%	N/A	

(20) SUPPLEMENTAL DISCLOSURES FOR STATEMENTS OF CASH FLOWS

	2013	**2012**
Cash payments for:		
Interest	$ 3,748	$ 4,770
Income taxes (net of refunds received)	190	93
Noncash investing activities:		
Transfer of loans to foreclosed real estate	14	271
Loans to facilitate the sale of foreclosed real estate	92	62

(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, 2013 and 2012 are as follows:

	2013		2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:				
Cash and cash equivalents	$ 36,854	$ 36,854	$ 45,810	$ 45,810
Interest bearing time deposits	744	744	250	250
Securities available for sale	87,376	87,376	115,680	115,680
Loans held for sale	2,115	2,162	1,403	1,413
Loans	214,333	217,604	183,142	187,909
Less: allowance for loan losses	(2,454)	(2,454)	(2,164)	(2,164)
	211,879	215,150	180,978	185,745
Federal Home Loan Bank stock	4,305	4,305	4,305	4,305
Accrued interest receivable	1,216	1,216	1,352	1,352
Financial liabilities:				
Deposits	264,948	265,160	269,197	269,470
Borrowed funds	73,155	80,402	73,155	80,939
Accrued interest payable	188	188	218	218
Advance payments by borrowers for taxes and insurance	932	932	815	815

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, and the fair value of these instruments is considered immaterial.

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.

Interest-Bearing Time Deposits

For interest-bearing time deposits in other banks, the carrying amount is a reasonable estimate of fair value.

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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 FHLB 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. The fair value of loans held for sale is based on specific prices of underlying contracts for sale to investors.

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.

(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.

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Level 2: Inputs to the valuation methodology include quoted market prices for similar assets or liabilities in active markets; quoted market prices for identical or similar assets or liabilities in markets that are not active; or inputs 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, 2013 and 2012. The Company had no liabilities measured at fair value as of June 30, 2013 and 2012.

	Carrying Value			
	Level 1	Level 2	Level 3	Total
June 30, 2013:				
Assets Measured on a Recurring Basis				
Securities available for sale:				
Mortgage-backed securities	$ -	$ 27,515	$ -	$ 27,515
Asset-backed securities	-	6,045	-	6,045
SBA-backed securities	-	5,377	-	5,377
Agency securities	-	13,561	-	13,561
Corporate obligations	-	282	108	390
Municipal bonds	-	34,488	-	34,488
Total securities available for sale	$ -	$ 87,268	$ 108	$ 87,376
Assets Measured on a Nonrecurring Basis				
Loans held for sale	$ -	$ 2,115	$ -	$ 2,115
Impaired loans:				
Commercial:				
One-to-four family mortgage	$ -	$ -	$ 480	$ 480
Commercial and multi-family mortgage	-	-	3,361	3,361
Commercial business (secured)	-	-	-	-
Residential:				
One-to-four family mortgage	-	-	176	176
Second mortgage and HELOCs	-	-	51	51
Consumer	-	-	224	224
Total impaired loans	$ -	$ -	$ 4,292	$ 4,292
Foreclosed real estate – One-to-four family	$ -	$ -	$ 2,278	$ 2,278

(22 – continued)

	Carrying Value			
	Level 1	Level 2	Level 3	Total
June 30, 2012:				
Assets Measured on a Recurring Basis				
Securities available for sale				
Mortgage-backed securities	$ -	$ 41,558	$ -	$ 41,558
Asset-backed securities	-	5,666	-	5,666
SBA-backed securities	-	7,349	-	7,349
Agency securities	-	29,064	-	29,064
Corporate obligations	-	87	79	166
Municipal bonds	-	31,877	-	31,877
Total securities available for sale	$ -	$ 115,601	$ 79	$ 115,680
Assets Measured on a Nonrecurring Basis				
Loans held for sale	$ -	$ 1,403	$ -	$ 1,403
Impaired loans:				
Commercial:				
One-to-four family mortgage	$ -	$ -	$ 1,001	$ 1,001
Commercial and multi-family mortgage	-	-	2,423	2,423
Commercial business (secured)	-	-	173	173
Residential:				
One-to-four family mortgage	-	-	30	30
Second mortgage and HELOCs	-	-	29	29
Consumer	-	-	76	76
Total impaired loans	$ -	$ -	$ 3,732	$ 3,732
Foreclosed real estate – One-to-four family	$ -	$ -	$ 2,513	$ 2,513

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.

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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. For securities where quoted market prices, market prices of similar securities or prices from an independent third party pricing service are not available, fair values are calculated using discounted cash flows or other market indicators and are classified within Level 3 of the fair value hierarchy. 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 is 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 reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly. The fair value of impaired loans is classified as Level 3 in the fair value hierarchy.

Impaired loans are carried at the present value of estimated future cash flows using the loan's effective interest rate or the fair value of collateral less estimated costs to sell if the loan is collateral dependent. At June 30, 2013 and 2012, all impaired loans were considered to be collateral dependent for the purpose of determining fair value. Collateral may be real estate and/or business assets, including equipment, inventory and/or accounts receivable. The fair value of the collateral is generally determined based on real estate appraisals or other independent evaluations by qualified professionals, adjusted for estimated costs to sell the property, costs to complete or repair the property and other factors to reflect management's estimate of the fair value of the collateral given the current market conditions and the condition of the collateral. At June 30, 2013, the significant unobservable inputs used in the fair value measurement of impaired loans included a discount from appraised value ranging from 0% to 10% for estimates of changes in market conditions and the condition of the collateral, and estimated costs to sell the collateral.

Foreclosed Real Estate Held for Sale. Foreclosed real estate is reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly. The fair value of foreclosed real estate is classified as Level 3 in the fair value hierarchy

Foreclosed real estate is reported at fair value less estimated costs to dispose of the property. The fair values are determined by real estate appraisals which are then discounted to reflect management's estimate of the fair value of the property given current market conditions and the condition of the collateral. At June 30, 2013, the significant unobservable inputs used in the fair value measurement of foreclosed real estate included a discount from appraised value (including estimated costs to sell the property) ranging from 0% to 42% with a weighted average of 7%.

There have been no changes in the valuation techniques and related inputs used for assets measured at fair value on a recurring and nonrecurring basis during the years ended June 30, 2013 and 2012. There were no transfers in or out of the Company's Level 3 financial assets for the years ended June 30, 2013 and 2012. In addition, there were no transfers into or out of Levels 1 and 2 of the fair value hierarchy during the years ended June 30, 2013 and 2012.

(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, 2013 and 2012:

	2013	2012
Beginning balance	$ 79	$ 126
Total gains or (losses) (both realized/unrealized):		
Recognized in earnings (noninterest income)	-	-
Recognized in other comprehensive income	23	(41)
Purchases, sales, issuances and settlements, net	6	(6)
Transfers into Level 3	-	-
Ending balance	$ 108	$ 79

(23) CONCENTRATIONS OF CREDIT RISK

At June 30, 2013, the Company had concentrations of credit risk with correspondent banks that included bank deposits in the amount of $465,000 in excess of the federal deposit insurance limit.

(24) SUBSEQUENT EVENTS

Management 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 18, 2013, the date these financial statements were available to be issued. Management has determined that there are no such subsequent events.