ROYAL FINANCIAL, INC. AND SUBSIDIARY

Chicago, Illinois

CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014 and 2013

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Royal Financial, Inc. and Subsidiary
Chicago, Illinois

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Royal Financial, Inc. and Subsidiary, which comprise the consolidated statements of financial condition as of June 30, 2014 and 2013, 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

(Continued)

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Royal Financial, Inc. and Subsidiary as of June 30, 2014 and 2013, 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.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The 2014 consolidating information on pages 35 and 36 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Crowe Horwath LLP

Crowe Horwath LLP

Oak Brook, Illinois
September 11, 2014

ROYAL FINANCIAL, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
June 30, 2014 and 2013

	2014	2013
ASSETS		
Cash and non-interest bearing balances in financial institutions	$ 871,687	$ 893,499
Interest bearing balances in financial institutions	743,302	2,274,266
Federal funds sold	180,281	97,148
Total cash and cash equivalents	1,795,270	3,264,913
Securities available for sale	32,205,458	22,594,623
Loans receivable, net of allowance for loan losses of $1,416,899 in 2014 and $1,508,966 in 2013	79,259,804	68,945,527
Federal Home Loan Bank stock, at cost	975,000	1,295,000
Premises and equipment, net	4,443,309	4,217,182
Land held for sale	265,000	265,000
Accrued interest receivable	500,561	447,888
Other real estate owned	1,986,850	1,895,000
Deferred tax asset	6,349,020	-
Other assets	226,574	249,592
Total assets	$ 128,006,846	$ 103,174,725
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits	$ 81,782,980	$ 68,886,926
Advances from borrowers for taxes and insurance	976,456	866,913
Federal Home Loan Bank advances	19,000,000	14,900,000
Accrued interest payable and other liabilities	545,559	419,710
Total liabilities	102,304,995	85,073,549
Stockholders' equity		
Preferred stock $0.01 par value per share, authorized 1,000,000 shares, no issues are outstanding	-	-
Common stock, $0.01 par value per share, authorized 5,000,000 shares, 2,645,000 shares issued at June 30, 2014 and 2013	26,450	26,450
Additional paid-in capital	23,801,866	23,759,673
Retained earnings (deficit)	2,510,488	(5,187,593)
Treasury stock, 137,888 shares, at cost	(1,012,924)	(1,012,924)
Accumulated other comprehensive income	375,971	515,570
Total stockholders' equity	25,701,851	18,101,176
Total liabilities and stockholders' equity	$ 128,006,846	$ 103,174,725

See accompanying notes to consolidated financial statements.

ROYAL FINANCIAL, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
Years ended June 30, 2014 and 2013

	2014	2013
Interest income		
Loans	$ 4,054,316	$ 3,500,338
Securities	793,380	1,003,834
Federal funds sold and other	11,028	7,976
Total interest income	4,858,724	4,512,148
Interest expense		
Deposits	207,232	143,463
Borrowings	27,714	44,338
Total interest expense	234,946	187,801
Net interest income	4,623,778	4,324,347
Provision (credit) for loan losses	(234,785)	145,000
Net interest income after provision/ (credit) for loan losses	4,858,563	4,179,347
Non-interest income		
Service charges on deposit accounts	171,070	167,959
Secondary mortgage market fees	71,323	145,772
Income on other real estate owned	170,069	189,724
Gain on sale of investment securities	188,484	557,849
Other	1,323	1,034
Total non-interest income	602,269	1,062,338
Non-interest expense		
Salaries and employee benefits	1,725,616	1,577,231
Occupancy and equipment	695,289	686,386
Data processing	333,461	360,258
Professional services	548,375	535,032
Director fees	115,000	57,251
Marketing	10,379	5,846
FDIC insurance expense	90,818	146,536
Insurance premiums	67,046	64,860
Foreclosed asset expense	208,858	456,476
Loss on property valuation	-	168,350
Other	316,929	307,409
Total non-interest expense	4,111,771	4,365,635
Income before income taxes	1,349,061	876,050
Income tax (benefit) expense	(6,349,020)	16,000
Net income	$ 7,698,081	$ 860,050
Basic and diluted earnings per share	$ 3.07	$ 0.35

See accompanying notes to consolidated financial statements.

ROYAL FINANCIAL, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years ended June 30, 2014 and 2013

	2014	2013
Net income	$ 7,698,081	$ 860,050
Unrealized holding gain (loss) on securities available for sale	242,567	(47,053)
Reclassification adjustments for net gain recognized in income	(188,484)	(557,849)
Net unrealized gain (loss)	54,083	(604,902)
Tax expense	(193,682)	-
Net unrealized loss, net of tax	(139,599)	(604,902)
Comprehensive income	$ 7,558,482	$ 255,148

See accompanying notes to consolidated financial statements.

ROYAL FINANCIAL, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Years ended June 30, 2014 and 2013

	Common Stock	Additional Paid-In Capital	Retained Earnings (Deficit)	Treasury Stock	Accumulated Other Comprehensive Income	Total
Balance at July 1, 2012	$ 26,450	$ 24,021,570	$ (6,047,643)	$ (1,298,672)	$ 1,120,472	$ 17,822,177
Net income	-	-	860,050	-	-	860,050
Other comprehensive income	-	-	-	-	(604,902)	(604,902)
Issuance of 19,356 shares to RRP plan	-	(285,748)	-	285,748	-	-
Stock-based compensation	-	23,851	-	-	-	23,851
Balance at June 30, 2013	26,450	23,759,673	(5,187,593)	(1,012,924)	515,570	18,101,176
Net income	-	-	7,698,081	-	-	7,698,081
Other comprehensive income	-	-	-	-	(139,599)	(139,599)
Stock-based compensation	-	42,193	-	-	-	42,193
Balance at June 30, 2014	$ 26,450	$ 23,801,866	$ 2,510,488	$ (1,012,924)	$ 375,971	$ 25,701,851

See accompanying notes to consolidated financial statements.

ROYAL FINANCIAL, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended June 30, 2014 and 2013

	2014	2013
Cash flows from operating activities		
Net income	$ 7,698,081	$ 860,050
Adjustments to reconcile net loss to net cash from operating activities		
Depreciation	248,895	265,448
Deferred loan origination fees and costs	4,910	(190,406)
Provision (credit) for loan losses	(234,785)	145,000
Valuation adjustment on land held for sale	-	168,350
Gain on sale of securities	(188,484)	(557,849)
Gain on sale of other real estate owned, net	-	(79,064)
Direct write-down expense on other real estate owned	100,000	380,719
Reversal of deferred tax asset valuation allowance	(6,724,782)	-
Stock-based compensation	42,193	23,851
Change in accrued interest receivable and other assets	152,426	(31,708)
Change in other accrued interest payable and liabilities	125,848	(115,191)
Net cash from operating activities	1,224,302	869,200
Cash flows from investing activities		
Proceeds from maturities, calls, and pay downs of securities available for sale	-	8,040,474
Proceeds from sales of securities available for sale	4,992,090	24,683,735
Purchase of securities available for sale	(14,360,358)	(569,504)
Change in loans receivable	(10,276,252)	(20,035,410)
Redemption of Federal Home Loan Bank stock	320,000	62,500
Purchase of premises and equipment, net of disposals	(475,022)	(56,480)
Proceeds from sale of other real estate owned	-	653,557
Net cash from investing activities	(19,799,542)	12,778,872
Cash flows from financing activities		
Net increase (decrease) in deposits	12,896,054	(574,743)
Proceeds from Federal Home Loan Bank advances	127,300,000	181,500,000
Repayments of Federal Home Loan Bank advances	(123,200,000)	(193,750,000)
Change in advances from borrowers for taxes and insurance	109,543	414,227
Net cash from financing activities	17,105,597	(12,410,516)
Net change in cash and cash equivalents	(1,469,643)	1,237,556
Cash and cash equivalents at beginning of the year	3,264,913	2,027,357
Cash and cash equivalents at end of the year	$ 1,795,270	$ 3,264,913
Supplemental disclosures of cash flow information		
Interest paid	$ 224,276	$ 187,487
Income taxes	80,000	8,000
Supplemental noncash disclosures		
Transfer from loan portfolio to real estate owned	$ 191,850	$ 738,407
Loans provided for the sale of other real estate owned	-	1,685,300

See accompanying notes to consolidated financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation: The accompanying consolidated financial statements include the accounts of Royal Financial, Inc. ("the Company") and its wholly owned subsidiary, Royal Savings Bank ("the Bank"). All significant intercompany transactions and balances are eliminated in consolidation.

Nature of Business: The primary business of the Company is the ownership of the Bank. Through the Bank, the Company is engaged in the business of retail banking, with operations conducted through its main office, one branch located in Chicago and two loan production offices.

The Bank is engaged in the business of general commercial and retail banking. The Bank offers a variety of deposit products including checking, savings, money market, and time deposit accounts. The Bank conducts lending activities in the residential and commercial mortgage markets, in the general commercial market and in the consumer installment marketplace. Substantially all loans are secured by specific items of collateral including business assets, consumer assets, and commercial and residential real estate. Commercial loans are expected to be repaid from cash flow from operations of businesses. There are no significant concentrations of loans to any one industry or customer. The Bank's lending activities are conducted with customers in a wide variety of industries, as well as with individuals with a wide variety of credit requirements. Credit risk, as it relates to the Bank's business activities, tends to be geographically concentrated within Chicago, Illinois and its surrounding communities, including northwest Indiana. Although the Bank has a diversified portfolio, exposure to credit loss may be adversely impacted by downturns in local economic and employment conditions and real estate values.

Subsequent Events: The Company has evaluated subsequent events for recognition and disclosure through September 11, 2014, which is the date the financial statements were available to be issued.

Use of Estimates: To prepare financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and future results could differ. The allowance for loan losses, other real estate owned, fair value of financial instruments and valuation allowance on deferred tax assets are particularly subject to change.

Cash Flows: Cash and cash equivalents include cash, deposits with other financial institutions under 90 days and federal funds sold. Net cash flows are reported for loan and deposit transactions.

Securities: Debt securities are classified as available for sale when they might be sold before maturity. Securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income.

Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for mortgage-backed securities where prepayments are anticipated. Gains and losses on sales are recorded on the trade date and determined using the specific-identification method.

Management evaluates securities for other-than-temporary impairment ("OTTI") on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the income statement and 2) OTTI related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. For equity securities, the entire amount of impairment is recognized through earnings.

Loans: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, deferred loan fees and costs, and an allowance for loan losses. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the level-yield method without anticipating prepayments. The recorded investment in loans is presented net of partial charge-offs.

For all classes of loans, interest income is discontinued at the time the loan is 90 days delinquent unless the loan is well-secured and in process of collection. Past due status is based on the 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. Nonaccrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans. A loan is moved to non-accrual status in accordance with the Company's policy, typically after 90 days of non-payment.

For all classes of loans all accrued interest receivable on loans placed on nonaccrual is reversed against interest income. Interest received on such loans is either accounted for on the cash-basis or applied to the recorded investment in the loan until qualifying for return to accrual. Loans are generally returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Loan Losses: The allowance for loan losses is a valuation allowance for probable incurred credit losses, increased by the provision for loan losses and decreased by charge-offs less recoveries. Loan losses are charged against the allowance when management believes that the loan balance is not fully collectable. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired.

For all classes of loans, a loan is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired. 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.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Real estate and commercial loans are individually evaluated for impairment. Large groups of smaller balance homogeneous loans, such as consumer loans are collectively evaluated for impairment, and accordingly, they are not separately identified for impairment disclosures. Troubled debt restructurings are separately identified for impairment disclosures and are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. For troubled debt restructurings that subsequently default, the Company determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

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 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.

The following portfolio segments have been identified: real estate, commercial and consumer. Management considers the following when assessing the risk in the loan portfolio:

Residential real estate (including 1-4 family and multifamily) loans are affected by the local residential real estate market, the local economy, and, for variable rate mortgages, movement in indices tied to these loans. At the time of origination the Company evaluates the borrower's repayment ability through a review of debt to income ratios and credit scores. Multi-family real estate loans are dependent on overall economic conditions as well as the local real estate market for the particular property segments. Appraisals are obtained to support the loan amount. Financial information is obtained from the borrowers and/or the individual project to evaluate cash flows sufficiency to service debt at the time of origination and periodically updated during the life of the loan.

Commercial real estate loans are dependent on the industries tied to these loans as well as the local commercial real estate market. The loans are secured by the real estate, and appraisals are obtained to support the loan amount. An evaluation of the project's cash flows is performed to evaluate the borrower's ability to repay the loan at the time of origination and periodically updated during the life of the loan. Included in commercial real estate loans are construction and loan development loans. Construction and land development lending carries all of the normal risks involved in lending including the changing nature of borrower and guarantor financial conditions and the knowledge that the sale of the completed project is likely the sole source of repayment, as opposed to other forms of borrower cash flow. In addition, this segment carries several additional risk factors including: (1) timely project completion (contractor financial condition, commodity prices, weather delays, prospective tenant financial condition); (2) market factors (changing economic conditions, unemployment rates, end-user financing availability, interest rates); (3) competition (similar product availability, bank foreclosed properties); and (4) end-product price stability.

Commercial loans (business loans and leases) are dependent on the strength of the industries of the related borrowers and the success of their businesses. Commercial loans are advanced for equipment purchases or to provide working capital or meet other financing needs of the business. These loans may be secured by accounts receivable, inventory, equipment or other business assets. Financial information is obtained from the borrower to evaluate the debt service coverage and ability to repay the loans.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Consumer loans (including home equity loans) are dependent on local economies. Home improvement and other consumer loans are generally secured by consumer assets, but may be unsecured. At the time of origination, the Company evaluates the borrower's repayment ability through a review of debt to income ratios and credit scores.

The general component covers non-impaired loans and is based on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio class and is based on the actual loss history experienced by the Company over the most recent 12 quarters. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio class. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations.

Foreclosed Assets: Assets acquired through or instead of loan foreclosure are initially recorded at the fair value, less estimated costs to sell, establishing a new cost basis. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Operating costs after acquisition are expensed.

Premises and Equipment: Land is carried at cost. Land held for sale is carried at the lower of cost or fair value. Unrealized losses, if any, are recorded as a valuation allowance and charged to earnings. Premises and equipment are stated at cost less accumulated depreciation and are depreciated using the straight-line method over the shorter of the estimated useful lives or lease term. Buildings and improvements are depreciated using the straight-line method with useful lives ranging from 5 to 40 years. Furniture and equipment are depreciated using the straight-line method with useful lives ranging from 3 to 10 years.

Federal Home Loan Bank (FHLB) Stock and Advances: The Bank is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. 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 as income.

Stock Compensation: Compensation cost is recognized for stock options and restricted stock awards issued to employees, based on the fair value of these awards at the date of the grant. A Black-Scholes model is utilized to estimate the fair value of the stock options, while the market price of the Company's common stock at the date of grant is used for restricted stock awards. Compensation cost is recognized over the required service period, generally defined as the vesting period.

Income Taxes: Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. If necessary, a valuation allowance reduces deferred tax assets to the amount expected to be realized.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Company and its subsidiaries are subject to U.S. federal income tax as well as income tax of the state of Illinois. The Company is no longer subject to examination by taxing authorities for years before 2010. The Company recognizes interest and/or penalties related to income tax matters in income tax expense.

Off-Balance-Sheet Financial Instruments: Financial instruments include off-balance-sheet credit instruments, such as commitments to make loans, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Comprehensive Income: Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available for sale, net of tax, which are also recognized as separate components of stockholders' equity.

Long-Term Assets: Premises and equipment and other long-term assets are reviewed for impairment when events indicate that their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value.

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. Management does not believe that there are any such matters that will have a material effect on the financial statements.

Earnings Per Share: Basic earnings per share is based on net income divided by the weighted average number of shares outstanding during the period.

All outstanding unvested share-based payment awards that contain rights to non-forfeitable dividends are considered participating securities for this calculation. Diluted earnings per common share reflect the dilutive effect, if any, of additional potential common shares issuable under stock options.

Dividend Restriction: Banking regulations require maintaining certain capital levels and may limit the dividends paid by the Bank to the holding company or by the holding company to the shareholders.

Reclassifications: Some items in the prior year financial statements were reclassified to conform to the current presentation.

(Continued)

NOTE 2 - SECURITIES

The fair value of securities available for sale and the related gross unrealized gains and losses recognized in accumulated other comprehensive income were as follows at June 30, 2014 and 2013:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2014				
Available for sale:				
Federal Home Loan Mortgage Corporation	$ 7,513,784	$ 25,636	$ (4,925)	$ 7,534,495
Federal National Mortgage Association	1,000,000	-	(1,530)	998,470
Federal Farm Credit Bureau	-	-	-	-
Municipal taxable bonds	23,122,021	630,988	(80,516)	23,672,493
Total	$ 31,635,805	$ 656,624	$ (86,971)	$ 32,205,458
2013				
Available for sale:				
Federal Home Loan Mortgage Corporation	$ 3,993,836	$ -	$ (39,896)	$ 3,953,940
Federal National Mortgage Association	1,000,000	-	(21,700)	978,300
Federal Farm Credit Bureau	2,000,000	-	(15,540)	1,984,460
Municipal taxable bonds	15,085,217	679,254	(86,548)	15,677,923
Total	$ 22,079,053	$ 679,254	$ (163,684)	$ 22,594,623

The fair value of securities available for sale at year-end 2014 by contractual maturity was as follows.

	Amortized Cost	Fair Value
Due from one to five years	$ 10,655,689	$ 10,813,021
Due from five to ten years	18,768,633	19,076,502
Over ten years	2,211,483	2,315,935
Total	$ 31,635,805	$ 32,205,458

The following table presents components of gains and losses on sales of available-for-sale securities:

	2014	2013
Gains	$ 188,484	$ 570,339
Losses	-	(12,490)
Net gain on sales of securities	$ 188,484	$ 557,849

(Continued)

NOTE 2 - SECURITIES (Continued)

Securities pledged at year-end 2014 and 2013 had a carrying amount of $12,601,000 and $6,994,000, respectively. These securities were pledged to secure the federal funds line of credit and the FHLB advance line of credit.

At year-end 2014 and 2013, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of shareholders' equity.

Securities with unrealized losses at June 30, 2014, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows:

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Debt securities:						
Federal Home Loan Mortgage Corporation	$ 1,488,735	$ (4,925)	$ -	$ -	$ 1,488,735	$ (4,925)
Federal National Mortgage Association	-	-	998,470	(1,530)	998,470	(1,530)
Federal Farm Credit Bureau	-	-	-	-	-	-
Municipal taxable bonds	3,518,650	(25,129)	3,193,669	(55,387)	6,712,319	(80,516)
	$ 5,007,385	$ (30,054)	$ 4,192,139	$ (56,917)	$ 9,199,524	$ (86,971)

Unrealized losses at June 30, 2014 have not been recognized into income because the securities are of high credit quality, the Bank does not intend to sell the securities, it is more likely than not that the Bank will not be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to increases in market interest rates and fixed income market conditions since the purchase date. Credit quality of the securities is considered to be high, and the fair value is expected to recover as the securities approach their maturity date and/or market rates decline.

(Continued)

NOTE 3 - LOANS

At June 30, 2014 and 2013, loans receivable consisted of the following:

	2014	2013
Real estate loans		
One-to-four-family	$ 21,370,221	$ 22,162,053
Commercial	29,858,193	29,459,350
Multi-family	24,454,520	14,548,086
Total real estate loans	75,682,934	66,169,489
Commercial loans		
Business loans	4,202,473	3,435,579
Total commercial loans	4,202,473	3,435,579
Consumer loans		
Home equity loans	302,797	414,875
Other	488,499	434,550
Total consumer loans	791,296	849,425
Gross Loans	80,676,703	70,454,493
Allowance for loan losses	(1,416,899)	(1,508,966)
Loans, net	$ 79,259,804	$ 68,945,527

(Continued)

NOTE 3 - LOANS (Continued)

The following table presents the activity in the allowance for loan losses by class for the period ending June 30, 2014 and 2013:

	One-to-Four Family	Commercial	Multi-Family	Business Loans	Leases	Home Equity Loans	Other	Total
2014								
Allowance for loan losses:								
Beginning balance	$ 588,977	$ 632,863	$ 258,257	$ 19,230	$ -	$ 9,639	$ -	$ 1,508,966
Provision (credit) for loan losses	81,303	(599,439)	223,296	43,388	(15,097)	(7,139)	38,903	(234,785)
Loans charged off	(170,050)	(24,096)	(3,526)	(36,860)	-	-	(39,767)	(274,299)
Recoveries	200	378,192	22,664	-	15,097	-	864	417,017
Total ending allowance balance	$ 500,430	$ 387,520	$ 500,691	$ 25,758	$ -	$ 2,500	$ -	$ 1,416,899
2013								
Allowance for loan losses:								
Beginning balance	$ 920,123	$ 675,054	$ 74,638	$ 104,613	$ 30,551	$ 13,539	$ -	$ 1,818,518
Provision for loan losses	321,015	(135,155)	93,584	(86,109)	(51,309)	(8,700)	11,674	145,000
Loans charged off	(747,048)	(45,200)	(74,965)	(1,061)	-	-	(11,674)	(879,948)
Recoveries	94,887	138,164	165,000	1,787	20,758	4,800	-	425,396
Total ending allowance balance	$ 588,977	$ 632,863	$ 258,257	$ 19,230	$ -	$ 9,639	$ -	$ 1,508,966

(Continued)

NOTE 3 - LOANS (Continued)

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by class and based on impairment method as of June 30, 2014 and 2013:

	One-to-Four Family	Commercial	Multi-Family	Business Loans	Home Equity Loans	Other	Total
June 30, 2014							
Allowance for loan losses:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	500,430	387,520	500,691	25,758	2,500	-	1,416,899
Total ending allowance balance	$ 500,430	$ 387,520	$ 500,691	$ 25,758	$ 2,500	$ -	$ 1,416,899
Loans:							
Loans individually evaluated for impairment	$ 669,356	$ 384,174	$ 61,725	$ 135,389	$ 100,281	$ -	$ 1,350,925
Loans collectively evaluated for impairment	20,700,865	29,474,019	24,392,795	4,067,084	202,516	488,499	79,325,778
Total ending loans balance	$ 21,370,221	$ 29,858,193	$ 24,454,520	$ 4,202,473	$ 302,797	$ 488,499	$ 80,676,703

(Continued)

NOTE 3 - LOANS (Continued)

	One-to-Four Family	Commercial	Multi-Family	Business Loans	Home Equity Loans	Other	Total
June 30, 2013							
Allowance for loan losses:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$ -	$ 22,222	$ 10,211	$ -	$ -	$ -	$ 32,433
Collectively evaluated for impairment	588,977	610,641	248,046	19,230	9,639	-	1,476,533
Total ending allowance balance	$ 588,977	$ 632,863	$ 258,257	$ 19,230	$ 9,639	$ -	$ 1,508,966
Loans:							
Loans individually evaluated for impairment	$ 1,027,240	$ 286,227	$ 147,988	$ 162,485	$ 68,980	$ -	$ 1,692,920
Loans collectively evaluated for impairment	21,134,813	29,173,123	14,400,098	3,273,094	345,895	434,550	68,761,573
Total ending loans balance	$ 22,162,053	$ 29,459,350	$ 14,548,086	$ 3,435,579	$ 414,875	$ 434,550	$ 70,454,493

(Continued)

NOTE 3 - LOANS (Continued)

The following tables presents information related to impaired loans by class of loans as of and for the period ended June 30, 2014 and 2013:

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized
2014					
With no related allowance recorded:					
Real estate loans:					
One-to-four family	$ 1,204,307	$ 669,356	$ -	$ 854,705	$ 18,513
Commercial	552,136	384,174	-	330,189	15,446
Multi-family	1,288,641	61,725	-	97,725	-
Business loans	290,826	135,389	-	144,682	589
Home equity loans	100,281	100,281	-	78,345	20,447
Other	248,855	-	-	-	-
	3,685,046	1,350,925	-	1,505,646	54,995
With an allowance recorded:					
Real estate loans:					
One-to-four family	-	-	-	-	-
Commercial	-	-	-	-	-
Multi-family	-	-	-	-	-
Business loans	-	-	-	-	-
Leases	-	-	-	-	-
Home equity loans	-	-	-	-	-
Other	-	-	-	-	-
	-	-	-	-	-
Total	$ 3,685,046	$ 1,350,925	$ -	$ 1,505,646	$ 54,995

(Continued)

NOTE 3 - LOANS (Continued)

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized
2013					
With no related allowance recorded:					
Real estate loans:					
One-to-four family	$ 1,490,650	$ 1,027,240	$ -	$ 1,381,560	$ 30,913
Commercial	300,454	207,173	-	255,584	4,556
Multi-family	89,605	14,263	-	3,566	3,554
Business loans	286,872	162,485	-	64,281	6,241
Leases	-	-	-	-	-
Home equity loans	83,343	68,980	-	75,901	-
Other	-	-	-	-	-
	2,250,924	1,480,141	-	1,780,892	45,264
With an allowance recorded:					
Real estate loans:					
One-to-four family	-	-	-	-	-
Commercial	154,553	79,054	22,222	84,024	-
Multi-family	1,360,641	133,725	10,211	162,896	-
Business loans	-	-	-	-	-
Leases	-	-	-	-	-
Home equity loans	-	-	-	-	-
Other	-	-	-	-	-
	1,515,194	212,779	32,433	246,920	-
Total	$ 3,766,118	$ 1,692,920	$ 32,433	$ 2,027,812	$ 45,264

For the years ended June 30, 2014 and 2013, cash basis interest income recognized approximates the accrual basis interest income recognized.

(Continued)

NOTE 3 - LOANS (Continued)

The following table presents the aging of the recorded investment in past due loans as of June 30, 2014 and 2013 by class of loans:

	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater Than 89 Days Past Due Still on Accrual	Nonaccrual	Total Past Due and Nonaccrual	Loans Not Past Due	Total
2014							
Real estate loans							
One-to-four family	$ -	$ 57,631	$ -	$ 274,293	$ 331,924	$ 21,038,297	$ 21,370,221
Commercial	-	-	-	168,189	168,189	29,690,004	29,858,193
Multi-family	-	-	-	61,725	61,725	24,392,795	24,454,520
Commercial loans							
Business loans	-	-	-	135,381	135,381	4,067,092	4,202,473
Consumer loans							
Home equity loans	-	-	-	-	-	302,797	302,797
Other	-	-	-	-	-	488,499	488,499
Total	$ -	$ 57,631	$ -	$ 639,588	$ 697,219	$ 79,979,484	$ 80,676,703
2013							
Real estate loans							
One-to-four family	$ -	$ 59,398	$ -	$ 549,916	$ 609,314	$ 21,552,739	$ 22,162,053
Commercial	2,012	-	-	286,227	288,239	29,171,111	29,459,350
Multi-family	-	-	-	147,988	147,988	14,400,098	14,548,086
Commercial loans							
Business loans	-	-	-	26,491	26,491	3,409,088	3,435,579
Consumer loans							
Home equity loans	-	-	-	68,980	68,980	345,895	414,875
Other	-	-	-	-	-	434,550	434,550
Total	$ 2,012	$ 59,398	$ -	$ 1,079,602	$ 1,141,012	$ 69,313,481	$ 70,454,493

(Continued)

NOTE 3 - LOANS (Continued)

Troubled Debt Restructurings:

Restructured loans totaled $653,000 and $684,000 at June 30, 2014 and 2013, respectively. These loans are considered troubled debt restructurings and are classified as impaired at June 30, 2014 and 2013. Specific loan loss allowance allocations for the loans were $0 and $22,000 at June 30, 2014 and 2013, respectively. No additional loan commitments are outstanding to these borrowers.

A loan is considered to be in payment default once it is 60 days contractually past due under the modified terms.

There were no new troubled debt restructurings that occurred during the years ending June 30, 2014 or 2013.

Credit Quality Indicators:

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, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis includes real estate commercial and home equity loans. This analysis is performed on a quarterly basis. The Company uses the following 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. Certain loans in the substandard category are classified as impaired.
>
> **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.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans. Loans listed as not rated are included in groups of homogeneous loans and are evaluated based on past due status, which was previously presented.

(Continued)

NOTE 3 - LOANS (Continued)

Based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

	Not Rated	Pass	Special Mention	Substandard	Total
June 30, 2014					
Real estate loans					
One-to-four family	$ -	$ 20,997,171	$ -	$ 373,050	$ 21,370,221
Commercial	-	29,581,964	-	276,229	29,858,193
Multi-family	-	24,392,795	-	61,725	24,454,520
Commercial loans					
Business loans	-	4,067,092	-	135,381	4,202,473
Consumer loans					
Home equity loans	-	302,797	-	-	302,797
Other	28,359	460,140	-	-	488,499
Total	$ 28,359	$ 79,801,959	$ -	$ 846,385	$ 80,676,703

	Not Rated	Pass	Special Mention	Substandard	Total
June 30, 2013					
Real estate loans					
One-to-four family	$ -	$ 21,472,736	$ 37,062	$ 652,255	$ 22,162,053
Commercial	-	24,892,901	3,460,805	1,105,644	29,459,350
Multi-family	-	14,400,098	-	147,988	14,548,086
Commercial loans					
Business loans	-	3,271,081	2,012	162,486	3,435,579
Consumer loans					
Home equity loans	-	345,895	-	68,980	414,875
Other	12,463	422,087	-	-	434,550
Total	$ 12,463	$ 64,804,798	$3,499,879	$ 2,137,353	$ 70,454,493

NOTE 4 - PREMISES AND EQUIPMENT

Premises and equipment as of June 30, 2014 and 2013 are as follows:

	2014	2013
Land	$ 357,731	$ 357,731
Buildings and improvements	5,623,394	5,228,873
Furniture and equipment	2,323,926	2,245,190
Total cost	8,305,051	7,831,794
Less accumulated depreciation	(3,861,742)	(3,614,612)
	$ 4,443,309	$ 4,217,182

Depreciation expense was $249,000 and $265,000 for the years ended June 30, 2014 and 2013, respectively.

(Continued)

NOTE 4 - PREMISES AND EQUIPMENT (Continued)

Operating Leases: Effective May 1, 2014, the Company leases one branch location under an operating lease. Rent expense was $10,000 for 2014. Rent commitments, before considering renewal options that generally are present, were as follows:

2015	$ 60,000
2016	60,000
2017	60,000
2018	60,000
2019	50,000
Total	$ 290,000

NOTE 5 - OTHER REAL ESTATE OWNED

Activity in other real estate owned was as follows:

	2014	2013
Beginning of year	$ 1,895,000	$ 3,797,105
Loans transferred in	191,850	738,407
Sale proceeds	-	(2,338,857)
Net gain on sales	-	79,064
Direct write-downs	(100,000)	(380,719)
End of year	$ 1,986,850	$ 1,895,000

Income and expenses related to other real estate owned include:

	2014	2013
Net gain on sale	$ -	$ (79,064)
Direct write-downs	100,000	380,719
Operating expenses	108,858	154,821
Net expenses	$ 208,858	$ 456,476

NOTE 6 - DEPOSITS

Deposit account balances as of June 30, 2014 and 2013 are summarized as follows:

	2014	2013
Savings	$ 27,918,946	$ 27,162,149
NOW accounts	3,525,024	4,468,378
Non-interest-bearing checking	8,206,431	6,254,897
Money market	6,972,856	2,598,169
	46,623,257	40,483,593
Certificates of deposit	30,238,974	22,965,167
Individual retirement accounts	4,920,749	5,438,166
	35,159,723	28,403,333
	$ 81,782,980	$ 68,886,926

(Continued)

NOTE 6 - DEPOSITS (Continued)

Time deposits of $100,000 and over totaled $22,825,258 and $14,722,000 at June 30, 2014 and 2013, respectively.

At June 30, 2014, stated maturities of time deposits were:

2015	$ 18,751,918
2016	7,845,389
2017	6,061,819
2018	1,379,407
2019	1,121,190
Total	$ 35,159,723

NOTE 7 - FEDERAL HOME LOAN BANK ADVANCES

Advances from the Federal Home Loan Bank were as follows, as of June 30:

	2014	2013
Sixty-eight day term, at a rate of 0.15%, maturing 7/03/13	$ -	$ 2,000,000
One hundred twenty-one day term, at a rate of 0.18%, maturing 7/12/13	-	6,000,000
Sixty day term at a rate of 0.15%, maturing 8/02/13	-	1,000,000
Fifty-eight day term, at a rate of 0.15%, maturing 8/02/13	-	5,900,000
One hundred eighty-one day term, at a rate of 0.22%, maturing 8/28/14	10,000,000	-
Twenty-one day term, at a rate of 0.17%, maturing 7/02/14	6,000,000	-
Twenty-one day term, at a rate of 0.16%, maturing 7/18/14	3,000,000	-
Total	$ 19,000,000	$ 14,900,000

At June 30, 2014, the advances were collateralized by $28.5 million of one-four family and multi-family loans under a blanket lien arrangement and by $8.4 million in agency securities. As of June 30, 2014, the Bank had $17.9 million in additional available credit with the FHLB based on parameters set by the FHLB.

NOTE 8 - INCOME TAXES

The components of the provision (benefit) for income taxes are as follows:

	2014	2013
Current		
Federal	$ -	$ -
State	88,852	16,000
	88,852	16,000
Deferred	286,910	182,666
Change in valuation allowance	(6,724,782)	(182,666)
	$ (6,349,020)	$ 16,000

(Continued)

NOTE 8 - INCOME TAXES (Continued)

Deferred tax assets (liabilities) are comprised of the following at June 30:

	2014	2013
Federal and state net operating loss carry forward	$ 5,793,975	$ 6,085,135
Bad debts	72,692	165,068
Stock option and RRP	208,345	213,580
Depreciation and other	375,923	473,175
Gross deferred tax assets	6,450,935	6,935,958
Unrealized gain on securities available for sale	(193,682)	(175,294)
FHLB stock dividends	(27,769)	(36,882)
Gross deferred tax liabilities	(221,451)	(212,176)
Valuation allowance for deferred tax assets	-	(6,724,782)
Net deferred tax assets	$ 6,229,484	$ -

The difference between income tax (benefit) expense in the financial statements and amounts computed by applying the current federal income tax rate of 34% to income before income taxes is reconciled as follows for the year ended June 30:

	Year Ended June 30	
	2014	2013
Income taxes computed at the statutory rate	$ 458,681	$ 297,857
Valuation allowance	(6,724,782)	(182,666)
Other, net	(82,919)	(99,191)
Income tax (benefit) expense	$ (6,349,020)	$ 16,000

At June 30, 2013, due to cumulative operating losses and uncertainty of the Company's ability to generate sufficient future taxable income, a full valuation allowance was recorded against the balance of net deferred tax assets. During fiscal year 2014 based on an analysis that showed the Company was able to demonstrate the ability to generate sufficient future taxable income to realize net deferred tax assets, the Company reversed the full valuation allowance. The Company will continue to evaluate its deferred tax position and make adjustments as necessary.

At June 30, 2014, the Company had federal net operating loss carry forwards of approximately $14.5 million expiring between fiscal year 2028 and 2033 and state net operating loss carry forwards of approximately $17.1 million expiring between 2016 and 2025.

Prior to 1997, the Bank had qualified under provisions of the Internal Revenue Code that permitted it to deduct from taxable income a provision for bad debts that differs from the provision charged to income on the financial statements. Retained earnings at June 30, 2014 include approximately $1.3 million for which no deferred federal income tax liability has been recorded. This deferred federal income tax liability approximates $495,000. If the Bank were liquidated or otherwise ceases to be a bank or if tax laws change, the $495,000 would be recorded as expense.

The Company does not expect the total amount of unrecognized tax benefits to significantly increase or decrease in the next twelve months. The Company and its subsidiaries are subject to U.S. federal income tax as well as income tax of the state of Illinois. The Bank is no longer subject to examination by taxing authorities for years before 2010.

(Continued)

NOTE 9 - EMPLOYEE BENEFITS

As a replacement for the Employee Stock Ownership Plan, terminated in 2011, the Company established a 401(k) Plan, effective January 1, 2012, to provide eligible employees with retirement savings benefit. Generally, all employees of the Company and the Bank (including officers) are eligible to participate in the Plan, if over the age of 18 and have completed one year of service. Employees may elect to make contributions, or deferrals, on a pre-tax basis or after-tax basis (Roth Contributions), to the Plan and the Company will contribute a safe harbor matching contribution in an amount equal to: (i) 100% of the employee contribution, not in excess of 3% of compensation, plus (ii) 50% of the employee contribution that exceeds 3% of compensation but does not exceed 5% of compensation. The Plan is subject to certain requirements of the Internal Revenue Code and ERISA. Total 401(k) match benefit that has been charged against income for the plan was $33,000 and $34,000 for 2014 and 2013.

NOTE 10 - STOCK-BASED COMPENSATION

The Company has two share-based compensation plans as described below. Total compensation cost that has been charged against income for those plans was $42,000 and $24,000 for 2014 and 2013.

Stock Option Plan

The Company's 2005 stock option plan (the Plan), which is stockholder approved, permits the grant of options to purchase shares of the Company's common stock to its employees and directors of up to 264,500 shares of common stock. At June 30, 2014, there are 95,800 of shares available for future grants under this plan. The Company believes that such awards better align the interests of its employees with those of its stockholders. Option awards are generally granted with an exercise price equal to the market price of the Company's common stock at the date of grant; those option awards generally have vesting periods of 5 years and have 10-year contractual terms. The Company has a policy of using shares held as treasury stock to satisfy option exercises. Currently, the Company has a sufficient number of treasury shares to satisfy expected option exercises.

No options were granted during the years ended June 30, 2014 and 2013.

A summary of the activity in the stock option plan for 2014 follows:

	Shares	Average Exercise Price	Weighted Average Remaining Years of Contractual Term	Aggregate Intrinsic Value
Outstanding at beginning of year	126,380	$ 13.94		
Granted	-	-		
Exercised	-	-		
Forfeited or expired	-	-		
Outstanding at end of year	126,380	$ 13.94	1.98	$ -
Exercisable at end of year	126,380	$ 13.94	1.62	$ -
Vested or expected to vest at end of year	126,380	$ 13.94	1.98	$ -

As of June 30, 2014, total unrecognized compensation cost related to non-vested stock options granted under the plan is immaterial.

(Continued)

NOTE 10 - STOCK-BASED COMPENSATION (Continued)

Share Award Plan

A Recognition and Retention Plan ("RRP") provides for issue of shares of restricted stock to directors, officers, and employees. Compensation expense is recognized over the vesting period of the shares based on the market value of the Company's common stock at the issue date. Pursuant to the RRP, the Company can award up to 105,800 shares of restricted stock. Shares granted prior to 2013 vest over a five-year period. Shares granted during 2013 vest over a one-year period. As of June 30, 2014 and 2013, there are no shares remaining to be granted under the plan.

A summary of changes in the Company's non-vested shares for the year follows:

	Shares	Weighted Average Grant Date Fair Value
Non-vested at June 30, 2013	19,566	$ 4.52
Granted	-	-
Vested	(13,004)	4.33
Forfeited	-	-
Non-vested at June 30, 2014	6,562	$ 4.90

As of June 30, 2014 and 2013, there was approximately $32,000 and $74,000 of total unrecognized compensation cost related to outstanding non-vested shares granted under the Plan. The cost is expected to be recognized over a weighted-average period of one year. The total fair value of shares vested during the years ended June 30, 2014 and 2013 was $56,000 and $35,000, respectively.

NOTE 11 - EARNINGS PER SHARE

The following table presents a reconciliation of the components used to compute basic and diluted earnings per share for June 30:

	2014	2013
Basic and diluted earnings per share		
Net income for the year ended June 30	$ 7,698,081	$ 860,050
Weighted average common shares outstanding	2,507,112	2,487,809
Basic and diluted earnings per share	$ 3.07	$ 0.35

The effect of stock options and stock awards was not included in the calculation of diluted earnings per share because to do so would have been anti-dilutive for all shares.

(Continued)

NOTE 12 - LOAN COMMITMENTS AND OTHER OFF-BALANCE-SHEET ACTIVITY

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the statement of financial condition.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for loans recorded in the statement of financial condition.

At June 30, 2014 and 2013, commitments to extend credit were approximately:

	2014	2013
Unused lines of credit	$ 4,265,800	$ 3,684,000
Commitment to fund loans	4,873,000	3,976,000

At June 30, 2014 and 2013, the Company had standby letters of credit of $210,000 and $141,200. These are considered financial guarantees. The fair value of these guarantees was not considered material.

NOTE 13 - REGULATORY MATTERS

The Bank is subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. Management believes as of June 30, 2014, the Bank meets all capital adequacy requirements to which they are subject.

The prompt corrective action regulations provide five classifications including well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If only adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and plans of capital restoration are required.

At year end, the Bank's actual capital levels and minimum required levels (dollars in thousands) were as follows:

	Actual		Minimum Required For Capital Adequacy Purposes		Minimum Required To Be Well Capitalized Under Prompt Correction Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
2014						
Total capital (to risk-weighted assets)	$ 20,073	27.08%	$ 5,928	8.00%	$ 7,411	10.00%
Tier I capital (to risk-weighted assets)	19,141	25.83	2,964	4.00	4,446	6.00
Tier I capital (to average assets	19,141	16.63	4,604	4.00	5,755	5.00

(Continued)

NOTE 13 - REGULATORY MATTERS (Continued)

	Actual		Minimum Required For Capital Adequacy Purposes		Minimum Required To Be Well Capitalized Under Prompt Correction Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
2013						
Total capital (to risk-weighted assets)	$ 17,669	27.09%	$ 5,217	8.00%	$ 6,521	10.00%
Tier I capital (to risk-weighted assets)	16,845	25.83	2,609	4.00	3,913	6.00
Tier I capital (to average assets	16,845	15.48	4,353	4.00	5,441	5.00

The Bank was categorized by its regulators as well capitalized at June 30, 2014 and 2013. Management is not aware of any conditions or events since the most recent notification that would change the Bank's category at June 30, 2014.

The Company's principal source of funds for dividend payments is dividends received from the Bank. Banking regulations limit the amount of dividends that may be paid without prior approval of regulatory agencies. Under these regulations, the amount of dividends that may be paid in any calendar year is limited to the current year's net profits, combined with the retained net profits of the preceding two years, subject to the capital requirements described above. During 2014, the Bank could, without prior approval, declare dividends of approximately $5.70 million.

NOTE 14 - RELATED-PARTY TRANSACTIONS

No loans to principal officers, directors, and their affiliates were outstanding at year end 2014 and 2013.

Deposits from principal officers, directors, and their affiliates at year-end 2014 and 2013 were $206,000 and $249,000, respectively.

NOTE 15 - FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other 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.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

(Continued)

NOTE 15 - FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

Securities: The fair values of securities available for sale are determined by matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs).

Impaired Loans: The fair value of impaired loans with specific allocations of the allowance for loan losses is generally based on real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal prices by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are typically significant and result in a Level 3 classification of the inputs for determining fair value.

Other Real Estate Owned: The fair value of other real estate owned with a direct write-down during the year are based on recent real estate appraisals. These appraisals may use a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value.

Assets and liabilities measured at fair value on a recurring basis are summarized below:

	Total	Fair Value Measurements at Year End Using Significant Other Observable Inputs (Level 2)
2014		
Asset:		
Available for sale securities:		
Federal Home Loan Mortgage Corporation	$ 7,534,495	$ 7,534,495
Federal National Mortgage Association	998,470	998,470
Municipal Taxable Bonds	23,672,493	23,672,493
Total	$ 32,205,458	$ 32,205,458
2013		
Asset:		
Available for sale securities:		
Federal Home Loan Mortgage Corporation	$ 3,953,940	$ 3,953,940
Federal National Mortgage Association	978,300	978,300
Federal Farm Credit Bureau	1,984,460	1,984,460
Municipal Taxable Bonds	15,677,923	15,677,923
Total	$ 22,594,623	$ 22,594,623

(Continued)

NOTE 15 - FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

The following table presents quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at June 30, 2014 and 2013 for material impaired loans and other real estate owned:

2014	Fair Value	Valuation Techniques	Unobservable Inputs	Range	Weighted Average
Impaired loans – One-to-four family	$219,157	Sales Comparison	Adjustment for difference between comparable sales	9% to 14%	10%
Impaired loans – Business loans	119,000	Sales Comparison	Adjustment for difference between comparable sales	18%	n/a
Other real estate owned	1,795,000	Sales Comparison	Adjustment for difference between comparable sales	-37% to 14%	3%

2013	Fair Value	Valuation Techniques	Unobservable Inputs	Range	Weighted Average
Impaired loans – One-to-four family	$ 676,000	Sales Comparison	Adjustment for difference between comparable sales	-11% to -1%	-5%
Impaired loans – Commercial	320,000	Sales Comparison	Adjustment for difference between comparable sales	-38% to 14%	-6%
Impaired loans – Multi-family	360,000	Sales Comparison	Adjustment for difference between comparable sales	144%	n/a
Other real estate owned	2,230,000	Sales Comparison	Adjustment for difference between comparable sales	13%	n/a

(Continued)

NOTE 15 - FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

Assets and liabilities measured at fair value on a non-recurring basis are summarized below:

	Total	Fair Value Measurements at Year End Using Significant Unobservable Inputs (Level 3)
2014		
Impaired loans		
One-to-four family	$ 219,157	$ 219,157
Business loans	119,000	119,000
Other real estate owned		
Real estate	1,795,000	1,795,000
2013		
Impaired loans		
One-to-four family	$ 514,193	$ 514,193
Commercial	208,344	208,344
Multi-family	123,514	123,514
Other real estate owned		
Real estate	1,895,000	1,895,000

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had an aggregate balance of $338,157 after partial charge-offs of $125,243, and no valuation allowance at June 30, 2014. The provision for loan losses related to these impaired loans was $125,243 for the year ended June 30, 2014.

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had an aggregate balance of $1,013,000 after partial charge-offs of $871,000, and no valuation allowance at June 30, 2013. The provision for loan losses related to these impaired loans was $22,000 for the year ended June 30, 2013. Partial charge-offs on impaired loans totaled $558,000 for the year ended June 30, 2013.

Other real estate owned which is measured at the lower of cost or fair value less costs to sell, had a net carrying amount of $2,421,000 net of a valuation allowance of $626,000 at June 30, 2014, resulting in a write-down expense of $100,000 for the year ended June 30, 2014.

Other real estate owned which is measured at the lower of cost or fair value less costs to sell, had a net carrying amount of $2,421,000 net of a valuation allowance of $526,000 at June 30, 2013, resulting in a write-down expense of $166,000 for the year ended June 30, 2013.

(Continued)

NOTE 15 - FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

Carrying amount and estimated fair values of financial instruments, not previously presented, at year-end were as follows:

	2014	
	Carrying Amount	Fair Value
Financial assets:		
Cash and cash equivalents	$ 1,795,270	$ 1,795,270
Loans, net (excluding impaired at fair value)	78,921,647	78,433,944
FHLB stock	975,000	N/A
Accrued interest receivable	500,561	500,561
Financial liabilities:		
Deposits	81,782,980	82,080,000
FHLB advances	19,000,000	19,000,000
Accrued interest payable	16,447	16,447

The methods and assumptions used to estimate fair value are described as follows:

The carrying amount is the estimated fair value for cash and cash equivalents, accrued interest receivable and payable, demand deposits, short-term borrowings, note payable, and variable rate loans or deposits that reprice frequently and fully. For fixed-rate loans or deposits and for variable-rate loans or deposits with infrequent repricing or repricing limits, fair value is based on discounted cash flows using current market rates applied to the estimated life and credit risk. It was not practicable to determine the fair value of FHLB stock due to restrictions placed on its transferability. The fair value of debt is based on current rates for similar financing. The fair value of off-balance sheet items is not considered material.

SUPPLEMENTARY INFORMATION

ROYAL FINANCIAL, INC. AND SUBSIDIARY
CONSOLIDATING SCHEDULE OF FINANCIAL CONDITION
June 30, 2014

	Royal Savings Bank	Royal Financial, Inc.	Eliminating Entries	Royal Financial Inc. Consolidated
ASSETS				
Cash and non-interest bearing balances in financial institutions	$ 871,687	$ 296,817	$ (296,817)	$ 871,687
Interest bearing balances in financial institutions	743,302	-	-	743,302
Federal funds sold	180,281	-	-	180,281
Total cash and cash equivalents	1,795,270	296,817	(296,817)	1,795,270
Securities available for sale	32,205,458	-	-	32,205,458
Investment in subsidiary	-	23,656,957	(23,656,957)	-
Loans receivable, net	79,259,804	-	-	79,259,804
Federal Home Loan Bank stock, at cost	975,000	-	-	975,000
Premises and equipment, net	4,443,309	-	-	4,443,309
Land held for sale	-	265,000	-	265,000
Accrued interest receivable	500,561	-	-	500,561
Other real estate owned	1,986,850	-	-	1,986,850
Deferred tax asset	4,842,713	1,506,307	-	6,349,020
Other assets	212,605	39,219	(25,250)	226,574
Total assets	$ 126,221,570	$ 25,764,300	$ (23,979,024)	$ 128,006,846
LIABILITIES AND STOCKHOLDERS' EQUITY				
Deposits	$ 82,079,797	$ -	$ (296,817)	$ 81,782,980
Advances from borrowers for taxes and insurance	976,456	-	-	976,456
Federal Home Loan Bank advances and other borrowings	19,000,000	-	-	19,000,000
Accrued interest payable and other liabilities	508,360	62,449	(25,250)	545,559
Total liabilities	102,564,613	62,449	(322,067)	102,304,995
Stockholders' equity				
Preferred stock	-	-	-	-
Common stock	100	26,450	(100)	26,450
Additional paid-in capital	17,585,273	23,801,866	(17,585,273)	23,801,866
Retained earnings	5,695,613	2,510,488	(5,695,613)	2,510,488
Treasury stock, at cost	-	(1,012,924)	-	(1,012,924)
Accumulated other comprehensive Income, net of tax	375,971	375,971	(375,971)	375,971
Total stockholders' equity	23,656,957	25,701,851	(23,656,957)	25,701,851
Total liabilities and stockholders' equity	$ 126,221,570	$ 25,764,300	$ (23,979,024)	$ 128,006,846

ROYAL FINANCIAL, INC. AND SUBSIDIARY
CONSOLIDATING SCHEDULE OF INCOME
Year ended June 30, 2014

	Royal Savings Bank	Royal Financial, Inc.	Eliminating Entries	Royal Financial Inc. Consolidated
Interest income				
Loans	$ 4,054,316	$ -	$ -	$ 4,054,316
Securities	793,380	-	-	793,380
Federal funds sold and other	11,028	-	-	11,028
Total interest income	4,858,724	-	-	4,858,724
Interest expense				
Deposits	207,232	-	-	207,232
Borrowings	27,714	-	-	27,714
Total interest expense	234,946	-	-	234,946
Net interest income	4,623,778	-	-	4,623,778
Provision for loan losses	(234,785)	-	-	(234,785)
Net interest income after provision for loan losses	4,858,563	-	-	4,858,563
Non-interest income				
Service charges on deposit accounts	171,070	-	-	171,070
Secondary mortgage market fees	71,323	-	-	71,323
Income on other real estate owned	170,069	-	-	170,069
Gain on sale of investment securities	188,484	-	-	188,484
Income from subsidiary	-	6,393,785	(6,393,785)	-
Other	1,323	-	-	1,323
Total non-interest income	602,269	6,393,785	(6,393,785)	602,269
Non-interest expense				
Salaries and employee benefits	1,718,596	7,020	-	1,725,616
Occupancy and equipment	681,494	13,795	-	695,289
Data processing	333,461	-	-	333,461
Professional services	378,880	169,495	-	548,375
Director fees	103,500	11,500	-	115,000
Marketing	10,379	-	-	10,379
FDIC insurance expense	90,818	-	-	90,818
Insurance premiums	67,046	-	-	67,046
Foreclosed asset expense	208,858	-	-	208,858
Other	316,728	201	-	316,929
Total non-interest expense	3,909,760	202,011	-	4,111,771
Income before income taxes	1,551,072	6,191,774	(6,393,785)	1,349,061
Income tax benefit	(4,842,713)	(1,506,307)	-	(6,349,020)
Net income	$ 6,393,785	$ 7,698,081	$ (6,393,785)	$ 7,698,081