ROYAL FINANCIAL, INC. AND SUBSIDIARY
Chicago, Illinois

CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2015 and 2014

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Crowe Horwath LLP
Independent Member Crowe Horwath International

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, 2015 and 2014, 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, 2015 and 2014, 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 2015 consolidating information on pages 33 and 34 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, 2015

ROYAL FINANCIAL, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
June 30, 2015 and 2014

	2015	2014
ASSETS		
Cash and non-interest bearing balances in financial institutions	$ 928,925	$ 871,687
Interest bearing balances in financial institutions	1,311,552	743,302
Federal funds sold	46,624	180,281
Total cash and cash equivalents	2,287,101	1,795,270
Securities available for sale	14,533,805	32,205,458
Loans receivable, net of allowance for loan losses of $1,431,680 in 2015 and $1,416,899 in 2014	88,074,812	79,259,804
Federal Home Loan Bank stock, at cost	415,500	975,000
Premises and equipment, net	4,665,200	4,443,309
Land held for sale	265,000	265,000
Accrued interest receivable	370,314	500,561
Other real estate owned	1,829,000	1,986,850
Deferred tax asset	5,712,589	6,229,484
Other assets	385,300	346,110
Total assets	$ 118,538,621	$ 128,006,846
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits	$ 90,254,560	$ 81,782,980
Advances from borrowers for taxes and insurance	1,118,905	976,456
Federal Home Loan Bank advances	-	19,000,000
Accrued interest payable and other liabilities	709,876	545,559
Total liabilities	92,083,341	102,304,995
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, 2015 and 2014	26,450	26,450
Additional paid-in capital	23,834,020	23,801,866
Retained earnings	3,451,689	2,510,488
Treasury stock, 137,888 shares, at cost	(1,012,924)	(1,012,924)
Accumulated other comprehensive income	156,045	375,971
Total stockholders' equity	26,455,280	25,701,851
Total liabilities and stockholders' equity	$ 118,538,621	$ 128,006,846

See accompanying notes to consolidated financial statements.

ROYAL FINANCIAL, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
Years ended June 30, 2015 and 2014

	2015	2014
Interest income		
Loans	$ 4,593,494	$ 4,054,316
Securities	602,611	793,380
Federal funds sold and other	18,232	11,028
Total interest income	5,214,337	4,858,724
Interest expense		
Deposits	309,782	207,232
Borrowings	25,211	27,714
Total interest expense	334,993	234,946
Net interest income	4,879,344	4,623,778
Provision (credit) for loan losses	90,000	(234,785)
Net interest income after provision/ (credit) for loan losses	4,789,344	4,858,563
Non-interest income		
Service charges on deposit accounts	204,172	171,070
Secondary mortgage market fees	29,191	71,323
Income on other real estate owned	239,793	170,069
Gain on sale of investment securities	541,988	188,484
Gain on sale of premises and equipment	620,625	-
Other	783	1,323
Total non-interest income	1,636,552	602,269
Non-interest expense		
Salaries and employee benefits	2,096,336	1,725,616
Occupancy and equipment	781,699	695,289
Data processing	373,138	333,461
Professional services	790,263	548,375
Director fees	129,600	115,000
Marketing	21,451	10,379
FDIC insurance expense	77,657	90,818
Insurance premiums	68,301	67,046
Foreclosed asset expense	183,954	208,858
Other	337,196	316,929
Total non-interest expense	4,859,595	4,111,771
Income before income taxes	1,566,301	1,349,061
Income tax (benefit) expense	625,100	(6,349,020)
Net income	$ 941,201	$ 7,698,081
Basic and diluted earnings per share	$ 0.38	$ 3.07

See accompanying notes to consolidated financial statements.

ROYAL FINANCIAL, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years ended June 30, 2015 and 2014

	2015	2014
Net income	$ 941,201	$ 7,698,081
Unrealized holding gain on securities available for sale	208,767	242,567
Reclassification adjustments for net (gain) recognized in income	(541,988)	(188,484)
Net unrealized gain (loss)	(333,221)	54,083
Tax benefit (expense)	113,295	(193,682)
Net unrealized gain (loss), net of tax	(219,926)	(139,599)
Comprehensive income	$ 721,275	$ 7,558,482

See accompanying notes to consolidated financial statements.

ROYAL FINANCIAL, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Years ended June 30, 2015 and 2014

	Common Stock	Additional Paid-In Capital	Retained Earnings (Deficit)	Treasury Stock	Accumulated Other Comprehensive Income	Total
Balance at July 1, 2014	$ 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
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

See accompanying notes to consolidated financial statements.

ROYAL FINANCIAL, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended June 30, 2015 and 2014

	2015	2014
Cash flows from operating activities		
Net income	$ 941,201	$ 7,698,081
Adjustments to reconcile net loss to net cash from operating activities		
Depreciation	283,888	248,895
Deferred loan origination fees and costs	(29,549)	4,910
Provision (credit) for loan losses	90,000	(234,785)
Gain on sale of securities	(541,988)	(188,484)
Loss on sale of other real estate owned, net	26,985	-
Valuation adjustment on other real estate owned	100,000	100,000
Gain on sale of premises and equipment	(620,625)	-
Reversal of deferred tax asset valuation allowance	-	(6,724,782)
Stock-based compensation	32,154	42,193
Deferred income tax expense (benefit)	630,190	286,910
Change in accrued interest receivable and other assets	91,057	(134,484)
Change in other accrued interest payable and liabilities	164,317	125,848
Net cash from operating activities	1,167,630	1,224,302
Cash flows from investing activities		
Proceeds from maturities, calls, and pay downs of securities available for sale	50,415	-
Proceeds from sales of securities available for sale	25,850,460	4,992,090
Purchase of securities available for sale	(8,020,455)	(14,360,358)
Change in loans receivable	(9,024,459)	(10,276,252)
Redemption of Federal Home Loan Bank stock	559,500	320,000
Proceeds from sale of premises and equipment	661,248	-
Purchases of premises and equipment, net of disposals	(546,402)	(475,022)
Proceeds from sale of other real estate owned	179,865	-
Net cash from investing activities	9,710,172	(19,799,542)
Cash flows from financing activities		
Net increase (decrease) in deposits	8,471,580	12,896,054
Proceeds from Federal Home Loan Bank advances	502,350,000	127,300,000
Repayments of Federal Home Loan Bank advances	(521,350,000)	(123,200,000)
Change in advances from borrowers for taxes and insurance	142,449	109,543
Net cash from financing activities	(10,385,971)	17,105,597
Net change in cash and cash equivalents	491,831	(1,469,643)
Cash and cash equivalents at beginning of the year	1,795,270	3,264,913
Cash and cash equivalents at end of the year	$ 2,287,101	$ 1,795,270
Supplemental disclosures of cash flow information		
Interest paid	$ 342,186	$ 224,276
Income taxes	-	80,000
Supplemental noncash disclosures		
Transfer from loan portfolio to real estate owned	$ 149,000	$ 191,850

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, 2015, 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.

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. 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.

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.

(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 2011. 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, 2015 and 2014:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
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
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
Municipal taxable bonds	23,122,021	630,988	(80,516)	23,672,493
Total	$ 31,635,805	$ 656,624	$ (86,971)	$ 32,205,458

The fair value of securities available for sale at year-end 2015 by contractual maturity was as follows.

	Amortized Cost	Fair Value
Due from one to five years	$ 11,897,879	$ 12,071,717
Due from five to ten years	2,399,494	2,462,088
Over ten years	-	-
Total	$ 14,297,373	$ 14,533,805

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

	2015	2014
Gains	$ 584,201	$ 188,484
Losses	(42,213)	-
Net gain on sales of securities	$ 541,988	$ 188,484

(Continued)

NOTE 2 - SECURITIES (Continued)

Securities pledged at year-end 2015 and 2014 had a carrying amount of $0 and $12,601,000, respectively. Securities during year-end 2014 were pledged to secure the FHLB advance line of credit and certain deposit accounts.

At year-end 2015 and 2014, 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, 2015, 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:						
Municipal taxable bonds	$ 2,951,657	$ (21,643)	$ -	$ -	$ 2,951,657	$ (21,643)
	$ 2,951,657	$ 21,643)	$ -	$ -	$ 2,951,657	$ (21,643)

Unrealized losses at June 30, 2015 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.

NOTE 3 - LOANS

At June 30, 2015 and 2014, loans receivable consisted of the following:

	2015	2014
Real estate loans		
One-to-four-family	$ 23,583,178	$ 21,370,221
Commercial	38,768,212	29,858,193
Multi-family	22,828,189	24,454,520
Total real estate loans	85,179,579	75,682,934
Commercial loans		
Business loans	3,613,886	4,202,473
Total commercial loans	3,613,886	4,202,473
Consumer loans		
Home equity loans	222,741	302,797
Other	490,286	488,499
Total consumer loans	713,027	791,296
Gross Loans	89,506,492	80,676,703
Allowance for loan losses	(1,431,680)	(1,416,899)
Loans, net	$ 88,074,812	$ 79,259,804

(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, 2015 and 2014:

	One-to-Four Family	Commercial	Multi-Family	Business Loans	Home Equity Loans	Other	Total
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
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	(7,139)	23,806	(234,785)
Loans charged off	(170,050)	(24,096)	(3,526)	(36,860)	-	(39,767)	(274,299)
Recoveries	200	378,192	22,664	-	-	15,961	417,017
Total ending allowance balance	$ 500,430	$ 387,520	$ 500,691	$ 25,758	$ 2,500	$ -	$1,416,899

(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, 2015 and 2014:

	One-to-Four Family	Commercial	Multi-Family	Business Loans	Home Equity Loans	Other	Total
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
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)

The following tables presents information related to impaired loans by class of loans as of and for the period ended June 30, 2015 and 2014:

	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

(Continued)

NOTE 3 - LOANS (Continued)

	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	-	-	-	-	-
Home equity loans	-	-	-	-	-
Other	-	-	-	-	-
	-	-	-	-	-
Total	$ 3,685,046	$ 1,350,925	$ -	$ 1,505,646	$ 54,995

For the years ended June 30, 2015 and 2014, 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, 2015 and 2014 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
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
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

(Continued)

NOTE 3 - LOANS (Continued)

Troubled Debt Restructurings:

Restructured loans totaled $657,000 and $653,000 at June 30, 2015 and 2014, respectively. These loans are considered troubled debt restructurings and are classified as impaired at June 30, 2015 and 2014. Specific loan loss allowance allocations for the loans were $0 at June 30, 2015 and 2014, respectively. No additional loan commitments are outstanding to these borrowers.

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. There were no loans modified as troubled debt restructurings during the year ending June 30, 2014.

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, 2015.

The balance of loans whose terms were modified during the years ending June 30, 2015 and June 30, 2014 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:

NOTE 3 - LOANS (Continued)

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.

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, 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
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

(Continued)

NOTE 4 - PREMISES AND EQUIPMENT

Premises and equipment as of June 30, 2015 and 2014 are as follows:

	2015	2014
Land	$ 219,731	$ 357,731
Buildings and improvements	5,211,133	5,623,394
Furniture and equipment	1,505,763	2,323,926
Total cost	6,936,627	8,305,051
Less accumulated depreciation	(2,271,427)	(3,861,742)
	$ 4,665,200	$ 4,443,309

Depreciation expense was $284,000 and $249,000 for the years ended June 30, 2015 and 2014, respectively.

Operating Leases: Effective May 1, 2014, the Company leases one branch location under an operating lease. Rent expense was $60,000 for 2015. Rent commitments, before considering renewal options that generally are present, were as follows:

2016	$ 60,000
2017	60,000
2018	60,000
2019	50,000
2020	-
Total	$ 230,000

NOTE 5 - OTHER REAL ESTATE OWNED

Activity in other real estate owned was as follows:

	2015	2014
Beginning of year	$ 1,986,850	$ 1,895,000
Loans transferred in	149,000	191,850
Sale proceeds	(179,865)	-
Net gain (loss) on sales	(26,985)	-
Valuation adjustment	(100,000)	(100,000)
End of year	$ 1,829,000	$ 1,986,850

Income and expenses related to other real estate owned include:

	2015	2014
Net loss on sale	$ 26,985	$ -
Valuation adjustment	100,000	100,000
Operating expenses	56,969	108,858
Net expenses	$ 183,954	$ 208,858

(Continued)

NOTE 6 - DEPOSITS

Deposit account balances as of June 30, 2015 and 2014 are summarized as follows:

	2015	2014
Savings	$ 27,520,476	$ 27,918,946
NOW accounts	3,636,710	3,525,024
Non-interest-bearing checking	10,331,619	8,206,431
Money market	16,242,434	6,972,856
	57,731,239	46,623,257
Certificates of deposit	28,133,281	30,238,974
Individual retirement accounts	4,390,040	4,920,749
	32,523,321	35,159,723
	$ 90,254,560	$ 81,782,980

Time deposits of $250,000 and over totaled $2,872,872 and $6,878,732 at June 30, 2015 and 2014, respectively.

At June 30, 2015, stated maturities of time deposits were:

2016	$ 17,908,171
2017	7,452,994
2018	4,467,973
2019	2,260,133
2020	434,050
Total	$ 32,523,321

NOTE 7 - FEDERAL HOME LOAN BANK ADVANCES

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

	2015	2014
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

At June 30, 2015 and 2014, the advances were collateralized by $36.0 and $28.5 million of one-four family, multi-family, and home equity loans under a blanket lien. As of June 30, 2015, the Bank had $36.0 million in additional available credit with the FHLB based on parameters set by the FHLB.

(Continued)

NOTE 8 - INCOME TAXES

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

	2015	2014
Current		
Federal	$ (3,905)	$ -
State	(1,185)	88,852
	(5,090)	88,852
Deferred	630,190	286,910
Change in valuation allowance	-	(6,724,782)
	$ 625,100	$ (6,349,020)

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

	2015	2014
Federal and state net operating loss carry forward	$ 5,092,159	$ 5,793,975
Bad debts	105,810	72,692
Stock option and RRP	173,250	208,345
Depreciation and other	433,251	375,923
Gross deferred tax assets	5,804,470	6,450,935
Unrealized gain on securities available for sale	(80,387)	(193,682)
FHLB stock dividends	(11,494)	(27,769)
Gross deferred tax liabilities	(91,881)	(221,451)
Net deferred tax assets	$ 5,712,589	$ 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	
	2015	2014
Income taxes computed at the statutory rate	$ 532,543	$ 458,681
Valuation allowance	-	(6,724,782)
Other, net	92,557	(82,919)
Income tax (benefit) expense	$ 625,100	$ (6,349,020)

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, 2015, the Company had federal net operating loss carry forwards of approximately $12.7 million expiring between fiscal year 2028 and 2033 and state net operating loss carry forwards of approximately $15.3 million expiring between 2016 and 2025.

(Continued)

NOTE 8 - INCOME TAXES (Continued)

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, 2015 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 2011.

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 $40,000 and $33,000 for 2015 and 2014.

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 $32,000 and $42,000 for 2015 and 2014.

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, 2015, 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, 2015 and 2014.

(Continued)

NOTE 10 - STOCK-BASED COMPENSATION (Continued)

A summary of the activity in the stock option plan for 2015 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	0.98	$ -
Exercisable at end of year	126,380	$ 13.94	0.62	$ -
Vested or expected to vest at end of year	126,380	$ 13.94	0.98	$ -

As of June 30, 2015, no unrecognized compensation cost related to non-vested stock options granted under the plan remains.

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. As of June 30, 2015 and 2014, 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, 2014	6,562	$ 4.90
Granted	-	-
Vested	(6,562)	9.00
Forfeited	-	-
Non-vested at June 30, 2015	-	$ -

As of June 30, 2015 and 2014, there was approximately $0 and $32,000 of total unrecognized compensation cost related to outstanding non-vested shares granted under the Plan. The total fair value of shares vested during the years ended June 30, 2015 and 2014 was $59,000 and $56,000, respectively.

(Continued)

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:

	2015	2014
Basic and diluted earnings per share		
Net income for the year ended June 30	$ 941,201	$ 7,698,081
Weighted average common shares outstanding	2,507,112	2,507,112
Basic and diluted earnings per share	$ 0.38	$ 3.07

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

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, 2015 and 2014, commitments to extend credit were approximately:

	2015	2014
Unused lines of credit	$ 5,413,000	$ 4,265,800
Commitment to fund loans	8,037,000	4,873,000

At June 30, 2015 and 2014, the Company had standby letters of credit of $220,000 and 210,000. 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, 2015, the Bank meets all capital adequacy requirements to which they are subject.

(Continued)

NOTE 13 - REGULATORY MATTERS (Continued)

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.

The following table provides the capital ratios of the Bank, along with the applicable regulatory capital requirements as of June 30, 2015 which were calculated in accordance with the requirements of Basel III, which became effective January 1, 2015. Prior year ratios were prepared under Basel I requirements. At year-end 2015 and 2014, actual capital levels and minimum required levels (in thousands) were:

	Actual		Minimum Required For Capital Adequacy Purposes		Minimum Required To Be Well Capitalized Under Prompt Correction Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
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
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

The Bank was categorized by its regulators as well capitalized at June 30, 2015 and 2014. Management is not aware of any conditions or events since the most recent notification that would change the Bank's category at June 30, 2015.

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 2015, the Bank could, without prior approval, declare dividends of approximately $5.80 million.

NOTE 14 - RELATED-PARTY TRANSACTIONS

No loans to principal officers, directors, and their affiliates were outstanding at year end 2015 and 2014.

Deposits from principal officers, directors, and their affiliates at year-end 2015 and 2014 were $26,000 and $44,000, respectively.

(Continued)

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.

<u>Securities</u>: 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).

<u>Impaired Loans</u>: 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.

<u>Other Real Estate Owned</u>: 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.

(Continued)

NOTE 15 - FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

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)
2015		
Asset:		
Available for sale 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
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

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 and 2014 for material impaired loans and other real estate owned:

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%

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%

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

No impaired loans are deemed to be carried at fair value as of June 30, 2015. 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.

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.

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 $626,000 at June 30, 2014, resulting in a write-down expense of $100,000 for the year ended June 30, 2014.

(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:

	2015		2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	$ 2,287,101	2,287,101	$ 1,795,270	$ 1,795,270
Loans, net (excluding impaired at fair value)	88,005,507	87,893,320	78,921,647	78,433,944
FHLB stock	415,500	N/A	975,000	N/A
Accrued interest receivable	370,314	370,314	500,561	500,561
Financial liabilities:				
Deposits	90,254,560	90,970,000	81,782,980	82,080,000
FHLB Advances	-	-	19,000,000	19,000,000
Accrued interest payable	9,254	9,254	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.

NOTE 16 - NOTE PAYABLE

On November 13, 2014, the Company executed a note payable with a correspondent bank at an interest rate of either the 3 month LIBOR Rate plus 3.25%, floating, or the Prime Rate plus 0.25% and maturing November 12, 2015. The note is secured by all of the stock of the Bank and contains certain financial covenants which include ratios related to the Company's capital position and non-performing loans. At June 30, 2015, management believes the Company was in compliance with the debt covenants. At June 30, 2015, the Company had $0 outstanding under the note payable.

NOTE 17 - PENDING BUSINESS COMBINATION

On November 13, 2014, the Company entered into an Asset Purchase Agreement with FLC Holding Company to acquire all of the issued and outstanding shares of common stock of FLC's wholly-owned subsidiary PNA Bank, a federal savings bank, for a cash purchase price of $1.2 million. As of the date these financial statements are available to be issued, the Company awaits regulatory approval in order to proceed with the acquisition. Immediately following the acquisition, the Company intends to merge PNA Bank with and into the Bank.

On June 17, 2015 the Bank entered into an Asset Purchase Agreement by which the Bank would sell approximately $25.5 million of distressed loans and other real estate owned acquired in the PNA Bank transaction and approximately $3.6 million in Bank and/or Company owned distressed loans, other real estate owned and land held for sale. The sale is subject to and contingent upon regulatory approval noted above.

SUPPLEMENTARY INFORMATION

ROYAL FINANCIAL, INC. AND SUBSIDIARY
CONSOLIDATING SCHEDULE OF FINANCIAL CONDITION
June 30, 2015

	Royal Savings Bank	Royal Financial, Inc.	Eliminating Entries	Royal Financial Inc. Consolidated
ASSETS				
Cash and non-interest bearing balances in financial institutions	$ 928,925	$ 715,051	$ (715,051)	$ 928,925
Interest bearing balances in financial institutions	1,311,552	-	-	1,311,552
Federal funds sold	46,624	-	-	46,624
Total cash and cash equivalents	2,287,101	715,051	(715,051)	2,287,101
Securities available for sale	14,533,805	-	-	14,533,805
Investment in subsidiary	-	23,572,298	(23,572,298)	-
Loans receivable, net	88,074,812	-	-	88,074,812
Federal Home Loan Bank stock, at cost	415,500	-	-	415,500
Premises and equipment, net	4,665,200	-	-	4,665,200
Land held for sale	-	265,000	-	265,000
Accrued interest receivable	370,314	-	-	370,314
Other real estate owned	1,829,000	-	-	1,829,000
Deferred tax asset	3,968,782	1,743,807	-	5,712,589
Other assets	152,585	252,924	(20,209)	385,300
Total assets	$ 116,297,099	$ 26,549,080	$ (24,307,558)	$ 118,538,621
LIABILITIES AND STOCKHOLDERS' EQUITY				
Deposits	$ 90,969,611	$ -	$ (715,051)	$ 90,254,560
Advances from borrowers for taxes and insurance	1,118,905	-	-	1,118,905
Accrued interest payable and other liabilities	636,285	93,800	(20,209)	709,876
Total liabilities	92,724,801	93,800	(735,260)	92,083,341
Stockholders' equity				
Preferred stock	-	-	-	-
Common stock	100	26,450	(100)	26,450
Additional paid-in capital	17,617,427	23,834,020	(17,617,427)	23,834,020
Retained earnings	5,798,726	3,451,689	(5,798,726)	3,451,689
Treasury stock, at cost	-	(1,012,924)	-	(1,012,924)
Accumulated other comprehensive Income, net of tax	156,045	156,045	(156,045)	156,045
Total stockholders' equity	23,572,298	26,455,280	(23,572,298)	26,455,280
Total liabilities and stockholders' equity	$ 116,297,099	$ 26,549,080	$ (24,307,558)	$ 118,538,621

ROYAL FINANCIAL, INC. AND SUBSIDIARY
CONSOLIDATING SCHEDULE OF INCOME
Year ended June 30, 2015

	Royal Savings Bank	Royal Financial, Inc.	Eliminating Entries	Royal Financial Inc. Consolidated
Interest income				
Loans	$ 4,593,494	$ -	$ -	$ 4,593,494
Securities	602,311	-	-	602,611
Federal funds sold and other	18,177	55	-	18,232
Total interest income	5,214,282	55	-	5,214,337
Interest expense				
Deposits	309,782	-	-	309,782
Borrowings	24,856	355	-	25,211
Total interest expense	334,638	355	-	334,993
Net interest income	4,879,644	(300)	-	4,879,344
Provision for loan losses	90,000	-	-	90,000
Net interest income after provision for loan losses	4,789,644	(300)	-	4,789,344
Non-interest income				
Service charges on deposit accounts	204,172	-	-	204,172
Secondary mortgage market fees	29,191	-	-	29,191
Income on other real estate owned	239,793	-	-	239,793
Gain on sale of investment securities	541,988	-	-	541,988
Gain on sale of premises and equipment	620,625	-	-	620,625
Income from subsidiary	-	1,293,113	(1,293,113)	-
Other	783	-	-	783
Total non-interest income	1,636,552	1,293,113	(1,293,113)	1,636,552
Non-interest expense				
Salaries and employee benefits	2,088,955	7,381	-	2,096,336
Occupancy and equipment	765,938	15,761	-	781,699
Data processing	373,138	-	-	373,138
Professional services	237,419	552,844	-	790,263
Director fees	116,640	12,960	-	129,600
Marketing	21,451	-	-	21,451
FDIC insurance expense	77,657	-	-	77,657
Insurance premiums	68,301	-	-	68,301
Foreclosed asset expense	183,954	-	-	183,954
Other	337,030	166	-	337,196
Total non-interest expense	4,270,483	589,112	-	4,859,595
Income before income taxes	2,155,713	703,701	(1,293,113)	1,566,301
Income tax expense	862,600	(237,500)	-	625,100
Net income	$ 1,293,113	$ 941,201	$ (1,293,113)	$ 941,201