ROYAL FINANCIAL, INC. AND SUBSIDIARY

Chicago, Illinois

CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016 and 2015

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INDEPENDENT AUDITOR'S REPORT

Audit Committee and the 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, 2016 and 2015, 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, 2016 and 2015, 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 2016 consolidating information on pages 36 and 37 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
October 31, 2016

ROYAL FINANCIAL, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
June 30, 2016 and 2015

	2016	2015
ASSETS		
Cash and non-interest bearing balances in financial institutions	$ 2,880,807	$ 928,925
Interest bearing balances in financial institutions	3,276,628	1,311,552
Federal funds sold	81,583	46,624
Total cash and cash equivalents	6,239,018	2,287,101
Investment certificates of deposit	2,591,000	-
Securities available for sale	66,810,148	14,533,805
Loans receivable, net of allowance for loan losses of $1,402,993 in 2016 and $1,431,680 in 2015	199,605,997	88,074,812
Federal Home Loan Bank stock, at cost	1,786,500	415,500
Premises and equipment, net	12,238,322	4,665,200
Land held for sale	-	265,000
Accrued interest receivable	994,342	370,314
Other real estate owned	15,307	1,829,000
Deferred tax asset	12,206,928	5,712,589
Core deposit intangibles	1,024,612	-
Other assets	536,240	385,300
Total assets	$ 304,048,414	$ 118,538,621
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits	$ 261,506,502	$ 90,254,560
Advances from borrowers for taxes and insurance	3,400,382	1,118,905
Federal Home Loan Bank advances	500,000	-
Note payable	5,250,000	-
Accrued interest payable and other liabilities	1,283,162	709,876
Total liabilities	271,940,046	92,083,341
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, 2016 and 2015	26,450	26,450
Additional paid-in capital	23,896,672	23,834,020
Retained earnings	8,843,608	3,451,689
Treasury stock, 137,888 shares, at cost	(1,012,924)	(1,012,924)
Accumulated other comprehensive income	354,562	156,045
Total stockholders' equity	32,108,368	26,455,280
Total liabilities and stockholders' equity	$ 304,048,414	$ 118,538,621

See accompanying notes to consolidated financial statements.

ROYAL FINANCIAL, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
Years ended June 30, 2016 and 2015

	2016	2015
Interest income		
Loans	$ 8,072,225	$ 4,593,494
Securities	565,091	602,611
Federal funds sold and other	45,210	18,232
Total interest income	8,682,526	5,214,337
Interest expense		
Deposits	546,182	309,782
Borrowings	132,503	25,211
Total interest expense	678,685	334,993
Net interest income	8,003,841	4,879,344
Provision (credit) for loan losses	(130,000)	90,000
Net interest income after provision (credit) for loan losses	8,133,841	4,789,344
Non-interest income		
Service charges on deposit accounts	321,293	204,172
Secondary mortgage market fees	20,647	29,191
Gain (loss) on sale of other real estate owned	237,071	(26,985)
Income on other real estate owned, net	75,178	82,824
Gain on sale of investment securities	-	541,988
Gain on sale of premises and equipment	177,049	620,625
Gain on acquisitions	4,575,785	-
Other	2,373	783
Total non-interest income	5,409,396	1,452,598
Non-interest expense		
Salaries and employee benefits	2,988,777	2,096,336
Occupancy and equipment	952,727	781,699
Data processing	634,897	373,138
Professional services	367,661	363,722
Director fees	149,600	129,600
Marketing	35,847	21,451
FDIC insurance expense	102,843	77,657
Insurance premiums	82,356	68,301
Acquisition expenses	1,659,875	426,541
Other	688,735	337,196
Total non-interest expense	7,663,318	4,675,641
Income before income taxes	5,879,921	1,566,301
Income tax expense	488,000	625,100
Net income	$ 5,391,919	$ 941,201
Basic earnings per share	$ 2.15	$ 0.38
Diluted earnings per share	$ 2.13	$ 0.38

See accompanying notes to consolidated financial statements.

ROYAL FINANCIAL, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years ended June 30, 2016 and 2015

	2016	2015
Net income	$ 5,391,919	$ 941,201
Other comprehensive income (loss):		
Unrealized holding gain on securities available for sale	300,783	208,767
Reclassification adjustment for (gain) included in net income	-	(541,988)
Net unrealized gain (loss)	300,783	(333,221)
Tax (expense) benefit	(102,266)	113,295
Total other comprehensive income (loss)	198,517	(219,926)
Comprehensive income	$ 5,590,436	$ 721,275

See accompanying notes to consolidated financial statements.

ROYAL FINANCIAL, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Years ended June 30, 2016 and 2015

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	Total
Balance at July 1, 2014	$ 26,450	$ 23,801,866	$ 2,510,488	$(1,012,924)	$ 375,971	$ 25,701,851
Net income	-	-	941,201	-	-	941,201
Other comprehensive income	-	-	-	-	(219,926)	(219,926)
Stock-based compensation	-	32,154	-	-	-	32,154
Balance at June 30, 2015	26,450	23,834,020	3,451,689	(1,012,924)	156,045	26,455,280
Net income	-	-	5,391,919	-	-	5,391,919
Other comprehensive income	-	-	-	-	198,517	198,517
Stock-based compensation	-	62,652	-	-	-	62,652
Balance at June 30, 2016	$ 26,450	$ 23,896,672	$ 8,843,608	$(1,012,924)	$ 354,562	$ 32,108,368

See accompanying notes to consolidated financial statements.

ROYAL FINANCIAL, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended June 30, 2016 and 2015

	2016	2015
Cash flows from operating activities		
Net income	$ 5,391,919	$ 941,201
Adjustments to reconcile net loss to net cash from operating activities		
Depreciation	355,576	283,888
Deferred loan origination fees and costs	(27,052)	(29,549)
Provision (credit) for loan losses	(130,000)	90,000
Loss (gain) on sale of securities	-	(541,988)
Loss (gain) on sale of other real estate owned	(237,071)	26,985
Valuation adjustment on other real estate owned	15,500	100,000
Gain on sale of premises and equipment	(29,202)	(620,625)
Gain on sale of land held for sale	(147,847)	-
Accretion of discount on acquired loans	(174,200)	-
Amortization of core deposit intangible	35,353	-
Stock-based compensation expense	62,652	32,154
Deferred income tax expense	488,000	630,190
Bargain purchase gain	(4,575,785)	-
Net change in:		
Accrued interest receivable and other assets	103,146	91,057
Other accrued interest payable and liabilities	(1,003,658)	164,317
Net cash from operating activities	127,331	1,167,630
Cash flows from investing activities		
Proceeds from maturities, calls, and pay downs of securities available for sale	29,678,029	50,415
Proceeds from sales of securities available for sale	13,351,506	25,850,460
Purchase of securities available for sale	(66,159,396)	(8,020,455)
Change in loans receivable	(7,019,199)	(9,024,459)
Proceeds from sale of loans	27,535,154	-
Purchase of Federal Home Loan Bank stock	715,000	559,500
Proceeds from sale of premises and equipment	945,872	661,248
Purchases of premises and equipment, net of disposals	140,605	(546,402)
Proceeds from sale of land held for sale	412,847	-
Proceeds from sale of other real estate owned	4,986,283	179,865
Proceeds from redemption of bank owned life insurance	10,337,987	-
Cash paid for acquisitions, net of cash received	35,133,585	-
Net cash from investing activities	50,058,273	9,710,172
Cash flows from financing activities		
Net (decrease) increase in deposits	(25,114,191)	8,471,580
Net repayments of Federal Home Loan Bank advances	(26,347,152)	(19,000,000)
Proceeds from note payable	5,250,000	-
Change in advances from borrowers for taxes and insurance	(22,344)	142,449
Net cash from financing activities	(46,233,687)	(10,385,971)
Net change in cash and cash equivalents	3,951,917	491,831
Cash and cash equivalents at beginning of the year	2,287,101	1,795,270
Cash and cash equivalents at end of the year	$ 6,239,018	$ 2,287,101
Supplemental disclosures of cash flow information		
Interest paid	$ 660,475	$ 342,186
Income taxes	-	-
Supplemental noncash disclosures		
Transfer from loan portfolio to real estate owned	$ 154,273	$ 149,000

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 five branches in Chicago, a branch in Niles, and a branch in Westmont, Illinois and loan production offices in Homewood and St. Charles, Illinois.

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 October 31, 2016, 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 actual results could differ.

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, net of purchase discount, 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.

Purchased Loans: The Company purchased individual loans through acquisitions, some of which had shown evidence of credit deterioration since origination. These purchased loans were recorded at the amount paid, such that there was no carryover of the seller's allowance for loan losses. Purchased loans were reviewed by a third party whereby loans were assigned risk grades. Based on the risk grades assigned, the determination was made by management to sell certain acquired loans deemed to be impaired upon close of each acquisition. All loans acquired with deteriorated credit quality, in both acquisitions in fiscal 2016, were sold, and thus no purchased credit impaired loans remain as of June 30, 2016. An analysis was performed over the remaining acquired portfolio of purchased loans by a third party whereby fair values were assigned. A net loan discount was recorded and is being accreted into interest income on a level yield method.

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.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

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.

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

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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) 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.

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.

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.

Core Deposit Intangible: Core deposit intangibles arising from whole bank acquisitions are amortized on a straight-line basis over ten years, representing the estimated remaining lives of the assets, and are evaluated for impairment when events or changes in circumstances indicate the carrying values of such assets may not be recoverable. At June 30, 2016, the Company believes the carrying value to be recoverable.

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.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded.

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 2012. 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.

(Continued)

NOTE 2 - SECURITIES

The fair value of debt securities available for sale and the related gross unrealized gains and losses recognized in accumulated other comprehensive income were as follows at June 30, 2016 and 2015:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2016				
Available for sale:				
Federal Home Loan Bank	$ 35,612,791	$ 72,467	$ (30,118)	$ 35,655,140
Federal Home Loan Mortgage Corporation	5,511,044	64,476	-	5,575,520
Federal National Mortgage Association	3,998,696	38,884	-	4,037,580
Federal Farm Credit Bank	1,499,552	28,513	-	1,528,065
U.S. Treasury Note	6,973,216	66,604	-	7,039,820
Municipal taxable bonds	12,677,634	311,428	(15,039)	12,974,023
Total	$ 66,272,933	$ 582,372	$ (45,157)	$ 66,810,148
2015				
Available for sale:				
Federal Home Loan Mortgage Corporation	$ 3,494,781	$ 52,954	$ -	$ 3,547,735
Federal National Mortgage Association	1,000,000	8,490	-	1,008,490
Municipal taxable bonds	9,802,592	196,631	(21,643)	9,977,580
Total	$ 14,297,373	$ 258,075	$ (21,643)	$ 14,533,805

The fair value of debt securities available for sale at year-end 2016 by contractual maturity was as follows.

	Amortized Cost	Fair Value
Due from one to five years	$ 47,881,148	$ 48,444,802
Due from five to ten years	17,079,597	17,067,954
Over ten years	1,312,188	1,297,392
Total	$ 66,272,933	$ 66,810,148

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

	2016	2015
Gains	$ -	$ 584,201
Losses	-	(42,213)
Net gain on sales of securities	$ -	$ 541,988

(Continued)

NOTE 2 - SECURITIES (Continued)

There were no securities pledged as collateral for borrowings at June 30, 2016 and 2015.

At year-end 2016 and 2015, 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, 2016, 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 Bank	$ 22,074,890	$ (30,118)	$ -	$ -	$ 22,074,890	$ (30,118)
Municipal taxable bonds	1,834,822	(15,039)	-	-	1,834,822	(15,039)
	$ 23,909,712	$ (45,157)	$ -	$ -	$ 23,909,712	$ (45,157)

Unrealized losses at June 30, 2016 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 changes 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.

NOTE 3 - LOANS

At June 30, 2016 and 2015, loans receivable consisted of the following:

	2016	2015
Real estate loans		
One-to-four-family	$ 85,527,996	$ 23,583,178
Commercial	52,686,569	38,768,212
Multi-family	55,310,670	22,828,189
Total real estate loans	193,525,235	85,179,579
Commercial loans		
Business loans	6,241,618	3,613,886
Total commercial loans	6,241,618	3,613,886
Consumer loans		
Home equity loans	476,247	222,741
Other	765,890	490,286
Total consumer loans	1,242,137	713,027
Gross loans	201,008,990	89,506,492
Allowance for loan losses	(1,402,993)	(1,431,680)
Loans, net	$ 199,605,997	$ 88,074,812

(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, 2016 and 2015:

	One-to-Four Family	Commercial	Multi-Family	Business Loans	Home Equity Loans	Other	Total
2016							
Allowance for loan losses:							
Beginning balance	$ 550,078	$ 562,629	$ 289,558	$ 26,901	$ 2,514	$ -	$ 1,431,680
Provision (credit) for loan losses	(20,351)	(8,031)	(77,802)	(14,559)	(48)	(9,209)	(130,000)
Loans charged off	(13,946)	(48,473)	-	-	-	-	(62,419)
Recoveries	23,274	45,230	72,000	14,019	-	9,209	163,732
Total ending allowance balance	$ 539,055	$ 551,355	$ 283,756	$ 26,361	$ 2,466	$ -	$ 1,402,993
2015							
Allowance for loan losses:							
Beginning balance	$ 500,430	$ 387,520	$ 500,691	$ 25,758	$ 2,500	$ -	$ 1,416,899
Provision (credit) for loan losses	158,177	147,073	(215,408)	11,143	14	(10,999)	90,000
Loans charged off	(108,529)	-	-	(10,000)	-	(3,439)	(121,968)
Recoveries	-	28,036	4,275	-	-	14,438	46,749
Total ending allowance balance	$ 550,078	$ 562,629	$ 289,558	$ 26,901	$ 2,514	$ -	$ 1,431,680

(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, 2016 and 2015:

	One-to-Four Family	Commercial	Multi-Family	Business Loans	Home Equity Loans	Other	Total
June 30, 2016							
Allowance for loan losses:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	539,055	551,355	283,756	26,361	2,466	-	1,402,993
Total ending allowance balance	$ 539,055	$ 551,355	$ 283,756	$ 26,361	$ 2,466	$ -	$ 1,402,993
Loans:							
Loans individually evaluated for impairment	$ 569,263	$ 167,568	$ -	$ -	$ -	$ -	$ 736,831
Loans collectively evaluated for impairment	84,958,733	52,519,001	55,310,670	6,241,618	476,247	765,890	200,272,159
Total ending loans balance	$ 85,527,996	$ 52,686,569	$ 55,310,670	$ 6,241,618	$ 476,247	$ 765,890	$ 201,008,990
June 30, 2015							
Allowance for loan losses:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	550,078	562,629	289,558	26,901	2,514	-	1,431,680
Total ending allowance balance	$ 550,078	$ 562,629	$ 289,558	$ 26,901	$ 2,514	$ -	$ 1,431,680
Loans:							
Loans individually evaluated for impairment	$ 715,436	$ 395,665	$ -	$ 6,279	$ 57,668	$ -	$ 1,175,048
Loans collectively evaluated for impairment	22,867,742	38,372,547	22,828,189	3,607,607	165,073	490,286	88,331,444
Total ending loans balance	$ 23,583,178	$ 38,768,212	$ 22,828,189	$ 3,613,886	$ 222,741	$ 490,286	$ 89,506,492

(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, 2016 and 2015:

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized
2016					
With no related allowance recorded:					
Real estate loans:					
One-to-four family	$ 1,064,577	$ 569,263	$ -	$ 594,432	$ 22,844
Commercial	325,454	167,568	-	280,592	7,967
Multi-family	-	-	-	-	-
Business loans	-	-	-	446	-
Home equity loans	-	-	-	47,904	3,731
Other	-	-	-	-	-
	1,390,031	736,831	-	923,374	34,542
With an allowance recorded:					
Real estate loans:					
One-to-four family	-	-	-	-	-
Commercial	-	-	-	-	-
Multi-family	-	-	-	-	-
Business loans	-	-	-	-	-
Home equity loans	-	-	-	-	-
Other	-	-	-	-	-
	-	-	-	-	-
Total	$ 1,390,031	$ 736,831	$ -	$ 923,374	$ 34,542

(Continued)

NOTE 3 - LOANS (Continued)

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized
2015					
With no related allowance recorded:					
Real estate loans:					
One-to-four family	$ 813,318	$ 715,436	$ -	$ 629,392	$ 23,182
Commercial	541,228	395,665	-	325,509	15,056
Multi-family	-	-	-	20,794	-
Business loans	134,955	6,279	-	66,587	-
Home equity loans	57,668	57,668	-	63,389	5,045
Other	-	-	-	-	367
	1,547,169	1,175,048	-	1,105,671	43,650
With an allowance recorded:					
Real estate loans:					
One-to-four family	-	-	-	-	-
Commercial	-	-	-	-	-
Multi-family	-	-	-	-	-
Business loans	-	-	-	-	-
Home equity loans	-	-	-	-	-
Other	-	-	-	-	-
	-	-	-	-	-
Total	$ 1,547,169	$ 1,175,048	$ -	$ 1,105,671	$ 43,650

For the years ended June 30, 2016 and 2015, cash basis interest income recognized approximates the accrual basis interest income recognized. The recorded investment in loans excludes accrued interest receivable and loan origination fees, net due to immateriality. For purposes of this disclosure, the unpaid principal balance is not reduced for partial charge-offs.

(Continued)

NOTE 3 - LOANS (Continued)

The following table presents the aging of the recorded investment in past due loans as of June 30, 2016 and 2015 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
2016							
Real estate loans							
One-to-four family	$ -	$ 67,714	$ -	$ 50,351	$ 118,065	$ 85,409,931	$ 85,527,996
Commercial	-	-	-	103,802	103,802	52,582,767	52,686,569
Multi-family	-	-	-	-	-	55,310,670	55,310,670
Commercial loans							
Business loans	-	-	-	-	-	6,241,618	6,241,618
Consumer loans							
Home equity loans	-	-	-	-	-	476,247	476,247
Other	-	35,679	-	-	35,679	730,211	765,890
Total	$ -	$ 103,393	$ -	$ 154,153	$ 257,546	$ 200,751,444	$ 201,008,990
2015							
Real estate loans							
One-to-four family	$ -	$ 39,724	$ -	$ 220,350	$ 260,074	$ 23,323,104	$ 23,583,178
Commercial	-	-	-	146,504	146,504	38,621,708	38,768,212
Multi-family	-	-	-	-	-	22,828,189	22,828,189
Commercial loans							
Business loans	-	-	-	6,279	6,279	3,607,607	3,613,886
Consumer loans							
Home equity loans	-	-	-	-	-	222,741	222,741
Other	-	-	-	-	-	490,286	490,286
Total	$ -	$ 39,724	$ -	$ 373,133	$ 412,857	$ 89,093,635	$ 89,506,492

(Continued)

NOTE 3 - LOANS (Continued)

Troubled Debt Restructurings:

Restructured loans totaled $496,000 and $657,000 at June 30, 2016 and 2015, respectively. These loans are considered troubled debt restructurings and are classified as impaired at June 30, 2016 and 2015. Specific loan loss allowance allocations for the loans were $0 at June 30, 2016 and 2015, respectively. No additional loan commitments are outstanding to these borrowers.

During the year ending June 30, 2016, no loans were modified as troubled debt restructurings. During the year ending June 30, 2015, the terms of two loans were modified as troubled debt restructurings. The modifications involved an A/B note restructure.

The following table presents loans by class modified as troubled debt restructurings during the year ended 2015:

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
2015			
Troubled Debt Restructurings:			
Real estate loans			
One-to-four-family	2	$ 169,343	$ 114,711

The troubled debt restructurings described above had no impact on the allowance for loan losses and resulted in charge offs of $54,632 during the year ending June 30, 2015.

A loan is considered to be in payment default once it is 60 days contractually past due under the modified terms. No troubled debt restructurings experienced payment default within twelve months of modification during the year ending June 30, 2016.

The balance of loans whose terms were modified during the years ending June 30, 2016 and June 30, 2015 that did not meet the definition of a troubled debt restructuring is considered to be immaterial. In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the Company's internal underwriting policy.

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.

(Continued)

NOTE 3 - LOANS (Continued)

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.

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, 2016					
Real estate loans					
One-to-four family	$ -	$ 85,477,645	$ -	$ 50,351	$ 85,527,996
Commercial	-	51,881,764	614,500	190,305	52,686,569
Multi-family	-	55,310,670	-	-	55,310,670
Commercial loans					
Business loans	-	6,121,073	120,545	-	6,241,618
Consumer loans					
Home equity loans	-	476,247	-	-	476,247
Other	28,223	737,667	-	-	765,890
Total	$ 28,223	$ 200,005,066	$ 735,045	$ 240,656	$ 201,008,990
June 30, 2015					
Real estate loans					
One-to-four family	$ -	$ 23,207,231	$ 60,740	$ 315,207	$ 23,583,178
Commercial	-	38,475,708	146,000	146,504	38,768,212
Multi-family	-	22,828,189	-	-	22,828,189
Commercial loans					
Business loans	-	3,607,607	-	6,279	3,613,886
Consumer loans					
Home equity loans	-	222,741	-	-	222,741
Other	18,924	471,362	-	-	490,286
Total	$ 18,924	$ 88,812,838	$ 206,740	$ 467,990	$ 89,506,492

(Continued)

NOTE 3 - LOANS (Continued)

Purchased Loans:
The Company purchased loans through two separate acquisitions during year-end 2016 totaling $131,870,162 and retained loans with a fair value of $103,770,846, net of a $1,873,681 discount. Such discount represents the fair value adjustment on loans purchased attributed to both credit and interest rate risk.

Accretable yield, or income expected to be recognized on purchased loans, is as follows:

	Total
Balance at July 1, 2015	$ -
Discount recorded on loans purchased	1,873,681
Accretion of discount to interest income	174,200
Loan charge-offs	-
Balance at June 30, 2016	$ 1,699,481

NOTE 4 - PREMISES AND EQUIPMENT

Premises and equipment as of June 30, 2016 and 2015 are as follows:

	2016	2015
Land	$ 3,229,730	$ 219,731
Buildings and improvements	9,495,594	5,211,133
Furniture and equipment	1,805,039	1,505,763
Automobile	24,274	-
Total cost	14,554,637	6,936,627
Less accumulated depreciation	(2,316,315)	(2,271,427)
	$ 12,238,322	$ 4,665,200

Depreciation expense was $356,000 and $284,000 for the years ended June 30, 2016 and 2015, respectively.

Operating Leases: Rent expense was $69,641 for 2016. Rent commitments, before considering renewal options that generally are present, were as follows:

2017	$ 69,503
2018	69,646
2019	59,790
2020	-
Total	$ 198,939

(Continued)

NOTE 5 - OTHER REAL ESTATE OWNED

Activity in other real estate owned was as follows:

	2016	2015
Beginning of year	$ 1,829,000	$ 1,986,850
Loans transferred in	154,273	149,000
Sale proceeds	(2,189,537)	(179,865)
Net gain (loss) on sales	237,071	(26,985)
Valuation adjustment	(15,500)	(100,000)
End of year	$ 15,307	$ 1,829,000

NOTE 6 - CORE DEPOSIT INTANGIBLE

Acquired intangible assets were as follows at year-end:

	2016	
	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:		
Core deposit intangibles	$ 1,059,965	$ 35,353
Total	$ 1,059,965	$ 35,353

Aggregate amortization expense was $35,353 for the year ended June 30, 2016.

Estimated amortization expense for each of the next five years, and thereafter, is as follows:

2017	$ 105,997
2018	105,997
2019	105,997
2020	105,997
2021	105,997
Thereafter	494,627
Total	$ 1,024,612

(Continued)

NOTE 7 - DEPOSITS

Deposit account balances as of June 30, 2016 and 2015 are summarized as follows:

	2016	2015
Savings	$ 94,477,708	$ 27,520,476
NOW accounts	15,978,183	3,636,710
Non-interest-bearing checking	31,010,149	10,331,619
Money market	21,262,950	16,242,434
	162,729,990	57,731,239
Certificates of deposit	77,194,418	28,133,281
Individual retirement accounts	21,583,094	4,390,040
	98,777,512	32,523,321
	$ 261,506,502	$ 90,254,560

Time deposits of $250,000 and over totaled $3,799,499 and $2,872,872 at June 30, 2016 and 2015, respectively.

At June 30, 2016, stated maturities of time deposits were:

2017	$ 64,770,130
2018	19,368,197
2019	8,499,757
2020	3,775,351
2021	2,364,077
Total	$ 98,777,512

NOTE 8 - FEDERAL HOME LOAN BANK ADVANCES

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

	2016	2015
One week term, at a rate of 0.30%, maturing 7/8/16	$ 500,000	$ -
Total	$ 500,000	$ -

At June 30, 2016 and 2015, the advances were collateralized by $73.1 million and $36.0 million of one-four family, multi-family and home equity loans under a blanket lien. As of June 30, 2016, the Bank had $72.6 million in additional credit capacity with the FHLB based on parameters set by the FHLB.

(Continued)

NOTE 9 - NOTE PAYABLE

On November 13, 2014, the Company executed a note payable with a lender at an interest rate of either the 3-month LIBOR plus 3.25%, floating, or the Prime Rate plus 0.25%, which matured November 12, 2015. An amendment to the note extended the maturity to December 11, 2016. The note is secured by all of the stock of the Bank and contains certain financial covenants, including ratios related to the Company's capital position and non-performing loans. At June 30, 2016 and 2015, the Company had $5,250,000 and $0, respectively, outstanding under the note payable. At June 30, 2016, the Company was not in compliance with the capital ratio covenant. The lender was notified, and the Lender waived the default with no penalty assessed. As of the financial statement issuance date, the agreement was in the modification process to amend the capital covenants.

NOTE 10 - INCOME TAXES

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

	2016	2015
Current		
Federal	$ -	$ (3,905)
State	-	(1,185)
	-	(5,090)
Deferred	488,000	630,190
	$ 488,000	$ 625,100

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

	2016	2015
Federal net operating loss carry forward	$ 8,621,093	$ 4,304,807
State net operating loss carry forward	4,126,488	787,352
Bad debts	455,823	105,810
Stock option and RRP	63,621	173,250
Depreciation and other	269,230	433,251
Gross deferred tax assets	13,536,255	5,804,470
Unrealized gain on securities available for sale	(182,653)	(80,387)
Purchase accounting adjustments	(29,396)	-
FHLB stock dividends	(117,278)	(11,494)
Gross deferred tax liabilities	(329,327)	(91,881)
Valuation allowance for deferred tax assets	(1,000,000)	-
Net deferred tax assets	$ 12,206,928	$ 5,712,589

(Continued)

NOTE 10 - INCOME TAXES (Continued)

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	
	2016	2015
Income taxes computed at the statutory rate	$ 1,999,172	$ 532,543
Gain on acquisition	(1,555,767)	-
Other, net	44,595	92,557
Income tax (benefit) expense	$ 488,000	$ 625,100

At June 30, 2016 and 2015, the Company had federal net operating loss carry forwards of approximately $25.4 million and $12.7 million expiring between fiscal year 2029 and 2036 and state net operating loss carry forwards of approximately $80.7 million and $15.3 million expiring between 2017 and 2028. A $1,000,000 valuation allowance was allocated to the acquired Illinois Net Loss Deduction (NLD) carryforwards. Of this valuation allowance, $580,000 was related to the IL NLD acquired from Park Federal Savings Bank and the remaining $420,000 of valuation allowance was related to the IL NLD acquired from PNA Bank.

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, 2016 include approximately $6.1 million for which no deferred federal income tax liability has been recorded. This deferred federal income tax liability approximates $2.4. If the Bank were liquidated or otherwise ceases to be a bank or if tax laws change, the $2.4 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 2012.

NOTE 11 - 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 $58,000 and $40,000 for 2016 and 2015.

(Continued)

NOTE 12 - 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 $63,000 and $32,000 for 2016 and 2015.

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, 2016, there are no 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.

A summary of the activity in the stock option plan for 2016 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	95,800	8.82		
Exercised	-	-		
Forfeited or expired	113,155	14,03		
Outstanding at end of year	109,025	$ 9.35	4.58	$ 433
Exercisable at end of year	32,385	$ 10.59	6.53	$ 89
Vested or expected to vest at end of year	32,385	$ 10.59	6.53	$ 89

No options were granted during the year ended June 30, 2015.

As of June 30, 2016, $250,613 of unrecognized compensation cost related to non-vested stock options granted under the plan remains.

(Continued)

NOTE 13 - EARNINGS PER SHARE

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

Basic and diluted earnings per share	2016	2015
Basic EPS		
Net income for the year ended June 30	$ 5,391,919	$ 941,201
Weighted average common shares outstanding	2,507,112	2,507,112
Basic earnings per share	$ 2.15	$ 0.38
Diluted EPS		
Net income for the year ended June 30	$ 5,391,919	$ 941,201
Weighted average common shares outstanding	2,507,112	2,507,112
Add effect of assumed exercise of dilutive stock options	21,147	-
Total shares – diluted EPS	2,258,259	2,507,112
Diluted earnings per share	$ 2.13	$ 0.38

Stock options for 126,380 shares of common stock were not considered in computing diluted earnings per common share as of June 30, 2015 because they were antidilutive.

NOTE 14 - 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, 2016 and 2015, commitments to extend credit were approximately:

	2016	2015
Unused lines of credit	$ 8,037,000	$ 5,413,000
Commitment to fund loans	$ 7,812,000	$ 8,037,000

At June 30, 2016 and 2015, the Company had standby letters of credit of $110,000 and $220,000. These are considered financial guarantees. The fair value of these guarantees was not considered material.

(Continued)

NOTE 15 - REGULATORY MATTERS

Banks and bank holding companies are 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. The final rules implementing Basel Committee on Bank Supervision's capital guidelines for U.S. banks (Basel III rules) became effective for the Company on January 1, 2015 with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At year-end 2016 and 2015, the most recent notification from regulatory authorities categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

The following table provides the capital ratios of the Bank, along with the applicable regulatory capital requirements as of June 30, 2016 and 2015, which were calculated in accordance with the requirements of Basel III, which became effective January 1, 2015. The final rules of Basel III also established a "capital conservation buffer" of 2.5% above new regulatory minimum capital ratios, and when fully effective in 2019, will result in the following minimum ratios: (i) a common equity Tier 1 capital ratio of 7.0%; (ii) a Tier 1 risk-based capital ratio of 8.5%; and (iii) a total capital ratio of 10.5%. The new capital conservation buffer requirement began phasing in January 2016 at 0.625% of risk-weighted assets and will increase each year until fully implemented in January 2019. An institution is subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations will establish a maximum percentage of eligible retained income that can be utilized for such activities. At year-end 2016 and 2015, actual capital levels and minimum required levels (in thousands) were:

(Continued)

NOTE 15 - 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
2016						
Common equity tier 1 (to risk-weighted assets)	$ 24,763	15.11%	$ 8,399	5.125%	$ 10,652	6.50%
Total capital (to risk-weighted assets)	26,166	15.97	14,134	8.625	16,388	10.00
Tier I capital (to risk-weighted assets)	24,763	15.11	10,857	6.625	13,110	8.00
Tier I capital (to average assets	24,763	8.27	11,979	4.00	14,974	5.00
2015						
Common equity tier 1 (to risk-weighted assets)	$ 19,784	23.95%	$ 3,720	4.50%	$ 5,370	6.50%
Total capital (to risk-weighted assets)	20,848	25.24	6,610	8.00	8,260	10.00
Tier I capital (to risk-weighted assets)	19,784	23.95	4,960	6.00	6,610	8.00
Tier I capital (to average assets	19,784	17.73	4,460	4.00	5,575	5.00

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 2016, the Bank could, without prior approval, declare dividends of approximately $6.5 million.

NOTE 16 - RELATED-PARTY TRANSACTIONS

No loans to principal officers, directors, and their affiliates were outstanding at year end 2016 and 2015.

Deposits from principal officers, directors, and their affiliates at year-end 2016 and 2015 were $21,000 and $26,000, respectively.

(Continued)

NOTE 17 - FAIR VALUES

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.

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).

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)
2016		
Asset:		
Available for sale debt securities:		
Federal Home Loan Bank	$ 35,655,140	$ 35,655,140
Federal Home Loan Mortgage Corporation	5,575,520	5,575,520
Federal National Mortgage Association	4,037,580	4,037,580
Federal Farm Credit Bank	1,528,065	1,528,065
U.S. Treasury Notes	7,039,820	7,039,820
Municipal Taxable Bonds	12,974,023	12,974,023
Total	$ 66,810,148	$ 66,810,148

(Continued)

NOTE 17 - FAIR VALUES (Continued)

	Total	Fair Value Measurements at Year End Using Significant Other Observable Inputs (Level 2)
2015		
Asset:		
Available for sale debt securities:		
Federal Home Loan Mortgage Corporation	$ 3,547,735	$ 3,547,735
Federal National Mortgage Association	1,008,490	1,008,490
Municipal Taxable Bonds	9,977,580	9,977,580
Total	$ 14,533,805	$ 14,533,805

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, 2015 for other real estate owned. Other real estate owned was not considered to be measured at fair value as of June 30, 2016. No loans were considered to be measured at fair value as of June 30, 2016 and 2015.

2015	Fair Value	Valuation Techniques	Unobservable Inputs	Range	Weighted Average
Other real estate owned	$ 1,695,000	Sales Comparison	Adjustment for difference between comparable sales	12% to 78%	31%

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)
2015		
Other real estate owned		
Real estate	$ 1,695,000	$ 1,695,000

Other real estate owned which is measured at the lower of cost or fair value less costs to sell, had a carrying amount of $2,421,000 net of a valuation allowance of $726,000 at June 30, 2015, resulting in a write-down expense of $100,000 for the year ended June 30, 2015.

(Continued)

NOTE 17 - FAIR VALUES (Continued)

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

	2016		2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	$ 6,239,018	$ 6,239,018	$ 2,287,101	$ 2,287,101
Loans, net (excluding impaired at fair value)	199,605,997	203,865,007	88,074,812	87,893,320
FHLB stock	1,786,500	N/A	415,500	N/A
Accrued interest receivable	994,342	994,342	370,314	370,314
Financial liabilities:				
Deposits	261,506,502	261,461,000	90,254,560	90,970,000
FHLB Advances	500,000	500,000	-	-
Note payable	5,250,000	5,250,000	-	-
Accrued interest payable	27,464	27,464	9,254	9,254

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.

(Continued)

NOTE 18 - ACQUISITIONS

On September 30, 2015, the Company acquired 100% of the outstanding common shares of FLC Holding Company's wholly owned subsidiary PNA Bank in exchange for a cash purchase price of $1.2 million. PNA Bank results of operations were included in the Company's results beginning October 1, 2015. Acquisition-related costs were expensed as incurred. A bargain purchase gain was recorded in connection with the acquisition primarily as a result of FLC Holding Company's voluntary bankruptcy and PNA Bank being considered a "troubled" institution.

The following table summarizes the consideration paid and the fair value of assets acquired and liabilities assumed as of the acquisition date:

Recognized amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	$ 10,707,611
Securities	10,116,808
Federal Home Loan Bank stock	916,000
Loans	65,491,514
Premises and equipment	2,325,972
Core deposit intangibles	303,225
Real estate owned	1,031,380
Deferred tax asset, net of valuation allowance of $420,000	2,126,936
Other assets	397,006
Total assets acquired	93,416,452
Deposits	86,596,312
Advances from borrowers for taxes and insurance	806,346
Other liabilities	555,644
Total liabilities assumed	87,958,302
Fair value of identifiable net assets	5,458,150
Cash consideration paid	1,200,000
Bargain purchase gain	$ 4,258,150

(Continued)

NOTE 18 - ACQUISITIONS (Continued)

On April 29, 2016, the Company acquired 100% of the outstanding common shares of Park Bancorp Company's wholly owned subsidiary Park Federal Savings Bank in exchange for a cash purchase price of $167,044. Park Federal Savings Bank results of operations were included in the Company's results beginning April 30, 2016. Acquisition-related costs were expensed as incurred. A bargain purchase gain was recorded in connection with the acquisition primarily as a result of Park Federal Savings Bank being considered a "troubled" institution.

The following table summarizes the consideration paid and the fair value of the assets acquired and liabilities assumed as of the acquisition date:

Recognized amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	$ 25,793,018
Securities	21,319,891
Federal Home Loan Bank stock	1,170,000
Loans	66,378,648
Premises and equipment	6,660,000
Core deposit intangibles	756,740
Real estate owned	1,765,366
Deferred tax asset, net of valuation allowance of $580,000	4,957,669
Bank owned life insurance	10,337,987
Other assets	481,108
Total assets acquired	139,620,427
Deposits	109,769,821
Federal Home Loan Bank advances	26,847,152
Advances from borrowers for taxes and insurance	1,497,475
Other liabilities	1,021,300
Total liabilities assumed	139,135,748
Fair value of identifiable net assets	484,679
Cash consideration paid	167,044
Bargain purchase gain	$ 317,635

SUPPLEMENTARY INFORMATION

ROYAL FINANCIAL, INC. AND SUBSIDIARY
CONSOLIDATING SCHEDULE OF FINANCIAL CONDITION
June 30, 2016

	Royal Savings Bank	Royal Financial, Inc.	Eliminating Entries	Royal Financial Inc. Consolidated
ASSETS				
Cash and non-interest bearing balances in financial institutions	$ 2,880,807	$ 108	$ (108)	$ 2,880,807
Interest bearing balances in financial institutions	3,276,628	-	-	3,276,628
Federal funds sold	81,583	-	-	81,583
Total cash and cash equivalents	6,239,018	108	(108)	6,239,018
Investment certificates of deposit	2,591,000	-	-	2,591,000
Securities available for sale	66,810,148	-	-	66,810,148
Investment in subsidiary	-	35,174,357	(35,174,357)	-
Loans receivable, net	199,605,997	-	-	199,605,997
Federal Home Loan Bank stock, at cost	1,786,500	-	-	1,786,500
Premises and equipment, net	12,238,322	-	-	12,238,322
Accrued interest receivable	994,342	-	-	994,342
Other real estate owned	15,307	-	-	15,307
Deferred tax asset	9,800,375	2,406,553	-	12,206,928
Core deposit intangibles	1,024,612	-	-	1,024,612
Other assets	488,144	48,096	-	536,240
Total assets	$ 301,593,765	$ 37,629,114	$ (35,174,465)	$ 304,048,414
LIABILITIES AND STOCKHOLDERS' EQUITY				
Deposits	$ 261,506,610	$ -	$ (108)	$ 261,506,502
Advances from borrowers for taxes and insurance	3,400,382	-	-	3,400,382
Federal Home Loan Bank advances	500,000	-	-	500,000
Note payable	-	5,250,000	-	5,250,000
Accrued interest payable and other liabilities	1,012,416	270,746	-	1,283,162
Total liabilities	266,419,408	5,520,746	(108)	271,940,046
Stockholders' equity				
Preferred stock	-	-	-	-
Common stock	100	26,450	(100)	26,450
Additional paid-in capital	24,047,124	23,896,672	(24,047,124)	23,896,672
Retained earnings	10,772,571	8,843,608	(10,772,571)	8,843,608
Treasury stock, at cost	-	(1,012,924)	-	(1,012,924)
Accumulated other comprehensive income, net of tax	354,562	354,562	(354,562)	354,562
Total stockholders' equity	35,174,357	32,108,368	(35,174,357)	32,108,368
Total liabilities and stockholders' equity	$ 301,593,765	$ 37,629,114	$ (35,174,465)	$ 304,048,414

ROYAL FINANCIAL, INC. AND SUBSIDIARY
CONSOLIDATING SCHEDULE OF INCOME
Year ended June 30, 2016

	Royal Savings Bank	Royal Financial, Inc.	Eliminating Entries	Royal Financial Inc. Consolidated
Interest income				
Loans	$ 8,072,225	$ -	$ -	$ 8,072,225
Securities	565,091	-	-	565,091
Federal funds sold and other	45,177	33	-	45,210
Total interest income	8,682,493	33	-	8,682,526
Interest expense				
Deposits	546,182	-	-	546,182
Borrowings	7,264	125,239	-	132,503
Total interest expense	553,446	125,239	-	678,685
Net interest income	8,129,047	(125,206)	-	8,003,841
Provision (credit) for loan losses	(130,000)	-	-	(130,000)
Net interest income after provision for loan losses	8,259,047	(125,206)	-	8,133,841
Non-interest income				
Service charges on deposit accounts	321,293	-	-	321,293
Secondary mortgage market fees	20,647	-	-	20,647
Gain on sale of other real estate owned	237,071	-	-	237,071
Income on other real estate owned, net	75,178	-	-	75,178
Gain on sale of premises and equipment	29,202	147,847	-	177,049
Gain on acquisitions	4,575,785	-	-	4,575,785
Dividend income from subsidiary		1,438,000	(1,438,000)	-
Equity in undistributed earnings of subsidiary	-	4,973,845	(4,973,845)	-
Other	2,373	-	-	2,373
Total non-interest income	5,261,549	6,559,692	(6,411,845)	5,409,396
Non-interest expense				
Salaries and employee benefits	2,980,929	7,848	-	2,988,777
Occupancy and equipment	973,611	(20,884)	-	952,727
Data processing	634,897	-	-	634,897
Professional services	303,149	64,512	-	367,661
Director fees	148,640	12,960	-	161,600
Marketing	35,847	-	-	35,847
FDIC insurance expense	102,843	-	-	102,843
Insurance premiums	82,356	-	-	82,356
Acquisition expenses	-	1,659,875	-	1,659,875
Other	676,479	256	-	676,735
Total non-interest expense	5,938,751	1,724,567	-	7,663,318
Income before income taxes	7,581,845	4,709,919	(6,411,845)	5,879,919
Income tax expense	1,170,000	(682,000)	-	488,000
Net income	$ 6,411,845	$ 5,391,919	$ (6,411,845)	$ 5,391,919