CHARTER FINANCIAL CORP/GA
Form 10-K
December 19, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended September 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 Number: 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 No.)
1233 O. G. Skinner Drive, West Point, Georgia (Address of principal executive offices)	31833 (Zip Code)

(706) 645-1391
(Registrant’s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $0.01 per share	The Nasdaq Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes [ ] No [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes [ ] No [X]

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing 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 (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large accelerated filer [ ]   Accelerated filer [ ]
Non-accelerated filer [ ]   Smaller reporting company [X]

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Act). Yes [ ] No [X]

The aggregate market value of the voting and non-voting common equity held by nonaffiliates as of March 31, 2011 was approximately
$67,390,646.

The number of shares outstanding of the registrant's common stock as of December 7, 2011 was 18,487,863.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the definitive Proxy Statement to be delivered to shareholders in connection with the Annual Meeting of Shareholders to be held on February 22, 2012 are incorporated by reference into Part III of this Form 10-K.

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Part I

Cautionary Note About Forward-Looking Statements

We have included or incorporated by reference in this Annual Report on Form 10-K, and from time to time our management may make, statements that may constitute “forward-looking statements” within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements are not historical facts but instead represent only our beliefs regarding future events, many of which, by their nature, are inherently uncertain and outside our control. These statements include statements other than historical information or statements of current condition and may relate to our future plans and objectives and results, as well as statements about the objectives and effectiveness of our risk management and liquidity policies, statements about trends in or growth opportunities for our businesses, statements about our future status, and activities or reporting under U.S. banking and financial regulation. Forward-looking statements generally are identified by the words “believe,” “project,” “expect,” “anticipate,” “estimate,” “intend,” “strategy,” “future,” “opportunity,” “plan,” “may,” “should,” “will,” “would,” “wi “will likely result,” and similar expressions. By identifying these statements for you in this manner, we are alerting you to the possibility that our actual results and financial condition may differ, possibly materially, from the anticipated results and financial condition indicated in these forward-looking statements. Important factors that could cause our actual results and financial condition to differ from those indicated in the forward-looking statements include, among others, those discussed below and under “Risk Factors” in Part I, Item 1A of this Annual Report on Form 10-K.

PART I

Item 1. BUSINESS

General

Charter Financial Corporation, or “Charter Financial,” is a federally chartered corporation established in October 2001 to be the holding company for CharterBank. Charter Financial’s business activity is the ownership of the outstanding capital stock of CharterBank.

CharterBank is a federally chartered stock savings bank headquartered in West Point, Georgia. CharterBank was originally founded in 1954 as a federally chartered mutual savings and loan association. Our principal business consists of attracting retail deposits from the general public in the areas surrounding our administrative office in West Point, Georgia and our branch offices located in west-central Georgia, east-central Alabama and now the Florida Panhandle, and investing those deposits, together with funds generated from operations, in investment securities, commercial real estate loans, one- to four-family residential mortgage loans, construction loans and, to a lesser extent, commercial business loans, home equity loans and lines of credit and other consumer loans. In addition to our branch offices in West Central Georgia, East Central Alabama and the Florida Panhandle, we operate a cashless branch office in Norcross, Georgia.

CharterBank has grown through strategic de novo branching and acquisitions primarily, along the I-85/I-185 corridor and adjacent areas anchored by Auburn, Alabama and Atlanta and Columbus, Georgia. In February 2003, we expanded our presence in the Auburn-Opelika, Alabama market through the acquisition of Eagle Bank of Alabama. In March 2005 and May 2007, new branches were opened in Lagrange, Georgia. In June 2009, we entered into an agreement with the Federal Deposit Insurance Corporation (“FDIC”) to acquire certain assets and assume all of the deposits of Neighborhood Community Bank, or “NCB”, a full-service commercial bank headquartered in Newnan, Georgia, and in March 2010, we entered into an agreement with the FDIC to acquire certain assets and assume all of the deposits of McIntosh Commercial Bank, or “MCB”, a full-service commercial bank headquartered in Carrollton, Georgia. In September 2011, we entered into an agreement with the FDIC to acquire certain assets and assume all of the deposits of The First National Bank of Florida, or “FNB”, a full-service commercial bank headquartered in Milton, Florida. The agreements with the FDIC in connection with the acquisitions of NCB, MCB and FNB also included loss-sharing agreements with respect to certain loans and assets. For additional information regarding the NCB, MCB and FNB acquisitions, see "—Recent FDIC-Assisted Acquisitions" below and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent FDIC-Assisted Acquisitions."

First Charter, MHC is our federally chartered mutual holding company. First Charter, MHC's principal business activity is the ownership of 11,457,924 shares of common stock of Charter Financial, or approximately 61% of Charter Financial's outstanding shares as of December 15, 2011. As long as we remain in the mutual holding company form of organization, First Charter, MHC must own a majority of the outstanding shares of Charter Financial.

Charter Foundation, Inc., a nonprofit charitable foundation, was established by CharterBank in December 1994. The Foundation provides funds to eligible nonprofit organizations to help them carry out unique, innovative projects in specific fields of interest. The Foundation's goal is to fund projects that will enhance the quality of life in the communities we serve.

Our Internet address is www.charterbank.net. Information on our website should not be considered a part of this Annual Report on Form 10-K.

Market Area

Prior to acquiring branch offices of NCB, MCB and FNB, we conducted operations primarily in western Georgia and eastern Alabama, through our main office in West Point, Georgia (Troup County), a branch in Valley, Alabama (Chambers County), three branches in LaGrange, Georgia (Troup County), a branch in Opelika, Alabama (Lee County), and two branch offices in Auburn, Alabama (Lee County), for a total of 10 branch offices. We acquired four branches in Georgia, along the I-85 corridor, in the NCB acquisition in June 2009, and closed one branch. In March 2010, we acquired four branches of MCB and closed one branch, further expanding our presence in west-central Georgia. In September 2011, we acquired eight branches of FNB and in October 2011 closed four of these branches in Northwest Florida. The acquisitions have complemented the corporate expansion we have achieved in recent years both through de novo branching and acquisitions. Management believes that the acquisitions are key components to building our retail franchise, as we now have 14 branches on the I-85 corridor and adjacent areas between Newnan, Georgia and Auburn, Alabama, and four branches in the Florida Panhandle. The focus of our near-term acquisition strategy will be to acquire additional franchises primarily with FDIC assistance.

The economy of our market area historically has been supported by the textile industry. During the 1980's and 1990's, employment growth in local telecommunications companies partially offset declining textile industry jobs in our market area. Textile industry employment continues to decline. The median household income in our market area is below national and Georgia levels.

The outlook for our market area is for modest growth supported by a new KIA Motors assembly plant in West Point, Georgia and a military base realignment which has added significantly to employment at Fort Benning in Columbus, Georgia. However, the market area is significantly overbanked, especially Newnan and Coweta County. This has limited our ability to expand organically, thus making geographic expansion more dependent upon acquisitions and de novo branching into new markets. We will seek to take advantage of the profitable growth opportunities presented within our expanded market area, and capitalize on our expanded retail footprint resulting from acquisitions. The outlook for our Florida Panhandle market is stable due to the heavy influences of military bases.

Upon the acquisition of FNB, we reopened 8 branches in the Florida Panhandle under the CharterBank brand. Specifically, 4 branches are located in Santa Rosa County, 3 branches in Escambia County, and 1 branch in Okaloosa County. The economy of the Florida Panhandle is primarily dependent upon tourism and hospitality, farming, forestry, paper mills, import/export shipping, shipbuilding, and commercial fishing. Unemployment rates in our Florida Panhandle markets remain below the inflated statewide average. The median household income levels in the majority of our Florida markets are above statewide levels but below national levels. Over the next five years, our Florida markets are projected to experience moderate growth in terms of total population and number of households.

Competition

We face intense competition both in making loans and attracting deposits. West-central Georgia, east-central Alabama and the Florida Panhandle have a high concentration of financial institutions, many of which are branches of large money center, super-regional, and regional banks that have resulted from the consolidation of the banking industry in Florida, Alabama, and Georgia. Many of these competitors have greater resources than we do and may offer services that we do not provide.

Our competition for loans comes from commercial banks, savings institutions, mortgage banking firms, credit unions, finance companies, credit card banks, insurance companies, and brokerage and investment banking firms. Our most direct competition for deposits historically has come from commercial banks, savings banks, savings and loan associations, credit unions, and mutual funds. We face additional competition for deposits from short-term money market funds and other corporate and government securities funds and from brokerage firms and insurance companies.

FDIC-Assisted Acquisitions

Neighborhood Community Bank. On June 26, 2009, CharterBank entered into a purchase and assumption agreement with the FDIC to acquire certain assets and assume certain liabilities of NCB, a full-service commercial bank headquartered in Newnan, Georgia. We assumed $195.3 million of NCB's liabilities, including $181.3 million of deposits, with no deposit premium paid. We also acquired $202.8 million of NCB assets, including $159.9 million of loans, net of unearned income, and $17.7 million of real estate owned, at a discount to book value of $26.9 million. The acquisition agreement with the FDIC included loss-sharing agreements pursuant to which the FDIC will assume 80% of losses and share 80% of loss recoveries on the first $82 million of losses on acquired loans and real estate owned, and assume 95% of losses and share 95% of loss recoveries on losses exceeding $82 million. Loans and other real estate owned that are covered under the loss-sharing agreements are referred to in this Annual Report on Form 10-K as "covered loans" and "covered other real estate," respectively. Collectively, these are referred to as "covered assets." Loans, other real estate and assets that are not covered by loss-sharing agreements are referred to as "non-covered" loans, other real estate and assets.

It is expected that we will have sufficient nonaccretable discounts and allowances for loan losses to cover any losses on the NCB covered loans and covered other real estate. Given the foregoing and as a result of the loss-sharing agreements with the FDIC on these assets, we do not expect to incur significant losses. In addition, we expect to have accretable discounts to provide for market yields on the NCB covered loans.

McIntosh Commercial Bank. On March 26, 2010, CharterBank entered into an acquisition agreement with the FDIC to acquire certain assets and assume certain liabilities of MCB, a full-service commercial bank headquartered in Carrollton, Georgia. We assumed $306.2 million of MCB's liabilities, including $295.3 million of deposits, with no deposit premium paid. We also acquired $322.6 million of MCB assets, including $207.6 million of loans, net of unearned income, and $55.3 million of real estate owned, at a discount to book value of $53.0 million. The purchase and assumption agreement with the FDIC included loss-sharing agreements pursuant to which the FDIC will assume 80% of losses and share 80% of loss recoveries on the first $106 million of losses on acquired loans and real estate owned, and assume 95% of losses and share 95% of loss recoveries on losses exceeding $106 million.

We recorded in noninterest income approximately $9.3 million in pre-tax acquisition gain, or negative goodwill, in connection with the MCB transaction, which represents the excess of the estimated fair value of the assets acquired over the fair value of the liabilities assumed. In addition, it is expected that we will have sufficient credit risk related (nonaccretable) discounts to cover any losses on the MCB covered loans and covered other real estate. We have recorded a FDIC receivable for expected losses to be indemnified and nonaccretable credit discounts for such amounts. It is also expected that we will have accretable discounts to provide for market yields on the MCB covered loans.

The First National Bank of Florida. On September 9, 2011, CharterBank entered into an acquisition agreement with the FDIC to acquire certain assets and assume certain liabilities of FNB, a full-service commercial bank headquartered in Milton, Florida. We assumed $247.5 million of FNB's liabilities, including $244.7 million of deposits, with no deposit premium paid. We also acquired $251.8 million of FNB assets, including $185.9 million of loans, net of unearned income, and $24.9 million of real estate owned, at a discount to book value of $10.6 million. The purchase and assumption agreement with the FDIC included loss-sharing agreements pursuant to which the FDIC will assume 80% of losses and share 80% of loss recoveries on acquired loans and real estate owned.

We recorded in noninterest income approximately $1.1 million in pre-tax acquisition gain, or negative goodwill, in connection with the FNB transaction, which represents the excess of the estimated fair value of the assets acquired over the fair value of the liabilities assumed. In addition, it is expected that we will have sufficient credit risk related (nonaccretable) discounts to cover any losses on the FNB covered loans and covered other real estate. We have recorded a FDIC receivable for expected losses to be indemnified and nonaccretable credit discounts for such amounts. It is also expected that we will have accretable discounts to provide for market yields on the FNB covered loans.

For more information regarding CharterBank's FDIC-assisted acquisitions, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—FDIC-Assisted Acquisitions."

Lending Activities

We offer a broad range of loan products with a variety of rates and terms. Our lending operations consist of the following major segments: commercial real estate lending; single-family residential mortgage lending for retention in our portfolio; construction lending; and residential mortgage lending for resale in the secondary mortgage market, generally on a servicing-released basis. To a lesser extent, we also originate consumer loans (including home equity loans and other forms of consumer installment credit), and commercial business loans. This strategy is consistent with our community bank orientation.

We have pursued loan diversification with the objective of lowering credit concentration risk, enhancing yields and earnings, and improving the interest sensitivity of our assets. Historically, we have focused our lending activities on residential and commercial mortgage loans as well as consumer loans, primarily to local customers. We also have initiated retail and commercial business lending in the markets formerly served by NCB, MCB and FNB branches.

Commercial Real Estate Loans. Commercial real estate lending is an integral part of our operating strategy and we intend to continue to take advantage of opportunities to originate commercial real estate loans, especially in our new markets of Carroll, Coweta, Haralson, Fayette, Santa Rosa, and Escambia Counties. Commercial real estate loans typically have higher yields, better interest rate risk characteristics and larger loan balances compared to residential mortgage loans. Commercial real estate lending also has provided us with another means of broadening our range of customer relationships. As of September 30, 2011, non-covered commercial real estate loans totaled $252.0 million, or 58.6% of our total non-covered loan portfolio. Additionally, at September 30, 2011, we had $263.3 million (contractual amount) of commercial real estate loans covered by FDIC loss-sharing agreements.

Commercial real estate loans are generally made to Georgia, Alabama or Florida entities and are secured by properties in these states. Commercial real estate loans are generally made for up to 85% of the value of the underlying real estate. Our commercial real estate loans are typically secured by offices, hotels, strip shopping centers, warehouses/distribution facilities land or convenience stores located principally in Georgia, Alabama and Florida. Multi-family mortgage loans, which we categorize as a subset of our commercial real estate loans, are originated for both new and existing properties and are made on apartment buildings with a wide range of tenant income levels. Many of our multi-family mortgage loans are secured by properties located near college campuses.

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. To compensate for the increased risk, our commercial real estate loans generally have higher interest rates and shorter maturities than our residential mortgage loans. We offer commercial real estate loans at fixed rates and adjustable rates tied to the prime interest rate. However, the interest rates on a portion of our commercial real estate loan portfolio are tied to yields on U.S. Treasury securities or LIBOR. We currently offer fixed-rate terms of five years; however, in prior years we originated fixed-rate loans with maturities of up to 20 years.

Our 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 our loan approval and underwriting of commercial real estate loans, we undertake a cash flow analysis, and we generally require a debt-service coverage ratio of at least 1.15 times. We believe that this segment of the market offers an opportunity to expand our portfolio while realizing strong risk-adjusted returns because many lenders are no longer active in this market.

Residential Mortgage Loans. We originate first and second mortgage loans secured by one- to four-family residential properties within Georgia and Alabama. We currently originate mortgages at all of our offices, but utilize centralized processing at our corporate office. As of September 30, 2011, non-covered residential mortgage loans totaled $98.8 million, or 23.0% of total non-covered loans. As of September 30, 2011, covered residential mortgage loans totaled $16.5 million, or 6.5% of total covered loans.

We originate both fixed rate and adjustable rate one- to four-family residential mortgage loans. Fixed rate, 30 year, conforming loans are generally originated for resale into the secondary market on a servicing-released basis. We generally retain in our portfolio loans that are 15 year fixed rate or non-conforming due to property exceptions and loans that have adjustable rates. As of September 30, 2011, approximately 38.4% of our one- to four-family loan portfolio consisted of fixed-rate mortgage loans and 61.6% consisted of either adjustable rate mortgage loans (“ARMs”) or hybrid loans with fixed interest rates for the first one, three, five or seven years of the loan, and adjustable rates thereafter. After the initial term, the interest rate on ARMs generally adjusts on an annual basis at a fixed spread over the monthly average yield on United States Treasury securities, the prime interest rate as listed in The Wall Street Journal, or LIBOR. The interest rate adjustments are generally subject to a maximum increase of 2% per adjustment period and 6% over the life of the loan.

Traditionally, we have sought to distinguish ourselves in the area of non-conforming residential mortgage lending. While the risks of non-conforming lending may be somewhat higher than originating conforming residential mortgage loans, we believe that the greater yield and shorter repricing terms of these loans compensate us for this additional risk. Additionally, management believes that the credit quality of our loan portfolio is largely unaffected by the non-conforming loans, since the majority of these loans are non-conforming due to factors unrelated to credit quality (i.e., high acreage, leased land, multiple structures or newly self-employed borrowers). The loans may also be non-conforming because of a deficiency in the credit record of a borrower, but which management believes does not impair the borrower’s ability to repay the loan. Thus, the non-conforming loans we originate are not subprime loans. CharterBank originates one- to four-family loans with LTVs up to 80%. We will occasionally originate loans with LTVs in excess of 80% with private mortgage insurance. The substantial portion of our one- to four-family residential mortgage loans are secured by properties in Georgia, Alabama and Florida.

The amount of subprime loans held by CharterBank is not material. We consider “subprime” loans to be loans originated to borrowers having credit scores below 580 at the time of origination. We do not, and have not, originated “low documentation” or “no documentation” loans, “option ARM” loans, or other loans with special or unusual payment arrangements.

We modify residential mortgage loans when it is mutually beneficial to us and the borrower, and on terms that are appropriate to the circumstances. We have no non-covered loans in government modification programs. Covered loans have FDIC modification programs available, these program are outlined in their respective purchase and assumption agreements.

Construction and Development Loans. Consistent with our community bank strategy, construction and development lending has been an integral part of our overall lending strategy. While current market conditions have suppressed demand for construction and land loans, there are opportunities to lend to quality borrowers in our market area. Management believes that the reduction in the number of construction lenders has reduced the supply of construction loans, and there is an opportunity to lend to borrowers with superior liquidity, capital and management skills. We intend to remain an active participant in the construction lending market, primarily through our loan production office in Norcross, Georgia. We are making virtually no development loans and we are providing very limited financing for the purchase of building lots. Construction loans represent an important segment of the loan portfolio, totaling $41.7 million, or 9.7% of non-covered loans at September 30, 2011.

We make 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. We offer 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 we will extend to a builder at one time depends upon the financial strength and credit history of the builder. Our construction loan program is expected to remain a modest portion of our loan volume. We generally limit the number of outstanding loans on unsold homes under construction within a specific area and/or to a specific borrower.

Commercial Loans and Consumer Loans. To a much lesser extent, we also originate non-mortgage loans, including commercial business and consumer loans. At September 30, 2011, non-covered commercial loans totaled $17.6 million, or 4.1% of total non-covered loans, and non-covered consumer loans totaled $20.1 million, or 4.7% of non-covered loans. Additionally, at September 30, 2011, we had $32.7 million (contractual amount) of commercial loans and $8.6 million (contractual amount) of consumer loans covered by FDIC loss sharing agreements.

The majority of our non-mortgage non-covered loans are consumer loans, including loans on deposits, second mortgage loans, home equity lines of credit, auto loans and various other installment loans. We primarily offer 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. Our consumer lending generally follows accepted industry standards for non sub-prime lending, including credit scores and debt to income ratios.

We offer home equity lines of credit as a complement to our one- to four-family residential mortgage lending. We believe that offering home equity credit lines helps to expand and create stronger ties to our existing customer base by increasing the number of customer relationships and providing cross-marketing opportunities. Home equity credit lines have adjustable-rates and are secured by a first or second mortgage on owner-occupied one- to four-family residences located primarily in Georgia, Alabama and Florida. Home equity credit lines enable customers to borrow at rates tied to the prime rate as reported in The Wall Street Journal. 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 September 30, 2011, we had $15.8 million of home equity lines of credit and second mortgage loans not covered by the FDIC. We also had $9.7 million of unfunded home equity line of credit commitments not covered by the FDIC at September 30, 2011.

Our commercial business loans are generally limited to terms of five years or less. We typically collateralize these loans with a lien on commercial real estate or, occasionally, with a lien on business assets and equipment. We also generally require 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 our management compared to residential mortgage or commercial real estate lending.

Loan Origination and Approval Procedures and Authority. The following describes our current lending procedures for residential mortgage loans and home equity loans and lines of credit. Upon receipt of a completed loan application from a prospective borrower, we order a credit report and verify other information. If necessary, we obtain additional financial or credit related information. We require an appraisal for all residential and mortgage loans, except for home equity loans or lines where a valuation may be used to determine the loan-to-value ratio. Appraisals are performed by licensed or certified third-party appraisal firms and are reviewed by our lending department. We require title insurance or a title opinion on all mortgage loans.

We require borrowers to obtain hazard insurance and we may require borrowers to obtain flood insurance prior to closing. For properties with a private sewage disposal system, we also require evidence of compliance with applicable laws on residential mortgage loans. Further, we generally require borrowers to advance funds on a monthly basis together with each payment of principal and interest to a mortgage escrow account from which we make disbursements for items such as real estate taxes, hazard insurance, flood insurance, and private mortgage insurance premiums, if required.

Commercial loans are approved through CharterBank’s Management Loan Committee process. The Management Loan Committee consists of the Chief Executive Officer, the President, the Chief Financial Officer, the Senior Credit

Administrator, and certain other senior lending and credit officers. The Management Loan Committee has authority to approve loan relationships up to $2.0 million. Commercial loan relationships of $1.0 million or less may be approved outside the Committee process by two officers who have commercial loan authority. Commercial loan relationships greater than $2.0 million are approved by the Management Loan Committee and the Board’s Loan Committee or by the entire Board of Directors.

Investments

The Board of Directors reviews and approves our investment policy on an annual basis. The CEO and Chief Financial Officer, as authorized by the Board, implement this policy based on the established guidelines within the written investment policy, and other established guidelines, including those set periodically by the Asset-Liability Management Committee.

The primary goal of our investment policy is to invest funds in assets with varying maturities that will result in the best possible yield while maintaining the safety of the principal invested and assisting in managing our interest rate risk. We also seek to use our strong capital position to maximize our net income by investing in higher yielding mortgage-related securities funded by borrowings. We also consider our investment portfolio as a source of liquidity.

The broad objectives of our investment portfolio management are to:

- minimize the risk of loss of principal or interest;
- generate favorable returns without incurring undue interest rate and credit risk;
- manage the interest rate sensitivity of our assets and liabilities;
- meet daily, cyclical and long term liquidity requirements while complying with our established policies and regulatory liquidity requirements;
- provide a stream of cash flow
- diversify assets and address maturity or interest repricing imbalances; and
- provide collateral for pledging requirements.

In determining our investment strategies, we consider our interest rate sensitivity, yield, credit risk factors, maturity and amortization schedules, asset prepayment risks, collateral value and other characteristics of the securities to be held.

Sources of Funds

Deposits are the major source of balance sheet funding for lending and other investment purposes. Additional significant sources of funds include liquidity, repayment of loans, loan sales, maturing investments, and borrowings. We believe that our standing as a sound and secure financial institution and our emphasis on the convenience of our customers will continue to contribute to our ability to attract and retain deposits. We offer extended hours at the majority of our offices and alternative banking delivery systems that allow customers to pay bills, transfer funds and monitor account balances at any time. We also offer competitive rates as well as a competitive selection of deposit products, including checking, NOW, money market, regular savings and term certificate accounts. In addition, we offer a Rewards checking product that offers a higher rate on deposit balances up to $15,000 if certain conditions are met. These conditions include receiving only electronic statements, having at least one monthly ACH transaction and ten or more point of sale transactions per month. For accounts that do not meet these conditions in any given month, the rate paid on the balances is reduced.

We also rely on advertising and long-standing relationships to maintain and develop depositor relationships, while competitive rates are also paid to attract and retain deposits. Furthermore, the NCB, MCB, and FNB acquisitions are expected to enhance customer convenience by broadening the markets currently served by CharterBank.

We continually evaluate opportunities to enhance deposit growth. Potential avenues of growth include de novo branching and branch or institution acquisitions. Additionally, to the extent additional funds are needed, we may employ available collateral to reduce borrowings, which are expected to consist primarily of Federal Home Loan Bank advances. However, we have reduced and intend to continue to reduce our reliance on wholesale funds. We have a source of emergency liquidity with the Federal Reserve, and at September 30, 2011 we had collateral pledged that provided access to approximately $38.7 million of discount window borrowings.

Personnel

As of September 30, 2011, we had 294 full-time employees and 24 part-time employees. As of September 30, 2011, we also had employees from FNB through a contract payroll service as we transitioned them from payroll system. Our employees are not represented by any collective bargaining group. Management believes that we have good relations with our employees.

Subsidiaries

Charter Financial Corporation has no direct or indirect subsidiaries other than CharterBank.

REGULATION AND SUPERVISION

General

Charter Financial is a savings and loan holding company, and is required to file certain reports with, and is subject to examination by, and otherwise must comply with the rules and regulations of the Board of Governors of the Federal Reserve System ("FRB"). Charter Financial is also subject to the rules and regulations of the Securities and Exchange Commission under the federal securities laws.

The Bank is a federal savings association, examined and supervised by the Office of the Comptroller of the Currency ("OCC") and is subject to examination by the Federal Deposit Insurance Corporation ("FDIC"). This regulation and supervision establishes a comprehensive framework of activities in which an institution may engage and is intended primarily for the protection of the FDIC's deposit insurance fund and depositors. Under this system of federal regulation, financial institutions are periodically examined to ensure that they satisfy applicable standards with respect to their capital adequacy, assets, management, earnings, liquidity and sensitivity to market interest rates. Following completion of its examination, the federal agency critiques the institution's operations and assigns its rating (known as an institution's CAMELS rating). Under federal law, an institution may not disclose its CAMELS rating to the public. The Bank also is a member of and owns stock in the FHLB of Atlanta, which is one of the twelve regional banks in the Federal Home Loan Bank System. The Bank also is regulated to a lesser extent by the FRB, governing reserves to be maintained against deposits and other matters. The OCC will examine the Bank and prepare reports for the consideration of the Bank's board of directors on any operating deficiencies. The Bank's relationship with its depositors and borrowers also is regulated to a great extent by federal law and, to a much lesser extent, state law, especially in matters concerning the ownership of deposit accounts and the form and content of the Bank's mortgage documents.

Any change in these laws or regulations, whether by the FDIC, the OCC, the FRB or Congress, could have a material adverse impact on Charter Financial, the Bank and their operations.

Certain of the regulatory requirements that are applicable to the Bank and Charter Financial are described below. This description of statutes and regulations is not intended to be a complete explanation of such statutes and regulations and their effects on the Bank and Charter Financial and is qualified in its entirety by reference to the actual statutes and regulations.

Federal Legislation

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act"), enacted on July 21, 2010, is significantly changing the bank regulatory structure and affecting the lending, investment, trading and operating activities of depository institutions and their holding companies. The Dodd-Frank Act eliminated our former primary federal regulator, the Office of Thrift Supervision, and required the Bank to be regulated by the OCC (the primary federal regulator for national banks). The Dodd-Frank Act also authorized the FRB to supervise and regulate all savings and loan holding companies, including mutual holding companies and their mid-tier holding companies, like First Charter, MHC (the "MHC") and Charter Financial, in addition to bank holding companies which the FRB already regulated. Accordingly, the MHC will require the approval of the FRB before it may waive the receipt of any dividends from Charter Financial and there is no assurance that the FRB will approve future dividend waivers or, if it does, what conditions it may impose on such waivers. For additional discussion regarding the waiver of dividends by the MHC, see "—Holding Company Regulation—Waivers of Dividend by First Charter, MHC." The Dodd-Frank Act also requires the FRB to set minimum capital levels for depository institution holding companies that are as stringent as those required for the insured depository subsidiaries, and the components of Tier 1 capital would be restricted to capital instruments that are currently considered to be Tier 1 capital for insured depository institutions. There is a five-year transition period (from the July 21, 2010 effective date of the Dodd-Frank Act) before the capital requirements will apply to savings and loan holding companies. Under the Dodd-Frank Act, the proceeds of trust preferred securities are excluded from Tier 1 capital unless such securities were issued prior to May 19, 2010 by bank or savings and loan holding companies with less than $15 billion of assets. The legislation also establishes a floor for capital of insured depository institutions that cannot be lower than the standards in effect on July 21, 2010, and directs the federal banking regulators to implement new leverage and capital requirements within 18 months from the enactment of the Dodd-Frank Act that take into account off-balance sheet activities and other risks, including risks relating to securitized products and derivatives.

The Dodd-Frank Act also created a new Consumer Financial Protection Bureau with substantial power to supervise and enforce consumer protection laws. The Consumer Financial Protection Bureau has broad rulemaking authority for a wide range of consumer protection laws that apply to all banks and savings institutions such as the Bank, including the authority to prohibit "unfair, deceptive or abusive" acts and practices. The Consumer Financial Protection Bureau has examination and enforcement authority over all banks and savings institutions with more than $10 billion in assets. Banks and savings institutions with $10 billion or less in assets such as the Bank will continue to be examined by their applicable federal bank regulators. The legislation also weakened the federal preemption available for national banks and federal savings associations, and gives state attorneys general the ability to enforce applicable federal consumer protection laws.

The legislation broadened the base for FDIC insurance assessments. Assessments are now based on the average consolidated total assets less tangible equity capital of a financial institution. The Dodd-Frank Act also permanently increased the maximum amount of deposit insurance for banks, savings institutions and credit unions to $250,000 per depositor, retroactive to January 1, 2008, and non-interest bearing transaction accounts have unlimited deposit insurance through December 31, 2012. The Dodd-Frank Act increased stockholder influence over boards of directors by requiring companies to give stockholders a non-binding vote on executive compensation and so-called "golden parachute" payments. The legislation also directed the FRB to promulgate rules prohibiting excessive compensation paid to bank holding company executives, regardless of whether the company is publicly traded. The Dodd-Frank Act provided for originators of certain securitized loans to retain a percentage of the risk for transferred loans, directed the FRB to regulate pricing of certain debit card interchange fees and contained a number of reforms related to mortgage origination.

Many of the provisions of the Dodd-Frank Act have delayed effective dates and the legislation requires various federal agencies to promulgate numerous and extensive implementing regulations over the next several years. Although the substance and scope of these regulations cannot be completely determined at this time, it is expected that the legislation and implementing regulations will increase our operating and compliance costs.

Federal Banking Regulation

Business Activities. A federal savings association derives its lending and investment powers from the Home Owners' Loan Act, as amended, and federal regulations. Under these laws and regulations, the Bank may invest in mortgage loans secured by residential real estate without limitations as a percentage of assets, and may invest in non-residential real estate loans up to 400% of capital in the aggregate, commercial business loans up to 20% of assets in the aggregate and consumer loans up to 35% of assets in the aggregate. The Bank may also invest in certain types of debt securities and certain other assets. A bank also may establish subsidiaries that may engage in certain activities not otherwise permissible for a bank, including real estate investment and securities and insurance brokerage. The Dodd-Frank Act authorized depository institutions to commence paying interest on business checking accounts, effective July 21, 2011.

Capital Requirements. Federal regulations require savings associations to meet three minimum capital standards: a 1.5% tangible capital ratio, a 4% leverage ratio (3% for savings associations receiving the highest rating on the CAMELS rating system and meeting certain other requirements) and an 8% risk-based capital ratio.

The risk-based capital standard for savings associations requires the maintenance of Tier 1 (core) and total capital (which is defined as core capital and supplementary capital) to risk-weighted assets of at least 4% and 8%, respectively. In determining the amount of risk-weighted assets, all assets, including certain off-balance sheet assets, are multiplied by a risk-weight factor of 0% to 100% (or 200% for certain residual interests in transferred assets), assigned by the applicable regulatory agency, based on the risks believed inherent in the type of asset. Core capital is defined as common shareholders' equity (including retained earnings), certain non-cumulative perpetual preferred stock and related surplus and minority interests in equity accounts of consolidated subsidiaries, less intangibles other than certain mortgage servicing rights and credit card relationships. The components of supplementary capital currently include cumulative preferred stock, long-term perpetual preferred stock, mandatory convertible securities, subordinated debt and intermediate preferred stock, the allowance for loan and lease losses limited to a maximum of 1.25% of risk-weighted assets and up to 45% of net unrealized gains on available-for-sale equity securities with readily determinable fair market values. Overall, the amount of supplementary capital included as part of total capital cannot exceed 100% of core capital. Additionally, a savings association that retains credit risk in connection with an asset sale may be required to maintain additional regulatory capital because of the recourse back to the savings association.

At September 30, 2011, the Bank's capital exceeded all applicable requirements.

Loans-to-One Borrower. Generally, a federal savings association may not make a loan or extend credit to a single or related group of borrowers in excess of 15% of unimpaired capital and surplus. An additional amount may be loaned, equal to 10% of unimpaired capital and surplus, if the loan is secured by readily marketable collateral, which generally does not include real estate. As of September 30, 2011, the Bank was in compliance with the loans-to-one borrower limitations.

Qualified Thrift Lender Test. As a federal savings association, the Bank must satisfy the qualified thrift lender, or "QTL", test. Under the QTL test, the Bank must maintain at least 65% of its "portfolio assets" in "qualified thrift investments" (primarily residential mortgages and related investments, including mortgage-backed securities) in at least nine months of the most recent 12-month period. "Portfolio assets" generally means total assets of a savings institution, less the sum of specified liquid assets up to 20% of total assets, goodwill and other intangible assets, and the value of property used in the conduct of the savings association's business.

The Bank also may satisfy the QTL test by qualifying as a "domestic building and loan association" as defined in the Internal Revenue Code.

A savings association that fails the qualified thrift lender test must operate under specified restrictions. Under the Dodd-Frank Act, non-compliance with the QTL test may subject the Bank to agency enforcement action for a violation of law. At September 30, 2011, the Bank satisfied the QTL test.

Capital Distributions. Federal regulations govern capital distributions by a federal savings association, which include cash dividends, stock repurchases and other transactions charged to the capital account. A federal savings association must file an application with the OCC for approval of a capital distribution if:

the total capital distributions for the applicable calendar year exceed the sum of the savings association's net income for that year to date plus the savings association's retained net income for the preceding two years;

the savings association would not be at least adequately capitalized following the distribution;

the distribution would violate any applicable statute, regulation, agreement or condition imposed by a regulator; or

the savings association is not eligible for expedited treatment of its filings.

Even if an application is not otherwise required, every savings association that is a subsidiary of a savings and loan holding company must still file a notice with the FRB at least 30 days before the board of directors declares a dividend or approves a capital distribution.

The OCC and the FRB have established similar criteria for approving an application or a notice and may disapprove a notice or application if:

the savings association would be undercapitalized following the distribution;

the proposed capital distribution raises safety and soundness concerns; or the capital distribution would violate a prohibition contained in any statute, regulation or agreement.

In addition, the Federal Deposit Insurance Act provides that an insured depository institution may not make any capital distribution, if the institution would be undercapitalized after the distribution.

Liquidity. A federal savings association is required to maintain a sufficient amount of liquid assets to ensure its safe and sound operation.

Community Reinvestment Act and Fair Lending Laws. All savings associations have a responsibility under the Community Reinvestment Act and federal regulations to help meet the credit needs of their communities, including low- and moderate-income neighborhoods. In connection with its examination of a federal savings association, the OCC is required to assess the savings association's record of compliance with the Community Reinvestment Act. In addition, the Equal Credit Opportunity Act and the Fair Housing Act prohibit lenders from discriminating in their lending practices on the basis of characteristics specified in those statutes. A savings association's failure to comply with the provisions of the Community Reinvestment Act could, at a minimum, result in denial of certain corporate applications such as branches or mergers, or in restrictions on its activities. The failure to comply with the Equal Credit Opportunity Act and the Fair Housing Act could result in enforcement actions by the OCC, as well as other federal regulatory agencies and the Department of Justice.

The Bank received a satisfactory Community Reinvestment Act rating in its most recent federal examination.

Transactions with Related Parties. A federal savings association's authority to engage in transactions with its affiliates is limited by FRB regulations and by Sections 23A and 23B of the Federal Reserve Act and its implementing Regulation W. An affiliate is a company that controls, is controlled by, or is under common control with an insured depository institution such as the Bank. First Charter, MHC and Charter Financial are affiliates of the Bank. In general, loan transactions between an insured depository institution and its affiliates are subject to certain quantitative and collateral requirements. In this regard, transactions between an insured depository institution and its affiliates are limited to 10% of the institution's unimpaired capital and unimpaired surplus for transactions with any one affiliate and 20% of unimpaired capital and unimpaired surplus for transactions in the aggregate with all affiliates. Collateral in specified amounts ranging from 100% to 130% of the amount of the transaction must usually be provided by affiliates in order to receive loans from the savings association. In addition, federal regulations prohibit a savings association from lending to any of its affiliates that are engaged in activities that are not permissible for bank holding companies and from purchasing the securities of any affiliate, other than a subsidiary. Finally, transactions with affiliates must be consistent with safe and sound banking practices, not involve low-quality assets and be on terms that are as favorable to the institution as comparable transactions with non-affiliates. Savings associations are required to maintain detailed records of all transactions with affiliates.

The Bank's authority to extend credit to its directors, executive officers and 10% shareholders, as well as to entities controlled by such persons, is currently governed by the requirements of Sections 22(g) and 22(h) of the Federal Reserve Act and Regulation O of the FRB. Among other things, these provisions require that extensions of credit to insiders:

subject to certain exceptions for loan law programs made available to all employees, be made on terms that are substantially the same as, and follow credit underwriting procedures that are not less stringent than, those prevailing for comparable transactions with unaffiliated persons and that do not involve more than the normal risk of repayment or present other unfavorable features, and

not exceed certain limitations on the amount of credit extended to such persons, individually and in the aggregate, which limits are based, in part, on the amount of the Bank's capital.

In addition, extensions of credit in excess of certain limits must be approved by the Bank's board of directors.

Enforcement. The OCC has primary enforcement responsibility over federal savings institutions and has the authority to bring enforcement action against all "institution-affiliated parties," including shareholders, and attorneys, appraisers and accountants who knowingly or recklessly participate in wrongful action likely to have an adverse effect on an insured institution. Formal enforcement action by the OCC may range from the issuance of a capital directive or cease and desist order, to removal of officers and/or directors of the institution and the appointment of a receiver or conservator. Civil penalties cover a wide range of violations and actions, and range up to $25,000 per day, unless a finding of reckless disregard is made, in which case penalties may be as high as $1 million per day. The FDIC also has the authority to terminate deposit insurance or to recommend to the OCC that enforcement action be taken with respect to a particular savings institution. If action is not taken by the OCC, the FDIC has authority to take action under specified circumstances.

Standards for Safety and Soundness. Federal law requires each federal banking agency to prescribe certain standards for all insured depository institutions. These standards relate to, among other things, internal controls, information systems and audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, compensation, and other operational and managerial standards as the agency deems appropriate. The federal banking agencies adopted Interagency Guidelines Prescribing Standards for Safety and Soundness to implement the safety and soundness standards required under federal law. The guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. If the appropriate federal banking agency determines that an institution fails to meet any standard prescribed by the guidelines, the agency may require the institution to submit to the agency an acceptable plan to achieve compliance with the standard. If an institution fails to meet these standards, the appropriate federal banking agency may require the institution to submit a compliance plan.

Prompt Corrective Action Regulations. Under the prompt corrective action regulations, the OCC is required and authorized to take supervisory actions against undercapitalized savings associations. For this purpose, a savings association is placed in one of the following five categories based on the savings association's capital:

well-capitalized (at least 5% leverage capital, 6% Tier 1 risk-based capital and 10% total risk-based capital, and is not subject to any written agreement, order, capital directive, or prompt corrective action directive issued by the OCC or the OTS under certain statutes and regulations, to meet and maintain a specific capital level for any capital measure);

adequately capitalized (at least 4% leverage capital (3% for associations with a composite CAMELS rating of 1), 4% Tier 1 risk-based capital and 8% total risk-based capital);

undercapitalized (less than 4% leverage capital (except as noted in the bullet point above), 4% Tier 1 risk-based capital or 8% total risk-based capital);

significantly undercapitalized (less than 3% leverage capital, 3% Tier 1 risk-based capital or 6% total risk-based capital); and

critically undercapitalized (less than 2% tangible capital).

Generally, the banking regulator is required to appoint a receiver or conservator for a savings association that is "critically undercapitalized" within specific time frames. The regulations also provide that a capital restoration plan must be filed with the OCC within 45 days of the date a savings association receives notice that it is "undercapitalized," "significantly undercapitalized" or "critically undercapitalized." The criteria for an acceptable capital restoration plan include, among other things, the establishment of the methodology and assumptions for attaining adequately capitalized status on an annual basis, procedures for ensuring compliance with restrictions imposed by applicable federal regulations, the identification of the types and levels of activities the savings association will engage in while the capital restoration plan is in effect, and assurances that the capital restoration plan will not appreciably increase the current risk profile of the savings association. Any holding company for a savings association required to submit a capital restoration plan must guarantee the lesser of an amount equal to 5% of the savings association's assets at the time it was notified or deemed to be undercapitalized by the OCC, or the amount necessary to restore the savings association to adequately capitalized status. This guarantee remains in place until the OCC notifies the savings association that it has maintained adequately capitalized status for each of four consecutive calendar quarters, and the OCC has the authority to require payment and collect payment under the guarantee. Failure by a holding company to provide the required guarantee will result in certain operating restrictions on the savings association, such as restrictions on the ability to declare and pay dividends, pay executive compensation and management fees, and increase assets or expand operations. The OCC may also take any one of a number of discretionary supervisory actions against undercapitalized associations, including the issuance of a capital directive and the replacement of senior executive officers and directors.

At September 30, 2011, the Bank met the criteria for being considered "well-capitalized."

Insurance of Deposit Accounts. The Dodd-Frank Act permanently increased the maximum amount of deposit insurance for banks, savings institutions and credit unions to $250,000 per depositor, retroactive to January 1, 2008. Also, under the Dodd-Frank Act, noninterest-bearing checking accounts have unlimited deposit insurance through December 31, 2012.

On November 12, 2009, the FDIC approved a final rule requiring insured depository institutions to prepay, on December 30, 2009, their estimated quarterly risk-based assessments for the fourth quarter of 2009, and for all of 2010, 2011, and 2012. Estimated assessments for the fourth quarter of 2009 and for all of 2010 were based upon the assessment rate in effect on September 30, 2009, with three basis points added for the 2011 and 2012 assessment rates. In addition, a 5% annual growth in the assessment base was assumed. Prepaid assessments are to be applied against the actual quarterly assessments until exhausted, and may not be applied to any special assessments that may occur in the future. Any unused prepayments will be returned to the institution on June 30, 2013. On December 30, 2009, the Bank prepaid $3.5 million in estimated assessment fees for the fourth quarter of 2009 through 2012.

Effective April 1, 2011, the FDIC implemented a requirement of the Dodd-Frank Act to revise its assessment system to base it on each institution's total assets less tangible capital of each institution instead of deposits. The FDIC also revised its assessment schedule so that it ranges from 2.5 basis points for the least risky institutions to 45 basis points for the riskiest.

Insurance of deposits may be terminated by the Federal Deposit Insurance Corporation upon a finding that an institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the Federal Deposit Insurance Corporation. The Bank does not believe that it is taking or is subject to any action, condition or violation that could lead to termination of its deposit insurance.

All FDIC-insured institutions are required to pay a pro rata portion of the interest due on obligations issued by the Financing Corporation ("FICO") for anticipated payments, issuance costs and custodial fees on bonds issued by the FICO in the 1980s to recapitalize the Federal Savings and Loan Insurance Corporation. The bonds issued by the FICO are due to mature in 2017 through 2019. For the quarter ended September 30, 2011, the annualized FICO assessment was equal to 1.00 cents for each $100 in domestic deposits maintained at an institution. Assessments related to the FICO bond obligations were not subject to the December 30, 2009 prepayment.

For the fiscal year ended September 30, 2011, the Bank paid $80,000 related to the FICO bonds and $729,000 pertaining to deposit insurance assessments. Deposit insurance assessments were prepaid in December 2009, for calendar years 2010 through 2012, while FICO bond payments were prepaid, one quarter in advance.

Prohibitions Against Tying Arrangements. Federal savings associations are prohibited, subject to some exceptions, from extending credit to or offering any other service, or fixing or varying the consideration for such extension of credit or service, on the condition that the customer obtain some additional service from the institution or its affiliates or not obtain services of a competitor of the institution.

Federal Home Loan Bank System. The Bank is a member of the Federal Home Loan Bank System, which consists of 12 regional Federal Home Loan Banks. The Federal Home Loan Bank System provides a central credit facility primarily for member institutions. As a member of the FHLB of Atlanta, the Bank is required to acquire and hold shares of capital stock in the Federal Home Loan Bank.

As of September 30, 2011, outstanding borrowings from the FHLB of Atlanta were $110.0 million and the Bank was in compliance with the stock investment requirement.

Other Regulations

Interest and other charges collected or contracted for by CharterBank are subject to state usury laws and federal laws concerning interest rates. In addition, CharterBank's operations are subject to federal laws and regulations applicable to credit transactions, financial privacy, money laundering and electronic fund transfers.

Holding Company Regulation

General. The MHC and Charter Financial are non-diversified savings and loan holding companies within the meaning of the Home Owners' Loan Act. As such, the MHC and Charter Financial are registered with the FRB and subject to FRB regulations, examinations, supervision and reporting requirements. In addition, the FRB has enforcement authority over the MHC, Charter Financial and, in some instances, the Bank. Among other things, this authority permits the FRB to restrict or prohibit activities that are determined to be a serious risk to the Bank. As federal corporations, the MHC and Charter Financial are generally not subject to state business organization laws.

Permitted Activities. Pursuant to Section 10(o) of the Home Owners' Loan Act and FRB regulations, a mutual holding company, such as First Charter, MHC and its mid-tier companies, such as Charter Financial, may engage in the following activities:

(i) investing in the stock of a savings association;

(ii) acquiring a mutual association through the merger of such association into a savings association subsidiary of such holding company or an interim savings association subsidiary of such holding company;

(iii) merging with or acquiring another holding company, one of whose subsidiaries is a savings association;

(iv) investing in a corporation, the capital stock of which is available for purchase by a savings association under federal law or under the law of any state where the subsidiary savings association has its home offices;

(v) furnishing or performing management services for a savings association subsidiary of such company;

(vi) holding, managing or liquidating assets owned or acquired from a savings association subsidiary of such company;

(vii) holding or managing properties used or occupied by a savings association subsidiary of such company;

(viii) acting as trustee under deeds of trust;

(ix) any other activity:

(A) that the FRB by regulation, has determined to be permissible for bank holding companies under Section 4(c) of the Bank Holding Company Act of 1956, unless the Director, by regulation, prohibits or limits any such activity for savings and loan holding companies; or

(B) in which multiple savings and loan holding companies were authorized (by regulation) to directly engage on March 5, 1987;

(x) if the savings and loan holding company meets the criteria to qualify as a financial holding company, it may engage in any activity permissible for financial holding companies under Section 4(k) of the Bank Holding Company Act, including securities and insurance underwriting; and

(xi) purchasing, holding, or disposing of stock acquired in connection with a qualified stock issuance if the purchase of such stock by such savings and loan holding company is approved by the Director. If a mutual holding company acquires or merges with another holding company, the holding company acquired or the holding company resulting from such merger or acquisition may only invest in assets and engage in activities listed in (i) through (x) above, and has a period of two years to cease any nonconforming activities and divest any nonconforming investments.

The Home Owners' Loan Act prohibits a savings and loan holding company, including Charter Financial, directly or indirectly, or through one or more subsidiaries, from acquiring more than 5% of another savings institution or holding company thereof, without prior written approval of the FRB. It also prohibits the acquisition or retention of, with certain exceptions, more than 5% of a non-subsidiary company engaged in activities other than those permitted by the Home Owners' Loan Act or acquiring or retaining control of an institution that is not federally insured. In evaluating applications by holding companies to acquire savings institutions, the FRB must consider the financial and managerial resources, future prospects of the company and institution involved, the effect of the acquisition on the risk to the federal deposit insurance fund, the convenience and needs of the community and competitive factors.

The FRB is prohibited from approving any acquisition that would result in a multiple savings and loan holding company controlling savings institutions in more than one state, subject to two exceptions:

(i) the approval of interstate supervisory acquisitions by savings and loan holding companies; and

(ii) the acquisition of a savings institution in another state if the laws of the state of the target savings institution specifically permit such acquisition.

The states vary in the extent to which they permit interstate savings and loan holding company acquisitions.

Capital. Savings and loan holding companies are not currently subject to specific regulatory capital requirements. The Dodd-Frank Act, however, requires the FRB to promulgate consolidated capital requirements for depository institution holding companies that are no less stringent, both quantitatively and in terms of components of capital, than those applicable to depository institutions themselves. Instruments such as cumulative preferred stock and trust preferred securities will no longer be includable as Tier 1 capital, as is currently permitted for bank holding companies. Instruments issued prior to May 19, 2010 will be grandfathered for companies with consolidated assets of $15 billion or less. There is a five-year transition period (from the July 21, 2010 effective date of the Dodd-Frank Act) before the capital requirements will apply to savings and loan holding companies.

Dividends. The FRB has issued a policy guidance regarding the payment of dividends by bank holding companies that it has made applicable to savings and loan holding companies as well. In general, the FRB's policies provide that dividends should be paid only out of current earnings and only if the prospective rate of earnings retention by the holding company appears consistent with the organization's capital needs, asset quality and overall financial condition. FRB guidance provides for prior regulatory review of capital distributions in certain circumstances such as where the company's net income for the past four quarters, net of dividends previously paid over that period, is insufficient to fully fund the dividend or the company's overall rate of earnings retention is inconsistent with the company's capital needs and overall financial condition. The ability of a holding company to pay dividends may be restricted if a subsidiary bank becomes undercapitalized. These regulatory policies could affect the ability of Charter Financial to pay dividends or otherwise engage in capital distributions.

Source of Strength. The Dodd-Frank Act extended the "source of strength" doctrine to savings and loan holding companies. The regulatory agencies must issue regulations requiring that all bank and savings and loan holding companies serve as a source of strength to their subsidiary depository institutions by providing capital, liquidity and other support in times of financial stress.

Waivers of Dividends by First Charter, MHC. The Dodd-Frank Act requires federally-chartered mutual holding companies to give the FRB notice before waiving the receipt of dividends, and provides that in the case of "grandfathered" mutual holding companies, like First Charter, MHC, the FRB "may not object" to a dividend waiver if the board of directors of the mutual holding company waiving dividends determines that the waiver: (i) would not be detrimental to the safe and sound operation of the subsidiary savings bank; and (ii) is consistent with the board's fiduciary duties to members of the mutual holding company. To qualify as a grandfathered mutual holding company, a mutual holding company must have been formed, issued stock and waived dividends prior to December 1, 2009. The Dodd-Frank Act further provides that the FRB may not consider waived dividends in determining an appropriate exchange ratio upon the conversion of a grandfathered mutual holding company to stock form. In September 2011, however, the FRB issued an interim final rule that also requires as a condition to waiving dividends, that each mutual holding company obtain the approval of a majority of the eligible votes of its members within 12 months prior to the declaration of the dividend being waived. The FRB has requested comments on the interim final rule, and there can be no assurance that the rule will be amended to eliminate or modify the member vote requirement for dividend waivers by grandfathered mutual holding companies, such as First Charter, MHC. In the past, the FRB generally has not allowed dividend waivers by mutual bank holding companies and, therefore, there can be no assurance that the FRB will approve dividend waivers by First Charter, MHC in the future, or what conditions the FRB may place on any dividend waivers. In early 2011, First charter, MHC received permission from the OTS to waive dividends in calendar 2011, including the dividend that is payable on December 29, 2011.

Conversion of First Charter, MHC to Stock Form. Federal regulations permit First Charter, MHC to convert from the mutual form of organization to the capital stock form of organization (a "Conversion Transaction"). There can be no assurance when, if ever, a Conversion Transaction will occur, and the Board of Directors has no current intention or plan to undertake a Conversion Transaction. In a Conversion Transaction a new stock holding company would be formed as the successor to Charter Financial, First Charter, MHC's corporate existence would end, and certain depositors of the Bank would receive the right to subscribe for additional shares of the new holding company. In a Conversion Transaction, each share of common stock held by stockholders other than First Charter, MHC ("Minority Stockholders") would be automatically converted into a number of shares of common stock of the new holding company determined pursuant to an exchange ratio that ensures that Minority Stockholders own the same percentage of common stock in the new holding company as they owned in Charter Financial immediately prior to the Conversion Transaction. Under a provision of the Dodd-Frank Act applicable to First Charter, MHC, Minority Stockholders should not be diluted because of any dividends waived by First Charter, MHC (and waived dividends should not be considered in determining an appropriate exchange ratio), in the event First Charter, MHC converts to stock form. Any such Conversion Transaction would require various member and stockholder approvals, as well as regulatory approval.

Federal Securities Laws

Charter Financial's common stock is registered with the Securities and Exchange Commission. As a result, Charter Financial is subject to the information, proxy solicitation, insider trading restrictions and other requirements under the Securities Exchange Act of 1934.

ITEM 1A. RISK FACTORS

Historically low interest rates may adversely affect our net interest income and profitability.

During the past three years it has been the policy of the Board of Governors of the Federal Reserve System ("FRB") to maintain interest rates at historically low levels through its targeted federal funds rate and the purchase of mortgage-backed securities. Historically, our interest-bearing liabilities reprice or mature more quickly than our interest-earning assets. As a result, rates paid on our interest-bearing liabilities have decreased more quickly than the rates we pay on the loans we have originated and the securities we have purchased. Consequently, our interest rate spreads have increased in the short term. However, our ability to lower our interest expense is now highly limited compared to the ability for average yields on our interest-earning assets to continue to decrease. The FRB has indicated its intention to maintain low interest rates in the near future. Accordingly, our interest rate spreads and our net interest income (the difference between interest income earned on assets and interest expense paid on liabilities) may decrease, which may have an adverse affect on our profitability.

Changes in interest rates could adversely affect our results of operations and financial condition.

Our results of operations and financial condition are significantly affected by changes in interest rates. Our results of operations depend substantially on our net interest income, which is the difference between the interest income we earn on our interest-earning assets, such as loans and securities, and the interest expense we pay on our interest-bearing liabilities, such as deposits and borrowings. Because our interest-bearing liabilities generally reprice or mature more quickly than our interest-earning assets, a sustained increase in interest rates generally would tend to result in a decrease in net interest income.

Changes in interest rates may also affect the average life of loans and mortgage-related securities. Decreases in interest rates can result in increased prepayments of loans and mortgage-related securities, as borrowers refinance to reduce their borrowing costs. Under these circumstances, we are subject to reinvestment risk to the extent that we are unable to reinvest the cash received from such prepayments at rates that are comparable to the rates on existing loans and securities. Additionally, increases in interest rates may decrease loan demand and make it more difficult for borrowers to repay adjustable rate loans. Also, increases in interest rates may extend the life of fixed-rate assets, which would restrict our ability to reinvest in higher yielding alternatives, and may result in customers withdrawing certificates of deposit early so long as the early withdrawal penalty is less than the interest they could receive on a new investment.

Changes in interest rates also affect the current fair value of our interest-earning securities portfolio. Generally, the value of securities moves inversely with changes in interest rates. At September 30, 2011, the fair value of our portfolio of investment securities, mortgage-backed securities and collateralized mortgage obligations totaled $158.7 million. Net unrealized losses on these securities totaled $3.0 million at September 30, 2011.

At September 30, 2011, our simulation model indicated that our net portfolio value would decrease by (1.0%) if there was an instantaneous parallel 100 basis point decrease in market interest rates. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Management of Market Risk."

Additionally, a majority of our single-family mortgage loan portfolio is comprised of adjustable-rate loans. Any rise in market interest rates may result in increased payments for borrowers who have adjustable rate mortgage loans, increasing the possibility of default.

Our non-covered non-residential loans increase our exposure to credit risks.

Over the last several years, we have increased our non-residential lending in order to improve the yield and reduce the average duration of our assets. At September 30, 2011, our portfolio of non-covered commercial real estate, real estate construction, commercial business, and other non-covered non-residential loans totaled $311.4 million, or 72.4% of total non-covered loans, compared to $218.6 million, or 57.3% of total loans (all of which were non-covered) at September 30, 2006. At September 30, 2011, the amount of non-covered non-performing non-residential loans was $5.8 million. At September 30, 2011, our largest non-covered real estate borrowing relationships consisted of a borrower whose collateral consisted of development land, single family construction and multi-family income producing property. Our second largest is income producing industrial/office real estate. Our third largest has land as collateral with a portion of the land developed for retail . These loans may expose us to a greater risk of non-payment and loss than residential real estate loans because, in the case of commercial loans, repayment often depends on the successful operations and earnings of the borrowers and, in the case of consumer loans, the applicable collateral is subject to rapid depreciation. Additionally, commercial real estate loans typically involve larger loan balances to single borrowers or groups of related borrowers compared to residential real estate loans. If loans that are collateralized by real estate become troubled and the value of the real estate has been significantly impaired, then we may not be able to recover the full contractual amount of principal and interest due on the loan, which could cause us to increase our provision for loan losses and adversely affect our operating results and financial condition.

If the allowance for loan losses is not sufficient to cover actual loan losses, our earnings could decrease.

Our customers may not repay their loans according to the original terms, and the collateral, if any, securing the payment of these loans may be insufficient to pay any remaining loan balance. We may experience significant loan losses, which may have a material adverse effect on our operating results. We make various assumptions and judgments about the collectability of the loan portfolio, including the creditworthiness of borrowers and the value of the real estate and other assets serving as collateral for the repayment of loans. If our assumptions are incorrect, the allowance for loan losses may not be sufficient to cover losses inherent in our loan portfolio, which would require additions to the allowance. Additions to the allowance would decrease our net income. At September 30, 2011, our allowance for loan losses for non-covered loans was $9.4 million, or 2.19% of total non-covered loans and 80.13% of non-covered non-performing loans, compared to $9.8 million, or 2.12% of total non-covered loans and 84.0% of non-covered non-performing loans at September 30, 2010. At September 30, 2011 there were $11.7 million in nonperforming loans that were not covered by loss sharing.

Our level of commercial real estate, real estate construction and commercial business loans is one of the more significant factors in evaluating the allowance for loan losses. These loans may require increased provisions for loan losses in the future, which would decrease our earnings.

Bank regulators periodically review our allowance for loan losses and may require an increase to the provision for loan losses or further loan charge-offs. Any increase in our allowance for loan losses or loan charge-offs as required by these regulatory authorities may have a material adverse effect on our results of operations or financial condition.

We could record future losses on our securities portfolio.

For the years ended September 30, 2011 and 2010, we have recorded $2.3 million and $2.5 million, respectively, in other than temporary impairment charges on non-government agency collateralized mortgage obligations. At September 30, 2011, our securities portfolio totaled $158.7 million, which included $17.9 million of non-government agency collateralized mortgage obligations with net unrealized losses of $5.4 million. A number of factors or combinations of factors could require us to conclude in one or more future reporting periods that an unrealized loss that exists with respect to these securities constitutes an impairment that is other than temporary, which would result in additional losses that could be material. These factors include, but are not limited to, a continued failure by the issuer to make scheduled interest payments, an increase in the severity of the unrealized loss on a particular security, an increase in the continuous duration of the unrealized loss without an improvement in value or changes in market conditions and/or industry or issuer specific factors that would render us unable to forecast a full recovery in value. In addition, the fair values of securities could decline if the overall economy and the financial condition of some of the underlying borrowers deteriorate. There remains limited liquidity for these securities and additional impairment charges may be required in future periods.

See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Balance Sheet Analysis—Securities" for a discussion of our securities portfolio and the unrealized losses related to the portfolio.

Our business may continue to be adversely affected by downturns in our national and local economies.

Our operations are significantly affected by national and local economic conditions. Substantially all of our loans are to businesses and individuals in west-central Georgia, east-central Alabama and the Florida panhandle. All of our branches and most of our deposit customers are also located in these states. A continuing decline in the economies in which we operate could have a material adverse effect on our business, financial condition and results of operations. In particular, Georgia, Alabama and Florida have experienced home price declines, increased foreclosures and high unemployment rates.

A further deterioration in economic conditions in the market areas we serve could result in the following consequences, any of which could have a material adverse effect on our business, financial condition and results of operations:

- demand for our loans, deposits and services may decline;
- loan delinquencies, problem assets and foreclosures may increase;
- weak economic conditions may continue to limit the demand for loans by creditworthy borrowers, limiting our capacity to leverage our retail deposits and maintain our net interest income;
- collateral for our loans may decline further in value; and
- the amount of our low-cost or non-interest bearing deposits may decrease.

If our non-performing assets increase, our earnings will decrease.

At September 30, 2011, our non-performing assets (which consist of non-accrual loans, loans 90 days or more delinquent, and foreclosed real estate assets) not covered by loss sharing agreements totaled $15.8 million. Our non-performing assets adversely affect our net income in various ways. We do not record interest income on non-accrual loans or real estate owned. Based on our estimate of the level of allowance for loan losses required, we record a provision for loan losses as a charge to earnings to maintain the allowance for loan losses at an appropriate level. From time to time, we also write down the value of properties in our other real estate owned portfolio to reflect changing market values. Additionally, there are legal fees associated with the resolution of problem assets as well as carrying costs such as taxes, insurance and maintenance related to our other real estate owned. Further, the resolution of non-performing assets requires the active involvement of management, which could detract from the overall supervision of our operations. Finally, if our estimate of the allowance for loan losses is inadequate, we will have to increase the allowance accordingly.

We may incur additional losses due to downward revisions to our preliminary estimates of the value of assets acquired in the Neighborhood Community Bank, McIntosh Commercial Bank and The First National Bank of Florida acquisitions or due to higher than expected charge-offs with respect to the assets acquired, all of which may not be supported by our loss-sharing agreements with the FDIC.

We acquired approximately $202.8 million, $322.6 million and $251.8 million of assets in connection with the NCB, MCB and FNB acquisitions, respectively. We marked down these assets to fair value at the date of each acquisition based on preliminary estimates.

There is no assurance that the assets acquired in the NCB, MCB and FNB acquisitions will not suffer further deterioration in value after the date of acquisition, which would require additional charge-offs. We entered into loss sharing agreements with the FDIC that provide that 80% of losses related to the acquired loans and other real estate owned ("covered assets"), up to $82 million in losses with respect to the $177.6 million of NCB covered assets, up to $106 million in losses with respect to the $262.9 million of MCB covered assets, will be borne by the FDIC and thereafter the FDIC will bear 95% of losses on NCB and MCB covered assets. We also entered into a loss sharing agreement with the FDIC that provides that 80% of losses related to the covered assets of $210.0 million acquired in the FNB transaction will be borne by the FDIC. However, we are not protected from all losses resulting from charge-offs with respect to such covered assets. Further, the loss sharing agreements have limited terms ranging from five years for commercial loans to ten years for residential mortgage loans. Therefore, any charge-offs or related losses that we experience after the expiration of the loss sharing agreements will not be reimbursed by the FDIC and would reduce our net income. Finally, if we fail to comply with the terms of the loss sharing agreements, we could lose the right to receive payments on a covered asset from the FDIC under the agreements. See "—Our ability to continue to receive benefits of our loss share arrangements with the FDIC is conditioned upon our compliance with certain requirements under the agreements," below.

Our ability to continue to receive the benefits of our loss share arrangements with the FDIC is conditioned upon our compliance with certain requirements under the agreements.

Our ability to recover a portion of our losses and retain the loss share protection is subject to our compliance with certain requirements imposed on us in the loss share agreements with the FDIC. These requirements relate primarily to our administration of the assets covered by the agreements, as well as our obtaining the consent of the FDIC to engage in certain corporate transactions that may be deemed under the agreements to constitute a transfer of the loss share benefits. For example, any merger or consolidation of CharterBank with another financial institution would require the consent of the FDIC under the loss share agreements relating to the NCB, MCB and FNB transactions. In addition, certain public or private offerings of common stock by us that would increase our outstanding shares by more than 9% would require the consent of the FDIC under the MCB loss share agreements.

In instances where the FDIC's consent is required under the loss share agreements, the FDIC may withhold its consent to such transactions or may condition its consent on terms that we do not find acceptable. While we obtained the FDIC's consent in connection with our September 2010 offering of our common stock in September 2010, without paying a consent fee, there can be no assurance that in the future the FDIC will grant its consent or condition its consent on terms that we find acceptable. If the FDIC does not grant its consent to a transaction we would like to pursue, or conditions its consent on terms that we do not find acceptable, this may cause us not to engage in a corporate transaction that might otherwise benefit our shareholders or we may elect to pursue such a transaction without obtaining the FDIC's consent, which could result in termination of our loss share agreements with the FDIC.

We may fail to realize any benefits and may incur unanticipated losses related to the assets we acquired and liabilities we assumed from Neighborhood Community Bank, McIntosh Commercial Bank and The First National Bank of Florida.

The success of the NCB, MCB and FNB acquisitions will depend, in part, on our ability to successfully combine the businesses and assets we acquired with our business, and our ability to successfully manage the significant loan portfolios that were acquired. It may take longer to successfully liquidate the nonperforming assets that were acquired in the NCB, MCB and FNB transactions. As with any acquisition involving a financial institution, there may also be business and service changes and disruptions that result in the loss of customers or cause customers to close their accounts and move their business to competing financial institutions. It is possible that the integration process could result in the loss of key employees, the disruption of ongoing business, or inconsistencies in standards, controls, procedures and policies that adversely affect our ability to maintain relationships with clients, customers, depositors and employees, or to achieve the anticipated benefits of the transactions. Successful integration may also be hampered by differences between our organization and the NCB, MCB and FNB organizations. The loss of key employees of NCB, MCB and/or FNB could adversely affect our ability to successfully conduct business in the markets in which NCB, MCB and FNB operated, which could adversely affect our financial results. Integration efforts will also divert attention and resources from our management. In addition, general market and economic conditions or governmental actions affecting the financial industry generally may inhibit our ability to successfully integrate these operations. If we experience difficulties with the integration process, the anticipated benefits of the transactions may not be realized fully, or at all, or may take longer to realize than expected. Finally, any cost savings that are realized may be offset by losses in revenues or other charges to earnings.

Additional FDIC-assisted acquisition opportunities may not become available and increased competition may make it more difficult for us to successfully bid on failed bank transactions on terms we consider acceptable.

Our near-term business strategy includes the pursuit of potential acquisitions of failing banks that the FDIC plans to place in receivership. The FDIC may not place banks that meet our strategic objectives into receivership. Failed bank transactions are attractive opportunities in part because of loss-sharing arrangements with the FDIC that limit the acquirer's risk of loss on the purchased loan portfolio and, apart from our assumption of deposit liabilities, we have significant discretion as to the nondeposit liabilities that we assume. In addition, assets purchased from the FDIC are marked to their fair value and in many cases there is little or no addition to goodwill arising from an FDIC-assisted transaction. The bidding process for failing banks could become more competitive, and the increased competition may make it more difficult for us to bid on terms we consider to be acceptable. We expect increased competition from private equity groups and foreign banks, among others. Many of these competing bidders will have more capital and other resources than CharterBank.

The FDIC or the Office of the Comptroller of the Currency("OCC"), our primary federal regulator, could condition our ability to acquire a failed depository institution on compliance by us with additional requirements.

We may seek to acquire one or more additional failed depository institutions from the FDIC. As the agency responsible for resolving failed depository institutions, the FDIC has the discretion to determine whether a party is qualified to bid on a failed institution. On August 26, 2009, the FDIC adopted a Statement of Policy on Qualifications for Failed Bank Acquisitions that sets forth a number of significant restrictions and requirements as a condition to the participation by certain "private investors" and institutions in the acquisition of failed depository institutions from the FDIC. Among the requirements would be that CharterBank maintain higher capital ratios for a three-year period following the acquisition of a failed depository institution from the FDIC, which would impair our ability to grow in the future without obtaining additional capital. Based on our interpretation of the Statement of Policy, we do not believe the provisions of the Statement of Policy would apply to us. However, if the FDIC were to adopt similar provisions that would apply to us, and we were unwilling to comply with such conditions, then we would not be permitted to acquire failed institutions from the FDIC.

In addition, we must receive the approval of our new primary federal regulator, the OCC, prior to bidding on the acquisition of a failed depository institution from the FDIC. As with the FDIC, the OCC could condition approval of our acquisition of a failed depository institution upon provisions that we are unable, or unwilling, to comply with. The risk that we may be unable to receive approval from the OCC on terms acceptable to us may be increased by the fact that we have not yet been examined by the OCC since they replaced the Office of Thrift Supervision as our primary federal regulator, and our first examination by the OCC is not scheduled to begin until January 2012.

Acquisitions, including any additional FDIC-assisted acquisitions, could disrupt our business and adversely affect our operating results.

On June 26, 2009 we entered into an agreement with the FDIC to acquire assets with a fair value of approximately \$196.7 million and assume liabilities with a fair value of approximately \$196.7 million from Neighborhood Community Bank. We also acquired four branches of NCB in the transaction, one of which has been closed. On March 26, 2010, we entered into an agreement with the FDIC to acquire assets with a fair value of approximately \$316.2 million and assume liabilities with a fair value of approximately \$310.6 million from McIntosh Commercial Bank. We also acquired four branches of MCB in the transaction, one of which has been closed. On September 9, 2011, we entered into an agreement with the FDIC to acquire assets with a fair value of approximately \$249.0 million and assume liabilities with a fair value of approximately \$248.3 million from The First National Bank of Florida. We also acquired eight branches of FNB in the transaction, four of which have been closed. We expect to continue to grow by acquiring other financial institutions, related businesses or branches of other financial institutions that we believe provide a strategic fit with our business. To the extent that we grow through acquisitions, we may not be able to adequately or profitably manage this growth. In addition, such acquisitions may involve the issuance of securities, which may have a dilutive effect on earnings per share. Acquiring banks, bank branches or businesses involves risks commonly associated with acquisitions, including:

- Potential exposure to unknown or contingent liabilities we acquire;
- Exposure to potential asset quality problems of the acquired financial institutions, businesses or branches;
- Difficulty and expense of integrating the operations and personnel of financial institutions, businesses or branches we acquire;
- Potential diversion of our management's time and attention;
- The possible loss of key employees and customers of financial institutions, businesses or branches we acquire;
- Difficulty in safely investing any cash generated by the acquisition;
- Difficulty in estimating the value of the financial institutions, businesses or branches to be acquired; and
- Potential changes in banking or tax laws or regulations that may affect the financial institutions or businesses to be acquired.

Our continued growth through acquisitions may require us to raise additional capital in the future, but that capital may not be available when it is needed.

We are required by federal regulatory authorities to maintain adequate levels of capital to support our operations. We anticipate that our existing capital resources will satisfy our capital requirements for the foreseeable future. However, we may at some point need to raise additional capital to support continued growth, both internally and through acquisitions.

Our ability to raise additional capital, if needed, will depend on conditions in the capital markets at that time, which are outside our control, and on our financial performance. Accordingly, we cannot assure you of our ability to raise additional capital if needed or on terms acceptable to us. If we cannot raise additional capital when needed, our ability to further expand our operations through internal growth and acquisitions could be materially impaired.

Strong competition may limit growth and profitability.

Competition in the banking and financial services industry is intense. We compete with commercial banks, savings institutions, mortgage brokerage firms, credit unions, finance companies, mutual funds, insurance companies, and brokerage and investment banking firms operating locally and elsewhere. Many of these competitors (whether regional or national institutions) have substantially greater resources and lending limits than we have and may offer certain services that we do not or cannot provide. Our profitability depends upon our ability to successfully compete in our market areas.

The Dodd-Frank Act's elimination of the OTS may adversely affect First Charter, MHC's ability to waive dividends, which would adversely affect our ability to pay dividends and the value of our common stock.

The value of Charter Financial's common stock is significantly affected by our ability to pay dividends to our public shareholders, which is affected by our earnings and cash resources at the holding company level and by the ability of CharterBank to make capital distributions to Charter Financial. Moreover, our ability to pay dividends and the amount of such dividends is affected by the ability of First Charter, MHC, our mutual holding company, to waive the receipt of dividends declared by Charter Financial. First Charter, MHC has historically waived its right to receive most dividends on its shares of Charter Financial common stock, which means that Charter Financial has had more cash resources to pay dividends to our public stockholders than if First Charter, MHC had accepted such dividends.

The Dodd-Frank Act requires federally-chartered mutual holding companies to give the FRB notice before waiving the receipt of dividends, and provides that in the case of "grandfathered" mutual holding companies, like First Charter, MHC, the FRB "may not object" to a dividend waiver if the board of directors of the mutual holding company waiving dividends determines that the waiver: (i) would not be detrimental to the safe and sound operation of the subsidiary savings bank; and (ii) is consistent with the board's fiduciary duties to members of the mutual holding company. To qualify as a grandfathered mutual holding company, a mutual holding company must have been formed, issued stock and waived dividends prior to December 1, 2009. The Dodd-Frank Act further provides that the FRB may not consider waived dividends in determining an appropriate exchange ratio upon the conversion of a grandfathered mutual holding company to stock form. In September 2011, however, the FRB issued an interim final rule that also requires as a condition to waiving dividends, that each mutual holding company obtain the approval of a majority of the eligible votes of its members within 12 months prior to the declaration of the dividend being waived. The FRB has requested comments on the interim final rule, and there can be no assurance that the rule will be amended to eliminate or modify the member vote requirement for dividend waivers by grandfathered mutual holding companies, such as First Charter, MHC. In the past, the FRB generally has not allowed dividend waivers by mutual bank holding companies and, therefore, there can be no assurance that the FRB will approve dividend waivers by First Charter, MHC in the future, or what conditions the FRB may place on any dividend waivers. In early 2011, First charter, MHC received permission from the OTS to waive dividends in calendar 2011, including the dividend that is payable on December 29, 2011.

Government responses to economic conditions may adversely affect our operations, financial condition and earnings.

The Dodd-Frank Act has changed the bank regulatory framework, created an independent consumer protection bureau that has assumed the consumer protection responsibilities of the various federal banking agencies, and established more stringent capital standards for banks and bank holding companies. Bank regulatory agencies also have been responding aggressively to concerns and adverse trends identified in examinations. Ongoing uncertainty and adverse developments in the financial services industry and the domestic and international credit markets, and the effect of the Dodd-Frank Act and regulatory actions, may adversely affect our operations by restricting our business activities, including our ability to originate or sell loans, modify loan terms, or foreclose on property securing loans. These risks could affect the performance and value of our loan and investment securities portfolios, which also would negatively affect our financial performance.

If the FRB increases the federal funds rate, overall interest rates will likely rise, which may negatively impact the housing markets and the U.S. economic recovery. In addition, deflationary pressures, while possibly lowering our operating costs, could have a significant negative effect on our borrowers, especially our business borrowers, and the values of underlying collateral securing loans, which could negatively affect our financial performance.

Changes in laws and regulations and the cost of regulatory compliance with new laws and regulations may adversely affect our operations and our income.

In response to the financial crisis of 2008 and early 2009, Congress has taken actions that are intended to strengthen confidence and encourage liquidity in financial institutions, and the FDIC has taken actions to increase insurance coverage on deposit accounts. In addition, there have been proposals made by members of Congress and others that would reduce the amount delinquent borrowers are otherwise contractually obligated to pay on their mortgage loans and limit an institution's ability to foreclose on mortgage collateral.

Moreover, bank regulatory agencies have responded aggressively to concerns and trends identified in examinations, and have issued many formal enforcement orders requiring capital ratios in excess of regulatory requirements. Bank regulatory agencies, such as the Office of Thrift Supervision and the FDIC, govern the activities in which we may engage, primarily for the protection of depositors, and not for the protection or benefit of potential investors. In addition, new laws and regulations are likely to increase our costs of regulatory compliance and of doing business, and otherwise affect our operations. New laws and regulations may significantly affect the markets in which we do business, the markets for and value of our loans and investments, the fees we can charge, and our ongoing operations, costs and profitability. For example, recent legislative proposals would require changes to our overdraft protection programs that could decrease the amount of fees we receive for these services. For the years ended September 30, 2011 and 2010, overdraft protection fees totaled $3.4 million and $3.5 million, respectively. Further, legislative proposals limiting our rights as a creditor could result in credit losses or increased expense in pursuing our remedies as a creditor. Regulations limit interchange fees for banks over $10 billion and it remains to be seen how much this limitation migrates to smaller banks such as CharterBank.

We hold certain intangible assets that in the future could be classified as either partially or fully impaired, which would reduce our earnings and the book values of these assets.

Pursuant to applicable accounting requirements, we are required to periodically test our goodwill and core deposit intangible assets for impairment. The impairment testing process considers a variety of factors, including the current market price of our common shares, the estimated net present value of our assets and liabilities and information concerning the terminal valuation of similarly situated insured depository institutions. Future impairment testing may result in a partial or full impairment of the value of our goodwill or core deposit intangible assets, or both. If an impairment determination is made in a future reporting period, our earnings and the book value of these intangible assets will be reduced by the amount of the impairment. If an impairment loss is recorded, it will have little or no impact on the tangible book value of our shares of common stock, our liquidity or our regulatory capital levels.

Because the nature of the financial services business involves a high volume of transactions, we face significant operational risks.

We operate in diverse markets and rely on the ability of our employees and systems to process a high number of transactions. Operational risk is the risk of loss resulting from our operations, including but not limited to, the risk of fraud by employees or persons outside our company, the execution of unauthorized transactions by employees, errors relating to transaction processing and technology, breaches of the internal control system and compliance requirements, and business continuation and disaster recovery. Insurance coverage may not be available for such losses, or where available, such losses may exceed insurance limits. This risk of loss also includes the potential legal actions that could arise as a result of an operational deficiency or as a result of noncompliance with applicable regulatory standards, adverse business decisions or their implementation, and customer attrition due to potential negative publicity. In the event of a breakdown in the internal control system, improper operation of systems or improper employee actions, we could suffer financial loss, face regulatory action, and suffer damage to our reputation.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We currently conduct business through our administrative office in West Point, Georgia, our branch offices in west-central Georgia, East-central Alabama, the Florida Panhandle and our cashless branch office in Norcross, Georgia. Our Georgia branch offices are located in Bremen, Carrollton, LaGrange (three offices), Newnan (two offices), Peachtree City and West Point, and our Alabama branches are located in Auburn (two offices), Opelika and Valley. Our Florida Branch offices are in Milton, Pace, Pensacola, and Navarre. The net book value of the land, buildings, furniture, fixtures and equipment owned by us was $21.8 million at September 30, 2011.

ITEM 3. LEGAL PROCEEDINGS

As of the date of filing of this Annual Report on Form 10-K, we were not involved in any legal proceedings other than routine legal proceedings occurring in the ordinary course of business, which, in the aggregate, involve amounts that we believe are immaterial to our consolidated financial condition, results of operations and cash flows.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market and Dividend Information.

On September 29, 2010, our common stock began trading on the Nasdaq Capital Market ("NASDAQ") under the trading symbol "CHFN." Prior to that date, our common stock was quoted on the OTC Bulletin Board. The following table sets forth, for the periods indicated, the high and low sales prices of our common stock on NASDAQ since September 29, 2010, and the high and low bid information for our common stock as quoted on the OTC Bulletin Board prior to September 29, 2010. Quotations on the OTC Bulletin Board reflect inter-dealer prices, without retail mark-up, mark-down or commissions, and may not reflect actual transactions. The table below also sets forth the cash dividends paid per share for the periods indicated.

	Price Per Share		Cash Dividend Declared	
	High	Low		
Fiscal 2011				
Fourth quarter	$ 9.70	$ 9.12	$ 0.05	
Third quarter	10.00	9.73	0.05	
Second quarter	11.05	10.65	0.05	
First quarter	8.99	8.90	0.05	
Fiscal 2010				
Fourth quarter	$ 10.40	$ 7.50	$ 0.05	
Third quarter	11.00	9.62	0.10	*
Second quarter	10.70	9.25	—	*
First quarter	12.30	8.65	0.25	

* The $.05 per share cash dividend with respect to the second quarter of fiscal 2010 was delayed until the third fiscal quarter

Holders.

As of December 5, 2011, there were approximately 472 holders of record of our common stock.

Dividends.

Charter Financial has paid a quarterly cash dividend since September 2002. Beginning with the dividend paid for the quarter ended March 31, 2010, we reduced our quarterly dividend from $0.25 per share to $0.05 per share. The reduction of the dividend reflects our decision to pursue opportunities for deployment of capital in FDIC-assisted transactions such as the Neighborhood Community Bank, McIntosh Commercial Bank and The First National Bank of Florida transactions. The dividend rate and the continued payment of dividends will primarily depend on our earnings, alternative uses for capital, such as FDIC-assisted transactions, capital requirements, acquisition opportunities, our financial condition and results of operations, statutory and regulatory limitations affecting dividends and the policies of the Board of Governors of the Federal Reserve System ("FRB") regarding dividend waivers by federal mutual holding companies, like First Charter, MHC, that waived dividends prior to December 1, 2009, and, to a lesser extent, tax considerations and general economic conditions.

Under the rules of the Office of Comptroller of the Currency and the FRB, CharterBank is not permitted to make a capital distribution if, after making such distribution, it would be undercapitalized. For information concerning additional federal laws and regulations regarding the ability of CharterBank to make capital distributions, including the payment of dividends to Charter Financial, see “Taxation—Federal Taxation” and “Supervision and Regulation—Federal Banking Regulation.”

Unlike CharterBank, Charter Financial is not restricted by Office of the Comptroller of the Currency regulations on the payment of dividends to its shareholders. However, the FRB has issued a policy statement regarding the payment of dividends by bank holding companies that it has also made applicable to savings and loan holding companies as well. In general, the FRB’s policies provide that dividends should be paid only out of current earnings and only if the prospective rate of earnings retention by the holding company appears consistent with the organization’s capital needs, asset quality and overall financial condition. FRB guidance provides for prior regulatory review of capital distributions in certain circumstances such as where the company’s net income for the past four quarters, net of dividends previously paid over that period, is insufficient to fully fund the dividend or the company’s overall rate of earnings retention is inconsistent with the company’s capital needs and overall financial condition. The ability of a holding company to pay dividends may be restricted if a subsidiary bank becomes undercapitalized. These regulatory policies could affect the ability of Charter Federal to pay dividends or otherwise engage in capital distributions. In addition, the source of dividends that may be paid by Charter Federal depends on the net proceeds retained by it and earnings thereon, and dividends from CharterBank.

When Charter Financial pays dividends on its common stock to public shareholders, it is also required to pay dividends to First Charter, MHC, unless First Charter, MHC elects to waive the receipt of dividends. When it was supervised by the Office of Thrift Supervision, First Charter, MHC generally waived its right to dividends on the shares of Charter Financial that it owns, which means that Charter Financial had more cash resources to pay dividends to its public shareholders than if First Charter, MHC accepted such dividends. The Dodd-Frank Act provides that a mutual holding company will be required to give the FRB notice before waiving the receipt of dividends, and sets forth the standards for granting a waiver, including a requirement that waived dividends be considered in determining an appropriate exchange ratio in the event of a conversion of the mutual holding company to stock form. The Dodd-Frank Act, however, further provides that the FRB may not consider waived dividends in determining an appropriate exchange ratio in a conversion to stock form by any federal mutual holding company, such as First Charter, MHC, that waived dividends prior to December 1, 2009. The FRB has recently issued an interim final rule providing that, pursuant to the Dodd-Frank Act grandfathering provision, it “may not” object to dividend waivers under similar requirements applied by the Office of Thrift Supervision, the previous regulator of federal mutual holding companies, but adding the requirement that a majority of the mutual holding company’s members eligible to vote have approved a waiver of dividends by the company within 12 months prior to the declaration of the dividend being waived. The FRB has typically not allowed dividend waivers by mutual bank holding companies and, therefore, the ability of First Charter, MHC to waive dividends in the future, should any dividends be declared by the Charter Financial, is uncertain. See “The Dodd-Frank Act may have an adverse effect on our ability to pay dividends, which would adversely affect the value of our common stock,” under “Risk Factors” in Part I, Item 1A of this Annual Report on Form 10-K.

In addition, pursuant to applicable regulations, during the three-year period following our stock offering in September, 2010, we will not take any action to declare an extraordinary dividend to shareholders that would be treated by recipients as a tax-free return of capital for federal income tax purposes.

Securities Authorized for Issuance under Equity Compensation Plans.

See Part III, Item 12(d) Equity Compensation Plan Information, in this Annual Report on Form 10-K, for the table providing information as of September 30, 2011 about Company common stock that may be issued upon the exercise of options under the Charter Financial Corporation 2001 Stock Option Plan.

Recent Sales of Unregistered Securities; Use of Proceeds from Registered Securities.

Not applicable.

ITEM 6. SELECTED FINANCIAL DATA

The summary financial information presented below is derived in part from our consolidated financial statements. The following is only a summary and you should read it in conjunction with the consolidated financial statements and notes contained in Item 8 of this Annual Report on Form 10-K. The information at September 30, 2011 and 2010 and for the years ended September 30, 2011, 2010 and 2009 is derived in part from the audited consolidated financial statements that appear in this annual report. The information presented below does not include the financial condition, results of operations or other data of First Charter, MHC.

	At September 30,				
	2011	2010	2009	2008	2007
			(In thousands)		
Selected Financial Condition Data:					
Total assets	$1,171,710	$1,186,082	$936,880	$801,501	$1,021,856
Non-covered loans receivable, net (1)	419,979	451,231	462,786	428,472	405,553
Covered loans receivable, net (2)	232,046	148,139	89,764	—	—
Investment and mortgage securities available for sale (3)	158,737	133,183	206,061	277,139	295,143
Freddie Mac common stock	—	—	—	—	200,782
Retail deposits (4)	883,389	739,691	463,566	356,237	378,463
Total deposits	911,094	823,134	597,634	420,175	430,683
Deferred income taxes	4,558	3,379	7,289	6,872	72,504
Total borrowings	110,000	212,000	227,000	267,000	272,058
Total retained earnings	107,962	107,598	103,304	103,301	99,926
Accumulated other comprehensive income (loss)	(1,971)	(3,498)	(8,277)	(6,849)	116,886
Total equity	$139,416	$136,876	$99,345	$102,302	$225,072

	Years Ended September 30,				
	2011	2010	2009	2008	2007
	(In thousands)				
Selected Operating Data:					
Interest and dividend income	$45,786	$49,959	$40,340	$46,377	$54,646
Interest expense	15,228	22,758	22,599	26,771	29,827
Net interest income	30,558	27,201	17,741	19,606	24,819
Provision for loan losses	1,700	5,800	4,550	3,250	—
Provision for loan losses on covered loans	1,200	420	—	—	—
Net interest income after provision for loan losses	27,658	20,981	13,191	16,356	24,819
Total noninterest income	9,283	17,510	12,011	18,950	76,924
Total noninterest expenses	33,942	30,469	22,581	20,284	21,926
Income before provision for income taxes	2,999	8,022	2,621	15,022	79,817
	694	2,087	306	4,491	28,877

Income tax expense					
Net income	$2,305	$5,935	$2,315	$10,531	$50,940
Per Share Data:					
Basic earnings per share	$0.13	$0.32	$0.13	$0.55	$2.67
Fully diluted earnings per share	$0.13	$0.32	$0.12	$0.55	$2.65
Dividends declared per share	$0.20	$0.40	$1.00	$1.75	$4.45

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(1) Excludes "covered loans" acquired from the FDIC subject to loss-sharing agreements. See Note 3 to the Notes to our Consolidated Financial Statements. Loans shown are net of deferred loan (fees) costs and allowance for loan losses and exclude loans held for sale.

(2) Consists of loans acquired from the FDIC subject to loss sharing agreements. See Note 3 to the Notes to our Consolidated Financial Statements.

(3) Includes all CharterBank investment and mortgage securities available for sale, excluding Freddie Mac common stock.

(4) Retail deposits include core deposits and certificates of deposit other than brokered and wholesale certificates of deposit.

	At or For the Years Ended September 30,									
	2011		2010		2009		2008		2007	
Selected Financial Ratios and Other Data:										
Performance Ratios:										
Return on average assets (ratio of net income to average total assets)	0.22	%	0.56	%	0.27	%	1.16	%	4.81	%
Return on average equity (ratio of net income to average equity)	1.67	%	5.62	%	2.25	%	6.23	%	20.30	%
Interest rate spread (1)	3.53	%	3.30	%	2.08	%	1.47	%	1.00	%
Net interest margin (2)	3.59	%	3.19	%	2.35	%	2.32	%	2.46	%
Efficiency ratio (3)	85.32	%	79.16	%	75.90	%	52.61	%	21.55	%
Non-interest expense to average total assets	3.34	%	2.89	%	2.68	%	2.23	%	2.07	%
Average interest-earning assets as a ratio of average interest-bearing liabilities	1.04	x	0.89	x	1.09	x	1.27	x	1.50	x
Average equity to average total assets	13.43	%	10.03	%	12.12	%	18.56	%	23.70	%
Dividend payout ratio (5)	83.82	%	27.29	%	153.79	%	66.97	%	27.83	%
Asset Quality Ratios (4):										
Non-covered Assets (4):										
Non-performing assets to total assets	1.99	%	2.33	%	2.16	%	1.68	%	0.80	%
Non-performing loans to total loans	2.72	%	2.55	%	2.82	%	2.47	%	1.93	%
Allowance for loan losses as a ratio of non-performing loans	0.80	x	0.84	x	0.71	x	0.77	x	0.76	x
Allowance for loan losses to total loans	2.19	%	2.12	%	1.98	%	1.89	%	1.46	%
Net charge-offs as a percentage of average non-covered loans outstanding	0.48	%	0.90	%	0.71	%	0.24	%	0.02	%
Bank Regulatory Capital Ratios:										
Total capital (to risk-weighted assets)	24.36	%	21.53	%	15.71	%	18.15	%	24.18	%
Tier I capital (to risk-weighted assets)	23.10	%	20.28	%	14.65	%	16.90	%	12.57	%
Tier I capital (to average assets)	10.68	%	10.21	%	9.30	%	10.51	%	9.43	%
Consolidated Capital Ratios:										
Total equity to total assets	11.90	%	11.42	%	10.49	%	12.76	%	22.03	%
Tangible total equity to total assets	11.38	%	10.98	%	9.99	%	12.18	%	21.61	%
Other Data:										
Number of full service offices	18		16		14		10		9	
Full time equivalent employees	294		260		209		178		173	

(1) The interest rate spread represents the difference between the weighted-average yield on interest-earning assets and the weighted average cost of interest-bearing liabilities for the period.
(2) The net interest margin represents net interest income as a percent of average interest-earning assets for the period.
(3) The efficiency ratio represents non-interest expense divided by the sum of net interest income and non-interest income.
(4)

Covered assets consist of assets of Neighborhood Community Bank (“NCB”), McIntosh Commercial Bank (“MCB”), and The First National Bank of Florida (“FNB”) acquired from the FDIC subject to loss sharing agreements. Non-covered assets consist of assets other than covered assets. See Note 6 to the Notes to our Consolidated Financial Statements.

(footnotes continue on following page)

(continued from previous page)

(5) The dividend payout ratio represents total dividends declared and not waved per share divided by total net income. The following table sets forth the aggregate cash dividends paid per period and the amount of dividends paid to public shareholders and to First Charter, MHC:

	For the Year Ended September 30,				
	2011	2010	2009	2008	2007
Dividends paid to public stockholders	$1,340,899	$1,040,926	$2,651,554	$5,656,953	$14,562,112
Dividends paid to First Charter, MHC	600,000	600,000	750,000	1,500,000	—
Total dividends paid	$1,940,899	$1,640,926	$3,401,554	$7,156,953	$14,562,112

First Charter, MHC waived dividends of $1.7 million, $5.7 million, $28.7 million, $26.3 million and $70.6 million during the years ended September 30, 2011, 2010, 2009, 2008 and 2007, respectively.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

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.

As a result of our loan underwriting policies, management believes that we have not suffered the same level of loan losses during the current recession as many financial institutions in our market area. Consequently, we have recently been able to take advantage of attractive low-risk opportunities to enhance our banking franchise through the purchase of distressed banking franchises from the FDIC.

Business Strategy

Our business strategy is to operate as a well-capitalized and profitable community bank dedicated to providing exceptional personal service to our individual and business customers. We believe that we have a competitive advantage in the markets we serve because of our knowledge of the local marketplace and our long-standing history of providing superior, relationship-based customer service. This 57-year history in the community, combined with management's extensive experience and adherence to conservative underwriting standards through numerous business cycles, has enabled us to maintain a strong capital position despite the economic recession.

We believe that the current economic and financial services environment presents a significant opportunity for us to grow our retail banking operations both organically, as many competing financial institutions have scaled back lending and other activities, and through FDIC-assisted acquisitions of troubled financial institutions, such as our acquisition of NCB, MCB, and FNB in June 2009, March 2010, and September 2011, respectively. Through the NCB, MCB, and FNB transactions, CharterBank acquired sixteen full-service branch offices of which ten were retained. We also acquired retail deposits of $582.7 million in the three transactions. In each of the FDIC-assisted acquisitions, we participated in a competitive bid process in which we offered a negative bid on net assets acquired ($26.9 million in the NCB transaction, $53.0 million in the MCB transaction, and $28.0 million in the FNB transaction) and no deposit premium. We also entered into loss sharing agreements with the FDIC which cover a majority of the assets acquired (referred to as "covered assets"). See "FDIC-Assisted Acquisitions" below. We anticipate that the prevailing weakness in the banking sector and the potential weakness of any economic recovery will provide additional opportunities for us to participate in FDIC-assisted transactions.

From January 1, 2009 through September 30, 2011, 371 banking institutions failed in the United States, including 59 failures that have occurred in the state of Georgia. We believe that purchasing distressed banking assets from the FDIC provides us with a low-risk opportunity to enhance our banking franchise, and we intend to evaluate such opportunities as they arise. We believe that there are numerous banks within or adjacent to our target market areas that are subject to various enforcement actions and that have increasing levels of non-performing assets and declining capital levels. Our knowledge of the marketplace and our experienced management team, together with our experience in managing problem assets acquired from the FDIC in the NCB, MCB, and FNB transactions and our capital level, position us to take advantage of future opportunities to acquire troubled financial institutions in our market area.

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Key aspects of our business strategy include the following:

- Leveraging our capital base and acquisition experience to pursue additional strategic growth opportunities, especially FDIC-assisted acquisitions, such as NCB, MCB and FNB. As a result of the NCB, MCB, and FNB acquisitions, we have broader market coverage, particularly in west-central Georgia and northwest Florida Panhandle. Moreover, we expect that the high level of service and expanded product offerings we are providing to the former NCB, MCB, and FNB customers will facilitate growth.

- Growing our retail banking presence throughout the markets in west-central Georgia, east-central Alabama, and the northwest Florida Panhandle, including our expanded retail footprint resulting from the NCB, MCB and FNB acquisitions, while reducing our emphasis on wholesale banking. We have paid off all borrowings acquired in the NCB acquisition and by March 31, 2010, 100% of NCB's wholesale deposits had been eliminated. Since acquiring MCB, we have paid off $9.3 million of borrowings acquired in the MCB acquisition and 97.8% of MCB's wholesale deposits have been eliminated. There were no borrowing acquired in the FNB transaction and essentially no wholesale deposits. We intend to build a diversified balance sheet, positioning CharterBank as a full-service community bank that offers both retail and commercial loan and deposit products to all markets within the I-85 corridor and the adjacent markets resulting from our acquisitions of NCB, MCB, and FNB.

- Continuing to emphasize convenience for our customers by offering extended hours at the majority of our offices, alternative banking delivery systems that allow customers to pay bills, transfer funds and monitor account balances at any time, as well as products and services designed to meet the changing needs of our customers, such as our Rewards checking program discussed under the heading "Business of Charter Financial Corporation and CharterBank—Sources of Funds."

- Reducing our nonperforming assets and classified assets through diligently monitoring resolution efforts, including problem covered assets of NCB, MCB and FNB. As of September 30, 2011, we had $75.5 million of non-performing loans as well as $31.8 million of real estate owned, of which $63.9 million and $27.7 million, respectively, related to covered assets acquired from NCB, MCB and FNB. We have established problem asset resolution teams to resolve nonperforming assets and classified assets acquired in the NCB, MCB and FNB transactions. While the majority of these nonperforming assets do not pose a significant credit risk because they are covered under loss sharing agreements with the FDIC, reducing the amount of non-performing assets acquired in the NCB, MCB and FNB acquisitions will reduce the cost of carrying these assets. See "Asset Quality."

- Continuing to integrate the assets and liabilities we acquired from NCB in June 2009, MCB in March 2010, and FNB in September 2011, achieving operational efficiencies through the consolidation or relocation of our branches, and building on the NCB, MCB and FNB franchises by offering expanded products and services.

FDIC-Assisted Acquisitions

Neighborhood Community Bank. On June 26, 2009, CharterBank entered into an agreement with the FDIC, as receiver, to acquire certain assets and assume certain liabilities of Neighborhood Community Bank, a full service commercial bank headquartered in Newnan, Georgia. The NCB acquisition extended CharterBank's retail branch footprint as part of our efforts to increase our retail deposits and reduce our reliance on brokered deposits and borrowings as a significant source of funds. The acquisition of NCB's four full-service branches, one of which has been closed, has expanded CharterBank's market presence in west central Georgia within the I-85 corridor region in which CharterBank is seeking to expand.

CharterBank assumed $195.3 million of liabilities, including $137.0 million of retail deposits and $44.0 million of wholesale deposits with no deposit premium paid. The liabilities assumed by CharterBank also included $13.0

million of Federal Home Loan Bank advances and $981,000 of other liabilities. CharterBank acquired approximately $202.8 million of NCB's assets, including $159.9 million in loans, net of unearned income, and $17.7 million of real estate owned at a discount of $26.9 million of fair value and other adjustments. The assets acquired also included $44.6 million of cash and cash equivalents, securities, Federal Home Loan Bank stock and other assets, including $19.4 million in cash that was received from the FDIC.

Under agreements with the FDIC, the FDIC will assume 80% of losses and share 80% of loss recoveries on the first $82.0 million of losses on the acquired loans and other real estate owned, and assume 95% of losses and share 95% of loss recoveries on losses exceeding $82.0 million. Loans, including commitments and other real estate owned covered under the loss sharing agreements with the FDIC are referred to in this Annual Report on Form 10-K as “covered loans” and “covered other real estate,” respectively. The loss sharing agreements cover losses on single-family residential mortgage loans for ten years and all other losses for five years. In addition to the $26.9 million of fair value discounts, CharterBank initially recorded an indemnification asset from the FDIC in the amount of $50.0 million as part of the loss sharing agreements. An additional $6.5 million has been recorded to increase the indemnification asset because of increased estimates of loss subsequent to the June 2009 acquisition date. CharterBank has received $52.8 million in cash from the FDIC in loss sharing through September 30, 2011 relating to NCB agreements.

CharterBank determined current fair value accounting estimates of the acquired assets and liabilities in accordance with accounting requirements for acquisition transactions. It is expected that CharterBank now has sufficient nonaccretable discounts (discounts representing amounts that are not expected to be collected from the customer, liquidation of collateral, or under the FDIC loss sharing agreements) to cover losses on the covered loans and other real estate. CharterBank has further recorded a FDIC receivable for losses expected to be indemnified by the FDIC. Furthermore, CharterBank expects to have accretable discounts (discounts representing the excess of a loan’s cash flows expected to be collected over the initial investment in the loan) to provide for market yields on the covered loans. No goodwill or bargain purchase gain was recorded in the transaction.

The following table shows adjustments to the fair value of the assets and liabilities acquired and other acquisition accounting adjustments and the resulting gain from the NCB acquisition as of June 26, 2009.

		As Recorded by NCB		Aggregate fair value and other acquisition accounting adjustments			As Recorded by CharterBank	
Assets:								
Cash and due from banks	$	10,602,482	$	19,415,855	(1)	$	30,017,337	
Securities		12,763,061		(14,395	)(2)		12,748,666	
FHLB stock		1,157,700		—			1,157,700	
Loans, net of unearned income		159,900,960		(65,194,681	)(3)		94,706,279	
Other real estate owned		17,676,456		(10,240,018	)(4)		7,436,438	
FDIC receivable for loss sharing agreements		—		49,991,245	(6)		49,991,245	
Other assets		691,601		1,100,000			691,601	
		—		(1,100,000	)		—	
Total assets acquired	$	202,792,260	$	(6,042,994	)	$	196,749,266	(5)
Liabilities:								
Deposits	$	181,325,925	$	912,499	(7)	$	182,238,424	
FHLB advances		13,000,000		76,665	(8)		13,076,665	
Other liabilities		981,190		452,987	(9)		1,434,177	
Total liabilities assumed		195,307,115		1,442,151			196,749,266	
Excess of assets acquired over liabilities assumed	$	7,485,145						
Aggregate fair value and other acquisition accounting adjustments			$	(7,485,145	)			

(1) Reflects the initial funds received from the FDIC on the acquisition date.

(2) Reflects fair value adjustments based on CharterBank's evaluation of the acquired investment securities portfolio.
(3) Reflects fair value adjustments based on CharterBank's evaluation of the acquired loan portfolio. The fair value adjustment includes adjustments for estimated credit losses, liquidity, market yield and servicing costs.
(4) Reflects the estimated other real estate owned losses based on CharterBank's evaluation of the acquired other real estate owned portfolio.
(5) The carrying value of certain long-term assets, primarily the estimated fair value of acquired core deposit intangible of $1.1 million, was reduced to zero by the excess of the fair value of net assets acquired over liabilities assumed in the acquisition.
(6) Reflects the estimated fair value of payments CharterBank will receive from the FDIC under the loss sharing agreements.
(7) Reflects fair value adjustments based on CharterBank's evaluation of the acquired time deposit portfolio.
(8) This adjustment is required because rates on Federal Home Loan Bank advances were higher than rates available on similar borrowings as of the acquisition date.
(9) Adjustments reflect estimated qualifying acquisition costs in the transaction.

On the June 26, 2009 acquisition date, the preliminary estimate of the contractually required principal payments receivable for all impaired loans acquired from NCB was $51.0 million, and the estimated fair value of such loans was $20.0 million. The impaired NCB loans were valued based on the liquidation value of the underlying collateral because the timing and amount of the expected cash flows could not be reasonably estimated. As a result, we have no accretable discount on these impaired loans. We established a credit risk discount (nonaccretable) of $31.0 million on the acquisition date relating to these impaired loans, reflected in the recorded net fair value of the impaired loans. Our preliminary estimate on the acquisition date of the contractually required principal payments receivable for all other loans acquired in the NCB acquisition was $108.9 million, and the estimated fair value of the loans was $74.7 million. At such date, we established an allowance for loan losses of $23.8 million on these loans representing amounts which are not expected to be collected from the customer nor from liquidation of collateral. In our estimate of cash flows for the non-impaired NCB loans, we also recorded an accretable discount of $10.4 million relating to the loans that will be recognized on a level yield basis over the life of the loans because accretable yield represents the undiscounted cash flows expected to be collected in excess of the estimated fair value of the acquired loans. As of the acquisition date, we also recorded a net FDIC receivable of $50.0 million, representing FDIC indemnification under the loss sharing agreements for covered loans and other real estate. Such receivable has been discounted by $2.0 million for the expected timing and receipt of these cash flows. The ultimate collectability of the FDIC receivable is dependent on the performance of the underlying covered assets, the passage of time and claims paid by FDIC.

The loss sharing agreements will likely have a material impact on our cash flows and operating results in both the short term and the long term. In the short term, it is likely that a significant amount of the covered loans will become delinquent or will have inadequate collateral to repay the loans. In such instances, we will stop accruing interest on the loans, which will affect operating results, and we will likely stop recognizing receipt of payments on these loans, which will affect cash flows. However, if a loan is subsequently charged off or written down after we exhaust our best efforts at collection, the loss sharing agreement will cover a substantial portion of the loss associated with the loans. Management believes that it has established sufficient nonaccretable discounts on covered assets compared to their acquired contractual payment amounts. As a result, the Company’s operating results would only be adversely affected by loan losses on covered assets to the extent that such losses exceed the expected losses reflected in the fair value of the covered assets at the acquisition date and ongoing assessments. Nonaccretable discounts were also established within loans for any amounts expected to be recovered from the loss sharing agreements with the FDIC because such amounts are disclosed within the FDIC receivable.

Assets covered by loss sharing, reflecting acquisition fair values and related nonaccretable discounts decreased from $102.1 million at acquisition to $69.6 million at September 30, 2011. Loss estimates were increased by $6.0 million and $2.1 million in fiscal 2011 and 2010, respectively . This resulted in expensing provision for losses on covered assets of $1.2 million and $420,635 for fiscal 2011 and 2010. We have received $52.8 million in cash reimbursements from the FDIC and have a remaining FDIC indemnification receivable of $9.4 million. If we incur an additional $5.2 million in losses and/or expenses all additional losses and expenses will be reimbursed at the 95% level.

The effects of the loss sharing agreements on cash flows and operating results in the long term will be similar to the short-term effects described above. The long-term effects will depend primarily on the ability of borrowers to make required payments over time. As the loss sharing agreements cover up to a 10-year period (5 years for loans other than single family residential mortgage loans), changing economic conditions will likely affect the timing of future charge-offs and the resulting reimbursements from the FDIC. We believe that any recapture of interest income and recognition of cash flows from borrowers or amounts received from the FDIC (as part of the FDIC indemnification asset) may be recognized unevenly over this period, as we exhaust our collection efforts under our normal practices. In addition, we recorded substantial discounts related to the purchase of covered loans and assets. A portion of these discounts will be accretable to income over the term of the loss sharing agreements and will be dependent upon the timing and success of our collection efforts on the covered loans.

The former NCB franchise is currently operating under the CharterBank name. Since the acquisition, retail customer deposits have increased slightly through September 30, 2011, which significantly exceeds the pre-acquisition planning targets. CharterBank converted operational systems at the former NCB branches in November 2009.

McIntosh Commercial Bank. On March 26, 2010, CharterBank entered into a purchase and assumption agreement with the FDIC, as receiver, to acquire certain assets and assume certain liabilities of McIntosh Commercial Bank, a full-service commercial bank headquartered in Carrollton, Georgia. The MCB acquisition extended CharterBank’s retail branch footprint as part of our efforts to increase our retail deposits and reduce our reliance on brokered deposits and borrowings as a significant source of our funds. The retention of two of MCB’s four full-service branches has expanded CharterBank’s market presence in west central Georgia within the I-85 corridor region and adjacent areas in which CharterBank is seeking to expand.

CharterBank assumed $306.2 million of liabilities, including $198.5 million of retail deposits and $96.8 million of wholesale deposits with no deposit premium paid. The liabilities assumed by CharterBank also included $9.5 million of FHLB advances and other borrowings and $1.4 million of other liabilities. CharterBank acquired approximately $322.6 million of MCB's assets, including $207.6 million in loans, net of unearned income, and $55.3 million of real estate owned at a discount of $53.0 million. The assets acquired also included $68.9 million of cash and cash equivalents and $27.4 million of securities and other assets.

Under agreements with the FDIC, the FDIC will assume 80% of losses and share 80% of loss recoveries on the first $106.0 million of losses on the acquired loans and other real estate owned, and assume 95% of losses and share 95% of loss recoveries on losses exceeding $106.0 million. Loans, including commitments and other real estate owned covered under the loss sharing agreements with the FDIC are referred to in this Annual Report on Form 10-K as "covered loans" and "covered other real estate," respectively. The loss sharing agreements cover losses on single-family residential mortgage loans for ten years and all other losses for five years. CharterBank initially recorded an indemnification asset from the FDIC in the amount of $108.3 million as part of the loss sharing agreements.

CharterBank determined current fair value accounting estimates of the acquired assets and liabilities in accordance with new accounting requirements for business combinations under which the assets acquired and liabilities assumed are recorded at their respective acquisition date fair values. It is expected that CharterBank will have sufficient nonaccretable discounts (discounts representing amounts that are not expected to be collected from the customer, liquidation of collateral, or under the FDIC loss sharing agreements) to cover any losses on the covered loans and other real estate. CharterBank has further recorded a FDIC receivable for losses expected to be indemnified by the FDIC and also loan nonaccretable discounts for such credit losses. Furthermore, CharterBank expects to have accretable discounts (discounts representing the excess of a loan's cash flows expected to be collected over the initial investment in the loan) to provide for market yields on the covered loans. In addition, CharterBank recorded in noninterest income approximately $9.3 million in a pre-tax acquisition gain, or negative goodwill, as a result of the MCB transaction which represents the excess of the estimated fair value of the assets acquired over the fair value of the liabilities assumed.

The following table shows adjustments to the fair value of the assets and liabilities acquired and the resulting gain from the MCB acquisition as of March 26, 2010.

	As Recorded by MCB	Fair Value Adjustments		As Recorded by CharterBank
Assets:				
Cash and due from banks	$ 32,285,757	$ 36,629,236	(1)	$ 68,914,993
FHLB and other bank stock	1,321,710	(200,410)	(2)	1,121,300
Investment securities	24,744,318	(75,028)	(2)	24,669,290
Loans, net of unearned income	207,644,252	(110,645,341)	(3)	96,998,911
Other real estate owned	55,267,968	(40,136,424)	(4)	15,131,544
FDIC receivable for loss sharing agreements	—	108,252,007	(5)	108,252,007
Core deposit intangible	—	258,811	(6)	258,811
Other assets	1,313,923	(427,702)	(7)	886,221
Total assets acquired	$ 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	(8)		290,546,053
Total Deposits		295,306,626			683,100			295,989,726
FHLB advances and other borrowings		9,491,486			—			9,491,486
Deferred tax liability		—			3,737,126	(9)		3,737,126
Other liabilities		1,409,048			—			1,409,048
Total liabilities assumed		306,207,160			4,420,226		$	310,627,386
Excess of assets acquired over liabilities assumed	$	16,370,768	(10)					
Aggregate fair value adjustments				$	(10,765,077)			
Net assets of MCB acquired							$	5,605,691

(1) Reflects the initial funds received from the FDIC on the acquisition date.
(2) Reflects fair value adjustments based on CharterBank's evaluation of the acquired investment securities portfolio.
(3) Reflects fair value adjustments based on CharterBank's evaluation of the acquired loan portfolio. The fair value adjustment includes adjustments for estimated credit losses, liquidity and servicing costs.
(4) Reflects the estimated other real estate owned losses based on CharterBank's evaluation of the acquired other real estate owned portfolio.
(5) The estimated fair value of payments CharterBank will receive from the FDIC under the loss sharing agreements.
(6) The estimated fair value of acquired core deposit intangible.
(7) Reflects the estimated fair value adjustment of other assets.
(8) Reflects fair value adjustments based on CharterBank's evaluation of the acquired time deposit portfolio.
(9) Adjustment reflects differences between the financial statement and tax bases of assets acquired and liabilities assumed.
(10) Represents the excess of assets acquired over liabilities assumed; since the asset discount bid of $53 million exceeded this amount, the difference resulted in a cash settlement from the FDIC on the acquisition date.

Accounting standards prohibit carrying over an allowance for loan losses for loans purchased in the MCB acquisition as uncertainty regarding collectability of future contractual payments are incorporated into the fair value measurement. On the March 26, 2010 acquisition date, the preliminary estimate of the contractually required principal payments receivable for all impaired loans acquired from MCB was $136.9 million, and the estimated fair value of such loans was $50.4 million. The impaired MCB loans were generally valued based on the liquidation value of the underlying collateral because most of the loans are collateral dependent. We established credit risk related discounts (nonaccretable) of $73.8 million on the acquisition date relating to these impaired loans, reflected in the recorded net fair value of the impaired loans. Our preliminary estimate on the acquisition date of the contractually required principal payments receivable for all other loans acquired in the MCB acquisition was $70.8 million, and the estimated fair value of the loans was $46.6 million. We established credit risk related discounts of $18.9 million on these non-impaired loans. In our estimate of cash flows for the MCB loans, we also recorded accretable discounts of $17.9 million relating to the loans that will be recognized on a level yield basis over the life of the loans because accretable yield represents cash flows expected to be collected. As of the acquisition date, we also recorded a net FDIC receivable of $108.3 million, representing FDIC indemnification under the loss sharing agreements for covered loans and other real estate. Such receivable has been discounted by $1.7 million for the expected timing of receipt of these cash flows.

Assets covered by loss sharing, reflecting acquisition fair values and related nonaccretable discounts decreased from $112.1 million at acquisition to $78.3 million at September 30, 2011. We have received $79.1 million in cash reimbursements from the FDIC and have a remaining FDIC indemnification receivable of $35.8 million. Any additional losses and expenses will be reimbursed at the 95% level.

The effects of the loss sharing agreements on cash flows and operating results effects will depend primarily on the ability of borrowers to make expected payments over time. As the loss sharing agreements cover up to a 10-year period (5 years for loans other than single family residential mortgage loans), changing economic conditions will likely affect the timing of future charge-offs and the resulting reimbursements from the FDIC.

The First National Bank of Florida. On September 9, 2011, CharterBank entered into a purchase and assumption agreement with the FDIC, as receiver, to acquire certain assets and assume certain liabilities of The First National Bank of Florida a full-service commercial bank headquartered in Milton, Florida. The FNB acquisition extended CharterBank's retail branch footprint as part of our efforts to increase our retail deposits and reduce our reliance on brokered deposits and borrowings as a significant source of our funds. The retention of four of FNB's eight full-service branches has expanded CharterBank's market presence in the northwestern Florida Panhandle region and adjacent areas in which CharterBank is seeking to expand.

CharterBank assumed $247.5 million of liabilities, including $244.7 million of retail deposits. CharterBank acquired approximately $251.8 million of FNB's assets, including $185.9 million in loans, net of unearned income, and $24.9 million of other real estate owned ("OREO"). The assets acquired also included $49.3 million of cash and cash equivalents and $13.0 million of securities.

Under agreements with the FDIC, as part of the Purchase and Assumption Agreement, CharterBank and the FDIC entered into two loss sharing agreements - one for single family loans, and one for all other loans and OREO. Under the loss sharing agreements, the FDIC will cover 80% of covered loan and OREO losses, with the exception of $900,259 (contractual balance) in consumer loans. The term for loss sharing on residential real estate loans and OREO is ten years, while the term for loss sharing on non-residential real estate loans and OREO is five years in respect to losses and eight years for loss recoveries. The reimbursable losses from the FDIC are based on the book value of the relevant loan as determined by the FDIC at the date of the transaction, accrued interest on loans for up to 90 days, the book value of OREO and certain direct costs. New loans made after the date of the transaction are not covered by the loss sharing agreements.

CharterBank determined current fair value accounting estimates of the acquired assets and liabilities in accordance with accounting requirements for business combinations under which the assets acquired and liabilities assumed are recorded at their respective acquisition date fair values. The fair value estimates of FNB's assets and liabilities acquired from the FDIC are preliminary and subject to refinement as additional information becomes available. Under current accounting principles, information regarding the Company's estimates of fair value may be adjusted for a period of up to one year following the acquisition date. It is expected that CharterBank will have sufficient nonaccretable discounts (discounts representing amounts that are not expected to be collected from the customer, liquidation of collateral, or under the FDIC loss sharing agreements) to cover losses on the covered loans and OREO. CharterBank has further recorded a FDIC receivable for losses expected to be indemnified by the FDIC. Furthermore, CharterBank expects to have accretable discounts (discounts representing the excess of a loan's cash flows expected to be collected over the initial investment in the loan) to provide for market yields on the covered loans. In addition, CharterBank recorded in noninterest income approximately $1.1 million in a pre-tax acquisition gain, or negative goodwill, as a result of the FNB transaction which represents the excess of the estimated fair value of the assets acquired over the fair value of the liabilities assumed.

The following table shows adjustments to the fair value of the assets and liabilities acquired and the resulting gain from the FNB acquisition as of September 9, 2011.

	As Recorded by FNB		Fair Value Adjustments		As Recorded by CharterBank
Assets:					
Cash and due from banks	$ 25,689,080		$ 23,637,211	(a)	$ 49,326,291
FHLB and FRB stock	993,612		—		993,612
Investment securities available for sale	13,002,568		(97,407)	(b)	12,905,161
Loans, net of unearned income	185,927,300		(64,463,794)	(c)	121,463,506
Other real estate owned	24,943,178		(14,383,246)	(d)	10,559,932
FDIC receivable for loss sharing agreements	—		51,555,999	(e)	51,555,999
Core deposit intangible	—		1,134,697	(f)	1,134,697
Other assets	1,291,037		(251,246)	(g)	1,039,791
Total assets acquired	$ 251,846,775		$ (2,867,786)		$ 248,978,989
Liabilities:					
Deposits	244,715,032		—		244,715,032
Deferred tax liability	—		420,919	(j)	420,919
Other liabilities	2,768,954		400,000	(i)	3,168,954
Total liabilities assumed	247,483,986		820,919		$ 248,304,905
Excess of assets acquired over liabilities assumed	$ 4,362,789	(h)			
Aggregate fair value adjustments			$ (3,688,705)		
Net assets of FNB acquired					$ 674,084

(a) – Adjustment reflects the initial wire received from the FDIC adjusted for overpayment by the FDIC on the acquisition date.

(b) – Adjustment reflects fair value adjustments based on the Bank's evaluation of the acquired investment securities portfolio.

(c) – 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.

(d) – Adjustment reflects the estimated other real estate owned losses based on the Bank's evaluation of the acquired other real estate owned portfolio.

(e) – 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 approximately two percent.

(f) – Adjustment reflects fair value adjustments to record the estimated core deposit intangible.

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

(h) – Amount represents the excess of assets acquired over liabilities assumed and since the asset discount bid by CharterBank of $28 million exceeded this amount, the difference resulted in a cash settlement with the FDIC on the acquisition date.

(i) – Adjustment reflects fair value adjustments to record certain other liabilities in this transaction.

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

Accounting standards prohibit carrying over an allowance for loan losses for loans purchased in the FNB acquisition as uncertainty regarding collectability of future contractual payments are incorporated into the fair value measurement. On the September 9, 2011 acquisition date, the preliminary estimate of the contractually required principal payments receivable for all impaired loans acquired from FNB was $121.6 million, and the estimated fair value of such loans was $57.8 million. The impaired FNB loans were generally valued based on the liquidation value of the underlying collateral because most of the loans are collateral dependent. Our preliminary estimate on the acquisition date of the contractually required principal payments receivable for all other loans acquired in the FNB acquisition and covered by the FDIC was $64.3 million, and the estimated fair value of the loans was $63.6 million. We did not establish any credit risk related discounts on these non-impaired loans. In our estimate of cash flows for the FNB loans, we recorded accretable discounts of $11.8 million relating to the loans that will be recognized on a level yield basis over the life of the loans because accretable yield represents cash flows expected to be collected. As of the acquisition date, we also recorded a net FDIC receivable of $51.6 million, representing FDIC indemnification under the loss sharing agreements for covered loans and other real estate. Such receivable has been discounted by $2.0 million for the expected timing of receipt of these cash flows.

Critical Accounting Policies

Critical accounting policies are those that involve significant judgments and assumptions by management and that have, or could have, a material impact on our income or the carrying value of our assets. They require management to make difficult, complex or subjective judgments, some of which may relate to matters that are inherently uncertain. The following are the accounting policies that we believe are critical. For a discussion of recent accounting pronouncements, see Note 1 of the Notes to our Financial Statements.

Allowance for Loan Losses. The allowance for loan losses is established through a provision for loan losses charged to expense. Loans are charged against the allowance for loan losses when management believes that the collectability of the principal is unlikely. Subsequent recoveries are added to the allowance. The allowance is an amount that management believes will be adequate to absorb losses on existing loans that become uncollectible, based on evaluations of the collectability 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.

Charter Financial 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 ratings are initially assigned in accordance with CharterBank'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. Charter Financial 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 Charter Financial'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, we use some qualitative allowance factors 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 CharterBank's business environment that must be factored into CharterBank's 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.

While management uses available information to recognize losses on loans, future additions or reductions to the allowance may be necessary based on changes in economic conditions or changes in accounting guidance on reserves. In addition, various regulatory agencies, as an integral part of their examination process, periodically review our allowance for loan losses. Such agencies may require us to recognize additions to the allowance based on their judgments about information available to them at the time of their examination.

Management believes that the allowance for loan losses is adequate. At September 30, 2011, Charter Financial had 95.8% of its total non-covered loan portfolio secured by real estate, with one- to four-residential mortgage loans comprising 23.0% of the total non-covered loan portfolio, commercial real estate loans comprising 58.0% of the total non-covered loan portfolio, and construction loans comprising 9.9% of the total non-covered loan portfolio. Charter

Financial carefully monitors its commercial real estate loans since the repayment of these loans is generally dependent upon earnings from the collateral real estate or the liquidation of the real estate and is affected by national and local economic conditions. For many owner-occupied commercial real estate loans, debt service may be dependent upon cash flow from business operations. The residential category represents those loans Charter Financial chooses to maintain in its portfolio rather than selling into the secondary market. The residential loans held for sale category comprises loans that are in the process of being sold into the secondary market. The credit has been approved by the investor and the interest rate and purchase price fixed so Charter Financial takes no credit or interest rate risk with respect to these loans.

Through the FDIC-assisted acquisition of the assets of NCB, we established an allowance for loan losses for non-impaired loans covered by loss-sharing agreements and such allowance for loan losses was $6.9 million at September 30, 2011. Management believes this allowance for non-impaired covered loans is adequate. The NCB acquisition was completed under previously applicable accounting pronouncements related to business combinations.

Through the FDIC-assisted acquisitions of the loans of NCB, MCB, and FNB, we established non-accretable discounts for the acquired impaired loans and we also established non-accretable discounts for all other loans of MCB. 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. During the years ended September 30, 2011 and 2010, we increased non-accretable discounts relating to NCB-acquired loans by $6.0 million and $2.1 million, recorded $1.2 million and $421,000 as a charge to earnings, with $4.8 million and $1.7 million recorded as an increase to the FDIC receivable.

Other-Than-Temporary Impairment of Investment Securities. A decline in the market value of any available for sale security below cost that is deemed other-than-temporary results in a charge to earnings and the establishment of a new cost basis for that security. In connection with the assessment for other than temporary impairment of investment securities, mortgage-backed securities, and collateralized mortgage obligations, management obtains fair value estimates by independent quotations, assesses current credit ratings and related trends, reviews relevant delinquency and default information, assesses expected cash flows and coverage ratios, reviews average credit score data of underlying mortgages, and assesses other current data. The severity and duration of an impairment and the likelihood of potential recovery of an impairment is considered along with the intent and ability to hold any impaired security to maturity or recovery of carrying value.

See “Risk Factors—We could record future losses on our securities portfolio.”

Real Estate Owned. Real estate acquired through foreclosure, consisting of properties obtained through foreclosure proceedings or acceptance of a deed in lieu of foreclosure, is reported on an individual asset basis at the lower of cost or fair value, less disposal costs. Fair value is determined on the basis of current appraisals, comparable sales, and other estimates of value obtained principally from independent sources. When properties are acquired through foreclosure, any excess of the loan balance at the time of foreclosure over the fair value of the real estate held as collateral is recognized and charged to the allowance for loan losses. Subsequent write downs are charged to a separate allowance for losses pertaining to real estate owned, established through provisions for estimated losses on real estate owned which are charged to expense. Based upon management’s evaluation of the real estate acquired through foreclosure, additional expense is recorded when necessary in an amount sufficient to reflect any declines in estimated fair value. Gains and losses recognized on the disposition of the properties are recorded in noninterest expense in the consolidated statements of income.

Goodwill and Other Intangible Assets. Intangible assets include costs in excess of net assets acquired and deposit premiums recorded in connection with the acquisitions. In accordance with accounting requirements, we test our goodwill for impairment annually or more frequently as circumstances and events may warrant. No impairment charges have been recognized through September 30, 2011.

Deferred Income Taxes. Management estimates income tax expense using the asset and liability method. Under this method, deferred income tax assets and liabilities are recognized for future income tax consequences attributable to differences between the amount of assets and liabilities reported in the consolidated financial statements and their respective tax bases. In estimating the liabilities and corresponding expense related to income taxes, management assesses the relative merits and risks of various tax positions considering statutory, judicial and regulatory guidance. Because of the complexity of tax laws and regulations, interpretation is difficult and subject to differing judgments. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Management's determination of the realization of the net deferred tax asset is based upon management's judgment of various future events and uncertainties, including the timing and amount of future income, reversing temporary differences which may offset, and the implementation of various tax plans to maximize realization of the deferred tax asset. Management has determined that no valuation allowances were necessary relating to the realization of its deferred tax assets.

Changes in the estimate of income tax liabilities occur periodically due to changes in actual or estimated future tax rates and projections of taxable income, interpretations of tax laws, the complexities of multi-state income tax reporting, the status of examinations being conducted by various taxing authorities and the impact of newly enacted legislation or guidance as well as income tax accounting pronouncements.

Receivable from FDIC Under Loss Sharing Agreements. Under loss sharing agreements with the FDIC, we recorded a receivable from the FDIC equal to 80 percent or 95 percent, as applicable, of the estimated losses in the covered loans and other real estate acquired in an FDIC-assisted transaction. The receivable was recorded at the present value of the estimated cash flows at the date of the acquisition and will be reviewed and updated prospectively as loss estimates related to covered loans and other real estate acquired through foreclosure change. Most third party expenses on other acquired real estate and covered impaired loans are covered under the loss sharing agreements and the cash flows from the reimbursable portion are included in the estimate of the FDIC receivable when incurred.

Estimation of Fair Value. The estimation of fair value is significant to certain of our assets, including investment securities available for sale, other real estate owned, assets and liabilities subject to acquisition accounting and the value of loan collateral for impaired loans. These are all recorded at either fair value or the lower of cost or fair value. Fair values are determined based on third party sources, when available. Furthermore, generally accepted accounting principles require disclosure of the fair value of financial instruments as a part of the notes to the consolidated financial statements. Fair values may be influenced by a number of factors, including market interest rates, prepayment speeds, liquidity considerations, discount rates and the shape of yield curves. For additional information relating to the fair value of our financial instruments, see Note 15 to the consolidated financial statements.

Comparison of Financial Condition at September 30, 2011 and 2010

Assets. Total assets decreased by $14.6 million, or 1.2%, to remain at $1.2 billion for both September 30, 2011 and September 30, 2010. Cash and cash equivalents decreased to $149.8 million at September 30, 2011, down from $235.6 million at September 30, 2010. This decrease was planned with the repayment of $102 million of FHLB advances in the first quarter of fiscal 2011.

Loans. At September 30, 2011, total loans were $652.0 million, or 55.7% of total assets. During the year ended September 30, 2011, our loan portfolio increased by $52.7 million, or 8.8%. The increase was due to the acquisition of $121.5 million of loans at fair value in the FNB transaction, which was partially offset by paydowns in both the legacy and acquired loan portfolios. Of the $652.0 million in net loans as of September 30, 2011, $232.0 million were covered by FDIC loss sharing agreements.

	Non-covered	Covered	Total
		(Dollars in Thousands)	
Net Loan Receivable Balances:			
September 30, 2011	$ 419,979	$ 232,046	$ 652,025
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	463,720	201,678	665,398

Loan Portfolio Composition. The following table sets forth the composition of our loan portfolio at the dates indicated.

	At September 30,									
	2011		2010		2009		2008		2007	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)									
One- to four-family residential real estate (1)	$98,845	14.3 %	$106,041	16.9 %	$126,097	20.9 %	$138,205	31.6 %	$138,528	33.6 %
Commercial real estate	252,037	36.4	267,726	42.6	270,062	44.8	222,056	50.8	181,585	44.0
Real estate construction (2)	41,726	6.0	45,930	7.3	43,965	7.3	39,563	9.0	52,040	12.6
Commercial	17,613	2.6	19,604	3.1	10,466	1.7	15,543	3.6	18,999	4.6
Consumer and other loans (3)	20,138	2.9	22,486	3.6	22,715	3.7	22,154	5.0	21,267	5.2
Covered loans (4)	261,198	37.8	182,335	26.5	122,060	21.6	—	—	—	—
Total loans	691,557	100.0%	644,122	100.0%	595,365	100.0%	437,521	100.0%	412,419	100.0%
Other items:										
Net deferred loan (fees)	(1,050)		(758)		(857)		(804)		(852)	
Allowance for loan losses-non-covered loans	(9,370)		(9,797)		(9,332)		(8,244)		(6,013)	
Allowance for loan losses-covered loans (5)	(6,892)		(15,554)		(23,832)		—		—	
Accretable discount (5)	(22,221)		(18,643)		(8,794)		—		—	
Loans receivable, net	$652,024		$599,370		$552,550		$428,473		$405,554	

(1) Excludes loans held for sale of $291, $2,061, $1,123, $1,292 and $921 at September 30, 2011, 2010, 2009, 2008 and 2007, respectively.
(2) Net of undisbursed proceeds on loans-in-process.
(3) Includes home equity loans, lines of credit and second mortgages.
(4) Consists of loans and commitments acquired in the NCB, MCB, and FNB acquisitions that are covered by loss sharing agreements with the FDIC. Such amounts are presented net of non-accretable discounts of $72,149, $52,861 and $7,137 at September 30, 2011, 2010 and 2009, respectively.
(5) See Note 6 to the Notes to our Consolidated Financial Statements.

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Loan Portfolio Maturities and Yields. The following table summarizes the scheduled repayments of our loan portfolio at September 30, 2011. Demand loans, loans having no stated repayment schedule or maturity, and overdraft loans are reported as being due in one year or less.

	One- to four-family residential real estate (1)		Commercial real estate(2)		Real estate Construction (3)	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
			(Dollars in thousands)			
Due During the Years Ending September 30,						
2012	$10,990	6.27 %	$176,146	5.83 %	$44,630	4.80 %
2013	7,568	6.12	73,575	5.93	2,844	5.37
2014	1,335	7.00	37,358	5.48	-	-
2015 to 2016	1,549	5.67	13,117	5.12	117	7.00
2017 to 2021	11,768	5.51	29,885	5.49	-	-
2022 to 2026	11,423	5.81	49,309	5.55	5	0.25
2027 and beyond	70,705	5.37	71,738	5.78	-	-
Total	$115,338	5.58 %	$451,128	5.74 %	$47,596	4.84 %

	Commercial (4)		Consumer and other loans (5)		Total (6)	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
			(Dollars in thousands)			
Due During the Years Ending September 30,						
2012	$24,918	5.86 %	$3,446	6.04 %	$260,130	5.68 %
2013	5,388	5.85	1,950	5.41	91,325	5.96
2014	2,970	6.17	2,157	5.74	43,820	5.49
2015 to 2016	3,812	4.20	4,298	5.47	22,893	5.13
2017 to 2021	3,181	4.97	12,010	4.77	56,844	5.34
2022 to 2026	2,196	4.73	3,987	3.80	66,920	5.46
2027 and beyond	183	5.13	107	6.93	142,733	5.57
Total	$42,648	5.59 %	$27,955	5.02 %	$684,665	5.61 %

(1) Includes $16,494 of covered loans.
(2) Includes $199,092 of covered loans.
(3) Includes $5,868 of covered loans. Presented net of undisbursed proceeds on loans-in-progress.
(4) Includes $25,035 of covered loans.
(5) Includes $7,817 of covered loans.
(6) Excludes nonaccretable discounts, allowance for loan losses on covered loans, and net deferred loan fees.

The following table sets forth the scheduled repayments of fixed- and adjustable-rate loans at September 30, 2011 that are contractually due after September 30, 2012.

	Due After September 30, 2012		
	Fixed	Adjustable	Total
		(In thousands)	
One- to four-family residential real estate	$32,673	$71,674	$104,347
Commercial real estate	55,374	219,610	274,984
Real estate construction	169	2,796	2,965
Commercial	4,935	12,796	17,731
Consumer and other loans	3,652	20,856	24,508
Total loans	$96,803	$327,732	$424,535

Investment and Mortgage Securities Portfolio. At September 30, 2011, our investment and mortgage securities portfolio totaled $158.7 million, compared to $133.2 million at September 30, 2010. The increase was due to $111.2 million in purchases and $12.9 million acquired in the acquisition of FNB, offset by $41.3 million in sales, $3.6 million that were called, and $52.5 million in principal paydowns. During 2011, we also had approximately $2.3 million in other than temporary impairment charges on non-government agency collateralized mortgage obligations. During 2010, we also had approximately $2.5 million in other than temporary impairment charges on non-government agency collateralized mortgage obligations.

We review our investment portfolio on a quarterly basis for indications of impairment. In addition to management's intent and ability to hold the investments to maturity or recovery of carrying value, the review for impairment includes analyzing the length of time and the extent to which the fair value has been lower than the cost, the financial condition and near-term prospects of the issuer, including any specific events which may influence the operations of the issuer. Our review of mortgage securities includes loan geography, loan to value ratios, credit scores, types of loans, loan vintage, credit ratings, loss coverage from tranches less senior than our investment tranche and cash flow analysis. Our investments are evaluated using our best estimate of future cash flows. If, based on our estimate of cash flows, we determine that an adverse change has occurred, other-than-temporary impairment would be recognized for the credit loss. At September 30, 2011, we held no securities in our investment portfolio with other-than-temporary impairment, except for three non-agency collateralized mortgage obligations, which are discussed further below. At September 30, 2011, these three non-agency securities had a combined book value of $7.8 million and combined unrecognized losses of $3.3 million, reflected through other comprehensive income.

The following table sets forth the composition of our investment and mortgage securities portfolio at the dates indicated. At September 30, 2011, all investment and mortgage securities were classified as available for sale. With the exception of obligations of U.S. Government sponsored enterprises ("GSE"s) and GSE mortgage-backed securities and collateralized mortgage obligations, we held no securities at September 30, 2011 with a book value that exceeded 10% of total stockholders' equity.

	At September 30,					
	2011		2010		2009	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)					
Investment securities:						
U.S. Government sponsored entities	$17,414	$17,510	$-	$-	$4,157	$4,435
Municipals	10,618	10,626	100	103	-	-
Total investment securities	28,032	28,136	100	103	4,157	4,435
Mortgage-backed and mortgage-related securities:						
Fannie Mae	62,751	63,608	35,164	35,962	53,593	53,975
Ginnie Mae	5,842	6,088	25,437	26,098	5,745	5,979
Freddie Mac	20,634	21,291	7,135	7,614	27,438	27,679
Total mortgage-backed and mortgage related securities	89,227	90,987	67,736	69,674	86,776	87,633
Collateralized mortgage obligations:						
Fannie Mae	16,682	17,133	9,605	9,872	37,302	37,706
Ginnie Mae	3,648	3,676	6,131	6,108	—	—
Freddie Mac	871	944	20,516	20,785	19,206	19,380
Other	23,263	17,860	34,395	26,641	71,160	56,908
Total collateralized mortgage obligations	44,464	39,613	70,647	63,406	127,668	113,994
Total mortgage-backed securities and collateralized mortgage obligations	133,691	130,600	138,383	133,080	214,444	201,627
Total	$161,723	$158,736	$138,483	$133,183	$218,601	$206,062

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. We apply the Bloomberg default model, and if the bond shows no losses we consider it not other than temporarily impaired. If a bond shows 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 and unrealized losses for our portfolio of non-agency collateralized mortgage obligations as of September 30, 2011. As of September 30, 2011, we had cumulatively recorded $2.0 million of other than temporary impairment charges with respect to CWALT 2005-63 2A2, $2.4 million of other than temporary impairment charges with respect to SARM 2005-15 2A2, and $380,000 of other than temporary impairment charges with respect to MARM 2004-13 B1. No other mortgage securities in our investment portfolio were other than temporarily impaired at September 30, 2011.

Cusip	Description	Credit Rating			Cumulative Net Impairment Losses Recognized in Earnings	Current Par Value	Book Value	Market Value	Unrealized Gain (Loss)
		Moody	S&P	Fitch			(Dollars in thousands)		
12668AXE0	CWALT 2005-63 2A2	C	D	n/a	$ 2,007	$ 1,693	$ 375	$ 209	$ (166)
172921J74	CMSI 1993-14 A3	WR	BB	n/a	-	127	127	121	(6)
17307GDL9	CMLTI 2004-HYB1 A31	B3	n/a	AA	-	1,783	1,783	1,672	(111)
36228FQF6	GSR 2003-4F 1A2	n/a	AAA	AAA	-	507	507	517	10
36242DXZ1	GSR 2005-2F 1A2	n/a	B	AA	-	836	836	842	6
55265KL80	MASTR 2003-8 4A1	n/a	AAA	AAA	-	1,314	1,304	1,328	24
576433QD1	MARM 2004-7 5A1	Ba3	AAA	n/a	-	6,423	6,423	5,538	(885)
576433UQ7	MARM 2004-13 B1	NR	B-	n/a	380	6,911	6,530	3,473	(3,057)
576433VN3	MARM 2004-15 4A1	Ba3	n/a	B	-	3,069	3,069	2,354	(715)
863579UR7	SARM 2005-15 2A2	NR	CC	n/a	2,436	3,343	907	828	(79)
86359BVF5	SARM 2004-6 3A3	n/a	AAA	n/a	-	1,402	1,402	978	(424)
					$ 4,823	$ 27,408	$ 23,263	$ 17,860	$ (5,403)

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 September 30, 2011, the securities above were classified as available for sale and $4.8 million had been cumulatively recognized as impairment through net income. Based on the analysis performed by management as of September 30, 2011, the Company deemed it probable that all contractual principal and interest payments on the above securities, other than the three securities identified above as being other than temporarily impaired, will be collected and therefore there is no other than temporary impairment.

Securities Portfolio Maturities and Yields. The composition and maturities of the securities portfolio at September 30, 2011 are summarized in the following table. Maturities are based on the final contractual payment dates, and do not reflect scheduled amortization or the impact of prepayments or redemptions that may occur.

	Less than One Year		More than One Year through Five Years		More than Five Years through Ten Years		More than Ten Years		Total Securities		
	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Fair Value	Weighted Average Yield
	(Dollars in thousands)										
Investment securities:											
U.S. Governmental sponsored entities	$1,450	4.45%	$7,456	3.13%	$-	- %	$8,508	5.88%	$17,414	$17,510	4.82%
Municipals	100	3.85	3,063	3.96	4,183	4.53	3,272	5.01	10,618	10,626	4.50
Total investment securities	1,550	4.41	10,519	3.43	4,183	4.53	11,780	5.64	28,032	28,136	4.68
Mortgage-backed securities:											
Fannie Mae	-	-	-	-	23,282	3.79	39,469	4.22	62,751	63,608	4.06
Ginnie Mae	-	-	1,145	6.25	2,992	4.67	1,705	6.50	5,842	6,088	5.51
Freddie Mac	-	-	-	-	8,150	4.00	12,484	4.67	20,634	21,291	4.40
Total mortgage-backed and mortgage-related securities	-	-	1,145	6.25	34,424	3.92	53,658	4.40	89,227	90,987	4.23
Collateralized mortgage obligations:											
Fannie Mae	-	-	-	-	387	4.50	16,295	4.69	16,682	17,133	4.68
Ginnie Mae	-	-	1,178	4.50	-	-	2,470	5.04	3,648	3,676	4.87
Freddie Mac	-	-	-		-	-	871	5.63	871	944	5.63
Other	-	-	-		1,810	4.64	21,453	2.74	23,263	17,860	3.07
Total collateralized mortgage obligations	-	-	1,178	4.50	2,197	4.62	41,089	4.40	44,464	39,613	3.87
Total	$1,550	4.41%	$12,842	3.99%	$40,804	4.02%	$106,527	4.02%	$161,723	$158,736	4.21%

Bank Owned Life Insurance. We invest in bank owned life insurance to provide us with a funding source for our benefit plan obligations. Bank owned life insurance also generally provides us non-interest income that is non-taxable. The total cash surrender values of such policies at September 30, 2011 and 2010 were $32.8 million and $31.7 million, respectively.

Deposits. Total deposits increased $88.0 million, or 10.7%, to $911.1 million at September 30, 2011 from $823.1 million at September 30, 2010. The increase was caused primarily by the assumption of $244.7 million of deposits in the FNB transaction, partially offset by the payoff of wholesale CDs acquired in the MCB transaction. At September 30, 2011, $883.4 million of deposits were retail deposits and $27.7 million were brokered and other wholesale deposits. Funds on deposit from credit unions and brokered deposits are considered as wholesale deposits.

	Deposit Fees	Transaction Accounts	Savings	Money Market	Total Core Deposits	Retail Certificates of Deposit	Wholesale Certificates of Deposit
			(Dollars in Thousands)				
September 30, 2011	$1,601	$ 268,515	$56,857	$121,804	$447,176	$ 436,213	$ 27,705
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
December 31, 2009	1,276	143,187	17,256	80,772	241,485	256,666	116,583

The following table sets forth the distribution of total deposit accounts, by account type, for the periods indicated.

	For the Years Ended September 30,								
	2011			2010			2009		
	Average Balance	Percent	Weighted Average Rate [1]	Average Balance	Percent	Weighted Average Rate	Average Balance	Percent	Weighted Average Rate
	(Dollars in thousands)								
Deposit type:									
Savings accounts	$20,877	2.8 %	0.18 %	$17,641	2.4 %	0.39 %	$12,842	2.7 %	0.25 %
Certificates of deposit	425,168	57.1	1.80	453,142	62.7	2.08	291,760	61.3	2.46
Money market	89,692	12.0	0.47	88,445	12.2	0.74	80,759	17.0	5.55
Demand and NOW	209,437	28.1	0.61	164,073	22.7	1.26	90,445	19.0	0.31
Total deposits	$745,174	100.0 %	1.26 %	$723,301	100.0 %	1.69 %	$475,806	100.0 %	2.55 %

[1] Subsequent to September, rates on deposits acquired in the FNB acquisition were lowered based on terms of Purchase and Assumption Agreement.

The following table sets forth the distribution of total deposit accounts for the acquisition of FNB, by account type, at acquisition date, September 9, 2011, compared to most recent deposit amounts at December 12, 2011. This comparison shows effective rate changes made in the subsequent period.

	As of September 9, 2011			As of December 12, 2011		
	Balance	Percent	Weighted Average Rate	Balance	Percent	Weighted Average Rate
	(Dollars in thousands)					
Deposit type:						
Savings accounts	$ 40,328	16.5 %	0.75 %	$ 33,452	16.8 %	0.61 %
Certificates of deposit	113,771	46.5	1.75	75,003	37.7	0.86
Money market	31,604	12.9	0.88	31,700	16.0	0.68
Demand and NOW	59,093	24.1	0.07	58,677	29.5	0.07
Total deposits	244,796	100.0 %	1.07 %	198,832	100.0 %	0.55 %

The following table sets forth certificates of deposit classified by interest rate as of the dates indicated.

	At September 30, 2011	2010	2009
	(In thousands)		
Interest Rate:			
Less than 2.00%	$248,450	$220,960	$125,167
2.00% to 2.99%	162,643	210,736	108,007
3.00% to 3.99%	44,890	57,834	85,961
4.00% to 4.99%	4,602	10,569	45,922
5.00% to 5.99%	3,332	9,772	15,675
6.00% to 6.99%	—	93	—
Total	$463,917	$509,964	$380,732

The following table sets forth, by interest rate ranges, information concerning our certificates of deposit.

	At September 30, 2011 Period to Maturity					
	Less Than or Equal to One Year	More Than One to Two Years	More Than Two to Three Years	More Than Three Years	Total	Percent of Total
	(Dollars in thousands)					
Interest Rate Range:						
1.99% and below	$206,724	$26,066	$6,349	$9,311	$248,450	53.56 %
2.00% to 2.99%	58,628	78,446	6,138	19,431	162,643	35.06
3.00% to 3.99%	10,199	2,927	3,156	28,608	44,890	9.68
4.00% to 4.99%	2,171	1,916	515	—	4,602	0.99
5.00% to 5.99%	3,189	143	—	—	3,332	0.71
Total	$280,911	$109,498	$16,158	$57,350	$463,917	100.00 %

As of September 30, 2011, the aggregate amount of outstanding certificates of deposit in amounts greater than or equal to $100,000 was approximately $243.5 million. The following table sets forth the maturity of those certificates as of September 30, 2011.

	At September 30, 2011 Retail (1)	Wholesale (2)
	(In thousands)	
Three months or less	$28,875	$3,437
Over three months through six months	38,429	1,346
Over six months through one year	54,909	-
Over one year to three years	61,651	19,198
Over three years	35,644	-
Total	$219,508	$23,981

(1) Retail certificates of deposit consist of deposits held directly by customers. The weighted average interest rate for all retail certificates of deposit at September 30, 2011, was 1.91%.
(2) Wholesale certificates of deposit include brokered deposits and deposits from other financial institutions. The weighted average interest rate for all wholesale certificates of deposit at September 30, 2011, was 2.11%.

Borrowings. Our borrowings consist of advances from the Federal Home Loan Bank of Atlanta. From time to time, our borrowings also have included securities sold under agreements to repurchase. At September 30, 2011, borrowings equaled $110.0 million, a decrease of $102.0 million from September 30, 2010. The decrease was primarily due to the payoff of maturing Federal Home Loan Bank advances and a prepayment of $60.0 million of FHLB advances in October 2010 that had maturities in January 2011. A prepayment penalty of $809,558 which represented the approximate net present value of contractual interest payments to the January 2011 maturity of these $60 million of advances. During the year ended September 30, 2009, a $25,000,000 advance with a rate of 6.22% was prepaid. This prepayment resulted in a prepayment penalty of $1,408,275 which is included in other noninterest expense.

At September 30, 2011, we still had available Federal Home Loan Bank advances of up to $382.1 million under existing lines of credit. Based upon available investment and loan collateral except cash, additional advances of $38.5 million were available at September 30, 2011. The following table sets forth information concerning balances and interest rates on our Federal Home Loan Bank advances at the dates and for the periods indicated.

	At or For the Years Ended September 30,		
	2011	2010	2009
	(Dollars in thousands)		
Balance at end of year	$110,000	$212,000	$227,000
Average balance during year	$130,170	$214,996	$260,158
Maximum outstanding at any month end	$152,000	$217,000	$275,500
Weighted average interest rate at end of year	4.24 %	4.91 %	4.82 %
Average interest rate during year	4.48 %	4.90 %	4.80 %

The following table sets forth information concerning balances and interest rates on our securities sold under agreements to repurchase at the dates and for the periods indicated.

	At or For the Years Ended September 30,		
	2011	2010	2009
	(Dollars in thousands)		
Balance at end of year	$—	$—	$—
Average balance during year	$66	$204	$—
Maximum outstanding at any month end	$—	$245	$—
Weighted average interest rate at end of year	— %	— %	— %
Average interest rate during year	0.81 %	0.29 %	— %

The following table sets forth information concerning balances and interest rates on our credit line at the Federal Reserve Bank at the dates and for the periods indicated. At September 30, 2011, approximately $38.7 million of credit was available to us at the Federal Reserve Bank based on loan collateral pledged.

	At or For the Years Ended September 30,		
	2011	2010	2009
	(Dollars in thousands)		
Balance at end of year	$—	$—	$—
Average balance during year	$43	$—	$100,000
Maximum outstanding at any month end	$—	$—	$10,000,000
Weighted average interest rate at end of year	— %	— %	— %
Average interest rate during year	.25 %	— %	0.30 %

Equity. At September 30, 2011, total equity equaled $139.4 million (or $7.68 per share), a $2.5 million increase from September 30, 2010. The increase was primarily due to net income of $2.3 million for the year ended September 30, 2011 and a $1.5 million increase in accumulated other comprehensive income resulting from a decrease in unrealized losses on securities available for sale, partially offset by $1.9 million in dividends paid to stockholders.

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Average Balances and Yields

The following tables set forth average balance sheets, average yields and costs, and certain other information for the periods indicated. All average balances are daily average balances. Non-accrual loans were included in the computation of average balances, but have been reflected in the table as loans carrying a zero yield. The yields set forth below include the effect of deferred fees, discounts and premiums that are amortized or accreted to interest income or expense.

	For the Twelve Months Ended September 30,											
	2011				2010				2009			
	Average Balance	Interest	Average Yield/ Cost		Average Balance	Interest	Average Yield/ Cost		Average Balance	Interest	Average Yield/ Cost	
Assets:	(Dollars in thousands)											
Interest-earning assets:												
Loans												
Interest-bearing deposits in other financial institutions	105,413	236	0.22	%	87,470	135	0.15	%	26,724	34	0.13	%
FHLB common stock and other equity securities	12,602	92	0.73		14,427	50	0.35		13,572	29	0.21	
Mortgage-backed securities and collateralized mortgage obligations available for sale (3)	126,917	3,943	3.11		177,484	6,983	3.93		223,851	10,700	4.78	
Other investment securities available for sale (3)	21,565	154	0.71		4,028	195	4.84		21,419	484	2.26	
Loans receivable (1) (2) (3)	584,998	41,362	7.07		602,551	42,595	7.07		484,045	29,093	6.01	
Total interest-earning assets	851,495	45,787	5.38		885,960	49,958	5.64		769,611	40,340	5.24	
Total noninterest-earning assets	174,693				167,887				73,040			
Total assets	$1,026,188				$1,053,847				$842,651			
Liabilities and Equity:												
Interest-bearing liabilities:												
NOW accounts	$88,656	$255	0.29		$73,434	$535	0.73		$55,174	$377	0.68	
Rewards checking	67,788	1,017	1.50		43,876	1,529	3.48		379	14	3.69	

Savings accounts	20,877	37	0.18	17,641	69	0.39	12,842	33	0.26
Money market deposit accounts	89,692	419	0.47	88,445	657	0.74	80,759	935	1.16
Certificate of deposit accounts	425,168	7,667	1.80	453,142	9,437	2.08	291,760	8,741	3.00
Total interest-bearing deposits	692,181	9,395	1.36	676,538	12,227	1.81	440,914	10,100	2.29
Borrowed funds	130,236	5,832	4.48	215,072	10,530	4.90	260,158	12,499	4.80
Total interest-bearing liabilities	822,417	15,227	1.85	891,610	22,757	2.55	701,072	22,599	3.22
Noninterest-bearing deposits	52,993			46,763			34,892		
Other noninterest-bearing liabilities	12,994			9,825			3,974		
Total noninterest-bearing liabilities	65,987			56,588			38,866		
Total liabilities	888,404			948,198			739,938		
Total stockholders' equity	137,784			105,649			102,713		
Total liabilities and stockholders' equity	$1,026,188			$1,053,847			$842,651		
Net interest income		$30,560			$27,201			$17,741	
Net interest-earning assets (5)		$29,078			$(5,650)			$68,539	
Net interest rate spread (4)			3.53 %			3.09 %			2.02 %
Net interest margin (6)			3.59 %			3.07 %			2.31 %
Ratio of average interest-earning assets to average interest-bearing liabilities			103.54 %			99.37 %			109.78 %

(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 non-accrual loans.
(3) Tax exempt or tax-advantaged securities and loans are shown at their contractual yields and are not shown at a tax equivalent yield.
(4) 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.
(5) Net interest-earning assets represent total interest-earning assets less total interest-bearing liabilities.
(6) Net interest margin represents net interest income as a percentage of average interest-earning assets.

Rate/Volume Analysis

The following table presents the effects of changing rates and volumes on our net interest income for the fiscal years indicated. The rate column shows the effects attributable to changes in rate (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.

	Year Ended September 30, 2011 Compared to Year Ended Septemer 30, 2010 Increase/(Decrease) (In Thousands) Due to			
	Volume	Rate	Combined	Net
Interest Income:				
Interest-bearing deposits in other financial institutions	$28	$61	$12	$101
FHLB common stock and other equity securities	(6)	55	(7)	42
Mortgage-backed securities and collateralized mortgage obligations available for sale	(1,990)	(1,469)	(419)	(3,040)
Other investment securities available for sale	849	(166)	(724)	(41)
Loans receivable	(1,241)	8	-	(1,233)
Total interest-earnings assets	$(2,360)	$(1,511)	$(300)	$(4,171)
Interest Expense				
NOW accounts	$689	$(1,110)	$(370)	$(791)
Savings accounts	13	(38)	(7)	(32)
Money market deposit accounts	9	(244)	(3)	(238)
Certificate of deposit accounts	(583)	(1,266)	78	(1,771)
Total interest-bearing deposits	128	(2,658)	(302)	(2,832)
Borrowed funds	(4,154)	(899)	356	(4,697)
Total Interest-Bearing Liabilities	$(4,026)	$(3,557)	$54	$(7,529)
Net Change in net interest income	$1,666	$2,046	$(354)	$3,358

Comparison of Operating Results for the Years Ended September 30, 2011 and 2010

General. Net income decreased $3.6 million, or 61.2%, to $2.3 million for the year ended September 30, 2011 from $5.9 million for the year ended September 30, 2010. The decrease was primarily due to the $9.3 million pre-tax acquisition gain on the assets and liabilities of MCB acquired from the FDIC on March 26, 2010, compared to a $1.1 million pre-tax acquisition gain on the assets and liabilities of FNB acquired from the FDIC on September 9, 2011. The acquisition gains represented the amounts by which the estimated fair value of the assets acquired exceeded the fair value of the liabilities assumed. Net interest income after provision for loan losses increased to $27.7 million for the year ended September 30, 2011 from $21.0 million for the year ended September 30, 2010, reflecting improved interest rate spreads and net interest margins. This was partially offset by an increase in noninterest expense of $3.8 million to $34.3 million for the year ended September 30, 2011 from $30.5 million for the year ended September 30, 2010.

Interest and Dividend Income. Total interest and dividend income decreased $4.2 million, or 8.4%, to $45.8 million for the year ended September 30, 2011 from $50.0 million for the year ended September 30, 2010. Interest on loans decreased $1.2 million, or 2.9%, to $41.4 million as a result of a $17.5 million, or 2.9%, decrease in the average balance of loans receivable to $585.0 million. The decrease in the average balance was primarily the result of the loan runoff during the year which was partially offset by $121.5 million of acquired loans as part of The First National Bank of Florida acquisition in September 2011.

Interest and dividend income on securities decreased $3.1 million, or 42.9%, to $4.1 million for the year ended September 30, 2011 from $7.2 million for the year ended September 30, 2010. The decrease reflected a $33.0 million, or 18.2%, decrease in the average balance of securities to $148.5 million. The decrease in the average balance of securities reflected the normal maturity and balance reductions and the sale of securities to generate increased liquidity combined with minimal reinvestment in the current low interest rate environment. Interest on mortgage-backed securities and collateralized mortgage obligations decreased $3.0 million to $4.0 million for the year ended September 30, 2011 from $7.0 million for the year ended September 30, 2010, reflecting a $50.6 million, or 28.5%, decrease in the average balance of such securities to $126.9 million and an 82 basis point decrease in average yield.

Interest and dividend income on Federal Home Loan Bank of Atlanta common stock and other equity securities increased to $92,000 for the year ended September 30, 2011 from $50,000 for the year ended September 30, 2010.

Interest Expense. Total interest expense decreased $7.5 million, or 33.1%, to $15.2 million for the year ended September 30, 2011 compared to $22.7 million for the year ended September 30, 2010. Components of interest expense changed with a 70 basis point, or 27.5%, decrease in the average cost of interest-bearing liabilities to 1.85% from 2.55%, reflecting declining market interest rates. The average balance of interest-bearing liabilities decreased by a $69.2 million, or 7.8%, to $822.4 million for the year ended September 30, 2011 compared to $891.6 million at September 30, 2010.

Interest expense on deposits decreased $2.8 million, or 23.2%, to $9.4 million for the year ended September 30, 2011 compared to $12.2 million for the year ended September 30, 2010 . The decrease was due to a 45 basis point decrease in average cost of deposits, a 24.9% decrease from fiscal 2010. The decrease in the average yield of deposits was largely due to lower market interest rates, the retirement of the wholesale portion of the MCB deposits using cash received in the transaction, and growth in demand deposits. Average cost on NOW accounts decreased from 0.73% for the year ended September 30, 2010 to 0.29%, or 44 basis point decrease, for the year ended September 30, 2011. Average cost on Rewards checking decreased 198 basis points to 1.50% for the year ended September 30, 2011 compared to 3.48% for the year ended September 30, 2010. Rewards checking is a premium rate demand account based on average balance, electronic transaction activity, and other criteria. Interest expense on certificates of deposit decreased $1.8 million to $7.7 million for the year ended September 30, 2011, from $9.4 million for the year ended September 30, 2010, reflecting the $28.0 million, or 6.2%, decrease in the average balance of such deposits. Interest expense on Federal Home Loan Bank advances decreased $4.7 million to $5.8 million for the year ended September 30, 2011 compared to $10.5 million from fiscal 2010, due to a decrease of $84.8 million, or 39.4%, in the average balance of advances. There was a 42 basis points decrease in the average cost of advances at year ended September 30, 2011 compared to fiscal 2010. We expect our cost of borrowings to decrease in fiscal 2012 from scheduled maturities of FHLB advances.

Net Interest Income. Net interest income increased $3.4 million, or 12.3%, to $30.6 million for the year ended September 30, 2011, from $27.2 million for the year ended September 30, 2010. The increase was due to a decrease in interest expense of $7.5 million or 33.1%, to $15.2 million for the year ended September 30, 2011 compared to $22.7 million for the year ended September 30, 2010. The decrease in interest expense was due to a 45 basis point decline in total interest bearing deposits to 1.36% at September 30, 2011 from 1.81% at September 30, 2010, and a 42 basis point decrease in total average borrowings to 4.48% at September 30, 2011from 4.90% at September 30, 2010. Our net interest margin increased 52 basis points to 3.59% for 2011 from 3.07% for 2010, while our net interest rate spread increased 44 basis points to 3.53% from 3.09%. Lower deposit costs and accretion of purchase discounts from the NCB, MCB and FNB acquisitions contributed to the improved net interest margin and net interest rate spread.

Provision for Loan Losses. The provision for loan losses for the year ended September 30, 2011 was $1.7 million for non-covered loans and $1.2 million for covered loans, compared to $5.8 million for non-covered loans and $421,000 for covered loans for the year ended September 30, 2010. The larger 2010 provision for loan losses reflected increased specific allowances on two large impaired loans which ultimately were foreclosed in fiscal 2011. Net charge-offs on non-covered loans decreased to $2.1 million for the year ended September 30, 2011, from $5.3 million for the year ended September 30, 2010. The allowance for loan losses for non-covered loans was $9.4 million, or 2.19% of total non-covered loans receivable at September 30, 2011 compared to an allowance for loan losses for non-covered loans of $9.8 million, or 2.12% of total non-covered loans receivable, at September 30, 2010. At September 30, 2011 there were $232.0 million in covered loans, with $79.0 million in related nonaccretable differences and allowances.

Noninterest Income. Noninterest income decreased $8.2 million, or 47.0%, to $9.3 million for the year ended September 30, 2011 from $17.5 million for the year ended September 30, 2010. The decrease in noninterest income for fiscal 2011 was primarily attributable to a $1.1 million purchase gain on the assets and liabilities of The First National Bank of Florida (FNB) acquired from the FDIC on September 9, 2011 compared to a $9.3 million purchase gain on the assets and liabilities of McIntosh Commercial Bank acquired from the FDIC on March 26, 2010. Also, the Company had lower discount accretion on the Company's FDIC indemnification asset which totaled accretion of $1.0 million and $1.8 million for the fiscal years ended September 30, 2011 and 2010, respectively. The fiscal years ended September 30, 2011 and 2010 included charges of $2.3 million and $2.5 million for other than temporary impairment of non-agency collateralized mortgage-backed securities. These charges were partially offset by gains on the sale of securities of $774,000 and $899,000 for the fiscal years 2011 and 2010, respectively. For the year ended September 30, 2010, there was also an impairment charge of $1.0 million for an equity investment.

	For the Three Months Ended (Dollars in Thousands)							
	September 2011	June 2011	March 2011	December 2010	September 2010	June 2010	March 2010	December 2009
Deposit fees	$ 1,601	$ 1,448	$ 1,360	$ 1,433	$ 1,564	$ 1,553	$ 1,396	$ 1,276
Gain on the sale of loans	150	127	117	262	171	157	380	89
Brokerage commissions	169	156	202	167	140	130	143	106
Bank owned life insurance	270	255	290	281	279	283	205	361
Gain on sale of investments, net	178	426	-	171	568	128	195	8
Impairment losses on securities recognized in earnings	(1,773)	(300)	(223)	-	-	-	(3,374)	(153)
FDIC accretion	258	181	254	342	450	557	268	566
Loss on sale of other assets held for sale	(350)	-	-	-	-	-	-	-
Other income	111	156	215	254	199	177	188	156
Gain on FNB acquisition	1,095	-	-	-	-	-	9,343	-
Total Noninterest Income	1,709	2,449	2,215	2,910	3,371	2,985	8,744	2,409

Noninterest Expense. Total noninterest expense increased $3.5 million, or 11.4%, to $33.9 million for the year ended September 30, 2011, compared to $30.5 million for the year ended September 30, 2010. The increase was due primarily to increases of: $1.9 million, or 14.1%, in salaries and employee benefits primarily resulting from the Company's FDIC-assisted acquisitions; $986,000, or 51.3% in other expenses due to the McIntosh acquisition and the sale of a former branch; an $810,000 FHLB advance prepayment penalty in October of 2010; $597,000, or 39.6%, in legal and professional fees, reflecting litigation costs, foreclosure efforts, and acquisition assistance; and $575,000, or 9.7%, in occupancy due to the Company's FDIC-assisted acquisitions. These increases were partially offset by a decrease of $1.3 million, or 50.0%, in cost of other real estate owned.

	For the Three Months Ended (Dollars In Thousands)							
	September 2011	June 2011	March 2011	December 2010	September 2010	June 2010	March 2010	December 2009
Compensation & employee benefits	$4,207	$3,923	$3,705	$ 3,928	$ 3,607	$3,963	$3,194	$ 3,049
Occupancy	1,805	1,472	1,701	1,543	1,603	1,412	1,572	1,358
Legal & professional	803	408	469	425	32	519	706	250
Marketing	469	335	426	389	433	424	331	389
Furniture & equipment	191	185	196	200	186	169	167	147
Postage, office supplies, and printing	264	204	256	238	197	241	190	151
Deposit premium amortization expense	73	54	55	56	57	59	34	34
Other	286	977	658	637	652	566	553	154
FHLB advance prepayment penalty	-	-	-	810	-	-	-	-
Federal insurance premiums and other regulatory fees	241	293	396	322	530	313	273	271
Net cost of operations of real estate owned	(401)	117	765	861	1,785	372	244	282
	$7,938	$7,968	$8,627	$ 9,409	$ 9,082	$8,038	$7,264	$ 6,085

Noninterest expenses are expected to increase in fiscal 2012 with a full year of expenses related to the FNB FDIC-assisted acquisition which occurred late in 2011.

Income Taxes. Income taxes decreased to $694,000 for the year ended September 30, 2011 from $2.1 million for the year ended September 30, 2010, reflecting a decrease in income before income taxes to $3.0 million in 2011 from $8.0 million in 2010. Our effective tax rate was 23.2% in fiscal year 2011 and 26.0% in fiscal 2010. The decrease in the effective tax rate for 2011 was due to lower pretax income in 2011 and relatively stable tax exempt income.

Comparison of Operating Results for the Years Ended September 30, 2010 and 2009

General. Net income increased $3.6 million, or 156.4%, to $5.9 million for the year ended September 30, 2010 from $2.3 million for the year ended September 30, 2009. The increase was primarily due to the $9.3 million pre-tax acquisition gain on the assets and liabilities of MCB acquired from the FDIC on March 26, 2010. The acquisition gain represented the amount by which the estimated fair value of the assets acquired exceeded the fair value of the liabilities assumed. The increase in net income also reflected earnings on the assets and liabilities acquired in the MCB acquisition. Net interest income increased to $27.2 million for the year ended September 30, 2010 from $18.0 million for the year ended September 30, 2009, reflecting improved interest rate spreads and net interest margins.

Interest and Dividend Income. Total interest and dividend income increased $9.4 million, or 23.2%, to $50 million for the year ended September 30, 2010 from $40.6 million for the year ended September 30, 2009. Interest on loans increased $13.3 million, or 45.3%, to $42.6 million as a result of a $123.6 million, or 25.2%, increase in the average balance of loans receivable to $614.4 million and a 96 basis point increase in the average yield on loans. The increase in the average balance was primarily the result of the acquisition of $227.0 million of loans in the MCB and NCB transactions. The increase in the average yield on loans reflected the accretion of purchase discounts on the acquired loans as well as an increase in the average balance of higher yielding commercial real estate loans in the MCB and NCB acquisitions.

Interest and dividend income on securities decreased $4.0 million, or 35.5%, to $7.2 million for the year ended September 30, 2010 from $11.2 million for the year ended September 30, 2009. The decrease reflected a $62.9 million, or 24.3%, decrease in the average balance of securities to $195.9 million and a 64 basis point decrease in the average yield on securities in the generally lower market interest rate environment. The decrease in the average balance of securities reflected the normal maturity and balance reductions and the sale of securities to generate increased liquidity combined with minimal reinvestment in the current low interest rate environment. Interest on mortgage-backed securities and collateralized mortgage obligations decreased $3.7 million to $7.0 million for the year ended September 30, 2010 from $10.7 million for the year ended September 30, 2009, reflecting a $46.4 million, or 20.7%, decrease in the average balance of such securities to $177.5 million and an 85 basis point decrease in average yield.

Interest and dividend income on Federal Home Loan Bank of Atlanta common stock and other equity securities increased to $50,000 for the year ended September 30, 2010 from $29,000 for the year ended September 30, 2009. The increase is due to the Federal Home Loan Bank of Atlanta not paying a dividend in the first two quarters of Charter Financial's 2009 fiscal year.

Interest Expense. Total interest expense was essentially unchanged at $22.8 million for the year ended September 30, 2010 compared to $22.6 million for the year ended September 30, 2009. Components of interest expense changed with a 67 basis point, or 20.8%, decrease in the average cost of interest-bearing liabilities to 2.55% from 3.22%, reflecting declining market interest rates. The decrease in average cost was offset by a $190.5 million, or 27.2%, increase in the average balance of interest-bearing liabilities to $891.6 million for the year ended September 30, 2010 from $701.1 million for the year ended September 30, 2009. The increase in the average balance was primarily due to the assumption of approximately $467.2 million of deposits of MCB and NCB, partially offset by the immediate retirement of the wholesale portion of the acquired deposits using cash received in the transactions.

Interest expense on deposits increased $2.1 million, or 21.1%, to $12.2 million for the year ended September 30, 2010. The increase was due to a $235.6 million, or 53.4%, increase in the average balance of interest bearing deposits resulting from the assumption of the MCB and NCB deposits, partially offset by a 48 basis point, or 21.1%, decrease in the average cost of interest-bearing deposits to 1.81% from 2.29%. The decrease in the average cost of deposits was largely due to lower market interest rates and the immediate retirement of the wholesale portion of the MCB and NCB deposits using cash received in the transactions. Interest expense on demand and NOW accounts increased from 0.70% to 1.76% due to the growth in our rewards checking program. Rewards checking is a premium rate demand account based on average balance, electronic transaction activity, and other criteria. Interest expense on certificates of deposit increased $697,000 to $9.4 million for the year ended September 30, 2010, from $8.7 million for the year ended September 30, 2009, reflecting the $161.4 million, or 55.3%, increase in the average balance of such deposits, which more than offset the 92 basis points decrease in the average cost of such deposits to 2.08% from 3.00% in the lower market interest rate environment. Interest expense on Federal Home Loan Bank advances decreased $2.0 million to $10.5 million for the year ended September 30, 2010, due to a decrease of $45.1 million, or 17.3%, in the average balance of advances, partially offset by a 10 basis points increase in the average cost of advances.

Net Interest Income. Net interest income increased $9.2 million, or 51.5%, to $27.2 million for the year ended September 30, 2010, from $18.0 million for the year ended September 30, 2009. The increase primarily reflected the $13.3 million, or 45.3%, increase in interest income on loans combined with the 67 basis point decrease in the average cost of interest-bearing liabilities, partially offset by a $190.5 million, or 27.2%, increase in the average balance of interest-bearing liabilities for 2010 compared to 2009. Our net interest margin increased 84 basis points to 3.19% for 2010 from 2.35% for 2009, while our net interest rate spread increased 122 basis points to 3.30% from 2.08%. 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. Our net interest income and net interest margin were negatively affected by the decrease in average interest-earning assets to interest bearing liabilities from 109.06% in fiscal 2009 to 95.76% for fiscal 2010. This was exacerbated by the levels of nonperforming assets.

Provision for Loan Losses. The provision for loan losses for the year ended September 30, 2010 was $5.8 million, compared to a provision of $4.6 million for the year ended September 30, 2009. The increase in the provision reflected increased non-performing loans and net charge-offs. Net charge-offs during the year ended September 30, 2010 increased to $5.3 million from $3.5 million for the year ended September 30, 2009. The allowance for loan losses for non-covered loans was $9.8 million, or 2.12% of total non-covered loans receivable, at September 30, 2010. At September 30, 2010 there were $235.2 million in covered loans (contractual balance), and $90.0 million in nonperforming covered loans (contractual balance), with $68.4 million in related nonaccretable differences and allowances.

Noninterest Income. Noninterest income increased $5.7 million, or 48.5%, to $17.5 million for the year ended September 30, 2010 from $11.8 million for the year ended September 30, 2009. The increase was primarily due to the $9.3 million purchase gain on the assets and liabilities of MCB acquired from the FDIC on March 26, 2010, partially offset by $ 3.5 million in other-than-temporary impairment ("OTTI") charges during the year ended September 30, 2010. Of the impairment charges, $1.0 million related to our entire investment in an unaffiliated Georgia community bank. The remaining $2.5 million related to our investment in private-label mortgage securities.

Noninterest Expense. Total noninterest expense increased $7.9 million, or 34.9%, to $30.5 million for the year ended September 30, 2010, compared to $22.6 million for the year ended September 30, 2009. The increase was due primarily to increases of: $3.8 million, or 37.4%, in salaries and employee benefits primarily resulting from our acquisitions of MCB and NCB; $2.0 million, or 49.8%, in occupancy costs primarily from the acquisitions; $519,000 in legal and professional fees, reflecting litigation costs, foreclosure efforts, and acquisition assistance; and $1.9 million in the net cost of operations of real estate owned, reflecting higher foreclosures and higher costs of holding foreclosed real estate in the fiscal 2010 period.

Noninterest expenses are expected to increase in fiscal 2011 with a full year of expenses related to the MCB acquisition compared to only six months of such expenses in fiscal 2010.

Income Taxes. Income taxes increased to $2.1 million for the year ended September 30, 2010 from $306,000 for the year ended September 30, 2009, reflecting an increase in income before income taxes to $8.0 million in 2010 from $2.6 million in 2009. Our effective tax rate was 26.0% in fiscal year 2010 and 11.7% in fiscal 2009. The increase in the effective tax rate for 2010 was due to higher pretax income, which reduced the impact of tax advantaged investments such as bank-owned life insurance.

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 collectability 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 collectability 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.

Management has taken several steps to resolve the nonperforming and classified assets acquired in the NCB, MCB, and FNB transactions, including the following:

- Established a special assets department with experienced leadership.
- Retained selected NCB, MCB and FNB asset resolution staff and hired a new experienced asset manager to assist in working out problem assets as quickly as possible, while minimizing the resolution costs to both CharterBank and the FDIC.
- Reviewed all nonperforming loans to develop a resolution strategy. Through September 2011, we had received $132.0 million from the FDIC for reimbursements associated with the FDIC loss-sharing agreements and had submitted an additional $11.7 million in claims for reimbursement subsequent to September 30, 2011.

As of September 30, 2011, our nonperforming covered and non-covered assets totaled $107.3 million and consisted of $75.5 million of nonaccrual loans, and other real estate owned of $31.8 million.

We are also continuing to review the performing NCB, MCB and FNB loan portfolios with the objective of aggressively classifying all loans appropriately so that resolution plans can be established and delinquent assets can be returned to performing status.

Non-Performing Assets. The table below sets forth the amounts and categories of our non-covered non-performing assets at the dates indicated. For all of the dates indicated, we did not have any material restructured loans.

	At September 30, 2011	2010	2009	2008	2007
	(Dollars in thousands)				
Non-accrual loans:					
One- to four-family residential real estate	$5,793	$5,946	$2,182	$2,027	$901
Commercial real estate	5,340	5,243	10,590	8,496	4,588
Real estate construction	26	—	—	—	1,595
Commercial	438	246	146	145	48
Consumer and other loans	97	209	182	103	62
Total non-accrual loans	$11,694	$11,644	$13,100	$10,771	$7,194
Loans delinquent 90 days or greater and still accruing:					
One- to four-family residential real estate	—	—	181	—	260
Commercial real estate	—	—	—	—	489
Real estate construction	—	—	—	—	—
Commercial	—	140	—	—	—
Consumer and other loans	—	—	32	—	14
Total loans delinquent 90 days or greater and still accruing	$—	$140	$213	$—	$763
Total non-performing loans	$11,694	$11,784	$13,313	$10,771	$7,957
Real estate owned:					
One- to four-family residential real estate	581	1,855	1,683	788	134
Commercial real estate	3,170	7,786	3,095	1,892	46
Real estate construction	342	—	—	—	—
Commercial	—	—	—	—	—
Consumer and other loans	—	—	—	—	—
Total real estate owned	$4,093	$9,641	$4,778	$2,680	$180
Total non-performing assets	$15,787	$21,425	$18,091	$13,451	$8,137
Ratios:					
Non-performing loans as a percentage of total non-covered loans	2.71 %	2.61 %	2.82 %	2.47 %	1.93 %
Non-performing assets as a percentage of total non-covered assets	1.99 %	2.12 %	2.16 %	1.68 %	0.80 %

For the years ended September 30, 2011 and 2010, gross interest income that would have been recorded had our non-accruing non-covered loans been current in accordance with their original terms was $563,610 and $718,638, respectively. Interest income recognized on such loans for the years ended September 30, 2011 and 2010 was $213,243 and $88,422, respectively.

At September 30, 2011, we had two nonperforming loans not covered by loss sharing with a balance that exceeded $1.0 million dollars. One loan is collateralized by a small strip shopping center which is almost fully occupied. While the borrower did not make regular payments prior to filing bankruptcy, since the bankruptcy filing the borrower has made adequate protection payments and has proposed a bankruptcy plan that will fully pay the balance. The other loan is a small strip shopping center which is in default and scheduled for foreclosure.

Delinquent Loans, Excluding Nonaccrual Loans. The following tables set forth certain information with respect to our loan portfolio delinquencies as to contractual payments, excluding nonaccrual loans (refer to preceding page for disclosure of nonaccrual loans), at the dates indicated.

	Loans Delinquent and Still Accruing For					
	30-89 Days		90 Days and Over		Total	
	Number	Amount	Number	Amount	Number	Amount
			(Dollars in thousands)			
At September 30, 2011						
Non-covered Loans:						
One- to four-family residential real estate	34	$580	—	$—	34	$580
Commercial real estate	11	1,351	—	—	11	1,351
Real estate construction	—	—	—	—	—	—
Commercial	4	103	—	—	4	103
Consumer and other loans	17	163	—		17	163
Total non-covered loans	66	$2,197	—	$—	66	$2,197
Covered Loans:						
One- to four-family residential real estate	5	$367	—	$—	5	$367
Commercial real estate	9	588	—	—	9	588
Real estate construction	—	—	—	—	—	—
Commercial	3	551	—	—	3	551
Consumer and other loans	3	63	—	—	3	63
Total covered loans	20	$1,569	—	$—	20	$1,569
Total loans	86	$3,766	—	$—	86	$3,766

	Loans Delinquent and Still Accruing For					
	30-89 Days		90 Days and Over		Total	
	Number	Amount	Number	Amount	Number	Amount
			(Dollars in thousands)			
At September 30, 2010						
Non-covered Loans:						
One- to four-family residential real estate	27	$2,387	—	$—	27	$2,387

Commercial real estate	14	2,576	—	—	14	2,576
Real estate construction	—	—	—	—	—	—
Commercial	13	428	1	140	14	568
Consumer and other loans	19	296	—		19	296
Total non-covered loans	73	$5,687	1	$140	74	$5,827
Covered Loans:						
One- to four-family residential real estate	7	$544	—	$—	7	$544
Commercial real estate	20	6,192	1	49	21	6,241
Real estate construction	—	—	—	—	—	—
Commercial	29	2,244	—	—	29	2,244
Consumer and other loans	12	437	—	—	12	437
Total covered loans	68	$9,417	1	$49	69	$9,466
Total loans	141	$15,104	2	$189	143	$15,293

	Loans Delinquent and Still Accruing For					
	30-89 Days		90 Days and Over		Total	
	Number	Amount	Number	Amount	Number	Amount
			(Dollars in thousands)			
At September 30, 2009						
Non-covered Loans:						
One- to four-family residential real estate	15	$2,631	3	$181	18	$2,812
Commercial real estate	15	4,296	—	—	15	4,296
Real estate construction	—	—	—	—	—	—
Commercial	2	190	—	—	2	190
Consumer and other loans	20	109	2	32	22	141
Total non-covered loans	52	$7,226	5	$213	57	$7,439
Covered Loans:						
One- to four-family residential real estate	—	$—	—	$—	—	$—
Commercial real estate	—	—	—	—	—	—
Real estate construction	1	86	—	—	1	86
Commercial	17	695	—	—	17	695
Consumer and other loans	16	330	—	—	16	330
Total covered loans	34	$1,111	—	$—	34	$1,111
Total loans	86	$8,337	5	$213	91	$8,550

	Loans Delinquent and Still Accruing For		
	30-89 Days	90 Days and Over	Total
		(Dollars in thousands)	
At September 30, 2008			
One- to four-family residential real estate	$1,029	$—	$1,029
Commercial real estate	1,564	—	1,564
Real estate construction	376	—	376
Commercial	318	—	318
Consumer and other loans	144	—	144
Total loans	$3,431	$—	$3,431
At September 30, 2007			
One- to four-family residential real estate	$921	$260	$1,181
Commercial real estate	1,380	489	1,869
Real estate construction	595	—	595
Commercial	413	—	413
Consumer and other loans	240	14	254

Total loans	$3,549	$763	$4,312

Classification of Assets. Our policies, consistent with regulatory guidelines, provide for the classification of loans considered to be of lesser quality as “substandard,” “doubtful,” or “loss” assets. An asset is considered “substandard” if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. “Substandard” assets include those characterized by the “distinct possibility” that the savings institution will sustain “some loss” if the deficiencies are not corrected. Assets classified as “doubtful” have all of the weaknesses inherent in those classified “substandard” with the added characteristic that the weaknesses present make “collection or liquidation in full,” on the basis of currently existing facts, conditions, and values, “highly questionable and improbable.” Assets classified as “loss” are those considered “uncollectible” so that their continuance as assets without the establishment of a specific loss reserve is not warranted. Assets that do not expose the savings institution to risk sufficient to warrant classification in one of the aforementioned categories, but which possess some weaknesses, are required to be designated “special mention.”

	Nonperforming Non-Covered Loans
	(in thousands)
At September 30,	
2011	$ 11,694
2010	11,794
2009	13,313
2008	10,771
2007	7,957
2006	3,228

Potential problem loans are non-covered loans as to which management has serious doubts as to the ability of the borrowers to comply with present repayment terms. These loans do not meet the criteria for inclusion in nonperforming assets and, therefore, are excluded from nonperforming loans. Management, however, classifies potential problem loans as either special mention or substandard. Potential problem loans at September 30, 2011 aggregated $63.3 million with $36.0 million classified special mention and $27.3 million classified substandard.

We regularly review our asset portfolio to determine whether any assets require classification in accordance with applicable regulations. Our largest classified assets generally are also our largest nonperforming assets. We regularly monitor the value of underlying collateral on classified and nonperforming loans. This monitoring involves physical site inspection, consultation with real estate professionals, our knowledge of our markets, and assessing appraisal trends.

The following table sets forth the aggregate amount of our classified assets at the dates indicated. Classified assets as of September 30, 2011 and 2010 have been divided into those assets that were acquired in connection with the NCB, MCB and FNB transactions and are covered under the loss sharing agreement with the FDIC, and those assets that are not covered by the loss sharing agreement.

	At September 30,					
	2011		2010		2009	
	Covered	Non-covered	Covered	Non-covered	Covered	Non-covered
Substandard assets:						
Loans	$77,748	$27,251	$44,361	$17,949	$30,940	$18,297
Other real estate owned	27,675	4,093	29,627	9,641	10,681	4,778
Securities (1)	—	7,812	—	11,522	—	7,534
Doubtful loans	15,024	281	6,899	564	725	1,968
Loss assets	—	—	—	—	—	—
Total classified assets	$120,447	$39,437	$80,887	$39,676	$42,346	$32,577

(1) Substandard securities represent non-investment grade investments.

Allowance for Loan Losses. The allowance for loan losses 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. Management believes the current allowance for loan losses is adequate based on its analysis of the losses in the portfolio.

Our allowance for loan loss methodology is a loan classification-based system. 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.

During 2011 and 2010, we did not make significant changes to our methodology for determining the loan loss allowance.

During fiscal 2009, we changed our methodology for determining the loan loss allowance to use a loan loss history of two years rather than ten years. This change, which was made upon discussion with the Office of Thrift Supervision, our primary federal regulator at that time, resulted in a significant increase in the allowance allocated for commercial real estate loans and contributed to an increase in the provision for loan losses in fiscal 2009. Charge-offs, which were primarily partial charge-offs, increased as it became more likely that reductions in collateral values will continue for some time. Economic conditions and other factors affecting borrowers' ability to repay are used to adjust the historical loss factor for each loan category to determine the overall allowance level for each loan category. These factors are reviewed each quarter and adjusted as appropriate. The factors for determining specific allowances for classified loans are a multiple of the reserve factor for non-classified loans. Impaired loans are specifically evaluated for required allowances generally based on an assessment of the underlying fair value of the collateral.

We have no loans for which there is known information about possible credit problems of borrowers that causes management to have serious doubts about their ability to comply with present loan repayment terms that are not currently disclosed as non-accrual, past due, classified, underperforming or restructured.

As of September 30, 2011 and 2010, allowances of $6.9 million and $15.6 million, respectively, had been established for loan losses on covered loans acquired in the NCB transaction on June 26, 2009. The nonaccretable discounts for covered loans amounted to $72.1 million and $52.9 million at September 30, 2011 and 2010, respectively.

No allowance has been established for loans acquired in the MCB or FNB acquisition at the time of acquisition as accounting standards prohibit carrying over an allowance for loan losses for loans purchased in those acquisitions. These loans were recorded at fair value through establishing nonaccretable discounts. If credit deterioration is observed subsequent to the acquisition dates, such deterioration will be accounted for pursuant to the Company's loss reserving methodology and a provision for loan losses will be charged to earnings for the Company's loss share with an increase to the FDIC receivable for the FDIC indemnification amount. Amounts expected to be recovered from the FDIC under loss sharing agreements are separately disclosed as the FDIC receivable.

The following table sets forth activity in our allowance for loan losses for the periods indicated. Loans covered by the loss sharing agreement with the FDIC are excluded from the table.

	At or For the Years Ended September 30,				
	2011	2010	2009	2008	2007
Balance at beginning of period	$9,797	$9,332	$8,244	$6,013	$6,086
Charge-offs:					
One- to four-family residential real estate	(600)	(486)	(648)	(348)	(107)
Commercial real estate	(957)	(3,084)	(2,961)	(42)	(17)
Real estate construction	(22)	(1,281)	(31)	(424)	—
Commercial	(517)	(524)	(119)	(136)	(40)
Consumer and other loans	(152)	(32)	(55)	(97)	(28)
Total charge-offs	(2,248)	(5,407)	(3,814)	(1,047)	(192)
Recoveries:					
One- to four-family residential real estate	63	40	41	1	30
Commercial real estate	—	—	300	—	—
Real estate construction	—	—	—	—	—
Commercial	37	—	2	11	56
Consumer and other loans	21	32	9	16	33
Total recoveries	121	72	352	28	119
Net (charge-offs) recoveries	(2,127)	(5,335)	(3,462)	(1,019)	(73)
Provision for loan losses	1,700	5,800	4,550	3,250	—
Balance at end of year	$9,370	$9,797	$9,332	$ 8,244	$6,013
Ratios:					
Net (charge-offs) recoveries as a percentage of average non-covered loans outstanding	(0.48)%	(0.90)%	(0.71)%	(0.24)%	(0.02)%
Allowance for loan losses as a percentage of non-covered	80.13%	84.06%	70.1%	77.0%	76.0%

non-performing loans at year end										
Allowance for loan losses as a percentage of total non-covered loans receivable at year end (1)	2.19	%	2.12	%	1.97	%	1.88	%	1.46	%

(1) Does not include loans held for sale or deferred fees.

The following table sets forth activity in our covered allowance for loan losses for the periods indicated.

	At or For the Years Ended September 30,		
	2011	2010	2009
Balance at beginning of period	$15,554	$23,832	$—
Acquired:			
One- to four-family residential real estate	—	—	115
Commercial real estate	—	—	17,408
Real estate construction	—	—	255
Commercial	—	—	5,232
Consumer and other loans	—	—	822
Total charge-offs	—	—	23,832
Charge-offs:			
One- to four-family residential real estate	(307)	—	—
Commercial real estate	(11,457)	(10,787)	—
Real estate construction	(338)	—	—
Commercial	(2,874)	—	—
Consumer and other loans	(1,128)	—	—
Total charge-offs	(16,104)	(10,787)	—
Recoveries:			
One- to four-family residential real estate	—	—	—
Commercial real estate	43	406	—
Real estate construction	—	—	—
Commercial	1,400	—	—
Consumer and other loans	—	—	—
Total recoveries	1,443	406	—
Net (charge-offs) recoveries	(14,661)	(10,381)	—
Provision for loan losses	6,000	2,103	—
Balance at end of year	$6,893	$15,554	$23,832

Allocation of Allowance for Loan Losses. The following tables set forth the allowance for loan losses for non-covered loans allocated by loan category and the percent of loans in each category to total loans at the dates indicated. Loans covered by the loss sharing agreement with the FDIC are excluded from the table. 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. The allowance for loan losses allocated to each category is not necessarily indicative of future losses in any particular category and does not restrict the use of the allowance to absorb losses in other categories.

	At September 30,					
	2011		2010		2009	
	Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans	Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans	Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans
	(Dollars in thousands)					
One- to four-family residential real estate	$633	23.00 %	$1,023	23.0 %	$451	26.6 %
Commercial real estate	5,972	58.50	6,103	58.0	5,540	57.1
Real estate construction	1,066	9.70	1,236	9.9	2,157	9.3
Commercial	822	4.10	624	4.2	99	2.2
Consumer and other loans	48	4.70	79	4.9	117	4.8
Total allocated allowance	8,541		9,065		8,364	
Unallocated	829	—	732	—	968	—
Total	$9,370	100.0 %	$9,797	100.0 %	$9,332	100.0 %

	At September 30,			
	2008		2007	
	Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans	Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans
	(Dollars in thousands)			
One- to four-family residential real estate	$563	31.6 %	$1,077	33.6 %
Commercial real estate	4,823	50.8	2,212	44.0
Real estate construction	1,439	9.0	1,100	12.6
Commercial	267	3.6	551	4.6
Consumer and other loans	202	5.0	632	5.2
Total allocated allowance	7,294		5,572	
Unallocated	950	—	441	—
Total	$8,244	100.0 %	$6,013	100.0 %

Management of Market Risk

As a financial institution, we face risk from interest rate volatility. Fluctuations in interest rates affect both our level of income and expense on a large portion of our assets and liabilities. Fluctuations in interest rates also affect the market value of all interest-earning assets.

The primary goal of our interest rate risk management strategy is to maximize net interest income while maintaining an acceptable interest rate risk profile. We seek to coordinate asset and liability decisions so that, under changing interest rate scenarios, portfolio equity and net interest income remain within an acceptable range.

We have emphasized one- to four-family and commercial real estate lending. Our sources of funds include retail deposits, Federal Home Loan Bank advances, repurchase agreements and wholesale deposits. 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.

Changes in market interest rates have a significant impact on the repayment and prepayment of loans. Prepayment rates also vary due to a number of other factors, including the regional economy in the area where the loans were originated, seasonal factors, demographic changes, the assumability of the loans, related refinancing opportunities and competition. We monitor interest rate sensitivity so that we can attempt to adjust our asset and liability mix in a timely manner and thereby minimize the negative effects of changing rates.

Extension risk, or lower prepayments causing loans to have longer average lives, is our primary exposure to higher interest rates. Faster prepayment of loans and investing the funds from prepayments in mortgage loans and securities at lower interest rates results in a lower net interest income and is our primary exposure to declining market interest rates.

Interest Risk Measurement.

The Office of Comptroller of the Currency 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 September 30, 2011, the simulation model's calculation of the estimated changes in our 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 or Present Value of Assets (3)(4)
			(Dollars in thousands)		
+300	$132,085	$18,362	16.1 %	11.3 %	1.6 %
+200	$127,050	$13,328	11.7 %	10.8 %	1.1 %
+100	$121,409	$7,687	6.8 %	10.4 %	0.7 %
0	$113,723	$-	- %	9.7 %	- %

(100)	$112,609	$(1,114)	(1.0)%	9.6 %	(0.1)%

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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 September 30, 2011, in the event of a 200 basis point increase in interest rates, we would experience a 11.7% increase in net portfolio value. In the event of a 100 basis point decrease in interest rates, we would experience a 1.0% decrease in net portfolio value. Additionally, our internal policy states that our minimum NPV of estimated present value of assets 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 September 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.

Liquidity and Capital Resources

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 September 30, 2011 and 2010, we had access to immediately available funds of approximately $308.5 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.

After September 30, 2011, we closed four of the branches acquired in the FNB transaction and lowered the rates on other deposits acquired in the same transaction. We funded this reduction in deposits with cash and other assets acquired in the same transaction.

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 September 30, 2011, cash and cash equivalents totaled $149.8 million. Securities classified as available-for-sale, which provide additional sources of liquidity, totaled $158.7 million at September 30, 2011. At September 30, 2011, we had $110.0 million in advances from the FHLB outstanding. However, based on available collateral other than cash, $38.7 million in additional advances would be available.

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 September 30, 2011, we had $4.5 million of new loan commitments outstanding, and $20.3 million of unfunded construction and development loans. In addition to commitments to originate loans, we had $24.3 million of unused lines of credit to borrowers. Certificates of deposit due within one year of September 30, 2011 totaled $280.9 million, or 30.8% 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 September 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 year ended September 30, 2011, we originated $28.7 million of loans and purchased $111.2 million of securities, excluding the FNB transaction. In fiscal year 2010, we originated $21.9 million of loans and purchased $14.6 million of securities, excluding the MCB transaction.

Financing activities consist primarily of additions to deposit accounts and Federal Home Loan Bank advances. We experienced a net increase in total deposits of $88.0 million for the year ended September 30, 2011. This increase was essentially represented by our acquisition of FNB. 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. Federal Home Loan Bank of Atlanta advances decreased by $102.0 million to $110.0 million during the year ended September 30, 2011. Federal Home Loan Bank advances have been used primarily to fund loan demand and to purchase securities. Our current asset/liability management strategy has been to pay off Federal Home Loan Bank of Atlanta advances as cash is available and the advances mature.

Cash receipts arising from payments on covered loans and loss-sharing collections from the FDIC are providing and are expected to continue to provide positive net cash flows in periods following the wholesale funding outflows.

CharterBank is subject to various regulatory capital requirements, 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 September 30, 2011, CharterBank exceeded all regulatory capital requirements. CharterBank is considered “well-capitalized” under regulatory guidelines. See “Supervision and Regulation—Federal Banking Regulation—Capital Requirements” and Note 16 of the Notes to our Consolidated Financial Statements.

Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

Commitments. As a financial services provider, we routinely are a party to various financial instruments with off-balance-sheet risks, such as commitments to extend credit, standby letters of credit and unused lines of credit. While these contractual obligations represent our future cash requirements, a significant portion of commitments to extend credit may expire without being drawn upon. Such commitments are subject to the same credit policies and approval process accorded to loans made by us. We consider commitments to extend credit in determining our allowance for loan losses.

Contractual Obligations. The following table summarizes our significant fixed and determinable contractual obligations and other funding needs by payment date at September 30, 2011. The payment amounts represent those amounts due to the recipient and do not include any unamortized premiums or discounts or other similar carrying amount adjustments.

	Payments Due by Period				
Contractual Obligations	One year or less	More than one year to three years	More than three years to five years	More than five years	Total
			(In thousands)		
	$2,114	$—	$—	$—	$2,114

Loan commitments to originate mortgage loans					
Loan commitments to fund construction loans in process	20,335	—	—	—	20,335
Loan commitments to originate nonresidential mortgage loans	—	—	—	—	—
Loan commitments to fund commercial real estate loans in process	2,415	—	—	—	2,415
Loan commitments to originate consumer loans	—	—	—	—	—
Available home equity and unadvanced lines of credit	23,387	—	—	—	23,387
Letters of credit	958	—	—	—	958
Lease agreements	1,177	2,258	2,242	1,230	6,907
Certificates of deposit	281,160	125,854	57,314	42	464,370
FHLB advances	30,036	25,038	30,146	25,015	110,235
Total	$361,582	$153,150	$89,702	$26,287	$630,721

Impact of Inflation and Changing Prices

The consolidated financial statements and related notes of Charter Financial have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). GAAP generally requires the measurement of financial position and operating results in terms of historical dollars without consideration of changes in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased cost of our operations. Unlike industrial companies, our assets and liabilities are primarily monetary in nature. As a result, changes in market interest rates have a greater impact on performance than the effects of inflation.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information required by this item is not required for a smaller reporting company. For information related to market risk, see Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operation—Management of Market Risk."

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
Charter Financial Corporation

We have audited Charter Financial Corporation and subsidiary (the "Company")'s internal control over financial reporting as of September 30, 2011, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Charter Financial Corporation maintained, in all material respects, effective internal control over financial reporting as of September 30, 2011, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of Charter Financial Corporation as of September 30, 2011 and 2010, and for each of the years in the three-year period ended September 30, 2011, and our report dated December 19, 2011, expressed an unqualified opinion on those consolidated financial statements. As referenced in our report and as further described in Note 1 to the consolidated financial statements, the Company adopted in the year ended September 30, 2010 the provisions of Accounting Standards Codification Topic 805, Business Combinations.

/s/ Dixon Hughes Goodman LLP

Atlanta, Georgia
December 19, 2011

Report of Independent Registered Public Accounting Firm

The Board of Directors
Charter Financial Corporation:

We have audited the accompanying consolidated statements of financial condition of Charter Financial Corporation and subsidiary as of September 30, 2011 and 2010, and the related consolidated statements of income, stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended September 30, 2011. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Charter Financial Corporation and subsidiary as of September 30, 2011 and 2010, and the results of their operations and their cash flows for each of the years in the three-year period ended September 30, 2011, in conformity with accounting principles generally accepted in the United States of America.

Also, as discussed in Note 1 to the consolidated financial statements, the Company adopted in the year ended September 30, 2010 the provisions of Accounting Standards Codification Topic 805, Business Combinations.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal controls over financial reporting as of September 30, 2011, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated December 19, 2011, expressed an unqualified opinion thereon.

/s/ Dixon Hughes Goodman LLP

Atlanta, Georgia
December 19, 2011

CHARTER FINANCIAL CORPORATION AND SUBSIDIARY

Consolidated Statements of Financial Condition

	September 30, 2011	September 30, 2010
Assets		
Cash and amounts due from depository institutions	$9,780,584	$15,842,048
Interest-bearing deposits in other financial institutions	139,981,062	219,796,534
Cash and cash equivalents	149,761,646	235,638,582
Loans held for sale, fair value of $299,744 and $2,079,239	291,367	2,061,489
Mortgage-backed securities and collateralized mortgage obligations available for sale	130,600,473	133,079,915
Other investment securities available for sale	28,136,101	102,821
Federal Home Loan Bank stock	10,590,900	14,071,200
Loans receivable:		
Not covered under FDIC loss sharing agreements	430,359,086	461,786,959
Covered under FDIC loss sharing agreements, net	232,045,755	148,138,148
Unamortized loan origination fees, net (non-covered loans)	(1,010,480)	(758,407)
Allowance for loan losses (non-covered loans)	(9,369,837)	(9,797,095)
Loans receivable, net	652,024,524	599,369,605
Other real estate owned:		
Not covered under FDIC loss sharing agreements	4,093,214	9,641,425
Covered under FDIC loss sharing agreements	27,675,456	29,626,581
Accrued interest and dividends receivable	3,690,433	3,232,330
Premises and equipment, net	21,765,298	22,150,242
Goodwill	4,325,282	4,325,282
Other intangible assets, net of amortization	1,827,462	930,202
Cash surrender value of life insurance	32,774,523	31,678,013
FDIC receivable for loss sharing agreements	96,777,791	89,824,798
Deferred income taxes	4,557,858	3,379,577
Other assets	2,817,922	6,969,849
Total assets	$1,171,710,250	$1,186,081,911
Liabilities and Stockholders’ Equity		
Liabilities:		
Deposits	$911,093,806	$823,134,133
FHLB advances and other borrowings	110,000,000	212,000,000
Advance payments by borrowers for taxes and insurance	462,882	936,793
Other liabilities	10,737,862	13,134,618
Total liabilities	1,032,294,550	1,049,205,544
Stockholders’ equity:		
Common stock, $0.01 par value; 19,859,219 shares issued at September 30, 2011 and 2010, respectively; 18,603,889 shares outstanding at September 30, 2011 and 18,588,398 shares outstanding at September 30, 2010	198,592	198,592
Preferred stock, no par value; 10,000,000 shares authorized	-	-
Additional paid-in capital	73,083,363	73,073,216
	(36,127,940)	(36,614,648)

Treasury stock, at cost; 1,255,330 shares at September 30, 2011 and 1,270,821 shares at September 30, 2010		
Unearned compensation – ESOP	(3,729,390)	(3,880,990)
Retained earnings	107,962,533	107,598,080
Accumulated other comprehensive loss – net unrealized holding losses on securities available for sale, net of tax	(1,971,458)	(3,497,883)
Total stockholders' equity	139,415,700	136,876,367
Commitments and contingencies		
Total liabilities and stockholders' equity	$1,171,710,250	$1,186,081,911

See accompanying notes to consolidated financial statements.

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CHARTER FINANCIAL CORPORATION AND SUBSIDIARY
Consolidated Statements of Income

	Years Ended September 30, 2011	2010	2009
Interest and dividend income:			
Loans receivable	$41,361,825	$42,594,530	$29,092,582
Mortgage-backed securities and collateralized mortgage obligations	3,943,269	6,983,394	10,700,219
Federal Home Loan Bank Stock	91,706	50,407	29,394
Other investment securities available for sale	153,977	195,080	484,064
Interest-bearing deposits in other financial institutions	235,535	135,379	33,636
Total interest and dividend income	45,786,312	49,958,790	40,339,895
Interest expense:			
Deposits	9,395,545	12,227,345	10,099,376
Borrowings	5,831,992	10,530,124	12,499,232
Total interest expense	15,227,537	22,757,469	22,598,608
Net interest income	30,558,775	27,201,321	17,741,287
Provision for loan losses, not covered under FDIC loss sharing agreement	1,700,000	5,800,000	4,550,000
Provision for covered loan losses	1,200,000	420,635	-
Net interest income after provision for loan losses	27,658,775	20,980,686	13,191,287
Noninterest income:			
Service charges on deposit accounts	5,843,016	5,789,043	4,664,364
Gain on securities available for sale	774,277	898,915	2,160,760
Total impairment losses on securities	(5,598,920)	(4,884,612)	-
Portion of losses recognized in other comprehensive income	3,302,678	2,357,938	-
Net impairment losses recognized in earnings	(2,296,242)	(2,526,674)	-
Impairment loss on equity security	-	(1,000,000)	-
(Loss) gain on sale of other assets held for sale	(349,585)	-	2,086,053
Bank owned life insurance	1,096,510	1,128,164	1,269,268
Gain on sale of loans and loan servicing release fees	655,977	796,459	681,524
Loan servicing fees	388,625	334,255	223,375
Brokerage commissions	693,926	518,762	301,469
Acquisition gain	1,095,003	9,342,816	-
FDIC receivable for loss sharing agreements accretion	1,035,125	1,840,856	219,377
Other	346,322	387,129	405,321
Total noninterest income	9,282,954	17,509,725	12,011,511
Noninterest expenses:			
Salaries and employee benefits	15,762,074	13,812,938	10,056,639
Occupancy	6,520,914	5,945,678	3,970,052
FHLB advance prepayment penalty	809,558	-	1,408,275
Legal and professional	2,105,319	1,507,993	989,230
Marketing	1,619,275	1,576,574	1,040,867
Federal insurance premiums and other regulatory fees	1,252,717	1,387,264	1,390,873
Net cost of operations of real estate owned	1,341,120	2,683,375	800,985
Furniture and equipment	772,716	669,572	647,878
Postage, office supplies and printing	962,239	780,079	625,110
Core deposit intangible amortization expense	237,437	183,194	134,402

Other	2,558,616	1,922,093	1,517,087
Total noninterest expenses	33,941,985	30,468,760	22,581,398
Income before income taxes	2,999,744	8,021,651	2,621,400
Income tax expense	694,392	2,086,661	305,638
Net income	$2,305,352	$5,934,990	$2,315,762
Basic net income per share	$0.13	$0.32	$0.13
Diluted net income per share	$0.13	$0.32	$0.12
Weighted average number of common shares outstanding	18,146,627	18,422,050	18,497,297
Weighted average number of common and potential common shares outstanding	18,183,938	18,473,624	18,558,523

See accompanying notes to consolidated financial statements.

CHARTER FINANCIAL CORPORATION AND SUBSIDIARY
Consolidated Statements of Stockholders' Equity and Comprehensive Income
Years ended September 30, 2011, 2010, and 2009

	Comprehensive income	Common stock Number of shares	Amount	Additional paid-in capital	Treasury stock	Unearned compensation-ESOP	Retained earnings	Accumulated other comprehensive income (loss)	Total stockhol equity
e at nber 30,		19,859,219	198,592	42,537,428	(35,060,409)	(1,825,390)	103,301,290	(6,849,590)	102,30
ment of e tax ts		-	-	-	-	-	1,088,518	-	1,088,5
ehensive e (loss):									
come	$2,315,762	-	-	-	-	-	2,315,762	-	2,315,7
ehensive e – change alized ies, net me taxes 7,369	(1,427,421)	-	-	-	-	-	-	(1,427,421)	(1,427,
ehensive e	$888,341								
nds paid, per share		-	-	-	-	-	(3,401,554)	-	(3,401,
tion of common		-	-	148,470	-	141,400	-	-	289,87
g of ed		-	-	32,066	340,424	-	-	-	372,49
option e		-	-	33,934	-	-	-	-	33,934
chase of		-	-	-	(2,228,342)	-	-	-	(2,228,
e at nber 30,		19,859,219	198,592	42,751,898	(36,948,327)	(1,683,990)	103,304,016	(8,277,011)	99,345

ehensive e:									
come	$5,934,990	-	-	-	-	-	5,934,990	-	5,934,9
ehensive e – change alized ies, net me tax of ,468	4,779,128	-	-	-	-	-	-	4,779,128	4,779,1
ehensive e	$10,714,118								
nds paid, per share		-	-	-	-	-	(1,640,926)	-	(1,640,
tion of common		-	-	-	-	137,000	-	-	137,00
ssuance		4,400,000	440,000	30,191,569	-	(2,334,000)	-	-	27,857
lation of usly by First r, MHC		(4,400,000)	(440,000)	-	-	-	-	-	-
g of ed		-	-	68,563	333,679	-	-	-	402,24
expense		-	-	61,186	-	-	-	-	61,186
e at nber 30,		19,859,219	$198,592	$73,073,216	$(36,614,648)	$(3,880,990)	$107,598,080	$(3,497,883)	$136,87

(continued)

CHARTER FINANCIAL CORPORATION AND SUBSIDIARY
Consolidated Statements of Stockholders' Equity and Comprehensive Income
Years ended September 30, 2011, 2010, and 2009
(continued)

		Common stock							
	Comprehensive income	Number of shares	Amount	Additional paid-in capital	Treasury stock	Unearned compensation ESOP	Retained earnings	Accumulated other comprehensive income (loss)	Total stockhold equity
ce at mber 30,		19,859,219	$198,592	$73,073,216	$(36,614,648)	$(3,880,990)	$107,598,080	$(3,497,883)	$136,876
rehensive ne:									
ncome	$2,305,352	-	-	-	-	-	2,305,352	-	2,305,35
rehensive ne – change realized n ties, net ome tax it of 609	1,526,425	-	-	-	-	-	-	1,526,425	1,526,42
rehensive ne	$3,831,777								
ends paid, per share		-	-	-	-	-	(1,940,899)	-	(1,940,8
ation of ' common		-	-	-	-	151,600	-	-	151,600
ng of cted s		-	-	(94,944)	486,708	-	-	-	391,764
option se		-	-	105,091	-	-	-	-	105,091
ce at mber 30,		19,859,219	$198,592	$73,083,363	$(36,127,940)	$(3,729,390)	$107,962,533	$(1,971,458)	$139,415

See accompanying notes to consolidated financial statements.

CHARTER FINANCIAL CORPORATION AND SUBSIDIARY
Consolidated Statements of Cash Flows

	Years Ended September 30, 2011	2010	2009
Cash flows from operating activities:			
Net income	2,305,352	$ 5,934,990	$ 2,315,762
Adjustments to reconcile net income to net cash (used in) provided by operating activities:			
Provision for loan losses, not covered under FDIC loss sharing agreements	1,700,000	5,800,000	4,550,000
Provision for covered loan losses	1,200,000	420,635	-
Depreciation and amortization	1,335,515	1,097,217	1,007,408
Deferred income tax expense (benefit)	(1,973,499)	(277,892)	(430,209)
Accretion and amortization of premiums and discounts, net	1,995,603	1,343,798	127,242
Accretion of fair value discounts related to covered loans	(8,248,209)	(7,760,565)	(1,568,322)
Accretion of fair value discounts related to FDIC receivable	(1,035,125)	(1,840,856)	(219,377)
Gain on sale of loans and loan servicing release fees	(655,977)	(796,459)	(681,524)
Proceeds from sale of loans	33,976,397	21,775,030	25,996,713
Originations and purchases of loans held for sale	(31,550,298)	(21,916,571)	(25,146,308)
Gain on acquisition	(1,095,003)	(9,342,816)	-
Gain on sale of mortgage-backed securities, collateralized mortgage obligations, and other investments	(774,277)	(898,915)	(2,160,760)
Other-than-temporary impairment-securities	2,296,242	2,526,674	-
Other-than-temporary impairment-other	-	1,000,000	-
Write down of real estate owned	774,616	1,399,111	669,870
Write down of real estate owned reimbursed by FDIC	-	2,766,366	-
Loss (gain) on sale of real estate owned	44,894	102,235	(113,007)
Loss (gain) on sale of other assets held for sale	349,585	-	(2,086,053)
FHLB advance prepayment penalty	809,558	-	1,408,275
Recovery payable to FDIC on other real estate owned gains	-	(259,726)	(130,046)
Restricted stock award expense	216,668	191,906	285,046
Stock option expense	105,091	61,186	33,934
Increase in cash surrender value on bank owned life insurance	(1,096,510)	(1,128,164)	(1,269,268)
Changes in assets and liabilities:			
Decrease in accrued interest and dividends receivable	267,173	1,163,551	192,004
Decrease (increase) in other assets	4,125,736	(5,182,241)	437,172

(Decrease) increase in other liabilities	(5,239,014)	2,902,698	867,398
Net cash (used in) provided by operating activities	(165,482)	(918,808)	4,085,950
Cash flows from investing activities:			
Proceeds from sales of mortgage-backed securities, collateralized mortgage obligations available for sale and other investments	21,173,165	53,924,637	89,435,458
Principal collections on government sponsored entities securities available for sale	302,430	813,180	1,103,987
Principal collections on mortgage-backed securities and collateralized mortgage obligations available for sale	52,175,392	57,718,120	69,470,730
Purchase of mortgage-backed securities and collateralized mortgage obligations available for sale	(67,522,491)	(14,107,959)	(111,700,517)
Purchase of other securities available for sale	(43,721,996)	(475,000)	(21,891,798)
Proceeds from the sale or issuer call of equity securities and other investments	20,165,069	375,000	58,055,440
Proceeds from maturities of other securities available for sale	3,574,950	3,568,829	-
Proceeds from redemption of FHLB stock	4,473,912	1,085,900	2,806,500
Purchase of FHLB stock	-	-	(2,236,500)
Proceeds from redemption of FRB stock acquired	-	-	157,800
Net decrease (increase) in loans receivable	59,326,132	21,252,730	(43,565,622)
Net decrease in FDIC receivable	45,638,131	46,749,211	23,729,476
Proceeds from sale of real estate owned	31,784,268	17,781,589	5,443,005
Proceeds from sale of premises and equipment	412,980	-	781,510
Purchases of premises and equipment	(839,960)	(5,777,124)	(1,639,139)
Net cash received from acquisitions	49,326,291	68,914,993	30,017,337
Net cash provided by investing activities	176,268,273	251,824,106	99,967,667

See accompanying notes to consolidated financial statements.

CHARTER FINANCIAL CORPORATION AND SUBSIDIARY
Consolidated Statements of Cash Flows (Continued)

	Years Ended September 30,		
	2011	2010	2009
Cash flows from financing activities:			
Purchase of treasury stock	-	-	(2,228,342)
Dividends paid	(1,940,899)	(1,640,926)	(3,401,554)
Stock issuance	-	27,857,569	-
Decrease in deposits	(156,755,359)	(70,489,262)	(4,779,819)
Proceeds from Federal Home Loan Bank advances	-	-	56,300,000
Principal payments on Federal Home Loan Bank advances	(102,809,558)	(24,491,486)	(110,784,940)
Net decrease in advance payments by borrowers for taxes and insurance	(473,911)	(342,647)	41,946
Net cash used in financing activities	(261,979,727)	(69,106,752)	(64,852,709)
Net (decrease) increase in cash and cash equivalents	(85,876,936)	181,798,546	39,200,908
Cash and cash equivalents at beginning of period	235,638,582	53,840,036	14,639,128
Cash and cash equivalents at end of period	$149,761,646	$235,638,582	$53,840,036
Supplemental disclosures of cash flow information:			
Interest paid	$16,565,221	$22,918,703	$23,210,377
Income taxes paid	$1,678,641	$3,724,092	$330,697
Supplemental disclosure of noncash activities:			
Real estate acquired through foreclosure of collateral on loans receivable	$14,830,664	$30,466,966	$11,211,995
Premises and equipment acquired through foreclosure of collateral on loans receivable	$286,154	$-	$-
Issuance of ESOP common stock	$151,600	$137,000	$289,870
Issuance of common stock under stock benefit plan	$391,764	$402,242	$372,490
Unrealized gain (loss) on securities available for sale, net	$1,526,425	$4,779,128	$(1,427,421)
Acquisitions			
Assets acquired at fair value	$248,978,989	$316,233,077	$196,749,266
Liabilities assumed at fair value	248,304,905	310,627,386	196,749,266
Net assets acquired	$674,084	$5,605,691	$-

See accompanying notes to consolidated financial statements.

CHARTER FINANCIAL CORPORATION
AND SUBSIDIARY
Notes to Consolidated Financial Statements
September 30, 2011, 2010, and 2009

Note 1:Summary of Significant Accounting Policies

The consolidated financial statements of Charter Financial Corporation and subsidiary (the Company) include the financial statements of Charter Financial Corporation and its wholly owned subsidiary, CharterBank (the Bank). All intercompany accounts and transactions have been eliminated in consolidation.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the “Dodd-Frank Act”), enacted on July 21, 2010, is significantly changing the bank regulatory structure and affecting the lending, investment, trading and operating activities of depository institutions and their holding companies. The Dodd-Frank Act eliminated the Company's former primary federal regulator, the Office of Thrift Supervision, and required the Bank to be regulated by the OCC (the primary federal regulator for national banks). The Dodd-Frank Act also authorized the FRB to supervise and regulate all savings and loan holding companies, including mutual holding companies and their mid-tier holding companies, like First Charter, MHC (the “MHC”) and Charter Financial, in addition to bank holding companies which the FRB already regulated.

Charter Financial Corporation was formed through the reorganization of CharterBank in October 2001. At that time, CharterBank converted from a federally chartered mutual savings and loan association into a two–tiered mutual holding company structure and became a direct wholly owned subsidiary of Charter Financial Corporation. Through a public offering during the same year, Charter Financial Corporation sold 20% of its common stock. During the year ended September 30, 2007 the Company repurchased approximately 500,000 of its shares and deregistered with the Securities and Exchange Commission. In conjunction with the deregistration from the Securities and Exchange Commission the Company moved the trading of its stock from NASDAQ to the Over-the-Counter Bulletin Board. First Charter, MHC, (“First Charter”) a federal mutual holding company, owns approximately 61% of the outstanding shares of the common stock of Charter Financial Corporation at September 30, 2011 and 2010 following various treasury stock transactions of the Company. In September 2010, the Company completed an incremental stock offering in which 4,400,000 shares were sold to the public and First Charter cancelled 4,400,000 shares. In conjunction with the incremental stock offering, the Company moved the trading of its stock to the NASDAQ Capital Market. First Charter, MHC waived dividends of $1.7 million, $5.7 million, and $28.7 million during the years ended September 30, 2011, 2010, and 2009, respectively.

The Company primarily provides real estate loans and a full range of deposit products to individual and small business consumers through its branch offices in West Central Georgia, East Central Alabama and the Florida Panhandle. In addition, the Company operates a cashless branch in Norcross, Georgia. The Company primarily competes with other financial institutions in its market area. The Company’s primary lending market has been the states of Georgia and Alabama with Florida being added as a result of the acquisition of The First National Bank of Florida (“FNB”). The Company operates and manages as a one-bank holding company and, as such, has no reportable segments.

The accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States of America and to prevailing practices within the financial institutions industry. The following is a summary of the significant accounting policies that the Company follows in presenting its consolidated financial statements.

CHARTER FINANCIAL CORPORATION
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Notes to Consolidated Financial Statements
September 30, 2011, 2010, and 2009

(a) Basis of Presentation

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenue and expenses for the period. Actual results could differ significantly 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 FDIC receivable for loss sharing agreements, and the assessment for other-than-temporary impairment of investment securities, mortgage-backed securities, and collateralized mortgage obligations. In connection with the determination of the allowance for loan losses and the value of real estate owned, management obtains independent appraisals for significant properties. In connection with the assessment for other-than-temporary impairment of investment securities, mortgage-backed securities, and collateralized mortgage obligations, management obtains fair value estimates by independent quotations, assesses current credit ratings and related trends, reviews relevant delinquency and default information, assesses expected cash flows and coverage ratios, assesses the relative strength of credit support from less senior tranches of the securities, reviews average credit score data of underlying mortgagees, and assesses other current data. The severity and duration of an impairment and the likelihood of potential recovery of an impairment is considered along with the intent and ability to hold any impaired security to maturity or recovery of carrying value.

A substantial portion of the Company’s loans is secured by real estate located in its market area. Accordingly, the ultimate collectability of a substantial portion of the Company’s loan portfolio is susceptible to changes in the real estate market conditions of this market area.

The Company recorded an increase in retained earnings of $1.09 million in 2009 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 2009 and 2010 balances have been made to conform to classifications used in 2011. These reclassifications did not change net income.

(b)Cash and Cash Equivalents

Cash and cash equivalents, as presented in the consolidated financial statements, include amounts due from other depository institutions and interest–bearing deposits in other financial institutions. Generally, interest–bearing deposits in other financial institutions are for one–day periods.

CHARTER FINANCIAL CORPORATION
AND SUBSIDIARY
Notes to Consolidated Financial Statements
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(c) Investments, Mortgage–Backed Securities, and Collateralized Mortgage Obligations

Investments, mortgage–backed securities, and collateralized mortgage obligations available for sale are reported at fair value, as determined by pricing services. The pricing service valuations are reviewed by management for reasonableness. There were no adjustments to the pricing service values in any of the periods presented. Investment in stock of the Federal Home Loan Bank (FHLB) is required of every federally insured financial institution, which utilizes its services. The investment in FHLB stock is carried at cost and such stock is evaluated for any potential impairment.

Purchase premiums and discounts on investment securities are amortized and accreted to interest income using a level yield method over the period to maturity of the related securities. Purchase premiums and discounts on mortgage–backed securities and collateralized mortgage obligations are amortized and accreted to interest income using the interest method over the remaining lives of the securities, taking into consideration assumed prepayment patterns.

Gains and losses on sales of investments, mortgage–backed securities, and collateralized mortgage obligations are recognized on the trade date, based on the net proceeds received and the adjusted carrying amount of the specific security sold.

A decline in the market value of any available for sale security below cost that is deemed other-than-temporary results in a charge to earnings and the establishment of a new cost basis for that security.

(d) Loans and Interest Income

Loans are reported at the principal amounts outstanding, net of unearned income, deferred loan fees/origination costs, and the allowance for loan losses.

Interest income is recognized using the simple interest method on the balance of the principal amount outstanding. Unearned income, primarily arising from deferred loan fees, net of certain origination costs, and deferred gains on the sale of the guaranteed portion of Small Business Administration (SBA) loans, is amortized over the expected lives of the underlying loans using the interest method.

Generally, the accrual of interest income is discontinued on loans when reasonable doubt exists as to the full, timely collection of interest or principal. Interest previously accrued but not collected is reversed against current period interest income when such loans are placed on nonaccrual status. Interest on nonaccrual loans, which is ultimately collected, is credited to income in the period received.

Impaired loans are measured based on the present value of expected future cash flows, discounted at the loan's effective interest rate, or at the loan's observable market price, or the fair value of the collateral if the loan is collateral dependent. The Company considers a loan impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the note agreement. Large pools of smaller balance homogeneous loans, such as consumer and installment loans, are collectively evaluated for impairment by the Company. Impairment losses are included in the allowance for loan losses through a charge to the provision for loan losses. Cash receipts on impaired loans for which the accrual of interest has been discontinued are recorded as income when received unless full recovery of principal is in doubt whereby cash received is recorded as principal reduction.

CHARTER FINANCIAL CORPORATION
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Gains or losses on the sale of mortgage loans are recognized at settlement dates and are computed as the difference between the sales proceeds received and the net book value of the mortgage loans sold.

Loans held for sale are carried at the lower of aggregate cost or market, with market determined on the basis of open commitments for committed loans. For uncommitted loans, market is determined on the basis of current delivery prices in the secondary mortgage market.

Acquired loans are recorded at fair value at the date of acquisition. The fair values of loans with evidence of credit deterioration (impaired loans) are recorded net of a non-accretable difference and, if appropriate, an accretable yield. The difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition is the non-accretable difference, which is included in the carrying amount of acquired loans. Subsequent decreases to the expected cash flows will generally result in a provision for loan losses. Subsequent significant increases in cash flows result in a reversal of the provision for loan losses to the extent of prior changes, or a reclassification of the difference from non-accretable to accretable with a positive impact on the accretion of interest income in future periods. Any excess of cash flows expected at acquisition over the estimated fair value is referred to as the accretable yield and is recognized in interest income over the remaining life of the loan when there is reasonable expectation about the amount and timing of such cash flows. The expected cash flows method of income recognition is also used for other acquired loans in the NCB and MCB acquisitions.

Performing loans acquired in the FNB acquisition are accounted for using the contractual cash flows method of recognizing discount accretion based on the acquired loans' contractual cash flows. Purchased performing loans are recorded at fair value. Credit losses on acquired performing loans are estimated based on analysis of the performing portfolio. Such estimated credit losses are recorded as an acquisition fair value adjustment and are accreted as an adjustment to yield over the estimated lives of the loans. Effective October 1, 2009, as a result of the adoption of new accounting guidance, there is no allowance for loan losses established at the acquisition date for purchased performing loans. A provision for loan losses is recorded for any further deterioration in these loans subsequent to the acquisition.

Loans covered under loss sharing agreements with the FDIC (Covered Loans) are reported in loans exclusive of the expected reimbursement from the FDIC. Covered Loans are initially recorded at fair value at the acquisition date. Prospective losses incurred on Covered Loans are eligible for partial reimbursement by the FDIC under loss sharing agreements. Subsequent decreases in the amount expected to be collected result in a provision for credit losses, an increase in the allowance for loan and lease losses, and a proportional adjustment to the FDIC receivable for the estimated amount to be reimbursed. Subsequent significant increases in the amount expected to be collected result in the reversal of any previously recorded provision for credit losses and related allowance for loan and lease losses and adjustments to the FDIC receivable, or accretion of certain fair value amounts into interest income in future periods if no provision for credit losses had been recorded. Interest is accrued daily on the outstanding principal balances of non-impaired loans. Accretable discounts related to certain fair value adjustments are accreted into income over the estimated lives of the loans on a level yield basis.

CHARTER FINANCIAL CORPORATION
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In accordance with the loss sharing agreements with the FDIC, certain expenses relating to covered assets of external parties such as legal, property taxes, insurance, and the like may be partially reimbursed by the FDIC. Such qualifying future expenditures on covered assets will result in an increase to the FDIC receivable.

(e) Allowance for Loan Losses

The allowance for loan losses is adjusted through provisions for loan losses charged or credited to operations. Loans are charged off against the allowance for loan losses when management believes that the collection of the principal is unlikely. Subsequent recoveries are added to the allowance. The allowance is determined through consideration of such factors as changes in the nature and volume of the portfolio, overall portfolio quality, delinquency trends, adequacy of collateral, loan concentrations, specific problem loans, and economic conditions that may affect the borrowers’ ability to pay.

To the best of management’s ability, all known and inherent losses that are both probable and reasonable to estimate have been recorded. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company’s allowance for loan losses. Such agencies may require the Company to adjust the allowance based on their judgment about information available to them at the time of their examination.

(f) Real Estate Owned

Real estate acquired through foreclosure, consisting of properties obtained through foreclosure proceedings or acceptance of a deed in lieu of foreclosure, is reported on an individual asset basis at the lower of cost or fair value, less disposal costs. Fair value is determined on the basis of current appraisals, comparable sales, and other estimates of value obtained principally from independent sources. When properties are acquired through foreclosure, any excess of the loan balance at the time of foreclosure over the fair value of the real estate held as collateral is recognized and charged to the allowance for loan losses. Subsequent write–downs are charged to a separate allowance for losses pertaining to real estate owned, established through provisions for estimated losses on real estate owned charged to operations. Based upon management’s evaluation of the real estate acquired through foreclosure, additional expense is recorded when necessary in an amount sufficient to reflect any estimated declines in fair value. Gains and losses recognized on the disposition of the properties are recorded in noninterest expense in the consolidated statements of income.

CHARTER FINANCIAL CORPORATION
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Other real estate acquired through foreclosure covered under loss sharing agreements with the FDIC is reported exclusive of expected reimbursement cash flows from the FDIC. Subsequent decreases to the estimated recoverable value of covered other real estate result in a reduction of covered other real estate, and a charge to other expense, and an increase in the FDIC receivable for the estimated amount to be reimbursed, with a corresponding amount recorded in noninterest expense.

Costs of improvements to real estate are capitalized, while costs associated with holding the real estate are charged to operations.

(g) Premises and Equipment

Premises and equipment are stated at cost, less accumulated depreciation, which is computed using the straight–line method over the estimated useful lives of the assets. The estimated useful lives of the assets range from 20 to 39 years for buildings and improvements and 3 to 15 years for furniture, fixtures, and equipment.

(h) Receivable from FDIC for Loss Sharing Agreements

Under loss sharing agreements with the FDIC, the Bank recorded a receivable from the FDIC equal to the reimbursable portion of the estimated losses in the covered loans and other real estate acquired. The receivable was recorded at the present value of the estimated cash flows using discount rates of approximately four percent, one and a half percent, and two percent, respectively, at the date of the respective acquisition and will be reviewed and updated prospectively as loss estimates related to covered loans and other real estate acquired through foreclosure change. Most third party expenses on real estate and covered loans are covered under the loss sharing agreements and the cash flows from the reimbursable portion are included in the estimate of cash flows.

(i)Mortgage Banking Activities

As a part of normal business operations, the Company originates residential mortgage loans that have been pre-approved by secondary investors. The terms of the loans are set by the secondary investors, and the purchase price that the investor will pay for the loan is agreed to prior to the commitment of the loan by the Company. Generally within three weeks after funding, the loans are transferred to the investor in accordance with the agreed-upon terms. The Company records gains from the sale of these loans on the settlement date of the sale equal to the difference between the proceeds received and the carrying amount of the loan. The gain generally represents the portion of the proceeds attributed to servicing release premiums received from the investors and the realization of origination fees received from borrowers which were deferred as part of the carrying amount of the loan. Between the initial funding of the loans by the Company and the subsequent reimbursement by the investors, the Company carries the loans on its balance sheet at the lower of cost or market. The fair value of the underlying commitment is not material to the consolidated financial statements.

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Fees for servicing loans for investors are based on the outstanding principal balance of the loans serviced and are recognized as income when earned.

(j) Income Taxes

The Company recognizes deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. In assessing the reliability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies by jurisdiction and entity in making this assessment. The Company allocates income taxes to the members of the consolidated tax return group based on their proportion of taxable income.

(k) Comprehensive Income

Comprehensive income for the Company consists of net income for the period, unrealized holding gains and losses on investments, mortgage–backed securities, and collateralized mortgage obligations classified as available for sale, net of income taxes, and certain reclassification adjustments.

(l) Goodwill and Other Intangible Assets

Intangible assets include costs in excess of net assets acquired and core deposit intangibles recorded in connection with the acquisitions of EBA Bancshares, Inc. and subsidiary, Eagle Bank of Alabama (collectively “EBA”), McIntosh Commercial Bank and The First National Bank of Florida. The core deposit intangible is being amortized over thirteen, five and six years, respectively.

The Company tests its goodwill for impairment annually and upon certain triggering events on an interim basis. A key element of the Company’s impairment assessment is the monitoring of the Company’s market capitalization compared to its recorded stockholders’ equity. No impairment charges have been recognized through September 30, 2011.

(m) Acquisitions

Accounting principles generally accepted in the United States (US GAAP) requires that the acquisition method of accounting, formerly referred to as purchase method, be used for all business combinations and that an acquirer be identified for each business combination. Under US GAAP, the acquirer is the entity that obtains control of one or more businesses in the business combination, and the acquisition date is the date the acquirer achieves control. US GAAP requires that the acquirer recognize the fair value of assets acquired, liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date.

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The Company's wholly-owned subsidiary acquired Neighborhood Community Bank ("NCB") headquartered in Newnan, Georgia on June 26, 2009. The acquisition was completed with the assistance of the Federal Deposit Insurance Corporation (FDIC), which had been appointed Receiver of the entity by its state banking authority immediately prior to the Bank's acquisition. The acquired assets and assumed liabilities of NCB were measured at estimated fair value. Management made significant estimates and exercised significant judgment in accounting for the acquisition of NCB. Management judgmentally assigned risk ratings to loans based on appraisals and estimated collateral values, expected cash flows, and estimated loss factors to measure fair values for loans. Other real estate acquired through foreclosure was valued based upon pending sales contracts and appraised values, adjusted for current market conditions. Management used quoted or current market prices to determine the fair value of investment securities, short-term borrowings and long-term obligations that were assumed from NCB. The carrying value of certain long-term assets acquired in the acquisition of NCB, primarily the estimated value of core deposits of approximately $1.1 million, were reduced to zero by the excess of fair value of net assets acquired over liabilities assumed in the acquisition.

The Company's wholly-owned subsidiary acquired McIntosh Commercial Bank ("MCB") headquartered in Carrollton, Georgia on March 26, 2010. The acquisition was completed with the assistance of the Federal Deposit Insurance Corporation (FDIC), which had been appointed Receiver of the entity by its state banking authority immediately prior to the Bank's acquisition. The acquired assets and assumed liabilities of MCB were measured at estimated fair value. Management made significant estimates and exercised significant judgment in accounting for the acquisition of MCB. Management judgmentally assigned risk ratings to loans based on appraisals and estimated collateral values, expected cash flows, and estimated loss factors to measure fair values for loans. Other real estate acquired through foreclosure was valued based upon pending sales contracts and appraised values, adjusted for current market conditions. Management used quoted or current market prices to determine the fair value of investment securities, short-term borrowings and long-term obligations that were assumed from MCB.

The Company's wholly-owned subsidiary acquired The First National Bank of Florida ("FNB") headquartered in Milton, Florida on September 9, 2011. The acquisition was completed with the assistance of the Federal Deposit Insurance Corporation (FDIC), which had been appointed Receiver of the entity by its state banking authority immediately prior to the Bank's acquisition. The acquired assets and assumed liabilities of FNB were measured at estimated fair value. Management made significant estimates and exercised significant judgment in accounting for the acquisition of FNB. Management judgmentally assigned risk ratings to loans based on appraisals and estimated collateral values, expected cash flows, and estimated loss factors to measure fair values for loans. Other real estate acquired through foreclosure was valued based upon pending sales contracts and appraised values, adjusted for current market conditions. Management used quoted or current market prices to determine the fair value of investment securities acquired from FNB.

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(n) Stock–Based Compensation

The Company recognizes the estimated fair value of such equity instruments as expense as services are performed. The Company recognizes the total cost of the Company's share based awards equal to the grant date fair value as expense on a straight line basis over the service periods of the awards.

(o) 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.

	Years Ended September 30,		
	2011	2010	2009
Net income	$ 2,305,352	$ 5,934,990	$ 2,315,762
Denominator:			
Weighted average common shares outstanding	18,146,627	18,422,050	18,497,297
Equivalent shares issuable upon vesting of restricted stock awards and dilutive shares	37,311	51,574	61,226
Diluted shares	18,183,938	18,473,624	18,558,523
Net income per share			
Basic	$ 0.13	$ 0.32	$ 0.13
Diluted	$ 0.13	$ 0.32	$ 0.12

(p) Treasury Stock

Treasury stock is accounted for at cost.

(q) Employee Stock Ownership Plan (ESOP)

The Company has an internally-leveraged ESOP trust that covers substantially all of its employees. Such internal leverage is reflected as unearned compensation in stockholders' equity. The Company records compensation expense associated with the ESOP based on the average market price (fair value) of the total Company shares committed to be released, and subsequently allocated to participants, during the year. The Company further records as compensation expense any dividends declared on unallocated Company shares in the ESOP trust. Earnings per share computations include any allocated shares in the ESOP trust.

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(r) Bank Owned Life Insurance

The Company owns life insurance policies to provide for the payment of death benefits related to existing deferred compensation and supplemental income plans maintained for the benefit of certain executives and directors of the Company. The total cash surrender value amounts of such policies at September 30, 2011 and 2010 was $32,774,523 and $31,678,013, respectively. The Company recorded, as income, increases to the cash surrender value of $1,096,510, $1,128,164, and $1,269,268, for the three years ended September 30, 2011, 2010, and 2009, respectively.

(s) Recent Accounting Pronouncements

Beginning October 1, 2009 for the Company, changes to accounting standards for business combinations became effective. The new guidance established the acquisition method of accounting for all business combinations and required that an acquirer be indentified for each business combination. The acquirer is required to recognize the fair value of assets acquired, liabilities assumed and any noncontrolling interest in the acquiree at the acquisition date. The fair value established for loans includes any estimated losses; therefore, no allowance for loan losses is established at acquisition. The new guidance required that acquisition-related costs and restructuring costs be recognized as period expenses as incurred. The Company adopted the provisions of this guidance and the acquisition method of accounting was applied for the acquisition of MCB and FNB. The Company recorded a pre-tax gain on acquisition of $9.3 million and recorded acquisition related expenses of approximately $560,000 for MCB and recorded a pre-tax gain on acquisition of $1.1 million and recorded acquisition related expenses of approximately $538,000 for FNB.

In January 2010, the FASB issued an update to the accounting standards for the presentation on fair value disclosures. The new guidance clarifies two existing disclosure requirements and requires two new disclosures as follows: (1) a “gross” presentation of activities (purchases, sales, and settlements) within the Level 3 rollforward reconciliation, which will replace the “net” presentation format; and (2) detailed disclosures about the transfers in and out of Level 1 and 2 measurements. This guidance was effective for the first interim or annual reporting period beginning after December 15, 2009, except for the gross presentation of the Level 3 rollforward information, which is required for annual reporting periods beginning after December 15, 2010, and for interim reporting periods within those years. The adoption of this standard did not have a material impact on the Company’s financial position or results of operations.

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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 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.

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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.

In September 2011, the FASB issued an update to the accounting standards relating to testing goodwill for impairment. This guidance allows companies to waive comparing the fair value of a reporting unit to its carrying amount in assessing the recoverability of goodwill if, based on qualitative factors, it is not more likely than not that the fair value of a reporting unit is less than its carrying amount. This update will be effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Management is evaluating the impact of this update on the Company’s consolidated financial statements.

Note 2:Goodwill and Other Intangible Assets

Goodwill and other intangible assets include cost in excess of net assets acquired and core deposit intangibles recorded in connection with certain acquisitions. Management tests goodwill for impairment on an annual basis, or more often if events or circumstances indicate there may be impairment. The core deposit intangibles are being amortized over the average remaining life of the acquired customer deposits, ranging from five to thirteen years. The Company recorded amortization expense related to the core deposit intangible of $237,437, $183,194, and $134,402 for the years ended September 30, 2011, 2010, and 2009, respectively.

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At September 30, 2011 and 2010, intangible assets are summarized as follows:

	September 30, 2011	2010
Goodwill	$ 4,325,282	$ 4,325,282
Core deposit intangible	$ 3,369,449	$ 2,234,752
Less accumulated amortization	1,541,987	1,304,550
	$ 1,827,462	$ 930,202

Amortization expense for the core deposit intangible for the next five years as of September 30, 2011 is as follows:

	September 30, 2011
2012	$544,103
2013	458,121
2014	367,029
2015	253,120
2016	180,480
Thereafter	24,609
	$1,827,462

Note 3:Federally Assisted Acquisitions

Neighborhood Community Bank

On June 26, 2009, the Bank purchased substantially all of the assets and assumed substantially all the liabilities of NCB from the FDIC, as Receiver of NCB. NCB operated four commercial banking branches primarily within the Newnan, Georgia area. The FDIC took NCB under receivership upon its closure by the Georgia Department of Banking and Finance. The Bank's bid to purchase NCB included the purchase of substantially all NCB's assets at a discount of $26,900,000 in exchange for assuming certain NCB 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 $82,000,000, and 95 percent of net losses exceeding $82,000,000. 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 $49,991,245 at the time of acquisition. For the year ended September 30, 2011, the Bank has submitted $68,099,046, in cumulative net losses to the FDIC under the loss-sharing agreements of which $54,479,237 is reimbursable. The Bank has received $52,823,145 in reimbursements from the FDIC during that same period.

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The acquisition of NCB was accounted for under the acquisition method of accounting. A summary of net assets acquired and liabilities assumed is presented in the following table. As explained in the explanatory notes that accompany the following table, the purchased assets and assumed liabilities 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.

	As Recorded by NCB	Aggregate Fair Value and Other Acquisition Accounting Adjustments		As Recorded by the Bank	
Assets					
Cash and due from banks	$ 10,602,482	$ 19,414,855	(a)	$ 30,017,337	
Securities	12,763,061	(14,395)	(b)	12,748,666	
FHLB and FRB stock	1,157,700	-		1,157,700	
Loans, net of unearned income	159,900,960	(65,194,681)	(c)	94,706,279	
Other real estate owned	17,676,456	(10,240,018)	(d)	7,436,438	
FDIC receivable for loss sharing agreements	-	49,991,245	(e)	49,991,245	
Other assets	691,601	1,100,000	(i)	691,601	
		(1,100,000)	(i)		
Total assets acquired	$ 202,792,260	$ (6,042,994)		$ 196,749,266	(i)
Liabilities					
Deposits	$ 181,325,925	$ 912,499	(f)	$ 182,238,424	
FHLB advances	13,000,000	76,665	(g)	13,076,665	
Other liabilities	981,190	452,987	(h)	1,434,177	
Total liabilities assumed	195,307,115	1,442,151		196,749,266	
Excess of assets acquired over liabilities assumed	$ 7,485,145				
Aggregate fair value and other acquisition accounting adjustments		$ (7,485,145)			

Explanation of aggregate fair value and other acquisition accounting adjustments

(a) – Adjustment reflects the initial wire received from the FDIC on the acquisition date.

(b) – Adjustment reflects fair value adjustments based on the Bank's evaluation of the acquired investment securities portfolio.

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(c) – 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, market yield and servicing costs.

(d) – Adjustment reflects the estimated other real estate owned losses based on the Bank's evaluation of the acquired other real estate owned portfolio.

(e) – Adjustment reflects the estimated fair value of payments the Bank will receive from the FDIC under loss sharing agreements.

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

(g) – Adjustment arises since the rates on acquired FHLB advances are higher than rates available on similar borrowings as of the acquisition date.

(h) – Adjustment reflects estimated qualifying acquisition costs in the transactions.

(i) – The carrying values of certain long-term assets, primarily the estimated fair value of acquired core deposit intangible of $1.1 million, were reduced to zero by the excess of the fair value of net assets acquired over liabilities assumed in the acquisition.

Results of operations for NCB prior to the acquisition date are not included in the income statement for the year ended September 30, 2010. Due to the significant amount of fair value adjustments, the resulting accretion of those fair value adjustments and the protection resulting from the FDIC loss sharing agreements, historical results of NCB are not relevant to the Bank's results of operations. Therefore, no pro forma information is presented.

Accounting standards prohibit carrying over an allowance for loan losses for impaired loans purchased in the NCB FDIC-assisted acquisition transaction. On the acquisition date, the preliminary estimate of the contractually required principal payments receivable for all impaired loans acquired in the NCB acquisition were $50,978,361 and the estimated fair value of the loans were $19,978,634. At June 26, 2009, all of these loans were valued based on the liquidation value of the underlying collateral because the timing and amount of the expected cash flows could not be reasonably estimated. As a result, the Company has no accretable discount on these impaired loans at acquisition. At such date, the Company established a credit risk related non-accretable discount (a discount representing amounts which are not expected to be collected from the customer nor liquidation of collateral) of $30,999,727 relating to these impaired loans, reflected in the recorded net fair value. Such amount is reflected as a non-accretable fair value adjustment to loans and a portion is also reflected in a receivable from the FDIC.

On the acquisition date, the preliminary estimate of the contractually required principal payments receivable for all other loans acquired in the acquisition was $108,922,599 and the estimated fair value of the loans were $74,727,645. At such date, the Company established an allowance for loan losses of $23,832,265 on these loans representing amounts which are not expected to be collected from the customer nor liquidation of collateral. In its estimate of cash flows for such loans, the Company also recorded an accretable discount of $10,362,689 relating to these other loans which will be recognized on a level yield basis over the life of the loans, representing periods up to sixty months, because accretable yield represents cash flows expected to be collected.

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At the time of acquisition, the Company also recorded a net FDIC receivable of $49,991,245, representing FDIC indemnification under loss sharing agreements for covered loans and other real estate. Such receivable was discounted by $2,029,990 for the expected timing of receipt of these cash flows.

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 of 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. For the year ended September 30, 2011, the Bank has submitted $110,597,880 in net cumulative losses to the FDIC under the loss-sharing agreements of which $89,167,986 is reimbursable. The Bank has received $79,148,520 in reimbursements from the FDIC during that same period.

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 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.

For the quarter ended March 31, 2010 and the year ended September 30, 2010, the Company retrospectively lowered the gain recognized on the purchase of MCB from $15.6 million to $9.3 million. This was required by FASB ASC 805, "Business Combinations," when, subsequent to the acquisition date, the Company obtained third-party appraisals and other valuations for the majority of MCB's collateral-dependent problem loans and foreclosed real estate indicating, overall, that the appraised values were lower than the company's original estimates made as of the acquisition date. Such revisions to initial fair value estimates were determined to relate to facts and circumstances that existed at the acquisition date. Any information obtained after the acquisition date that is not about facts and circumstances that existed at the applicable acquisition date that affect estimated covered asset fair values are reflected as a provision for loan losses regardless of whether it was ascertained within a one-year measurement period following the acquisition date. Any losses beyond the revised estimate, should they occur, would be covered by the FDIC at the 95% reimbursement rate provided in the loss share agreement with the FDIC.

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Noninterest income includes a pre-tax gain on acquisition of $9,342,816 for the year ended September 30, 2010. 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)			