WVS FINANCIAL CORP
Form 10-Q
February 13, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended December 31, 2012

or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _________ to _________

Commission File Number: 0-22444

WVS Financial Corp.

(Exact name of registrant as specified in its charter)

Pennsylvania	**25-1710500**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**
9001 Perry Highway	
Pittsburgh, Pennsylvania	**15237**
(Address of principal executive offices)	**(Zip Code)**

(412) 364-1911

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirement for the past 90 days. YES x NO ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES x NO ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12 b-2 of the Exchange Act). YES ¨ NO x

Shares outstanding as of February 8, 2013: 2,057,930 shares Common Stock, $.01 par value.

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WVS FINANCIAL CORP. AND SUBSIDIARY

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WVS FINANCIAL CORP. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEET

(UNAUDITED)

(In thousands)

	December 31, 2012	June 30, 2012
Assets		
Cash and due from banks	$ 1,779	$ 2,314
Interest-earning demand deposits	323	192
Total cash and cash equivalents	2,102	2,506
Certificates of deposit	597	846
Investment securities available-for-sale (amortized cost of $78,744 and $57,636)	79,133	57,620
Investment securities held-to-maturity (fair value of $49,764 and $84,059)	48,461	82,400
Mortgage-backed securities held-to-maturity (fair value of $82,331 and $79,813)	81,516	79,086
Net loans receivable (allowance for loan losses of $336 and $385)	33,463	39,433
Accrued interest receivable	1,648	1,621
Federal Home Loan Bank stock, at cost	5,969	7,595
Other real estate owned	239	235
Premises and equipment, net	655	583
Prepaid FDIC insurance premium	92	163
Deferred tax assets (net)	733	1,047
Other assets	196	206
TOTAL ASSETS	$ 254,804	$ 273,341
Liabilities and Stockholders Equity		
Liabilities:		
Deposits		
Non-interest-bearing accounts	$ 15,738	$ 15,642
NOW accounts	21,063	20,834
Savings accounts	39,727	39,770
Money market accounts	23,798	23,837
Certificates of deposit	39,345	41,508
Advance payments by borrowers for taxes and insurance	395	582
Total deposits	140,066	142,173
Federal Home Loan Bank advances: long-term	17,500	17,500
Federal Home Loan Bank advances: short-term	64,716	79,270
Accrued interest payable	231	257
Other liabilities	733	3,728
TOTAL LIABILITIES	223,246	242,928
Stockholders equity:		
Preferred stock:		
5,000,000 shares, no par value per share, authorized; none Issued		
Common stock:		
10,000,000 shares, $.01 par value per share, authorized; 3,805,636 and 3,805,636 shares issued	38	38
Additional paid-in capital	21,469	21,458

Treasury stock: 1,747,706 and 1,747,706 shares at cost, respectively		(26,690)		(26,690)
Retained earnings, substantially restricted		37,538		36,992
Accumulated other comprehensive loss		(797)		(1,385)
TOTAL STOCKHOLDERS EQUITY		31,558		30,413
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$	254,804	$	273,341

See accompanying notes to unaudited consolidated financial statements.

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WVS FINANCIAL CORP. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF INCOME

(UNAUDITED)

(In thousands, except per share data)

	Three Months Ended December 31, 2012	Three Months Ended December 31, 2011	Six Months Ended December 31, 2012	Six Months Ended December 31, 2011
INTEREST AND DIVIDEND INCOME:				
Loans	$ 549	$ 713	$ 1,135	$ 1,573
Investment securities taxable	748	647	1,527	1,371
Investment securities non-taxable		39		81
Mortgage-backed securities	247	235	494	466
Certificates of deposit	2	9	4	19
Interest-earning demand deposits			1	1
FHLB Stock	8		10	
Total interest and dividend income	1,554	1,643	3,171	3,511
INTEREST EXPENSE:				
Deposits	100	139	208	291
Federal Home Loan Bank advances long-term	211	211	422	455
Federal Home Loan Bank advances short-term	54	19	107	30
Total interest expense	365	369	737	776
NET INTEREST INCOME	1,189	1,274	2,434	2,735
RECOVERY OF LOAN LOSSES	(25)	(20)	(49)	(39)
NET INTEREST INCOME AFTER RECOVERY OF LOAN LOSSES	1,214	1,294	2,483	2,774
NON-INTEREST INCOME:				
Service charges on deposits	47	53	99	113
Investment securities gains			8	
Other than temporary impairment losses		(106)		(303)
Portion of loss recognized in other comprehensive income (before taxes)				172
Net impairment loss recognized in earnings		(106)		(131)
Other	178	71	249	136
Total non-interest income	225	18	356	118
NON-INTEREST EXPENSE:				
Salaries and employee benefits	491	486	984	965

Occupancy and equipment	80	75	155	153
Data processing	61	65	122	120
Correspondent bank service charges	13	16	27	37
Deposit insurance premium	43	64	79	121
Other	225	176	479	463
Total non-interest expense	913	882	1,846	1,859
INCOME BEFORE INCOME TAXES	526	430	993	1,033
INCOME TAX EXPENSE	201	226	282	419
NET INCOME	$ 325	$ 204	$ 711	$ 614
EARNINGS PER SHARE:				
Basic	$ 0.16	$ 0.10	$ 0.35	$ 0.30
Diluted	$ 0.16	$ 0.10	$ 0.35	$ 0.30
AVERAGE SHARES OUTSTANDING:				
Basic	2,057,930	2,057,930	2,057,930	2,057,930
Diluted	2,057,930	2,057,930	2,057,930	2,057,930

See accompanying notes to unaudited consolidated financial statements.

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WVS FINANCIAL CORP. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(UNAUDITED)

(In thousands, except per share data)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2012	2011	2012	2011
NET INCOME	$ 325	$ 204	$ 711	$ 614
OTHER COMPREHENSIVE INCOME				
Securities available for sale not other-than-temporarily impaired:				
Gains (losses) arising during the year	42	(60)	414	(188)
Income tax effect	14	(21)	141	(64)
	28	(39)	273	(124)
Gains recognized in earnings			(8)	
Income tax effect			(3)	
			(5)	
Unrealized holdings gains (losses) on securities available for sale not other-than-temporarily impaired, net of tax	28	(39)	268	(124)
Securities held to maturity other-than-temporarily impaired:				
Total losses		(106)		(303)
Losses recognized in earnings		(106)		(131)
Losses recognized in comprehensive income				(172)
Income tax effect		(70)		(128)
		70		(44)
Accretion of other comprehensive loss on other-than-temporarily impaired securities held to maturity	264	239	485	345
Income tax effect	90	81	165	117
	174	158	320	228
Unrealized holding gains on other-than-temporarily impaired Securities held to maturity, net of tax	174	228	320	184
Other comprehensive income	202	189	588	60
NET COMPREHENSIVE INCOME	$ 527	$ 393	$ 1,299	$ 674

See accompanying notes to unaudited consolidated financial statements.

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WVS FINANCIAL CORP. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY

(UNAUDITED)

(In thousands)

	Common Stock	Additional Paid-In Capital	Treasury Stock	Retained Earnings Substantially Restricted	Accumulated Other Comprehensive Income(Loss)	Total
Balance at June 30, 2012	$ 38	$ 21,458	$ (26,690)	$ 36,992	$ (1,385)	$ 30,413
Comprehensive income:						
Net Income				711		711
Other comprehensive income:					588	588
Expense of stock options awarded		11				11
Cash dividends declared ($0.08 per share)				(165)		(165)
Balance at December 31, 2012	$ 38	$ 21,469	$ (26,690)	$ 37,538	$ (797)	$ 31,558

See accompanying notes to unaudited consolidated financial statements.

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WVS FINANCIAL CORP. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS

(UNAUDITED)

(In thousands)

	Six Months Ended December 31,	
	2012	2011
OPERATING ACTIVITIES		
Net income	$ 711	$ 614
Adjustments to reconcile net income to cash provided by operating activities:		
Recovery of loan losses	(50)	(39)
Net impairment loss recognized in earnings		131
Depreciation	47	42
Gain on sale of investments	(8)	
Accretion of discounts, premiums and deferred loan fees	1,420	344
Decrease in deferred income taxes	314	89
Decrease in prepaid/accrued income taxes	(1)	(26)
Increase in accrued interest receivable	(27)	(287)
Decrease in accrued interest payable	(26)	(45)
Decrease in deferred director compensation payable	(15)	(16)
Decrease of prepaid federal deposit insurance premium	71	116
Decrease in transaction account clearing balance payable to Federal Reserve		(733)
Other, net	(498)	47
Net cash provided by operating activities	1,938	237
INVESTING ACTIVITIES		
Available-for-sale:		
Purchase of investment securities	(32,960)	(34,402)
Proceeds from repayments of investments	5,803	
Proceeds from sales of investments	1,891	
Held-to-maturity:		
Purchases of investment securities		(49,450)
Purchases of mortgage-backed securities	(46,980)	(21,530)
Proceeds from repayments of investments	33,927	52,570
Proceeds from repayments of mortgage-backed securities	45,050	22,506
Purchases of certificates of deposit		(698)
Maturities/redemptions of certificates of deposit	248	1,779
Decrease in net loans receivable	6,002	3,858
Redemption of FHLB stock	1,626	909
Capital improvements to other real estate owned	(4)	
Acquisition of premises and equipment	(119)	(18)
Net cash (used for) provided by investing activities	14,484	(24,476)

WVS FINANCIAL CORP. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS

(UNAUDITED)

(In thousands)

	Six Months Ended December 31, 2012	Six Months Ended December 31, 2011
FINANCING ACTIVITIES		
Net increase in transaction and savings accounts	$ 243	$ 2,857
Net decrease in certificates of deposit	(2,163)	(5,424)
Net decrease in advance payments by borrowers for taxes and insurance	(187)	(199)
Net decrease in brokered CDs		(248)
Repayments of Federal Home Loan Bank long-term advances		(5,000)
Net increase (decrease) in FHLB short-term advances	(14,554)	32,693
Cash dividends paid	(165)	(165)
Net cash provided by (used for) financial activities	(16,826)	24,514
Increase (decrease) in cash and cash equivalents	(404)	275
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	2,506	1,960
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	$ 2,102	$ 2,235
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the period for:		
Interest on deposits, escrows and borrowings	$ 763	$ 821
Income taxes	$ 346	$ 387
Non-cash items:		
Educational Improvement Tax Credit	$ 107	$ 95
Mortgage Loans Transferred to Real Estate Owned	$	$ 182

See accompanying notes to unaudited consolidated financial statements.

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WVS FINANCIAL CORP. AND SUBSIDIARY

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions for Form 10-Q and therefore do not include information or footnotes necessary for a complete presentation of financial condition, results of operations, and cash flows in conformity with U.S. generally accepted accounting principles. However, all adjustments (consisting only of normal recurring adjustments) which, in the opinion of management, are necessary for a fair presentation have been included. The results of operations for the three and six months ended December 31, 2012, are not necessarily indicative of the results which may be expected for the entire fiscal year.

2. RECENT ACCOUNTING PRONOUNCEMENTS

In December 2011, the FASB issued ASU 2011-10, *Property, Plant, and Equipment (Topic 360): Derecognition of in Substance Real Estate-a Scope Clarification.* The amendments in this Update affect entities that cease to have a controlling financial interest in a subsidiary that is in substance real estate as a result of default on the subsidiary s nonrecourse debt. Under the amendments in this Update, when a parent (reporting entity) ceases to have a controlling financial interest in a subsidiary that is in substance real estate as a result of default on the subsidiary s nonrecourse debt, the reporting entity should apply the guidance in Subtopic 360-20 to determine whether it should derecognize the in substance real estate. Generally, a reporting entity would not satisfy the requirements to derecognize the in substance real estate before the legal transfer of the real estate to the lender and the extinguishment of the related nonrecourse indebtedness. That is, even if the reporting entity ceases to have a controlling financial interest under Subtopic 810-10, the reporting entity would continue to include the real estate, debt, and the results of the subsidiary s operations in its consolidated financial statements until legal title to the real estate is transferred to legally satisfy the debt. The amendments in this Update should be applied on a prospective basis to deconsolidation events occurring after the effective date. Prior periods should not be adjusted even if the reporting entity has continuing involvement with previously derecognized in substance real estate entities. For public entities, the amendments in this Update are effective for fiscal years, and interim periods within those years, beginning on or after June 15, 2012. Early adoption is permitted. This ASU is not expected to have a significant impact on the Company s financial statements.

In December 2011, the FASB issued ASU 2011-11, *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities*. The amendments in this Update affect all entities that have financial instruments and derivative instruments that are either (1) offset in accordance with either Section 210-20-45 or Section 815-10-45 or (2) subject to an enforceable master netting arrangement or similar agreement. The requirements amend the disclosure requirements on offsetting in Section 210-20-50. This information will enable users of an entity s financial statements to evaluate the effect or potential effect of netting arrangements on an entity s financial position, including the effect or potential effect of rights of setoff associated with certain financial instruments and derivative instruments in the scope of this Update. An entity is required to apply the amendments for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the disclosures required by those amendments retrospectively for all comparative periods presented. This ASU is not expected to have a significant impact on the Company s financial statements.

In December 2011, the FASB issued ASU 2011-12, *Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05*. In order to defer only those changes in Update 2011-05 that relate to the presentation of reclassification adjustments, the paragraphs in this Update supersede certain pending paragraphs in Update 2011-05. Entities should continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before Update 2011-05. All other requirements in

Update 2011-05 are not affected by this Update, including the requirement to report comprehensive income either in a single continuous financial statement or in two separate but consecutive financial statements. Public entities should apply these requirements for fiscal years, and interim periods within those years, beginning after December 15, 2011. Nonpublic entities should begin applying these requirements for fiscal years ending after December 15, 2012, and interim and annual periods thereafter. The Company has provided the necessary disclosure in the Consolidated Statement of Comprehensive Income.

In July, 2012, the FASB issued ASU 2012-02, *Intangibles Goodwill and Other (Topic 350) Testing Indefinite-Lived Intangible Assets for Impairment*. ASU 2012-02 give entities the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that an indefinite-lived intangible asset is impaired. If, after assessing the totality of events or circumstances, an entity determines it is more likely than not that an indefinite-lived intangible asset is impaired, then the entity must perform the quantitative impairment test. If, under the quantitative impairment test, the carrying amount of the intangible asset exceeds its fair value, an entity should recognize an impairment loss in the amount of that excess. Permitting an entity to assess qualitative factors when testing indefinite-lived intangible assets for impairment results in guidance that is similar to the goodwill impairment testing guidance in ASU 2011-08. ASU 2012-02 is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012 (early adoption permitted). This ASU is not expected to have a significant impact on the Company s financial statements.

In October, 2012, the FASB issued ASU 2012-06, *Business Combinations (Topic 805) Subsequent Accounting for an Indemnification Asset Recognized at the Acquisition Date as a Result of a Government-Assisted Acquisition of a Financial Institution*. ASU 2012-06 requires that when a reporting entity recognizes an indemnification asset (in accordance with Subtopic 805-20) as a result of a government assisted acquisition of a financial institution and subsequently a change in the cash flows expected to be collected on the indemnification asset occurs (as a result of a change in cash flows expected to be collected on the assets subject to indemnification), the reporting entity should subsequently account for the change in the measurement of the indemnification asset on the same basis as the change in the assets subject to indemnification. Any amortization of changes in value should be limited to the contractual term of the indemnification agreement (that is, the lesser of the term of the indemnification agreement and the remaining life of the indemnified assets). ASU 2012-06 is effective for fiscal years, and interim periods within those years, beginning on or after December 15, 2012. Early adoption is permitted. The amendments should be applied prospectively to any new indemnification assets acquired after the date of adoption and to indemnification assets existing as of the date of adoption arising from a government-assisted acquisition of a financial institution. This ASU is not expected to have a significant impact on the Company s financial statements.

In January 2013, the FASB issued ASU 2013-01, *Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities*. The amendments clarify that the scope of Update 2011-11 applies to derivatives accounted for in accordance with Topic 815, *Derivatives and Hedging*, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with Section 210-20-45 or Section 815-10-45 or subject to an enforceable master netting arrangement or similar agreement. An entity is required to apply the amendments for fiscal years beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the required disclosures retrospectively for all comparative periods presented. The effective date is the same as the effective date of Update 2011-11. This ASU is not expected to have a significant impact on the Company s financial statements.

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3. EARNINGS PER SHARE

The following table sets forth the computation of the weighted-average common shares used to calculate basic and diluted earnings per share.

	Three Months Ended December 31,		Six Months Ended December 31,	
	2012	2011	2012	2011
Weighted average common shares outstanding	3,805,636	3,805,636	3,805,636	3,805,636
Average treasury stock shares	(1,747,706)	(1,747,706)	(1,747,706)	(1,747,706)
Weighted average common shares and common stock equivalents used to calculate basic earnings per share	2,057,930	2,057,930	2,057,930	2,057,930
Additional common stock equivalents (stock options) used to calculate diluted earnings per share				
Weighted average common shares and common stock equivalents used to calculate diluted earnings per share	2,057,930	2,057,930	2,057,930	2,057,930

There are no convertible securities that would affect the numerator in calculating basic and diluted earnings per share; therefore, net income as presented on the Consolidated Statement of Income is used.

At December 31, 2012, there were 114,519 options outstanding with an exercise price of $16.20 which were anti-dilutive for the three and six month periods. At December 31, 2011 there were 124,519 options outstanding with an exercise price of $16.20 which were anti-dilutive for the three and six month periods.

4. STOCK BASED COMPENSATION DISCLOSURE

The Company s 2008 Stock Incentive Plan (the Plan), which was approved by shareholders in October 2008, permits the grant of stock options or restricted shares to its directors and employees for up to 152,000 shares (up to 38,000 restricted shares may be issued). Option awards are generally granted with an exercise price equal to the market price of the Company s stock at the date of grant; those option awards generally vest over five years of continuous service and have ten-year contractual terms.

During the six month periods ended December 31, 2012 and 2011, the Company recorded $11 thousand and $10 thousand, respectively, in compensation expense related to our share-based compensation awards. As of December 31, 2012, there was approximately $17 thousand of unrecognized compensation cost related to unvested share-based compensation awards granted in fiscal 2009. That cost is expected to be recognized over the next thirteen months.

The cash flows from the tax benefits resulting from tax deductions in excess of the compensation cost recognized for stock-based awards (excess tax benefits) are classified as financing cash flows.

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For purposes of computing results, the Company estimated the fair values of stock options using the Black-Scholes option-pricing model. The model requires the use of subjective assumptions that can materially affect fair value estimates. The fair value of each option is amortized into compensation expense on a straight line basis between the grant date for the option and each vesting date. The fair value of each stock option granted was estimated using the following weighted-average assumptions:

Assumptions			
Volatility	7.49%	to	11.63%
Interest Rates	2.59%	to	3.89%
Dividend Yields	3.94%	to	4.02%
Weighted Average Life (in years)	10		

The Company had 31,552 non-vested stock options outstanding at December 31, 2012, and 57,374 unvested stock options outstanding at December 31, 2011. There were no stock options exercised or issued during the six months ended December 31, 2012 and 2011.

5. INVESTMENT SECURITIES

The amortized cost and fair values of investments are as follows:

December 31, 2012	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(Dollars in Thousands)		
AVAILABLE FOR SALE				
Corporate debt securities	$ 74,309	$ 379	$ (7)	$ 74,681
Foreign debt securities[1]	4,435	17		4,452
Total	$ 78,744	$ 396	$ (7)	$ 79,133

December 31, 2012	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(Dollars in Thousands)		
HELD TO MATURITY				
U.S. government agency securities	$ 27,709	$ 51	$ (1)	$ 27,759
Corporate debt securities	18,751	1,198		19,949
Foreign debt securities[1]	2,001	55		2,056
Total	$ 48,461	$ 1,304	$ (1)	$ 49,764

[1] U.S. dollar-denominated investment-grade corporate bonds of large foreign issuers.

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June 30, 2012	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(Dollars in Thousands)		
AVAILABLE FOR SALE				
Corporate debt securities	$ 55,965	$ 116	$ (129)	$ 55,952
Foreign debt securities[1]	1,671		(3)	1,668
Total	$ 57,636	$ 116	$ (132)	$ 57,620

June 30, 2012	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(Dollars in Thousands)		
HELD TO MATURITY				
U.S. government agency securities	$ 57,588	$ 131	$ (4)	$ 57,715
Corporate debt securities	22,810	1,442		24,252
Foreign debt securities[1]	2,002	90		2,092
Total	$ 82,400	$ 1,663	$ (4)	$ 84,059

During the six months ended December 31, 2012, and 2011, the Company recorded gross realized investment security gains of $8 thousand, and $0, respectively. Proceeds from sales of investment securities during the six months ended December 31, 2012 and 2011, were $1.891 million and $0, respectively.

The amortized cost and fair values of debt securities at December 31, 2012, by contractual maturity, are shown below. Expected maturities may differ from the contractual maturities because issuers may have the right to call securities prior to their final maturities.

	Due in one year or less	Due after one through two years	Due after two through three years	Due after three through five years	Due after five through ten years	Due after ten years	Total
				(Dollars in Thousands)			
AVAILABLE FOR SALE							
Amortized cost	$ 30,677	$ 36,161	$ 9,745	$ 1,171	$ 990	$	$ 78,744
Fair value	30,780	36,370	9,828	1,171	984		79,133
HELD TO MATURITY							
Amortized cost	$ 12,942	$ 2,271	$ 998	$ 2,962	$ 1,579	$ 27,709	$ 48,461
Fair value	13,282	2,381	1,118	3,270	1,954	27,759	49,764

At December 31, 2012, investment securities with amortized costs of $21.7 million and fair values of $21.7 million were pledged to secure public deposits, and borrowings with the Federal Home Loan Bank. Of the securities pledged, $21.7 million of fair value was excess collateral. At June 30, 2012, investment securities with amortized costs of $27.8 million and fair values of $27.9 million were pledged to secure public deposits, and borrowings with the Federal Home Loan Bank. Of the securities pledged, $19.0 million of fair value was excess collateral. Excess collateral is maintained to support future borrowings and may be withdrawn by the Company at any time.

1 U.S. dollar-denominated investment-grade corporate bonds of large foreign issuers.

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6. MORTGAGE-BACKED SECURITIES

Mortgage-backed securities (MBS) include mortgage pass-through certificates (PCs) and collateralized mortgage obligations (CMOs). With a pass-through security, investors own an undivided interest in the pool of mortgages that collateralize the PCs. Principal and interest is passed through to the investor as it is generated by the mortgages underlying the pool. PCs and CMOs may be insured or guaranteed by Freddie Mac (FHLMC), Fannie Mae (FNMA) and the Government National Mortgage Association (GNMA). CMOs may also be privately issued with varying degrees of credit enhancements. A CMO reallocates mortgage pool cash flow to a series of bonds (called traunches) with varying stated maturities, estimated average lives, coupon rates and prepayment characteristics.

The Company s CMO portfolio is comprised of two segments: CMO s backed by U.S. Government Agencies (Agency CMO s) and CMO s backed by single-family whole loans not guaranteed by a U.S. Government Agency (Private-Label CMO s).

At December 31, 2012, the Company s Agency CMO s totaled $76.2 million as compared to $69.1 million at June 30, 2012. The Company s private-label CMO s totaled $5.3 million at December 31, 2012 as compared to $9.9 million at June 30, 2012. The $2.4 million increase in the CMO segment of our MBS portfolio was primarily due to purchases of U.S. Government Agency CMO s totaling $47.0 million which more than offset repayments on our Agency CMO s totaling $39.9 million and $5.1 million in repayments on our private-label CMO s. During the six months ended December 31, 2012, the Company received principal payments totaling $5.1 million on its private-label CMO s. At December 31, 2012, approximately $81.5 million or 100.0% (book value) of the Company s MBS portfolio, including CMO s, were comprised of adjustable or floating rate investments, as compared to $79.0 million or 100.0% at June 30, 2012. Substantially all of the Company s floating rate MBS adjust monthly based upon changes in the one month London Interbank Offered Rate (LIBOR). The Company has no investment in multi-family or commercial real estate based MBS.

Due to prepayments of the underlying loans, and the prepayment characteristics of the CMO traunches, the actual maturities of the Company s MBS are expected to be substantially less than the scheduled maturities.

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The following table sets forth information with respect to the Company s private-label CMO portfolio as of December 31, 2012. At the time of purchase, all of our private-label CMO s were rated in the highest investment category by at least two ratings agencies.

		At December 31, 2012					
			Rating		Book Value	Fair Value[1]	Life to Date Impairment Recorded in Earnings
Cusip #	Security Description	S&P	Moody s	Fitch	(Dollars in Thousands)		
05949A2H2	BOAMS 2005-3 1A6	N/A	Ba2	BBB	$ 47	$ 47	$
05949A2H2	BOAMS 2005-3 1A6	N/A	Ba2	BBB	60	60	
225458JZ2	CSFB 05-3 3A4	BBB+	N/A	BB	24	24	
225458KE7	CSFB 2005-3 3A9	BBB+	N/A	BBB	65	63	
225458KE7	CSFB 2005-3 3A9	BBB+	N/A	BBB	195	191	
12669G3A7	CWHL 2005 16 A8	N/A	B2	C	9	9	
12669G3A7	CWHL 2005 16 A8	N/A	B2	C	16	15	
12669G3A7	CWHL 2005 16 A8	N/A	B2	C	21	21	
12669G3A7	CWHL 2005 16 A8	N/A	B2	C	23	23	
126694CP1	CWHL SER 21 A11	N/A	Caa2	C	2,848	3,409[2]	201
126694KF4	CWHL SER 24 A15	CC	N/A	C	387	436[2]	33
126694KF4	CWHL SER 24 A15	CC	N/A	C	775	872[2]	66
16162WLW7	CHASE SER S2 A10	N/A	B2	BBB	123	122	
16162WLW7	CHASE SER S2 A10	N/A	B2	BBB	172	171	
126694MP0	CWHL SER 26 1A5	CC	N/A	C	535	551[2]	24
					$ 5,300	$ 6,014	$ 324

The Company retained an independent third party to assist it in the determination of a fair value for three of its private-label CMO s. This valuation is meant to be a Level Three valuation as defined by ASC Topic 820, Fair Value Measurements and Disclosures. The valuation does not represent the actual terms or prices at which any party could purchase the securities. There is currently no active secondary market for private-label CMO s and there can be no assurance that any secondary market for private-label CMO s will develop. Of the five private-label CMO s not evaluated by the independent third party, all had a balance of less than $300 thousand, and all have estimated remaining lives of less than twelve months. The Company decided that the possibility of an other-than-temporary impairment is remote. The private-label CMO portfolio had three previously recorded other-than-temporary impairments at December 31, 2012. During the six months ending December 31, 2012, the Company reversed $486 thousand of non-credit unrealized holding losses on three of its private-label CMO s with other than temporary impairment (OTTI) due to principal repayments. No additional other than temporary impairments were identified during the six months ended December 31, 2012.

The Company believes that the data and assumptions used to determine the fair values are reasonable. The fair value calculations reflect relevant facts and market conditions. Events and conditions occurring after the valuation date could have a material effect on the private-label CMO segment s fair value.

For five other private-label CMO s, the Company used the fair value estimates provided by its independent third party investment accounting service. There was no OTTI associated with these five securities as of December 31, 2012 or in the past.

[1] Fair value estimate provided by the Company s independent third party accounting service, unless otherwise noted.
[2] Fair value estimate provided by the Company s independent third party valuation consultant.

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The amortized cost and fair values of mortgage-backed securities are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(Dollars in Thousands)		
December 31, 2012				
HELD TO MATURITY				
Collateralized mortgage obligations:				
Agency	$ 76,216	$ 124	$ (23)	$ 76,317
Private-label	5,300	722	(8)	6,014
Total	$ 81,516	$ 846	$ (31)	$ 82,331

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(Dollars in Thousands)		
June 30, 2012				
HELD TO MATURITY				
Collateralized mortgage obligations:				
Agency	$ 69,146	$ 99	$ (24)	$ 69,221
Private-label	9,940	740	(88)	10,592
Total	$ 79,086	$ 839	$ (112)	$ 79,813

The amortized cost and fair value of mortgage-backed securities at December 31, 2012, by contractual maturity, are shown below. Expected maturities may differ from the contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Due in one year or less	Due after one through five years	Due after five through ten years	Due after ten years	Total
			(Dollars in Thousands)		
HELD TO MATURITY					
Amortized cost	$	$	$	$ 81,516	$ 81,516
Fair value	$	$	$	$ 82,331	$ 82,331

At December 31, 2012, mortgage-backed securities with amortized costs of $76.216 million and fair values of $76.317 million were pledged to secure public deposits, and borrowings with the Federal Home Loan Bank. Of the securities pledged, $9.106 million of fair value was excess collateral. At June 30, 2012, mortgage-backed securities with amortized costs of $66.972 million and fair values of $67.043 million were pledged to secure public deposits, and borrowings with the Federal Home Loan Bank. Of the securities pledged, there was no fair value of excess collateral. Excess collateral is maintained to support future borrowings, and may be withdrawn by the Company at any time.

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7. UNREALIZED LOSSES ON SECURITIES

The following table shows the Company s gross unrealized losses and fair value, aggregated by category and length of time that the individual securities have been in a continuous unrealized loss position, at December 31, 2012 and June 30, 2012.

	December 31, 2012							
	Less Than Six Months		Six through Twelve Months		Twelve Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(Dollars in Thousands)							
U.S. government agencies securities	$	$	$	$	$ 346	$ (1)	$ 346	$ (1)
Corporate debt securities	4,842	(7)					4,842	(7)
Collateralized mortgage obligations:								
Agency	3,235	(13)	10,006	(10)			13,241	(23)
Private-label					746	(8)	746	(8)
Total	$ 8,077	$ (20)	$ 10,006	$ (10)	$ 1,092	$ (9)	$ 19,175	$ (39)

	June 30, 2012							
	Less Than Six Months		Six through Twelve Months		Twelve Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(Dollars in Thousands)							
U.S. government agencies securities	$ 7,725	$ (2)	$	$	$ 357	$ (2)	$ 8,082	$ (4)
Corporate debt securities	17,670	(61)	2,001	(68)			19,671	(129)
Foreign debt securities[1]	1,093	(2)	575	(1)			1,668	(3)
Collateralized mortgage obligations:								
Agency	11,279	(12)	272	(1)	11,260	(11)	22,811	(24)
Private-label	624	(4)			3,838	(84)	4,462	(88)
Total	$ 38,391	$ (81)	$ 2,848	$ (70)	$ 15,455	$ (97)	$ 56,694	$ (248)

For debt securities, impairment is considered to be other than temporary if an entity (1) intends to sell the security, (2) more likely than not will be required to sell the security before recovering its amortized cost basis, or (3) does not expect to recover the security s entire amortized cost basis (even if the entity does not intend to sell the security). In addition, impairment is considered to be other than temporary if the present value of cash flows expected to be collected from the debt security is less than the amortized cost basis of the security (any such shortfall is referred to as a credit loss).

The Company evaluates outstanding available-for-sale and held-to-maturity securities in an unrealized loss position (i.e., impaired securities) for OTTI on a quarterly basis. In doing so, the Company considers many factors including, but not limited to: the credit ratings assigned to the securities by the Nationally Recognized Statistical Rating Organizations (NRSROs); other indicators of the credit quality of the issuer; the strength of the provider of any guarantees; the length of time and extent that fair value has been less than amortized cost; and whether the Company has the intent to sell the security or more likely than not will be required to sell the security before its anticipated recovery. In the case of its private label residential MBS, the Company also considers prepayment speeds, the historical and projected performance of the underlying loans and the credit support provided by the subordinate securities. These evaluations are inherently subjective and consider a number of quantitative and qualitative factors.

[1] U.S. dollar-denominated investment-grade corporate bonds of large foreign issuers.

The following table presents a roll-forward of the credit loss component of the amortized cost of mortgage-backed securities that we have written down for OTTI and the credit component of the loss that is recognized in earnings. OTTI recognized in earnings for credit impaired mortgage-backed securities is presented as additions in two components based upon whether the current period is the first time the mortgage-backed security was credit-impaired (initial credit impairment) or is not the first time the mortgage-backed security was credit impaired (subsequent credit impairments). The credit loss component is reduced if we sell, intend to sell or believe that we will be required to sell previously credit-impaired mortgage-backed securities. Additionally, the credit loss component is reduced if we receive cash flows in excess of what we expected to receive over the remaining life of the credit impaired mortgage-backed securities, the security matures or is fully written down.

	Three Months Ended December 31,		Six Months Ended December 31,	
	2012	2011	2012	2011
	(In thousands)			
Beginning balance	$ 324	$ 218	$ 324	$ 194
Initial credit impairment				24
Subsequent credit impairment		106		106
Reductions for amounts recognized in earnings due to intent or requirement to sell				
Reductions for securities sold				
Reduction for increase in cash flows expected to be collected				
Ending Balance	$ 324	$ 324	$ 324	$ 324

During the quarter and six months ended December 31, 2012, the Company recorded no credit impairment charge and no non-credit unrealized holding loss to accumulated other comprehensive income. During the quarter and six months ended December 31, 2012, the Company was able to accrete back into other comprehensive income $174 thousand and $320 thousand, respectively, (net of income tax effect of $90 thousand and $165 thousand, respectively), based on principal repayments on private-label CMO s previously identified with OTTI.

In the case of its private label residential CMO s that exhibit adverse risk characteristics, the Company employs models to determine the cash flows that it is likely to collect from the securities. These models consider borrower characteristics and the particular attributes of the loans underlying the securities, in conjunction with assumptions about future changes in home prices and interest rates, to predict the likelihood a loan will default and the impact on default frequency, loss severity and remaining credit enhancement. A significant input to these models is the forecast of future housing price changes for the relevant states and metropolitan statistical areas, which are based upon an assessment of the various housing markets. In general, since the ultimate receipt of contractual payments on these securities will depend upon the credit and prepayment performance of the underlying loans and, if needed, the credit enhancements for the senior securities owned by the Company, the Company uses these models to assess whether the credit enhancement associated with each security is sufficient to protect against likely losses of principal and interest on the underlying mortgage loans. The development of the modeling assumptions requires significant judgment.

In conjunction with our adoption of ASC Topic 820 effective June 30, 2009, the Company retained an independent third party to assist it with assessing three investments within the private label CMO portfolio at December 31, 2012. For the other five private-label CMO s, the Company used the fair value estimates provided by its independent third party investment accounting service at December 31, 2012. There was no OTTI associated with these five securities at December 31, 2012 or in the past. The independent third parties utilized certain assumptions for producing the cash flow analyses used in the OTTI assessment. Key assumptions would include interest rates, expected market participant spreads and discount rates, housing prices, projected future delinquency levels and assumed loss rates on any liquidated collateral.

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The Company reviewed the independent third party s assumptions used in the December 31, 2012 OTTI process. Based on the results of this review, the Company deemed the independent third party s assumptions to be reasonable and adopted them. However, different assumptions could produce materially different results, which could impact the Company s conclusions as to whether an impairment is considered other-than-temporary and the magnitude of the credit loss. Management believes that no additional private-label CMO s in the portfolio had an other-than-temporary impairment at December 31, 2012, keeping the total at three private-label CMO s with OTTI at December 31, 2012.

If the Company intends to sell an impaired debt security, or more likely than not will be required to sell the security before recovery of its amortized cost basis, the impairment is other-than-temporary and is recognized currently in earnings in an amount equal to the entire difference between fair value and amortized cost. The Company does not anticipate selling its private-label CMO portfolio, nor does management believe that the Company will be required to sell these securities before recovery of this amortized cost basis.

In instances in which the Company determines that a credit loss exists but the Company does not intend to sell the security and it is not more likely than not that the Company will be required to sell the security before the anticipated recovery of its remaining amortized cost basis, the OTTI is separated into (1) the amount of the total impairment related to the credit loss and (2) the amount of the total impairment related to all other factors (i.e., the noncredit portion). The amount of the total OTTI related to the credit loss is recognized in earnings and the amount of the total OTTI related to all other factors is recognized in accumulated other comprehensive loss. The total OTTI is presented in the Consolidated Statement of Income with an offset for the amount of the total OTTI that is recognized in accumulated other comprehensive loss. Absent the intent or requirement to sell a security, if a credit loss does not exist, any impairment is considered to be temporary.

Regardless of whether an OTTI is recognized in its entirety in earnings or if the credit portion is recognized in earnings and the noncredit portion is recognized in other comprehensive income (loss), the estimation of fair values has a significant impact on the amount(s) of any impairment that is recorded.

The noncredit portion of any OTTI losses on securities classified as available-for-sale is adjusted to fair value with an offsetting adjustment to the carrying value of the security. The fair value adjustment could increase or decrease the carrying value of the security. All of the Company s private-label CMOs were originally, and continue to be classified, as held to maturity.

In periods subsequent to the recognition of an OTTI loss, the other-than-temporarily impaired debt security is accounted for as if it had been purchased on the measurement date of the OTTI at an amount equal to the previous amortized cost basis less the credit-related OTTI recognized in earnings. For debt securities for which credit-related OTTI is recognized in earnings, the difference between the new cost basis and the cash flows expected to be collected is accreted into interest income over the remaining life of the security in a prospective manner based on the amount and timing of future estimated cash flows.

The Company has investments in 10 positions that are impaired at December 31, 2012, including 3 positions in private-label collateralized mortgage obligations. Based on its analysis, management has concluded that three private-label CMO s are other-than-temporarily impaired, while the remaining securities portfolio has experienced unrealized losses and a decrease in fair value due to interest rate volatility, illiquidity in the marketplace, or credit deterioration in the U.S. mortgage markets.

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8. LOANS AND RELATED ALLOWANCE FOR LOAN LOSSES

The following table summarizes the primary segments of the loan portfolio as of December 31, 2012 and June 30, 2012.

	December 31, 2012			June 30, 2012		
	Total Loans	Individually evaluated for impairment	Collectively evaluated for impairment	Total Loans	Individually evaluated for impairment	Collectively evaluated for impairment
	(Dollars in Thousands)					
First mortgage loans:						
1 4 family dwellings	$ 12,672	$	$ 12,672	$ 13,514	$	$ 13,514
Construction	4,481	701	3,780	4,997	701	4,296
Land acquisition & development	1,927		1,927	2,029		2,029
Multi-family dwellings	2,877		2,877	5,083		5,083
Commercial	6,233		6,233	7,623		7,623
Consumer Loans						
Home equity	1,275		1,275	1,402		1,402
Home equity lines of credit	2,089	150	1,939	2,188	150	2,038
Other	235		235	286		286
Commercial Loans	2,016		2,016	2,222		2,222
Obligations (other than securities and leases) of states and political subdivisions				500		500
	$ 33,805	$ 851	$ 32,954	$ 39,844	$ 851	$ 38,993
Less: Deferred loan fees	(6)			(26)		
Allowance for loan losses	(336)			(385)		
Total	$ 33,463			$ 39,433		

Impaired loans are loans for which it is probable the Company will not be able to collect all amounts due according to the contractual terms of the loan agreement. The following loan categories are collectively evaluated for impairment. First mortgage loans: 1 4 family dwellings and all consumer loan categories (home equity, home equity lines of credit and other). The following loan categories are individually evaluated for impairment. First mortgage loans: construction, land acquisition and development, multi-family dwellings and commercial. The Company evaluates commercial loans not secured by real property individually for impairment.

The definition of impaired loans is not the same as the definition of nonaccrual loans, although the two categories overlap. The Company may choose to place a loan on nonaccrual status due to payment delinquency or uncertain collectability, while not classifying the loan as impaired if the loan is not a commercial or commercial real estate loan. Factors considered by management in determining impairment include payment status and collateral value. The amount of impairment for these types of impaired loans is determined by the difference between the present value of the expected cash flows related to the loan, using the original interest rate, and its recorded value, or as a practical expedient in the case of collateralized loans, the difference between the fair value of the collateral and the recorded amount of the loans. When foreclosure is probable, impairment is measured based on the fair value of the collateral.

Loans that experience insignificant payment delays, which are defined as 90 days or less, generally are not classified as impaired. Management determines the significance of payment delays on a case-by-case basis taking into consideration all circumstances surrounding the loan and the borrower, including the length of the delay, the borrower s prior payment record, and the amount of shortfall in relation to the principal and interest owed.

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The following tables are a summary of the loans considered to be impaired as of December 31, 2012 and June 30, 2012, and the related interest income recognized for the three and six months ended December 31, 2012 and December 31, 2011:

	December 31, 2012	June 30, 2012
	(Dollars in Thousands)	
Impaired loans with an allocated allowance		
Construction loans	$ 701	$ 701
Impaired loans without an allocated allowance		
Home equity lines of credit	150	150
Total impaired loans	$ 851	$ 851
Allocated allowance on impaired loans		
Construction loans	$ 107	$ 105

	Three Months Ended		Six Months Ended	
	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
	(Dollars in Thousands)			
Average impaired loans				
Construction loans	$ 701	$ 701	$ 701	$ 1,020
Home equity lines of credit	150		150	
Total	$ 851	$ 701	$ 851	$ 1,020
Income recognized on impaired loans				
Construction loans	$	$	$	$
Home equity lines of credit	2		3	
Total	$ 2	$	$ 3	$

Total nonaccrual loans as of December 31, 2012 and June 30, 2012 and the related interest income recognized for the three and six months ended December 31, 2012 and December 31, 2011 are as follows:

	December 31, 2012	June 30, 2012
	(Dollars in Thousands)	
Principal outstanding		
1 4 family dwellings	$ 72	$ 363
Construction	701	701
Land acquisition & development	290	290
Home equity lines of credit	150	150
Total	$ 1,213	$ 1,504

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	Three Months Ended December 31, 2012	Three Months Ended December 31, 2011	Six Months Ended December 31, 2012	Six Months Ended December 31, 2011
	(Dollars in Thousands)			
Average nonaccrual loans				
1 4 family dwellings	$ 73	$ 107	$ 178	$ 396
Construction	1,056	990	1,054	1,020
Land acquisition & development	290		290	
Home equity lines of credit	150		150	346
Total	$ 1,569	$ 1,097	$ 1,672	$ 1,762
Income that would have been recognized	$ 25	$ 19	$ 52	$ 56
Interest income recognized	$ 6	$ 1	$ 47	$ 104
Interest income foregone	$ 22	$ 18	$ 31	$ 45

The Company s loan portfolio also includes troubled debt restructurings (TDR s), where economic concessions have been granted to borrowers who have experienced or are expected to experience financial difficulties. These concessions typically result from the Company s loss mitigation activities and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance or other actions. Certain TDR s are classified as nonperforming at the time of restructure and may only be returned to performing status after considering the borrower s sustained repayment performance for a reasonable period, generally six months.

When the Company modifies a loan, management evaluates any possible impairment based on the present value of expected future cash flows, discounted at the contractual interest rate of the original loan agreement, except when the sole (remaining) source of repayment for the loan is the operation or liquidation of the collateral. In these cases, management uses the current fair value of the collateral, less selling costs, instead of discounted cash flows. If management determines that the value of the modified loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount), impairment is recognized by segment or class of loan, as applicable, through an allowance estimate or a charge-off to the allowance. Segment and class status is determined by the loan s classification at origination.

The allowance for loan losses is established through provisions for loan losses charged against income. Loans deemed to be uncollectible are charged against the allowance account. Subsequent recoveries, if any, are credited to the allowance. The allowance is maintained at a level believed adequate by management to absorb estimated potential loan losses. Management s determination of the adequacy of the allowance is based on periodic evaluations of the loan portfolio considering past experience, current economic conditions, composition of the loan portfolio and other relevant factors. This evaluation is inherently subjective, as it requires material estimates that may be susceptible to significant change.

Effective December 13, 2006, the FDIC, in conjunction with the other federal banking agencies adopted a Revised Interagency Policy Statement on the Allowance for Loan and Lease Losses (ALLL). The revised policy statement revised and replaced the banking agencies 1993 policy statement on the ALLL. The revised policy statement provides that an institution must maintain an ALLL at a level that is appropriate to cover estimated credit losses on individually evaluated loans determined to be impaired, as well as estimated credit losses inherent in the remainder of the loan and lease portfolio. The banking agencies also revised the policy to ensure consistency with generally accepted accounting principles (GAAP). The revised policy statement updates the previous guidance that describes the responsibilities of the board of directors, management, and bank examiners regarding the ALLL, factors to be considered in the estimation of the ALLL, and the objectives and elements of an effective loan review system.

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Federal regulations require that each insured savings institution classify its assets on a regular basis. In addition, in connection with examinations of insured institutions, federal examiners have authority to identify problem assets and, if appropriate, classify them. There are three classifications for problem assets: substandard , doubtful and loss . Substandard assets have one or more defined weaknesses and are characterized by the distinct possibility that the insured institution will sustain some loss if the deficiencies are not corrected. Doubtful assets have the weaknesses of 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 questionable, and there is a high possibility of loss. An asset classified as loss is considered uncollectible and of such little value that continuance as an asset of the institution is not warranted. Another category designated asset watch is also utilized by the Bank for assets which do not currently expose an insured institution to a sufficient degree of risk to warrant classification as substandard, doubtful or loss. Assets classified as substandard or doubtful require the institution to establish general allowances for loan losses. If an asset or portion thereof is classified as loss, the insured institution must either establish specific allowances for loan losses in the amount of 100% of the portion of the asset classified loss, or charge-off such amount. General loss allowances established to cover possible losses related to assets classified substandard or doubtful may be included in determining an institution s regulatory capital, while specific valuation allowances for loan losses do not qualify as regulatory capital.

The Company s general policy is to internally classify its assets on a regular basis and establish prudent general valuation allowances that are adequate to absorb losses that have not been identified but that are inherent in the loan portfolio. The Company maintains general valuation allowances that it believes are adequate to absorb losses in its loan portfolio that are not clearly attributable to specific loans. The Company s general valuation allowances are within the following general ranges: (1) 0% to 5% of assets subject to special mention; (2) 5.00% to 100% of assets classified substandard; and (3) 50% to 100% of assets classified doubtful. Any loan classified as loss is charged-off. To further monitor and assess the risk characteristics of the loan portfolio, loan delinquencies are reviewed to consider any developing problem loans. Based upon the procedures in place, considering the Company s past charge-offs and recoveries and assessing the current risk elements in the portfolio, management believes the allowance for loan losses at December 31, 2012, is adequate.

The following tables present the classes of the loan portfolio summarized by the aging categories of performing loans and nonaccrual loans as of December 31, 2012 and June 30, 2012:

	Current	30 59 Days Past Due	60 89 Days Past Due	90 Days + Past Due Accruing	90 Days + Past Due Non-accrual	Total Past Due	Total Loans
				(Dollars in Thousands)			
December 31, 2012							
First mortgage loans:							
1 4 family dwellings	$ 12,329	$	$ 271	$	$ 72	$ 343	$ 12,672
Construction	7,870				701	701	4,481
Land acquisition & development	1,637				290	290	1,927
Multi-family dwellings	2,877						2,877
Commercial	6,233						6,233
Consumer Loans							
Home equity	1,275						1,275
Home equity lines of credit	1,939				150	150	2,089
Other	235						235
Commercial Loans	2,016						2,016
Obligations (other than securities and leases) of states and political subdivisions							
Subtotal	$ 32,321	$	$ 271	$	$ 1,213	$ 1,484	33,805
Less: Deferred loan fees							(6)
Allowance for loan loss							(336)
Net Loans Receivable							$ 33,463

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	Current	30 59 Days Past Due	60 89 Days Past Due	90 Days + Past Due Accruing	90 Days + Past Due Non-accrual	Total Past Due	Total Loans
				(Dollars in Thousands)			
June 30, 2012							
First mortgage loans:							
1 4 family dwellings	$ 13,151	$	$	$	$ 363	$ 363	$ 13,514
Construction	4,296				701	701	4,997
Land acquisition & development	1,739				290	290	2,029
Multi-family dwellings	5,083						5,083
Commercial	7,623						7,623
Consumer Loans							
Home equity	1,402						1,402
Home equity lines of credit	2,038				150	150	2,188
Other	286						286
Commercial Loans	2,219		3			3	2,222
Obligations (other than securities and leases) of states and political subdivisions	500						500
Subtotal	$ 38,337	$	$ 3	$	$ 1,504	$ 1,507	39,844
Less: Deferred loan fees							(26)
Allowance for loan loss							(385)
Net Loans Receivable							$ 39,433

Credit quality information

The following tables represent credit exposure by internally assigned grades for the period ended December 31, 2012. The grading system analysis estimates the capability of the borrower to repay the contractual obligations of the loan agreements as scheduled or not at all. The Company s internal credit risk grading system is based on experiences with similarly graded loans.

The Company s internally assigned grades are as follows:

Pass loans which are protected by the current net worth and paying capacity of the obligor or by the value of the underlying collateral.

Special mention loans where a potential weakness or risk exists, which could cause a more serious problem if not corrected.

Substandard loans that have a well-defined weakness based on objective evidence and can be characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Doubtful loans classified as doubtful have all the weaknesses inherent in a substandard loan. In addition, these weaknesses make collection or liquidation in full highly questionable and improbable, based on existing circumstances.

Loss loans classified as loss are considered uncollectible, or of such value that continuance as a loan is not warranted.

The primary credit quality indicator used by Management in the 1 4 family and consumer loan portfolios is the performance status of the loans. Payment activity is reviewed by Management on a monthly basis to determine how loans are performing. Loans are considered to be non-performing when they become 90 days delinquent, have a history of delinquency, or have other inherent characteristics which Management deems to be weaknesses.

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The following tables presents the Company s internally classified construction, land acquisition and development, multi-family residential, commercial real estate and commercial (not secured by real estate) loans at December 31, 2012 and June 30, 2012.

	December 31, 2012					
	Construction	Land Acquisition & Development Loans	Multi-family Residential	Commercial Real Estate	Commercial	Obligations (other than securities and leases) of states and political subdivisions
	(Dollars in Thousands)					
Pass	$ 3,780	$ 1,637	$ 2,877	$ 6,233	$ 2,016	$
Special Mention						
Substandard	701	290				
Doubtful						
Ending Balance	$ 4,481	$ 1,927	$ 2,877	$ 6,233	$ 2,016	$

	June 30, 2012					
	Construction	Land Acquisition & Development Loans	Multi-family Residential	Commercial Real Estate	Commercial	Obligations (other than securities and leases) of states and political subdivisions
	(Dollars in Thousands)					
Pass	$ 4,296	$ 1,739	$ 5,083	$ 7,623	$ 2,219	$ 500
Special Mention						
Substandard	701	290				
Doubtful					3	
Ending Balance	$ 4,997	$ 2,029	$ 5,083	$ 7,623	$ 2,222	$ 500

The following table presents performing and non-performing 1 4 family residential and consumer loans based on payment activity for the periods ended December 31, 2012 and June 30, 2012.

	December 31, 2012	
	1 4 Family	Consumer
	(Dollars in Thousands)	
Performing	$ 12,600	$ 3,449
Non-performing	72	150
Total	$ 12,672	$ 3,599

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	June 30, 2012	
	1 4 Family	Consumer
	(Dollars in Thousands)	
Performing	$ 13,151	$ 3,726
Non-performing	363	150
Total	$ 13,514	$ 3,876

The Company determines its allowance for loan losses in accordance with generally accepted accounting principles. The Company uses a systematic methodology as required by Financial Reporting Release No. 28 and the various Federal Financial Institutions Examination Council guidelines. The Company also endeavors to adhere to SEC Staff Accounting Bulletin No. 102 in connection with loan loss allowance methodology and documentation issues.

Our methodology used to determine the allocated portion of the allowance is as follows. For groups of homogenous loans, we apply a loss rate to the groups aggregate balance. Our group loss rate reflects our historical loss experience. We may adjust these group rates to compensate for changes in environmental factors; but our adjustments have not been frequent due to a relatively stable charge-off experience. The Company also monitors industry loss experience on similar loan portfolio segments. We then identify loans for individual evaluation under ASC Topic 310. If the individually identified loans are performing, we apply a segment specific loss rate adjusted for relevant environmental factors, if necessary, for those loans reviewed individually and considered individually impaired, we use one of the three methods for measuring impairment mandated by ASC Topic 310. Generally the fair value of collateral is used since our impaired loans are generally real estate based. In connection with the fair value of collateral measurement, the Company generally uses an independent appraisal and determines costs to sell. The Company s appraisals for commercial income based loans, such as multi-family and commercial real estate loans, assess value based upon the operating cash flows of the business as opposed to merely as built values. The Company then validates the reasonableness of our calculated allowances by: (1) reviewing trends in loan volume, delinquencies, restructurings and concentrations; (2) reviewing prior period (historical) charge-offs and recoveries; and (3) presenting the results of this process, quarterly, to the Asset Classification Committee and the Savings Bank s Board of Directors. We then tabulate, format and summarize the current loan loss allowance balance for financial and regulatory reporting purposes.

The Company had no unallocated allowance for loan losses balance at December 31, 2012.

The allowance for loan losses represents the amount which management estimates is adequate to provide for probable losses inherent in its loan portfolio. The allowance method is used in providing for loan losses. Accordingly, all loan losses are charged to the allowance, and all recoveries are credited to it. The allowance for loan losses is established through a provision for loan losses charged to operations. The provision for loan losses is based on management s periodic evaluation of individual loans, economic factors, past loan loss experience, changes in the composition and volume of the portfolio, and other relevant factors. The estimates used in determining the adequacy of the allowance for loan losses, including the amounts and timing of future cash flows expected on impaired loans, are particularly susceptible to changes in the near term.

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The following tables present the activity in the allowance for loan losses for the three and six month periods ended December 31, 2012 and 2011.

	As of December 31, 2012							
	First Mortgage Loans							
	1 4 Family	Construction	Land Acquisition & Development	Multi-family	Commercial	Consumer Loans	Commercial Loans	Total
	(Dollars in Thousands)							
Beginning ALLL Balance at September 30, 2012	$ 27	$ 142	$ 16	$ 25	$ 80	$ 57	$ 14	$ 361
Charge-offs								
Recoveries								
Provisions	(1)	(19)			(3)	(1)	(1)	(25)
Ending ALLL Balance at December 31, 2012	$ 26	$ 123	$ 16	$ 25	$ 77	$ 56	$ 13	$ 336

	As of December 31, 2012							
	First Mortgage Loans							
	1 4 Family	Construction	Land Acquisition & Development	Multi-family	Commercial	Consumer Loans	Commercial Loans	Total
	(Dollars in Thousands)							
Beginning ALLL Balance at June 30, 2012	$ 73	$ 122	$ 21	$ 26	$ 76	$ 53	$ 14	$ 385
Charge-offs								
Recoveries								
Provisions	(47)	1	(5)	(1)	1	3	(1)	(49)
Ending ALLL Balance at December 31, 2012	$ 26	$ 123	$ 16	$ 25	$ 77	$ 56	$ 13	$ 336

	As of December 31, 2011							
	First Mortgage Loans							
	1 4 Family	Construction	Land Acquisition & Development	Multi-family	Commercial	Consumer Loans	Commercial Loans	Total
	(Dollars in Thousands)							
Beginning ALLL Balance at September 30, 2011	$ 79	$ 135	$ 32	$ 27	$ 79	$ 59	$ 60	$ 471
Charge-offs								
Recoveries								
Provisions	(6)	12	(18)	(1)	(2)	4	(9)	(20)
Ending ALLL Balance at December 31, 2011	$ 73	$ 147	$ 14	$ 26	$ 77	$ 63	$ 51	$ 451

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	As of December 31, 2011							
	First Mortgage Loans							
	1 4 Family	Construction	Land Acquisition & Development	Multi-family	Commercial	Consumer Loans	Commercial Loans	Total
	(Dollars in Thousands)							
Beginning ALLL Balance at June 30, 2011	$ 87	$ 243	$ 55	$ 27	$ 79	$ 85	$ 54	$ 630
Charge-offs		(140)						(140)
Recoveries								
Provisions	(14)	44	(41)	(1)	(2)	(22)	(3)	(39)
Ending ALLL Balance at December 31, 2011	$ 73	$ 147	$ 14	$ 26	$ 77	$ 63	$ 51	$ 451

The following tables summarize the primary segments of the ALLL, segregated into the amount required for loans individually evaluated for impairment and the amount required for loans collectively evaluated for impairment as of December 31, 2012 and June 30, 2012.

	As of December 31, 2012							
	First Mortgage Loans							
	1 4 Family	Construction	Land Acquisition & Development	Multi-family	Commercial	Consumer Loans	Commercial Loans	Total
	(Dollars in Thousands)							
Individually evaluated for impairment	$	$ 107	$	$	$	$	$	$ 107
Collectively evaluated for impairment	26	16	16	25	77	56	13	229
	$ 26	$ 123	$ 16	$ 25	$ 77	$ 56	$ 13	$ 336

	As of June 30, 2012							
	First Mortgage Loans							
	1 4 Family	Construction	Land Acquisition & Development	Multi-family	Commercial	Consumer Loans	Commercial Loans	Total
	(Dollars in Thousands)							
Individually evaluated for impairment	$	$ 105	$	$	$	$	$	$ 105
Collectively evaluated for impairment	73	17	21	26	76	53	14	280
	$ 73	$ 122	$ 21	$ 26	$ 76	$ 53	$ 14	$ 385

9. FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for an asset or liability in an orderly transaction between market participants at the measurement date. GAAP established a fair value hierarchy that prioritizes the use of inputs used in valuation methodologies into the following three levels:

Level I: Quoted prices are available in active markets for identical assets or liabilities as of the reported date.

Level II: Pricing inputs are other than the quoted prices in active markets, which are either directly or indirectly observable as of the reported date. The nature of these assets and liabilities includes items for which quoted prices are available but traded less frequently and items that are fair-valued using other financial instruments, the parameters of which can be directly observed.

Level III: Assets and liabilities that have little to no pricing observability as of the reported date. These items do not have two-way markets and are measured using management s best estimate of fair value, where the inputs into the determination of fair value require significant management judgment or estimation.

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Assets Measured at Fair Value on a Recurring Basis

Investment Securities Available-for-Sale

Fair values for securities available for sale are determined by obtaining quoted prices on nationally recognized securities exchanges or 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. The Company has no Level 1 or Level 3 investment securities. Level 2 investment securities were primarily comprised of investment-grade corporate bonds and U.S. dollar-denominated investment-grade corporate bonds of large foreign issuers.

The following tables present the assets reported on a recurring basis on the consolidated balance sheet at their fair value as of December 31, 2012 and June 30, 2012, by level within the fair value hierarchy. As required by GAAP, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	December 31, 2012			
	Level I	Level II	Level III	Total
	(Dollars in Thousands)			
Assets Measured on a Recurring Basis:				
Investment securities available for sale:				
Corporate securities	$	$ 74,681	$	$ 74,681
Foreign debt securities[1]		4,452		4,452
	$	$ 79,133	$	$ 79,133

	June 30, 2012			
	Level I	Level II	Level III	Total
	(Dollars in Thousands)			
Assets Measured on a Recurring Basis:				
Investment securities available for sale:				
Corporate securities	$	$ 55,952	$	$ 55,952
Foreign debt securities[1]		1,668		1,668
	$	$ 57,620	$	$ 57,620

Assets Measured at Fair Value on a Nonrecurring Basis

The Company may be required, from time to time, to measure certain financial assets and financial liabilities at fair value on a nonrecurring basis in accordance with U.S. generally accepted accounting principles. These include assets that are measured at the lower of cost or market value that were recognized at fair value below cost at the end of the period.

[1] U.S. dollar-denominated investment-grade corporate bonds of large foreign issuers.

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Impaired Loans

Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures impairment in accordance with ASC Topic 310. The fair value of impaired loans is estimated using one of several methods, including collateral value, liquidation value and discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. Collateral values are estimated using Level II inputs based on observable market data or Level III inputs based on customized discounting criteria. For a majority of impaired real estate related loans, the Company obtains a current external appraisal. Other valuation techniques are used as well, including internal valuations, comparable property analysis and contractual sales information. The Company has no Level 1 or Level 2 impaired loans. Level 3 impaired loans were primarily comprised of one single-family residential construction loan.

Real Estate Owned

Real estate acquired through foreclosure or deed in lieu of foreclosure is carried at fair value less estimated costs to sell. Any reduction from the carrying value of the related loan to fair value at the time of acquisition is accounted for as a loan loss. Any subsequent reduction in fair market value is reflected as a valuation allowance through a charge to income. Costs of significant property improvements are capitalized, whereas costs relating to holding and maintaining the property, are charged to expense.

The Company has no Level 1 or Level 2 real estate owned. Level 3 real estate owned was comprised of one single-family residential property.

The following tables present the assets reported on a non-recurring basis on the consolidated balance sheet at their fair value as of December 31, 2012 and June 30, 2012, by level within the fair value hierarchy. As required by GAAP, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	December 31, 2012			
	Level I	Level II	Level III	Total
	(Dollars in Thousands)			
Assets Measured on a Non-recurring Basis:				
Impaired loans	$	$	$ 744	$ 744
Real estate owned			239	239
Total	$	$	$ 983	$ 983

	June 30, 2012			
	Level I	Level II	Level III	Total
	(Dollars in Thousands)			
Assets Measured on a Non-recurring Basis:				
Impaired loans	$	$	$ 746	$ 746
Real estate owned			235	235
Total	$	$	$ 981	$ 981

Assets measured on a non-recurring basis include impaired loans and real estate owned. The Company used appraised collateral values for the valuation technique less estimated selling costs ranging from 5% to 20%, which represents the unobservable inputs.

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The Company classifies financial instruments in Level III of the fair-value hierarchy when there is reliance on at least one significant unobservable input to the valuation model. In addition to these unobservable inputs, the valuation model for Level III financial instruments typically also rely on a number of inputs that are readily observable, either directly or indirectly. The following table represents the changes in the measured Level III fair-value category for the six month period ended December 31, 2012.

	Impaired Loans	Real Estate Owned	Total
		(Dollars in Thousands)	
Beginning balance July 1, 2012	$ 746	$ 235	$ 981
Total net realized/unrealized gains (losses)			
Included in earnings			
Net realized losses on securities held-to-maturity			
Included in other comprehensive income			
Net unrealized gains on securities held-to-maturity			
Transfers into Level III		4	4
Transfers out of Level III			
Other principal paydowns received	(2)		(2)
Ending balance December 31, 2012	$ 744	$ 239	$ 983

10. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts and estimated fair values are as follows:

	December 31, 2012 Carrying Amount	Fair Value	Level 1	Level 2	Level 3
			(Dollars in Thousands)		
FINANCIAL ASSETS					
Cash and cash equivalents	$ 2,102	$ 2,102	$ 2,102	$	$
Certificates of deposit	597	597	597		
Investment securities available for sale	79,133	79,133		79,133	
Investment securities held to maturity	81,516	82,331		82,331	
Mortgage-backed securities held to maturity					
Agency	76,216	76,317		76,317	
Private-label	5,300	6,014		746	5,268
Net loans receivable	33,463	36,487			36,487
Accrued interest receivable	1,648	1,648	1,648		
FHLB stock	5,969	5,969	5,969		
FINANCIAL LIABILITIES					
Deposits					
Non-interest bearing deposits	$ 15,738	$ 15,738	$ 15,738	$	$
NOW accounts	21,063	21,063	21,063		
Savings Accounts	39,727	39,727	39,727		
Money market accounts	23,798	23,798	23,798		
Certificates of deposit	39,345	39,569			39,569
Advance payments by borrowers for taxes and insurance	395	395	395		
FHLB long-term advances	17,500	18,956			18,956
FHLB short-term advances	64,716	64,716	64,716		
Accrued interest payable	231	231	231		

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	June 30, 2012 Carrying Amount	Fair Value	Level 1	Level 2	Level 3
	(Dollars in Thousands)				
FINANCIAL ASSETS					
Cash and cash equivalents	$ 2,506	$ 2,506	$ 2,506	$	$
Certificates of deposit	846	846	846		
Investment securities available for sale	57,620	57,620		57,620	
Investment securities held to maturity	82,400	84,059		84,059	
Mortgage-backed securities held to maturity					
Agency	69,146	69,221		69,221	
Private-label	9,940	10,592		1,148	9,444
Net loans receivable	39,443	43,942			43,942
Accrued interest receivable	1,621	1,621	1,621		
FHLB stock	7,595	7,595	7,595		
FINANCIAL LIABILITIES					
Deposits					
Non-interest bearing deposits	$ 15,642	$ 15,642	$ 15,642	$	$
NOW accounts	20,834	20,834	20,834		
Savings Accounts	39,770	39,770	39,770		
Money market accounts	23,837	23,837	23,837		
Certificates of deposit	41,508	41,805			41,805
Advance payments by borrowers for taxes and insurance	582	582	582		
FHLB long-term advances	17,500	19,187			19,187
FHLB short-term advances	79,270	79,270	79,270		
Accrued interest payable	257	257	257		

Financial instruments are defined as cash, evidence of an ownership interest in an entity, or a contract which creates an obligation or right to receive or deliver cash or another financial instrument from or to a second entity on potentially favorable or unfavorable terms.

Fair value is defined as the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. If a quoted market price is available for a financial instrument, the estimated fair value would be calculated based upon the market price per trading unit of the instrument.

If no readily available market exists, the fair value estimates for financial instruments should be based upon management s judgment regarding current economic conditions, interest rate risk, expected cash flows, future estimated losses, and other factors, as determined through various option pricing formulas or simulation modeling. As many of these assumptions result from judgments made by management based upon estimates, which are inherently uncertain, the resulting estimated values may not be indicative of the amount realizable in the sale of a particular financial instrument. In addition, changes in the assumptions on which the estimated values are based may have a significant impact on the resulting estimated values.

As certain assets and liabilities, such as deferred tax assets, premises and equipment, and many other operational elements of the Company, are not considered financial instruments, but have value, this estimated fair value of financial instruments would not represent the full market value of the Company.

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Estimated fair values have been determined by the Company using the best available data, as generally provided in internal Savings Bank regulatory, or third party valuation reports, using an estimation methodology suitable for each category of financial instruments. The estimation methodologies used are as follows:

Cash and Cash Equivalents, Certificates of Deposit, Accrued Interest Receivable and Payable, and FHLB Short-term Advances

The fair value approximates the current carrying value.

Investment Securities, Mortgage-Backed Securities, and FHLB Stock

The fair value of investment and mortgage-backed securities is equal to the available quoted market price. If no quoted market price is available, fair value is estimated using the quoted market price for similar securities. For discussion of valuation of private-label CMOs, see Note 7 Unrealized Losses on Securities . Since the FHLB stock is not actively traded on a secondary market and held exclusively by member financial institutions, the estimated fair market value approximates the carrying amount.

Net Loans Receivable and Deposits

Fair value for consumer mortgage loans is estimated using market quotes or discounting contractual cash flows for prepayment estimates. Discount rates were obtained from secondary market sources, adjusted to reflect differences in servicing, credit, and other characteristics.

The estimated fair values for consumer, fixed-rate commercial, and multi-family real estate loans are estimated by discounting contractual cash flows for prepayment estimates. Discount rates are based upon rates generally charged for such loans with similar credit characteristics.

The estimated fair value for nonperforming loans is the appraised value of the underlying collateral adjusted for estimated credit risk.

Demand, savings, and money market deposit accounts are reported at book value. The fair value of certificates of deposit is based upon the discounted value of the contractual cash flows. The discount rate is estimated using average market rates for deposits with similar average terms.

FHLB Long-term Advances

The fair values of fixed-rate advances are estimated using discounted cash flows, based on current incremental borrowing rates for similar types of borrowing arrangements. The carrying amount on variable rate advances approximates their fair value.

Commitments to Extend Credit

These financial instruments are generally not subject to sale, and estimated fair values are not readily available. The carrying value, represented by the net deferred fee arising from the unrecognized commitment, and the fair value, determined by discounting the remaining contractual fee over the term of the commitment using fees currently charged to enter into similar agreements with similar credit risk, is not considered material for disclosure.

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ITEM 2.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE AND SIX MONTHS ENDED DECEMBER 31, 2012

FORWARD LOOKING STATEMENTS

In the normal course of business, we, in an effort to help keep our shareholders and the public informed about our operations, may from time to time issue or make certain statements, either in writing or orally, that are or contain forward-looking statements, as that term is defined in the U.S. federal securities laws. Generally, these statements relate to business plans or strategies, projected or anticipated benefits from acquisitions made by or to be made by us, projections involving anticipated revenues, earnings, profitability or other aspects of operating results or other future developments in our affairs or the industry in which we conduct business. Forward-looking statements may be identified by reference to a future period or periods or by the use of forward-looking terminology such as anticipated, believe, expect, intend, plan, estimate or simila expressions.

Although we believe that the anticipated results or other expectations reflected in our forward-looking statements are based on reasonable assumptions, we can give no assurance that those results or expectations will be attained. Forward-looking statements involve risks, uncertainties and assumptions (some of which are beyond our control), and as a result actual results may differ materially from those expressed in forward-looking statements. Factors that could cause actual results to differ from forward-looking statements include, but are not limited to, the following, as well as those discussed elsewhere herein:

our investments in our businesses and in related technology could require additional incremental spending, and might not produce expected deposit and loan growth and anticipated contributions to our earnings;

general economic or industry conditions could be less favorable than expected, resulting in a deterioration in credit quality, a change in the allowance for loan losses or a reduced demand for credit or fee-based products and services;

changes in the interest rate environment could reduce net interest income and could increase credit losses;

the conditions of the securities markets could change, which could adversely affect, among other things, the value or credit quality of our assets, the availability and terms of funding necessary to meet our liquidity needs and our ability to originate loans and leases;

changes in the extensive laws, regulations and policies governing financial holding companies and their subsidiaries could alter our business environment or affect our operations;

the potential need to adapt to industry changes in information technology systems, on which we are highly dependent, could present operational issues or require significant capital spending;

competitive pressures could intensify and affect our profitability, including as a result of continued industry consolidation, the increased availability of financial services from non-banks, technological developments such as the internet or bank regulatory reform; and

acts or threats of terrorism and actions taken by the United States or other governments as a result of such acts or threats, including possible military action, could further adversely affect business and economic conditions in the United States generally and in our principal markets, which could have an adverse effect on our financial performance and that of our borrowers and on the financial markets and the price of our common stock.

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You should not put undue reliance on any forward-looking statements. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update them in light of new or future events except to the extent required by federal securities laws.

GENERAL

WVS Financial Corp. (the Company) is the parent holding company of West View Savings Bank (West View or the Savings Bank). The Company was organized in July 1993 as a Pennsylvania-chartered unitary bank holding company and acquired 100% of the common stock of the Savings Bank in November 1993.

West View Savings Bank is a Pennsylvania-chartered, FDIC-insured stock savings bank conducting business from six offices in the North Hills suburbs of Pittsburgh. The Savings Bank converted from the mutual to the stock form of ownership in November 1993. The Savings Bank had no subsidiaries at December 31, 2012.

The operating results of the Company depend primarily upon its net interest income, which is determined by the difference between income on interest-earning assets, principally loans, mortgage-backed securities and investment securities, and interest expense on interest-bearing liabilities, which consist primarily of deposits and borrowings. The Company s net income is also affected by its provision for loan losses, as well as the level of its non-interest income, including loan fees and service charges, and its non-interest expenses, such as compensation and employee benefits, income taxes, deposit insurance and occupancy costs.

FINANCIAL CONDITION

The Company s assets totaled $254.8 million at December 31, 2012, as compared to $273.3 million at June 30, 2012. The $18.5 million or 6.8% decrease in total assets was primarily comprised of a $33.9 million decrease in investment securities held to maturity, a $6.0 million decrease in net loans receivable, and a $1.6 million decrease in Federal Home Loan Bank (FHLB) stock, which were partially offset by a $21.5 million increase in investment securities available for sale, and a $2.4 million increase in mortgage-backed securities held to maturity. The decrease in investment securities held to maturity was primarily due to maturities/redemptions of U.S. Government agency step-up bonds and investment grade corporate bonds totaling $29.9 million and $4.0 million, respectively. The decrease in FHLB stock was due to the continued redemption of excess stock by the FHLB of Pittsburgh. The increase in investment securities available for sale was primarily due to purchases of fixed-rate investment grade corporate bonds totaling $25.7 million, floating-rate investment grade corporate bonds totaling $4.5 million, fixed rate U.S. dollar denominated investment grade foreign bonds totaling $1.7 million, and floating rate U.S. dollar denominated investment grade foreign bonds totaling $1.2 million, which were partially offset by maturities/redemptions of investment grade corporate bonds totaling $7.6 million. The increase in mortgage-backed securities was primarily due to purchases of floating-rate U.S. Government agency CMO s totaling $47.0 million, which was partially offset by repayments on floating-rate U.S. Government agency CMO s and floating-rate private label CMO s totaling $39.9 million and $5.1 million, respectively. See Asset and Liability Management .

The Company s total liabilities decreased $19.7 million or 8.1% to $223.2 million as of December 31, 2012 from $242.9 million as of June 30, 2012. The $19.7 million decrease in total liabilities was primarily comprised of a $14.6 million or 18.4% decrease in short-term FHLB advances, a $3.0 million or 80.3% decrease in other liabilities, and a $2.1 million or 1.5% decrease in total savings deposits. The decrease in FHLB short-term advances was primarily a result of paydowns associated with cash flow from the maturities/redemptions of investments and mortgage-backed securities. The decrease in total deposits was primarily the result of a decrease in certificates of deposit. The decrease in other liabilities was primarily due to the funding of a $2.8 million commitment to purchase three fixed-rate investment grade corporate bonds. See also Asset and Liability Management .

Total stockholders equity increased $1.1 million or 3.8% to $31.6 million as of December 31, 2012, from approximately $30.4 million as of June 30, 2012. The increase was primarily attributable to Company net income of $711 thousand and other comprehensive income totaling $588 thousand, for the six months ended December 31, 2012, which were partially offset by cash dividends totaling $165 thousand. Other comprehensive income was primarily attributable to a $320 thousand (net of tax effect) reversal of unrealized holding losses on three private-label CMO s with previously identified OTTI, and a $268 thousand (net of tax effect) of unrealized holding gains on the Company s available for sale investment portfolio.

RESULTS OF OPERATIONS

General. WVS reported net income of $325 thousand or $0.16 earnings per share (basic and diluted), and $711 thousand or $0.35 earnings per share (basic and diluted) for the three and six months ended December 31, 2012, respectively. Net income increased by $121 thousand or 59.3% and earnings per share (basic and diluted) increased $0.06 or 60.0% for the three months ended December 31, 2012, when compared to the same period in 2011. The increase in net income for the three months ended December 31, 2012 was primarily attributable to a $207 thousand increase in non-interest income, a $25 thousand decrease in income tax expense, and a $5 thousand change in the recovery of loan losses, which were partially offset by a $85 thousand decrease in net interest income, and a $31 thousand increase in non-interest expense. For the six months ended December 31, 2012, net income increased $97 thousand, or 15.8% and earnings per share (basic and diluted) increased $0.05 or 16.7%, when compared to the same period in 2011. The increase in net income for the six months ended December 31, 2012, was primarily attributable to a $238 thousand increase in non-interest income, a $40 thousand decrease in income tax expense, a $10 thousand change in the recovery of loan losses, and a $13 thousand decrease in non-interest expense, which were partially offset by a $301 thousand decrease in net-interest income.

Net Interest Income. The Company s net interest income decreased by $85 thousand or 6.7% for the three months ended December 31, 2012, when compared to the same period in 2011. The decrease in net interest income is attributable to a $89 thousand decrease in interest income, which was partially offset by a $4 thousand decrease in interest expense. The decrease in interest income was primarily due to lower realized yields on the Company s investment and loan portfolios and lower average balances on the Company s loan portfolio for the quarter ended December 31, 2012, which were partially offset by higher average balances of investment and mortgage-backed securities, when compared to the same period in 2011. The decrease in interest expense was primarily attributable to lower rates paid on the Company s deposits which was partially offset by an increase in interest expense on FHLB short-term advances due to higher average balances of FHLB short-term advances during the quarter ended December 31, 2012, when compared to the same period in 2011. For the six months ended December 31, 2012, net interest income decreased $301 thousand or 11.0% when compared to the same period in 2011. The decrease in net-interest income was primarily attributable to a $340 thousand decrease in interest income, which was partially offset by a $39 thousand decrease in interest expense. The decrease in interest income was primarily due to lower realized yields on the Company s investment and loan portfolios and lower average balances on the Company s loan portfolio for the six months ended December 31, 2012, which were partially offset by higher average balances of investment and mortgage-backed securities, when compared to the same period in 2011. The decrease in interest expense was primarily attributable to lower rates paid on the Company s deposits and lower average balances of deposits and FHLB long-term advances, which were partially offset by higher average balances and rates paid on FHLB short-term advances, during the six months ended December 31, 2012, when compared to the same period in 2011.

Interest Income. Interest income on net loans receivable decreased $164 thousand or 23.0%, and $438 thousand or 27.8% for the three and six months ended December 31, 2012, respectively, when compared to the same periods in 2011. The decrease for the three months ended December 31, 2012 was primarily attributable to a $10.4 million decrease in the average balance of net loans receivable outstanding, and a decrease of 2 basis points in the weighted average yield earned on net loans receivable for the three months ended December 31, 2012, when compared to the same period in 2011. The decrease in the average balance of loans outstanding was primarily attributable to lower construction loans outstanding, payoffs on non-accrual loans, and repayments on performing loans in excess of originations. The decrease in the yield on loans was primarily attributable to payoffs of higher yielding construction loans, which was

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partially offset by $6 thousand of interest collections on non-accrual loans during the three months ended December 31, 2012. The decrease for the six months ended December 31, 2012, was primarily attributable to a $10.3 million decrease in the average balance of net loans receivable outstanding, and a 28 basis point decrease in the weighted average yield earned on net loans receivable for the six months ended December 31, 2012, when compared to the same period in 2011. The six months ended December 31, 2011, also included collection of past due interest and late charges on paid-off non-accrual loans of approximately $110 thousand.

Interest income on FDIC insured bank certificates of deposit decreased $7 thousand or 77.8% and $15 thousand or 78.9% for the three and six months ended December 31, 2012, respectively, when compared to the same periods in 2011. The decrease for the three months ended December 31, 2012 was primarily attributable to a $2.3 million decrease in the average portfolio balance of certificates of deposit and a 5 basis point decrease in the weighted average yield earned when compared to the same period in 2011. The decrease for the six months ended December 31, 2012 was primarily attributable to a $2.5 million decrease in the average portfolio balance of certificates of deposit and a 12 basis point decrease in the weighted average yield earned when compared to the same period in 2011. The certificates have remaining maturities ranging from two to twenty-one months. Due to decreases in yields in this investment sector, the Company has decided to limit reinvestments in certificates of deposit and to redeploy maturities and early issuer redemptions to other investment portfolio segments.

Interest income on mortgage-backed securities increased $12 thousand or 5.1% and $28 thousand or 6.0% for the three and six months ended December 31, 2012, respectively, when compared to the same periods in 2011. The increase for the three months ended December 31, 2012 was primarily attributable to a 4 basis point increase in the weighted average yield earned on private-label mortgage-backed securities, and to a $19.1 million increase in the average balance of U.S. Government agency mortgage-backed securities outstanding, which were partially offset by a $12.5 million decrease in the average balance of private-label mortgage-backed securities outstanding, and a 5 basis point decrease in the weighted average yield earned on U.S. Government agency mortgage-backed securities for the three months ended December 31, 2012, when compared to the same period in 2011. The increase for the six months ended December 31, 2012 was primarily attributable to a $18.4 million increase in the average balance of U.S. Government agency mortgage-backed securities outstanding, and a 6 basis point increase in the weighted average yield earned on private-label mortgage-backed securities, which were partially offset by a $12.7 million decrease in the average balance of private-label mortgage-backed securities outstanding and a 4 basis point decrease in the weighted average yield earned on U.S. Government agency mortgage-backed securities for the six months ended December 31, 2012, when compared to the same period in 2011. The decrease in the average balances of private-label mortgage-backed securities during the three and six months ended December 31, 2012 was attributable to principal paydowns of private-label mortgage-backed securities during the periods. The increase in the average balance of U.S. Government agency mortgage-backed securities for the three and six months ended December 31, 2012, was primarily attributable to purchases of U.S. Government agency mortgage-backed securities totaling $23.5 million and $47.0 million, respectively, during the three and six months, which was partially offset by repayments of $24.1 million and $39.9 million, respectively, on the U.S. Government agency mortgage-backed securities portfolio, during the three and six months ended December 31, 2012.

Interest income on investment securities increased $62 thousand or 9.0% and $75 thousand or 5.2% for the three and six months ended December 31, 2012, respectively, when compared to the same periods in 2011. The increase for the three months ended December 31, 2012 was primarily attributable to a $59.2 million increase in the average balance of investment securities outstanding, which was partially offset by a 95 basis point decrease in the weighted average yield on investment securities, when compared to the same period in 2011. The increase for the six months ended December 31, 2012 was primarily attributable to a $66.2 million increase in the average balance of investment securities outstanding, which was partially offset by a 131 basis point decrease in the weighted average yield on investment securities, when compared to the same period in 2011.

Interest income on FHLB stock totaled $8 thousand and $10 thousand for the three and six months ended December 31, 2012, as compared to $0 and $0, respectively, for the same periods in 2011. The increases for both periods in 2012 were attributable to the Federal Home Loan Bank of Pittsburgh s payment of a dividend on its common stock during the quarters ended September 30, 2012 and December 31, 2012. In December 2008, the FHLB of Pittsburgh announced that it was suspending payments of dividends and redemptions of excess capital stock from members. The FHLB s stated purpose of these actions was to build retained earnings to ensure adequate regulatory capital. Beginning in the December 2010 quarter, the FHLB began redeeming excess capital stock from members. Redemptions of excess FHLB stock totaling $899 thousand and $1.6 million were recorded for the three and six months ended December 31, 2012, respectively. The FHLB restarted paying dividends on the FHLB stock in March 2012.

Interest Expense. Interest expense on deposits and escrows decreased $39 thousand or 28.1% and $83 thousand or 28.6% for the three and six months ended December 31, 2012, when compared to the same periods in 2011. The decrease in interest expense on deposits for the three months ended December 31, 2012 was primarily attributable to a 22 basis point decrease in the weighted average rate paid on time deposits, a $3.2 decrease in the average balance of time deposits, a 6 basis point decrease in the weighted average rate paid on savings accounts, and a 6 basis point decrease in the weighted average rate paid on money market accounts. The decrease in interest expense on deposits for the six months ended December 31, 2012 was primarily attributable to an 18 basis point decrease in the weighted average rate paid on time deposits, a $4.6 decrease in the average balance of time deposits, a 7 basis point decrease in the weighted average rate paid on savings accounts, and a 6 basis point decrease in the weighted average rate paid on money market accounts, when compared to the same period in 2011.

Interest paid on FHLB advances increased $35 thousand or 15.2% and $44 thousand or 9.1% for the three and six months ended December 31, 2012, respectively, when compared to the same periods in 2011. The increase for the three months ended December 31, 2012 was primarily attributable to a $49.2 million increase in the average balance of FHLB short-term advances outstanding and a 6 basis point increase in the weighted average rate paid on FHLB short-term advances, when compared to the same period in 2011. The increase for the six months ended December 31, 2012, was primarily attributable to a $56.0 million increase in the average balance of, and a 6 basis point increase in the weighted average rate paid on, short-term FHLB advances, which were partially offset by a $1.3 million decrease in the average balance of, and a 3 basis point decrease in the weighted average rate paid on, FHLB long-term advances, when compared to the same period in 2011. The decrease in the average balances of fixed-rate legacy long-term FHLB advances during the six months ended December 31, 2011, were due to repayments at maturity.

Recovery of Loan Losses. A provision for loan losses is charged to earnings to maintain the total allowance at a level considered adequate by management to absorb potential losses in the portfolio. Management s determination of the adequacy of the allowance is based on an evaluation of the portfolio considering past experience, current economic conditions, volume, growth and composition of the loan portfolio, and other relevant factors.

Recoveries for loan losses increased $5 thousand and $10 thousand for the three and six months ended December 31, 2012, respectively, when compared to the same periods in 2011. The change in the recoveries for loan losses was primarily attributable to lower levels of non-performing loans. At December 31, 2012, the Company s total allowance for loan losses amounted to $336 thousand or 1.0% of the Company s total loan portfolio, as compared to $385 thousand or 1.0% at June 30, 2012. At December 31, 2012, the Company s non-performing loans totaled $1.2 million as compared to $1.5 million at June 30, 2012.

Non-Interest Income. Non-interest income increased by $207 thousand or 1,150.0% and $238 thousand or 201.7% for the three and six months ended December 31, 2012, respectively, when compared to the same periods in 2011. The increase for the three months ended December 31, 2012 was primarily attributable to the absence of a $106 thousand other-than-temporary impairment charge on one private-label mortgage-backed security recorded in the quarter ended December 31, 2011 and a $117 thousand recognized gain on the sale of other real-estate owned, which were partially offset by a $6 thousand decrease in service charges on deposits in the quarter ended December 31, 2012, when compared to the same period in 2011. The increase for the six months ended December 31, 2012 was primarily attributable to the absence of a $131 thousand other-than-temporary impairment charge on two private-label mortgage-backed securities recorded in the six months ended December 31, 2011, and a $117 thousand recognized gain on the sale of other real-estate owned, which were partially offset by a $14 thousand decrease in service charges on deposits during the six months ended December 31, 2012, when compared to the same period in 2011.

Non-Interest Expense. Non-interest expense increased $31 thousand or 3.5% and decreased $13 thousand or 0.7% for the three and six months ended December 31, 2012, respectively, when compared to the same periods in 2011. The increase for the three months ended December 31, 2012 was principally attributable to a $22 thousand increase in charitable contributions eligible for PA tax credits, a $12 thousand increase in legal expenses and a $5 thousand increase in NOW account expense, which were partially offset by a $21 thousand decrease in Federal Deposit Insurance Corporation (FDIC) deposit insurance expense, when compared to the same period in 2011. The decrease for the six months ended December 31, 2012 was primarily attributable to a $42 thousand decrease in FDIC deposit insurance expense, and a $10 thousand decrease in correspondent bank service charges, which were partially offset by a $19 thousand increase in employee related expenses and a $10 thousand increase in charitable contributions eligible for PA tax credits, when compared to the same period in 2011.

Income Tax Expense. Income tax expense decreased $25 thousand and $137 thousand for the three and six months ended December 31, 2012, respectively, when compared to the same periods in 2011. The decrease for the three and six months ended December 31, 2012 was primarily due to lower levels of taxable income, when compared to the same periods in 2011, and the use of PA tax credits.

LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operating activities totaled $1.9 million during the six months ended December 31, 2012. Net cash provided by operating activities was primarily comprised of Company net income of $711 thousand, $1.4 million of amortization of investment premiums, a $314 thousand decrease in deferred income taxes, and $47 thousand of depreciation expense, which were partially offset by $588 thousand of other comprehensive income, and a $50 thousand recovery of loan losses.

Funds provided by for investing activities totaled $14.5 million during the six months ended December 31, 2012. Primary uses of funds during the six months ended December 31, 2012 were purchases of investment securities available for sale totaling $33.0 million and mortgage-backed securities held to maturity of $47.0 million. Primary sources of funds during the six months ended December 31, 2012 consisted of proceeds from investments and mortgage-backed securities within the held to maturity portfolio totaling $33.9 million and $45.1 million, respectively, proceeds from investment securities in the available for sale portfolio of $7.7 million, $6.0 million of net loan repayments, and $1.6 million of FHLB stock redemptions. During the six months ended December 31, 2012, the Company continued to increase the available for sale allocation to bolster balance sheet liquidity due to turmoil in the global financial markets while seeking to earn additional net interest income.

Funds used for financing activities totaled $16.8 million for the six months ended December 31, 2012. The primary uses included a $14.6 million decrease in FHLB short-term borrowings, a $2.2 million decrease in retail certificates of deposit, a $185 thousand decrease in escrow accounts, and $165 thousand in cash dividends paid on the Company s common stock. The $14.6 million decrease in FHLB short-term borrowings was primarily funded by maturities/redemptions of investment and mortgage-backed securities. Management believes that a significant portion of our local maturing deposits will remain with the Company.

The Company s primary sources of funds are deposits, amortization, repayments and maturities of existing loans, mortgage-backed securities and investment securities, funds from operations, and funds obtained through FHLB advances and other borrowings. Certificates of deposit scheduled to mature in one year or less at December 31, 2012 totaled $28.3 million.

Historically, the Company used its sources of funds primarily to meet its ongoing commitments to pay maturing savings certificates and savings withdrawals, fund loan commitments and maintain a substantial portfolio of investment securities. At December 31, 2012, total approved loan commitments outstanding were $941 thousand. At the same date, commitments under unused lines of credit amounted to $5.8 million and the unadvanced portion of construction loans approximated $3.5 million. The Company has been able to generate sufficient cash through the retail deposit market, its traditional funding source, and through FHLB

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advances, and other borrowings, to provide the cash utilized in investing activities. The Company s available for sale segment of the investment portfolio totaled $79.1 million at December 31, 2012. Management believes that the Company currently has adequate liquidity available to respond to liquidity demands.

On January 28, 2013, the Company s Board of Directors declared a cash dividend of $0.04 per share payable February 21, 2013, to shareholders of record at the close of business on February 11, 2013. Dividends are subject to determination and declaration by the Board of Directors, which take into account the Company s financial condition, statutory and regulatory restrictions, general economic conditions and other factors. There can be no assurance that dividends will in fact be paid on the Common Stock in future periods or that, if paid, such dividends will not be reduced or eliminated.

As of December 31, 2012, WVS Financial Corp. exceeded all regulatory capital requirements and maintained Tier I and total risk-based capital equal to $32.4 million or 20.6% and $32.7 million or 20.9%, respectively, of total risk-weighted assets, and Tier I leverage capital of $32.4 million or 11.5% of average quarterly assets.

Nonperforming assets consist of nonaccrual loans and real estate owned. A loan is placed on nonaccrual status when, in the judgment of management, the probability of collection of interest is deemed insufficient to warrant further accrual. When a loan is placed on nonaccrual status, previously accrued but uncollected interest is deducted from interest income. The Company normally does not accrue interest on loans past due 90 days or more, however, interest may be accrued if management believes that it will collect on the loan.

The Company s nonperforming assets at December 31, 2012 totaled approximately $1.5 million or 0.6% of total assets as compared to $1.7 million or 0.6% of total assets at June 30, 2012. Nonperforming assets at December 31, 2012 consisted of: two single-family real estate loans totaling $72 thousand, one single-family construction loan totaling $701 thousand, one single-family real estate owned property totaling $239 thousand, one land loan totaling $290 thousand, and one home equity line of credit totaling $150 thousand. The loans are in various stages of collection activity and the real estate owned property is being marketed for sale.

The $286 thousand decrease in nonperforming assets during the six months ended December 31, 2012 was primarily attributable to the payoff of one non-accrual single-family real estate loan totaling $288 thousand.

During the three and six months ended December 31, 2012, the Company collected $6 thousand and $47 thousand, respectively, of interest income on non-accrual loans that were paid off or brought current. Approximately $25 thousand and $52 thousand of interest income would have been recorded during the three and six months ended December 31, 2012, on non-accrual loans if such loans had been current according to the original loan agreements for the entire periods. These amounts were not included in the Company s interest income for the three and six months ended December 31, 2012. The Company continues to work with the borrowers in an attempt to cure the defaults and is also pursuing various legal avenues in order to collect on these loans.

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ITEM 3.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

ASSET AND LIABILITY MANAGEMENT

The Company s primary market risk exposure is interest rate risk and, to a lesser extent, liquidity risk. All of the Company s transactions are denominated in US dollars with no specific foreign exchange exposure. The Savings Bank has no agricultural loan assets and therefore would not have a specific exposure to changes in commodity prices. Any impacts that changes in foreign exchange rates and commodity prices would have on interest rates are assumed to be exogenous and will be analyzed on an ex post basis.

Interest rate risk (IRR) is the exposure of a banking organization s financial condition to adverse movements in interest rates. Accepting this risk can be an important source of profitability and shareholder value, however excessive levels of IRR can pose a significant threat to the Company s earnings and capital base. Accordingly, effective risk management that maintains IRR at prudent levels is essential to the Company s safety and soundness.

Evaluating a financial institution s exposure to changes in interest rates includes assessing both the adequacy of the management process used to control IRR and the organization s quantitative level of exposure. When assessing the IRR management process, the Company seeks to ensure that appropriate policies, procedures, management information systems and internal controls are in place to maintain IRR at prudent levels with consistency and continuity. Evaluating the quantitative level of IRR exposure requires the Company to assess the existing and potential future effects of changes in interest rates on its consolidated financial condition, including capital adequacy, earnings, liquidity, and, where appropriate, asset quality.

Since December 2007, the global economy remained in the worst recession since the end of World War II. Many factors contributed to the recession, including: the failure, or near failure, of major financial institutions, marked declines in housing sales and prices, significant defaults in mortgage payments (particularly in the subprime sector), disruptions in global financial market liquidity, declining stock markets and increased volatility in the bond, commodity and equity markets.

As the various markets began to unravel, historical relationships between bonds, commodities and equities continued to diverge. This divergence created additional market volatility as market participants attempted to rebalance their portfolios. The world s central banks continued to intervene in order to stabilize markets, at varying times and with varying degrees of success. The degree of co-ordination and timing between central banks varied due to differing perceptions of the problem and disparate impacts within a particular country s economy. For example, the U.S. economy began to recover at a very slow and uneven rate. Domestic unemployment remained high which continued to impact the housing markets. Several governments within the Eurozone have experienced difficulty in managing their fiscal budgets.

On September 13, 2012, the FOMC issued a press release indicating that economic activity has continued to expand at a moderate pace, growth in employment has been slow and the unemployment rate remains elevated. The FOMC noted its concern that, without further policy accommodation, economic growth might not be strong enough to generate sustained improvement in labor market conditions. Strains in global financial markets continue to pose significant downside risks to the economic outlook. The FOMC also anticipates that inflation over the medium term likely would run at or below its 2 percent objective.

To support a stronger economic recovery and to help ensure that inflation, over time, is at the rate most consistent with its dual mandate to foster maximum employment and price stability, the FOMC agreed to increase policy accommodation by purchasing additional agency mortgage-backed securities at a pace of $40 billion per month. The FOMC also indicated that it would continue through the end of calendar year 2012 a program to extend the average maturity of its holdings of securities announced in

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June 2012, and it is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and mortgage-backed securities into mortgage-backed securities. These actions, which together will increase the FOMC s holdings of longer-term securities by about $85 billion each month through the end of calendar year 2012, is expected to put downward pressure on longer-term interest rates, support mortgage markets, and help to make broader financial conditions more accommodative.

The FOMC also indicated that it expects that a highly accommodative stance of monetary policy will remain appropriate for a considerable period of time after the economic recovery strengthens. The FOMC decided to keep the target range for the federal funds rate at 0 to 1/4 percent and currently anticipates that exceptionally low levels for the federal funds rate to be warranted at least through mid-2015.

On December 12, 2012, the FOMC issued a press release outlining its plans for securities purchases in calendar year 2013 and provided additional guidance for the targeted federal funds rate and the expected duration of the highly accommodative stance of monetary policy.

To support a stronger economic recovery and to help ensure that inflation, over time, is at the rate most consistent with its dual mandate, the FOMC will continue purchasing additional agency mortgage-backed securities at a pace of $40 billion per month. The FOMC also will purchase longer-term Treasury securities after its program to extend the average maturity of its holdings of Treasury securities is completed at the end of the year, initially at a pace of $45 billion per month. The FOMC is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and, in January, will resume rolling over maturing Treasury securities at auction. Taken together, these actions should maintain downward pressure on longer-term interest rates, support mortgage markets, and help to make broader financial conditions more accommodative.

The FOMC will closely monitor incoming information on economic and financial developments in coming months. If the outlook for the labor market does not improve substantially, the FOMC will continue its purchases of Treasury and agency mortgage-backed securities, and employ its other policy tools as appropriate, until such improvement is achieved in a context of price stability. In determining the size, pace, and composition of its asset purchases, the FOMC will take appropriate account of the likely efficacy and costs of such purchases.

To support continued progress toward maximum employment and price stability, the FOMC expects that a highly accommodative stance of monetary policy will remain appropriate for a considerable time after the asset purchase program ends and the economic recovery strengthens. In particular, the FOMC decided to keep the target range for the federal funds rate at 0 to 1/4 percent and currently anticipates that this exceptionally low range for the federal funds rate will be appropriate at least as long as the unemployment rate remains above 6-1/2 percent, inflation between one and two years ahead is projected to be no more than a half percentage point above the FOMC s 2 percent longer-run goal, and longer-term inflation expectations continue to be well anchored. The FOMC views these thresholds as consistent with its earlier date-based guidance. In determining how long to maintain a highly accommodative stance of monetary policy, the FOMC will also consider other information, including additional measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial developments. When the FOMC decides to begin to remove policy accommodation, it will take a balanced approach consistent with its longer-run goals of maximum employment and inflation of 2 percent.

Throughout the six months ended December 31, 2012, the Company continued to adjust its asset/liability management tactics in two ways. First, the Company increased Tier 1 capital primarily through earnings retention. Second, we substantially increased the available for sale classification of the Company s investment portfolio from $57.6 million at June 30, 2012 to $79.1 million at December 31, 2012. This allowed us to substantially bolster balance sheet liquidity while earning additional interest income. We anticipate growing our asset base to the range of $275 - $300 million during calendar year 2013, subject to economic and market conditions.

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Financial institutions derive their income primarily from the excess of interest collected over interest paid. The rates of interest an institution earns on its assets and owes on its liabilities generally are established contractually for a period of time. Since market interest rates change over time, an institution is exposed to lower profit margins (or losses) if it cannot adapt to interest-rate changes. For example, assume that an institution s assets carry intermediate- or long-term fixed rates and that those assets were funded with short-term liabilities. If market interest rates rise by the time the short-term liabilities must be refinanced, the increase in the institution s interest expense on its liabilities may not be sufficiently offset if assets continue to earn at the long-term fixed rates. Accordingly, an institution s profits could decrease on existing assets because the institution will either have lower net interest income or, possibly, net interest expense. Similar risks exist when assets are subject to contractual interest-rate ceilings, or rate sensitive assets are funded by longer-term, fixed-rate liabilities in a decreasing-rate environment.

During the fiscal year 2012, and into fiscal year 2013, intermediate and long-term market interest rates fluctuated considerably. Many central banks, including the Federal Reserve, continued above normal levels of monetary accommodation including quantitative easing and targeted asset purchase programs. The desired outcomes of these programs are to stimulate aggregate demand, reduce high levels of unemployment and to further lower market interest rates.

The table below shows the quarterly targeted federal funds rate and the benchmark two and ten year treasury yields from June 30, 2007 through December 31, 2012. The difference in yields on the two year and ten year Treasury s is often used to determine the steepness of the yield curve and to assess the term premium of market interest rates.

		Yield on:		
	Targeted Federal Funds	Two (2) Year Treasury	Ten (10) Year Treasury	Shape of Yield Curve
June 30, 2007	5.25%	4.87%	5.03%	Slightly Positive
September 30, 2007	4.75%	3.97%	4.59%	Moderately Positive
December 31, 2007	4.25%	3.05%	4.04%	Positive
March 31, 2008	2.25%	1.62%	3.45%	Positive
June 30, 2008	2.00%	2.63%	3.99%	Positive
September 30, 2008	2.00%	2.00%	3.85%	Positive
December 31, 2008	0.00% to 0.25%	0.76%	2.25%	Positive
March 31, 2009	0.00% to 0.25%	0.81%	2.71%	Positive
June 30, 2009	0.00% to 0.25%	1.11%	3.53%	Positive
September 30, 2009	0.00% to 0.25%	0.95%	3.31%	Positive
December 31, 2009	0.00% to 0.25%	1.14%	3.85%	Positive
March 31, 2010	0.00% to 0.25%	1.02%	3.84%	Positive
June 30, 2010	0.00% to 0.25%	0.61%	2.97%	Positive
September 30, 2010	0.00% to 0.25%	0.42%	2.53%	Positive
December 31, 2010	0.00% to 0.25%	0.61%	3.30%	Positive
March 31, 2011	0.00% to 0.25%	0.80%	3.46%	Positive
June 30, 2011	0.00% to 0.25%	0.45%	3.18%	Positive
September 30, 2011	0.00% to 0.25%	0.25%	1.92%	Positive
December 31, 2011	0.00% to 0.25%	0.25%	1.89%	Positive
March 31, 2012	0.00% to 0.25%	0.33%	2.23%	Positive
June 30, 2012	0.00% to 0.25%	0.33%	1.67%	Positive
September 30, 2012	0.00% to 0.25%	0.23%	1.65%	Positive
December 31, 2012	0.00% to 0.25%	0.24%	1.85%	Positive

These changes in intermediate and long-term market interest rates, the changing slope of the Treasury yield curve, and higher levels of interest rate volatility have impacted prepayments on the Company s loan, investment and mortgage-backed securities portfolios. Principal repayments on the Company s loan, investment, and mortgage-backed securities portfolios for the six months ended December 31, 2012, totaled $10.8 million, $41.6 million, and $45.1 million, respectively. Despite stagnant global interest rates and Treasury yields the Company managed its balance sheet and used proceeds from calls of U.S. Government agency bonds, repayments on its mortgage-backed securities and maturities of bank certificates of deposit, to repay FHLB short-term borrowings and to purchase investment grade corporate bonds and U.S. Government agency CMO s. In particular, the Company increased its available for sale portfolio allocation from $57.6 million at June 30, 2012 to $79.1 million at December 31, 2012. This strategy has allowed the Company to substantially improve its liquidity posture while managing overall interest rate risk and maintaining its regulatory capital ratios.

Due to the term structure of market interest rates, historically low long-term mortgage interest rates, weakness in the economy, an excess supply of existing homes available for sale, and lower levels of housing starts, the Company began to increase its portfolio originations of fixed rate mortgages with maturities of ten to thirty years while maintaining its ability to offer such loans on a correspondent basis. The Company also makes available for origination residential mortgage loans with interest rates which adjust pursuant to a designated index, although customer acceptance has been somewhat limited in the Savings Bank s market area. We expect that the housing market will modestly improve throughout the remainder of fiscal 2013. The Company will continue to selectively offer commercial real estate, land acquisition and development, and shorter-term construction loans (primarily on residential properties), and commercial loans on business assets to partially increase interest income while limiting credit and interest rate risk. The Company has also offered higher yielding commercial and small business loans to existing customers and seasoned prospective customers.

During the six months ended December 31, 2012, principal investment purchases were comprised of: fixed rate investment grade corporate bonds - $23.8 million with a weighted average yield of 1.51%; floating rate U.S. Government agency CMO s - $47.0 million with a weighted average yield of 1.24%; floating rate investment grade corporate bonds - $4.5 million with a weighted average yield of 1.61%; fixed rate investment grade corporate utility first mortgage bonds - $1.9 million with a weighted average yield of 1.68%; fixed rate investment grade foreign bonds - $1.7 million with a weighted average yield of 1.38% and floating-rate investment grade foreign bonds - $1.2 million with a weighted average yield of 0.64%. All of the corporate bond purchases were classified as available for sale for accounting purposes. The Company believes that this classification bolsters asset based liquidity while earning a return above the Company s cost of funds.

Major investment proceeds received during the six months ended December 31, 2012 were: callable U.S. Government agency bonds - $29.9 million with a weighted average yield of approximately 1.37%; investment grade corporate bonds - $8.0 million with a weighted average yield of approximately 2.36%; and investment grade corporate utility first mortgage bonds - $3.6 million with a weighted average yield of 3.07%.

As of December 31, 2012, the implementation of these asset and liability management initiatives resulted in the following:

1) $94.0 million or 37.3% of the Company s assets were comprised of floating rate investment and mortgage-backed securities. Of this $94.0 million, approximately $81.5 million float on a monthly basis based upon changes in the one-month London Interbank Offered Rate (LIBOR) and about $13.5 million reprice on a quarterly basis based upon the three-month LIBOR.

2) $79.1 million or 31.1% of the Company s assets were comprised of investment securities classified as available for sale;

3) $86.4 million or 41.4% of the Company s investment portfolio consisted of investment grade fixed-rate corporate bonds with remaining maturities as follows: 3 months or less - $9.0 million or 10.4%; 3 12 months - $30.1 million or 34.8%; 1 2 years - $34.0 million or 39.4%; 2 3 years - $8.7 million or 10.1%; 3 5 years - $3.0 million or 3.5%; and over 5 years - $1.6 million or 1.8%;

4) $81.5 million or 39.1% of the Company s investment portfolio was comprised of floating rate mortgage-backed securities (including collateralized mortgage obligations CMOs) that reprice on a monthly basis;

5) $27.4 million or 13.1% of the Company s investment portfolio was comprised of callable U.S. Government Agency multiple step-up bonds which are callable as follows: 1 3 months - $27.4 million or 100.0%. These bonds may or may not actually be redeemed prior to maturity (i.e. called) depending upon the level of market interest rates at their respective call dates;

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6) An aggregate of $17.7 million or 52.8% of the Company s net loan portfolio had adjustable interest rates or maturities of less than 12 months; and

7) The maturity distribution of the Company s borrowings is as follows: 3 months or less - $64.7 million or 78.7%; 1 3 years - $5.0 million or 6.1%; and 3 5 years - $12.5 million or 15.2%.

The effect of interest rate changes on a financial institution s assets and liabilities may be analyzed by examining the interest rate sensitivity of the assets and liabilities and by monitoring an institution s interest rate sensitivity gap . An asset or liability is said to be interest rate sensitive within a specific time period if it will mature or reprice within a given time period. A gap is considered positive (negative) when the amount of rate sensitive assets (liabilities) exceeds the amount of rate sensitive liabilities (assets). During a period of falling interest rates, a negative gap would tend to result in an increase in net interest income. During a period of rising interest rates, a positive gap would tend to result in an increase in net interest income.

As part of its asset/liability management strategy, the Company maintained an asset sensitive financial position due to unusually low market interest rates. An asset sensitive financial position may benefit earnings during a period of rising interest rates and reduce earnings during a period of declining interest rates.

The following table sets forth certain information at the dates indicated relating to the Company s interest-earning assets and interest-bearing liabilities which are estimated to mature or are scheduled to reprice within one year.

	December 31,	June 30,	
	2012	2012	2011
	(Dollars in Thousands)		
Interest-earning assets maturing or repricing within one year	$ 186,509	$ 180,617	$ 178,738
Interest-bearing liabilities maturing or repricing within one year	149,780	165,879	128,811
Interest sensitivity gap	$ 36,729	$ 14,738	$ 49,927
Interest sensitivity gap as a percentage of total assets	14.41%	5.39%	21.81%
Ratio of assets to liabilities maturing or repricing within one year	124.52%	108.88%	138.76%

During the six months ended December 31, 2012, the Company managed its one-year interest sensitivity gap by: (1) purchasing $47.0 million of floating-rate U.S. Government agency CMO s which reprice monthly; (2) purchasing $3.8 million of corporate bonds with maturities of one year or less; (3) purchasing $9.7 million of corporate bonds with maturities beyond one year but within two years; (4) purchasing $13.4 million of corporate bonds with maturities beyond two years but within three years; and (5) decreasing by approximately $14.6 million the Company s borrowings that mature within one year. All of the referenced corporate bond purchases were designated as available for sale for accounting purposes. These purchases further bolstered balance sheet liquidity. At December 31, 2012, investments available for sale totaled $79.1 million or 31% of total assets.

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The following table illustrates the Company s estimated stressed cumulative repricing gap the difference between the amount of interest-earning assets and interest-bearing liabilities expected to reprice at a given point in time at December 31, 2012. The table estimates the impact of an upward or downward change in market interest rates of 100 and 200 basis points.

Cumulative Stressed Repricing Gap

	Month 3	Month 6	Month 12	Month 24	Month 36	Month 60	Long Term
				(Dollars in Thousands)			
Base Case Up 200 bp							
Cumulative Gap ($ s)	$ 25,493	$ 10,732	$ 34,162	$ 51,272	$ 59,227	$ 41,144	$ 28,729
% of Total Assets	10.0%	4.2%	13.4%	20.1%	23.2%	16.1%	11.3%
Base Case Up 100 bp							
Cumulative Gap ($ s)	$ 25,963	$ 11,588	$ 35,560	$ 53,139	$ 60,884	$ 42,030	$ 28,729
% of Total Assets	10.2%	4.5%	14.0%	20.9%	23.9%	16.5%	11.3%
Base Case No Change							
Cumulative Gap ($ s)	$ 26,294	$ 12,255	$ 36,729	$ 54,917	$ 62,649	$ 43,199	$ 28,729
% of Total Assets	10.3%	4.8%	14.4%	21.6%	24.6%	17.0%	11.3%
Base Case Down 100 bp							
Cumulative Gap ($ s)	$ 26,348	$ 12,322	$ 36,915	$ 55,103	$ 62,816	$ 43,307	$ 28,729
% of Total Assets	10.3%	4.8%	14.5%	21.6%	24.7%	17.0%	11.3%
Base Case Down 200 bp							
Cumulative Gap ($ s)	$ 26,351	$ 12,329	$ 36,915	$ 55,103	$ 62,816	$ 43,307	$ 28,729
% of Total Assets	10.3%	4.8%	14.5%	21.6%	24.7%	17.0%	11.3%

The Company utilizes an income simulation model to measure interest rate risk and to manage interest rate sensitivity. The Company believes that income simulation modeling may enable the Company to better estimate the possible effects on net interest income due to changing market interest rates. Other key model parameters include: estimated prepayment rates on the Company s loan, mortgage-backed securities and investment portfolios; savings decay rate assumptions; and the repayment terms and embedded options of the Company s borrowings.

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The following table presents the simulated impact of a 100 and 200 basis point upward or downward (parallel) shift in market interest rates on net interest income, return on average equity, return on average assets and the market value of portfolio equity at December 31, 2012. This analysis was done assuming that the interest-earning assets will average approximately $277 million and $326 million over a projected twelve and twenty-four month period, respectively, for the estimated impact on change in net interest income, return on average equity and return on average assets. The estimated changes in market value of equity were calculated using balance sheet levels at December 31, 2012. Actual future results could differ materially from our estimates primarily due to unknown future interest rate changes and the level of prepayments on our investment and loan portfolios and future FDIC regular and special assessments.

Analysis of Sensitivity to Changes in Market Interest Rates

	Twelve Month Forward Modeled Change in Market Interest Rates									
	December 31, 2013					December 31, 2012				
Estimated impact on:	200	100	0	+100	+200	200	100	0	+100	+200
Change in net interest income	38.2%	35.8%		3.4%	13.2%	18.8%	17.0%		0.1%	9.8%
Return on average equity	0.58%	0.87%	4.47%	4.50%	6.26%	1.06%	1.23%	2.68%	2.83%	3.72%
Return on average assets	0.07%	0.10%	0.47%	0.54%	0.76%	0.14%	0.16%	0.31%	0.35%	0.46%
Market value of equity (in thousands)						$ 32,806	$ 33,421	$ 34,194	$ 35,193	$ 35,227

The table below provides information about the Company s anticipated transactions comprised of firm loan commitments and other commitments, including undisbursed letters and lines of credit, at December 31, 2012. The Company used no derivative financial instruments to hedge such anticipated transactions as of December 31, 2012.

Anticipated Transactions

	(Dollars in Thousands)
Undisbursed construction and land development loans	
Fixed rate	$ 1,475
	6.51%
Adjustable rate	$ 2,065
	4.97%
Undisbursed lines of credit	$ 5,809
Adjustable rate	3.80%
Loan origination commitments	
Fixed rate	$ 941
	2.22%
Letters of credit	
Adjustable rate	$ 210
	4.25%
	$ 10,500

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In the ordinary course of its construction lending business, the Savings Bank enters into performance standby letters of credit. Typically, the standby letters of credit are issued on behalf of a builder to a third party to ensure the timely completion of a certain aspect of a construction project or land development. At December 31, 2012, the Savings Bank had three performance standby letters of credit outstanding totaling approximately $210 thousand. All three performance letters of credit are secured by developed property. The letters of credit will mature within twelve months. In the event that the obligor is unable to perform its obligations as specified in the applicable letter of credit agreement, the Savings Bank would be obligated to disburse funds up to the amount specified in the letter of credit agreement. The Savings Bank maintains adequate collateral that could be liquidated to fund these contingent obligations.

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ITEM 4. CONTROLS AND PROCEDURES

As of December 31, 2012, an evaluation was performed under the supervision and with the participation of the Company s management, including the Chief Executive Officer and Chief Accounting Officer, on the effectiveness of the design and operation of the Company s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Based on that evaluation, the Company s management, including the Chief Executive Officer and Chief Accounting Officer, concluded that the Company s disclosure controls and procedures were effective as of December 31, 2012.

Disclosure controls and procedures are the controls and other procedures that are designed to ensure that the information required to be disclosed by the Company in its reports filed and submitted under the Securities Exchange Act of 1934, as amended (Exchange Act) is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in its reports filed under the Exchange Act is accumulated and communicated to the Company s management, including the principal executive officer and principal accounting officer, as appropriate to allow timely decisions regarding required disclosure.

During the quarter ended December 31, 2012, no change in the Company s internal controls over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) has occurred that has materially affected, or is reasonably likely to materially affect, the Company s internal controls over financial reporting.

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PART II - OTHER INFORMATION

ITEM 1. Legal Proceedings

(a) The Company is involved with various legal actions arising in the ordinary course of business. Management believes the outcome of these matters will have no material effect on the consolidated operations or consolidated financial condition of WVS Financial Corp.

(b) Not applicable.

ITEM 1A. Risk Factors

There are no material changes to the risk factors included in Item 1A of the Company s Annual Report on Form 10-K for the fiscal year ended June 30, 2012.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a) Not applicable.

(b) Not applicable.

(c) Not applicable.

ITEM 3. Defaults Upon Senior Securities

Not applicable.

ITEM 4. Mine Safety Disclosures

Not applicable.

ITEM 5. Other Information

(a) Not applicable.

(b) Not applicable.

ITEM 6. Exhibits

The following exhibits are filed as part of this Form 10-Q, and this list includes the Exhibit Index.

Number	Description	Page
31.1	Rule 13a-14(a) / 15d-14(a) Certification of the Chief Executive Officer	E-1
31.2	Rule 13a-14(a) / 15d-14(a) Certification of the Chief Accounting Officer	E-2
32.1	Section 1350 Certification of the Chief Executive Officer	E-3
32.2	Section 1350 Certification of the Chief Accounting Officer	E-4
99	Report of Independent Registered Public Accounting Firm	E-5
101.INS	XBRL Instance Document*	
101.SCH	XBRL Taxonomy Extension Schema Document*	

101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document*
101.DEF	XBRL Taxonomy Extension Definitions Linkbase Document*

* These interactive files shall not be deemed filed for purposes of Section 11 or 12 of the Securities Act of 1933, as amended, or Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability under those sections.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

		WVS FINANCIAL CORP.
February 12, 2013	BY:	/s/ David J. Bursic
Date		David J. Bursic
		President and Chief Executive Officer
		(Principal Executive Officer)
February 12, 2013	BY:	/s/ Keith A. Simpson
Date		Keith A. Simpson
		Vice-President, Treasurer and Chief Accounting Officer
		(Principal Accounting Officer)