A solid path for the future

2012 ANNUAL REPORT

Alamogordo
Financial
Corp.

Alamogordo
FINANCIAL CORP.

Dear Customers, Shareholders, and Friends

Despite continuing economic headwinds, the Board of Directors of Alamogordo Financial Corporation (AFC) has confidence that 2012-13 will be a very positive period for the franchise. During the past fiscal year, the Board and executive management together embarked on an intense strategic planning process to formulate and execute operating objectives and strategies to guide the franchise to improved operating and financial performance during the next three years.

As the operating subsidiary of AFC, BANK'34 entered its first year under the jurisdiction of its new regulatory agency, the Office of the Comptroller of the Currency (OCC). The AFC board of directors and executive management of BANK'34 were very encouraged by the outcomes of the OCC's first formal review of the Bank's credit risk management and other practices in February 2012.

As in the previous fiscal year, the board of directors was again vigilant in its efforts to work with strained commercial borrowers and to practice conservative and responsive financial management, including an additional $2,900,000 in provisions to its reserve for potential loan losses. Executive management is confident that this past fiscal year marked the end of major negative impacts on the Bank's commercial borrowers and on the Bank's operating statement related to the prolonged weak economy.

As of June 30, 2012, I am pleased to report the Bank's core capital ratio of 13.49% remained significantly higher than the 10.37% average of all FDIC-insured banks in the country, and well above the 9.99% average of all FDIC-insured banks in New Mexico. Despite an after-tax loss of $3,393,060 for the fiscal year ended June 30, 2012 related to the aforementioned loan loss provisions, BANK'34's capital position remains a primary strength for creating future prosperity for the Bank and its shareholders.

The future is bright at BANK'34 based on strong momentum generated during the past fiscal year. BANK'34's mortgage banking operation generated a record $1,650,936 in revenue during the fiscal year ended June 30, 2012 compared to $1,164,779 a year earlier. Business checking account balances increased by over 90% during the past fiscal year, consistent with the Bank's increased focus on building commercial business relationships. The new Las Cruces branch is on target to represent over 50% of BANK'34's mortgage lending volume in 2013 and, as of June 30, 2012, represented 47% and 22% of the Bank's total loan balances and total deposit balances, respectively.

As of the last quarter of the past fiscal year, the Bank had completed all preparatory and regulatory steps to expand its business footprint to the recovering Arizona market. BANK'34 Arizona Lending Services will be a loan production office of BANK'34 to originate residential mortgage and commercial loan relationships. Arizona has emerged as a national leader in job creation and in housing market improvement during the past year. Accordingly, the Bank's new office in Scottsdale, AZ will provide additional opportunity for future growth.

Thank you for the trust you have placed in us to help manage your financial needs and/or your financial investment in the AFC franchise. We will strive to exceed your standards for customer care and long term shareholder value.

Sincerely,

Jill Gutierrez

Jill Gutierrez
President and CEO

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ALAMOGORDO FINANCIAL CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2012 and 2011

ALAMOGORDO FINANCIAL CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2012 and 2011

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Crowe Horwath.

Crowe Horwath LLP
Independent Member Crowe Horwath International

REPORT OF INDEPENDENT AUDITORS

Board of Directors
Alamogordo Financial Corporation
Alamogordo, New Mexico

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

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

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

Crowe Horwath LLP

Crowe Horwath LLP

Costa Mesa, California
September 28, 2012

ALAMOGORDO FINANCIAL CORPORATION
CONSOLIDATED BALANCE SHEETS
June 30, 2012 and 2011

	2012	2011
ASSETS		
Current assets		
Cash and due from banks	$ 3,447,347	$ 1,131,282
Interest-bearing deposits with banks	1,101,897	1,246,411
Cash and cash equivalents	4,549,244	2,377,693
Available-for-sale securities	41,271,228	21,244,777
Loans held for investment, net	111,266,426	135,435,088
Loans held for sale	6,885,038	2,780,672
Real estate owned	2,054,771	2,824,907
Premises and equipment, net	10,733,234	11,034,365
Stock in financial institutions, at cost, substantially restricted	930,400	836,100
Accrued interest receivable	486,695	547,230
Income taxes receivable	609,042	366,201
Deferred income taxes, net	-	673,134
Bank owned life insurance	4,838,722	4,657,368
Prepaid and other assets	1,141,590	966,675
	$ 184,766,390	$ 183,744,210
LIABILITIES AND EQUITY		
Liabilities		
Deposits	$ 143,421,201	$ 136,362,522
Federal home loan bank advances	15,502,247	18,093,333
Escrows	349,952	345,541
Accrued interest and other liabilities	816,743	774,324
Total liabilities	160,090,143	155,575,720
Equity		
Common stock $.10 par value, 20,000,000 shares authorized, 1,318,473 and 1,319,912 issued at 2012 and 2011, respectively	131,847	131,991
Treasury stock, at cost 5,633 shares at 2012 and 2011	(163,625)	(163,625)
Additional paid-in capital	4,091,453	4,071,693
Unearned stock awards	(10,280)	(10,133)
Retained earnings	20,502,391	24,038,498
Accumulated other comprehensive income, net of tax	124,461	100,066
Total equity	24,676,247	28,168,490
	$ 184,766,390	$ 183,744,210

See accompanying notes to consolidated financial statements

ALAMOGORDO FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
Years ended June 30, 2012 and 2011

	2012	2011
Interest income		
Interest and fees on loans	$ 7,960,884	$ 8,333,243
Interest on securities	1,640	25,680
Interest on mortgage-backed securities	547,843	384,259
Interest on other interest-earning assets	13,506	12,859
Total interest income	8,523,873	8,756,041
Interest expense		
Interest on deposits	1,583,852	2,239,154
Interest on Federal Home Loan Bank and other borrowings	610,461	645,001
Total interest expense	2,194,313	2,884,155
Net interest income	6,329,560	5,871,886
Provision for loan losses	2,939,211	2,096,580
Net interest income after provision for loan losses	3,390,349	3,775,306
Other income (loss)		
Service charges and fees	259,741	396,684
Gain (loss) on sale of other real estate owned	(1,283,772)	(41,527)
Gain on sale of investments	-	41,354
Gain on sale of mortgage loans	1,650,936	1,164,779
Gain (loss) on sale of property	56,780	(580)
Other	355,334	386,348
Total other income	1,039,019	1,947,058
Other expenses		
Salaries and benefits	4,543,126	3,723,669
Occupancy	1,060,287	940,575
Data processing fees	522,006	504,311
Federal insurance premiums and other insurance expense	188,707	264,768
Advertising	217,964	154,311
Other	1,264,734	1,145,607
Total other expenses	7,796,824	6,733,241
Income (loss) before income taxes	(3,367,456)	(1,010,877)
Provision for income taxes	25,604	(451,784)
Net income (loss)	$ (3,393,060)	$ (559,093)

See accompanying notes to consolidated financial statements

ALAMOGORDO FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
Years ended June 30, 2012 and 2011

	Common Stock Shares	Common Stock Amount	Treasury Stock	Additional Paid In Capital	Unearned Stock Awards	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total Equity
Balances June 30, 2010	1,319,732	$ 131,973	$ (163,625)	$ 4,177,611	$ (91,678)	$ 25,220,497	$ 46,010	$ 29,320,788
Stock-based awards exercised	180	18	-	3,537	-	-	-	3,555
Shares bought back and retired	-	-	-	(65,275)	-	-	-	(65,275)
Release of stock awards	-	-	-	-	37,365	-	-	37,365
Cancellation of stock awards	-	-	-	(44,180)	44,180	-	-	-
Dividends declared and paid to stockholders	-	-	-	-	-	(622,906)	-	(622,906)
								(647,261)
Comprehensive income								
Net income (loss)	-	-	-	-	-	(559,093)	-	(559,093)
Unrealized gain on available-for-sale securities, net of taxes	-	-	-	-	-	-	54,056	54,056
Total comprehensive income (loss)	-	-	-	-	-	-	-	(505,037)
Balances June 30, 2011	1,319,912	131,991	(163,625)	4,071,693	(10,133)	24,038,498	100,066	28,168,490
Stock options exercised	-	-	-	-	3,473	-	-	3,473
Reclassification due to ESOP	(1,439)	(144)	-	19,760	-	470	-	20,086
Release of stock awards	-	-	-	-	-	-	-	-
Cancellation of stock awards	-	-	-	-	(3,620)	-	-	(3,620)
Dividends declared and paid to stockholders	-	-	-	-	-	(143,517)	-	(143,517)
								(123,578)
Comprehensive income								
Net income (loss)	-	-	-	-	-	(3,393,060)	-	(3,393,060)
Unrealized gain on available-for-sale securities, net of taxes	-	-	-	-	-	-	24,395	24,395
Total comprehensive income (loss)	-	-	-	-	-	-	-	(3,368,665)
Balances June 30, 2012	1,318,473	$ 131,847	$ (163,625)	$ 4,091,453	$ (10,280)	$ 20,502,391	$ 124,461	$ 24,676,247

See accompanying notes to consolidated financial statements

ALAMOGORDO FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended June 30, 2012 and 2011

	2012	2011
Cash flows from operating activities		
Net income (loss)	$(3,393,060)	$ (559,093)
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation	548,834	483,390
Stock dividend on financial institutions stock	(4,142)	(800)
(Gain) loss on sale of other real estate owned	1,283,772	41,527
Amortization on security investments	585,758	-
Gain on sale of investments	-	(41,354)
Gain on sale of loans	(1,650,936)	(1,164,779)
Provision on deferred income taxes	657,349	(392,910)
Release of stock awards	19,939	40,920
Provision for loan losses	2,939,211	2,096,580
Earnings on bank owned life insurance	(206,195)	(200,845)
Changes in assets and liabilities		
Loans held for sale	(2,453,430)	2,117,595
Accrued interest	60,535	18,622
Income taxes	(227,056)	(118,902)
Other assets	(409,665)	(84,525)
Accrued interest and other liabilities	277,169	(542,497)
Net cash (used) provided by operating activities	(1,971,917)	1,692,929
Cash flows from investing activities		
Proceeds from sales of and principal pay downs on securities available-for-sale	6,481,217	11,819,564
Proceeds from maturities and principal payments of securities held-to-maturity	-	1,488,000
Purchases of Federal Home Loan Bank stock	(90,158)	247,200
Purchases of securities available-for-sale	(27,069,031)	(27,485,732)
Net change in loans	18,920,683	(2,882,391)
Purchases of premises and equipment	(247,703)	(2,171,938)
Purchase of bank owned life insurance	24,841	-
Net proceeds from sales of other real estate owned	1,795,132	2,189,494
Net cash provided (used) by investing activities	(185,019)	(16,795,803)

(Continued)

ALAMOGORDO FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended June 30, 2012 and 2011

	2012	2011
Cash flows from financing activities		
Net increase (decrease) in deposits	$ 7,058,679	$ 3,016,212
Net decrease in escrows	4,411	(13,623)
Stock award and repurchase	-	(65,275)
Payments and repayment on Federal Home Loan Bank advances	(2,591,086)	(4,576,135)
Proceeds from Federal Home Loan Bank advances	-	5,549,294
Cash dividends paid on common stock	(143,517)	(622,906)
Net cash provided by financing activities	4,328,487	3,287,567
Net increase (decrease) in cash and cash equivalents	2,171,551	(11,815,307)
Cash and cash equivalents, beginning of year	2,377,693	14,193,000
Cash and cash equivalents, end of year	$ 4,549,244	$ 2,377,693
Noncash investing and financing activities		
Transfers of loans to real estate owned	$ 2,308,769	$ 4,916,112
Unrealized gain on available-for-sale securities, net of tax	101,424	54,056
Supplemental disclosures		
Cash paid during the year for		
Income taxes	$ -	$ -
Interest on deposits and advances	2,197,502	2,899,413

See accompanying notes to consolidated financial statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations: Alamogordo Financial Corporation is a stock holding company that owns 100% of BANK'34 (Bank). On March 31, 2008, the Bank changed its name from Alamogordo Federal Savings and Loan Association to BANK'34. Alamogordo Financial Corporation (Company) was incorporated on April 30, 1997 and is a majority owned subsidiary of AF Mutual Holding Company.

The Company provides a variety of banking services to individuals and businesses through its locations in Alamogordo and Las Cruces, New Mexico. The primary deposit products are demand deposits, certificates of deposit, NOW and money market accounts. The primary lending products are real estate mortgages and commercial loans. The Company is subject to competition from other financial institutions and to regulation by certain federal agencies and undergoes periodic examinations by these regulatory authorities.

A large portion of the Bank's loans are secured by real estate in Otero County, New Mexico. Otero County's economy is heavily dependent on two U.S. Government military installations located in the county. In January 2008 the Bank expanded its number of locations by opening a new branch in Las Cruces, New Mexico. Las Cruces is the second largest city in New Mexico and one of the fastest growing in the country for its demographics. Accordingly, the ultimate collectability of the Company's loan portfolio is susceptible to changes in market conditions in southern New Mexico. In addition, the Company's investment portfolio is directly impacted by fluctuations in market interest rates.

Rising and falling interest rate environments can have various impacts on the Bank's net interest income, depending on the short-term interest rate gap that the Bank maintains, the relative changes in interest rates that occur when the Bank's various assets and liabilities reprice, unscheduled repayments of loans, early withdrawals of deposits, and other factors.

Basis of Consolidation: The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated.

Subsequent Events: Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued. The Company recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. The Company's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before the financial statements are available to be issued.

The Company has evaluated subsequent events through September 28, 2012.

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

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for losses on loans and the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans. In connection with the determination of the allowances for losses on loans and foreclosed real estate, management obtains independent appraisals for significant properties.

Cash and Cash Equivalents: For the purpose of reporting cash flows, the Company defines cash and cash equivalents as cash on hand, cash items, amounts due from banks, amounts held with the Federal Reserve, interest-bearing deposits with the Federal Home Loan Bank, and investments in certificates of deposits with original maturities of three months or less.

Advertising Cost: The Company conducts direct and non-direct response advertising. These costs are expensed as incurred. Advertising costs for the years ended June 30, 2012 and 2011 are $217,964 and $154,311, respectively.

Securities: Securities classified as available-for-sale are debt securities the Bank intends to hold for an indefinite period of time, but not necessarily to maturity. Any decision to sell a security classified as available-for-sale would be based on various factors, including significant movements in interest rates, changes in the maturity mix of the Bank's assets and liabilities, liquidity needs, regulatory capital considerations and other similar factors. Securities available-for-sale are reported at fair value with unrealized gains or losses reported as other comprehensive income, net of the related deferred tax effect. Realized gains or losses, determined on the basis of the cost of specific securities sold, are included in earnings.

Purchase premiums and discounts are generally recognized in interest income using the interest method over the term of the securities. For mortgage-backed securities, estimates of prepayments are considered in the constant yield calculations.

Declines in the fair value of individual securities classified as available-for-sale below their amortized cost that are determined to be other than temporary, result in write-downs of the individual security. Impairment is assessed at the individual security level. An investment security is impaired if the fair value of the security is less than its amortized cost basis. Once the security is impaired, a determination must be made to see if the impairment is other than temporary.

In determining other than temporary losses, management considers many factors, including: current market conditions; fair value in relationship to cost; extent and nature of the change in fair value; issuer rating changes and trends; whether to sell the security before recovery of the amortized cost basis of the investment, which may be maturity; and other factors. 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. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) other-than-temporary impairment (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.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances adjusted for loan participations sold, charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method.

The accrual of interest on mortgage and commercial loans is discontinued at the time the loan is 90 days past due unless the credit is well secured and in process of collection. Personal loans are typically charged off no later than 180 days past due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on non-accrual or charged off at an earlier date if management believes that collection of principal or interest is considered doubtful.

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

Concentration of Credit Risk: The Bank grants mortgage, commercial and consumer loans to customers. A substantial portion of the portfolio is represented by mortgage loans throughout Alamogordo and the surrounding area. The ability of the Bank's debtors to honor their contracts is dependent upon the real estate and general economic conditions in this area.

Allowance for Loan Losses: The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available. While management may periodically allocate portions of the allowance for specific problem loan situations, including impaired loans discussed below, the whole allowance is available for any charge-offs that occur. Additionally, regulatory agencies, as part of their examination process, periodically review the allowance and may require additions to the allowance based on their judgments of information available during their examinations.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 short fall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual consumer and residential loans for impairment disclosures unless such loans are the subject of a restructuring agreement.

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 segment and is based on the actual loss history experienced by the Company over the most recent 12 months. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. 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. The following portfolio segments have been identified: residential real estate; non-residential real estate; construction; commercial; consumer; land loans. Risk factors impacting loans in each of the portfolio segments include broad deterioration of property values, reduced consumer and business spending as a result of continued high unemployment and reduced credit availability and lack of confidence in a sustainable recovery.

Transfers of Financial Assets: Transfers of financial assets are accounted for as sales when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Company, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Loans Held for Sale: Loans held for sale are those loans the Bank intends to sell. They are carried at the lower of aggregate cost or fair value. Gains and losses on sales of loans are recognized at settlements dates and are determined by the difference between the sales proceeds and carrying value of the loans. These are generally sold within 30 to 60 days of origination. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings.

Premises and Equipment: Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight line method in amounts sufficient to relate the cost of depreciable assets to operations over the estimated useful lives of the assets which range from three to seven years for equipment and 15 to 40 years for leasehold improvements and buildings. Maintenance and repairs that do not extend the useful lives of premises and equipment are charged to expense as incurred.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Real Estate Owned: Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value at the date of foreclosure less estimated selling cost, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in valuation allowance are included in net expense, whereas costs relating to improvement of the property are capitalized.

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. A valuation allowance, if needed, 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 recognizes interest and/or penalties related to income tax matters in income tax expense.

Comprehensive Income: Comprehensive income consists of net income and unrealized gains and losses on securities available for sale, net of taxes.

Investment in Federal Home Loan Bank Stock: The Bank, as a member of the Federal Home Loan Bank System, is required to maintain an investment in the capital stock of the Federal Home Loan Bank (FHLB) in an amount equal to .06% of its total assets plus 4.1 % of advances from the FHLB. No ready market exists for the Federal Home Loan Bank stock, and it has no quoted market value.

Company Owned Life Insurance: The Company has purchased life insurance policies on certain key executives. Company owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Stock-Based Compensation: The Company has a Stock Option Plan and a Recognition and Retention Plan which both award shares of the Company's stock to directors and key employees.

The Company separates each award into vesting tranches and recognizes expense on the fair value of the option for each tranche over the vesting period. The fair value of options granted are estimated using the Black-Scholes option pricing model with the following assumptions: expected dividend yield, expected stock price volatility, risk free rate of return, and expected life of options.

During the years ended June 30, 2012 and 2011, there were no options granted or vested.

Retirement Plans: Pension expense is recognized for contributions to the multi-employer pension plan. Employee 401(k) and profit sharing plan expense is the amount of matching contributions. Deferred compensation and supplemental retirement plan expense allocates the benefits over years of service.

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 shareholders.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reclassifications: Certain reclassifications have been made to the 2011 financial statements to conform to the 2012 presentation.

NOTE 2 - SECURITIES

The amortized cost and fair values of investment securities classified as available for sale are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2012				
Mortgage-backed securities				
FHLMC	$ 11,811,412	$ 76,222	$ 29,638	$ 11,857,996
GNMA	14,355,167	70,659	34,822	14,391,004
FNMA	7,520,775	98,150	2,251	7,616,674
Agency Securities	7,382,384	62,184	39,014	7,405,554
	$ 41,069,738	$ 307,215	$ 105,725	$ 41,271,228

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2011				
Mortgage-backed securities				
FHLMC	$ 3,551,781	$ 33,032	$ 35	$ 3,584,778
GNMA	8,951,571	60,629	22,329	8,989,871
FNMA	6,109,981	54,837	-	6,164,818
Agency Securities	2,470,154	35,156	-	2,505,310
	$ 21,083,487	$ 183,654	$ 22,364	$ 21,244,777

Securities pledged at year-end 2012 and 2011 had a carrying amount of $1,017,771 and $1,065,354 and were pledged to secure public deposits.

(Continued)

NOTE 2 – SECURITIES (Continued)

Amortized cost and fair value of securities by contractual maturity as of June 30, 2012 are shown below. Expected maturities may differ from contractual maturities because borrowers may call or repay obligations. Securities not due at a single maturity date are shown separately.

	June 30, 2012	
	Amortized Cost	Fair Value
Due within one year	$ -	$ -
Due from one to five years	999,543	999,740
Due from five to ten years	-	-
Due after ten years	6,382,841	6,405,814
Mortgage-backed securities	33,687,354	33,865,674
	$ 41,069,738	$ 41,271,228

At year-end 2012 and 2011, 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.

There were no securities in a continuous unrealized loss greater than 12 months as of June 30, 2012 and 2011.

Mortgage-backed Securities: At June 30, 2012, all of the securities held by the Company were issued by U.S. government-sponsored entities and agencies, primarily Fannie Mae and Freddie Mac, institutions which the government has affirmed its commitment to support. Because the decline in fair value is attributable to changes in interest rates and illiquidity, and not credit quality, and because the Company does not have the intent to sell these mortgage-backed securities and it is likely that it will not be required to sell the securities before their anticipated recovery, the Company does not consider these securities to be other-than-temporarily impaired at June 30, 2012.

NOTE 3 - LOANS AND THE ALLOWANCE FOR LOAN LOSSES

Loans held for investment reflected in the consolidated balance sheets consist of the following as of June 30:

	2012	2011
Residential real estate	$ 45,153,776	$ 53,294,413
Commercial	62,697,519	76,324,449
Construction	5,591,337	7,868,249
Consumer and other loans	509,905	805,185
Gross Loans	113,952,537	138,292,296
Deferred loan fees and discounts	(228,812)	(289,495)
Loan in process	(20,515)	-
Allowance for loans loss	(2,436,784)	(2,567,713)
Net loans, held for investment	$111,266,426	$135,435,088

(Continued)

NOTE 3 - LOANS AND THE ALLOWANCE FOR LOAN LOSSES (Continued)

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

June 30, 2012	Commercial	Construction	Residential Real Estate	Consumer Other	Unallocated	Total
Allowance for loan losses:						
Beginning balance	$ 2,315,224	$ 11,550	$ 175,723	$ 10,576	$ 54,640	$2,567,713
Provision for loan losses	2,578,731	42,956	255,505	-	62,019	2,939,211
Loans charged-off	(2,916,507)	-	(172,417)	(2,823)	(10,576)	(3,102,323)
Recoveries	28,600	-	3,091	492	-	32,183
Total ending allowance Balance	$ 2,006,048	$ 54,506	$ 261,902	$ 8,245	$ 106,083	$2,436,784

Activity in the allowance for loan losses for the period ending June 30, 2011 was as follows:

	2011
Balance at beginning of year	$ 1,195,876
Provision for loan losses	2,096,580
Loans charged off, net of recoveries	(724,743)
Balance at end of year	$ 2,567,713

The following table presents the balance in the allowance and the recorded investment in loans by portfolio segment and based on impairment method for the year ending June 30, 2012:

June 30, 2012	Commercial	Construction	Residential Real Estate	Consumer Other	Unallocated	Total
Allowance for loan losses:						
Ending allowance balance attributable to loans:						
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	2,006,048	54,506	261,902	8,245	106,083	2,436,784
Total ending allowance Balance	$ 2,006,048	$ 54,506	$ 261,902	$ 8,245	$ 106,083	$ 2,436,784
Loans:						
Loans individually evaluated for impairment	$ 1,910,599	$ -	$ 1,734,653	$ -	$ -	$ 3,645,252
Loans collectively evaluated for impairment	60,786,920	5,591,337	43,419,123	509,905	-	110,307,285
Total ending loan balance	$ 62,697,519	$ 5,591,337	$ 45,153,776	$ 509,905	$ -	$113,952,537

NOTE 3 - LOANS AND THE ALLOWANCE FOR LOAN LOSSES (Continued)

The following table presents information related to impaired loans by class of loans as of and for the year ended June 30, 2012:

June 30, 2012	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
With no related allowance recorded:			
Residential real estate	$ 1,910,599	$ 1,910,599	$ -
Commercial	1,734,653	1,734,653	-
Construction	-	-	-
Consumer and other	-	-	-
Subtotal	3,645,252	3,645,252	-

June 30, 2012	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
With an allowance recorded:			
Commercial	$ -	$ -	$ -
Commercial real estate:			
Construction	-	-	-
Other	-	-	-
Residential real estate:			
Nontraditional	-	-	-
Other	-	-	-
Subtotal	-	-	-
	$ 3,645,252	$ 3,645,252	$

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 net charge-offs.

(Continued)

NOTE 3 - LOANS AND THE ALLOWANCE FOR LOAN LOSSES (Continued)

Impaired loans were as follows:

	2011
Year-end loans with no allocated allowance for loan losses	$ 4,944,177
Year-end loans with allocated allowance for loan losses	3,948,260
Total	$ 8,892,437
Amount of the allowance for loan losses allocated	$ 780,761
Average of individually impaired loans during year	$ 9,009,256

Interest recognized on impaired loans was immaterial for the years ending June 30, 2012 and 2011.

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.

Certain loans within the Company's loan and real estate owned portfolios are guaranteed by the Veterans Administration (VA). In the event of default by the borrower, the VA can elect to pay the guaranteed amount or take possession of the property. If the VA takes possession of the property, the Company is entitled to be reimbursed for the outstanding principal balance, accrued interest and certain other expenses. There were no commitments from the VA to take title to foreclosed VA properties at June 30, 2012 and 2011.

The following tables present the recorded investment in nonaccrual and loans past due over 90 days still on accrual by class of loans as of June 30, 2012:

	Nonaccrual 2012	Loans Past Due Over 90 Days Still Accruing 2012
Residential real estate	$ 701,380	$ -
Commercial	3,110,537	-
Construction	-	-
Consumer and other	-	-
Total	$ 3,811,917	$ -

Nonaccrual loans and loans past due 90 days still on accrual were as follows:

	2011
Loans past due over 90 days still on accrual	$ -
Nonaccrual loans	$ 7,374,644

(Continued)

NOTE 3 - LOANS AND THE ALLOWANCE FOR LOAN LOSSES (Continued)

The following table presents the aging of the recorded investment in past due loans as of June 30, 2012 by class of loans:

	30 - 59 Days Past Due	60 - 89 Days Past Due	Total Past Due	Nonaccrual	Loans Not Past Due	Total
June 30, 2012						
Residential real estate	$ 339,360	$ 142,370	$ 481,730	$ 701,380	$ 43,970,666	$ 45,153,776
Commercial	153,185	-	153,185	3,110,537	59,433,797	62,697,519
Construction	-	-	-	-	5,591,337	5,591,337
Consumer and other	-	-	-	-	509,905	509,905
Total	$ 492,545	$ 142,370	$ 634,915	$ 3,811,917	$109,505,705	$ 113,952,537

Troubled Debt Restructurings: The Company has allocated $0 and $530,761 of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of June 30, 2012 and 2011. The Company has committed to lend additional amounts totaling up to $0 as of June 30, 2012 and 2011 to customers with outstanding loans that are classified as troubled debt restructurings.

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 is performed on a quarterly basis. The Company uses the following definitions for risk ratings:

Special Mention - Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

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

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.

NOTE 3 - LOANS AND THE ALLOWANCE FOR LOAN LOSSES (Continued)

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

	Pass	Special Mention	Substandard	Doubtful	Total
June 30, 2012					
Residential real estate	$ 42,241,028	$ 323,999	$2,588,749	$ -	$ 45,153,776
Commercial	57,923,362	970,728	3,803,429	-	62,697,519
Construction	4,361,973	1,229,364	-		5,591,337
Consumer and other	509,905	-	-	-	509,905
	$105,036,268	$2,524,091	$6,392,178	$ -	$113,952,537

NOTE 4 - PREMISES AND EQUIPMENT

Premises and equipment reflected in the consolidated balance sheets consist of the following at June 30:

	2012	2011
Land	$ 2,437,972	$ 2,425,608
Buildings	10,663,049	10,589,576
Leasehold improvements	-	27,031
Furniture and equipment	1,686,058	1,739,468
Automobiles	129,902	129,902
	14,916,981	14,911,585
Accumulated depreciation	(4,183,747)	(3,877,220)
Balance at end of year	$ 10,733,234	$ 11,034,365

Depreciation expense was $548,834 and $483,390 for the years ended June 30, 2012 and 2011 respectively.

NOTE 5 – DEPOSITS

Time deposits of $100 thousand or more were $37,645,831 and $33,443,800 at year-end 2012 and 2011 respectively.

The schedule maturities of time deposits for the next five years were as follows:

2013	$ 36,547,309
2014	25,251,837
2015	11,327,096
2016	4,152,225
2017	4,634,233
	$ 81,912,700

NOTE 6 - ADVANCES FROM FEDERAL HOME LOAN BANK

At year end, advances from the Federal Home Loan Bank were as follows:

	2012	2011
Maturities August 15, 2011 through August 30, 2011, fixed rates at .11%	$ -	$ 2,000,000
Maturities October 28, 2013 through January 2, 2029, fixed rates from 1.15% to 5.15%, averaging 3.25%	15,502,247	16,093,333
Total	$15,502,247	$18,093,333

The Company has the ability to borrow funds from the Federal Home Loan Bank of Dallas (FHLB) up to 50% of total assets. Advances are secured by a blanket-floating lien on qualifying 1-4 family first mortgage loans and commercial loans. At June 30, 2012 and 2011, the Company had $15,502,247 and $18,093,333, respectively, in outstanding advances with the FHLB.

Payments over the next five years are as follows:

2013	$ -
2014	2,000,000
2015	2,200,000
2016	-
2017	-

NOTE 7 - EMPLOYEE RETIREMENT BENEFIT PLANS

The Company has established a profit-sharing 401(k) type salary reduction plan for all employees that meet the necessary eligibility requirements for participation in the plan. Participants fully vest after six years of service. Annual contributions are at the discretion of the Board of Directors of the Company. The Company made contributions to the plan of $28,925 and $26,851 for the years ended June 30, 2012 and 2011, respectively.

The Company also participates in a multi-employer defined benefit pension plan. Segregated statements of plan assets or separate actuarial valuations are not available. On June 1, 2006, the Company froze the benefits available under the defined benefit pension plan. Under ERISA, a contributor to a multi-employer pension plan may be liable in the event of complete or partial withdrawal for the benefit payments guaranteed under ERISA, but there is no intention to withdraw.

Employees participate in an Employee Stock Option Plan (ESOP). The ESOP borrowed from the Company to purchase 28,560 shares of stock at $10 per share. The Company makes discretionary contributions to the ESOP, as well as paying dividends on unallocated shares to the ESOP, and the ESOP uses funds it receives to repay the loan. When loan payments are made, ESOP shares are allocated to participants based on relative compensation and expense is recorded. Dividends on allocated shares increase participant accounts.

Participants receive the shares at the end of employment. A participant may require stock received to be repurchased unless the stock is traded on an established market.

NOTE 7 - EMPLOYEE RETIREMENT BENEFIT PLANS (Continued)

There were no contributions or expenses to ESOP during 2012 and 2011. Shares held by the ESOP were as follows:

	2012	2011
Allocated to participants	28,560	28,560
Unearned	-	-
Total ESOP shares	28,560	28,560
Fair value of unearned shares	$ -	$ -
Fair value of allocated shares subject to repurchase obligation	$ 365,088	$ 376,497

NOTE 8 - BOARD OF DIRECTORS RETIREMENT POLICY

The Board has adopted a deferred compensation Policy (Policy) to compensate board members for their service to the Company. The retirement date for directors is the later of the last month in which they reach age 70 or upon completion of their term if they were elected to the Board during the annual meeting resulting in service beyond age 70. Upon retirement, board members receive the deferred compensation for the remainder of their life up to a maximum of $2,000 per month. Directors receive credit for service at 5% a year. Board members also vest in the Policy based on service as follows: 0 to 4 years of service (20%), 5 years of service (40%), 6 years of service (60%), 7 years of service (80 %) and 8 years of service (100 %). The total liability for the Policy at June 30, 2012 and 2011 were $278,938 and $360,938, respectively. On September 21, 2011, the Board rescinded the retirement plan for its current members.

NOTE 9 - CONTINGENT LIABILITIES AND COMMITMENTS

In the normal course of business, various commitments are outstanding, such as commitments to extend credit. These financial instruments with off-balance sheet risk are not reflected in the consolidated financial statements. Management does not anticipate any significant losses as a result of these transactions. The following summarizes these financial instruments:

	2012	2011
Commitments to originate and sell mortgage loans	$ 9,248,000	$ 3,551,000
Commitments to extend credit	5,019,000	18,212,000
Unused lines-of-credit	10,226,000	10,898,000
Commercial letters of credit	85,000	775,000
	$ 24,578,000	$ 33,436,000

Since certain commitments to make loans and fund lines-of-credit expire without being used, the amounts do not necessarily represent future cash commitments. In addition, commitments used to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. The Company's exposure to credit loss in the event of nonperformance by the other party to these financial instruments is represented by the contractual amount of these instruments. The Company follows the same credit policy to make such commitments as is followed for those loans recorded on the consolidated balance sheet.

NOTE 10 - INCOME TAXES

The provision (benefit) for income taxes consists of the following:

	2012	2011
Current expense		
Federal	$ (651,755)	$ (47,500)
State	20,010	(11,374)
	(631,745)	(58,874)
Deferred expense		
Federal	(472,762)	(329,776)
State	(211,829)	(63,134)
	(684,591)	(392,910)
Change in valuation allowance	1,341,940	-
Total	$ 25,604	$ (451,784)

The income tax differs from the amounts computed by applying the statutory federal income tax rate of 34% to income before income taxes as follows:

	2012	2011
Expense at statutory rate	$(1,144,935)	$ (343,699)
State income taxes, net of federal benefit	(150,423)	(52,109)
Bank owned life insurance	(70,106)	(73,269)
Change in valuation allowance	1,341,940	-
Other, net	49,128	17,293
Total	$ 25,604	$ (451,784)

NOTE 10 - INCOME TAXES (Continued)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities are as follows:

	2012	2011
Deferred tax assets		
Deferred compensation	$ 109,713	$ 103,491
Bad debt reserve	931,436	1,064,184
Reorganization expenses	-	7,766
OREO basis adjustments	355,415	-
Stock awards	32,104	32,101
Board of Directors retirement plan	106,621	117,312
Net operating loss carryforwards	712,549	24,271
Tax credits	27,965	11,915
Other	59,156	-
Total deferred tax assets	2,334,959	1,361,040
Deferred tax liabilities		
Unrealized gain on available-for-sale securities	(77,009)	(61,224)
FHLB stock dividends	(52,637)	(64,538)
Book/tax depreciation	(778,327)	(508,182)
Loan origination costs	(19,751)	(29,629)
Other	(65,295)	(24,333)
Total deferred tax liabilities	(993,019)	(687,906)
Valuation Allowance	(1,341,940)	-
Net deferred tax asset (liability)	$ -	$ 673,134

A valuation allowance for deferred tax assets is recorded when it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income and tax planning strategies which will create taxable income during the periods in which those temporary differences become deductible. Management considered the scheduled reversal of deferred tax liabilities, projected future taxable income, NOL carry-back potential, and tax planning strategies in making this assessment. At June 30, 2012, management established a deferred tax asset valuation allowance of approximately $1.3 million based on its assessment of the amount of net deferred tax assets that are more likely than not to be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

At June 30, 2012, the Company had federal and state operating loss carry-forwards of approximately $1.7 million and $3.5 million, which will begin to expire in 2032 and 2016, respectively. At June 30, 2012, the Company had alternative minimum tax credits of approximately $27 thousand that may be carried forward indefinitely.

The Company files consolidated U.S. federal and New Mexico income tax returns, which are subject to examination by the taxing authorities for years 2008 and later. There were no significant unrecognized tax benefits as of June 30, 2012 or 2011, and the Company does not expect any significant increase in unrecognized tax benefits in the next twelve months. Additionally, the Company has determined that no amounts were required to be recorded related to interest and penalties in the Consolidated Statements of Operations for the years ended June 30, 2012 and 2011.

NOTE 11 - CONCENTRATIONS OF CREDIT RISK

All of the Company's loans, commitments, and standby letters of credit have been granted to customers in the Company's market area, which is the southern region of the state of New Mexico. As such, significant changes in economic conditions in this region or with its primary industries could adversely affect the Company's ability to collect loans. Investments in state and municipal securities also involve governmental entities within the Company's market area. The concentrations of credit by type of loan are set forth in Note 3. The distribution of commitments to extend credit approximates the distribution of loans outstanding. Standby letters of credit were granted primarily to commercial borrowers. The Company maintains certain balances with other institutions. The balances on deposit with other banks are insured by the Federal Deposit Insurance Corporation up to $250,000 at each institution. The Company had no uninsured cash balances at June 30, 2012 and 2011.

NOTE 12 - REGULATORY CAPITAL

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly discretionary, actions by regulators that, if undertaken, could have a direct and material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

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 2012 and 2011, the most recent regulatory notifications 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.

NOTE 12 - REGULATORY CAPITAL (Continued)

The Bank's capital ratios are (dollars in thousands):

	Actual		Requirements to be Adequately Capitalized		Requirements to be well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
June 30, 2012						
Tier 1 capital (to adjusted total assets)	$ 25,053	13.49%	$ 7,428	4.0%	$ 9,285	5.0%
Tier 1 capital (to risk weighted assets)	25,053	21.59	4,641	4.0	6,961	6.0
Total risk-based capital (to risk weighted assets)	26,515	22.85	9,281	8.0	11,602	10.0
Tangible Capital (to adjusted total assets)	25,053	13.49	N/A	N/A	2,786	1.5
June 30, 2011						
Tier 1 capital (to adjusted total assets)	$ 27,100	14.76%	$ 7,344	4.0%	$ 9,179	5.0%
Tier 1 capital (to risk weighted assets)	27,100	21.16	5,124	4.0	7,685	6.0
Total risk-based capital (to risk weighted assets)	28,701	22.41	10,247	8.0	12,809	10.0
Tangible Capital (to adjusted total assets)	27,100	14.76	N/A	N/A	2,754	1.5

NOTE 13 - DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (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 values:

> 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 company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Company used the following methods and significant assumptions to estimate fair value:

Investment Securities: The fair values for investment securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3). Discounted cash flows are calculated using spread to swap and LIBOR curves that are updated to incorporate loss severities, volatility, credit spread and optionality. During times when trading is more liquid, broker quotes are used (if available) to validate the model. Rating

NOTE 13 - DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

agency and industry research reports as well as defaults and deferrals on individual securities are reviewed and incorporated into the calculations.

Impaired Loans: The fair value of impaired loans with specific allocations of the allowance for loan losses is generally based on recent 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 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, including financial assets and liabilities for which the Company has elected the fair value option, are summarized below:

	Fair Value Measurements at June 30, 2012 Using:			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Financial Assets				
Investment securities available-for-sale				
Agency	$ -	$ 7,405,554	$ -	$ 7,405,554
Mortgage-backed Securities				
FHLMC	-	11,857,996	-	11,857,996
GNMA	-	14,391,004	-	14,391,004
FNMA	-	7,616,674	-	7,616,674
Total investment securities available-for-sale	$ -	$ 41,271,228	$ -	$ 41,271,228

NOTE 13 - DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

	Fair Value Measurements at June 30, 2011 Using:			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Financial Assets				
Investment securities available-for-sale				
Agency	$ -	$ 2,505,310	$ -	$ 2,505,310
Mortgage-backed Securities				
FHLMC	-	3,584,778	-	3,584,778
GNMA	-	8,989,871	-	8,989,871
FNMA	-	6,164,818	-	6,164,818
Total investment securities available-for-sale	$ -	$ 21,244,777	$ -	$ 21,244,777

There were no transfers between Level 1 and Level 2 during 2012 or 2011.

Certain financial assets and financial liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). These assets are recorded at the lower of amortized cost or fair value, and a valuation allowance reflects any unrealized fair value losses, offset to an expense account. The following table summarizes the Company's financial instruments that were measured at fair value on a non-recurring basis at June 30:

	Quoted Prices in Active Markets For Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Balance as of June 30
2012				
Impaired loans				
Commercial	$ -	$ -	$ 1,910,599	$ 1,910,599
Residential	-	-	1,734,653	1,734,653
Total assets at fair market value	$ -	$ -	$ 3,645,252	$ 3,645,252
2011				
Impaired loans				
Commercial real estate	$ -	$ -	$ -	$ -
Other real estate loans	-	-	3,167,499	3,167,499
Total assets at fair market value	$ -	$ -	$ 3,167,499	$ 3,167,499

NOTE 13 - DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Impaired loans that are measured for impairment using the fair value of the collateral for collateral dependent loans, had a principal balance of $3,645,252, which reflects a valuation allowance and corresponding provision for loan losses of $0 at June 30, 2012. As of June 30, 2011, impaired loans had a principal balance of $3,167,499, which reflects a valuation allowance and corresponding provision for loan losses of $780,761.

The estimated fair values of the Company's financial instruments as of June 30 are as follows:

	2012		2011	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial Assets				
Cash and due from banks	$ 3,447,347	$ 3,447,347	$ 1,131,282	$ 1,131,282
Interest-bearing deposits with banks	1,101,897	1,101,897	1,246,411	1,246,411
Available-for-sale securities	41,271,228	41,271,228	21,244,777	21,244,777
Loans held for Investment, net	111,266,426	116,790,426	135,435,088	140,083,088
Loans held for sale	6,885,038	6,885,038	2,780,672	2,780,672
Stock in financial institutions, substantially restricted	10,733,234	N/A	11,034,365	N/A
Accrued interest	486,695	486,695	547,230	547,230
Financial Liabilities				
Deposits	143,421,201	134,629,201	136,362,522	135,897,522
Escrows	349,952	349,952	345,541	345,541
Accrued interest	43,158	43,158	46,554	46,554
Advances from FHLB	15,502,247	15,506,247	18,093,333	18,510,333

The methods and assumptions, not previously presented, used to estimate fair value are described as follows:

Carrying amount is the estimated fair value for cash and cash equivalents, interest bearing deposits, accrued interest receivable and payable, demand deposits, escrow deposits, short-term debt, and variable rate loans or deposits that reprice frequently and fully. It was not practicable to determine the fair value of FHLB stock due to restrictions placed on its transferability. 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. Fair value of debt is based on current rates for similar financing.

NOTE 14 - STOCK-BASED COMPENSATION

The Company adopted a Stock Options Plan effective June 25, 2001. Under the terms of the plan, the Company authorized the awarding of 35,700 shares of the Company's common stock to directors and key employees at an exercise price of $18.50 per share. The directors are 100% vested in the options becoming exercisable as of June 25, 2001. The options become exercisable for the key employees at a vesting rate of 20% per year over five years beginning July 1, 2002 and have an exercise date of ten years from the date of grant. The exercise price equaled the market price on the date the options were granted. The weighted average remaining life of common stock options at June 30, 2012 and 2011 is one and two years, respectively.

A summary of common stock options under the Stock Option Plan follows:

	Options	Weighted Average Price	Options Exercisable
Balance, June 30, 2011	5,004	$ 18.50	5,004
Granted	-		-
Forfeited	-		-
Exercised	-		-
Balance June 30, 2012	5,004	$ 18.50	5,004

There were no options exercised during the year ended June 30, 2012 and 2011. All options were fully vested as of June 30, 2012.

The Company adopted a Recognition and Retention Plan (RRP) effective June 25, 2001. In 2001, the Company contributed $320,365 allowing the RRP to acquire 17,317 shares of common stock of the Company, at $18.50 per share, awarded to directors and key employees. Stock awards for 7,586 shares to the directors vested 50% on November 1, 2001 and 50% on November 1, 2002. Stock awards for 9,731 shares to key employees vest at 20% per year over five years beginning July 1, 2002. The un-amortized cost of shares not yet earned (vested) is reported as a reduction of stockholders' equity.

In November 2007, the Company contributed $323,068 allowing the RRP to acquire 9,502 shares of common stock of the Company, at $34.00 per share, awarded to directors and key employees. Stock awards for 3,670 shares to the directors vested 50% on January 1, 2008 and the remaining 50% vested on January 1, 2009. Stock awards for 5,832 shares to key employees vest at 20% per year over five years beginning July 1, 2008. The un-amortized cost of shares not yet earned (vested) is reported as a reduction of stockholders' equity.

In July 2009, the Company contributed $ 126,558 allowing the RRP to acquire 6,408 shares of common stock of the Company, at $19.25 per share, awarded to directors and key employees. Stock awards for 2,000 shares to the directors vested 50% on July 1, 2009 and the remaining 50% vested on July 1, 2011. Stock awards for 4,408 shares to key employees vest at 20% per year over five years beginning July 1, 2009. The unamortized cost of shares not yet earned (vested) is reported as a reduction of stockholders' equity.

RRP compensation expense was $146 and $37,366 for the years ended June 30, 2012 and 2011, respectively.

NOTE 14 - STOCK-BASED COMPENSATION (Continued)

A summary of changes in the Company's nonvested shares for the year follows:

Nonvested shares	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at July 1, 2011	8,240	$ 135,960
Granted	-	-
Vested	-	-
Forfeited	(4,485)	(152,490)
Nonvested at June 30, 2012	3,755	$ 46,975

As of June 30, 2012, there was $13,450 of total unrecognized compensation cost related to nonvested shares granted under the Plan. The cost is expected to be recognized over a weighted-average period of 1 year. The total fair value of shares vested during the years ended June 30, 2012 and 2011 was $39,072 and $33,000.

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Thank you

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