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

CONSOLIDATED
FINANCIAL STATEMENTS

YEARS ENDED
JUNE 30, 2018 AND 2017

FIRST BANCORP OF INDIANA, INC. AND SUBSIDIARIES

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MONROE SHINE
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Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of **First Bancorp of Indiana, Inc. and Subsidiaries**, which comprise the consolidated balance sheets as of June 30, 2018 and 2017, 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, 2018 and 2017, 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 20, 2018

FIRST BANCORP OF INDIANA, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
JUNE 30, 2018 AND 2017

	2018	2017
ASSETS		
Cash and due from banks	$ 1,903,385	$ 2,936,348
Interest-bearing demand deposits with banks	7,722,804	27,382,398
Federal funds sold	14,138,000	-
Money market fund	889,995	1,473,507
Total cash and cash equivalents	24,654,184	31,792,253
Interest-bearing time deposits	5,894,088	5,406,057
Securities available for sale, at fair value	84,486,139	90,815,020
Loans held for sale	194,000	235,000
Loans, net	280,229,385	255,089,215
Federal Home Loan Bank stock, at cost	5,085,000	4,320,000
Premises and equipment	11,386,003	11,994,933
Foreclosed real estate	1,877,755	2,702,953
Accrued interest receivable	1,569,751	1,347,752
Cash surrender value of life insurance	8,495,291	8,275,389
Goodwill	6,229,152	6,229,152
Other assets	4,432,172	4,030,830
Total Assets	$ 434,532,920	$ 422,238,554
LIABILITIES		
Deposits:		
Noninterest-bearing	$ 32,859,734	$ 37,683,029
Interest-bearing	261,780,713	240,759,496
Total deposits	294,640,447	278,442,525
Repurchase agreement	-	8,000,000
Advances from Federal Home Loan Bank	95,000,000	90,000,000
Other borrowings	5,155,000	5,155,000
Accrued interest payable	179,545	187,428
Advance payments by borrowers for taxes and insurance	1,094,938	1,395,375
Accrued expenses and other liabilities	3,136,568	2,497,756
Total Liabilities	399,206,498	385,678,084
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	20,623,485	20,609,564
Accumulated other comprehensive (loss) income	(1,147,318)	100,651
Less treasury stock, at cost - 777,340 shares	(11,947,603)	(11,947,603)
Total Stockholders' Equity	35,326,422	36,560,470
Total Liabilities and Stockholders' Equity	$ 434,532,920	$ 422,238,554

See notes to consolidated financial statements.

FIRST BANCORP OF INDIANA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
INTEREST INCOME		
Loans, including fees	$ 11,767,869	$ 10,534,540
Investment securities:		
Taxable	1,944,078	2,093,805
Tax-exempt	665,407	772,372
Federal Home Loan Bank dividends	231,346	185,222
Interest-bearing deposits with banks	256,955	182,425
Federal funds sold	38,463	-
Other	11,326	4,715
Total interest income	14,915,444	13,773,079
INTEREST EXPENSE		
Deposits	962,755	567,529
Repurchase agreements	15,858	361,756
Advances from Federal Home Loan Bank	2,123,586	2,056,611
Other borrowings	160,449	122,048
Total interest expense	3,262,648	3,107,944
Net interest income	11,652,796	10,665,135
Provision for loan losses	-	825,000
Net interest income after provision for loan losses	11,652,796	9,840,135
NONINTEREST INCOME		
Service charges on deposit accounts	950,743	960,400
Net realized gain on sales of available for sale securities	-	6,813
Other-than-temporary impairment loss on securities	(19,619)	(18,071)
Net gain on sales of loans	445,984	432,800
Increase in cash surrender value of life insurance	219,903	234,000
ATM transaction and point-of-sale interchange fees	936,104	913,911
Other income	622,110	709,343
Total noninterest income	3,155,225	3,239,196
NONINTEREST EXPENSE		
Compensation and benefits	7,082,435	6,433,741
Occupancy and equipment	2,032,954	1,988,548
Data processing	613,971	690,776
Professional fees	716,877	584,886
Deposit insurance expense	252,000	180,648
Advertising expense	332,393	280,191
Other expenses	2,676,239	2,278,553
Total noninterest expense	13,706,869	12,437,343
Income before income taxes	1,101,152	641,988
Income tax expense (benefit)	30,683	(258,534)
Net Income	$ 1,070,469	$ 900,522

See notes to consolidated financial statements.

FIRST BANCORP OF INDIANA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
Net Income	$ 1,070,469	$ 900,522
OTHER COMPREHENSIVE LOSS, NET OF TAX		
Change in unrealized gains (losses) on securities available for sale:		
Unrealized holding losses arising during the period	(1,613,377)	(2,255,775)
Income tax benefit	378,629	857,195
Net of tax amount	(1,234,748)	(1,398,580)
Less: reclassification adjustment for realized gains included in net income during the period	-	(6,813)
Income tax expense	-	2,589
Net of tax amount	-	(4,224)
Less: reclassification adjustment for other-than-temporary impairment losses included in net income during the period	19,619	18,071
Income tax benefit	(4,905)	(6,867)
Net of tax amount	14,714	11,204
Other Comprehensive Loss	(1,220,034)	(1,391,600)
Total Comprehensive Loss	$ (149,565)	$ (491,078)

See notes to consolidated financial statements.

FIRST BANCORP OF INDIANA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED JUNE 30, 2018 AND 2017

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balances at July 1, 2016	$ 25,265	$ 27,772,593	$ 20,793,525	$ 1,492,251	$ (11,947,603)	$ 38,136,031
Net income	-	-	900,522	-	-	900,522
Other comprehensive income	-	-	-	(1,391,600)	-	(1,391,600)
Dividends on common stock, ($0.62 per share)	-	-	(1,084,483)	-	-	(1,084,483)
Balances at June 30, 2017	25,265	27,772,593	20,609,564	100,651	(11,947,603)	36,560,470
Net income	-	-	1,070,469	-	-	1,070,469
Other comprehensive loss	-	-	-	(1,220,034)	-	(1,220,034)
Dividends on common stock, ($0.62 per share)	-	-	(1,084,483)	-	-	(1,084,483)
Reclassification - income tax effect of change in federal tax rate	-	-	27,935	(27,935)	-	-
Balances at June 30, 2018	$ 25,265	$ 27,772,593	$ 20,623,485	$ (1,147,318)	$ (11,947,603)	$ 35,326,422

See notes to consolidated financial statements.

FIRST BANCORP OF INDIANA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 1,070,469	$ 900,522
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of premium and accretion of discount on securities, net	159,030	192,311
Net realized gain on sales of available for sale securities	-	(6,813)
Other-than-temporary impairment loss on securities	19,619	18,071
Loans originated for sale	(12,118,670)	(14,833,618)
Proceeds from sales of loans	12,577,020	15,509,118
Net gain on sales of loans	(445,984)	(432,800)
Provision for loan losses	-	825,000
Depreciation and amortization	816,984	807,972
Deferred income tax	71,935	434,000
Decrease (increase) in accrued interest receivable	(221,999)	72,843
Decrease in accrued interest payable	(7,883)	(5,064)
Increase in cash surrender value of life insurance	(219,903)	(234,000)
Loss (gain) on sale of premises and equipment	3,745	(3,485)
Net realized and unrealized loss (gain) on foreclosed real estate	259,260	(17,327)
Net change in other assets and liabilities	625,278	(1,355,222)
Net Cash Provided By Operating Activities	2,588,901	1,871,508
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in interest-bearing time deposits	(488,031)	(733,066)
Purchase of securities available for sale	(3,747,474)	(26,651,003)
Maturities and principal repayments on securities available for sale	8,246,564	24,541,855
Proceeds from sales of securities available for sale	-	2,365,596
Net increase in loans	(24,600,221)	(18,866,088)
Purchase of Federal Home Loan Bank stock	(765,000)	-
Purchase of premises and equipment	(212,474)	(456,851)
Proceeds from sale of premises and equipment	675	3,485
Proceeds from sale of foreclosed real estate	310,056	553,804
Capital improvements to foreclosed real estate	(284,067)	(11,343)
Net Cash Used In Investing Activities	(21,539,972)	(19,253,611)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	16,197,922	26,857,268
Advances from Federal Home Loan Bank	97,500,000	15,000,000
Repayment of advances from Federal Home Loan Bank	(92,500,000)	(15,000,000)
Repayment of repurchase agreement	(8,000,000)	-
Net increase (decrease) in advance payments by borrowers for taxes and insurance	(300,437)	337,424
Dividends paid	(1,084,483)	(1,084,483)
Net Cash Provided By Financing Activities	11,813,002	26,110,209
Net Increase (Decrease) in Cash and Cash Equivalents	(7,138,069)	8,728,106
Cash and cash equivalents at beginning of year	31,792,253	23,064,147
Cash and Cash Equivalents at End of Year	$ 24,654,184	$ 31,792,253

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 full-service locations in Southwestern Indiana and one loan production office in Henderson, Kentucky. 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 of the Bank, 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.

Basis 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. The reclassifications had no effect on net income or stockholders' equity.

Statements of Cash Flows

For purposes of the statements of cash flows, the Company has defined cash and cash equivalents as cash on hand, amounts due from banks (including cash items in process of clearing), interest-bearing deposits with other banks having an original maturity of 90 days or less, federal funds sold 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 ("U.S. GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the 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.

(1 - continued)

Use of Estimates – continued

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.

While management uses available information to recognize losses on loans and foreclosed real estate, further reductions in the carrying amounts of loans and foreclosed real estate 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 and foreclosed real estate. 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 and foreclosed real estate 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 FBEII 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 FBEII also hold debt securities issued by FNMA, FHLMC, Federal Farm Credit Bank ("FFCB") and Federal Home Loan Bank ("FHLB") (referred to as agency securities), pooled corporate trust preferred obligations (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.

(1 - continued)

Securities Available for Sale – continued

Declines in the fair value of individual available for sale securities 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.

The Bank is a member of the Federal Home Loan Bank of Indianapolis ("FHLB"). FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported in the consolidated statements of income.

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.

(1 - continued)

Loans and Allowance for Loan Losses – continued

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.

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 when a collateral dependent loan is identified as impaired, and a property is considered significant if the value of the property is estimated to exceed $250,000. 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 a collateral dependent 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

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. A TDR on nonaccrual status is restored to accrual status when the borrower has demonstrated the ability to make future payments in accordance with the restructured terms, which generally requires that the borrower demonstrate a period of performance of at least six consecutive months in accordance with the restructured terms including consistent and timely payments.

(1 - continued)

Loans and Allowance for Loan Losses - continued

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the 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 or substandard. For such loans that are classified as impaired, an allowance is established when the discounted cash flows or collateral value of the impaired loan is lower than the carrying value of that loan.

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.

(1 - continued)

Loans and Allowance for Loan Losses - continued

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.

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.

There were no significant changes to the Bank's accounting policies or methodology used to estimate the allowance for loan losses from the prior year.

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. Specific reserves are not considered charge-offs in management's evaluation of the general component of the allowance for loan losses because they are estimates and the outcome of the loan relationship is undetermined.

(1 - continued)

Loans and Allowance for Loan Losses - continued

There were no partial charge-offs recognized during 2018 or 2017. At June 30, 2018, the Bank had two consumer loans on which partial charge-offs of $6,000 had been recorded. At June 30, 2017, the Bank had three consumer loans on which partial charge-offs of $10,000 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.

Foreclosed Real Estate

Foreclosed real estate includes formally foreclosed property and property obtained via a deed in lieu of foreclosure that is currently held for sale. 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 the 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 costs 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 determined using the specific identification method and are included in noninterest income.

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, 2017, the Bank had commitments to originate $36,000 of fixed-rate mortgage loans intended for sale in the secondary market after the loans are closed. At June 30, 2018, the Bank had no commitments required to be accounted for at fair value as all mortgage loan commitments were best efforts commitments where specific loans were committed to be delivered if an when the loan closed. Fair value is estimated based on fees that would be charged on commitments with similar terms.

Mortgage servicing rights (“MSRs”) 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 MSRs 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.

Transfers of Financial Assets

The Bank accounts for transfers and servicing of financial assets in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 860, *Transfers and Servicing*. Transfers of financial assets are accounted for as sales only when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank, (2) the transferee obtains the right (free from conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Transfers of a portion of a loan must meet the criteria of a participating interest. If it does not meet the criteria of a participating interest, the transfer must be accounted for as a secured borrowing. In order to meet the criteria for a participating interest, all cash flows from the loan must be divided proportionately, the rights of each loan holder must have the same priority, and the loan holders must have no recourse to the transferor other than standard representations and warranties and no loan holder has the right to pledge or exchange the entire loan.

The Bank sells financial assets in the normal course of business, the majority of which are related to residential mortgage loan sales through established programs and commercial loan sales through participation agreements. In accordance with accounting guidance for asset transfers, the Bank considers any ongoing involvement with transferred assets in determining whether the assets can be derecognized from the balance sheet. With the exception of servicing and certain performance-based guarantees, the Bank’s continuing involvement with financial assets sold is minimal and generally limited to market customary representation and warranty clauses.

(1 - continued)

Transfers of Financial Assets – continued

When the Bank sells financial assets, it may retain servicing rights and/or other interests in the financial assets. The gain or loss on sale depends on the previous carrying amount of the transferred financial assets, the servicing right recognized, and the consideration received and any liabilities incurred in exchange for the transferred assets. Upon transfer, any servicing assets and other interests held by the Bank are carried at the lower of cost or fair value.

Stock-Based Compensation

The Company has adopted the fair value based method of accounting for stock-based compensation prescribed in FASB ASC Topic 718 for its stock-based compensation 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. The Bank is the owner and is a joint or sole beneficiary of the policies. 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 from the increase in cash value of the policies and income from the realization of death benefits is reported in noninterest income in the accompanying consolidated statements of income.

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 consolidated 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 consolidated 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.

Amounts reclassified out of unrealized gains and losses on securities available for sale included in accumulated other comprehensive income or loss are included in the net realized gain on sales of available for sale securities and other-than-temporary impairment loss on securities line items on the consolidated statements of income.

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.

(1 - continued)

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 May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The ASU provides a five-step revenue recognition model for all revenue arising from contracts with customers and affects all entities that enter into contracts to provide goods or services to their customers (unless the contracts are included in the scope of other standards). The ASU requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. For public entities, the ASU was originally effective for annual reporting periods beginning after December 15, 2016, including interim periods within those reporting periods. However, with the issuance of ASU 2015-14 in August 2015, the FASB deferred the effective date of ASU 2014-09 by one year for all entities, making the amendments effective for public entities for annual reporting periods beginning after December 15, 2017, including interim periods within those reporting periods. Companies also have the option to apply ASU 2014-09 as of the original effective date. As a bank, key revenue sources such as interest income have been identified as out of the scope of this new guidance. The Company's analysis suggests that the adoption of this ASU is not expected to have a material impact on the Company's financial position or results of operations as substantially all of the Company's revenues are excluded from the scope of the new guidance.

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments – Overall (Subtopic 825-10) – Recognition and Measurement of Financial Assets and Financial Liabilities*. The ASU requires equity investments (except those accounted for under the equity method of accounting) to be measured at fair value with changes in fair value recognized in net income. The amendments in this ASU also require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in instrument-specific credit risk. In addition, the ASU eliminates the requirement to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet. The ASU also clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. For public business entities, the ASU is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Entities should apply the amendments by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The adoption of this ASU is not expected to have a material impact on the Company's consolidated financial position or results of operations.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The ASU requires lessees to recognize on the balance sheet the assets and liabilities arising from operating leases. A lessee should recognize a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term. A lessee should include payments to be made in an optional period only if the lessee is reasonably certain to exercise an option to extend the lease or not to exercise an option to terminate the lease. For a finance lease, interest payments should be recognized separately from amortization of the right-of-use asset in the statement of comprehensive income. For operating leases, the lease cost should be allocated over the lease term on a generally straight-line basis. For public business entities, the guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application of the guidance is permitted. Based on current leases, the adoption of this ASU is not expected to have a material impact on the Company's consolidated financial position or results of the operations.

(1 - continued)

Recent Accounting Pronouncements - continued

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326)*. The update replaces the incurred loss methodology for recognizing credit losses under current U.S. GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Under the new guidance, an entity will measure all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. The expected loss model will apply to loans and leases, unfunded lending commitments, held-to-maturity debt securities and other debt instruments measured at amortized cost. The impairment model for available-for-sale debt securities will require the recognition of credit losses through a valuation allowance when fair value is less than amortized cost, regardless of whether the impairment is considered to be other-than-temporary. For public business entities that are not U.S. Securities and Exchange Commission filers, the amendments in the update are effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. Early adoption is permitted as of fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Once adopted, the Company expects its allowance for loan losses to increase through a one-time adjustment to retained earnings, however, until its evaluation is complete, the magnitude of the increase will be unknown.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230) – Classification of Certain Cash Receipts and Cash Payments.* This ASU is intended to address the appropriate classification of eight specific cash flow issues on the cash flow statement, including that proceeds from the settlement of bank-owned life insurance policies should be classified as inflows from investing activities. Other specific areas are identified in the ASU as to the appropriate classification of the cash inflows or outflows. The amendments in this ASU are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted and must be applied using the retrospective transition method to each period presented. This ASU was adopted for the year ended June 30, 2018 and did not have a material impact on the Company's consolidated financial position or results of operations.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles – Goodwill and Other (Topic 350) – Simplifying the Test for Goodwill Impairment*. This ASU simplifies the measurement of goodwill impairment by eliminating Step 2 (implied fair value measurement) from the goodwill impairment test. Instead, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. However, the loss should not exceed the total amount of goodwill allocated to the reporting unit. The amendments in the ASU are effective for the Company for its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim and annual goodwill impairment tests performed on testing dates after January 1, 2017. The adoption of this ASU is not expected to have a material impact on the Company's consolidated financial position or results of operations.

(1 - continued)

Recent Accounting Pronouncements – continued

In March 2017, the FASB issued ASU No. 2017-08, *Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20) – Premium Amortization on Purchased Callable Debt Securities*. This ASU shortens the amortization period for certain callable debt securities held at a premium. Specifically, the ASU requires the premium to be amortized to the earliest call date. The ASU does not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. The amendments in the ASU are effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity should apply the amendments in this update on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. Additionally, in the period of adoption, an entity should provide disclosures about a change in accounting principle. The adoption of this ASU is not expected to have a material impact on the Company's consolidated financial position or results of operations.

In February 2018, the FASB issued ASU No. 2018-02, *Income Statement – Reporting Comprehensive Income (Topic 220) – Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. The guidance in Topic 740, *Income Taxes*, requires that deferred tax assets and liabilities be adjusted for the effect of a change in tax laws or rates with the effect included in income from continuing operations in the reporting period that includes the enactment date. As a result, the tax effect of items within accumulated other comprehensive income or loss ("AOCI") do not reflect the appropriate tax rate, referred to as "stranded tax effects". The ASU was issued to allow a reclassification from AOCI to retained earnings for the stranded tax effects resulting from the Tax Cuts and Jobs Act ("TCJA") enacted on December 22, 2017. The ASU requires that an entity disclose a description of the accounting policy for releasing income tax effects from AOCI. An entity that elects to reclassify the income tax effects of the TCJA from AOCI to retained earnings must disclose in the period of adoption a statement that an election was made and a description of other income tax effects related to the application of the TCJA that are reclassified from AOCI to retained earnings, if any. The amendments in the ASU are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted for public entities for periods for which financial statements have not yet been issued. The Company adopted the amendments in this update as of December 31, 2017, resulting in a decrease to AOCI and an increase to retained earnings in the amount of $28,000 for the year ended June 30, 2018, with no net impact to total stockholders' equity.

In August 2018, the FASB issued ASU No. 2018-13, *Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*, which modifies FASB ASC Topic 820, *Fair Value Measurement*. This ASU modifies the disclosure requirements for fair value measurements by removing, modifying, or adding certain disclosures. The amendments in the ASU are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Certain amendments in the ASU should be applied prospectively for only the most recent interim or annual period presented in the fiscal year of adoption, with all other amendments to be applied retrospectively to all periods presented upon their effective date. Early adoption is permitted upon issuance of the ASU, and an entity is permitted to early adopt any removed or modified disclosures upon issuance of the ASU and delay adoption of the additional disclosures until their effective date. The adoption of this ASU is not expected to have a material impact on the Company's consolidated financial position or results of operations.

(2) RESTRICTION ON CASH AND DUE FROM BANKS

The Bank is required to maintain reserve balances on hand and with the Federal Reserve Bank or a pass-through correspondent bank. The amount of those Federal Reserve Bank reserve balances at June 30, 2018 was $3,670,000.

(3) INVESTMENT SECURITIES

Investment securities have been classified in the consolidated balance sheets according to management's intent. Investment securities at June 30, 2018 and 2017 are summarized as follows:

June 30, 2018:	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Securities available for sale:				
Mortgage-backed securities	$ 38,632	$ 176	$ 965	$ 37,843
Agency securities	18,555	-	878	17,677
Corporate obligations	2,581	387	220	2,748
Municipal bonds	26,241	205	228	26,218
Total securities available for sale	$ 86,009	$ 768	$ 2,291	$ 84,486
June 30, 2017:				
Securities available for sale:				
Mortgage-backed securities	$ 43,067	$ 536	$ 194	$ 43,409
Agency securities	18,655	-	358	18,297
Corporate obligations	2,574	266	667	2,173
Municipal bonds	26,391	629	84	26,936
Total securities available for sale	$ 90,687	$ 1,431	$ 1,303	$ 90,815

The amortized cost and fair value of investment securities as of June 30, 2018, by contractual maturity, are shown below. Expected maturities of mortgage and other asset-backed securities may differ from contractual maturities because the loans underlying the obligations may be prepaid without penalty and thus the contractual maturities are not presented below.

	Securities Available for Sale	
	Amortized Cost	**Fair Value**
Due in one year or less	$ 2,684	$ 2,727
Due after one year through five years	16,641	16,613
Due after five years through ten years	24,130	23,239
Due after ten years	3,922	4,064
	47,377	46,643
Mortgage-backed securities	38,632	37,843
	$ 86,009	$ 84,486

(3 - continued)

Certain available for sale securities were pledged to secure Federal Home Loan Bank advances at June 30, 2018. (See Note 11)

During the year ended June 30, 2018, the Company realized no gains or losses on the sale of securities. During the year ended June 30, 2017, the Company realized gross gains of $49,000 on the sale of available for sale mortgage-backed securities and municipal obligations and realized losses of $42,000 on the sale of available for sale municipal obligations.

The following table presents the fair values and gross unrealized losses for temporarily impaired available for sale securities as of June 30, 2018 and 2017 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
June 30, 2018		
Continuous loss position less than twelve months:		
Mortgage-backed securities	9	$ 16,472
Agency securities	7	4,226
Municipal bonds	27	8,062
Total less than twelve months	43	28,760
Continuous loss position more than twelve months:		
Mortgage-backed securities	16	13,196
Agency securities	11	13,450
Corporate obligations	1	579
Municipal bonds	7	2,357
Total more than twelve months	35	29,582
Total available for sale	78	$ 58,342

	Number of Investment Positions	Fair Value	Gross Unrealized Losses
June 30, 2017			
Continuous loss position less than twelve months:			
Mortgage-backed securities	6	$ 18,835	$ 147
Agency securities	18	18,297	358
Municipal bonds	9	3,230	84
Total less than twelve months	33	40,362	589
Continuous loss position more than twelve months:			
Mortgage-backed securities	20	1,763	47
Corporate obligations	3	1,595	667
Total more than twelve months	23	3,358	714
Total available for sale	56	$ 43,720	$ 1,303

(3 - continued)

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

The unrealized losses on 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 years ended June 30, 2018 and 2017. Prior period credit losses on these 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, 2018.

The unrealized loss positions in mortgage-backed securities as of June 30, 2018 and 2017 include losses related to privately-issued CMO securities. During the years ended June 30, 2018 and 2017, the Company recognized aggregate other-than-temporary impairment write-down charges to earnings of $20,000 and $18,000, 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 each security. As the Company has the intent and ability to hold the investments until recovery, no unrealized losses as of June 30, 2018 or 2017 are deemed to be other-than-temporary.

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, 2018 and 2017 consisted of the following:

	2018	2017
Commercial:		
One-to-four family mortgage	$ 7,032	$ 6,962
Commercial and multi-family mortgage	128,549	107,125
Commercial business (secured)	44,959	47,173
Commercial business (unsecured)	7,658	7,395
Residential:		
One-to-four family mortgage	70,555	64,763
Second mortgage and HELOC's	19,520	20,293
Consumer loans	4,049	4,396
Gross loans	282,322	258,107
Net deferred loan fees and costs	(94)	28
Allowance for loan losses	(1,999)	(3,046)
Loans, net	$ 280,229	$ 255,089

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, 2018. 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	$ 8,852
New loans and advances	171
Payments	(1,107)
Ending balance	$ 7,916

(4 - continued)

The following table provides the components of the Bank's recorded investment in loans at June 30, 2018:

	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	$ 7,032	$ 128,549	$ 44,959	$ 7,658	$ 70,555	$ 19,520	$ 4,049	$ 282,322
Accrued interest receivable	24	623	165	21	159	69	8	1,069
Net deferred loan fees/costs	(12)	(73)	(31)	(2)	24	-	-	(94)
Recorded investment in loans	$ 7,044	$ 129,099	$ 45,093	$ 7,677	$ 70,738	$ 19,589	$ 4,057	$ 283,297

The following table provides the components of the Bank's recorded investment in loans at June 30, 2017

	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	$ 6,962	$ 107,125	$ 47,173	$ 7,395	$ 64,763	$ 20,293	$ 4,396	$ 258,107
Accrued interest receivable	17	492	101	17	140	60	9	836
Net deferred loan fees/costs	(11)	(35)	(27)	(1)	101	-	1	28
Recorded investment in loans	$ 6,968	$ 107,582	$ 47,247	$ 7,411	$ 65,004	$ 20,353	$ 4,406	$ 258,971

(4 - continued)

An analysis of the allowance for loan losses and recorded investment in loans as of and for the year ended June 30, 2018 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	$ 101	$ 1,232	$ 1,429	$ 43	$ 76	$ 111	$ 54	$ 3,046
Provisions	(61)	(309)	398	38	(9)	(45)	(12)	-
Charge-offs	-	-	(1,033)	-	-	(6)	(17)	(1,056)
Recoveries	-	-	-	-	-	-	9	9
Ending balance	$ 40	$ 923	$ 794	$ 81	$ 67	$ 60	$ 34	$ 1,999
Ending allowance balance attributable to loans:								
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	40	923	794	81	67	60	34	1,999
Ending balance	$ 40	$ 923	$ 794	$ 81	$ 67	$ 60	$ 34	$ 1,999
Recorded Investment in Loans:								
Individually evaluated for impairment	$ -	$ 2,116	$ 37	$ -	$ 306	$ 158	$ 2	$ 2,619
Collectively evaluated for impairment	7,044	126,983	45,056	7,677	70,432	19,431	4,055	280,678
Ending balance	$ 7,044	$ 129,099	$ 45,093	$ 7,677	$ 70,738	$ 19,589	$ 4,057	$ 283,297

(4 - continued)

An analysis of the allowance for loan losses and recorded investment in loans as of and for the year ended June 30, 2017 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	$ 269	$ 1,497	$ 249	$ 49	$ 31	$ 105	$ 78	$ 2,278
Provisions	(168)	(294)	1,180	(6)	98	6	9	825
Charge-offs	-	(9)	-	-	(53)	-	(43)	(105)
Recoveries	-	38	-	-	-	-	10	48
Ending balance	$ 101	$ 1,232	$ 1,429	$ 43	$ 76	$ 111	$ 54	$ 3,046
Ending allowance balance attributable to loans:								
Individually evaluated for impairment	$ -	$ -	$ 1,000	$ -	$ -	$ -	$ -	$ 1,000
Collectively evaluated for impairment	101	1,232	429	43	76	111	54	2,046
Ending balance	$ 101	$ 1,232	$ 1,429	$ 43	$ 76	$ 111	$ 54	$ 3,046
Recorded Investment in Loans:								
Individually evaluated for impairment	$ -	$ 854	$ 3,028	$ -	$ -	$ 179	$ 26	$ 4,087
Collectively evaluated for impairment	6,968	106,728	44,219	7,411	65,004	20,174	4,380	254,884
Ending balance	$ 6,968	$ 107,582	$ 47,247	$ 7,411	$ 65,004	$ 20,353	$ 4,406	$ 258,971

(4 - continued)

The following table summarizes the Bank's impaired loans as of and for the year ended June 30, 2018:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Interest Recognized-Cash Method
Loans with no related allowance recorded:						
Commercial:						
Commercial and multi-family mortgage	$ 2,116	$ 2,113	$ -	$ 925	$ 27	$ 8
Commercial business (secured)	37	36	-	418	-	37
Residential:						
One-to-four family mortgage	306	305	-	117	-	5
Second mortgage and HELOCs	158	157	-	184	-	4
Consumer	2	8	-	14	-	1
	2,619	2,619	-	1,658	27	55
Loans with an allowance recorded:						
Commercial:						
Commercial business (secured)	-	-	-	1,208	3	-
	$ 2,619	$ 2,619	$ -	$ 2,866	$ 30	$ 55

(4 - continued)

The following table summarizes the Bank's impaired loans as of and for the year ended June 30, 2017:

	Recorded Investment	Principal Balance	Related Allowance	Recorded Investment	Income Recognized	Recognized- Cash Method
Loans with no related allowance recorded:						
Commercial:						
One-to-four family mortgage	$ -	$ -	$ -	$ 11	$ 1	$ -
Commercial and multi-family mortgage	854	854	-	1,952	111	28
Commercial business (secured)	-	-	-	-	-	-
Residential:						
One-to-four family mortgage	-	-	-	88	-	-
Second mortgage and HELOCs	179	179	-	94	-	3
Consumer	26	36	-	49	-	3
	1,059	1,069	-	2,194	112	34
Loans with an allowance recorded:						
Commercial:						
Commercial business (secured)	3,028	3,024	1,000	233	-	-
	$ 4,087	$ 4,093	$ 1,000	$ 2,427	$ 112	$ 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, 2018:

	Nonaccrual Loans	Loans 90+ Days Past Due Still Accruing	Total Nonperforming Loans
Commercial:			
Commercial and multi-family mortgage	$ 1,675	$ -	$ 1,675
Commercial business (secured)	37	165	202
Residential:			
One-to-four family mortgage	306	-	306
Second mortgage and HELOCs	115	-	115
Consumer	2	-	2
Total	$ 2,135	$ 165	$ 2,300

The following table presents the recorded investment in nonperforming loans at June 30, 2017:

	Nonaccrual Loans	Loans 90+ Days Past Due Still Accruing	Total Nonperforming Loans
Commercial:			
Commercial and multi-family mortgage	$ 399	$ -	$ 399
Residential:			
Second mortgage and HELOCs	136	-	136
Consumer	26	-	26
Total	$ 561	$ -	$ 561

(4 - continued)

The following table presents the aging of the recorded investment in loans at June 30, 2018:

	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	$ -	$ -	$ -	$ -	$ 7,044	$ 7,044
Commercial and multi-family mortgage	330	11	1,675	2,016	127,083	129,099
Commercial business (secured)	140	-	202	342	44,751	45,093
Commercial business (unsecured)	-	-	-	-	7,677	7,677
Residential:						
One-to-four family mortgage	195	190	306	691	70,047	70,738
Second mortgage and HELOCs	134	7	115	256	19,333	19,589
Consumer	20	3	2	25	4,032	4,057
Total	$ 819	$ 211	$ 2,300	$ 3,330	$ 279,967	$ 283,297

The following table presents the aging of the recorded investment in loans at June 30, 2017:

	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	$ -	$ -	$ -	$ -	$ 6,968	$ 6,968
Commercial and multi-family mortgage	-	43	-	43	107,539	107,582
Commercial business (secured)	-	-	-	-	47,247	47,247
Commercial business (unsecured)	-	-	-	-	7,411	7,411
Residential:						
One-to-four family mortgage	585	48	-	633	64,371	65,004
Second mortgage and HELOCs	79	17	136	232	20,121	20,353
Consumer	27	6	24	57	4,349	4,406
Total	$ 691	$ 114	$ 160	$ 965	$ 258,006	$ 258,971

(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 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, 2018:

	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	$ 6,740	$ 123,445	$ 45,093	$ 5,209	$ 70,335	$ 19,572	$ 4,049	$ 274,443
Special mention	242	1,204	-	1,134	-	-	1	2,581
Substandard	62	4,450	-	1,334	403	17	7	6,273
Doubtful	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-
Total	$ 7,044	$ 129,099	$ 45,093	$ 7,677	$ 70,738	$ 19,589	$ 4,057	$ 283,297

The following table presents the recorded investment in loans by risk category as of June 30, 2017:

	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	$ 6,842	$ 105,332	$ 43,526	$ 7,411	$ 64,845	$ 20,311	$ 4,369	$ 252,636
Special mention	-	-	-	-	-	-	6	6
Substandard	126	2,250	3,721	-	159	42	31	6,329
Doubtful	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-
Total	$ 6,968	$ 107,582	$ 47,247	$ 7,411	$ 65,004	$ 20,353	$ 4,406	$ 258,971

(4 - continued)

Troubled Debt Restructurings (TDRs)

The following table summarizes the Company's TDRs by accrual status as of June 30, 2018 and 2017:

	Accruing	Nonaccrual	Total	Related Allowance for Loan Losses
June 30, 2018:				
Commercial:				
Commercial and multi-family mortgage	$ 442	$ -	$ 442	$ -
Residential:				
Second mortgage and HELOCs	43	-	43	-
Total	$ 485	$ -	$ 485	$ -

	Accruing	Nonaccrual	Total	Related Allowance for Loan Losses
June 30, 2017:				
Commercial:				
Commercial and multi-family mortgage	$ 455	$ -	$ 455	$ -
Residential:				
Second mortgage and HELOCs	42	-	42	-
Total	$ 497	$ -	$ 497	$ -

The following table summarizes information in regard to TDRs that were restructured during the year ended June 30, 2017. There were no loans restructured as TDRs during the year ended June 30, 2018.

	Number of Loans	Pre-Modification Principal Balance	Post-Modification Principal Balance
Commercial:			
One-to-four family mortgage	1	$ 25	$ 25
Residential:			
Second mortgage and HELOCs	1	43	43
Total	2	$ 68	$ 68

For TDRs that were restructured during the year ended June 30, 2017 the terms of modification included a reduction of the stated interest rate, extension of the maturity date, and the renewal or refinancing of loans where the debtor was unable to access funds elsewhere at a market interest rate for debt with similar risk characteristics. No charge-offs or provisions for loan losses were recorded as a result of TDRs during the years ended June 30, 2018 or 2017.

(4 - continued)

There were no commitments to lend additional funds to borrowers with outstanding loans classified as TDRs at June 30, 2018 or 2017.

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. There were no TDRs modified during the years ended June 30, 2018 and 2017 that had payment defaults within the previous 12 months. There were no provisions for loan losses or principal charge-offs recorded as a result of defaulted TDRs during the years ended June 30, 2018 and 2017.

(5) PREMISES AND EQUIPMENT

Premises and equipment as of June 30, 2018 and 2017 are summarized as follows:

	2018	2017
Land	$ 2,988	$ 2,988
Buildings	12,345	12,310
Furniture and equipment	3,596	3,436
	18,929	18,734
Less accumulated depreciation	7,543	6,739
Totals	$ 11,386	$ 11,995

Depreciation expense was $817,000 and $784,000 for the years ended June 30, 2018 and 2017, respectively.

(6) FORECLOSED REAL ESTATE

Foreclosed real estate activity was as follows for the years ended June 30, 2018 and 2017:

	2018	2017
Balance as of July 1:	$ 2,703	$ 3,587
Transfers from loans to other real estate owned	-	14
Direct write-downs	-	(2)
Capitalized expenses	284	11
Sales	(1,109)	(907)
Balance as of June 30:	$ 1,878	$ 2,703

Net realized loss from the sale of foreclosed real estate amounted to $259,000 for the year ended June 30, 2018. Net realized gain from the sale of foreclosed real estate amounted to $20,000 for the year ended June 30, 2017.

At June 30, 2018 and 2017, the Bank had $505,000 and $1,599,000, respectively, in foreclosed residential real estate properties where physical possession has occurred. At June 30, 2018 and 2017, the recorded investment in consumer mortgage loans collateralized by residential real estate property in the process of foreclosure was $86,000 and $42,000, respectively.

(7) GOODWILL AND CORE DEPOSIT INTANGIBLE

The changes in the carrying amount of goodwill for the years ended June 30, 2018 and 2017 are summarized as follows:

	2018	2017
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, 2018 and 2017 are summarized as follows:

	2018	2017
Gross carrying amount	$ 1,474	$ 1,474
Accumulated amortization	(1,474)	(1,474)
Net balance	$ -	$ -

During the year ended June 30, 2018, there was no amortization expense related to the core deposit intangible. For the year ended June 30, 2017, the amortization expense related to the core deposit intangible was $24,000.

(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 $109,823,000 and $113,618,000 at June 30, 2018 and 2017, respectively. Contractually specified servicing fees, late fees and "ancillary fees" of approximately $301,000 and $309,000 are included in other noninterest income in the consolidated statements of income at June 30, 2018 and 2017, respectively.

Custodial escrow balances maintained in connection with the foregoing loan servicing and included in demand deposits, were approximately $829,000 and $1,129,000 at June 30, 2018 and 2017, respectively.

The aggregate fair value of capitalized mortgage-servicing rights at June 30, 2018 and 2017, approximated carrying value. For purposes of measuring impairment, risk characteristics including product type, investor type and interest rates were used to stratify the originated MSRs. The fair value of MSRs is estimated using a discounted cash flow valuation model that calculates the present value of estimated expected net servicing cash flows, taking into consideration expected mortgage loan prepayment rates, discount rate, servicing costs, and other economic factors, which are determined based on current market conditions.

The key assumptions used in determining the fair value of MSRs at June 30, 2018 and 2017 were as follows:

	2018	2017
Weighted average remaining maturity (in months)	245	246
Weighted average constant prepayment rate	10.01%	12.69%
Weighted average discount rate	3.00%	3.00%

(8 - continued)

An analysis of MSRs for the years ended June 30, 2018 and 2017 is as follows:

	2018	2017
Mortgage servicing rights:		
Balance, beginning of year	$ 1,097	$ 1,116
Servicing rights capitalized	109	158
Amortization of servicing rights	(157)	(177)
Balance, end of year	$ 1,049	$ 1,097

(9) DEPOSITS

The aggregate amount of time deposit accounts in denominations that met or exceeded the FDIC insurance limit ($250,000) amounted to approximately $8,620,000 and $5,219,000 at June 30, 2018 and 2017, respectively.

At June 30, 2018, scheduled maturities of time deposits were as follows:

Year ending June 30:	
2019	$ 47,579
2020	11,677
2021	3,916
2022	1,265
2023	732
2024 and thereafter	495
Total	$ 65,664

The Bank held deposits of approximately $4.1 million and $3.9 million for related parties including directors, officers, employees and their affiliates at June 30, 2018 and 2017, respectively.

(10) REPURCHASE AGREEMENT

At June 30, 2017, the Company had a structured repurchase agreement for $8,000,000 with an interest rate of 4.46%. The repurchase agreement matured and was fully repaid on July 17, 2017. The maximum amount outstanding at any given month end during 2017 was $8,000,000 and the monthly average of such agreements totaled $8,000,000 during 2017. The repurchase agreement was secured by U.S. agency securities and the collateral was held by a third-party safekeeping agent.

(11) ADVANCES FROM FEDERAL HOME LOAN BANK

At June 30, 2018 and 2017, advances from the FHLB were as follows:

	2018		2017	
(Dollars in thousands)	**Weighted Average Rate**	**Amount**	**Weighted Average Rate**	**Amount**
Fixed rate putable advances	1.93%	$ 40,000	1.58%	$ 10,000
Fixed rate bullet advances	2.79%	55,000	2.69%	65,000
Flipper advances	-	-	1.28%	15,000
	2.43%	$ 95,000	2.33%	$ 90,000

The following is a schedule of maturities for advances outstanding as of June 30, 2018:

Due in the year ending June 30:

2019	$ 15,000
2021	30,000
2022	10,000
2024 and thereafter	40,000
Total	$ 95,000

The advances are secured under a blanket collateral agreement. At June 30, 2018, the carrying value of qualifying residential mortgage and commercial real estate loans and investment securities pledged as security for the advances was $103,743,000 and $52,444,000, respectively.

The Bank has a $1,000,000 Overdraft Line of Credit agreement with the FHLB. This agreement has a term of one year and matures on June 27, 2019. There were no borrowings under this line of credit at June 30, 2018 and 2017. The Bank also has a $16,500,000 irrevocable standby letter of credit issued by the FHLB on the Bank's behalf to secure public funds deposits. There have been no borrowings under the letter of credit.

(12) OTHER BORROWINGS

Other borrowings outstanding as of June 30, 2018 and 2017 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 3.75% and 2.66% at June 30, 2018 and 2017, respectively.

At June 30, 2018 and 2017, the Bank also has federal funds line of credit agreements with other financial institutions for $22 million and $10 million, respectively. The lines of credit have indefinite terms and may be cancelled by either party with proper notice. There were no outstanding borrowings under either line of credit at June 30, 2018 and 2017.

(13) INCOME TAXES

The components of income tax expense (benefit) were as follows for the years ended June 30, 2018 and 2017:

Current	$ (41)	$ (693)
Deferred	72	434
Totals	$ 31	$ (259)

The reconciliation of income tax expense (benefit) for the years ended June 30, 2018 and 2017 with the amount that would have been provided at the federal statutory rate of 27.5% and 34.0%, respectively, follows:

	2018	2017
Provision at federal statutory rate	$ 303	$ 218
State income tax-net of federal tax benefit	(11)	(33)
Effect of change in federal tax rate on net deferred tax asset	88	-
Cash surrender value of life insurance	(60)	(80)
Tax exempt interest	(286)	(353)
Other	(3)	(11)
Total income tax expense (benefit)	$ 31	$ (259)

Indiana tax laws enacted in 2013 and 2014 decreased the Indiana financial institutions franchise tax rate beginning in 2014 and ending in 2023. Deferred taxes have been adjusted to reflect the newly enacted rates and the period in which temporary differences are expected to reverse.

The TCJA enacted on December 22, 2017 reduced the Company's federal corporate income tax rate from 34% to 21% effective for tax years beginning after December 31, 2017. The Company files federal income tax returns on a fiscal year basis, so in accordance with Internal Revenue Code regulations, the Company's federal income tax rate for the year ended June 30, 2018 is based on a blended rate of 27.5%. FASB ASC 740, *Income Taxes*, requires recognition of the effect of a change in tax law or rate in the period that includes the enactment date. As such, deferred tax assets and liabilities have been adjusted for the change in the federal corporate tax rate as of June 30, 2018. The resulting adjustments of deferred tax assets and liabilities was recognized as a component of income tax expense in the consolidated statement of net income for the year ended June 30, 2018. In accordance with ASU No. 2018-02, the Company elected to reclassify the income tax effect of the change in the federal corporate tax rate from AOCI to retained earnings as of June 30, 2018 in the amount of $28,000.

(13 - continued)

Significant components of the Company's deferred tax assets and liabilities as of June 30, 2018 and 2017 were as follows:

	2018	2017
Deferred tax assets (liabilities):		
Allowance for loan losses	$ 502	$ 1,144
Deferred compensation and directors' fees	69	91
Unrealized loss on available for sale securities	376	-
Accrued vacation	72	100
Other-than-temporary impairment loss on securities available for sale	313	485
Alternative minimum tax credit carryover	1,147	945
Indiana enterprise zone interest credit carryforwards	50	34
Charitable contribution carryover	5	4
Other	15	10
Subtotal - deferred tax assets	2,549	2,813
Unrealized gain on available for sale securities	-	(27)
Depreciation	(109)	(357)
Federal Home Loan Bank stock dividends	(43)	(64)
Mortgage servicing rights	(263)	(412)
Goodwill	(449)	(671)
Prepaid assets	(72)	(116)
Subtotal - deferred tax liabilities	(936)	(1,647)
Net deferred tax asset	$ 1,613	$ 1,166

The Company has charitable contributions carryovers of approximately $24,000 available to reduce federal taxable income in subsequent years. The carryovers expire in the years ending June 30, 2022 and 2023.

The Company has Indiana enterprise zone tax credits of approximately $50,000 available to reduce Indiana franchise taxes in subsequent years. The credit carryovers expire for the years ending June 30, 2025 through 2028.

At June 30, 2018 and 2017, 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, 2015 are subject to examination by the relevant taxing authorities.

(13 - continued)

Prior to 1996 the Bank was permitted by the Internal Revenue Code to deduct from taxable income an annual addition to a statutory bad debt reserve subject to certain limitations. Retained earnings at June 30, 2018 and 2017 include approximately $4,102,000 of cumulative deductions for which no deferred federal income tax liability has been recorded. Reduction of these reserves for purposes other than tax bad debt losses or adjustments arising from carry back of net operating losses would create income for tax purposes subject to the then current federal corporate income tax rate. The unrecorded deferred tax liability on these amounts was approximately $861,000 and $1,395,000 at June 30, 2018 and 2017, respectively.

Federal legislation enacted in 1996 repealed the use of the qualified thrift reserve method of accounting for bad debts for tax years beginning after December 31, 1995. As a result, the Bank discontinued the calculation of the annual addition to the statutory bad debt reserve using the percentage-of-taxable-income method and adopted the experience reserve method for banks. Under this method, the Bank computes its federal tax bad debt deduction based on actual loss experience over a period of years. The legislation also provided that the Bank will not be required to recapture its pre-1988 statutory bad debt reserves if it ceases to meet the qualifying thrift definitional tests and if the Bank continues to qualify as a “bank” under existing provisions of the Internal Revenue Code.

(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, 2018 and 2017.

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 $421,000 and $406,000 for the years ended June 30, 2018 and 2017, 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 $61,000 and $68,000 for the years ended June 30, 2018 and 2017, respectively.

Employee Stock Ownership Plan

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

(14 - continued)

Employee Stock Ownership Plan - continued

Prior to January 1, 2011 the Bank made annual contributions to the ESOP trust equal to the debt service less dividends received by the ESOP trust. All dividends received by the ESOP trust were used for debt service. The shares held by the ESOP trust were pledged as collateral for its debt. As the debt was repaid, shares were released from collateral and allocated to participants, based on the proportion of debt service paid in the year to total expected debt service. The Bank accounts for the ESOP in accordance with FASB 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.

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, 2018 and 2017. 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 56 and 442 common shares from terminated participants or in the open market as of June 30, 2018 and 2017, respectively, which will be allocated to ESOP participants on December 31, 2018 and 2017, respectively.

Shares held by the ESOP at June 30, 2018 and 2017 were as follows:

	2018	2017
Allocated shares	140,985	152,481
Unallocated shares	56	442
Total ESOP Shares	141,041	152,923
Fair value of unallocated shares at June 30	$ 1	$ 9

Stock Option Plan

The Company previously had 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 had a term of 10 years ending in 2009, after which no awards could be made. Awards granted under the plan generally expired 10 years after the grant date. As a result, all remaining outstanding options were forfeited or expired during the fiscal year ended June 30, 2014.

(15) 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 $2,423,000 and $1,856,000 at June 30, 2018 and 2017, respectively.

The following is a summary of commitments to extend credit at June 30, 2018 and 2017:

	2018	2017
Loan commitments:		
Fixed rate	$ 745	$ 946
Adjustable rate	77	6,437
Residential and commercial loans in process	1,398	1,197
Undisbursed commercial and personal lines of credit	47,661	45,987
Total commitments to extend credit	$ 49,881	$ 54,567

(16) 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 15). 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 was not required to perform on any financial guarantees and incurred no losses on its commitments during the years ended June 30, 2018 and 2017.

(17) 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.

(18) 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 total, Tier 1 and common equity Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and Tier 1 capital (as defined) to average assets (as defined). The final rules implementing the Basel Committee on Banking Supervision's capital guidelines for U.S. banks became effective for the Bank on January 1, 2015, with full compliance with all of the requirements being phased in over a multi-year schedule through 2019. In addition to the minimum capital ratios, the Bank now has to maintain a capital conservation buffer consisting of additional common equity Tier 1 capital above the required minimum levels in order to avoid limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses based on percentages of eligible retained income that could be utilized for such actions. The capital conservation buffer requirement began to be phased-in on January 1, 2016 when more than 0.625% of risk-weighted assets was required, and increases by 0.625% on each subsequent January 1, until fully implemented to an amount equal to 2.5% of risk-weighted assets in January 2019. At June 30, 2018, the Bank's common equity Tier 1 capital exceeded the required capital conservation buffer of 1.875%.

As of June 30, 2018, 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, common equity Tier 1 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 Bank's category.

(18 - continued)

The Bank's actual capital amounts and ratios at June 30, 2018 and 2017 are presented in the table below. No amount was deducted from capital for interest-rate risk in either year.

	Actual		Minimum for Capital Adequacy Purposes with Capital Conservation Buffer:		Minimum to be Well Capitalized under Prompt Corrective Action Provisions:	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
As of June 30, 2018:						
Total capital (to risk weighted assets)	$ 36,852	12.73%	$ 28,584	9.875%	$ 28,945	10.00%
Tier 1 capital (to risk weighted assets)	$ 34,853	12.04%	$ 22,795	7.875%	$ 23,156	8.00%
Common equity Tier 1 capital (to risk weighted assets)	$ 34,853	12.04%	$ 18,453	6.375%	$ 18,815	6.50%
Tier 1 capital (to average adjusted total assets)	$ 34,853	8.39%	$ 16,615	4.000%	$ 20,769	5.00%
As of June 30, 2017:						
Total capital (to risk weighted assets)	$ 37,874	13.83%	$ 25,338	9.250%	$ 27,393	10.00%
Tier 1 capital (to risk weighted assets)	$ 34,828	12.71%	$ 19,860	7.250%	$ 21,914	8.00%
Common equity Tier 1 capital (to risk weighted assets)	$ 34,828	12.71%	$ 15,751	5.750%	$ 17,805	6.50%
Tier 1 capital (to average adjusted total assets)	$ 34,828	8.59%	$ 16,212	4.000%	$ 20,264	5.00%

(19) SUPPLEMENTAL DISCLOSURES FOR STATEMENTS OF CASH FLOWS

	2018	2017
Cash payments for:		
Interest	$ 3,271	$ 3,113
Income taxes (net of refunds received)	35	457
Noncash investing activities:		
Transfer of loans to foreclosed real estate	-	14
Proceeds from sales of other real estate owned financed through loans	540	372

(20) DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

U.S. 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. U.S. 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, 2018 and 2017 are as follows:

	2018		2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:				
Cash and cash equivalents	$ 24,654	$ 24,654	$ 31,792	$ 31,792
Interest bearing time deposits	5,894	5,894	5,406	5,406
Securities available for sale	84,486	84,486	90,815	90,815
Loans held for sale	194	198	235	238
Loans	282,228	281,110	258,135	260,767
Less: allowance for loan losses	(1,999)	(1,999)	(3,046)	(3,046)
	280,229	279,111	255,089	257,721
FHLB stock	5,085	5,085	4,320	4,320
Accrued interest receivable	1,570	1,570	1,348	1,348
MSRs (included in other assets)	1,049	1,336	1,097	1,216
Financial liabilities:				
Deposits	294,640	294,448	278,443	278,318
Borrowed funds	100,155	98,762	103,155	106,005
Accrued interest payable	180	180	187	187
Advance payments by borrowers for taxes and insurance	1,095	1,095	1,395	1,395

(20 - continued)

The carrying amounts in the preceding table are included in the consolidated balance sheets under the applicable captions. The contractual or notional amounts of financial instruments with off-balance-sheet risk are disclosed in Note 15, 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, federal funds sold 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 which have original maturities exceeding 90 days, the carrying amount is a reasonable estimate of fair value.

Investment Securities

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

The fair values of privately issued CMO and corporate securities are calculated based on the expected future cash flows using known attributes of each security including, but not limited to, the current credit enhancement level and rules-based payment priority (discussed further in Note 21).

It is not practical to determine the fair value of FHLB stock due to restrictions placed on transferability.

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.

Mortgage Servicing Rights

The fair value of MSRs is estimated using a discounted cash flow valuation model that calculates the present value of estimated expected net servicing cash flows, taking into consideration expected mortgage loan prepayment rates, discount rate, servicing costs, and other economic factors, which are determined based on current market conditions.

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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.

(21) FAIR VALUE MEASUREMENTS

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

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

Level 2: Inputs to the valuation methodology include quoted market prices for similar assets or liabilities in active markets; 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.

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The table below presents the balances of assets measured at fair value on a recurring and nonrecurring basis as of June 30, 2018. The Company had no liabilities measured at fair value as of June 30, 2018:

	Carrying Value			
	Level 1	Level 2	Level 3	Total
June 30, 2018:				
Assets Measured on a Recurring Basis				
Securities available for sale:				
Mortgage-backed securities	$ -	$ 37,843	$ -	$ 37,843
Agency securities	-	17,677	-	17,677
Corporate obligations	-	2,748	-	2,748
Municipal bonds	-	26,218	-	26,218
Total securities available for sale	$ -	$ 84,486	$ -	$ 84,486
Assets Measured on a Nonrecurring Basis				
Loans held for sale	$ -	$ 194	$ -	$ 194
Impaired loans:				
Commercial:				
Commercial and multi-family mortgage	$ -	$ -	$ 2,116	$ 2,116
Commercial business (secured)	-	-	37	37
Residential:				
One-to-four family mortgage	-	-	306	306
Second mortgage and HELOCs	-	-	158	158
Consumer	-	-	2	2
Total impaired loans	$ -	$ -	$ 2,619	$ 2,619
Foreclosed real estate:				
One-to-four family residential	$ -	$ -	$ 505	$ 505
Commercial and multi-family	-	-	1,373	1,373
Total foreclosed real estate	$ -	$ -	$ 1,878	$ 1,878

(21 – continued)

The table below presents the balances of assets measured at fair value on a recurring and nonrecurring basis as of June 30, 2017. The Company had no liabilities measured at fair value as of June 30, 2017.

	Carrying Value			
	Level 1	Level 2	Level 3	Total
June 30, 2017:				
Assets Measured on a Recurring Basis				
Securities available for sale:				
Mortgage-backed securities	$ -	$ 43,409	$ -	$ 43,409
Agency securities	-	18,297	-	18,297
Corporate obligations	-	2,173	-	2,173
Municipal bonds	-	26,936	-	26,936
Total securities available for sale	$ -	$ 90,815	$ -	$ 90,815
Assets Measured on a Nonrecurring Basis				
Loans held for sale	$ -	$ 235	$ -	$ 235
Impaired loans:				
Commercial:				
Commercial and multi-family mortgage	$ -	$ -	$ 854	$ 854
Commercial business (secured)	-	-	2,028	2,028
Residential:				
Second mortgage and HELOCs	-	-	179	179
Consumer	-	-	26	26
Total impaired loans	$ -	$ -	$ 3,087	$ 3,087
Foreclosed real estate:				
One-to-four family residential	$ -	$ -	$ 1,599	$ 1,599
Commercial and multi-family	-	-	1,104	1,104
Total foreclosed real estate	$ -	$ -	$ 2,703	$ 2,703

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.

(21 – continued)

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 Company 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, net of income tax effect.

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, 2018 and 2017, 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, 2018 and 2017, 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. The Company did not recognize any provisions for loan losses for the year ended June 30, 2018 for impaired loans, and recognized provisions for loan losses of $1,000,000 for the year ended June 30, 2017 for impaired loans.

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.

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At June 30, 2018, 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 11% with a weighted average of 4%. At June 30, 2017, 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 9%. The Company did not recognize any charges to write down foreclosed real estate to fair value for the year ended June 30, 2018. The Company recognized charges of $2,000 to write down foreclosed real estate to fair value for the year ended June 30, 2017.

Transfers Between Categories. 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, 2018 and 2017. There were no transfers in or out of the Company's Level 3 or Level 2 financial assets for the year ended June 30, 2018. For the year ended June 30, 2017 the Company transferred certain available for sale securities from Category 3 to Category 2 because it is the Company's policy to recognize transfers into and out of Level 3 as of the date of the event or change in circumstances that caused the transfer. The transfer of corporate obligations occurred because observable market data became available for the securities. In addition, there were no transfers into or out of Level 1 of the fair value hierarchy during the years ended June 30, 2018 and 2017.

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 year ended June 30, 2017:

Beginning balance	$	371
Total gains or (losses) (both realized/unrealized):		
Recognized in earnings (noninterest income)		-
Recognized in other comprehensive income		(5)
Net settlements		6
Transfers out of Level 3		(372)
Ending balance	$	-

No losses were recognized in earnings for the years ended June 30, 2018 and 2017 attributable to Level 3 assets still held at the balance sheet date.

(22) CONCENTRATIONS OF CREDIT RISK

At June 30, 2018, the Company had concentrations of credit risk with correspondent banks that included bank deposits in the amount of $3,734,000 in excess of the federal deposit insurance limit.

(23) 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 20, 2018, the date these financial statements were available to be issued. Management has determined that there are no such subsequent events.