Home Financial Bancorp

Accountants' Report and Consolidated Financial Statements

June 30, 2012 and 2011

Home Financial Bancorp
June 30, 2012 and 2011

Contents

BKD LLP
CPAs & Advisors

201 N. Illinois Street, Suite 700
P.O. Box 44998
Indianapolis, IN 46244-0998
317.383.4000 Fax 317.383.4200 www.bkd.com

Independent Accountants' Report

Audit Committee, Board of Directors and Stockholders
Home Financial Bancorp
Spencer, Indiana

We have audited the accompanying consolidated balance sheets of Home Financial Bancorp as of June 30, 2012 and 2011, and the related consolidated statements of income, stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Home Financial Bancorp as of June 30, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

BKD, LLP

Indianapolis, Indiana
September 22, 2012

Home Financial Bancorp

Consolidated Balance Sheets
June 30, 2012 and 2011

Assets

	2012	2011
Cash	$ 668,325	$ 909,616
Short-term interest-bearing deposits	6,095,739	4,032,407
Total cash and cash equivalents	6,764,064	4,942,023
Interest-bearing deposits	1,255,128	1,208,394
Investment securities - available for sale	7,476,566	6,140,208
Loans, net of allowance for loan losses of $662,505 and $663,101	55,048,157	57,378,535
Real estate acquired for development	95,860	132,935
Premises and equipment	1,920,331	1,953,388
Federal Home Loan Bank of Indianapolis stock	1,032,500	1,032,500
Interest receivable	344,896	371,430
Other assets	2,076,877	1,672,497
Total assets	$ 76,014,379	$ 74,831,910

Liabilities

	2012	2011
Deposits		
Noninterest-bearing deposits	$ 4,618,573	$ 4,415,825
Interest-bearing deposits	48,727,203	46,375,198
Total deposits	53,345,776	50,791,023
Borrowings	13,000,000	15,000,000
Other liabilities	870,525	699,563
Total liabilities	67,216,301	66,490,586

Commitments and Contingencies

Stockholders' Equity

	2012	2011
Preferred stock, without par value		
Authorized and unissued - 2,000,000 shares	—	—
Common stock, without par value		
Authorized - 5,000,000 shares		
Issued and outstanding - 2012 - 1,337,368 shares and 2011 - 1,345,605 shares	3,031,782	3,052,374
Additional paid-in capital	223,166	176,473
Retained earnings	5,457,434	5,110,570
Accumulated other comprehensive income	85,696	1,907
Total stockholders' equity	8,798,078	8,341,324
Total liabilities and stockholders' equity	$ 76,014,379	$ 74,831,910

Home Financial Bancorp
Consolidated Statements of Income
Years Ended June 30, 2012 and 2011

	2012	2011
Interest Income		
Loans	$ 4,013,097	$ 4,231,882
Deposits with financial institutions	47,443	46,387
Investment securities	190,348	157,050
Federal Home Loan Bank stock	29,792	25,269
Total interest and dividend income	4,280,680	4,460,588
Interest Expense		
Deposits	562,659	606,478
Federal Home Loan Bank advances	455,510	594,855
Total interest expense	1,018,169	1,201,333
Net Interest Income	3,262,511	3,259,255
Provision for loan losses	342,000	180,000
Net Interest Income After Provision for Loan Losses	2,920,511	3,079,255
Other Income		
Service charges on deposit accounts	340,379	345,485
Loss on sale of real estate acquired for development	(25,126)	(54,411)
Net gain on sale of available-for-sale securities	47,185	20,273
ATM service fees	177,403	164,646
Other income	98,189	238,826
Total other income	638,030	714,819
Other Expenses		
Salaries and employee benefits	1,274,000	1,213,424
Net occupancy expenses	146,469	139,034
Equipment expenses	45,529	36,363
Computer processing fees	357,540	387,097
ATM transaction fees	138,759	143,004
Printing and office supplies	60,672	44,099
Legal and professional fees	121,119	133,708
Director and committee fees	69,200	64,100
Advertising expense	88,787	88,153
Repossessed property expense	160,168	315,662
Equity in losses of partnership	106,488	71,886
Other expenses	318,577	371,807
Total other expenses	2,887,308	3,008,337
Income Before Income Tax	671,233	785,737
Income tax expense	157,935	275,910
Net Income	$ 513,298	$ 509,827
Net Income Per Share		
Basic	$ .39	$ .39
Diluted	.39	.39

Home Financial Bancorp

Consolidated Statements of Stockholders' Equity
Years Ended June 30, 2012 and 2011

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balances, July 1, 2010	1,350,605	$ 3,064,874	$ 142,458	$ 4,765,485	$ 27,959	$ 8,000,776
Comprehensive income						
Net income				509,827		509,827
Other comprehensive income, net of tax						
Unrealized gains on securities, net of reclassification adjustment					(26,052)	(26,052)
Comprehensive income						483,775
Cash dividends ($.12 per share)				(161,279)		(161,279)
Recognition Retention Plan and Trust (RRP) shares earned			34,015			34,015
Purchase of stock	(5,000)	(12,500)		(3,463)		(15,963)
Balances, June 30, 2011	1,345,605	3,052,374	176,473	5,110,570	1,907	8,341,324
Comprehensive income						
Net income				513,298		513,298
Other comprehensive income, net of tax						
Unrealized gains on securities, net of reclassification adjustment					83,789	83,789
Comprehensive income						597,087
Cash dividends ($.12 per share)				(160,776)		(160,776)
Recognition Retention Plan and Trust (RRP) shares earned			46,693			46,693
Purchase of stock	(8,237)	(20,592)		(5,658)		(26,250)
Balances, June 30, 2012	1,337,368	$ 3,031,782	$ 223,166	$ 5,457,434	$ 85,696	$ 8,798,078

See Notes to Consolidated Financial Statements

Home Financial Bancorp

Consolidated Statements of Cash Flows
Years Ended June 30, 2012 and 2011

	2012	2011
Operating Activities		
Net income	$ 513,298	$ 509,827
Items not requiring (providing) cash		
Provision for loan losses	342,000	180,000
Investment securities amortization, net	26,391	11,158
RRP shares earned	46,693	34,015
Depreciation	97,887	88,361
Deferred income taxes	(132,139)	90,904
Loss on sale of real estate acquired for development	25,126	54,411
Foreclosed asset losses	63,373	89,587
Investment securities gains	(47,185)	(20,273)
Losses from partnership	106,488	71,886
Net change in interest receivable	26,534	3,903
Other adjustments	299,320	139,719
Net cash provided by operating activities	1,367,786	1,253,498
Investing Activities		
Net change in interest-bearing deposits	(46,734)	(144,725)
Purchase of securities available for sale	(5,631,082)	(4,271,856)
Proceeds from sales of securities available for sale	1,077,263	801,488
Proceeds from maturities and paydowns of securities available for sale	3,376,979	1,000,000
Net changes in loans	1,500,174	(832,752)
Proceeds from sale of foreclosed assets	416,813	692,641
Purchase of premises and equipment	(92,831)	(99,529)
Purchase of limited partnership interests	(526,004)	(247,310)
Purchase of real estate acquired for development and development cost	(2,881)	(3,272)
Proceeds from sale of real estate acquired for development	14,831	103,045
Proceeds from sale of FHLB of Indianapolis stock	—	155,200
Net cash provided by (used in) investing activities	86,528	(2,847,070)
Financing Activities		
Net change in		
Noninterest-bearing deposits	202,749	12,251
Interest-bearing deposits	2,352,004	3,560,297
Proceeds from other borrowings	1,500,000	4,000,000
Repayment of other borrowings	(3,500,000)	(5,500,000)
Purchase of stock	(26,250)	(15,963)
Dividends paid	(160,776)	(202,284)
Net cash provided by financing activities	367,727	1,854,301
Net Change in Cash and Cash Equivalents	1,822,041	260,729
Cash and Cash Equivalents, Beginning of Year	4,942,023	4,681,294
Cash and Cash Equivalents, End of Year	$ 6,764,064	$ 4,942,023
Additional Cash Flows and Supplementary Information		
Interest paid	$ 1,023,049	$ 1,205,380
Income tax paid	264,955	197,274
Transfers from loans to foreclosed assets	488,204	380,399

Note 1: Nature of Operations and Summary of Significant Accounting Policies

The accounting and reporting policies of Home Financial Bancorp (Company) and its wholly owned subsidiaries, Our Community Bank (Bank) and OCB Insurance Agency, Inc. (OCB Insurance) and the Bank's wholly owned subsidiary, BSF, Inc. (BSF), conform to accounting principles generally accepted in the United States of America and reporting practices followed by the thrift industry. The more significant of the policies are described below.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Company is a bank holding company whose principal activity is the ownership and management of the Bank. The Bank operates under a state commercial bank charter and provides full banking services to its customers. The Bank is subject to regulation by the Indiana Department of Financial Institutions and the Federal Deposit Insurance Corporation. During 2012, the Bank legally changed its name from Owen Community Bank to Our Community Bank.

The Bank generates mortgage and consumer loans and receives deposits from customers located primarily in Owen, Putnam and surrounding counties. The Bank's loans are generally secured by specific items of collateral including real property and consumer assets.

BSF engages in purchasing and developing large tracts of real estate. After land is purchased, BSF subdivides the real estate into lots, makes improvements such as streets, and sells individual lots, usually on contract for deed. OCB Insurance provides auto and hazard insurance primarily to customers of the Bank.

Consolidation - The consolidated financial statements include the accounts of the Company, Bank, BSF and OCB Insurance after elimination of all material intercompany transactions.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the 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, valuation of real estate acquired in connection with foreclosures or in satisfaction of loans, valuation of deferred tax assets and fair values of financial instruments.

Cash Equivalents - The Company considers all liquid investments with original maturities of three months or less to be cash equivalents.

Interest-Bearing Deposits in Banks - Interest-bearing deposits in banks mature within one year and are carried at cost.

Investment Securities - Debt securities are classified as held to maturity when the Company has the positive intent and ability to hold the securities to maturity. Securities held to maturity are carried at amortized cost. Debt securities not classified as held to maturity are classified as available for sale. Securities available for sale are carried at fair value with unrealized gains and losses reported separately in accumulated other comprehensive income, net of tax.

When the Company does not intend to sell a debt security, and it is more likely than not, the Company will not have to sell the security before recovery of its cost basis, it recognizes the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income.

Amortization of premiums and accretion of discounts are recorded as interest income from securities. Realized gains and losses are recorded as net security gains (losses). Gains and losses on sales of securities are determined on the specific-identification method.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoffs are reported at their outstanding principal balances adjusted for unearned income, charge-offs, the allowance for loan losses, any unamortized deferred fees or costs on originated loans and unamortized premiums or discounts on purchased loans.

For loans amortized at cost, interest income is accrued based on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, as well as premiums and discounts, are deferred and amortized as a level yield adjustment over the respective term of the loan.

The accrual of interest on mortgage and commercial loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off are reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Discounts and premiums on purchased residential real estate loans are amortized to income using the interest method over the remaining period to contractual maturity, adjusted for anticipated prepayments. Discounts and premiums on purchased consumer loans are recognized over the expected lives of the loans using methods that approximate the interest method.

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

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers nonclassified loans and is based on historical charge-off experience and expected loss given default derived from the Company's internal risk rating process. Other adjustments may be made to the allowance for pools of loans after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risk rating data.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due 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 for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral if the loan is collateral dependent.

Groups of loans with similar risk characteristics are collectively evaluated for impairment based on the group's historical loss experience adjusted for changes in trends, conditions and other relevant factors that affect repayment of the loans. Accordingly, the Company does not separately identify individual consumer and residential loans for impairment measurements, unless such loans are the subject of a restructuring agreement due to financial difficulties of the borrower.

Real estate acquired for development is carried at the lower of cost or fair value. Costs relating to development and improvements of property are allocated to individual lots and capitalized, whereas costs relating to holding the property are expensed. Gains and losses on sales of lots are determined on the specific-identification method.

Premises and equipment are carried at cost, net of accumulated depreciation. Depreciation is computed using the accelerated and straight-line methods based principally on the estimated useful lives of the assets. Maintenance and repairs are expensed as incurred while major additions and improvements are capitalized. Gains and losses on dispositions are included in current operations.

Federal Home Loan Bank (FHLB) stock is a required investment for institutions that are members of the FHLB system. The required investment in the common stock is based on a predetermined formula.

Pension plan costs are based on actuarial computations and charged to current operations. The funding policy is to pay at least the minimum amounts required by ERISA.

Income tax - The Company accounts for income taxes in accordance with income tax accounting guidance (ASC 740, *Income Taxes*). The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

Uncertain tax positions are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances and information available at the reporting date and is subject to the management's judgment.

The Company recognizes interest and penalties on income taxes as a component of income tax expense.

Earnings per share have been computed based upon the weighted-average common shares and potential common shares outstanding during the period. RRP shares have been excluded from the computation of average common shares and potential common shares outstanding.

Current Economic Conditions - The current protracted economic decline continues to present financial institutions with difficult circumstances and challenges, which in some cases have resulted in large and unanticipated declines in the fair values of investments and other assets, constraints on liquidity and capital and significant credit quality problems, including severe volatility in the valuation of real estate and other collateral supporting loans. The consolidated financial statements have been prepared using values and information currently available to the Company.

Due to national, state and local economic conditions, values for commercial and development real estate have declined significantly, and the market for these properties is depressed.

(Table Dollar Amounts in Thousands, Except Share Data)

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the consolidated balance sheets could change rapidly, resulting in material future adjustments in asset values, the allowance for loan losses and capital that could negatively impact the Company's ability to meet regulatory capital requirements and maintain sufficient liquidity.

Subsequent events have been evaluated through the date of the Independent Accountants' Report, which is the date the consolidated financial statements were available to be issued.

Note 2: Restriction on Cash and Due From Banks

Effective July 21, 2010, the FDIC's insurance limits were permanently increased to $250,000. At June 30, 2012, the Company's cash accounts exceeded federally insured limits by approximately $905,000. Additionally, the Company had approximately $5,605,000 at the Federal Home Loan Bank, a government-sponsored entity, which is not insured by the FDIC.

Note 3: Investment Securities

	2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale				
Federal agencies	$ 4,006	$ 15	$ (1)	$ 4,020
Corporate bonds	120	—	—	120
Municipal bonds	3,208	132	(6)	3,334
Marketable equity securities	1	2	—	3
Total investment securities	$ 7,335	$ 149	$ (7)	$ 7,477

	2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale				
Federal agencies	$ 3,473	$ 7	$ (32)	$ 3,448
Corporate bonds	120	—	—	120
Municipal bonds	2,543	38	(11)	2,570
Marketable equity securities	1	1	—	2
Total investment securities	$ 6,137	$ 46	$ (43)	$ 6,140

(Table Dollar Amounts in Thousands, Except Share Data)

Maturities of available-for-sale investments at June 30, 2012:

	Amortized Cost	Approximate Fair Value
Within one year	$ 630	$ 631
One to five years	1,441	1,456
Five to ten years	3,198	3,252
After ten years	2,065	2,135
Marketable equity securities not due on a single maturity date	1	3
	$ 7,335	$ 7,477

No securities were pledged at June 30, 2012 and 2011.

Proceeds from sales of securities available for sale during 2012 and 2011 were $1,077,000 and $801,000, respectively. Gains realized from sales of securities during 2012 and 2011 totaled $54,000 and $21,000, respectively. Losses realized from sales of securities during 2012 and 2011 totaled $7,000 and $2,000, respectively. Net gains on security transactions for 2012 and 2011 resulted in a tax expense of $19,000 and $8,000.

At June 30, 2012 and 2011, certain investments in agency and municipal bond securities are reported in the consolidated financial statements at an amount less than their historical cost. Total fair value of these investments at June 30, 2012 was $1,754,000, which is approximately 23.5 percent of the Company's investment portfolio. These declines primarily resulted from changes in market interest rates.

The following tables show investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at June 30, 2012 and 2011.

	2012					
	Less Than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Agency bonds	$ 1,249	$ (1)	$ —	$ —	$ 1,249	$ (1)
Municipal bonds	301	(4)	204	(2)	505	(6)
	$ 1,550	$ (5)	$ 204	$ (2)	$ 1,754	$ (7)

	2011					
	Less Than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Agency bonds	$ 1,717	$ (32)	$ —	$ —	$ 1,717	$ (32)
Municipal bonds	303	(3)	252	(8)	555	(11)
	$ 2,020	$ (35)	$ 252	$ (8)	$ 2,272	$ (43)

(Table Dollar Amounts in Thousands, Except Share Data)

Note 4: Loans and Allowance

	2012	2011
Real estate mortgage loans		
Residential	$ 43,548	$ 43,883
Mobile home and land	5,557	6,453
Nonresidential	4,658	5,227
Mobile home loans	1,952	2,348
Commercial and industrial	180	181
Consumer loans	280	302
	56,175	58,394
Undisbursed portion of loans	(444)	(326)
Deferred loan fees	(20)	(26)
Allowance for loan losses	(663)	(663)
	(1,127)	(1,015)
Total loans	$ 55,048	$ 57,379

The risk characteristics of each loan portfolio segment are as follows:

Commercial and industrial loans are primarily based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not be as expected and the collateral securing these loans may fluctuate in value. Most commercial loans are secured by the assets being financed or other business assets, such as accounts receivable or inventory, and may include a personal guarantee. Short-term loans may be made on an unsecured basis. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers.

Nonresidential real estate loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial real estate lending typically involves higher loan principal amounts and the repayment of these loans is generally dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The characteristics of properties securing the Company's commercial real estate portfolio are diverse, but with geographic location almost entirely in the Company's market area. Management monitors and evaluates commercial real estate loans based on collateral, geography and risk grade criteria. In general, the Company avoids financing single purpose projects unless other underwriting factors are present to help mitigate risk. In addition, management tracks the level of owner-occupied commercial real estate versus nonowner-occupied loans.

(Table Dollar Amounts in Thousands, Except Share Data)

Residential, mobile home and land, mobile home and consumer loans consist of two segments - residential mortgage loans and personal loans. For residential mortgage loans that are secured by 1-4 family residences or mobile homes with land and are generally owner-occupied, the Company generally establishes a maximum loan-to-value ratio. Home equity loans are typically secured by a subordinate interest in 1-4 family residences, and consumer personal loans are secured by consumer personal assets, such as automobiles, mobile homes or recreational vehicles. Some consumer personal loans are unsecured, such as small installment loans and certain lines of credit. Repayment of these loans is primarily dependent on the personal income of the borrowers, which can be impacted by economic conditions in their market areas, such as unemployment levels. Repayment can also be impacted by changes in property values on residential properties. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

The following presents by portfolio segment, the activity in the allowance for loan losses for the year ended June 30, 2012:

	Real Estate Mortgage Loans							
	Mobile Home and Land	Residential	Nonresidential	Mobile Home Loans	Commercial	Consumer Loans	Total	June 30, 2011
Beginning balance	$ 114	$ 322	$ 88	$ 122	$ 4	$ 13	$ 663	$ 677
Provision	(30)	165	(52)	77	176	6	342	180
Loans charged off	(20)	(205)	—	(111)	—	(12)	(348)	(211)
Recoveries	1	3	—	2	—	—	6	17
Ending Balance	$ 65	$ 285	$ 36	$ 90	$ 180	$ 7	$ 663	$ 663

The following tables present the balance in the allowance for loan losses and the recorded investment in loans based on the portfolio segment and impairment method as of June 30, 2012 and 2011:

	Real Estate Mortgage Loans						
	Mobile Home and Land	Residential	Nonresidential	Mobile Home Loans	Commercial	Consumer Loans	Total
Allowance Balances:							
Individually evaluated for impairment	$ 5	$ 128	$ 8	$ 27	$ 180	$ —	$ 348
Collectively evaluated for impairment	60	157	28	63	—	7	315
Total Allowance for Loan Losses	$ 65	$ 285	$ 36	$ 90	$ 180	$ 7	$ 663
Loan Balances:							
Individually evaluated for impairment	$ 138	$ 2,052	$ 165	$ 236	$ 180	$ —	$ 2,771
Collectively evaluated for impairment	5,419	41,496	4,493	1,716	—	280	53,404
Total Loan Balances	$ 5,557	$ 43,548	$ 4,658	$ 1,952	$ 180	$ 280	$ 56,175

(Table Dollar Amounts in Thousands, Except Share Data)

	Real Estate Mortgage Loans						
	Mobile Home and Land	Residential	Nonresidential	Mobile Home Loans	Commercial	Consumer Loans	Total
Allowance Balances:							
Individually evaluated for impairment	$ 5	$ 76	$ 41	$ 45	$ —	$ —	$ 167
Collectively evaluated for impairment	109	246	47	77	4	13	496
Total Allowance for Loan Losses	$ 114	$ 322	$ 88	$ 122	$ 4	$ 13	$ 663
Loan Balances:							
Individually evaluated for impairment	$ 293	$ 2,530	$ 257	$ 307	$ —	$ —	$ 3,387
Collectively evaluated for impairment	6,160	41,353	4,970	2,041	181	302	55,007
Total Loan Balances	$ 6,453	$ 43,883	$ 5,227	$ 2,348	$ 181	$ 302	$ 58,394

Management’s general practice is to charge down loans individually evaluated for impairment to the fair value of the underlying collateral.

Consistent with regulatory guidance, charge-offs on all loan segments are taken when specific loans, or portions thereof, are considered uncollectible. The Company’s policy is to promptly charge these loans off in the period the uncollectible loss is reasonably determined.

For all loan portfolio segments except 1-4 family residential properties and consumer, the Company promptly charges off loans, or portions thereof, when available information confirms that specific loans are uncollectible based on information that includes, but is not limited to, (1) the deteriorating financial condition of the borrower, (2) declining collateral values, and/or (3) legal action, including bankruptcy, that impairs the borrower’s ability to adequately meet its obligations. For impaired loans that are considered to be solely collateral dependent, a partial charge-off is recorded when a loss has been confirmed by an updated appraisal or other appropriate valuation of the collateral.

The Company charges off residential, mobile home and land, mobile home, and consumer loans, or portions thereof, when the Company reasonably determines the amount of the loss. The Company adheres to timeframes established by applicable regulatory guidance which provides for the charge-down of 1-4 family first and junior lien mortgages to the net realizable value less costs to sell when the loan is 180 days past due, charge-off of unsecured open-end loans when the loan is 180 days past due, and charge-down to the net realizable value when other secured loans are 120 days past due. Loans at these respective delinquency thresholds for which the Company can clearly document that the loan is both well-secured and in the process of collection, such that collection will occur regardless of delinquency status, need not be charged off.

(Table Dollar Amounts in Thousands, Except Share Data)

The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Company over the prior three years. Management believes the historical loss experience methodology is appropriate in the current economic environment, as it captures loss rates that are comparable to the current period being analyzed.

The following table presents the credit risk profile of the Company's loan portfolio based on rating category as of:

	June 30, 2012					
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
Impaired loans with no related allowance recorded:						
Real estate mortgage loans:						
Residential	$ 42,616	$ 81	$ 851	$ —	$ —	$ 43,548
Mobile home and land	5,466	55	36	—	—	5,557
Nonresidential	4,602	—	56	—	—	4,658
Mobile home	1,738	36	178	—	—	1,952
Commercial and industrial	—	—	180	—	—	180
Consumer loans	280	—	—	—	—	280
Total	$ 54,702	$ 172	$ 1,301	$ —	$ —	$ 56,175

	June 30, 2011					
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
Impaired loans with no related allowance recorded:						
Real estate mortgage loans:						
Residential	$ 43,079	$ 246	$ 558	$ —	$ —	$ 43,883
Mobile home and land	6,403	15	35	—	—	6,453
Nonresidential	5,137	—	90	—	—	5,227
Mobile home	2,046	1	301	—	—	2,348
Commercial and industrial	—	—	181	—	—	181
Consumer loans	301	—	1	—	—	302
Total	$ 56,966	$ 262	$ 1,166	$ —	$ —	$ 58,394

Internal Risk Categories

The pass grade is considered satisfactory. The grade of Special Mention, represents loans of lower quality and is considered criticized. The grades of Substandard, and Doubtful, refer to assets that are classified. The use and application of these grades by the bank will be uniform and shall conform to the bank's policy.

Pass - Loans of reasonable credit strength and repayment ability proving an average credit risk due to one or more underlying weaknesses.

(Table Dollar Amounts in Thousands, Except Share Data)

Special Mention - A special mention asset has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the institution's credit position at some future date. Special mention assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification. Ordinarily, special mention credits have characteristics which corrective management action would remedy.

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

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

Loss - Loans classified as loss are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off even though partial recovery may be affected in the future.

The following tables present the Company's loan portfolio aging analysis as of:

	June 30, 2012						
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	Loans > 90 Days and Accruing
Real estate mortgage loans:							
Residential	$ 1,390	$ 666	$ 932	$ 2,988	$ 40,560	$ 43,548	$ —
Mobile home and land	334	192	91	617	4,940	5,557	—
Nonresidential	174	—	56	230	4,428	4,658	—
Mobile home loans	65	25	189	279	1,673	1,952	—
Commercial and industrial	—	—	180	180	—	180	—
Consumer loans	—	—	—	—	280	280	—
Total	$ 1,963	$ 883	$ 1,448	$ 4,294	$ 51,881	$ 56,175	$ —

	June 30, 2011						
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	Loans > 90 Days and Accruing
Real estate mortgage loans:							
Residential	$ 2,210	$ 601	$ 803	$ 3,614	$ 40,269	$ 43,883	$ —
Mobile home and land	490	177	50	717	5,736	6,453	—
Nonresidential	104	12	—	116	5,111	5,227	—
Mobile home loans	63	40	270	373	1,975	2,348	—
Commercial and industrial	—	—	—	—	181	181	—
Consumer loans	9	1	—	10	292	302	—
Total	$ 2,876	$ 831	$ 1,123	$ 4,830	$ 53,564	$ 58,394	$ —

(Table Dollar Amounts in Thousands, Except Share Data)

The entire balance of a loan is considered delinquent if the minimum payment contractually required to be made is not received by the specified due date.

The following table presents the Company's nonaccrual loans at June 30:

	2012	2011
Real estate mortgage loans:		
Residential	$ 932	$ 803
Mobile home and land	91	50
Nonresidential	56	—
Mobile home loans	189	270
Commercial and industrial	180	—
Consumer loans	—	—
Total	$ 1,448	$ 1,123

The following table presents impaired loans for the year ended June 30, 2012:

	Recorded Balance	Unpaid Principal Balance	Related Allowance	Average Investment in Impaired Loans	Interest Income Recognized
Impaired loans without a specific valuation allowance:					
Real estate mortgage loans:					
Residential	$ 1,539	$ 1,539	$ —	$ 1,641	$ 185
Mobile home and land	138	138	—	154	32
Nonresidential	109	109	—	212	23
Mobile home loans	173	173	—	160	30
Commercial and industrial	—	—	—	—	—
Consumer loans	—	—	—	—	—
Total	1,959	1,959	—	2,167	270
Impaired loans with a specific valuation allowance:					
Real estate mortgage loans:					
Residential	513	513	128	261	30
Mobile home and land	—	—	5	—	—
Nonresidential	56	56	8	66	7
Mobile home loans	63	63	27	63	8
Commercial and industrial	180	180	180	180	14
Consumer loans	—	—	—	—	—
Total	812	812	348	570	59
Total impaired loans	$ 2,771	$ 2,771	$ 348	$ 2,737	$ 329

Interest income on the impaired loans is recognized on the cash basis.

(Table Dollar Amounts in Thousands, Except Share Data)

The following table presents impaired loans for the year ended June 30, 2011:

	Recorded Balance	Unpaid Principal Balance	Related Allowance
Impaired loans without a specific valuation allowance:			
Real estate mortgage loans:			
Residential	$ 2,284	$ 2,284	$ —
Mobile home and land	184	184	—
Nonresidential	210	210	—
Mobile home loans	230	230	—
Commercial and industrial	—	—	—
Consumer loans	—	—	—
Total	2,908	2,908	—
Impaired loans with a specific valuation allowance:			
Real estate mortgage loans:			
Residential	246	246	76
Mobile home and land	109	109	5
Nonresidential	47	47	41
Mobile home loans	77	77	45
Commercial and industrial	—	—	—
Consumer loans	—	—	—
Total	479	479	167
Total impaired loans	$ 3,387	$ 3,387	$ 167

Interest income on loans individually classified as impaired is recognized on a cash basis after all past due and current principal payments have been made. Subsequent payments on nonaccrual loans are recorded as a reduction of principal, and interest income is recorded only after principal recovery is reasonably assured.

Nonaccrual loans are returned to accrual status when, in the opinion of management, the financial position of the borrower indicates there is no longer any reasonable doubt as to the timely collection of interest or principal. The Company requires a period of satisfactory performance of not less than six months before returning a nonaccrual loan to accrual status.

(Table Dollar Amounts in Thousands, Except Share Data)

The following tables present information regarding troubled debt restructurings by class for the year ended June 30, 2012

Newly classified troubled debt restructurings:

	Number of Loans	Pre-Modification Recorded Balance	Post-Modification Recorded Balance
Real estate mortgage loans:			
Residential	16	$ 966	$ 966
Mobile home and land	2	62	62
Nonresidential	2	102	102
Mobile home loans	4	104	104
Commercial and industrial	—	—	—
Consumer loans	—	—	—
Total	24	$ 1,234	$ 1,234

All of the Company's troubled debt restructurings for the period were extensions of the terms of the customers' notes.

Troubled debt restructurings that subsequently defaulted:

	Number of Loans	Recorded Balance
Real estate mortgage loans:		
Residential	3	$ 270
Mobile home and land	—	—
Nonresidential	1	56
Mobile home loans	1	16
Commercial and industrial	—	—
Consumer loans	—	—
Total	5	$ 342

(Table Dollar Amounts in Thousands, Except Share Data)

Note 5: Premises and Equipment

	2012	2011
Land	$ 390	$ 418
Buildings	2,612	2,596
Equipment	1,298	1,221
Total cost	4,300	4,235
Accumulated depreciation	(2,380)	(2,282)
Net	$ 1,920	$ 1,953

Note 6: Investment in Limited Partnership

An investment in a limited partnership of $52,000 and $115,000 at June 30, 2012 and 2011 included in other assets represents a 99 percent equity in Cunot Apartments (Cunot), a limited partnership organized to build, own and operate a 24-unit apartment complex for senior living. No credits were recorded for the years ended June 30, 2012 and 2011. Condensed unaudited financial statements for Cunot at June 30, 2012 and 2011 and for each of the years then ended are as follows:

	2012	2011
Condensed balance sheets		
Assets		
Cash	$ 179	$ 138
Land and property	1,025	1,057
Other assets	—	10
Total assets	$ 1,204	$ 1,205
Liabilities		
Notes payable	$ 610	$ 610
Other liabilities	510	463
Total liabilities	1,120	1,073
Partners' equity	84	132
Total liabilities and partners' equity	$ 1,204	$ 1,205

	2012	2011
Condensed statements of operations		
Total revenue	$ 73	$ 88
Total expenses	(121)	(139)
Net loss	$ (48)	$ (51)

(Table Dollar Amounts in Thousands, Except Share Data)

Additional investment in a limited partnership totaled $723,000 and $239,000 at June 30, 2012 and 2011, representing an 11 percent partnership interest in the Great Lakes Capital Fund (Great Lakes), a limited partnership organized to build, own and operate housing and apartment complexes around the state of Indiana. Tax credits generated from these investments totaled $71,000 and $0 for the years ended June 30, 2012 and 2011. Condensed unaudited financial statements for Great Lakes at December 31, 2011 and 2010 and for each of the years then ended are as follows:

	December 31 2011	December 31 2010
Condensed balance sheets		
Assets		
Cash	$ 387	$ 614
Land and property	5,762	5,908
Other assets	452	540
Total assets	$ 6,601	$ 7,062
Liabilities		
Notes payable	$ 2,272	$ 5,247
Other liabilities	21	35
Total liabilities	2,293	5,282
Partners' equity	4,308	1,780
Total liabilities and partners' equity	$ 6,601	$ 7,062

	2012	2011
Condensed statements of operations		
Total revenue	$ 2	$ —
Total expenses	(216)	(40)
Net loss	$ (214)	$ (40)

(Table Dollar Amounts in Thousands, Except Share Data)

Note 7: Deposits

	2012	2011
Noninterest-bearing demand	$ 4,619	$ 4,416
Interest-bearing demand	3,698	3,117
Money market deposits	6,809	870
Savings	9,403	9,366
Certificates of $100,000 or more	15,101	18,657
Other certificates	13,716	14,365
Total deposits	$ 53,346	$ 50,791

Certificates maturing in years ending June 30:

2013	$ 15,899
2014	3,294
2015	3,468
2016	3,708
2017	1,448
Thereafter	1,000
	$ 28,817

Brokered deposits totaled approximately $9,584,000 and $11,617,000 at June 30, 2012 and 2011, respectively.

Note 8: Borrowings

The Federal Home Loan Bank (FHLB) advances totaled $13,000,000 and $15,000,000 at June 30, 2012 and 2011, respectively.

At June 30, 2012, the FHLB advances are secured by mortgage loans totaling $26,140,000. Advances, at interest rates from 1.12 to 5.26 percent, are subject to restrictions or penalties in the event of prepayment. Advances totaling $2,000,000 may, at certain dates, be converted to adjustable rate advances by the FHLB. If converted, the advances may be prepaid without penalty.

(Table Dollar Amounts in Thousands, Except Share Data)

FHLB advance maturities in years ending June 30:

2013	$ 3,000
2014	3,000
2015	2,000
2016	1,500
2017	2,000
Thereafter	1,500
	$ 13,000

Note 9: Income Tax

	2012	2011
Income tax expense		
Currently payable		
Federal	$ 229	$ 127
State	61	58
Deferred		
Federal	(120)	90
State	(12)	1
Total income tax expense	$ 158	$ 276

	2012	2011
Reconciliation of federal statutory to actual tax expense (benefit)		
Federal statutory income tax at 34%	$ 228	$ 267
Effect of state income taxes	32	39
Tax-exempt interest	(28)	(27)
Tax credits	(71)	—
Other	(3)	(3)
Actual tax expense	$ 158	$ 276
Effective tax rate	23.5 %	35.1%

(Table Dollar Amounts in Thousands, Except Share Data)

A cumulative net deferred tax asset is included in other assets. The components of the asset are as follows:

	2012	2011
Assets		
Allowance for loan losses	$ 278	$ 301
Pension and employee benefit	16	15
Loan fees	8	11
Other real estate owned	78	61
Low income housing credit carry over	50	—
Partnership	29	—
Unrealized capital loss carryforward	36	45
Other	21	—
Total assets	516	433
Liabilities		
Depreciation	(120)	(113)
State income tax	(15)	(11)
FHLB stock	(43)	(43)
Prepaid expenses	(56)	(52)
Partnership	—	(63)
Unrealized gain on available-for-sale securities	(56)	—
Total liabilities	(290)	(282)
Valuation Allowance		
Beginning balance	(50)	(50)
Increase during the period	—	—
Ending balance	(50)	(50)
Net deferred tax asset	$ 176	$ 101

Management believes the low income housing credits will be utilized during the carryforward limitation period.

Retained earnings at June 30, 2012, include approximately $700,000 for which no deferred federal income tax liability has been recognized. This amount represents an allocation of income to bad debt deductions as of June 30, 1988 for tax purposes only. Reduction of amounts so allocated for purposes other than tax bad debt losses including redemption of bank stock or excess dividends, or loss of “bank status” would create income for tax purposes only, which income would be subject to the then-current corporate income tax rate. The unrecorded deferred federal income tax liability on the above amount was approximately $240,000 at June 30, 2012.

The Company’s tax years still subject to examination by authorities are years subsequent to 2008.

(Table Dollar Amounts in Thousands, Except Share Data)

Note 10: Other Comprehensive Income (Loss)

	2012 Before-Tax Amount	2012 Tax Expense	2012 Net-of-Tax Amount
Unrealized gains on securities			
Unrealized holding gains arising during the year	$ 186	$ (74)	$ 112
Less: reclassification adjustment for gains realized in net income	47	(19)	28
Other comprehensive income	$ 139	$ (55)	$ 84

	2011 Before-Tax Amount	2011 Tax Expense	2011 Net-of-Tax Amount
Unrealized losses on securities			
Unrealized holding losses arising during the year	$ (23)	$ 9	$ (14)
Less: reclassification adjustment for gains realized in net income	20	(8)	12
Other comprehensive loss	$ (43)	$ 17	$ (26)

Note 11: Commitments and Contingent Liabilities

In the normal course of business, there are outstanding commitments and contingent liabilities, such as commitments to extend credit, which are not included in the accompanying consolidated financial statements. The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit is represented by the contractual or notional amount of those instruments. The Company uses the same credit policies in making such commitments as it does for instruments that are included in the consolidated balance sheets.

Financial instruments whose contract amount represents credit risk as of June 30 were as follows:

	2012	2011
Commitments to extend credit	$ 1,040	$ 1,153
Unused lines of credit	421	235

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 Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation. Collateral held varies, but may include residential real estate or other assets of the borrower.

The Company has entered into agreements with two officers, which provide for salary continuation for a three-year period under certain circumstances, primarily related to change of control of the Company or Bank, as defined. Under the terms of the agreements, these payments could occur if, following a change of control, such officers are terminated other than for cause or unreasonable changes are made in their employment relationships. These agreements extend automatically for one year on each anniversary date unless certain conditions are met.

The Company and Bank are also subject to claims and lawsuits, which arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate determination of such possible claims or lawsuits will not have a material adverse effect on the consolidated financial position of the Company or Bank.

Note 12: Stockholders' Equity

The Company's Board of Directors has approved the repurchase of up to 15 percent of the Company's outstanding shares of common stock. Such purchases will be made subject to market conditions in open market or block transactions.

Note 13: Dividends and Capital Restrictions

Without prior approval, current regulations allow the Bank to pay dividends to the Company not exceeding retained net profits for the current calendar year to date plus those for the previous two calendar years. At June 30, 2012, total stockholder's equity of the Bank was $8,380,000 of which $7,671,000 was restricted from dividend distribution to the Company. Under current regulations in effect, the Bank is considered a well-capitalized institution.

(Table Dollar Amounts in Thousands, Except Share Data)

Note 14: Regulatory Capital

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies and is assigned to a capital category. The assigned capital category is largely determined by three ratios that are calculated according to the regulations: total risk adjusted capital, Tier 1 capital and Tier 1 leverage ratios. The ratios are intended to measure capital relative to assets and credit risk associated with those assets and off-balance sheet exposures of the entity. The capital category assigned to an entity can also be affected by qualitative judgments made by regulatory agencies about the risk inherent in the entity's activities that are not part of the calculated ratios.

There are five capital categories defined in the regulations, ranging from well capitalized to critically undercapitalized. Classification of a bank in any of the undercapitalized categories can result in actions by regulators that could have a material effect on a bank's operations. At June 30, 2012 and 2011, the Bank was categorized as well capitalized and met all subject capital adequacy requirements. There are no conditions or events since June 30, 2012 that management believes has changed the Bank's classification.

The Bank's actual and required capital amounts and ratios are as follows:

	2012					
	Actual		Required for Adequate Capital		Required To Be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total risk-based capital (to risk-weighted assets)	$ 8,549	20.8%	$ 3,284	8.0%	$ 4,105	10.0%
Tier I capital (to risk-weighted assets)	8,026	19.6%	1,642	4.0%	2,463	6.0%
Core capital (to adjusted total assets)	8,026	10.6%	3,017	4.0%	3,772	5.0%
Core capital (to adjusted tangible assets)	8,026	10.6%	1,509	2.0%	N/A	N/A
Tangible capital (to adjusted total assets)	8,026	10.6%	1,131	1.5%	N/A	N/A

	2011					
	Actual		Required for Adequate Capital		Required To Be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total risk-based capital (to risk-weighted assets)	$ 8,197	19.8%	$ 3,307	8.0%	$ 4,134	10.0%
Tier I capital (to risk-weighted assets)	7,680	18.6%	1,654	4.0%	2,481	6.0%
Core capital (to adjusted total assets)	7,680	10.3%	2,969	4.0%	3,712	5.0%
Core capital (to adjusted tangible assets)	7,680	10.3%	1,485	2.0%	N/A	N/A
Tangible capital (to adjusted total assets)	7,680	10.3%	1,114	1.5%	N/A	N/A

Note 15: Employee Benefit Plans

The Bank participates in the Pentegra Defined Benefit Plan for Financial Institutions (the Pentegra Plan), an industry-wide, tax-qualified defined-benefit pension plan. The Pentegra Plan's Employer Identification Number is 13-5645888 and the Plan Number is 333. The Pentegra Plan operates as a multiemployer plan for accounting purposes and as a multi-employer plan under the *Employee Retirement Income Security Act of 1974* and the Internal Revenue Code. There are no collective bargaining agreements in place that require contributions to the Pentegra Plan.

The Pentegra Plan is a single plan under Internal Revenue Code Section 413(c) and, as a result, all of the assets stand behind all of the liabilities. Accordingly, under the Pentegra Plan, contributions made by a participating employer may be used to provide benefits to participants of other participating employers. If the Bank chooses to stop participating in the Pentegra Plan, it may be required to pay an amount based on the underfunded status of the Pentegra Plan, which is referred to as a withdrawal liability.

The Bank froze the benefits in the Pentegra Plan effective July 1, 2006. Full-time employees of the Bank who had attained at least 21 years of age and completed one year of service were eligible to participate. No further benefits will accrue subsequent to the freeze, and the freeze does not reduce the benefits accrued up to the date of the freeze.

Calculations to determine full-funding status are made annually by the third-party plan administrator as of June 30. At June 30, 2011 and 2010, the funding target, which is defined as the market value of plan assets divided by the plan liabilities, of the Bank's portion of the Pentegra Plan was 80.7% and 81.3%, respectively, funded.

Total contributions by all employer participants in the Pentegra Plan, as reported on Form 5500, totaled $299.7 million and $203.6 million, respectively, for the plan years ended June 30, 2011 and 2010. The Bank's contributions to the Pentegra Plan totaled $67,000 and $55,000, respectively, for the years ended June 30, 2012 and 2011 and do not represent more than 5% of the total contributions made by all employer participants in the Pentegra Plan. Given the current interest rate environment, the lower asset valuations, and other factors impacting the operations of the Pentegra Plan, it is likely that our future funding obligations will increase.

The Company has a Retirement Savings Section 401(k) plan in which substantially all employees may participate. The Company matches participant contributions at the rate of 50 percent of the first 6 percent of base salary contributed by participants. The Company contributes an additional 2 percent of participant base salary regardless of participant contributions. The Company's expense for the plan was $31,000 and $27,000 for the years ended June 30, 2012 and 2011.

The Company has an ESOP covering substantially all employees of the Bank. At June 30, 2012, all 161,896 ESOP shares have been allocated. As of June 30, 2012, no unearned shares remained. The Company is obligated at the option of each beneficiary to repurchase shares of the ESOP upon the beneficiary's termination or after retirement. The trustee expense for the ESOP was $31,000 and $28,000 for the years ended June 30, 2012 and 2011.

(Table Dollar Amounts in Thousands, Except Share Data)

The Company has a Recognition and Retention Plan and Trust (RRP). The RRP has acquired 130,948 shares of the Company's common stock, which is the maximum allowed by the Plan, for awards to management. Shares awarded to management under the RRP vest at a rate of 20 percent at the end of each full 12 months of service with the Bank after the date of grant. As of June 30, 2012, 129,208 shares of common stock have been awarded to management. Expense under the RRP was $47,000 and $34,000 for the years ended June 30, 2012 and 2011.

The Company has entered into employee agreements with certain officers that provide for the continuation of salary and certain benefits for a specified period of time.

Note 16: Related Party Transactions

The Bank has entered into transactions with certain directors and officers. Such transactions were made in the ordinary course of business on substantially the same terms and conditions, including interest rates and collateral, as those prevailing at the same time for comparable transactions with other customers, and did not, in the opinion of management, involve more than normal credit risk or present other unfavorable features. The aggregate amount of loans, as defined, to such related parties were as follows:

Balances, July 1, 2011	$ 643
New loans, including renewals	7
Payments, etc. including renewals	(27)
Balances, June 30, 2012	$ 623

Deposits from related parties held by the Bank at June 30, 2012 and 2011 totaled $1,297,000 and $1,034,000.

Note 17: Stock Option Plan

The Company has reserved 202,370 shares of Company stock for the granting of options to certain directors, officers and other key employees of the Company and the Bank. As of June 30, 2012, there were no stock options outstanding.

(Table Dollar Amounts in Thousands, Except Share Data)

Note 18: Earnings Per Share

Earnings per share were computed as follows:

	2012		
	Net Income	Weighted-Average Shares	Per-Share Amount
Basic Earnings Per Share			
Income available to common stockholders	$ 513	1,317,221	$ .39
Effect of Dilutive Stock Options	—	211	
Diluted Earnings Per Share			
Income available to common stockholders and assumed conversions	$ 513	1,317,432	$ .39

	2011		
	Net Income	Weighted-Average Shares	Per-Share Amount
Basic Earnings Per Share			
Income available to common stockholders	$ 510	1,318,153	$ .39
Effect of Dilutive Stock Options	—	—	
Diluted Earnings Per Share			
Income available to common stockholders and assumed conversions	$ 510	1,318,153	$ .39

(Table Dollar Amounts in Thousands, Except Share Data)

Note 19: Condensed Financial Information (Parent Company Only)

Presented below is condensed financial information as to financial position, results of operations and cash flows of the Company:

Condensed Balance Sheets

	2012	2011
Assets		
Cash and cash equivalents	$ 41	$ 16
Securities available for sale	122	122
Premises and equipment	422	429
Investment in subsidiaries	8,396	8,114
Other assets	130	86
Total assets	$ 9,111	$ 8,767
Liabilities	$ 313	$ 426
Stockholders' Equity	8,798	8,341
Total liabilities and stockholders' equity	$ 9,111	$ 8,767

Condensed Statements of Income

	2012	2011
Income		
Dividends from Bank	$ 415	$ 198
Interest and other income	60	64
Total income	475	262
Expenses		
Salaries and employee benefits	20	20
Legal and professional fees	42	41
Other expenses	87	89
Total expenses	149	150
Income before income tax benefit and equity in undistributed income of Bank	326	112
Income tax benefit	(35)	(34)
Income before equity in undistributed income of Bank	361	146
Equity in undistributed income (loss) of Bank	152	364
Net Income	$ 513	$ 510

(Table Dollar Amounts in Thousands, Except Share Data)

Condensed Statements of Cash Flows

	2012	2011
Operating Activities		
Net income	$ 513	$ 510
Items not providing cash	(301)	(400)
Net cash provided by operating activities	212	110
Financing Activities		
Dividends paid	(161)	(202)
Purchase of stock	(26)	(15)
Net cash used in financing activities	(187)	(217)
Net Change in Cash and Cash Equivalents	25	(107)
Cash and Cash Equivalents at Beginning of Year	16	123
Cash and Cash Equivalents at End of Year	$ 41	$ 16

Note 20: Disclosures About Fair Value of Financial Instruments

ASC Topic 820, *Fair Value Measurements*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 also specifies a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

(Table Dollar Amounts in Thousands, Except Share Data)

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

Available-for-Sale Securities

Where quoted market prices are not available, fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 1 securities include marketable equity securities. Level 2 securities include federal securities, municipal securities, and corporate bonds. Matrix pricing is a mathematical technique widely used in the banking industry to value investment securities without relying exclusively on quoted prices for specific investment securities but rather relying on the investment securities' relationship to other benchmark quoted investment securities. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

The following tables present the fair value measurements of assets recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2012 and 2011:

		2012 Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available-for-sale securities				
Federal agencies	$ 4,020	$ —	$ 4,020	$ —
Corporate bonds	120	—	120	—
Municipal bonds	3,334	—	3,334	—
Marketable equity securities	3	3	—	—
	$ 7,477	$ 3	$ 7,474	$ —

		2011 Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available-for-sale securities				
Federal agencies	$ 3,448	$ —	$ 3,448	$ —
Corporate bonds	120	—	120	—
Municipal bonds	2,570	—	2,570	—
Marketable equity securities	2	2	—	—
	$ 6,140	$ 2	$ 6,138	$ —

Following is a description of the inputs and valuation methodologies used for assets measured at fair value on a nonrecurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification pursuant to the valuation hierarchy.

Impaired Loans (Collateral Dependent)

Loans for which it is probable that the Company will not collect all principal and interest due according to contractual terms are measured for impairment. Allowable methods for determining the amount of impairment include estimating fair value using the fair value of the collateral for collateral-dependent loans.

If the impaired loan is identified as collateral dependent, then the fair value method of measuring the amount of impairment is utilized. This method requires obtaining a current independent appraisal of the collateral and applying a discount factor to the value if deemed necessary by management.

Impaired loans that are collateral dependent are classified within Level 3 of the fair value hierarchy when impairment is determined using the fair value method.

The following tables present the fair value measurements of assets recognized in the accompanying consolidated balance sheets measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2012 and 2011:

		2012 Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	$ 504	$ —	$ —	$ 504

		2011 Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	$ 107	$ —	$ —	$ 107

(Table Dollar Amounts in Thousands, Except Share Data)

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying consolidated balance sheets at amounts other than fair value.

Cash and Cash Equivalents, Interest-Bearing Deposits, Federal Home Loan Bank Stock, Interest Receivable and Interest Payable

The carrying amount approximates fair value.

Loans

The fair value of loans is estimated by discounting the future cash flows using the market rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. Loans with similar characteristics were aggregated for purposes of the calculations. The carrying amount of accrued interest approximates its fair value.

Deposits

Deposits include demand deposits, savings accounts, NOW accounts and certain money market deposits. The carrying amount approximates fair value. The fair value of fixed-maturity time deposits is estimated using a discounted cash flow calculation that applies the rates currently offered for deposits of similar remaining maturities.

Borrowings

Rates currently available to the Company for debt with similar terms and remaining maturities are used to estimate the fair value of existing debt. Fair value of long-term debt is based on quoted market prices or dealer quotes for the identical liability when traded as an asset in an active market. If a quoted market price is not available, an expected present value technique is used to estimate fair value.

The following table presents estimated fair values of the Company's financial instruments at June 30, 2012 and 2011.

	2012		2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	$ 6,764	$ 6,764	$ 4,942	$ 4,942
Interest-bearing deposits	1,255	1,255	1,208	1,208
Available-for-sale securities	7,477	7,477	6,140	6,140
Loans, net	55,048	59,151	57,379	61,297
Federal Home Loan Bank stock	1,032	1,032	1,033	1,033
Interest receivable	345	345	371	371
Financial liabilities				
Deposits	$ 53,346	$ 53,779	$ 50,791	$ 51,535
Borrowings	13,000	13,664	15,000	15,727
Interest payable	21	21	25	25