CHARTER FINANCIAL CORP/GA
Form 10-Q
August 12, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2011

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 No. 001-34889

Charter Financial Corporation
(Exact name of registrant as specified in its charter)

United States (State or other jurisdiction of incorporation or organization)	58-2659667 (I.R.S. Employer Identification Number)
1233 O.G. Skinner Drive, West Point, Georgia (Address of Principal Executive Offices)	31833 Zip Code

(706) 645-1391
(Registrant’s telephone number)

N/A
(Former name or former address, if changed since last report)

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 requirements 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 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. (Check one)

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ¨ NO x The number of shares of the registrant’s common stock outstanding as of July 29, 2011 was 18,672,361, including 11,457,924 shares (or 61.36%) held by First Charter, MHC, the registrant’s mutual holding company and an affiliate of the registrant.

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CHARTER FINANCIAL CORPORATION

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Part I. Financial Information

Item 1. Financial Statements

CHARTER FINANCIAL CORPORATION AND SUBSIDIARY UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	June 30, 2011	September 30, 2010
Assets		
Cash and amounts due from depository institutions	$12,414,515	$15,842,048
Interest-bearing deposits in other financial institutions	52,903,916	219,796,534
Cash and cash equivalents	65,318,431	235,638,582
Loans held for sale, fair value of $716,563 and $2,079,239	709,300	2,061,489
Mortgage-backed securities and collateralized mortgage obligations available for sale	135,291,675	133,079,915
Other investment securities available for sale	29,352,855	102,821
Federal Home Loan Bank stock	11,142,300	14,071,200
Loans receivable:		
Not covered under FDIC loss sharing agreements	444,643,227	461,786,959
Covered under FDIC loss sharing agreements, net	120,139,847	148,138,148
Unamortized loan origination fees, net (non-covered loans)	(973,582)	(758,407)
Allowance for loan losses (non-covered loans)	(9,360,121)	(9,797,095)
Loans receivable, net	554,449,371	599,369,605
Other real estate owned:		
Not covered under FDIC loss sharing agreements	4,838,167	9,641,425
Covered under FDIC loss sharing agreements	19,483,898	29,626,581
Accrued interest and dividends receivable	3,206,913	3,232,330
Premises and equipment, net	21,349,213	22,150,242
Goodwill	4,325,282	4,325,282
Other intangible assets, net of amortization	765,759	930,202
Cash surrender value of life insurance	32,504,398	31,678,013
FDIC receivable for loss sharing agreements	61,211,650	89,824,798
Deferred income taxes	4,564,046	3,379,577
Other assets	7,329,118	6,969,849
Total assets	$955,842,376	$1,186,081,911
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits	$695,817,830	$823,134,133
FHLB advances and other borrowings	110,000,000	212,000,000
Advance payments by borrowers for taxes and insurance	459,935	936,793
Other liabilities	10,657,232	13,134,618
Total liabilities	816,934,997	1,049,205,544
Stockholders' equity:		
Common stock, $0.01 par value; 19,859,219 shares issued at June 30, 2011 and September 30, 2010, respectively; 18,591,698 shares outstanding at June 30, 2011	198,592	198,592

and 18,588,398 shares outstanding at September 30, 2010		
Preferred stock, no par value; 10,000,000 shares authorized	—	—
Additional paid-in capital	73,191,697	73,073,216
Treasury stock, at cost; 1,267,521 shares at June 30, 2011 and 1,270,821 shares at September 30, 2010	(36,511,193)	(36,614,648)
Unearned compensation – ESOP	(3,729,390)	(3,880,990)
Retained earnings	108,220,390	107,598,080
Accumulated other comprehensive loss – net unrealized holding losses on securities available for sale, net of tax	(2,462,717)	(3,497,883)
Total stockholders' equity	138,907,379	136,876,367
Commitments and contingencies		
Total liabilities and stockholders' equity	$955,842,376	$1,186,081,911

See accompanying notes to unaudited condensed consolidated financial statements.

CHARTER FINANCIAL CORPORATION AND SUBSIDIARY
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2011	2010	2011	2010
Interest and dividend income:				
Loans receivable	$10,244,668	$12,540,173	$31,776,177	$30,695,825
Mortgage-backed securities and collateralized mortgage obligations	1,029,635	1,702,253	2,947,190	5,664,065
Federal Home Loan Bank Stock	27,047	18,512	68,713	33,780
Other investment securities available for sale	45,575	47,002	102,750	145,611
Interest-bearing deposits in other financial institutions	50,247	46,110	199,156	88,510
Total interest and dividend income	11,397,172	14,354,050	35,093,986	36,627,791
Interest expense:				
Deposits	2,066,119	3,568,824	7,431,550	8,694,725
Borrowings	1,177,651	2,624,633	4,640,874	7,876,886
Total interest expense	3,243,770	6,193,457	12,072,424	16,571,611
Net interest income	8,153,402	8,160,593	23,021,562	20,056,180
Provision for loan losses, not covered under FDIC loss sharing agreement	300,000	1,300,000	1,400,000	5,100,000
Provision for covered loan losses	-	-	400,000	-
Net interest income after provision for loan losses	7,853,402	6,860,593	21,221,562	14,956,180
Noninterest income:				
Service charges on deposit accounts	1,448,212	1,552,958	4,241,780	4,225,418
Gain on securities available for sale	425,532	128,208	596,377	331,396
Total impairment losses on securities	(1,119,913)	-	(1,671,270)	(4,731,991)
Portion of losses recognized in other comprehensive income	819,913	-	1,148,270	2,205,317
Net impairment losses recognized in earnings	(300,000)	-	(523,000)	(2,526,674)
Impairment loss on equity security	-	-	-	(1,000,000)
Bank owned life insurance	255,310	283,262	826,386	849,628
Gain on sale of loans and loan servicing release fees	126,591	157,487	505,931	625,732
Loan servicing fees	98,748	98,403	290,295	235,581
Brokerage commissions	155,979	130,265	525,054	379,173
Acquisition gain	-	-	-	9,342,816
FDIC receivable for loss sharing agreements accretion	180,904	556,757	777,562	1,391,067
Other	57,496	77,431	333,104	284,435
Total noninterest income	2,448,772	2,984,771	7,573,489	14,138,572
Noninterest expenses:				
Salaries and employee benefits	3,922,733	3,962,853	11,555,529	10,206,248
Occupancy	1,472,005	1,412,471	4,715,627	4,342,437
FHLB advance prepayment penalty	-	-	809,558	-
Legal and professional	408,108	519,355	1,302,725	1,475,626
Marketing	335,072	424,262	1,150,630	1,143,536
Federal insurance premiums and other regulatory fees	293,414	312,806	1,011,916	856,966
Net cost of operations of real estate owned	117,114	372,238	1,742,181	898,309
Furniture and equipment	185,205	169,273	581,281	483,459
Postage, office supplies and printing	203,710	241,078	698,065	582,619

Core deposit intangible amortization expense	53,542	58,633	164,444	125,834
Other	977,185	564,978	2,271,790	1,271,922
Total noninterest expenses	7,968,088	8,037,947	26,003,746	21,386,956
Income before income taxes	2,334,086	1,807,417	2,791,305	7,707,796
Income tax expense	785,245	607,577	715,172	2,618,836
Net income	$1,548,841	$1,199,840	$2,076,133	$5,088,960
Basic net income per share	$0.09	$0.07	$0.11	$0.28
Diluted net income per share	$0.09	$0.06	$0.11	$0.28
Weighted average number of common shares outstanding	18,152,156	18,424,720	18,140,655	18,419,272
Weighted average number of common and potential common shares outstanding	18,199,430	18,480,144	18,187,929	18,474,696

See accompanying notes to unaudited condensed consolidated financial statements.

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CHARTER FINANCIAL CORPORATION AND SUBSIDIARY UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)

	Comprehensive income (loss)	Common Stock Number of Shares	Common Stock Amount	Additional Paid-in Capital	Treasury Stock	Unearned Compensation ESOP	Retained Earnings	Accumulated Other Comprehensive Loss	Tot Stockho Equ
e at ber 30,		19,859,219	$198,592	$42,751,898	$(36,948,327)	$(1,683,990)	$102,215,498	$(8,277,011)	$98,256
ment of tax ts		—	—	—	—	—	1,088,518	—	1,088,
ehensive :									
ome	$5,934,990	—	—	—	—	—	5,934,990	—	5,934,
ehensive - in zed loss rities, ncome f ,468	4,779,128	—	—	—	—	—	—	4,779,128	4,779,
ehensive	$10,714,118								
nds paid, per share		—	—	—	—	—	(1,640,926)	—	(1,640
ion of common		—	—	—	—	137,000	—	—	137,00
ssuance		4,400,000	440,000	30,191,569	—	(2,334,000)	—	—	27,857
lation of shares usly owned by First , MHC		(4,400,000)	(440,000)	—	—	—	—	—	—
g of ed		—	—	68,563	333,679	—	—	—	402,24
based nsation e		—	—	61,186	—	—	—	—	61,186
e at ber 30,		19,859,219	$198,592	$73,073,216	$(36,614,648)	$(3,880,990)	$107,598,080	$(3,497,883)	$136,87

ehensive :									
ome	$2,076,133	—	—	—	—	—	2,076,133	—	2,076,
ehensive – change alized es, net me taxes),772	1,035,166	—	—	—	—	—	—	1,035,166	1,035,
ehensive	$3,111,299								
nds paid, per share		—	—	—	—	—	(1,453,823)	—	(1,453
ion of common		—	—	—	—	151,600	—	—	151,60
g of ed		—	—	36,542	103,455	—	—	—	139,99
based nsation e		—	—	81,939	—	—	—	—	81,939
e at June 1		19,859,219	$198,592	$73,191,697	$(36,511,193)	$(3,729,390)	$108,220,390	$(2,462,717)	$138,90

See accompanying notes to unaudited condensed consolidated financial statements.

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CHARTER FINANCIAL CORPORATION AND SUBSIDIARY
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended June 30, 2011	2010
Cash flows from operating activities:		
Net income	$ 2,076,133	$ 5,088,960
Adjustments to reconcile net income to net cash used in operating activities:		
Provision for loan losses, not covered under FDIC loss sharing agreements	1,400,000	5,100,000
Provision for covered loan losses	400,000	—
Depreciation and amortization	980,490	806,878
Deferred income tax expense (benefit)	(1,717,737)	3,444,204
Accretion and amortization of premiums and discounts, net	1,426,593	956,603
Accretion of fair value discounts related to covered loans	(6,656,094)	(5,236,139)
Accretion of fair value discounts related to FDIC receivable	(777,562)	(1,391,067)
Gain on sale of loans and loan servicing release fees	(505,931)	(625,732)
Proceeds from sale of loans	17,825,404	15,741,528
Originations and purchases of loans held for sale	(15,967,284)	(14,869,992)
Gain on acquisition	-	(9,342,816)
Gain on sale of mortgage-backed securities, collateralized mortgage obligations, and other investments	(596,377)	(331,396)
Other-than-temporary impairment-securities	523,000	2,526,674
Other-than-temporary impairment-other	-	1,000,000
Write down of real estate owned	579,618	309,776
Loss (gain) on sale of real estate owned	470	(48,349)
Recovery payable to FDIC on other real estate owned gains	(617,730)	(377,420)
Restricted stock award expense	173,062	153,296
Stock option expense	81,939	39,049
Increase in cash surrender value on bank owned life insurance	(826,386)	(849,628)
Changes in assets and liabilities:		
Decrease in accrued interest and dividends receivable	25,417	591,882
Increase in other assets	(359,268)	(4,828,213)
Decrease in other liabilities	(2,358,851)	(6,150,820)
Net cash used in operating activities	(4,891,094)	(8,292,722)
Cash flows from investing activities:		
Proceeds from sales of mortgage-backed securities and collateralized mortgage obligations available for sale	21,769,542	47,895,259
Proceeds from sales of other securities available for sale	15,300	—

Principal collections on government sponsored entities securities available for sale	2,495,600	598,073
Principal collections on mortgage-backed securities and collateralized mortgage obligations available for sale	37,973,575	42,667,653
Purchase of mortgage-backed securities and collateralized mortgage obligations available for sale	(61,718,624)	(14,107,959)
Purchase of other securities available for sale	(31,781,968)	(475,000)
Proceeds from maturities of other securities available for sale	-	250,000
Proceeds from redemption of FHLB stock	2,928,900	—
Net decrease (increase) in loans receivable	34,882,538	(1,011,635)
Net decrease in FDIC receivable	29,390,710	26,950,968
Proceeds from sale of real estate owned	29,877,372	10,069,590
Purchases of premises and equipment	(15,018)	(1,264,316)
Net cash received from acquisitions	-	68,914,993
Net cash provided by investing activities	65,817,927	180,487,626

See accompanying notes to unaudited condensed consolidated financial statements.

CHARTER FINANCIAL CORPORATION AND SUBSIDIARY
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Continued)

	Nine Months Ended June 30, 2011	Nine Months Ended June 30, 2010
Cash flows from financing activities:		
Dividends on restricted stock awards	(36,542)	(18,712)
Dividends paid	(1,417,281)	(1,340,846)
Net decrease in deposits	(127,316,303)	(82,565,822)
Principal payments on Federal Home Loan Bank advances	(102,000,000)	(24,316,308)
Net decrease in advance payments by borrowers for taxes and insurance	(476,858)	(437,273)
Net cash used in financing activities	(231,246,984)	(108,678,961)
Net (decrease) increase in cash and cash equivalents	(170,320,151)	63,515,943
Cash and cash equivalents at beginning of period	235,638,582	53,840,036
Cash and cash equivalents at end of period	$65,318,431	$117,355,979
Supplemental disclosures of cash flow information:		
Interest paid	$10,589,854	$16,574,634
Income taxes paid	$1,025,641	$3,725,626
Supplemental disclosure of noncash activities:		
Real estate acquired through foreclosure of collateral on loans receivable	$14,893,789	$20,125,702
Issuance of ESOP common stock	$151,600	$137,000
Unrealized gain on securities available for sale, net	$1,035,166	$6,321,524

See accompanying notes to unaudited condensed consolidated financial statements.

CHARTER FINANCIAL CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Nature of Operations

Charter Financial Corporation (“Charter Financial” or the “Company”), a federally chartered corporation, was organized on October 16, 2001 by CharterBank (the “Bank”), to become the mid-tier holding company for the Bank in connection with the Bank’s reorganization from a federal mutual savings and loan association into the two-tiered mutual holding company structure. In connection with the reorganization, the Company sold 3,964,481 shares of its common stock to the public, representing 20% of the outstanding shares at $10.00 per share, and received net proceeds of $37.2 million. An additional 15,857,924 shares, or 80% of the Company’s outstanding shares, were issued to First Charter, MHC, the Bank’s federally chartered mutual holding company.

In January 2007, Charter Financial repurchased 508,842 shares of its common stock at $52.00 per share through a self-tender offer. Following the stock repurchase, Charter Financial delisted its common stock from the NASDAQ Global Market and deregistered its common stock with the Securities and Exchange Commission. Between January 2007 and September 2009 Charter Financial repurchased 1,186,858 additional shares of its common stock. In September 2010, through an incremental offering, the Company issued 4,400,000 shares with net proceeds of $26.6 million, and First Charter, MHC canceled 4,400,000 shares of Company stock that it held.

As of June 30, 2011, First Charter, MHC owned 11,457,924 shares of the Company’s common stock, representing approximately 61% of the Company’s 18,672,361 outstanding shares of common stock at that date. The remaining 7,214,437 shares of common stock, or approximately 39% of the outstanding shares of common stock, were held by the public.

Note 2: Basis of Presentation

The accompanying unaudited interim consolidated financial statements of Charter Financial Corporation and subsidiary include the accounts of the Company and the Bank as of June 30, 2011 and September 30, 2010 (derived from audited financial statements), and for the three and nine-month periods ended June 30, 2011 and 2010. All intercompany accounts and transactions have been eliminated in consolidation. The unaudited interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, the unaudited interim consolidated financial statements include all necessary adjustments, consisting of normal recurring accruals, necessary for a fair presentation for the periods presented. The results of operations for the three-and nine-month periods ended June 30, 2011 are not necessarily indicative of the results that may be expected for the entire year or any other interim period.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans, the estimates used for fair value acquisition accounting and the Federal Deposit Insurance Corporation receivable for loss sharing agreements, estimate of expected cash flows on purchased impaired and other acquired loans, and the assessment for other-than-temporary impairment of investment securities, mortgage-backed securities, and collateralized mortgage obligations. The Company recorded an increase in retained earnings of $1.09 million in the earliest period presented herein with a corresponding decrease to income taxes payable to correct historical income tax accounts for this immaterial adjustment. Qualitative considerations also conclude that such adjustment is immaterial. Certain reclassifications of 2010 balances have been made to conform to classifications used in 2011. These reclassifications did not change stockholders' equity or net income as previously reported.

Note 3: Recent Accounting Pronouncements

In July 2010, the Financial Accounting Standards Board ("FASB") issued an update to the accounting standards for disclosures associated with credit quality and the allowance for loan losses. This standard requires additional disclosures related to the allowance for loan loss with the objective of providing financial statement users with greater transparency about an entity's loan loss reserves and overall credit quality. Additional disclosures include showing on a disaggregated basis the aging of receivables, credit quality indicators, and troubled debt restructures with its effect on the allowance for loan loss. The disclosures as of the end of a reporting period are effective for interim and annual periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The adoption of this standard did not have a material impact on the Company's financial position and results of operations; however, it increased the amount of disclosures in the notes to the consolidated financial statements.

In December 2010, the FASB issued an update to the accounting standards regarding the disclosure of supplementary pro forma information for business combinations. This update provides clarification regarding the acquisition date that should be used for reporting the pro forma financial information disclosures required by existing accounting guidance when comparative financial statements are presented. This update also requires entities to provide a description of the nature and amount of material, nonrecurring pro forma adjustments that are directly attributable to the business combination. This guidance will be effective for the Company prospectively for business combinations for which the acquisition date is on or after October 1, 2011 and early adoption is permitted. Management is currently evaluating the impact of adoption on the consolidated financial statements, but does not believe that adoption will have a material impact.

In April 2011, the FASB issued an update to the accounting standards to provide additional guidance to assist creditors in determining whether a restructuring is a troubled debt restructuring ("TDR"). The provisions of this update are effective for the first interim or annual period beginning on or after June 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption. For purposes of measuring the impairment of newly identified receivables as a result of applying this guidance, an entity should apply the provisions prospectively for the first interim or annual period beginning on or after June 15, 2011. The information required to be disclosed regarding TDRs within the new credit quality disclosures will now be required for interim and annual periods beginning on or after June 15, 2011 as well. The Company is currently evaluating the impact of adoption on its financial position and results of operations, but does not believe that adoption will have a material impact.

In May 2011, the FASB issued an update to the accounting standards for amendments to achieve common fair value measurements and disclosure requirements in U.S. generally accepted accounting principles ("GAAP") and International Financial Reporting Standards ("IFRS"). This update, which is a joint effort between the FASB and the International Accounting Standards Board ("IASB"), amends existing fair value measurement guidance to converge the fair value measurement guidance in U.S. GAAP and IFRS. This update clarifies the application of existing fair value measurement requirements, changes certain principles in existing guidance and requires additional fair value disclosures. The update permits measuring financial assets and liabilities on a net credit risk basis, if certain criteria are met, increases disclosure surrounding company determined market prices (Level 3) financial instruments, and also requires the fair value hierarchy disclosure of financial assets and liabilities that are not recognized at fair value in the financial statements, but are included in disclosures at fair value. This update is effective for interim and annual periods beginning after December 15, 2011, and is not expected to have a significant impact on the Company's financial statements.

In June 2011, the FASB issued an update to the accounting standards relating to the presentation of comprehensive income. This update amends current accounting standards to require that all nonowner changes in stockholders' equity be presented in either a single continuous statement of comprehensive income or in two separate but consecutive statements. Additionally, the update requires entities to present, on the face of the financial statements, reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement or statements where the components of net income and the components of other comprehensive income are presented. The option to present components of other comprehensive income as part of the statement of changes in stockholders' equity was eliminated. This update is effective for interim and annual periods beginning after December 15, 2011, and is not expected to have a significant impact on the Company's financial statements.

Note 4: Federally Assisted Acquisition of McIntosh Commercial Bank

On March 26, 2010, the Bank purchased substantially all of the assets and assumed substantially all the liabilities of McIntosh Commercial Bank (MCB) from the FDIC, as Receiver of MCB. MCB operated four commercial banking branches and was headquartered in Carrollton, Georgia. The FDIC took MCB under receivership upon its closure by the Georgia Department of Banking and Finance. The Bank's bid to purchase MCB included the purchase of substantially all MCB's assets at a discount of $53,000,000 in exchange for assuming certain MCB deposits and certain other liabilities. No cash, deposit premium or other consideration was paid by the Bank. The Bank and the FDIC entered into loss sharing agreements regarding future losses incurred on loans and other real estate acquired through foreclosure existing at the acquisition date. Under the terms of the loss sharing agreements, the FDIC will reimburse the Bank for 80 percent of net losses on covered assets incurred up to $106,000,000, and 95 percent of net losses exceeding $106,000,000. The term for loss sharing on residential real estate loans is ten years, while the term for loss sharing on non-residential real estate loans is five years in respect to losses and eight years in respect to loss recoveries. As a result of the loss sharing agreements with the FDIC, the Bank recorded a receivable of $108,252,007 at the time of acquisition.

The acquisition of MCB was accounted for under the acquisition method of accounting. The statement of net assets acquired and the resulting acquisition date purchase gain net of taxes is presented in the following table. As explained in the explanatory notes that accompany the following table, the purchased assets, assumed liabilities and identifiable intangible assets were recorded at the acquisition date fair value. Fair values are preliminary and subject to refinement for up to one year after the closing date of the acquisition as additional information regarding the closing date fair values become available.

Noninterest income includes a pre-tax gain on acquisition of $9,342,816. The amount of the gain is equal to the excess of the fair value of the recorded assets over the fair value of liabilities assumed.

The following table presents the assets acquired and liabilities assumed, as recorded by MCB on the acquisition date and as adjusted for purchase accounting adjustments.

	As recorded by MCB		Fair value adjustments		As recorded by CharterBank
Assets					
Cash and due from banks	$32,285,757		$36,629,236	(a)	$68,914,993
FHLB and other bank stock	1,321,710		(200,410	)(b)	1,121,300
Mortgage-backed securities	24,744,318		(75,028	)(c)	24,669,290
Loans	207,644,252		(110,645,341	)(d)	96,998,911
Other real estate owned	55,267,968		(40,136,424	)(e)	15,131,544
FDIC receivable for loss sharing agreements	—		108,252,007	(f)	108,252,007
Core deposit intangible	—		258,811	(g)	258,811
Other assets	1,313,923		(427,702	)(h)	886,221
Total assets	$322,577,928		$(6,344,851	)	$316,233,077
Liabilities					
Deposits:					
Noninterest-bearing	$5,443,673		$—		$5,443,673
Interest-bearing	289,862,953		683,100	(i)	290,546,053
Total deposits	295,306,626		683,100		295,989,726
FHLB advance and other borrowings	9,491,486		—		9,491,486
Deferred tax liability	—		3,737,126	(j)	3,737,126
Other liabilities	1,409,048		—		1,409,048
Total liabilities	306,207,160		4,420,226		310,627,386
Excess of assets acquired over liabilities assumed	$16,370,768	(k)			
Aggregate fair value adjustments			$(10,765,077	)	
Net assets of MCB acquired					$5,605,691

Explanation of fair value adjustments

(a) – Adjustment reflects the initial wire received from the FDIC on the acquisition date.
(b) – Adjustment reflects the estimated fair value of other bank stock.
(c) – Adjustment reflects fair value adjustments based on the Bank's evaluation of the acquired mortgage-backed securities portfolio.
(d) – Adjustment reflects fair value adjustments based on the Bank's evaluation of the acquired loan portfolio. The fair value adjustment includes adjustments for estimated credit losses, liquidity and servicing costs.
(e) – Adjustment reflects the estimated other real estate owned losses based on the Bank's evaluation of the acquired other real estate owned portfolio.
(f) – Adjustment reflects the estimated fair value of payments the Bank will receive from the FDIC under loss sharing agreements. The receivable was recorded at present value of the estimated cash flows using an average discount rate of one and a half percent.
(g) – Adjustment reflects fair value adjustments to record the estimated core deposit intangible.

(h) – Adjustment reflects fair value adjustments to record certain other assets acquired in this transaction.

(i) – Adjustment reflects fair value adjustments based on the Bank's evaluation of the acquired time deposit portfolio.

(j) – Adjustment reflects differences between the financial statement and tax bases of assets acquired and liabilities assumed.

(k) – Amount represents the excess of assets acquired over liabilities assumed and since the asset discount bid by CharterBank of $53 million exceeded this amount, the difference resulted in a cash settlement with the FDIC on the acquisition date.

Note 5: Other Investment Securities

Other investment securities available for sale are summarized as follows:

	June 30, 2011			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
U.S. Treasury securities	$20,175,055	$145,258	$—	$20,320,313
Tax-free municipals	9,001,421	31,121	—	9,032,542
	$29,176,476	$176,379	$—	$29,352,855

	September 30, 2010			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Tax-free municipals	$100,000	$2,821	$—	$102,821

The amortized cost and estimated fair value of other investment and municipal securities available for sale as of June 30, 2011, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. All of the municipal bonds in the table below are pre-funded and are expected to be prepaid before contractual maturity.

	Amortized cost	Estimated fair value
1-5 years	$22,544,180	$22,696,377
Greater than 5 years	6,632,296	6,656,478
	$29,176,476	$29,352,855

Proceeds from called or matured other investment securities during the nine months ended June 30, 2011 and 2010 were $2,495,600 and $598,073, respectively. Proceeds from sales for the nine months ended June 30, 2011 and 2010 were $15,300 and $0, respectively. There were no gains or losses upon the sale of other investment securities.

Proceeds from called or matured other investment securities during the three months ended June 30, 2011 and 2010 were $1,715,300 and $250,000, respectively. Proceeds from sales for the three months ended June 30, 2011 and 2010 were $0 and $0, respectively. There were no gains or losses upon the sale of other investment securities.

At June 30, 2011, there were no other investment securities available for sale that were in a loss position.

Other investment securities with an aggregate carrying amount of $15,266,550 and $0 at June 30, 2011 and September 30, 2010, respectively, were pledged to collateralize FHLB advances.

Note 6: Mortgage–Backed Securities and Collateralized Mortgage Obligations

Mortgage–backed securities and collateralized mortgage obligations available for sale are summarized as follows:

	June 30, 2011			
	Amortized Cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Mortgage-backed securities:				
FNMA certificates	$65,713,610	$729,031	—	$66,442,641
GNMA certificates	6,148,072	379,234	—	6,527,306
FHLMC certificates	22,062,394	609,287	—	22,671,681
Collateralized mortgage obligations:				
FNMA	13,244,299	469,460	—	13,713,759
GNMA	3,176,883	21,113	(3,886)	3,194,110
FHLMC	2,640,166	56,583	(676)	2,696,073
Private-label mortgage securities:				
Investment grade	4,490,514	45,190	(330,960)	4,204,744
Split Rating [1]	8,336,889	138,731	(527,871)	7,947,749
Non investment grade	13,386,616	—	(5,493,004)	7,893,612
	$139,199,443	$2,448,629	$(6,356,397)	$135,291,675

	September 30, 2010			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Mortgage-backed securities:				
FNMA certificates	$35,164,154	$798,264	$—	$35,962,418
GNMA certificates	7,134,764	479,147	—	7,613,911
FHLMC certificates	25,437,288	660,606	—	26,097,894
Collateralized mortgage obligations:				
FNMA	9,605,091	291,337	(24,691)	9,871,737
GNMA	6,130,553	9,117	(31,337)	6,108,333
FHLMC	20,515,780	275,356	(6,603)	20,784,533
Private-label mortgage securities:				
Investment grade	22,872,709	79,523	(1,764,296)	21,187,936
Split Rating [1]	11,522,219	—	(6,069,066)	5,453,153
	$138,382,558	$2,593,350	$(7,895,993)	$133,079,915

Credit ratings are as of June 30, 2011 and September 30, 2010, respectively.

[1] Bonds with split ratings represent securities with separate investment and non investment grades.

During the quarter ended June 30, 2011 two of the Bank's non-agency CMO instruments experienced a rating downgrade from investment to non investment by one rating agency. One has a book value of $1.9 million and remains AAA by a second rating agency. A second has a book value of $3.2 million and remains a Ba3 by a second rating agency. These instruments continue to maintain a favorable credit support level and Bloomberg coverage ratios. These instruments demonstrate a very slight immaterial loss under the Bloomberg credit model with an aggregate projected loss of less than $100.00. Since we are projecting that we will receive essentially all contractual cash flows there is no break in yield or other than temporary impairment.

Proceeds from sales of mortgage–backed securities and collateralized mortgage obligations during the nine months ended June 30, 2011 and 2010 were $21,769,542 and $47,895,259, respectively. Gross realized gains on the sale of these securities were $596,377 and $541,065 for the nine months ended June 30, 2011 and 2010, respectively. Gross realized losses on the sale of these securities were $0 and $209,669 for the nine months ended June 30, 2011 and 2010, respectively.

Proceeds from sales of mortgage–backed securities and collateralized mortgage obligations during the three months ended June 30, 2011 and 2010 were $11,907,616 and $33,072,076, respectively. Gross realized gains on the sale of these securities were $425,532 and $337,877 for the three months ended June 30, 2011 and 2010, respectively. Gross realized losses on the sale of these securities were $0 and $209,669 for the three months ended June 30, 2011 and 2010, respectively.

Mortgage–backed securities and collateralized mortgage obligations with an aggregate carrying amount of $70,236,964 and $92,865,006 at June 30, 2011 and September 30, 2010, respectively, were pledged to secure FHLB advances.

Mortgage–backed securities and collateralized mortgage obligations that had been in a continuous unrealized loss position for less than 12 months at September 30, 2010 were as follows. There were no such collateralized mortgage obligations at June 30, 2011.

	September 30, 2010		
	Amortized cost	Gross unrealized losses	Estimated fair value
Collateralized mortgage obligations:			
FNMA	$3,760,606	$(24,691)	$3,735,915
FHLMC certificates	1,531,605	(6,603)	1,525,002
Private-label mortgage securities	4,871,106	(31,337)	4,839,769
	$10,163,317	$(62,631)	$10,100,686

Mortgage–backed securities and collateralized mortgage obligations that had been in a continuous unrealized loss position for greater than 12 months at June 30, 2011 and September 30, 2010 were as follows:

	June 30, 2011		
	Amortized cost	Gross unrealized losses	Estimated fair value
Collateralized mortgage obligations:			
FHLMC certificates	$256,760	$(676)	$256,084
GNMA	390,649	(3,886)	386,763
Private-label mortgage securities	21,288,545	(6,351,835)	14,936,710
	$21,935,954	$(6,356,397)	$15,579,557

	September 30, 2010		
	Amortized cost	Gross unrealized losses	Estimated fair value
Collateralized mortgage obligations:			

Private-label mortgage securities	$29,058,952	$(7,833,362)	$21,225,590

At June 30, 2011, the Company had approximately $6.3 million of gross unrealized losses on non-GSE collateralized mortgage obligations with aggregate amortized cost of approximately $21.3 million. During the year ended September 30, 2010 the Company recorded $2.5 million in other than temporary impairment on two securities. During the quarters ended June 30, 2011 and March 31, 2011 additional impairments were recorded of $300,000 and $223,000, respectively in other than temporary impairment. The remaining decline in fair value of the mortgage securities primarily resulted from illiquidity and other uncertainties in the marketplace. Additionally, the Company has recorded $633,000 in accumulated other comprehensive loss (pre-tax) related to these two securities at June 30, 2011, and $1.3 million at September 30, 2010.

Regularly, the Company performs an assessment to determine whether there have been any events or economic circumstances to indicate that a security on which there is an unrealized loss is impaired other-than-temporarily. The assessment considers many factors including the severity and duration of the impairment, the Company’s intent and ability to hold the security for a period of time sufficient for recovery in value, recent events specific to the industry, and current characteristics of each security such as delinquency and foreclosure levels, credit enhancements, and projected losses and loss coverage ratios. It is possible that the underlying collateral of these securities will perform worse than current expectations, which may lead to adverse changes in cash flows on these securities and potential future other-than-temporary impairment losses. Events that may trigger material declines in fair values for these securities in the future include but are not limited to, deterioration of credit metrics, significantly higher levels of default and severity of loss on the underlying collateral, deteriorating credit enhancement and loss coverage ratios, or further illiquidity. All of these positions were evaluated for other-than-temporary impairment based on an analysis of the factors and characteristics of each security as previously enumerated. The Company considers these unrealized losses to be temporary impairment losses primarily because of continued sufficient levels of credit enhancements and credit coverage levels of less senior tranches in such securities to positions held by the Company.

The following table summarizes the changes in the amount of credit losses on the Company’s investment securities recognized in earnings for the three and nine months ended June 30, 2011 and 2010:

	Three Months Ended June 30		Nine Months Ended June 30	
	2011	2010	2011	2010
Beginning balance of credit losses previously recognized in earnings	$2,749,674	$2,526,674	$2,526,674	$-
Amount related to credit losses for securities for which an other-than-temporary impairment was not previously recognized in earnings	-	-	-	2,526,674
Amount related to credit losses for securities for which an other-than-temporary impairment was recognized in earnings	300,000	-	523,000	-
Ending balance of cumulative credit losses recognized in earnings	$3,049,674	$2,526,674	$3,049,674	$2,526,674

The following table shows issuer-specific information, book value, fair value, credit rating and unrealized gain (loss) for the Company's portfolio of non-agency collateralized mortgage obligations as of June 30, 2011. At June 30, 2011, the Company had recorded a cumulative total of $1.9 million of other than temporary impairment charges with respect to CWALT 2005-63 2A2, and a cumulative total of $1.2 million of other than temporary impairment charges with respect to SARM 2005-15 2A2. No other mortgage securities in the investment portfolio were other than temporarily impaired at June 30, 2011.

Description		Credit Rating			Net Impairment Losses Recognized in Earnings	Book value	Market Value	Unrealized Gain (Loss)
		Moody	S&P	Fitch	(Dollars in thousands)			
CWALT 2005-63 2A2		C	D	n/a	$1,878	$590	$435	$ (155)
CMSI 1993-14 A3		WR	BB	n/a	-	133	111	(22)
CMLTI 2004-HYB1 A31		B3	n/a	AAA	-	1,865	2,004	139
GSR 2003-4F 1A2		n/a	AAA	AAA	-	626	640	14
GSR 2005-2F 1A2	[1]	n/a	AAA/*-	AA	-	1,013	1,016	3
MASTR 2003-8 4A1		n/a	AAA	AAA	-	1,421	1,449	28
MARM 2004-7 5A1		Ba3	AAA	n/a	-	6,472	5,944	(528)
MARM 2004-13 B1		NR	B-	n/a	-	7,177	2,855	(4,322)
MARM 2004-15 4A1		Ba3	n/a	B	-	3,185	2,670	(515)
SARM 2005-15 2A2	[2]	NR	CCC	n/a	1,172	2,302	1,823	(479)
SARM 2004-6 3A3		n/a	AAA	n/a	-	1,430	1,099	(331)
					$3,050	$26,214	$20,046	$ (6,168)

[1] On July 21, 2011 S&P downgraded this bond from AAA to B.
[2] On July 21, 2011 S&P downgraded this bond from CCC to CC.

The investment in the MARM 2004-13 B1security represents the largest unrealized loss position in the investment portfolio at $4.3 million. Based on assessments of expected cash flows, it has been concluded that no other than temporary impairment exists on this security at June 30, 2011. The positive cash flows are attributable to a number of pertinent factors, including the relative lower levels of delinquency, lower levels of historical default and foreclosure, and much lower loss severities upon foreclosure, that this security has experienced. The security has a weighted average loan-to-value ratio of 53% of the underlying mortgages, average credit scores of 737 and its 2004 origination indicates its seasoning. The unrealized loss position may be attributable to liquidity risk and the structured tranche position.

Note 7: Loans Receivable

Loans receivable are summarized as follows:

	June 30, 2011	September 30, 2010
Loans not covered by loss sharing agreements:		
1-4 family residential real estate mortgage	$101,295,019	$106,041,006
Commercial real estate	259,793,426	267,725,686
Commercial	20,994,876	19,603,898
Real estate construction	42,553,872	45,930,424
Consumer and other	20,006,034	22,485,945
Loans receivable, net of undisbursed proceeds of loans in process	444,643,227	461,786,959
Less:		
Unamortized loan origination fees, net	973,582	758,407
Allowance for loan losses	9,360,121	9,797,095
Total loans not covered, net	$434,309,524	$451,231,457

The carrying amount of covered loans at June 30, 2011 and September 30, 2010, consisted of impaired loans at acquisition date and all other acquired loans and are presented in the following tables.

	June 30, 2011		
	Impaired Loans at Acquisition	All Other Acquired Loans	Total Covered Loans
Loans covered by loss sharing agreements:			
1-4 family residential real estate mortgage	$ 3,780,897	$ 7,189,831	$ 10,970,728
Commercial real estate	34,403,737	82,880,536	117,284,273
Commercial	12,339,376	21,156,729	33,496,105
Real estate construction	1,480,865	564,006	2,044,871
Consumer and other	1,207,107	7,158,912	8,366,019
Loans receivable, gross	53,211,982	118,950,014	172,161,996
Less:			
Non-accretable difference	24,323,283	7,973,331	32,296,614
Allowance for covered loan losses	-	7,004,035	7,004,035
Accretable discount	7,553,656	5,127,067	12,680,723
Unamortized loan origination fees, net	-	40,777	40,777
Total loans covered, net	$ 21,335,043	$ 98,804,804	$ 120,139,847

	September 30, 2010		
	Impaired Loans at Acquisition	All Other Acquired Loans	Total Covered Loans
Loans covered by loss sharing agreements:			
1-4 family residential real estate mortgage	$4,440,436	$7,464,467	$11,904,903
Commercial real estate	53,347,535	97,615,020	150,962,555
Commercial	23,848,208	28,715,756	52,563,964
Real estate construction	6,879,358	2,078,078	8,957,436
Consumer and other	1,479,003	9,345,905	10,824,908
Loans receivable, gross	89,994,540	145,219,226	235,213,766
Less:			
Non-accretable difference	40,203,964	12,656,615	52,860,579
Allowance for covered loan losses	—	15,553,536	15,553,536
Accretable discount	10,166,664	8,476,672	18,643,336
Unamortized loan origination fees, net	—	18,167	18,167
Total loans covered, net	$39,623,912	$108,514,236	$148,138,148

The following table documents changes in the carrying value of acquired loans during the year ended September 30, 2010 and the nine months ended June 30, 2011:

	Impaired Loans	All Other

	at Acquisition	Acquired Loans
Balance, September 30, 2009	$ 18,246,596	$71,517,348
Fair value of acquired loans covered under loss sharing agreements	50,415,463	46,583,448
Reductions since acquisition date resulting from repayments, write-offs and foreclosures	(29,038,147)	(9,586,560)
Balance, September 30, 2010	39,623,912	108,514,236
Reductions since acquisition date resulting from repayments, write-offs and foreclosures	(18,288,869)	(9,709,432)
Balance, June 30, 2011	$ 21,335,043	$98,804,804

The following table documents changes in the accretable discount on acquired loans during the year ended September 30, 2010 and the nine months ended June 30, 2011:

	Impaired Loans at Acquisition	All Other Acquired Loans	Total Covered Loans
Balance, September 30, 2009	$—	$8,794,367	$8,794,367
Accretable yield acquired	12,603,800	5,303,343	17,907,143
Other adjustments to decrease accretable yield	—	(297,609)	(297,609)
Loan accretion	(2,437,136)	(5,323,429)	(7,760,565)
Balance, September 30, 2010	10,166,664	8,476,672	18,643,336
Other adjustments to increase accretable yield	693,485	—	693,485
Loan accretion	(3,306,493)	(3,349,605)	(6,656,098)
Balance, June 30, 2011	$7,553,656	$5,127,067	$12,680,723

The following table documents changes in the value of the non-accretable principal difference during the year ended September 30, 2010 and the nine months ended June 30, 2011:

	Impaired Loans at Acquisition	All Other Acquired Loans	Total Covered Loans
Balance, September 30, 2009	$7,136,864	$—	$7,136,864
Non-accretable principal difference at acquisition	73,841,461	18,896,737	92,738,198
Reductions since acquisition date resulting from charge-offs	(40,774,361)	(6,240,122)	(47,014,483)
Balance, September 30, 2010	40,203,964	12,656,615	52,860,579
Reductions since acquisition date resulting from charge-offs	(15,880,681)	(4,683,284)	(20,563,965)
Balance, June 30, 2011	$24,323,283	$7,973,331	$32,296,614

The following is a summary of transactions in the allowance for loan losses on loans covered by loss sharing:

Balance, September 30, 2009	$23,832,265
Loans charged-off (gross)	(10,786,622)
Recoveries on loans previously charged-off	404,716
Provision for loan losses charged to FDIC receivable	1,682,542
Provision for loan losses charged to operations	420,635
Balance, September 30, 2010	15,553,536
Loans charged-off (gross)	(10,549,501)
Provision for loan losses charged to FDIC receivable	1,600,000
Provision for loan losses charged to operations	400,000

Balance, June 30, 2011	$7,004,035

The following table documents changes in the carrying value of the FDIC receivable for loss sharing agreements relating to covered loans and other real estate during the year ended September 30, 2010 and the nine months ended June 30, 2011:

Balance, September 30, 2009	$26,481,146
Fair value of FDIC receivable for loss sharing agreements at acquisition	108,252,007
Receipt of payments from FDIC	(54,680,714)
Accretion of fair value adjustment	1,840,856
Provisions for estimated losses on covered assets	4,448,908
External expenses qualifying under loss sharing agreements	3,482,595
Balance, September 30, 2010	89,824,798
Payments received from FDIC	(34,284,524)
Recovery of previous loss reimbursements	(2,724,804)
Provision for loan losses	1,600,000
Accretion of fair value adjustment	777,562
External expenses qualifying under loss sharing agreements	6,018,618
Balance, June 30, 2011	$61,211,650

Loan Origination and Risk Management. The Company has certain lending policies and procedures in place that are designed to maximize loan income within an acceptable level of risk. Management reviews and approves these policies and procedures on a regular basis. A reporting system supplements the review process by providing management with frequent reports related to loan production, loan quality, concentrations of credit, loan delinquencies and non-performing and potential problem loans. Diversification in the loan portfolio is a means of managing risk associated with fluctuations in economic conditions.

Commercial real estate loans are generally made by the Company to Georgia or Alabama entities and are secured by properties in these states. Commercial real estate lending involves additional risks compared to one- to four-family residential lending. Repayment of commercial real estate loans often depends on the successful operations and income stream of the borrowers, and commercial real estate loans typically involve larger loan balances to single borrowers or groups of related borrowers compared to residential real estate loans. The Company’s underwriting criteria for commercial real estate loans include maximum loan-to-value ratios, debt coverage ratios, secondary sources of repayment, guarantor requirements, net worth requirements and quality of cash flow. As part of the loan approval and underwriting of commercial real estate loans, management undertakes a cash flow analysis, and requires a debt-service coverage ratio of at least 1.15 times. In addition, management tracks the level of owner-occupied commercial real estate loans versus non-owner occupied loans. At June 30, 2011, approximately 40.6% of the outstanding principal balance of the Company’s commercial real estate loans were secured by owner-occupied properties.

The Company makes construction and land development loans primarily for the construction of one- to four-family residences but also for multi-family and nonresidential real estate projects on a select basis. While current market conditions have suppressed demand for construction and land loans, there are opportunities to lend to quality borrowers in the Company’s market area. The Company offers two principal types of construction loans: builder loans, including both speculative (unsold) and pre-sold loans to pre-approved local builders; and construction/permanent loans to property owners that are converted to permanent loans at the end of the construction phase. The number of speculative loans that management will extend to a builder at one time depends upon the financial strength and credit history of the builder. The Company’s construction loan program is expected to remain a modest portion of the loan volume and management generally limits the number of outstanding loans on unsold homes under construction within a specific area.

The Company also originates first and second mortgage loans secured by one- to four-family residential properties within Georgia and Alabama. Management currently originates mortgages at all branch locations, but utilizes a centralized processing location to reduce the underwriting risk. The Company originates both fixed rate and adjustable rate one- to four-family residential mortgage loans. Fixed rate conforming loans are generally originated for resale into the secondary market on a servicing-released basis and loans that are non-conforming due to property exceptions and that have adjustable rates are generally retained in the Company’s portfolio. The non-conforming loans originated are not considered to be subprime loans and the amount of subprime and low documentation loans held by the Company is not material.

The majority of the Company’s non-mortgage loans consist of consumer loans, including loans on deposits, second mortgage loans, home equity lines of credit, auto loans and various other installment loans. The Company primarily offers consumer loans (excluding second mortgage loans and home equity lines of credit) as an accommodation to customers. Consumer loans tend to have a higher credit risk than residential mortgage loans because they may be secured by rapidly depreciable assets, or may be unsecured. The Company’s consumer lending generally follows accepted industry standards for non sub-prime lending, including credit scores and debt to income ratios. The Company also offers home equity lines of credit as a complement to one- to four-family residential mortgage lending. The underwriting standards applicable to home equity credit lines are similar to those for one- to four-family residential mortgage loans, except for slightly more stringent credit-to-income and credit score requirements. Home equity loans are generally limited to 80% of the value of the underlying property unless the loan is covered by private mortgage insurance or a loss sharing agreement. At June 30, 2011, the Company had $16.1 million of home equity lines of credit and second mortgage loans not covered by loss sharing.

The Company’s commercial business loans are generally limited to terms of five years or less. Management typically collateralizes these loans with a lien on commercial real estate or, very rarely, with a lien on business assets and equipment. Management also generally requires the personal guarantee of the business owner. Interest rates on commercial business loans are generally higher than interest rates on residential or commercial real estate loans due to the risk inherent in this type of loan. Commercial business loans are generally considered to have more risk than residential mortgage loans or commercial real estate loans because the collateral may be in the form of intangible assets and/or readily depreciable inventory. Commercial business loans may also involve relatively large loan balances to single borrowers or groups of related borrowers, with the repayment of such loans typically dependent on the successful operation and income stream of the borrower. Such risks can be significantly affected by economic conditions. In addition, commercial business lending generally requires substantially greater supervision efforts by Management compared to residential mortgage or commercial real estate lending.

The Company maintains an independent loan review function that reviews and validates the credit risk program on a periodic basis. Results of these reviews are presented to management. The loan review process complements and reinforces the risk identification and assessment decisions made by lenders and credit personnel, as well as the Company’s policies and procedures. The Company further engages an independent, external loan reviewer on an annual basis.

Nonaccrual and Past Due Loans. At June 30, 2011 and September 30, 2010, the Company had $12,351,956 and $11,654,501, respectively, of nonaccrual loans not covered by loss sharing. At June 30, 2011 and September 30, 2010, the Company had $0 and $139,972, respectively of past due loans 90 days and more still accruing interest not covered by loss sharing.

Nonaccrual loans not covered by loss sharing, segregated by class of loans at June 30, 2011 were as follows:

1-4 family residential real estate	$5,703,098
Commercial real estate	6,049,439
Commercial	456,506
Real estate construction	—
Consumer and other	142,913
Total	$12,351,956

Nonaccrual loans covered by loss sharing, segregated by class of loans at June 30, 2011 were as follows:

1-4 family residential real estate	$3,235,151
Commercial real estate	31,391,409
Commercial	7,942,500
Real estate construction	—
Consumer and other	998,722
Total Covered Nonaccrual Loans [1] [2]	$43,567,782

[1] Covered loan balances are net of non-accretable differences and allowance for covered loan losses.
[2] Substantially all covered loans record accretion income and the above amounts reflect only the nonaccrual of contractual interest.

An age analysis of past due loans not covered by loss sharing, segregated by class of loans, as of June 30, 2011 was as follows:

	30-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Current	Total Loans	Loans > 90 Days and Accruing
1-4 family residential real estate	$3,282,222	$2,038,137	$5,320,359	$95,974,660	$101,295,019	$-
Commercial real estate	933,345	2,045,461	2,978,806	256,814,620	259,793,426	-
Commercial	490,072	160,558	650,630	20,344,246	20,994,876	-
Real estate construction	-	-	-	42,553,872	42,553,872	-
Consumer and other	278,735	32,661	311,396	19,694,638	20,006,034	-
	$4,984,374	$4,276,817	$9,261,191	$435,382,036	$444,643,227	$-

An age analysis of past due loans covered by loss sharing, segregated by class of loans, as of June 30, 2011 was as follows:

	30-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Current	Total Loans [1]	Loans > 90 Days and Accruing
1-4 family residential real estate	$804,850	$1,727,986	$2,532,836	$6,682,376	$9,215,212	$-
Commercial real estate	11,357,764	14,742,873	26,100,637	65,748,109	91,848,746	-
Commercial	2,040,356	5,681,012	7,721,368	15,689,595	23,410,963	26,775
Real estate construction	-	-	-	1,354,467	1,354,467	-
Consumer and other	241,457	556,377	797,834	6,234,125	7,031,959	-
	$14,444,427	$22,708,248	$37,152,675	$95,708,672	$132,861,347	$26,775

[1] Covered loan balances are net of non-accretable differences and allowance for covered loan losses and have not been reduced by $12,680,723 of accretable discounts.

Impaired Loans. The Company evaluates “impaired” loans, which includes nonperforming loans and accruing troubled debt restructured loans, having risk characteristics that are unique to an individual borrower on a loan-by-loan basis with balances above a specified level. For smaller loans, the allowance is calculated based on the credit grade utilizing historical loss experience and other qualitative factors.

At June 30, 2011 and September 30, 2010, the Company had impaired loans not covered by loss sharing of approximately $13,414,351 and $11,499,451, respectively. There were specific allowances attributable to impaired loans at June 30, 2011 and September 30, 2010, of $1,094,363 and $1,434,751, respectively. At June 30, 2011 and September 30, 2010, there were impaired loans of $10,124,088 and $6,312,882, respectively, with no specific allowance.

Impaired loans not covered by loss sharing, segregated by class of loans, as of June 30, 2011 are as follows:

				Three Months Ended June 30, 2011		Nine Months Ended June 30, 2011	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Investment in Impaired Loans	Interest Income Recognized	Average Investment in Impaired Loans	Interest Income Recognized
With no related allowance recorded:							
1-4 family residential real estate	$5,379,676	$5,429,581	$-	$3,975,096	$ 15,731	$3,938,829	$ 111,407
Commercial real estate	4,362,224	4,399,748	-	4,196,926	20,873	4,032,154	139,076
Commercial	382,188	383,703	-	385,593	195	540,177	6,317
Real estate construction	-	-	-	243,601	-	177,758	-
Subtotal:	10,124,088	10,213,032	-	8,801,216	36,799	8,688,918	256,800

With an allowance recorded:							
1-4 family residential real estate	$323,422	$323,422	$65,000	$1,059,047	$ -	$1,615,948	$ 9,614
Commercial real estate	2,892,523	2,902,612	952,795	2,033,427	-	2,255,561	-
Commercial	74,318	74,318	76,568	75,443	-	114,103	-
Real estate construction	-	-	-	12,125	-	8,083	-
Subtotal:	3,290,263	3,300,352	1,094,363	3,180,042	-	3,993,695	9,614
Totals:							
1-4 family residential real estate	$5,703,098	$5,753,003	$65,000	$5,034,143	$ 15,731	$5,554,777	$ 121,021
Commercial real estate	7,254,747	7,302,360	952,795	6,230,353	20,873	6,287,715	139,076
Commercial	456,506	458,021	76,568	461,036	195	654,280	6,317
Real estate construction	-	-	-	255,726	-	185,841	-
Grand Total:	$13,414,351	$13,513,384	$1,094,363	$11,981,258	$ 36,799	$12,682,613	$ 266,414

Credit Quality Indicators. As part of the ongoing monitoring of the credit quality of the Company’s loan portfolio for both loans covered and not covered by loss sharing agreements, management tracks certain credit quality indicators including the level of classified loans, net charge-offs, non-performing loans (see details above) and the general economic conditions in its market areas.

The Company utilizes a risk grading matrix to assign a risk grade to each of its loans. Loans are graded on a scale of 1 to 8. A description of the general characteristics of the 8 risk grade factors is as follows:

Grade 1: Virtual Absence of Credit Risk (Pass 1) - Loans graded 1 are substantially risk-free or have limited risk. They are characterized by loans to borrowers with unquestionable financial strength and a long history of solid earnings performance. Loans to borrowers collateralized by cash or equivalent liquidity may be included here. Loans secured, by readily marketable collateral may also be graded 1 provided the relationship meets all other characteristics of the grade.

Grade 2: Minimal Credit Risk (Pass 2) - Loans graded 2 represent above average borrowing relationships, generally with local borrowers. Such loans will have clear, demonstrative sources of repayment, financially sound guarantors, and adequate collateral.

Grade 3: Less Than Average Credit Risk (Pass 3) - Loans graded 3 are of average credit quality, are properly structured and documented and require only normal supervision. Financial data is current and document adequate revenue, cash flow, and satisfactory payment history to indicate that financial condition is satisfactory. Unsecured loans are normally for a specific purpose and short term. Secured loans have properly margined collateral. Repayment terms are realistic, clearly defined and based upon a primary, identifiable source of repayment. All grade 3 loans meet the Company's lending guidelines.

Grade 4: Acceptable With Average Risk (Pass 4) - Loans graded 4 represent loans where a borrower's character, capacity, credit or collateral may be a concern. Grade 4 loans will be performing credits and will not necessarily represent weakness unless that area of weakness remains unresolved. Loans most commonly graded 4 will likely include loans with technical exceptions, loans outside of policy parameters without justification for exception and loans with collateral imperfections. Loans in this category, while acceptable, generally warrant close monitoring. Resolution of questionable areas will generally result in an upgrade or downgrade.

Grade 5: Special Mention - (Greater Than Normal Credit Risk) - Loans graded 5 have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or the bank's credit position at a future date. Grade 5 loans should include loans where repayment is highly probable, but timeliness of repayment is uncertain due to unfavorable developments. Special Mention assets are not adversely classified and do not expose the bank to sufficient risk to warrant adverse classification. Assets that could be included in this category include loans that have developed credit weaknesses since origination as well as those that were originated with such weaknesses. Special Mention should not be used to identify an asset that has as its sole weakness credit data exceptions or collateral documentation exceptions that are not material to the timely repayment of the asset.

Grade 6: Substandard - (Excessive Credit Risk) - Grade 6 loans are inadequately protected by current sound worth and paying capacity of the borrower or of collateral pledged. Substandard assets have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. Loans in this category are characterized by the distinct probability that the bank will sustain some loss if the deficiencies are not corrected.

Grade 7: Doubtful - (Potential Loss) - Loans graded 7 possess all of the characteristics of Substandard loans with the addition that full collection is improbable on the basis of existing facts, values, and conditions. Possibility of loss is high; however, due to important and reasonably specific pending factors that may work to the loans' advantage, a precise indication of estimated loss is deferred until a more exact status can be determined. The Doubtful classification is not to be used to defer the full recognition of an expected loss.

Grade 8: Loss - That portion of an asset classified Loss is considered un-collectible and of such little value that its continuance as an asset, without establishment of a specific valuation allowance or charge-off is not warranted. This classification does not necessarily mean that an asset has absolutely no recovery or salvage value; but rather, it is not practical or desirable to defer writing off a basically worthless asset (or portion) even though partial recovery may be affected in the future. An asset may be subject to a split classification whereby two or more portions of the same asset are given separate classifications.

The following table presents the risk grades of the loan portfolio not covered by loss sharing, segregated by class of loans, as of June 30, 2011:

	1-4 family residential real estate	Commercial real estate	Commercial	Real estate construction	Consumer and other	Total
Pass (1-4)	$91,345,969	$224,394,800	$15,972,978	$35,230,149	$19,447,660	$386,391,556
Special Mention (5)	4,163,208	17,442,452	323,277	5,034,509	281,495	27,244,941
Substandard (6)	5,774,591	17,839,337	4,665,155	2,289,214	256,624	30,824,921
Doubtful (7)	11,251	116,837	33,466	-	20,255	181,809
Loss (8)	-	-	-	-	-	-
Total not covered loans	$101,295,019	$259,793,426	$20,994,876	$42,553,872	$20,006,034	$444,643,227

The following table presents the risk grades of the loan portfolio covered by loss sharing agreements, segregated by class of loans, as of June 30, 2011:

	1-4 family residential real estate	Commercial real estate	Commercial	Real estate construction	Consumer and other	Total
Numerical risk ratings (1-4)	$4,804,396	$27,328,856	$8,794,943	$ 1,354,467	$5,363,581	$47,646,243
Numerical risk ratings (5)	2,049,797	28,179,718	2,213,352	-	313,226	32,756,093
Numerical risk ratings (6)	1,766,322	26,168,965	5,882,967	-	1,334,373	35,152,627
Numerical risk ratings (7)	594,697	10,171,207	6,519,701	-	20,779	17,306,384
Numerical risk ratings (8)	-	-	-	-	-	-
Total covered loans [1]	$9,215,212	$91,848,746	$23,410,963	$ 1,354,467	$7,031,959	$132,861,347
Accretable Discount						12,680,723
Unamortized loan originations fees, net						40,777
Total loans covered, net [1]						120,139,847

[1] Covered loan balances are net of non-accretable differences and allowances for covered loan losses.

With respect to classified assets covered by loss sharing agreements, numerical risk ratings 5-8, for regulatory reporting purposes are done under FDIC guidance reporting 20% of the book balance of the loan as classified. The remaining 80% is classified as pass, numerical risk ratings 1-4.

Allowance for Loan Losses. The allowance for loan losses is established through a provision for loan losses charged to expense and is an amount that management believes will be adequate to absorb losses on existing loans that become uncollectible, based on evaluations of the collectibility of loans. The evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, historical loss rates, overall portfolio quality, review of specific problem loans, and current economic conditions and trends that may affect a borrower’s ability to repay. Loans are charged against the allowance for loan losses when management believes that the collectibility of the principal is unlikely and subsequent recoveries are added to the allowance.

Management’s allowance for loan losses methodology is a loan classification-based system. Management bases the required reserve on a percentage of the loan balance for each type of loan and classification level. Loans may be classified manually and are automatically classified if they are not previously classified when they reach certain levels of delinquency. Unclassified loans are reserved at different percentages based on our loan loss history for the last two years. Reserve percentages are also adjusted based upon our estimate of the effect that the current economic environment will have on each type of loan.

Management segments its allowance for loan losses into the following four major categories: (1) specific reserves; (2) general allowances for Classified/Watch loans; (3) general allowances for loans with satisfactory ratings; and (4) an unallocated amount. Risk grades are initially assigned in accordance with the Company's loan and collection policy. An organizationally independent department reviews risk grade assignments on an ongoing basis. Management reviews current information and events regarding a borrowers' financial condition and strengths, cash flows available for debt repayment, the related collateral supporting the loan and the effects of known and expected economic conditions. When the evaluation reflects a greater than normal risk associated with the individual loan, management classifies the loan accordingly. If the loan is determined to be impaired, management allocates a portion of the allowance for loan losses for that loan based on the fair value of the collateral as the measure for the amount of the impairment. Impaired and Classified/Watch loans are aggressively monitored.

The allowances for loans rated satisfactory are further subdivided into various types of loans as defined by loan type. Management has developed specific quantitative allowance factors to apply to each individual component of the allowance and considers loan charge-off experience over the most recent two years. These quantitative allowance factors are based upon economic, market and industry conditions that are specific to the Company's local markets. These quantitative allowance factors consider, but are not limited to, national and local economic conditions, bankruptcy trends, unemployment trends, loan concentrations, dependency upon government installations and facilities, and competitive factors in the local market. These allocations for the quantitative allowance factors are included in the various individual components of the allowance for loan losses. In addition, some qualitative allowance factors are used that are subjective in nature and require considerable judgment on the part of management. However, it is management's opinion that these items do represent uncertainties in the Company's business environment that must be factored into its analysis of the allowance for loan losses.

The unallocated component of the allowance is established for losses that specifically exist in the remainder of the portfolio, but have yet to be identified. An unallocated allowance is generally maintained in a range of 4% to 10% of the total allowance in recognition of the imprecision of the estimates. In times of greater economic downturn and uncertainty, the higher end of this range is provided. Increased allocations in the commercial real estate and real estate construction portfolios reflect increased nonperforming loans, declining real estate values and increased net charge-offs.

Through the FDIC-assisted acquisition of the assets of NCB, management established an allowance for loan losses for non-impaired loans covered by loss-sharing agreements and such allowance for loan losses was $7.0 million and $15.6 million at June 30, 2011 and September 30, 2010, respectively. The NCB acquisition was completed under previously applicable accounting pronouncements related to business combinations.

Through the FDIC-assisted acquisitions of the loans of NCB and MCB, management established non-accretable discounts for the acquired impaired loans and also for all other loans of MCB. These non-accretable discounts were based on estimates of future cash flows. Subsequent to the acquisition dates, management continues to assess the experience of actual cash flows compared to estimates. When management determines that non-accretable discounts are insufficient to cover expected losses in the applicable covered loan portfolios, such non-accretable discounts are increased with a corresponding provision for covered loan losses as a charge to earnings and an increase in the applicable FDIC receivable based on loss sharing indemnification. During the year ended September 30, 2010, the Company increased non-accretable discounts relating to NCB-acquired loans by $2.1 million and recorded $421,000 as a charge to earnings with $1.7 million recorded as an increase to the FDIC receivable. During the quarter ended March 31, 2011 the Company increased allowance for covered loan losses relating to NCB acquired loans by $2.0 million and recorded $400,000 as a charge to earnings with $1.6 million as an increase to the FDIC receivable. There was no such provision for the quarter ended June 30, 2011.

The following is a summary of transactions in the allowance for loan losses on loans not covered by loss sharing:

	Three Months Ended June 30		Nine Months Ended June 30	
	2011	2010	2011	2010
Balance, beginning of period	$9,694,175	$11,396,504	$9,797,095	$9,331,612
Loans charged off	(646,471)	(3,279,830)	(1,956,987)	(5,043,407)
Recoveries on loans previously charged off	12,417	40,975	120,013	69,444
Provision for loan losses charged to operations	300,000	1,300,000	1,400,000	5,100,000
Balance, end of period	$9,360,121	$9,457,649	$9,360,121	$9,457,649

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The Company maintained its allowance for loan losses for the three and nine months ended June 30, 2011 and 2010 in response to continued weak economic conditions, net charge-offs, weak financial indicators for borrowers in the real estate sectors, continuing low collateral values of commercial and residential real estate, and nonaccrual and impaired loans. The following table details the allowance for loan losses on loans not covered by loss sharing by portfolio segment as of June 30, 2011. Allocation of a portion of the allowance to one category of loans does not preclude availability to absorb losses in other categories.

	Three Months Ended June 30, 2011						
	1-4 Family Real Estate	Commercial Real Estate	Commercial	Real Estate Construction	Consumer and Other	Unallocated	Total
Allowance for loan losses:							
Balance at beginning of period	$770,917	$ 5,584,372	$ 578,298	$ 1,752,284	$91,773	$ 916,531	$9,694,175
Charge-offs	(295,158)	-	(323,471)	-	(27,843)	-	(646,472)
Recoveries	2,061	-	64	-	10,293	-	12,418
Provision	127,082	86,945	478,317	(437,964)	20,665	24,955	300,000
Ending balance	$604,902	$ 5,671,317	$ 733,208	$ 1,314,320	$94,888	$ 941,486	$9,360,121

	Nine Months Ended June 30, 2011						
	1-4 Family Real Estate	Commercial Real Estate	Commercial	Real Estate Construction	Consumer and Other	Unallocated	Total
Allowance for loan losses:							
Balance at beginning of year	$ 1,023,078	$ 6,103,391	$ 623,479	$ 1,236,169	$ 79,149	$ 731,829	$ 9,797,095
Charge-offs	(460,510)	(957,064)	(382,405)	(21,822)	(135,186)	-	(1,956,987)
Recoveries	63,310	-	36,551	159	19,993	-	120,013
Provision	(20,976)	524,990	455,583	99,814	130,932	209,657	1,400,000
Ending balance	$ 604,902	$ 5,671,317	$ 733,208	$ 1,314,320	$ 94,888	$ 941,486	$ 9,360,121
Ending balance: individually evaluated for impairment	$ 65,000	$ 952,795	$ 76,568	$ -	$ -		$ 1,094,363
Loans:							
Ending balance	$ 101,295,019	$ 259,793,426	$ 20,994,876	$ 42,553,872	$ 20,006,034		$ 444,643,227

Ending balance: individually evaluated for impairment	$5,703,098	$7,254,747	$456,506	$-	$-		$13,414,351

The following table details the nonaccretable discount and allowance for loan losses on loans covered by loss sharing by portfolio segment as of June 30, 2011.

	Three Months Ended June 30, 2011					
	1-4 Family Real Estate	Commercial Real Estate	Commercial	Real Estate Construction	Consumer and Other	Total
Non-accretable differences [1]:						
Balance at beginning of period	$2,001,875	$28,065,003	$13,445,799	$1,706,918	$1,488,296	$46,707,891
Charge-offs	(249,959)	(3,482,876)	(4,309,783)	(1,017,190)	(155,789)	(9,215,597)
Recoveries	3,600	853,400	949,126	676	1,553	1,808,355
Provision for loan losses charged to FDIC receivable	-	-	-	-	-	-
Provision for loan losses charged to operations	-	-	-	-	-	-
Ending balance	$1,755,516	$25,435,527	$10,085,142	$690,404	$1,334,060	$39,300,649

	Nine Months Ended June 30, 2011					
	1-4 Family Real Estate	Commercial Real Estate	Commercial	Real Estate Construction	Consumer and Other	Total
Non-accretable differences [1]:						
Balance at beginning of year	$1,856,851	$39,160,920	$23,266,859	$2,497,018	$1,632,467	$68,414,115
Charge-offs	(438,645)	(15,692,783)	(15,956,461)	(2,132,386)	(1,063,939)	(35,284,214)
Recoveries	65,049	1,215,753	2,774,744	74,875	40,327	4,170,748
Provision for loan losses charged to FDIC receivable	217,809	601,309	-	200,718	580,164	1,600,000
Provision for loan losses charged to operations	54,452	150,328	-	50,179	145,041	400,000
Ending balance	$1,755,516	$25,435,527	$10,085,142	$690,404	$1,334,060	$39,300,649
Ending balance: individually evaluated for impairment	$746,390	$14,116,591	$8,182,185	$640,558	$637,559	$24,323,283
Covered loans:						
Ending contractual balance	$10,970,728	$117,284,273	$33,496,105	$2,044,871	$8,366,019	$172,161,996
Ending contractual balance: individually evaluated for impairment	$3,780,897	$34,403,737	$12,339,376	$1,480,865	$1,207,107	$53,211,982

[1] Amounts include the allowance for covered loan losses.

Loans are classified as restructured by the Company when certain modifications are made to the loan terms and concessions are granted to the borrowers due to financial difficulty experienced by those borrowers. The Company only restructures loans for borrowers in financial difficulty that have designed a viable business plan to fully pay off all obligations, including outstanding debt, interest, and fees, either by generating additional income from the business or through liquidation of assets. Generally, these loans are restructured to provide the borrower additional time to execute upon their plans. At June 30, 2011 and September 30, 2010, the Company had restructured loans not covered by loss sharing of $11.8 million and $3.6 million, respectively, and of those amounts, $3.6 million and $1.9 million were on nonaccrual. All restructured loans are evaluated for impairment in the quarterly allowance calculation. As of June 30, 2011, the allowance for loan and lease losses allocated to restructured loans on nonaccrual totaled $332,000. Also, at June 30, 2011 and September 30, 2010, the Company had restructured loans covered by loss sharing of $16.8 million (contractual balance) and $15.7 million (contractual balance), respectively.

Note 8: Income Per Share

Basic net income per share is computed on the weighted average number of shares outstanding. Diluted net income per share is computed by dividing net income by weighted average shares outstanding plus potential common shares resulting from dilutive stock options, determined using the treasury stock method.

	Three Months Ended June 30		Nine Months Ended June 30	
	2011	2010	2011	2010
Net income	$1,548,841	$1,199,840	$2,076,133	$5,088,960
Denominator:				
Weighted average common shares outstanding	18,152,156	18,424,720	18,140,655	18,419,272
Equivalent shares issuable upon vesting of restricted stock awards and dilutive shares	47,274	55,424	47,274	55,424
Diluted shares	18,199,430	18,480,144	18,187,929	18,474,696
Net income per share				
Basic	$0.09	$0.07	$0.11	$0.28
Diluted	$0.09	$0.06	$0.11	$0.28

For the three and nine months ended June 30, 2011 and June 30, 2010 there were no dilutive stock options. For the three and nine months ended June 30, 2011 and June 30, 2010 there were 47,274 and 55,424 shares of non-vested restricted stock.

Basic earnings per share for the three and nine month periods ended June 30, 2011 and 2010 were computed by dividing net income to common shareholders by the weighted-average number of shares of common stock outstanding, which consists of issued shares less treasury stock.

Diluted earnings per share for the three and nine month periods ended June 30, 2011 and 2010 were computed by dividing net income to common shareholders by the weighted-average number of shares of common stock outstanding and the dilutive effect of the shares awarded under the Company's equity compensation plans.

Note 9: Real Estate Owned

The following is a summary of transactions in real estate owned:

Non-covered real estate owned

	Nine Months Ended June 30, 2011	Year Ended September 30, 2010
Balance, beginning of period	$9,641,425	$4,777,542
Real estate acquired through foreclosure of loans receivable	3,144,052	10,528,383
Real estate sold	(7,367,222)	(4,789,815)
Write down of real estate owned	(579,618)	(707,519)
Gain (loss) on sale of real estate owned	(470)	(167,166)
Balance, end of period	$4,838,167	$9,641,425

During the quarter ended June 30, 2011 we had a $450,000 gain on sale of non-covered real estate owned that was deferred due to the Bank financing the purchase with a loan to value of 82%.

Covered real estate owned

	Nine Months Ended June 30, 2011	Year Ended September 30, 2010
Balance, beginning of period	$29,626,581	$10,681,499
Real estate acquired and subject to FDIC loss sharing agreement	—	15,131,544
Real estate acquired through foreclosure of loans receivable	11,749,737	19,938,614
Real estate sold	(22,510,150)	(12,991,775)
Provision for losses on other real estate owned:		
Write down of real estate owned recognized in noninterest expense	—	(691,592)
Increase of FDIC receivable for loss sharing agreement	—	(2,766,366)
Gain (loss) on sale of real estate owned:		
Recognized in noninterest income	—	64,931
Reduction of FDIC receivable for loss sharing agreements	617,730	259,726
Balance, end of period	$19,483,898	$29,626,581

Note 10: Employee Benefits

The Company has a stock option plan which allows for stock option awards of the Company's common stock to eligible directors and key employees of the Company. The option price is determined by a committee of the board of directors at the time of the grant and may not be less than 100% of the market value of the common stock on the date of the grant. When granted, the options vest over periods up to four or five years from grant date or upon death, disability, or qualified retirement. All options must be exercised within a 10 year period from grant date. The Company may grant either incentive stock options, which qualify for special federal income tax treatment, or nonqualified stock options, which do not receive such tax treatment. The Company's stockholders have authorized the grant of options exercisable for 707,943 shares of common stock under the plan. At June 30, 2011, 54,650 shares had been issued upon the exercise of options granted under the plan, options exercisable for 567,775 shares of common stock were granted and outstanding, and options exercisable for 85,518 shares of common stock remained available for grants.

The fair value of the options granted during the nine months ended June 30, 2011 was estimated on the date of grant using the Black-Scholes-Merton model with the following assumptions:

Risk- free interest rate	3.21	%
Dividend yield	2.50	%
Expected life at date of grant	90 Months	
Volatility	17.78	%
Weighted average grant-date fair value	$ 1.27	

The following table summarizes activity for shares under option and weighted average exercise price per share:

	Shares	Weighted average exercise price/share	Weighted average remaining life (years)
Options outstanding- September 30, 2010	512,775	10.96	7.94
Options exercised	—	—	—
Options forfeited	—	—	—
Options granted	55,000	9.00	9.42
Options outstanding- June 30, 2011	567,775	10.77	8.08
Options exercisable – June 30, 2011	5,750	29.42	1.33

Stock option expense was $81,939 and $39,049 for the nine months ended June 30, 2011 and 2010, respectively. The intrinsic value of 567,775 shares outstanding at June 30, 2011 was $49,500. The following table summarizes information about the options outstanding at June 30, 2011:

Number outstanding at June 30, 2011	Weighted average remaining contractual life in years	Exercise price per share
5,500	1	29.26
250	3	32.99
352,025	7	11.00
155,000	9	10.20
55,000	9	9.00
567,775		

The Company has a recognition and retention plan which has been authorized to grant up to 283,177 shares of restricted stock to key employees and directors. The Company has established a grantor trust to purchase these common shares of the Company in the open market or in private transactions. The grantor trust has not purchased previously authorized but unissued shares from the Company. The grantor trust has purchased all of the 283,177 shares that have been authorized. As of June 30, 2011, 80,663 shares remain in the trust and are disclosed as treasury stock in the consolidated statements of financial condition. Of the 80,663 shares remaining in the trust, 47,274 shares have been granted and are not yet vested and 33,389 shares are available for grants.

	Shares	Weighted average

		grant date fair value per award
Unvested restricted stock awards-September 30, 2010	51,574	22.74
Granted	—	—
Vested	3,300	42.42
Cancelled or expired	1,000	50.00
Unvested restricted stock awards-June 30, 2011	47,274	20.79

All grants prior to October 1, 2005 vest at the earlier of the scheduled vesting or death, disability, or qualified retirement which is generally age 65 or age 55 with 10 years of service. All grants prior to October 1, 2005 are expensed to the scheduled vesting date. Grants subsequent to January 1, 2009 will be expensed to the earlier of scheduled vesting or substantive vesting which is when the recipient becomes qualified for retirement which is generally age 65.

Note 11: Commitments and Contingent Liabilities

In the normal course of business, the Company makes various commitments and incurs certain contingent liabilities, which are not reflected in the accompanying financial statements. The commitments and contingent liabilities include guarantees, commitments to extend credit, and standby letters of credit. At June 30, 2011, commitments to extend credit and standby letters of credit totaled $40.3 million. The Company does not anticipate any material losses as a result of these transactions.

In the normal course of business, the Company is party (both as plaintiff and defendant) to certain matters of litigation. In the opinion of management and counsel, none of these matters should have a material adverse effect on the Company's financial position or results of operation.

Note 12: Fair Value of Financial Instruments and Fair Value Measurement

Accounting standards define fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Accounting standards also establish a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The applicable standard describes three levels of inputs that may be used to measure fair value: Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date. Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data. Level 3: Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Most of the Company's available for sale securities fall into Level 2 of the fair value hierarchy. These securities are priced via independent service providers. In obtaining such valuation information, the Company has evaluated the valuation methodologies used to develop the fair values.

Assets and Liabilities Measured on a Recurring Basis:

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

June 30, 2011		Fair value measurements using:		
	Fair value	Quoted prices in active markets for identical assets (Level 1 inputs)	Quoted prices for similar assets (Level 2 inputs)	Significant unobservable inputs (Level 3 inputs)
Investment securities available for sale:				
U.S. Treasury securities:	$20,320,313	$ —	$ 20,320,313	$ —
State and municipal obligations	9,032,542	—	9,032,542	—
Mortgage–backed securities:				
FNMA certificates	66,442,641	—	66,442,641	—
GNMA certificates	6,527,306	—	6,527,306	—
FHLMC certificates	22,671,681	—	22,671,681	—
Collateralized mortgage obligations:				
FNMA	13,713,759	—	13,713,759	—
GNMA	3,194,110	—	3,194,110	—

FHLMC	2,696,073	—	2,696,073	—
Other:				
Investment grade	4,204,744	—	4,204,744	—
Split Rating [1]	7,947,749	—	7,947,749	—
Non investment grade	7,893,612	—	7,893,612	—
Available for sale securities	$164,644,530	$ —	$ 164,644,530	$ —

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September 30, 2010	Fair value measurements using:			
	Fair value	Quoted prices in active markets for identical assets (Level 1 inputs)	Quoted prices for similar assets (Level 2 inputs)	Significant unobservable inputs (Level 3 inputs)
Investment securities available for sale:				
Tax free municipals	$ 102,821	$ —	$ 102,821	$ —
Mortgage–backed securities:				
FNMA certificates	35,962,418	—	35,962,418	—
GNMA certificates	7,613,911	—	7,613,911	—
FHLMC certificates	26,097,894	—	26,097,894	—
Collateralized mortgage obligations:				
FNMA	9,871,737	—	9,871,737	—
GNMA	6,108,333	—	6,108,333	—
FHLMC	20,784,533	—	20,784,533	—
Other:				
Investment grade	21,187,936	—	21,187,936	
Split Rating [1]	5,453,153	—	5,453,153	—
Available for sale securities	$ 133,182,736	$ —	$ 133,182,736	$ —

Credit ratings are as of June 30, 2011 and September 30, 2010, respectively.

[1] Bonds with split ratings would be non-investment grade based on lower rating.

Assets and Liabilities Measured on a Nonrecurring Basis:

Assets and liabilities measured at fair value on a nonrecurring basis are summarized below.

	Fair value measurements using:			
	Fair value	Quoted prices in active markets for identical assets (Level 1 inputs)	Quoted prices for similar assets (Level 2 inputs)	Significant unobservable inputs (Level 3 inputs)
June 30, 2011				
Impaired loans:				
Not covered under loss share	$ 2,195,900	$ —	$ —	$ 2,195,900
Other real estate owned:				
Not covered under loss share	4,838,167	—	—	4,838,167
Covered under loss share	19,483,898	—	—	19,483,898
September 30, 2010				
Impaired loans:				
Not covered under loss share	3,751,818	—	—	3,751,818
Other real estate owned:				
Not covered under loss share	9,641,425	—	—	9,641,425
Covered under loss share	29,626,581	—	—	29,626,581

Loans considered impaired are loans for which, based on current information and events, it is probable that the creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impaired loans are subject to nonrecurring fair value adjustments to reflect write-downs that are based on the market price or current appraised value of the collateral, adjusted to reflect local market conditions or other economic factors. After evaluating the underlying collateral, the fair value of the impaired loans is determined by allocating specific reserves from the allowance for loan and lease losses to the loans. Thus, the fair value reflects the loan balance less the specifically allocated reserve.

Other real estate owned is initially accounted for at fair value, less estimated costs to dispose of the property. Any excess of the recorded investment over fair value, less costs to dispose, is charged to the allowance for loan and lease losses at the time of foreclosure. A provision is charged to earnings for subsequent losses on other real estate owned when market conditions indicate such losses have occurred. The ability of the Company to recover the carrying value of other real estate owned is based upon future sales of the real estate. The ability to effect such sales is subject to market conditions and other factors beyond our control, and future declines in the value of the real estate would result in a charge to earnings. The recognition of sales and sales gains is dependent upon whether the nature and terms of the sales, including possible future involvement of the Company, if any, meet certain defined requirements. If those requirements are not met, sale and gain recognition is deferred.

Accounting standards require disclosures of fair value information about financial instruments, whether or not recognized in the Statement of Condition, for which it is practicable to estimate that value. In cases where quoted market prices are not available, fair value is based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instrument. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts. Also, the fair value estimates presented herein are based on pertinent information available to Management as of June 30, 2011 and September 30, 2010.

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

CASH AND CASH EQUIVALENTS - The carrying amount approximates fair value because of the short maturity of these instruments.

INVESTMENTS AVAILABLE FOR SALE AND FHLB STOCK - The fair value of investments and mortgage–backed securities and collateralized mortgage obligations available for sale is estimated based on bid quotations received from securities dealers. The FHLB stock is considered a restricted stock and is carried at cost which approximates its fair value.

LOANS RECEIVABLE - Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type. The fair value of performing loans is calculated by discounting scheduled cash flows through the estimated maturity using estimated market discount rates that reflect the credit risk inherent in the loan. The estimate of maturity is based on the Company’s historical experience with repayments for each loan classification, modified, as required, by an estimate of the effect of the current economic and lending conditions.

Fair value for significant nonperforming loans is based on recent external appraisals. If appraisals are not available, estimated cash flows are discounted using a rate commensurate with the risk associated with the estimated cash flows. Assumptions regarding credit risk, cash flows, and discount rates are judgmentally determined using available market information and specific borrower information. The estimated fair value at June 30, 2011 and September 30, 2010 has been affected by an estimate of liquidity risk of 5.5%.

LOANS HELD FOR SALE - Loans held for sale are carried at the lower of cost or market value. The fair values of loans held for sale are based on commitments on hand from investors within the secondary market for loans with similar characteristics

CASH SURRENDER VALUE OF LIFE INSURANCE - The Company’s cash surrender value of bank owned life insurance approximates its fair value.

FDIC RECEIVABLE FOR LOSS SHARING AGREEMENTS - The Company’s FDIC receivable for loss sharing agreements approximates fair value.

DEPOSITS - The fair value of deposits with no stated maturity, such as noninterest–bearing demand deposits, savings, NOW accounts, and money market and checking accounts, is equal to the amount payable on demand. The fair value of time deposits is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits of similar remaining maturities.

BORROWINGS - The fair value of the Company’s Federal Home Loan Bank advances is estimated based on the discounted value of contractual cash flows. The fair value of securities sold under agreements to repurchase approximates the carrying amount because of the short maturity of these borrowings. The discount rate is estimated using rates quoted for the same or similar issues or the current rates offered to the Company for debt of the same remaining maturities.

ACCRUED INTEREST AND DIVIDENDS RECEIVABLE AND PAYABLE - The carrying amount of accrued interest and dividends receivable on loans and investments and payable on borrowings and deposits approximate their fair values.

COMMITMENTS TO EXTEND CREDIT AND STANDBY LETTERS OF CREDIT - The value of these unrecognized financial instruments is estimated based on the fee income associated with the commitments which, in the absence of credit exposure, is considered to approximate their settlement value. Since no significant credit exposure existed, and because such fee income is not material to the Company's financial statements at June 30, 2011 and at September 30, 2010, the fair value of these commitments is not presented.

Many of the Company’s assets and liabilities are short-term financial instruments whose carrying amounts reported in the Statement of Condition approximate fair value. These items include cash and due from banks, interest-bearing bank balances, federal funds sold, other short-term borrowings and accrued interest receivable and payable balances. The estimated fair value of the Company’s remaining on-balance sheet financial instruments as of June 30, 2011 and September 30, 2010 are summarized below.

	June 30, 2011		September 30, 2010	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash and cash equivalents	$65,318,431	$65,318,431	$235,638,582	$235,638,582
Investments available for sale	164,644,530	164,644,530	133,182,736	133,182,736
FHLB stock	11,142,300	11,142,300	14,071,200	14,071,200
Loans receivable, net	554,449,371	523,358,308	599,369,605	555,177,903
Loans held for sale	709,300	716,563	2,061,489	2,079,239
Cash surrender value of life insurance	32,504,398	32,504,398	31,678,013	31,678,013
FDIC Receivable for loss sharing agreements	61,211,650	60,513,169	89,824,798	90,012,434
Accrued interest and dividends receivable	3,206,913	3,206,913	3,232,330	3,232,330
Financial liabilities:				
Deposits	$695,817,830	$702,142,921	$823,134,133	$830,427,887
FHLB advances and other borrowings	110,000,000	118,684,812	212,000,000	226,983,028
Accrued interest payable	561,038	561,038	2,043,608	2,043,608

Note 13: Comprehensive Income (Loss)

Comprehensive income (loss) includes net income and other comprehensive income (loss) which includes the effect of unrealized holding gains on investment and mortgage-backed securities available for sale in stockholders' equity. The only component of accumulated other comprehensive loss is the fair value adjustment on investment securities available for sale, net of income taxes. Accumulated other comprehensive loss was $(2,462,717) and $(1,955,487) as of June 30, 2011 and 2010, respectively, and the related income taxes were $1,268,672 and $1,007,372 for those same periods, respectively. The following table sets forth the amounts of comprehensive income (loss) included in stockholders' equity along with the related tax effect for the three and nine months ended June 30, 2011 and 2010.

	Three Months Ended June 30		Nine Months Ended June 30	
	2011	2010	2011	2010
Net income	$1,548,841	$1,199,840	$2,076,133	$5,088,960
Less reclassification adjustment for net gains realized in net income, net of taxes of $164,255, $49,488, $230,202 and $127,919, respectively	(261,277)	(78,720)	(366,176)	(203,477)
Net unrealized holding gains (losses) on investment and mortgage securities available for sale arising during the year, net of taxes of $(565,626), $(725,555), $(679,096) and $(3,126,741), respectively	899,726	1,154,121	1,080,220	4,973,624
Other-than-temporary impairment losses recognized in earnings, net of taxes of $(115,800), $0, $(201,878) and $(975,296), respectively	184,200	-	321,122	1,551,378
Comprehensive income	$2,371,490	$2,275,241	$3,111,299	$11,410,485

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Management's discussion and analysis of the financial condition and results of operations at and for the three and nine months ended June 30, 2011 and 2010 is intended to assist in understanding the financial condition and results of operations of the Company. The information contained in this section should be read in conjunction with the unaudited consolidated financial statements and the notes thereto, appearing in Part I, Item 1 of this quarterly report on Form 10-Q.

Forward-Looking Statements

This report contains forward-looking statements that are based on assumptions and may describe future plans, strategies and expectations of the Company. These forward-looking statements are generally identified by use of the words "believe," "expect," "intend," "anticipate," "estimate," "project" or similar expressions. The Company's ability to predic results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse effect on the operations of the Company include, but are not limited to, general economic conditions, either nationally or in our market areas, that are worse than expected; competition among depository and other financial institutions; changes in the interest rate environment that reduce our margins or reduce the fair value of financial instruments; adverse changes in the securities markets; changes in laws or government regulations or policies affecting financial institutions, including changes in regulatory fees and capital requirements; our ability to enter new markets successfully and capitalize on growth opportunities; our ability to successfully integrate acquired entities; our incurring higher than expected loan charge-offs with respect to assets acquired in FDIC-assisted acquisitions; changes in consumer spending, borrowing and savings habits; changes in accounting policies and practices, as may be adopted by the bank regulatory agencies and the Financial Accounting Standards Board; and changes in our organization, compensation and benefit plans. Additional factors are discussed in the Company's Form 10-K for the year ended September 30, 2010 under Part I; Item 1A.- "Risk Factors," and in the Company's other filings with the Securities and Exchange Commission. These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. Except as required by applicable law or regulation, the Company does not undertake, and specifically disclaims any obligation, to release publicly the result of any revisions that may be made to any forward-looking statements to reflect events or circumstances after the date of the statements or to reflect the occurrence of anticipated or unanticipated events.

Overview

Our results of operations depend primarily on our net interest income. Net interest income is the difference between the interest income we earn on our interest-earning assets, consisting primarily of loans, investment securities, mortgage-backed securities, collateralized mortgage obligations and other interest-earning assets (primarily cash and cash equivalents), and the interest we pay on our interest-bearing liabilities, consisting primarily of deposits and Federal Home Loan Bank advances and other borrowings.

Our principal business consists of attracting deposits from the general public and investing those funds primarily in loans. We make loans secured by first mortgages on owner-occupied, one- to four-family residences, consumer loans, loans secured by first mortgages on non-owner-occupied one- to four-family residences, construction loans secured by one- to four-family residences, commercial real estate loans, and multi-family real estate loans. While our primary business is the origination of loans funded through retail deposits, we also purchase whole loans and invest in certain investment securities and mortgage-backed securities, and use FHLB advances, repurchase agreements and other borrowings as additional funding sources.

The Company is significantly affected by prevailing economic conditions, including federal monetary and fiscal policies and federal regulation of financial institutions. Deposit balances are influenced by a number of factors, including interest rates paid on competing personal investment products, the level of personal income, and the personal rate of savings within our market areas. Lending activities are influenced by the demand for housing and other loans, changing loan underwriting guidelines, as well as interest rate pricing competition from other lending institutions. The primary sources of funds for lending activities include deposits, loan repayments, investment income, borrowings, and funds provided from operations.

The Company’s results of operations are primarily dependent on net interest income, which is the difference between the interest earned on loans, mortgage-backed securities, investment securities and cash, and the interest paid on deposits and borrowings. On a weekly basis, management reviews deposit flows, loan demand, cash levels, and changes in several market rates to assess all pricing strategies. Generally, deposit pricing is based upon a survey of competitors in the Bank’s market areas, and the need to attract funding and retain maturing deposits. The majority of our loans are adjustable rate products that have a fixed rate for nine months to five years with annual adjustments thereafter.

During the first nine months of fiscal year 2011, the economy began to show signs of recovery, as evidenced by increases in consumer spending and the stabilization of the labor market, the housing sector, and financial markets. However, unemployment levels remained elevated and unemployment periods prolonged, housing prices remained depressed and demand for housing was weak, due to distressed sales and tightened lending standards. In an effort to support mortgage lending and housing market recovery, and to help improve credit conditions overall, the Federal Open Market Committee of the Federal Reserve has maintained the overnight lending rate between zero and 25 basis points since December 2008.

Net income was $2.1 million for the nine months ended June 30, 2011, compared to net income of $5.1 million for the nine months ended June 30, 2010. The decrease of $3.0 million was due to a $9.3 million purchase gain on March 26, 2010 on the FDIC assisted acquisition of assets and liabilities of McIntosh Commercial Bank.

Net Income was $1.5 million for the three months ended June 30, 2011 compared to $252,000 for the three months ended March 31, 2011, $276,000 for the three months ended December 31, 2010 and $1.2 million for the three months ended June 30, 2010. Credit metrics have improved as of June 30, 2011 which has resulted in lower credit costs and higher net income.

Critical Accounting Policies

Critical accounting policies are those that involve significant judgments and assessments by management, and which could potentially result in materially different results under different assumptions and conditions. As discussed in the Company's Form 10-K for the fiscal year ended September 30, 2010, the Company considers its critical accounting policies to be the allowance for loan losses, other-than-temporary impairment of investment securities, real estate owned, mortgage banking activities, goodwill and other intangible assets, deferred income taxes, receivable from FDIC under loss sharing agreements, and estimation of fair value.

Comparison of Financial Condition at June 30, 2011 and September 30, 2010

Assets and Liabilities. Total assets decreased $230.2 million, or 19.4%, to $955.8 million at June 30, 2011 from $1.2 billion at September 30, 2010. There was a decrease in liabilities of $233.4 million due to a $102.0 million reduction in FHLB advances and $127.3 million reduction in deposits, primarily certificates of deposits. The reduction in liabilities was funded by a $44.9 million decrease in loans, and a $170.3 million reduction in cash and cash equivalents. The de-leveraging of the Company's balance sheet during the nine months ended June 30, 2011 was planned in connection with maturity of $102 million of FHLB advances. These advances were at a weighted average fixed rate of 5.64% and liquid assets utilized to repay these liabilities earned interest of less than 1%. The de-leveraging is expected to improve the net interest margin in future periods.

Loans. At June 30, 2011, total loans were $564.8 million, or 59.1% of total assets compared to $609.9 million or 51.4% of total assets at September 30, 2010. As indicated in the table below, over this nine month period our net loans covered by loss sharing were reduced by $28.0 million and at June 30, 2011, our covered loans totaled $120.1 million, or 21.3% of our total loan portfolio.

Non-covered and Covered Loans, net

	Non-covered	Covered	Total
	(Dollars in Thousands)		
Loan Balances:			
June 30, 2011	$434,309	$120,140	$554,449
March 31, 2011	435,276	124,583	559,859
December 31, 2010	447,621	136,400	584,021
September 30, 2010	451,231	148,139	599,370
June 30, 2010	463,725	201,673	665,398

Investment and Mortgage Securities Portfolio. At June 30, 2011, our investment and mortgage securities portfolio totaled $164.6 million, compared to $133.2 million at September 30, 2010.

We analyze our non-agency collateralized mortgage securities for other than temporary impairment at least quarterly. We use a multi-step approach using Bloomberg analytics considering market price, ratings, ratings changes, and underlying mortgage performance including delinquencies, foreclosures, deal structure, underlying collateral losses, prepayments, loan-to-value ratios, credit scores, and loan structure and underwriting, among other factors. Our first test is the Bloomberg default model, and if the bond shows no losses we consider it not other than temporarily impaired. If a bond shows material losses or a break in yield with the Bloomberg default model, we create a probable vector of loss severities and defaults and if it shows a loss we consider it other than temporarily impaired.

The following table shows issuer-specific information, book value, fair value credit rating and unrealized gain (loss) for our portfolio of non-agency collateralized mortgage obligations as of June 30, 2011. At June 30, 2011, we had recorded a cumulative total of $1.9 million of other than temporary impairment charges with respect to CWALT 2005-63 2A2, and a cumulative total of $1.2 million of other than temporary impairment charges with respect to SARM 2005-15 2A2. No other mortgage securities in our investment portfolio were other than temporarily impaired at June 30, 2011.

Description		Credit Rating			Net Impairment Losses Recognized in Earnings	Book value	Market Value	Unrealized Gain (Loss)
		Moody	S&P	Fitch	(Dollars in thousands)			
CWALT 2005-63 2A2		C	D	n/a	$1,878	$590	$435	$ (155)
CMSI 1993-14 A3		WR	BB	n/a	-	133	111	(22)
CMLTI 2004-HYB1 A31		B3	n/a	AAA	-	1,865	2,004	139
GSR 2003-4F 1A2		n/a	AAA	AAA	-	626	640	14
GSR 2005-2F 1A2	[1]	n/a	AAA/*-	AA	-	1,013	1,016	3
MASTR 2003-8 4A1		n/a	AAA	AAA	-	1,421	1,449	28
MARM 2004-7 5A1		Ba3	AAA	n/a	-	6,472	5,944	(528)
MARM 2004-13 B1		NR	B-	n/a	-	7,177	2,855	(4,322)
MARM 2004-15 4A1		Ba3	n/a	B	-	3,185	2,670	(515)
SARM 2005-15 2A2	[2]	NR	CCC	n/a	1,172	2,302	1,823	(479)
SARM 2004-6 3A3		n/a	AAA	n/a	-	1,430	1,099	(331)
					$3,050	$26,214	$20,046	$ (6,168)

[1] On July 21, 2011 S&P downgraded this bond from AAA to B.
[2] On July 21, 2011 S&P downgraded this bond from CCC to CC.

During the quarter ended June 30, 2011 two of the Bank’s non-agency CMO instruments experienced a rating downgrade from investment to non investment by one rating agency. One has a book value of $1.9 million and remains AAA by a second rating agency. A second has a book value of $3.2 million and remains a Ba3 by a second rating agency. These instruments continue to maintain a favorable credit support level and Bloomberg coverage ratios. These instruments demonstrate a very slight immaterial loss under the Bloomberg credit model with an aggregate projected loss of less than $100.00. Since we are projecting that we will receive essentially all contractual cash flows there is no break in yield or other than temporary impairment.

The investment in the MARM 2004-13 B1security represents the largest unrealized loss position in the investment portfolio at $4.3 million. Based on assessments of expected cash flows, it has been concluded that no other than temporary impairment exists on this security at June 30, 2011. The positive cash flows are attributable to a number of pertinent factors, including the relative lower levels of delinquency, lower levels of historical default and foreclosure, and much lower loss severities upon foreclosure, that this security has experienced. The security has a weighted average loan-to-value ratio of 53% of the underlying mortgages, average credit scores of 737 and its 2004 origination indicates its seasoning. The unrealized loss position may be attributable to liquidity risk and the structured tranche position.

Cash flow analysis indicates that the yields on all of the securities listed in the table are maintained. The unrealized losses shown may relate to general market liquidity and, in the securities with the larger unrealized losses, weakness in the underlying collateral, market concerns over foreclosure levels, and geographic concentration. We consider these unrealized losses to be temporary impairment losses primarily because cash flow analysis indicates that there are continued sufficient levels of credit enhancements and credit coverage levels of less senior tranches.

As of June 30, 2011, the securities above were classified as available for sale and a cumulative total of $3.0 million had been recognized as impairment through earnings. Based on the analysis performed by management as of June 30, 2011, the Company deemed it probable that all contractual principal and interest payments on the above securities, other than the two securities identified above as being other than temporarily impaired, will be collected and therefore there is no additional other than temporary impairment.

Bank Owned Life Insurance. The total cash surrender value of our bank owned life insurance at June 30, 2011 was $32.5 million, an increase of $827,000 compared to the cash surrender value of $31.7 million at September 30, 2010.

Deposits. Total deposits decreased by $127.3 million, or 15.5%, to $695.8 million at June 30, 2011 from $823.1 million at September 30, 2010. As indicated below we reduced wholesale certificates of deposit by $51.5 million and retail certificates by $82.0 million for the same period. Transaction accounts increased by $5.1 million in spite of reduced rates that we are paying and other tightening of terms on our rewards checking account. The Company's funding strategy has focused on lower cost core deposit growth and less wholesale deposit funding. The two FDIC assisted acquisition transactions brought a larger degree of wholesale time deposit funding which we have sought to decrease.

Deposit Balances

	Deposit Fees	Transaction Accounts	Savings	Money Market	Total Core Deposits	Retail Certificates of Deposit	Wholesale Certificates of Deposit
	(Dollars in Thousands)						
June 30, 2011	$1,448	$ 211,513	$19,438	$88,409	$319,360	$ 344,474	$ 31,984
March 31, 2011	1,360	214,810	19,329	87,005	321,144	372,160	41,987
December 31, 2010	1,433	202,632	16,850	91,974	311,456	395,744	52,212
September 30, 2010	1,564	206,373	17,409	89,388	313,170	426,521	83,443
June 30, 2010	1,553	190,325	18,613	99,464	308,402	402,218	100,438
March 31, 2010	1,396	180,508	29,725	109,595	319,828	417,961	168,791

Borrowings. Borrowings decreased to $110.0 million at June 30, 2011 from $212.0 million at September 30, 2010. In October 2010 we prepaid $60.0 million of FHLB advances that were originally scheduled to mature in early January 2011. The prepayment penalty of $810,000 approximated the net present value of interest that would have been paid if we had kept the borrowing to its original maturity. In March 2011 we paid off $42 million of FHLB advances that matured. Paying off the $42 million of borrowings using cash equivalents resulted in a net interest income increase estimated at $567,000 a quarter.

Equity. At June 30, 2011, our total equity equaled $138.9 million (or $7.65 per share), a $3.1 million increase from September 30, 2010. The increase was primarily due to $2.1 million of net income and a decrease in unrealized losses on securities available for sale, net of tax.

Comparison of Operating Results for the Three Months Ended June 30, 2011 and June 30, 2010

General. The Company recognized net income of $1.5 million for the quarter ended June 30, 2011, compared to net income of $1.2 million for the quarter ended June 30, 2010. The $349,000 increase in net income between periods was a result of a $3.0 million decrease in interest expense and a $1.0 million decrease in in provision for loan losses partially offset by a decrease of $3.0 million in interest income and a $536,000 decrease in noninterest income.

Interest and Dividend Income. Total interest and dividend income decreased $3.0 million or 20.6%, to $11.4 million for the three months ended June 30, 2011 from $14.4 million for the three months ended June 30, 2010. Interest on loans decreased $2.3 million, or 18.3%, to $10.2 million as a result of a $90.0 million, or 13.8%, decrease in the average balance of loans receivable to $562.9 million and a 40 basis point decrease in the average yield on loans. As indicated in the table below, the average yield on loans over the past year decreased from 7.68% for the three months ended June 30, 2010 to 7.28% for the three months ended June 30, 2011.

	Three Months Ended					
	June 2011	March 2011	December 2010	September 2010	June 2010	March 2010
Yield of Loans	7.28 %	7.05 %	7.51 %	7.63 %	7.68 %	6.27 %
Yield on Mortgage Securities	3.45 %	3.03 %	3.02 %	3.56 %	3.81 %	4.00 %
Yield of Assets	5.68 %	5.26 %	5.53 %	5.73 %	6.15 %	5.06 %
Cost of Deposits	1.26 %	1.38 %	1.61 %	1.84 %	1.82 %	1.78 %
Cost of CD's	1.74 %	1.78 %	1.97 %	2.06 %	2.07 %	2.07 %

Cost of NOW Accounts	0.28	%	0.32	%	0.36	%	0.65	%	0.71	%	0.84	%
Cost of Rewards Checking	1.07	%	1.63	%	2.35	%	3.65	%	3.51	%	3.27	%
Cost of Savings	0.10	%	0.09	%	0.14	%	0.36	%	0.63	%	0.28	%
Cost of MMDA	0.45	%	0.47	%	0.51	%	0.60	%	0.81	%	0.73	%
Cost of Borrowings	4.28	%	4.51	%	4.69	%	5.00	%	4.95	%	4.86	%
Cost of Liabilities	1.70	%	1.92	%	2.14	%	2.52	%	2.49	%	2.60	%
Loan/Deposit Spread	6.02	%	5.67	%	5.90	%	5.79	%	5.86	%	4.49	%
Mortgage Securities/Borrowings Spread	-0.83	%	-1.48	%	-1.67	%	-1.44	%	-1.14	%	-0.86	%
Asset/Liability Spread	3.98	%	3.34	%	3.39	%	3.21	%	3.66	%	2.46	%

Interest and dividend income on mortgage-backed securities decreased $673,000, or 39.5%, to $1.0 million for the three months ended June 30, 2011 from $1.7 million for the three months ended June 30, 2010. The decrease reflected a $59.3 million, or 33.2%, decrease in the average balance of securities to $119.3 million and a 36 basis point decrease in the average yield on securities in the generally lower market interest rate environment.

Interest Expense. Total interest expense decreased $2.9 million, or 47.6%, to $3.2 million for the three months ended June 30, 2011 from $6.2 million for the three months ended June 30, 2010. The decrease was primarily due to a $1.5 million, or 42.1% decrease on deposit interest which decreased to $2.1 million from $3.6 million, and a $1.4 million decrease in interest paid on borrowed funds. The decrease in interest on borrowed funds reflected a $102.2 million or 48.2% decrease in average borrowings to $110.0 million from $212.2 million. The decrease in interest on deposits was due to a 56 basis point decrease in average cost and a $129.2 million decrease in average balance of deposits.

Net Interest Income. Net interest income remained the same at $8.2 million for the three months ended June 30, 2011, and June 30, 2010. The three month comparative periods reflected a $2.3 million decrease in interest income on loans combined with a 79 basis point decrease in the average cost of interest-bearing liabilities, and a $231.4 million, or 23.2%, decrease in the average balance of interest-bearing liabilities for the three-months ended June 30, 2011 compared to the three months ended June 30, 2010. Our net interest margin increased 56 basis points to 4.06% for the three months ended June 30, 2011 from 3.50% for the 2010 period, while our net interest rate spread increased 32 basis points to 3.98% from 3.66%. Lower deposit costs and accretion of purchase discounts from the Neighborhood Community Bank ("NCB") and McIntosh Commercial Bank ("MCB") acquisitions contributed to the improved net interest margin and net interest rate spread. As indicated in the table below, our percentage of interest-earning assets to average interest-bearing liabilities increased from 93.65% in June 2010 to 104.89% in June 2011.

	For the Three Months Ended June 30,					
	2011			2010		
	Average Balance	Interest	Average Yield/ Cost	Average Balance	Interest	Average Yield/ Cost
Assets:	(Dollars in thousands)					
Interest-earning assets:						
Interest-bearing deposits in other financial institutions	$ 79,419	$ 50	0.25 %	$ 82,361	$ 46	0.22 %
FHLB common stock	12,168	27	0.89	15,157	19	0.50
Mortgage-backed securities and collateralized mortgage obligations available for sale	119,327	1,030	3.45	178,607	1,702	3.81
Other investment securities available for sale	28,569	45	0.63	4,050	47	4.64
Loans receivable (1) (2)	562,917	10,245	7.28	652,887	12,540	7.68
Total interest-earning assets	802,400	11,397	5.68	933,062	14,354	6.15
Total noninterest-earning assets	179,692	-		233,668	-	
Total assets	$ 982,092	11,397		$ 1,166,730	14,354	
Liabilities and Equity:						
Interest-bearing liabilities:						
NOW accounts	$ 86,018	$ 60	0.28	$ 83,303	$ 148	0.71
Rewards checking	67,824	181	1.07	52,877	464	3.51
Savings accounts	19,332	5	0.10	20,359	32	0.63
	85,343	96	0.45	102,357	207	0.81

Money market deposit accounts						
Certificate of deposit accounts	396,433	1,724	1.74	525,246	2,718	2.07
Total interest-bearing deposits	654,950	2,066	1.26	784,142	3,569	1.82
Borrowed funds	110,011	1,178	4.28	212,207	2,624	4.95
Total interest-bearing liabilities	764,961	3,244	1.70	996,349	6,193	2.49
Noninterest-bearing deposits	56,320			50,044		
Other noninterest-bearing liabilities	10,312	-		10,701	-	
Total noninterest-bearing liabilities	66,632			60,745		
Total liabilities	831,593	-		1,057,094	-	
Total stockholders' equity	150,499			109,636		
Total liabilities and stockholders' equity	$ 982,092	3,244		$ 1,166,730	6,193	
Net interest income		$ 8,153			$ 8,161	
Net interest rate spread (3)			3.98 %			3.66 %
Net interest margin (4)			4.06 %			3.50 %
Ratio of average interest-earning assets to average interest-bearing liabilities %						93.65 %

(1) Includes net loan fees deferred and accreted pursuant to applicable accounting requirements.

(2) Interest income on loans is interest income as recorded in the income statement and, therefore, does not include interest income on nonaccrual loans.

(3) Net interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average cost of interest bearing liabilities.

(4) Net interest margin represents net interest income as a percentage of average interest-earning assets.

Rate/Volume Analysis. The following tables set forth the effects of changing rates and volumes on our net interest income for the periods indicated. The rate column shows the effects attributable to changes in rates (changes in rate multiplied by prior volume). The volume column shows the effects attributable to changes in volume (changes in volume multiplied by prior rate). The combined column represents the net change in volume between the two periods multiplied by the net change in rate between the two periods. The net column represents the sum of the prior columns.

	For the Three Months Ended June 30, 2011 Compared to Three Months Ended June 30, 2010 Increase/(Decrease) Due to (In Thousands)			
	Volume	Rate	Combined	Net
Interest Income:				
Loans	$(1,728)	$(658)	$91	$(2,295)
Securities	(280)	(201)	(193)	(674)
Other interest-earning assets	(5)	20	(3)	12
Total interest-earning assets	(2,013)	(839)	(105)	(2,957)
Interest Expense				
Deposits	(623)	(951)	71	(1,503)
Borrowings	(837)	(894)	285	(1,446)
Total interest-bearing liabilities	(1,460)	(1,845)	356	(2,949)
Net change in net interest income	$(553)	$1,006	$(461)	$(8)

Provision for Loan Losses. The provision for loan losses for the three months ended June 30, 2011 was $300,000 for non-covered loans compared to $1.3 million for noncovered loans for the three months ended June 30, 2010. Net charge-offs on non-covered loans decreased to $634,000 for the three months ended June 30, 2011, from $3.2 million for the three months ended June 30, 2010. The allowance for loan losses for non-covered loans was $9.4 million, or 2.12% of total non-covered loans receivable at June 30, 2011.

Noninterest Income. Noninterest income decreased $536,000, or 18.0%, to $2.4 million for the three months ended June 30, 2011 from $3.0 million for the three months ended June 30, 2010. As indicated in the table below, deposit fees for the three months ended June 30, 2011 were down $105,000 compared to the three months ended June 30, 2010, primarily due to the implementation of rules requiring that customers opt in for nonsufficient fund charges on electronic transactions. Accretion on the FDIC indemnification asset is decreasing as a result of the reduction of the indemnification asset as the FDIC pays loss share claims. Securities were sold at a 7 to 10 point premium to avoid risk associated with premium loss through accelerated prepayments.

	For the Three Months Ended (Dollars in Thousands)						
	June 2011	March 2011	December 2010	September 2010	June 2010	March 2010	December 2009
Deposit fees	$1,448	$1,360	$1,433	$1,564	$1,553	$1,396	$1,276
Gain on the sale of loans	127	117	262	171	157	380	89
Brokerage commissions	156	202	167	140	130	143	106
Bank owned life insurance	255	290	281	279	283	205	361

Gain on sale of investments, net	426	-	171	568	128	195	8
Impairment losses on securities recognized in earnings	(300)	(223)	-	-	-	(3,374)	(153)
FDIC accretion	181	254	342	450	557	268	566
Other income	156	215	254	199	177	188	156
Gain on MCB acquisition	-	-	-	-	-	9,343	-
Total Noninterest Income	2,449	2,215	2,910	3,371	2,985	8,744	2,409

Noninterest Expense. Total noninterest expense remained largely unchanged at $8.0 million for the three months ended June 30, 2011, and June 30, 2010. As indicated in the table below the quarter included an increase of $411,000 or 72.6%, in other operating expense which includes a loss on the sale of a former branch facility of $350,000.

Noninterest Expense

	For the Three Months Ended (Dollars In Thousands)				
	June 2011	March 2011	December 2010	September 2010	June 2010
Compensation & employee benefits	$3,923	$3,705	$3,928	$3,607	$3,963
Occupancy	1,472	1,701	1,543	1,603	1,412
Legal & professional	408	469	425	32	519
Marketing	335	426	389	433	424
Furniture & equipment	185	196	200	186	169
Postage, office supplies, and printing	204	256	238	197	241
Deposit premium amortization expense	54	55	56	57	59
Other	977	658	637	652	566
FHLB advance prepayment penalty	-	-	810	-	-
Federal insurance premiums and other regulatory fees	293	396	322	530	313
Net cost of operations of real estate owned	117	765	861	1,785	372
	$7,968	$8,627	$9,409	$9,082	$8,038

Income Taxes. Income tax expense was $785,000 for the three months ended June 30, 2011 compared to an expense of $608,000 for the three months ended June 30, 2010. Our effective tax rate was 33.64% for the three months ended June 30, 2011, compared to 33.62% for the three months ended June 30, 2010.

Comparison of Operating Results for the Nine Months Ended June 30, 2011 and June 30, 2010

General. The Company recognized net income of $2.1 million for the nine months ended June 30, 2011, compared to net income of $5.1 million for the nine months ended June 30, 2010. The $3.0 million decrease in net income between periods was a result of a $6.6 million decrease in noninterest income and a $4.6 million increase in noninterest expense which was partially offset by an increase in net interest income of $3.0 million. Major contributors to the decrease in noninterest income and increase in noninterest expense was a $9.3 million purchase gain on the FDIC assisted acquisition of assets and liabilities of MCB, impairment of securities, and expenses related to the Company's FDIC-assisted acquisitions, respectively.

Interest and Dividend Income. Total interest and dividend income decreased $1.5 million, or 4.2%, to $35.1 million for the nine months ended June 30, 2011 from $36.6 million for the nine months ended June 30, 2010. Interest on loans increased $1.1 million, or 3.5%, to $31.8 million due to a 41 basis point increase in the average yield on loans. The average yield on loans over the past year increased from 6.87% for the nine months ended June 30, 2010 to 7.28% for the nine months ended June 30, 2011. The increase related to the MCB acquisition and related accretion income. Interest income was reduced by high balances of cash and cash equivalents and also nonperforming loans, primarily covered by loss sharing.

Interest and dividend income on mortgage-backed securities decreased $2.7 million, or 48.0%, to $2.9 million for the nine months ended June 30, 2011 from $5.7 million for the nine months ended June 30, 2010. The decrease reflected a $63.0 million, or 33.6%, decrease in the average balance of mortgage-backed securities and collateralized mortgage obligations to $124.3 million and an 87 basis point decrease in the average yield on securities in the generally lower market interest rate environment. Although the average balance of other investment securities available for sale increased $15.7 million, the average yield on such securities decreased from 4.67% to 0.69%.

Interest Expense. Total interest expense decreased $4.5 million, or 27.1%, to $12.1 million for the nine months ended June 30, 2011 from $16.6 million for the nine months ended June 30, 2010. The decrease was primarily due to a $3.2 million decrease in interest paid on borrowed funds. The decrease reflected a $79.1 million or 36.6% decrease in average borrowings to $137.0 million from $216.1 million. Interest on deposits decreased $1.3 million or 14.5%, to $7.4 million, for the nine months ended June 30, 2011 from $8.7 million for the nine months ended June 30, 2010. The cost of deposits decreased from 1.80% for the nine months ended June 30, 2010 to 1.42% for the nine months ended June 30, 2011, while the average balance of deposits increased $51.6 million for the same periods.

Net Interest Income. Net interest income increased $3.0 million, or 14.8%, to $23.0 million for the nine months ended June 30, 2011, from $20.1 million for the nine months ended June 30, 2010. The increase was due to a $4.5 million decrease in interest expense, largely due to a 64 basis point decrease in the average cost of interest-bearing liabilities, partially offset by a $63.0 million, or 33.6%, decrease in the average balance of mortgage-backed securities and collateralized mortgage obligations to $124.3 million for the nine-months ended June 30, 2011 compared to $187.3 million for the nine months ended June 30, 2010. The average yield on mortgage-backed securities and collateralized mortgage obligations also decreased 87 basis points for the 2011 period. Our net interest margin increased 53 basis points to 3.60% for the 2011 period from 3.07% for the 2010 period, while our net interest rate spread increased 52 basis points to 3.56% from 3.04%. Lower deposit costs and accretion of purchase discounts from the “NCB and MCB” acquisitions contributed to the improved net interest margin and net interest rate spread. As indicated in the table below our percentage of interest-earning assets to average interest-bearing liabilities increased from 101.10% for the nine months ended June 2010 to 102.29% for the nine months ended June 2011.

	For the Nine Months Ended June 30, 2011				2010			
	Average Balance	Interest	Average Yield/ Cost		Average Balance	Interest	Average Yield/ Cost	
Assets:			(Dollars in thousands)					
Interest-earning assets:								
Interest-bearing deposits in other financial institutions	$113,432	$199	0.23	%	$69,508	$89	0.17	%
FHLB common stock and other equity securities	13,171	69	0.70		14,426	34	0.31	
Mortgage-backed securities and collateralized mortgage obligations available for sale	124,283	2,947	3.16		187,299	5,664	4.03	
Other investment securities available for sale	19,937	103	0.69		4,165	146	4.67	
Loan receivable (1) (2)	582,042	31,776	7.28		595,443	30,695	6.87	
Total interest-earning assets	852,865	35,094	5.49		870,841	36,628	5.61	
Total noninterest-earning assets	211,011	-			150,385	-		
Total assets	$1,063,876	35,094			$1,021,226	36,628		
Liabilities and Equity:								
Interest-bearing liabilities:								
NOW accounts	$84,223	$204	0.32		$70,867	$404	0.76	
Rewards checking	69,135	877	1.69		35,793	909	3.39	
Savings accounts	18,239	15	0.11		17,607	53	0.40	
Money market deposit accounts	88,207	316	0.48		87,089	517	0.79	
Certificate of deposit accounts	437,007	6,019	1.84		433,895	6,812	2.09	
Total interest-bearing deposits	696,811	7,431	1.42		645,251	8,695	1.80	
Borrowed funds	136,967	4,641	4.52		216,078	7,877	4.86	
Total interest-bearing liabilities	833,778	12,072	1.93		861,329	16,572	2.57	
Noninterest-bearing deposits	53,271				45,155			
Other noninterest-bearing liabilities	13,650	-			10,376	-		
Total noninterest-bearing liabilities	66,921	-			55,531	-		
Total liabilities	900,699	12,072			916,860	16,572		
Total stockholders' equity	163,177	-			104,366	-		
Total liabilities and stockholders' equity	$1,063,876	12,072			$1,021,226	16,572		
Net interest income		$23,022				$20,056		
Net interest rate spread (3)			3.56	%			3.04	%
Net interest margin (4)			3.60	%			3.07	%
Ratio of average interest-earning assets to average interest-bearing liabilities			102.29	%			101.10	%

(1) Includes net loan fees deferred and accreted pursuant to applicable accounting requirements.
(2) Interest income on loans is interest income as recorded in the income statement and, therefore, does not include interest income on nonaccrual loans.

(3) Net interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average cost of interest bearing liabilities.
(4) Net interest margin represents net interest income as a percentage of average interest-earning assets.

Rate/Volume Analysis. The following tables set forth the effects of changing rates and volumes on our net interest income for the periods indicated. The rate column shows the effects attributable to changes in rates (changes in rate multiplied by prior volume). The volume column shows the effects attributable to changes in volume (changes in volume multiplied by prior rate). The combined column represents the net change in volume between the two periods multiplied by the net change in rate between the two periods. The net column represents the sum of the prior columns.

	For the Nine Months Ended June 30, 2011 Compared to nine Months Ended June 30, 2010 Increase/(Decrease) Due to (In Thousands)			
	Volume	Rate	Combined	Net
Interest Income:				
Loans	$ (691)	$ 1,813	$ (41)	$ 1,081
Securities	(1,353)	(1,347)	(60)	(2,760)
Other interest-earning assets	53	75	17	145
Total interest-earning assets	(1,991)	541	(84)	(1,534)
Interest Expense				
Deposits	632	(1,641)	(256)	(1,265)
Borrowings	(2,884)	(555)	204	(3,235)
Total interest-bearing liabilities	(2,252)	(2,196)	(52)	(4,500)
Net change in net interest income	$ 261	$ 2,737	$ (32)	$ 2,966

Provision for Loan Losses. The provision for loan losses for the nine months ended June 30, 2011 was $1.4 million for non-covered loans and $400,000 for covered loans, compared to $5.1 million for noncovered loans and no provision for covered loans for the nine months ended June 30, 2010. The larger 2010 provision for loan losses reflected increased specific allowances on two large impaired loans which ultimately were foreclosed later in 2010. Net charge-offs on non-covered loans decreased to $1.8 million for the nine months ended June 30, 2011, from $5.0 million for the nine months ended June 30, 2010. The allowance for loan losses for non-covered loans was $9.4 million, or 2.12% of total non-covered loans receivable at June 30, 2011.

Noninterest Income. Noninterest income decreased $6.6 million, or 46.4%, to $7.6 million for the nine months ended June 30, 2011 from $14.1 million for the nine months ended June 30, 2010. The decrease in noninterest income was largely attributed to a $9.3 million purchase gain on March 26, 2010 on the FDIC assisted acquisition of assets and liabilities of MCB, partially offset by a decrease of $3.0 million in other than temporary impairments.

Noninterest Expense. Total noninterest expense increased $4.6 million, or 21.6%, to $26.0 million for the nine months ended June 30, 2011, from $21.4 million for the nine months ended June 30, 2010. The nine months ended June 30, 2011 included an increase of $1.3 million or 13.2%, in salaries and employee benefits resulting from our acquisition of MCB and additional special asset and regulatory reporting personnel related to FDIC-assisted acquisitions. Other increases included a $1.0 million in other expenses due to the McIntosh acquisition and the sale of a former branch, $844,000 in the cost of REO primarily due to our portion of real estate taxes and other expenses on foreclosed real estate covered by loss sharing, an $810,000 FHLB advance prepayment penalty in October of 2010, and an increase of $373,000 in occupancy attributed to the acquisition of MCB.

Income Taxes. Income tax expense was $715,000 for the nine months ended June 30, 2011 compared to an expense of $2.6 million for the nine months ended June 30, 2010. Our effective tax rate was 25.62% for the nine months ended June 30, 2011, compared to 33.98% for the nine months ended June 30, 2010.

Asset Quality

Delinquent Loans and Foreclosed Assets. Our policies require that management continuously monitor the status of the loan portfolio and report to the Loan Committee of the Board of Directors on a monthly basis. These reports include information on delinquent loans and foreclosed real estate, and our actions and plans to cure the delinquent status of the loans and to dispose of the foreclosed property. The Loan Committee approves action plans on all loans that are 90 days or more delinquent. The Loan Committee consists of three outside directors. One position on the committee, the chairman, is permanent, and the other two positions alternate between four outside directors.

We generally stop accruing interest income when we consider the timely collectibility of interest or principal to be doubtful. We generally stop accruing for loans that are 90 days or more past due unless the loan is well secured and we determine that the ultimate collection of all principal and interest is not in doubt. When we designate loans as nonaccrual, we reverse all outstanding interest that we had previously credited. If we receive a payment on a nonaccrual loan, we may recognize a portion of that payment as interest income if we determine that the ultimate collectibility of principal is no longer in doubt. However, such loans may remain on nonaccrual status until a regular pattern of timely payments is established.

Impaired loans are individually assessed to determine whether the carrying value exceeds the fair value of the collateral or the present value of the expected cash flows to be received. Smaller balance homogeneous loans, such as residential mortgage loans and consumer loans, are collectively evaluated for impairment.

Real estate acquired as a result of foreclosure or by deed in lieu of foreclosure is classified as real estate owned until such time as it is sold. When real estate is acquired through foreclosure or by deed in lieu of foreclosure, it is recorded at the lower of the related loan balance or its fair value as determined by an appraisal, less estimated costs of disposal. If the value of the property is less than the loan, less any related specific loan loss reserve allocations, the difference is charged against the allowance for loan losses. Any subsequent write-down of real estate owned or loss at the time of disposition is charged against earnings.

Nonperforming assets decreased to $80.3 million at June 30, 2011 from $103.7 million at September 30, 2010. The purchased loans and commitments (“covered loans”) and other real estate owned (“covered other real estate”) acquired in the MCB and NCB acquisitions are covered by loss sharing agreements between the FDIC and CharterBank. Under these agreements, with respect to the NCB acquisition, the FDIC will assume 80% of losses and share 80% of loss recoveries on the first $82.0 million of losses, and 95% of losses and share 95% of loss recoveries on losses exceeding that amount; and with respect to the MCB acquisition, the FDIC will assume 80% of losses and share 80% of loss recoveries on the first $106.0 million of losses, and 95% of losses and share 95% of loss recoveries on losses exceeding that amount. We expect to exceed the threshold level that will result in 95% loss sharing at MCB.

As of June 30, 2011, our nonperforming covered and non-covered assets totaled $80.3 million and consisted of $55.9 million of nonaccrual loans, $27,000 of loans 90 days or more past due and still accruing and other real estate owned of $24.3 million.

	June 30 2011		September 30 2010	
	Covered [1]	Non-covered	Covered [1]	Non-covered
Non-accrual loans:				
1-4 family residential real estate	$3,235	$5,703	$3,747	$5,946
Commercial real estate	31,391	6,049	37,476	5,243
Real estate construction	—	—	3,147	—
Commercial	7,943	457	7,098	246
Consumer and other loans	999	143	1,126	209
Total non-accrual loans	$43,568	$12,352	$52,594	$11,644
Loans delinquent 90 days or greater and still accruing:				
1-4 family residential real estate	—	—	—	—
Commercial real estate	—	—	49	—
Real estate construction	—	—	—	—
Commercial	27	—	—	140

Consumer and other loans	—	—	—	—
Total loans delinquent 90 days or greater and still accruing	$27	$—	$49	$140
Total non-performing loans	$43,595	$12,352	$52,643	$11,784
Real estate owned:				
One- to four-family residential real estate	672	955	9,383	1,855
Commercial real estate	18,812	3,541	13,630	7,786
Real estate construction	—	342	5,575	—
Commercial	—	—	—	—
Consumer and other loans	—	—	1,039	—
Total real estate owned	$19,484	$4,838	$29,627	$9,641
Total non-performing assets	$63,079	$17,190	$82,270	$21,425
Restructured loans in accruing status not included above	$3,777	$8,197	$5,886	$1,649

[1]Nonaccrual covered loans references status of contractual interest income recognition as accretion income is generally recorded on these covered loans.

	June 30 2011		September 30 2010	
	Covered	Non-covered	Covered	Non-covered
Ratios:				
Non-performing loans as a percentage of total non-covered loans	N/M	2.78 %	N/M	2.61 %
Non-performing assets as a percentage of total non-covered assets	N/M	1.98 %	N/M	2.34 %

Allowance for Loan Losses on Non-covered Loans. The allowance for loan losses on non-covered loans represents a reserve for probable loan losses in the loan portfolio. The adequacy of the allowance for loan losses is evaluated periodically based on a review of all significant loans with particular emphasis on impaired, non-accruing, past due and other loans that management believes require special attention. The determination of the allowance for loan losses is considered a critical accounting policy.

Additions to the allowance for loan losses are made periodically to maintain the allowance at an appropriate level based on management's analysis of loss inherent in the loan portfolio. The amount of the provision for loan losses is determined by an evaluation of the level of loans outstanding, loss risk as determined based on a loan grading system, the level of non-performing loans, historical loss experience, delinquency trends, the amount of losses charged to the allowance in a given period, and an assessment of economic conditions.

The Company maintained its allowance for loan losses for the nine months ending June 30, 2011 in response to continued weak economic conditions, net charge-offs, weak financial indicators for borrowers in the real estate sectors, continuing low collateral values of commercial and residential real estate, and nonaccrual and impaired loans. The following table details the allowance for loan losses on loans not covered by loss sharing by portfolio segment as of June 30, 2011. Allocation of a portion of the allowance to one category of loans does not preclude availability to absorb losses in other categories.

	Nine Months Ended June 30, 2011						
	1-4 Family Real Estate	Commercial Real Estate	Commercial	Real Estate Construction	Consumer and Other	Unallocated	Total
Allowance for loan losses:							
Balance at beginning of year	$1,023,078	$6,103,391	$623,479	$1,236,169	$79,149	$731,829	$9,797,095
Charge-offs	(460,510)	(957,064)	(382,405)	(21,822)	(135,186)	-	(1,956,987)
Recoveries	63,310	-	36,551	159	19,993	-	120,013
Provision	(20,976)	524,990	455,583	99,814	130,932	209,657	1,400,000
Ending balance	$604,902	$5,671,317	$733,208	$1,314,320	$94,888	$941,486	$9,360,121
Ending balance: individually evaluated for impairment	$65,000	$952,795	$76,568	$-	$-		$1,094,363

Loans:							
Ending balance	$101,295,019	$259,793,426	$20,994,876	$42,553,872	$20,006,034		$444,643,227
Ending balance: individually evaluated for impairment	$5,703,098	$7,254,747	$456,506	$-	$-		$13,414,351

Our allowance for loan loss methodology is a loan classification-based system. Our allowance for loan losses is segmented into the following four major categories: (1) specific reserves; (2) general allowances for Classified/Watch loans; (3) general allowances for loans with satisfactory ratings; and (4) an unallocated amount. We base the required reserve on a percentage of the loan balance for each type of loan and classification level. Loans may be classified manually and are automatically classified if they are not previously classified when they reach certain levels of delinquency. Unclassified loans are reserved at different percentages based on our loan loss history for the last two years. Reserve percentages are also adjusted based upon our estimate of the effect that the current economic environment will have on each type of loan.

At June 30, 2011 and September 30, 2010, specific reserves represented 7.14% and 12.79%, respectively, of the Bank's loans individually evaluated for impairment. At June 30, 2011 and September 30, 2010, general allowances, including the unallocated component, represented 1.98% and 1.85%, respectively, of the general loan portfolio not considered to be impaired. The general component increased by 13 basis points primarily because the Company increased its unallocated reserves by approximately $200,000 to consider the slow and uncertain real estate markets.

The allowance for loan and lease losses represented 78.78 % and 83.07 % of non-performing loans and leases at June 30, 2011 and September 30, 2010, respectively. The allowance for loan losses as a percentage of non-covered loans, was 2.12% at June 30, 2011 and September 30, 2010. Management reviews the adequacy of the allowance for loan losses on a continuous basis. Management considered the allowance for loan losses on non-covered loans adequate at June 30, 2011 to absorb probable losses inherent in the loan portfolio. However, adverse economic circumstances or other events, including additional loan review, future regulatory examination findings or changes in borrowers' financial conditions, could result in increased losses in the loan portfolio or in the need for increases in the allowance for loan losses.

Non-accretable Differences on Covered Loans. Through the FDIC-assisted acquisitions of the loans of NCB and MCB, we established an allowance for loan losses for non-impaired covered loans for NCB, non-accretable discounts for the acquired impaired loans for both NCB and MCB, and we also established non-accretable discounts for all other loans of MCB. Collectively, these non-accretable discounts were based on estimates of future cash flows. Subsequent to the acquisition dates, we continue to assess the experience of actual cash flows compared to our estimates. When we determine that non-accretable discounts are insufficient to cover expected losses in the applicable covered loan portfolios, such non-accretable discounts are increased with a corresponding provision for covered loan losses as a charge to earnings and an increase in the applicable FDIC receivable based on loss sharing indemnification. The following table details the non-accretable discount on loans covered by loss sharing by portfolio segment as of and for the nine months ended June 30, 2011.

	1-4 Family Real Estate	Commercial Real Estate	Commercial	Real Estate Construction	Consumer and Other	Total
Non-accretable differences [1]:						
Balance at beginning of year	$1,856,851	$39,160,920	$23,266,859	$ 2,497,018	$1,632,467	$68,414,115
Charge-offs	(438,645)	(15,692,783)	(15,956,461)	(2,132,386)	(1,063,939)	(35,284,214)
Recoveries	65,049	1,215,753	2,774,744	74,875	40,327	4,170,748
Provision for loan losses charged to FDIC receivable	217,809	601,309	-	200,718	580,164	1,600,000
Provision for loan losses charged to operations	54,452	150,328	-	50,179	145,041	400,000
Ending balance	$1,755,516	$25,435,527	$10,085,142	$ 690,404	$1,334,060	$39,300,649
Covered loans:						
Ending contractual balance	$10,970,728	$117,284,273	$33,496,105	$ 2,044,871	$8,366,019	$172,161,996

[1] Amounts include the allowance for covered loan losses.

The total non-accretable discount as a percentage of the ending contractual balance of acquired loans was 22.80% at June 30, 2011, compared to 29.08% at September 30, 2010. This decrease during the nine month period ended June 30, 2011 is related to increased charge-off activity on covered loans with such losses subject to applicable loss sharing agreements with the FDIC. It is expected that the ratio of non-accretable discounts to contractual covered principal outstanding will trend downwards as the more significant problem loans are charged-off and submitted for loss sharing reimbursement from the FDIC. Management considered the non-accretable discounts on covered loans adequate at June 30, 2011 to absorb probable losses inherent in the covered loan portfolio.

Liquidity Management. Liquidity is the ability to meet current and future short-term financial obligations. Our primary sources of funds consist of deposit inflows, advances from the Federal Home Loan Bank, loan payments and prepayments, mortgage-backed securities and collateralized mortgage obligations repayments and maturities and sales of loans and other securities. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows and mortgage prepayments are greatly influenced by market interest rates, economic conditions and competition. Our Asset/Liability Management Committee is responsible for establishing and monitoring our liquidity targets and strategies in order to ensure that sufficient liquidity exists for meeting the borrowing needs of our customers as well as unanticipated contingencies. At June 30, 2011 and September 30, 2010, we had access to immediately available funds of approximately $109.3 million and $273.3 million, respectively, including overnight funds and a Federal Reserve line of credit.

We regularly adjust our investments in liquid assets based upon our assessment of expected loan demand, expected deposit flows, yields available on interest-earning deposits and securities, and the objectives of our asset/liability management program. Excess liquid assets are invested generally in interest-earning deposits and short- and intermediate-term securities.

Our most liquid assets are cash and cash equivalents. The levels of these assets are subject to our operating, financing, lending and investing activities during any given period. At June 30, 2011, cash and cash equivalents totaled $65.3 million and securities classified as available-for-sale, which provide additional sources of liquidity, totaled $164.6 million. In addition, at June 30, 2011, we had access to additional Federal Home Loan Bank advances of up to $286.3 million. At June 30, 2011, we had $110.0 million in advances outstanding. However, based on available collateral, additional advances would be limited to $64.4 million.

Our cash flows are derived from operating activities, investing activities and financing activities as reported in our Consolidated Statements of Cash Flows included in our Consolidated Financial Statements.

At June 30, 2011, we had $3.2 million of new loan commitments outstanding, and $19.7 million of unfunded construction and development loans. In addition to commitments to originate loans, we had $20.6 million of unused lines of credit to borrowers. Certificates of deposit due within one year of June 30, 2011 totaled $259.5 million, or 37.3% of total deposits. If these deposits do not remain with us, we will be required to seek other sources of funds, including other certificates of deposit and Federal Home Loan Bank advances. Depending on market conditions, we may be required to pay higher rates on such deposits or other borrowings than we currently pay on the certificates of deposit due on or before June 30, 2012. We believe, however, based on past experience that a significant portion of our certificates of deposit will remain with us. We have the ability to attract and retain deposits by adjusting the interest rates offered.

Our primary investing activities are the origination of loans and the purchase of securities. During the three months ended June 30, 2011, we originated $20.3 million of loans and purchased $41.7 million of securities and other investments.

Financing activities consist primarily of changes in deposit accounts and Federal Home Loan Bank advances. We experienced a net decrease in total deposits of $39.5 million for the quarter ended June 30, 2011, primarily from decreases in time deposits. We also paid off $102.0 million in FHLB advances during the nine months ended June 30, 2011. Deposit flows are affected by the overall level of interest rates, the interest rates and products offered by us and our local competitors and other factors.

Liquidity management is both a daily and long-term function of business management. If we require funds beyond our ability to generate them internally, borrowing agreements exist with the Federal Home Loan Bank which provides an additional source of funds. For the nine months ended June 30, 2011, the Company has decreased FHLB advances by $102 million through the reduction of liquid assets in a planned de-leveraging strategy designed to improve the net interest margin. Federal Home Loan Bank advances have been used primarily to fund loan demand and to purchase securities.

Cash receipts arising from payments on covered loans and loss-sharing collections from the FDIC are expected to provide positive net cash flows.

Capital Management and Resources. We are subject to various regulatory capital requirements administered by the Office of Thrift Supervision, including a risk-based capital measure. The risk-based capital guidelines include both a definition of capital and a framework for calculating risk-weighted assets by assigning balance sheet assets and off-balance sheet items to broad risk categories. At June 30, 2011, CharterBank exceeded all of our regulatory capital requirements. CharterBank is considered “well capitalized” under regulatory guidelines.

Capital Adequacy Ratios	June 30, 2011		September 30, 2010		June 30, 2010	
Tier 1 capital (to risk-weighted assets)	25.17	%	20.28	%	19.77	%
Total capital (to risk-weighted assets)	26.43	%	21.53	%	18.64	%
Tier 1 capital (to total assets)	13.16	%	10.21	%	9.10	%

Off-Balance Sheet Arrangements. In the normal course of operations, we engage in a variety of financial transactions that, in accordance with generally accepted accounting principles are not recorded in our consolidated financial statements. These transactions involve, to varying degrees, elements of credit, interest rate and liquidity risk. Such transactions are used primarily to manage customers’ requests for funding and take the form of loan commitments and lines of credit.

For the three months ended June 30, 2011, we did not engage in any off-balance sheet transactions reasonably likely to have a material effect on our financial condition, results of operations or cash flows.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Qualitative Aspects of Market Risk. The Company's most significant form of market risk is interest rate risk. We manage the interest rate sensitivity of our interest-bearing liabilities and interest-earning assets in an effort to minimize the adverse effects of changes in the interest rate environment. Deposit accounts typically react more quickly to changes in market interest rates than mortgage loans because of the shorter maturities of deposits. As a result, sharp increases in interest rates may adversely affect our earnings while decreases in interest rates may beneficially affect our earnings. We employ several strategies to manage the interest rate risk inherent in our mix of assets and liabilities, including:

- selling fixed rate mortgages we originate to the secondary market, generally on a servicing released basis;
- maintaining the diversity of our existing loan portfolio by originating commercial real estate and consumer loans, which typically have adjustable rates and shorter terms than residential mortgages;
- emphasizing investments with adjustable interest rates;
- maintaining fixed rate borrowings from the Federal Home Loan Bank of Atlanta; and
- increasing retail transaction deposit accounts, which typically have long durations.

We have an Asset/Liability Management Committee to communicate, coordinate and control all aspects involving asset/liability management. The committee establishes and monitors the volume, maturities, pricing and mix of assets and funding sources with the objective of managing assets and funding sources to provide results that are consistent with liquidity, growth, risk limits and profitability goals.

Quantitative Aspects of Market Risk. The Office of Thrift Supervision requires the computation of amounts by which the difference between the present value of an institution's assets and liabilities (the institution's net portfolio value or "NPV") would change in the event of a range of assumed changes in market interest rates. Our simulation model uses a discounted cash flow analysis to measure the interest rate sensitivity of NPV. Depending on current market interest rates we historically have estimated the economic value of these assets and liabilities under the assumption that interest rates experience an instantaneous and sustained increase of 100, 200, or 300 basis points, or a decrease of 100 and 200 basis points, which is based on the current interest rate environment. A basis point equals one-hundredth of one percent, and 100 basis points equals one percent. An increase in interest rates from 3% to 4% would mean, for example, a 100 basis point increase in the "Change in Interest Rates" column below. Given the current relatively low level of market interest rates, a NPV calculation for an interest rate decrease of greater than 100 basis points has not been prepared.

The table below sets forth, as of June 30, 2011, our calculation of the estimated changes in CharterBank's net portfolio value that would result from the designated instantaneous changes in the interest rate yield curve.

Change in Interest Rates (bp) (1)	Estimated NPV (2)	Estimated Increase (Decrease) in NPV	Percentage Change in NPV	NPV Ratio as a Percent of Present Value of Assets (3)(4)	Increase (Decrease) in NPV Ratio as a Percent of Present Value of Assets (3)(4)
	(Dollars in thousands)				
+300	$ 111,812	$ 4,032	3.7 %	11.9 %	0.4 %

+200	$	111,234	$	3,454		3.2	%	11.9	%	0.4	%
+100	$	110,038	$	2,258		2.1	%	11.8	%	0.3	%
0	$	107,780	$	—		—		11.5	%	—	
(100)	$	107,214	$	(565	)	(0.5	%)	11.5	%	(0.0	%)

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(1) Assumes an instantaneous uniform change in interest rates at all maturities.
(2) NPV is the difference between the present value of an institution's assets and liabilities.
(3) Present value of assets represents the discounted present value of incoming cash flows on interest-earning assets.
(4) NPV Ratio represents NPV divided by the present value of assets.

The table above indicates that at June 30, 2011, in the event of a 200 basis point increase in interest rates, we would experience a 3.2% increase in net portfolio value. In the event of a 100 basis point decrease in interest rates, we would experience a 0.5% decrease in net portfolio value. Additionally, our internal policy states that our minimum NPV of estimated present value of assets and liabilities shall range from a low of 5.5% for a 300 basis point change in rates to 7.5% for no change in interest rates. As of June 30, 2011, we were in compliance with our Board approved policy limits.

The effects of interest rates on net portfolio value and net interest income are not predictable. Computations of prospective effects of hypothetical interest rate changes are based on numerous assumptions, including relative levels of market interest rates, prepayments, and deposit run-offs, and should not be relied upon as indicative of actual results. Certain shortcomings are inherent in these computations. Although some assets and liabilities may have similar maturity or periods of repricing, they may react at different times and in different degrees to changes in market interest rates. Rates on other types of assets and liabilities may lag behind changes in market interest rates. Assets, such as adjustable rate mortgages, generally have features that restrict changes in interest rates on a short-term basis and over the life of the asset. After a change in interest rates, prepayments and early withdrawal levels could deviate significantly from those assumed in making the calculations set forth above. Additionally, increased credit risk may result if our borrowers are unable to meet their repayment obligations as interest rates increase.

Item 4. Controls and Procedures

The Company's management, including the Company's principal executive officer and principal financial officer, have evaluated the effectiveness of the Company's "disclosure controls and procedures," as such term is defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based upon their evaluation, the principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective for the purpose of ensuring that the information required to be disclosed in the reports that the Company files or submits under the Exchange Act with the Securities and Exchange Commission (the "SEC") (1) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (2) is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. In addition, no change in the Company's internal control over financial reporting occurred during the quarter ended June 30, 2011 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

From time to time, we may be party to various legal proceedings incident to our business. At June 30, 2011, we were not a party to any pending legal proceedings that we believe would have a material adverse effect on our financial condition, results of operations or cash flows.

Item 1A. Risk Factors.

In addition to the other information set forth in this report, you should carefully consider the factors discussed in "Part I, Item1.A.- Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended September 30, 2010, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not only the risks that we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

The Standard & Poor's downgrade in the U.S. government's sovereign credit rating, and in the credit ratings of instruments issued, insured or guaranteed by certain related institutions, agencies and instrumentalities, could result in risks to the Company and general economic conditions that we are not able to predict.

On August 5, 2011, Standard & Poor's downgraded the United States long-term debt rating from its AAA rating to AA+. On August 8, 2011, Standard & Poor's downgraded the credit ratings of certain long-term debt instruments issued by Fannie Mae and Freddie Mac and other U.S. government agencies linked to long-term U.S. debt. Instruments of this nature are key assets on the balance sheets of financial institutions, including the Bank. These downgrades could adversely affect the market value of such instruments, and could adversely impact our ability to obtain funding that is collateralized by affected instruments, as well as affecting the pricing of that funding when it is available. We cannot predict if, when or how these changes to the credit ratings will affect economic conditions. These ratings downgrades could result in a significant adverse impact to the Company, and could exacerbate the other risks to which the Company is subject, including those described under Risk Factors in the Company's 2010 Annual Report on Form 10-K.

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

None

Item 3. Defaults Upon Senior Securities.

None

Item 5. Other Information.

None

Item 6. Exhibits.

31.1 Rule 13a-14(a)/15d-14(c) Certification of Chief Executive Officer *

31.2 Rule 13a-14(a)/15d-14(c) Certification of Chief Financial Officer *

32.1 Section 1350 Certifications *

101 Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Statements of Financial Condition as of June 30, 2011 and September 30, 2010, (ii) the Consolidated Statements of Income for the three and nine months ended June 30, 2011 and 2010, (iii) the Consolidated Statements of Changes in Stockholders' Equity and Comprehensive Income for the nine months ended June 30, 2011 and the year ended September 30, 2010, (iv) the Consolidated Statements of Cash Flows for the nine months ended June 30, 2011 and 2010, and (v) the Notes to the Unaudited Condensed Consolidated Financial Statements.*

* This information is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.

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.

	CHARTER FINANCIAL CORPORATION	
Date: August 12, 2011	By:	/s/ Robert L. Johnson Robert L. Johnson President and Chief Executive Officer
Date: August 12, 2011	By:	/s/ Curtis R. Kollar Curtis R. Kollar Senior Vice President and Chief Financial Officer