

Note: This is a sample prospectus. We have changed the information provide here. This prospectus is for information purposes only. It is not intended to be legal advice. You should not act or abstain from acting based upon such information without first consulting a legal professional.

FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements, which can be identified by the use of such words as “*estimate*,” “*project*,” “*believe*,” “*intend*,” “*anticipate*,” “*plan*,” “*seek*,” “*expect*” and similar expressions. These forward-looking statements include:

- statements of goals, intentions and expectations;
- statements regarding prospects and business strategy;
- statements regarding asset quality and market risk; and
- estimates of future costs, benefits and results.

These forward-looking statements are subject to significant risks, assumptions and uncertainties, including, among other things, the factors discussed under the heading “*Risk Factors*” beginning at page __ that could affect the actual outcome of future events.

Because of these and other uncertainties, our actual future results may be materially different from the results indicated by these forward-looking statements. We have no obligation to update or revise any forward-looking statements to reflect any changed assumptions, any unanticipated events or any changes in the future.

SELECTED FINANCIAL AND OTHER DATA

Set forth below is selected financial and other data of XXXXX Savings Bank. You should read the consolidated financial statements and related notes contained at the end of this prospectus which provide more detailed information.

At September 30,

	2007	2006	2005	2004	2003
(In thousands)					
Selected Financial Condition Data:					
Total assets \$	551,932 \$	517,212 \$	487,209 \$	457,894 \$	459,849
Loans receivable, net	466,192	455,813	414,684	356,633	295,518
Securities held to maturity	1,479	1,733	2,078	2,717	1,997

Securities available for sale	29,098	28,024	40,142	64,579	98,812
FHLB borrowings	71,387	70,870	61,500	55,390	67,641
Deposits	433,488	402,078	385,045	364,910	355,627
Equity	44,039	41,419	38,254	35,949	34,960
Total Liabilities	507,893	475,793	448,955	421,945	424,889
Allowance for loan losses	4,541	3,393	3,222	3,034	3,045
Non-performing loans	2,388	2,725	4,003	2,662	3,006
Non-performing assets	2,615	2,725	4,003	2,662	3,006

Year Ended September 30,

	2007	2006	2005	2004	2003
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(In thousands)

Selected Operating Data:

Total interest and dividend income	\$ 32,769	\$ 30,159	\$ 25,426	\$ 22,629	\$ 23,782
Total interest expense	19,235	16,503	13,710	13,184	14,506
Net interest income	13,534	13,656	11,716	9,445	9,276
Provision for loan losses	1,298	451	290	60	61
Net interest income after provision for loan losses	12,236	13,205	11,426	9,385	9,215
Total other income	1,453	1,551	1,385	1,019	1,178
Total other expenses	10,154	9,763	9,197	8,094	8,304

Income Tax	1,123	1,788	1,109	703	561
Net income \$	2,412 \$	3,205 \$	2,505 \$	1,607 \$	1,528

Year Ended September 30,

2007	2006	2005	2004	2003
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Selected

Financial Ratios and Other Data:

Performance Ratios:

Return on assets (ratio of net income to average total assets)	0.45%	0.64%	0.53%	0.35%	0.34%
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Return on average equity (ratio of net income to average equity)	5.76	7.99	6.74	4.53	4.41
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Interest rate spread ⁽¹⁾	2.25	2.43	2.25	2.00	1.92
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Net interest margin ⁽²⁾	2.65	2.80	2.55	2.14	2.11
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Non-interest expenses to average total assets	1.92	1.94	1.95	1.76	1.83
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Efficiency Ratio ⁽³⁾	75.02	71.49	78.50	85.70	89.52
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Asset Quality Ratios:

Non-performing loans as a percent of gross loans	0.51	0.60	0.96	0.74	1.01
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Non-	0.47	0.53	0.82	0.58	0.65
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performing assets as a percent of total assets					
Allowance for loan losses as a percent of gross loans	0.50	0.74	0.78	0.85	1.03
Allowance for loan losses as a percent of non-performing loans	190.16	124.51	80.49	113.97	101.30
Capital Ratios:					
Total risk-based capital to risk weighted assets	11.43	11.18	11.34	12.79	13.60
Tier 1 risk-based capital to risk weighted assets	10.36	10.34	10.45	11.80	12.36
Tangible capital to tangible assets	8.03	8.10	7.79	7.92	7.54
Tier 1 leverage (core) capital to adjustable tangible assets	8.03	8.10	7.79	7.92	7.54
Equity to total assets	7.98	7.96	7.86	7.86	7.60
Other Data:					
Number of full service offices	7	7	7	7	6

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- (1) Represents the difference between the weighted average yield on interest earning assets and the weighted average cost of interest bearing liabilities.
 - (2) Net interest income divided by average interest earning assets.
 - (3) Represents non-interest expense divided by net interest income and dividend income.

HOW OUR NET PROCEEDS WILL BE USED

The following table shows how we intend to use the net proceeds of the offering. The actual net proceeds will depend on the number of shares of common stock sold in the offering and the expenses incurred in connection with the offering. Payments for shares made through withdrawals from deposit accounts at XXXXX Savings Bank will reduce deposits at the bank and will not result in the receipt of new funds for investment. See “*Unaudited Pro Forma Data*” for the assumptions used to arrive at these amounts.

	Midpoint of Offering Range		
	Percent of Net Proceeds	3,010,000 Shares at \$10.00 Per Share	Percent of Net Proceeds
Offering			
proceeds \$	105.2%	\$	104.6% %
Less: offering expenses	5.2		4.6
			3.7
Net offering			
proceeds	100.0%		100.0% %
			100.0%
Less:			
Proceeds contributed to XXXX X Savings Bank	50.0%		50.0% %
			50.0%
Proceeds contributed to XXXXX Mutual Holding Company	0.4		0.4
			0.3
Proceeds used for loan to employ ee stock ownersh ip plan	9.6		9.5
			9.5
Proceeds used to repurchase shares for recognition and retention plan	4.8		4.8
			4.7
Proceeds remaining for XXXX X	35.2%	\$	35.3% %
			35.5

XXXXX Bancorp intends to invest 100% of the proceeds it retains from the offering initially in short-term, liquid investments. Although there can be no assurance that XXXXX Bancorp will invest the net proceeds in anything other than short-term, liquid investments, over time, XXXXX Bancorp may use the proceeds it retains from the offering:

- to invest in investment securities;
- to fund the payment of cash dividends to stockholders;
- to repurchase shares of its common stock, subject to regulatory restrictions;
- to finance the possible acquisition of financial institutions or other businesses related to banking, although we have no specific plans regarding any acquisitions at this time; and
- for general corporate purposes.

Under current applicable regulations, XXXXX Bancorp may not repurchase shares of its common stock during the first year following the reorganization, except to fund equity benefit plans or, with prior regulatory approval, when extraordinary circumstances exist. We do not anticipate making any stock repurchases during the first year after our reorganization, except to fund our recognition and retention plan upon approval by our shareholders.

XXXXX Savings Bank intends to initially use the net proceeds it receives to fund loans and make short term investments. In the future, XXXXX Savings Bank may use the proceeds that it receives from the offering, which is shown in the table above as the amount contributed to XXXXX Savings Bank:

- to fund new loans;
- to finance the possible expansion of its network of financial center offices; and
- for general corporate purposes.

We may need regulatory approvals to engage in some of the activities listed above.

Except as described above, neither XXXXX Bancorp nor XXXXX Savings Bank has any specific plans for the investment of the net proceeds of this offering and has not allocated a specific portion of the proceeds to any particular use. For a discussion of our business reasons for undertaking the offering see *“The Reorganization and Offering – Purposes of Reorganization.”*

OUR POLICY REGARDING DIVIDENDS

After we complete the reorganization and offering, our board of directors will have the authority to declare dividends on the common stock, subject to statutory and regulatory requirements. We intend to pay quarterly cash dividends on the common stock commencing with the first full quarter after the reorganization. However, the rate of such dividends and the initial or continued payment thereof will depend upon a number of factors, including the amount of net proceeds retained by us in the offering, investment opportunities available to us, capital requirements, our financial condition and results of operations, tax considerations, statutory and regulatory limitations, dividends paid to us by XXXXX Savings Bank and general economic conditions. No assurances can be given that any dividends will be paid or that, if paid, will not be reduced or eliminated in future periods. Special cash dividends, stock dividends or tax-free returns of capital may be paid in addition to, or in lieu of, regular cash dividends. No

dividend will be declared or paid, however, if it will be classified as a return of capital during the first three years after our reorganization.

If we pay dividends to our stockholders, we also will be required to pay dividends to XXXXX Mutual Holding Company, unless XXXXX Mutual Holding Company elects to waive such dividends. Any dividend waivers by XXXXX Mutual Holding Company are subject to prior notice to and non-objection from the Office of Thrift Supervision. We anticipate that XXXXX Mutual Holding Company will waive dividends. Under Office of Thrift Supervision regulations, if XXXXX Mutual Holding Company waives dividends, it will not result in dilution to public stockholders in the event XXXXX Mutual Holding Company converts to stock form. See “*Regulation - Regulation of XXXXX Bancorp, Inc. and XXXXX Mutual Holding Company.*”

Dividends from us may eventually depend, in part, upon receipt of dividends from XXXXX Savings Bank, because we initially will have no source of income other than dividends from XXXXX Savings Bank, earnings from the investment of proceeds from the sale of common stock retained by us, and principal and interest payments with respect to our loan to our employee stock ownership plan. The payment of dividends by XXXXX Savings Bank is subject to certain restrictions under Office of Thrift Supervision regulations. See “*Regulation - XXXXX Savings Bank - Capital Distributions.*”

Any payment of dividends by XXXXX Savings Bank to us which would be deemed to be drawn out of XXXXX Savings Bank’s bad debt reserves would require a payment of taxes at the then-current tax rate by XXXXX Savings Bank on the amount of earnings deemed to be removed from the reserves for such distribution. XXXXX Savings Bank does not intend to make any distribution to us that would create such a federal tax liability. See “*Taxation.*”

Unlike XXXXX Savings Bank, we are not subject to the above regulatory restrictions on the payment of dividends to our stockholders, although the source of such dividends may eventually depend, in part, upon dividends from XXXXX Savings Bank in addition to the net proceeds retained by us and earnings thereon.

POSSIBLE CONVERSION OF XXXXX MUTUAL HOLDING COMPANY TO STOCK FORM

Office of Thrift Supervision regulations specifically authorize mutual holding companies such as XXXXX Mutual Holding Company to (i) convert to stock form and (ii) exchange stock issued by the converted holding company (e.g., XXXXX Mutual Holding Company) for stock issued by a subsidiary holding company (e.g., XXXXX Bancorp). In the future, XXXXX Mutual Holding Company may convert from the mutual to stock form in a transaction commonly known as a “*second-step conversion.*” In a second-step conversion, members of XXXXX Mutual Holding Company would have subscription rights to purchase common stock of XXXXX Bancorp, or its successor, and the public stockholders of XXXXX Bancorp would be entitled to exchange their shares of common stock for shares of the converted XXXXX Mutual Holding Company in a manner that is fair and reasonable to the stockholders. This exchange ratio may be adjusted to reflect any assets owned by XXXXX Mutual Holding Company. XXXXX Bancorp’s public stockholders would own approximately the same percentage of the resulting entity as they owned prior to the second-step conversion. Our board of directors has no current plans to undertake a “*second-step conversion*” transaction. Although XXXXX Mutual Holding Company may convert to stock form in the future, XXXXX Mutual Holding Company has no current plans and there can be no assurance as to when, if ever, such a conversion will occur. Approval from the Office of Thrift Supervision is required for XXXXX Mutual Holding Company to convert. In addition, a decision by XXXXX Mutual Holding Company to convert to stock form would require the approval of its members prior to the transaction and approval of XXXXX Bancorp’s stockholders.

MARKET FOR OUR COMMON STOCK

Because this is our initial public offering, we have never issued any capital stock and there is no market for our common stock at this time. After we complete the offering, we anticipate that our common stock will be listed for trading on the Nasdaq Global Market under the symbol “_____.” Braxton Capital has indicated its intention to make a market in our common stock, however, it is under no obligation to do so.

The development and maintenance of an active trading market depends upon the existence of willing buyers and sellers, the presence of which is not within our control or of any market maker. It is unlikely that an active and liquid trading market for the common stock will develop due to the small size of the offering and the small number of stockholders expected following the reorganization and offering. We cannot assure you that an active trading market will develop or that, if it develops, it will continue. Nor can we assure you that, if you purchase shares, you will be able to sell them at or above the \$10.00 per share purchase price. Under such circumstances, you could have difficulty selling your shares on short notice and, therefore, you should not view the common stock as a short-term investment.

REGULATORY CAPITAL REQUIREMENTS

At September 30, 2007, XXXXX Savings Bank exceeded all of its regulatory capital requirements. The table on the following page sets forth XXXXX Savings Bank's historical capital under generally accepted accounting principles and regulatory capital at September 30, 2007, and the pro forma capital of XXXXX Savings Bank after giving effect to the reorganization and the offering, based upon the sale of the number of shares shown in the table. The pro forma capital amounts reflect the receipt by XXXXX Savings Bank of 50% of the net reorganization proceeds. The pro forma risk-based capital amounts assume the investment of the net proceeds received by XXXXX Savings Bank in assets which have a risk-weight of 20% under applicable regulations, as if such net proceeds had been received and so applied at September 30, 2007.

OUR CAPITALIZATION

The following table presents the historical capitalization of XXXXX Savings Bank at September 30, 2007, and our pro forma consolidated capitalization after giving effect to the reorganization, based upon the sale of the number of shares shown below and the other assumptions set forth under "*Unaudited Pro Forma Data.*"

		2,558,500 Shares (Minimum of Offering Range)		3,010,000 Shares (Midpoint of Offering Range)		3,461,500 Shares (Maximum of Offering Range)
Deposits ⁽²⁾	\$	433,488	\$	433,488	\$	433,488
Borrowings		71,387		71,387		71,387
Total deposits and borrowings	\$	504,875	\$	504,875	\$	504,875
Shareholders' equity:						
Preferred stock, \$.01 par value, 40,000,000 shares authorized; none to be issued		—		—		—
Common stock, \$.01 par value,		60		70		81

40,000,000
shares
authorized;
shares to be
issued as
reflected⁽³⁾

Additional paid-in capital ⁽³⁾	25,342	30,016	34,689
Retained earnings ⁽⁴⁾	44,322	44,322	44,322
Less:			
Expense of Stock Contribution to XXXXX Charitable Foundation	(1,190)	(1,400)	(1,610))
Plus:			
Tax Benefit of Contribution to XXXXX Charitable Foundation	458	539	620
Accumulated other comprehensive (loss)	(283)	(283)	(283))
Less:			
Assets retained by XXXXX Mutual Holding Company	(100)	(100)	(100))
Common stock acquired by our employee stock ownership plan ⁽⁵⁾	(2,332)	(2,744)	(3,156))
Common stock to be acquired by our recognition and retention plan ⁽⁶⁾	(1,166)	(1,372)	(1,578))

Total equity	\$	65,111 \$	69,048 \$	72,985
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- (1) As adjusted to give effect to an increase in the number of shares which could occur due to an increase in the offering range of up to 15% to reflect changes in market and financial conditions before we complete the reorganization or to fill the order of our employee stock ownership plan.
- (2) Does not reflect withdrawals from deposit accounts for the purchase of common stock in the reorganization. Such withdrawals would reduce pro forma deposits by the amount of such withdrawals.
- (3) No effect has been given to the issuance of additional shares of common stock pursuant to our proposed stock option plan. We intend to adopt a stock option plan and to submit such plan to stockholders at a meeting of stockholders to be held at least six months following completion of the reorganization. If the plan is approved by stockholders, an amount equal to 4.90% of the shares of common stock outstanding after the reorganization will be reserved for future issuance under such plan. Your ownership percentage would decrease by approximately 4.7% if all potential stock options are exercised from our authorized but unissued stock. See *“Unaudited Pro Forma Data”* and *“Our Management - New Stock Benefit Plans - Stock Option Plan.”*
- (4) The retained earnings of XXXXX Savings Bank will be substantially restricted after the reorganization. XXXXX Mutual Holding Company will have an initial capitalization of \$100,000.
- (5) Assumes that 3.92% of the common stock outstanding after the reorganization, including shares issued to XXXXX Mutual Holding Company, will be purchased by our employee stock ownership plan in the offering at a price of \$10.00 per share. If the employee stock ownership plan buys shares in the market after the reorganization, the purchase price of those shares may be more or less than the \$10.00 per share offering price, which will change the amount of net proceeds used for this purpose. The common stock acquired by our employee stock ownership plan is reflected as a reduction of shareholders’ equity. Assumes the funds used to acquire our employee stock ownership plan shares will be borrowed from XXXXX Bancorp. See Note 1 to the table set forth under *“Unaudited Pro Forma Data”* and *“Our Management - New Stock Benefit Plans -Employee Stock Ownership Plan.”*
- (6) Gives effect to the recognition and retention plan which we expect to adopt after the reorganization and present to shareholders for approval at a meeting of shareholders to be held at least six months after we complete the reorganization. No shares will be purchased by the recognition and retention plan in the reorganization, and such plan cannot purchase any shares until shareholder approval has been obtained. If the recognition and retention plan is approved by our shareholders, the plan intends to acquire an amount of common stock equal to 1.96% of the shares of common stock to be outstanding after the reorganization, including shares issued to XXXXX Mutual Holding Company and the XXXXX Charitable Foundation, or 116,620,137,200, 157,780 and 181,447 shares at the minimum, midpoint, maximum and 15% above the maximum of the offering range, respectively. The table assumes that shareholder approval has been obtained and that such shares are purchased in the open market at \$10.00 per share. The common stock so acquired by the stock recognition and retention plan is reflected as a reduction in shareholders’ equity. If the shares are purchased at prices higher or lower than the initial purchase price of \$10.00 per share, such purchases would have a greater or lesser impact, respectively, on shareholders’ equity. If the recognition and retention plan purchases authorized but unissued shares from XXXXX Bancorp, such issuance would dilute the voting interests of existing shareholders by approximately 1.9%. XXXXX Bancorp intends to contribute capital to the restricted stock plan to fund the purchase of shares. See *“Unaudited Pro Forma Data,” “Our Management -New Stock Benefit Plans - Stock Recognition and Retention Plan”* and *“How Our Net Proceeds Will Be Used.”*

UNAUDITED PRO FORMA DATA

The actual net proceeds from the sale of our common stock in the offering cannot be determined until the reorganization is completed. However, the net proceeds are currently estimated to be between \$24.3 million and \$33.3 million, or up to \$38.4 million in the event the offering range is increased by approximately 15%, based upon the following assumptions:

- We will sell all shares of common stock in the subscription offering and community offering

with no shares sold in a syndicated community offering;

- Our employee stock ownership plan will purchase an amount equal to 3.92% of the shares to be outstanding after the reorganization (including shares issued to XXXXX Mutual Holding Company and the XXXXX Charitable Foundation) at a price of \$10.00 per share with a loan from XXXXX Bancorp;
- expenses of the offering, other than the underwriting commissions to be paid to Braxton Capital, are estimated to be \$1,045,000;
- 46,250 shares of common stock will be purchased by our employees, directors and their immediate families; and
- Braxton Capital will receive a fee equal to 1.0% of the aggregate purchase price of the shares of stock sold in the offering, excluding any shares purchased by any employee benefit plans, and any of our directors, officers or employees or members of their immediate families.

We have prepared the following table, which sets forth our historical consolidated net income and shareholders' equity prior to the reorganization and our pro forma consolidated net income and shareholders' equity following the reorganization. In preparing these tables and in calculating pro forma data, the following assumptions have been made:

- Pro forma earnings have been calculated assuming the stock had been sold at the beginning of the period and the net proceeds had been invested at an average yield of 4.05% for the year ended September 30, 2007, which approximates the yield on a one-year U.S. Treasury bill on September 30, 2007. This rate is used because we believe it reflects the yield that we will receive on the net proceeds of the offering.
- The pro forma after-tax yield on the net proceeds from the offering is assumed to be 2.49% for the year ended September 30, 2007, based on an effective tax rate of 38.5%.
- No withdrawals were made from XXXXX Savings Bank's deposit accounts for the purchase of shares in the offering.
- Historical and pro forma per share amounts have been calculated by dividing historical and pro forma amounts by the indicated number of shares of stock, as adjusted into the pro forma net income per share to give effect to the purchase of shares by the employee stock ownership plan.
- Pro forma shareholders' equity amounts have been calculated as if our common stock had been sold in the offering on September 30, 2007 and, accordingly, no effect has been given to the assumed earnings effect of the transactions.

The following pro forma information may not be representative of the financial effects of the reorganization at the date on which the reorganization actually occurs and should not be taken as indicative of future results of operations. Pro forma shareholders' equity represents the difference between the stated amount of our assets and liabilities computed in accordance with generally accepted accounting principles. Shareholders' equity does not give effect to intangible assets in the event of a liquidation or to XXXXX Savings Bank's bad debt reserve. The pro forma shareholders' equity is not intended to represent the fair market value of the common stock and may be different than amounts that would be available for distribution to shareholders in the event of liquidation.

The following table shows the estimated after-tax expense associated with the contribution to the foundation, as well as pro forma net income (loss) and pro forma net income (loss) per share assuming the contribution to the foundation was expensed during the period presented.

	Minimum of Offering Range	Midpoint of Offering Range	Maximum of Offering Range	15% Above Maximum of Offering Range
(Dollars in thousands, except per share amounts)				
After-tax expense of contribution to foundation: Year Ended September 30, 2007	\$ 732	\$ 861	\$ 990	\$ 1,138
Pro forma net income (loss): Year ended September 30, 2007	1,754	1,642	1,532	1,405
Pro forma net income (loss) per share: Year ended September 30, 2007	0.31	0.24	0.20	0.16

The pro forma data assume that we will realize 100% of the income tax benefit as a result of the contribution to the foundation based on a 38.5% tax rate. The realization of the tax benefit is limited annually to 10% of our annual taxable income. However, for federal and state tax purposes, we can carry forward any unused portion of the deduction for five years following the year in which the contribution is made.

- (5) The adjustment to pro forma net income for stock options reflects the compensation expense associated with the stock options (assuming no federal tax benefit) that may be granted under the new stock option plan to be adopted following the reorganization and offering. If the new stock option plan is approved by shareholders, a number of shares equal to 4.9% of the to-be outstanding shares of XXXXX Bancorp will be reserved for future issuance upon the exercise of stock options that may be granted under the plan. Using the Black-Scholes option-pricing formula, each option is assumed to have a value of \$3.86, assuming an exercise price and grant date fair value of common stock of \$10.00 per share. It is assumed that all stock options were granted in the first year after the offering, that stock options granted under the stock option plan vest over a five-year period, or 20.0% per year, that compensation expense is recognized on a straight-line basis over each vesting period so that 20.0% of the value of the options awarded was an amortized expense during each year. If the fair market value per share is different than \$10.00 per share on the date options are awarded under the stock option plan, or if the assumptions used in the option-pricing formula are different from those used in preparing this pro forma data, the value of the stock options and the related expense would be different. Applicable accounting standards do not prescribe a specific valuation technique to be used to estimate the fair value of employee stock options. XXXXX Bancorp may use a valuation technique other than the Black-Scholes option-pricing formula and that technique may produce a different value. The issuance of authorized but unissued shares of common stock to satisfy option exercises instead of shares repurchased in the open market would dilute the ownership interests of existing shareholders by approximately 4.7%.
- (6) The retained earnings of XXXXX Savings Bank will continue to be substantially restricted after the reorganization.
- (7) Shareholders' equity per share data is based upon 5,950,000, 7,000,000, 8,050,000 and 9,257,500 shares outstanding at the minimum, midpoint, maximum and adjusted maximum of the estimated offering range, respectively, representing shares issued in the offering.
- (8) Based on pro forma net income for the year ended September 30, 2007.
- (9) As adjusted to give effect to an increase in the number of shares which could occur due to an increase in the estimated offering range of up to 15% as a result of regulatory considerations, demand for the shares, or changes in market or general financial and economic conditions following the commencement of the offering.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

We are a community oriented savings bank headquartered in Our City, United States. We currently operate seven financial center offices in County, which is located in southeastern United States approximately 25 miles west of downtown State's capital. Our primary business consists of attracting

deposits from the general public and using those funds together with funds we borrow to originate loans to our customers. At September 30, 2007, we had total assets of \$551.9 million, including \$466.2 million in net portfolio loans and \$30.6 million of investment securities, total deposits of \$433.5 million and total equity of \$44.0 million.

Our results of operations depend, to a large extent, on net interest income, which is the difference between the income earned on our loan and investment portfolios and interest expense on deposits and borrowings. Our net interest income is largely determined by our net interest spread, which is the difference between the average yield earned on interest-earning assets and the average rate paid on interest-bearing liabilities, and the relative amounts of interest-earning assets and interest-bearing liabilities. Results of operations are also affected by our provisions for loan losses, fee income and other, non-interest income and non-interest expenses. Our other, or non-interest, expenses principally consist of compensation and employee benefits, office occupancy and equipment expense, data processing, advertising and business promotion and other expense. After the reorganization, we expect that our non-interest expenses will increase as we grow and expand our operations. In addition, our other expenses will increase due to the new stock benefit plans that we intend to implement. See “*Pro Forma Data*.” Our results of operations are also significantly affected by general economic and competitive conditions, particularly changes in interest rates, government policies and actions of regulatory authorities. Future changes in applicable law, regulations or government policies may materially impact our financial conditions and results of operations.

Business Strategy

Our business strategy is focused on operating a growing and profitable community-oriented financial institution. Below are certain of the highlights of our business strategy:

- *Growing and Diversifying Our Loan Portfolio by, among other things, increasing our origination of commercial real estate loans.* During the past five fiscal years, we have increased our net loans by 57.8% to \$466.2 million (excluding \$9.3 million of loans held for sale) at September 30, 2007 from \$295.5 million at September 30, 2003. We have emphasized increased originations of commercial real estate loans. In addition, we have increased our emphasis on originating construction loans and consumer loans. Our commercial real estate and construction and development loans have increased from an aggregate of \$57.1 million, or 19.2%, of our total loan portfolio, at September 30, 2003 to \$167.4 million, or 35.0% of the total loan portfolio (including loans held for sale), at September 30, 2007. Similarly, our consumer loans, which consist primarily of home equity loans and lines of credit, have increased from \$37.5 million, or 12.6% of the total loan portfolio at September 30, 2003 to \$92.1 million, or 19.3% of the loan portfolio, at September 30, 2007. Commercial real estate, construction and development and consumer loans all typically have higher yields and are more interest sensitive than long-term single family residential mortgage loans. We plan to continue to grow and diversify our loan portfolio, and we intend to continue to grow our holdings of commercial real estate loans and construction and developments loans. In addition, the net proceeds to be received from the offering will increase our loan-to-one borrower limits, which will permit us to originate and retain larger balance, commercial real estate and construction loans.
- *Growing our franchise by expanding our financial center network in our market area and contiguous communities.* We intend to pursue opportunities to expand our market area by opening additional banking offices, which may include loan production offices, and, possibly, through acquisitions of other financial institutions and banking related businesses (although we have no current plans, understandings or agreements with respect to any specific acquisitions). We expect to focus on contiguous areas to our current locations in County, United States as well as adjoining counties in southeastern United States.
- *Increasing our market share in our current markets.* We operate in a competitive market area for banking products and services. In the five most recent fiscal years we have seen a decline in our deposit share in County, which we attribute in large part to the extremely competitive banking environment. In fiscal 2007, we were able to reverse this trend and modestly increased our deposit share in County to 4.72%. We are focused on continuing our efforts to increase

market share by increasing the banking products we offer, increasing our business in non-traditional products and services, such as insurance, adding banking locations and increasing our marketing and advertising efforts.

- *Increasing our core deposits.* We are attempting to increase our core deposits, which we define as all deposits products other than certificates of deposit, by offering customers additional deposit products as well as incentives to invest in core deposits. At September 30, 2007, our core deposits amounted to \$165.2 million, or 38.1% of total deposits, compared to \$143.4 million, or 35.6% of total deposits, at September 30, 2006. During fiscal 2007, we began offering higher rates on certain money market accounts as an incentive to our customers. Our money market accounts increased by \$27.0 million, or 57.6%, from September 30, 2006 to September 30, 2007. We have continued our promotional efforts to increase core deposits and expect to add additional deposit products in fiscal 2008 as part of our efforts to increase core deposits.
- *Maintaining High Asset Quality.* We continue to maintain exceptional levels of asset quality. At September 30, 2007, our non-performing loans amounted to \$2.4 million or 0.5% of total loans. We attribute our high asset quality to our prudent and conservative underwriting practices, and we intend to maintain high asset quality after the reorganization and offering even as we continue to grow the bank. We have no exposure to the sub-prime market for mortgage loans.
- *Continuing to Provide Exceptional Customer Service.* As a community oriented savings bank, we take pride in providing exceptional customer service as a means to attract and retain customers. We deliver personalized service to our customers that distinguishes us from the large regional banks operating in our market area. Our management team has strong ties to, and deep roots in, the community. We believe that we know our customers' banking needs and can respond quickly to address them.

This Management's Discussion and Analysis section is intended to assist in understanding the financial condition and results of operations of XXXXX Savings Bank. The discussion and analysis does not include any comments relating to XXXXX Bancorp, since XXXXX Bancorp has had no significant operations to date. The information contained in this section should be read in conjunction with our consolidated financial statements and the accompanying notes to the consolidated financial statements and other sections contained in this prospectus.

Critical Accounting Policies

In reviewing and understanding financial information for XXXXX Savings Bank, you are encouraged to read and understand the significant accounting policies used in preparing our consolidated financial statements. These policies are described in Note 2 of the notes to our consolidated financial statements included elsewhere in this prospectus. The accounting and financial reporting policies of XXXXX Savings Bank conform to accounting principles generally accepted in the United States of America and to general practices within the banking industry. Accordingly, the consolidated financial statements require certain estimates, judgments, and assumptions, which are believed to be reasonable, based upon the information available. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of income and expenses during the periods presented. The following accounting policies comprise those that management believes are the most critical to aid in fully understanding and evaluating our reported financial results. These policies require numerous estimates or economic assumptions that may prove inaccurate or may be subject to variations which may affect our reported results and financial condition for the period or in future periods.

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 collectibility of the principal is unlikely. Subsequent recoveries are added to the allowance. The allowance is an amount that represents the amount of probable and reasonably estimable known and inherent losses in the loan portfolio, based on evaluations of the collectibility of loans. The evaluations take into consideration such factors as changes in the types and amount of loans in

the loan portfolio, historical loss experience, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, estimated losses relating to specifically identified loans, and current economic conditions. This evaluation is inherently subjective as it requires material estimates including, among others, exposure at default, the amount and timing of expected future cash flows on impacted loans, value of collateral, estimated losses on our loan portfolio and general amounts for historical loss experience. All of these estimates may be susceptible to significant change.

While management uses the best information available to make loan loss allowance evaluations, adjustments to the allowance may be necessary based on changes in economic and other conditions or changes in accounting guidance. Historically, our estimates of the allowance for loan loss have not required significant adjustments from management's initial estimates. In addition, the Office of Thrift Supervision, as an integral part of its examination processes, periodically reviews our allowance for loan losses. The Office of Thrift Supervision may require the recognition of adjustments to the allowance for loan losses based on their judgment of information available to them at the time of their examinations. To the extent that actual outcomes differ from management's estimates, additional provisions to the allowance for loan losses may be required that would adversely impact earnings in future periods.

Income Taxes. We make estimates and judgments to calculate some of our tax liabilities and determine the recoverability of some of our deferred tax assets, which arise from temporary differences between the tax and financial statement recognition of revenues and expenses. We also estimate a reserve for deferred tax assets if, based on the available evidence, it is more likely than not that some portion or all of the recorded deferred tax assets will not be realized in future periods. These estimates and judgments are inherently subjective. Historically, our estimates and judgments to calculate our deferred tax accounts have not required significant revision to our initial estimates.

In evaluating our ability to recover deferred tax assets, we consider all available positive and negative evidence, including our past operating results and our forecast of future taxable income. In determining future taxable income, we make assumptions for the amount of taxable income, the reversal of temporary differences and the implementation of feasible and prudent tax planning strategies. These assumptions require us to make judgments about our future taxable income and are consistent with the plans and estimates we use to manage our business. Any reduction in estimated future taxable income may require us to record a valuation allowance against our deferred tax assets. An increase in the valuation allowance would result in additional income tax expense in the period and could have a significant impact on our future earnings.

Other-Than-Temporary Impairment of Securities – Securities are evaluated on at least a quarterly basis, and more frequently when market conditions warrant such an evaluation, to determine whether a decline in their value is other-than-temporary. To determine whether a loss in value is other-than-temporary, management utilizes criteria such as the reasons underlying the decline, the magnitude and duration of the decline and our intent and ability to retain our investment in the security for a period of time sufficient to allow for an anticipated recovery in the fair value. The term “*other-than-temporary*” is not intended to indicate that the decline is permanent, but indicates that the prospects for a near-term recovery of value is not necessarily favorable, or that there is a lack of evidence to support a realizable value equal to or greater than the carrying value of the investment. Once a decline in value is determined to be other-than-temporary, the value of the security is reduced and a corresponding charge to earnings is recognized.

How We Manage Market Risk

Market risk is the risk of loss from adverse changes in market prices and rates. Our market risk arises primarily from the interest rate risk which is inherent in our lending and deposit taking activities. To that end, management actively monitors and manages interest rate risk exposure. In addition to market risk, our primary risk is credit risk on our loan portfolio. We attempt to manage credit risk through our loan underwriting and oversight policies. See “*Business of XXXXX Savings Bank – Lending Activities.*”

The principal objective of our interest rate risk management function is to evaluate the interest rate risk embedded in certain balance sheet accounts, determine the level of risk appropriate given our business strategy, operating environment, capital and liquidity requirements and performance objectives, and manage the risk consistent with approved guidelines. We seek to manage our exposure to risks from

changes in interest rates while at the same time trying to improve our net interest spread. We monitor interest rate risk as such risk relates to our operating strategies. We have established an Asset Liability Committee (“ALCO”) Committee, which is comprised of our President and Chief Executive Officer, Chief Financial Officer, Chief Lending Officer and five outside directors, and which is responsible for reviewing our asset/liability and investment policies and interest rate risk position. The ALCO Committee meets on a regular basis. The extent of the movement of interest rates is an uncertainty that could have a negative impact on future earnings.

In recent years, we primarily have utilized the following strategies to manage interest rate risk:

- we have increased our originations of shorter term loans particularly commercial real estate and construction loans;
- we have attempted to match fund a portion of our loan portfolio with borrowings having similar expected lives;
- on occasion, we have sold long-term (30-year) fixed-rate mortgage loans with servicing retained;
- we have attempted, where possible, to extend the maturities of our deposits and borrowings; and
- we have invested in securities with relatively short anticipated lives, generally one to three years, and we hold significant amounts of liquid assets.

Gap Analysis. The matching of assets and liabilities may be analyzed by examining the extent to which such assets and liabilities are “*interest rate sensitive*” and by monitoring a bank’s interest rate sensitivity “*gap*.” An asset and liability is said to be interest rate sensitive within a specific time period if it will mature or reprice within that time period. The interest rate sensitivity gap is defined as the difference between the amount of interest-earning assets maturing or repricing within a specific time period and the amount of interest-bearing liabilities maturing or repricing within that same time period. A gap is considered positive when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities. A gap is considered negative when the amount of interest rate sensitive liabilities exceeds the amount of interest rate sensitive assets. During a period of rising interest rates, a negative gap would tend to affect adversely net interest income while a positive gap would tend to result in an increase in net interest income. Conversely, during a period of falling interest rates, a negative gap would tend to result in an increase in net interest income while a positive gap would tend to affect adversely net interest income. Our one-year cumulative gap was a negative 27.9% at September 30, 2007.

Net Portfolio Value and Net Interest Income Analysis. Our interest rate sensitivity also is monitored by management through the use of models which generate estimates of the change in its net portfolio value (“*NPV*”) and net interest income (“*NII*”) over a range of interest rate scenarios. NPV is the present value of expected cash flows from assets, liabilities, and off-balance sheet contracts. The NPV ratio, under any interest rate scenario, is defined as the NPV in that scenario divided by the market value of assets in the same scenario.

In addition to modeling changes in NPV, we also analyze potential changes to NII for a twelve-month period under rising and falling interest rate scenarios. The following table shows our NII model as of September 30, 2007.

Change in Interest Rates in Basis Points (Rate Shock)	Net Interest Income	\$ Change	% Change
(Dollars in thousands)			
200	\$ 15,354	\$ (250)	(1.60)%

100	15,507	(97)	(0.62)
Static	15,604	—	—
(100)	15,486	(118)	(0.75)
(200)	15,320	(284)	(1.82)

The above table indicates that as of September 30, 2007, in the event of an immediate and sustained 200 basis point increase in interest rates, our net interest income for the 12 months ending September 30, 2008 would be expected to decrease by \$250,000 or 1.6% to \$15.4 million.

As is the case with the GAP Table, certain shortcomings are inherent in the methodology used in the above interest rate risk measurements. Modeling changes in NPV and NII require the making of certain assumptions which may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. In this regard, the models presented assume that the composition of our interest sensitive assets and liabilities existing at the beginning of a period remains constant over the period being measured and also assumes that a particular change in interest rates is reflected uniformly across the yield curve regardless of the duration to maturity or repricing of specific assets and liabilities. Accordingly, although the NPV measurements and net interest income models provide an indication of interest rate risk exposure at a particular point in time, such measurements are not intended to and do not provide a precise forecast of the effect of changes in market interest rates on net interest income and will differ from actual results. The following table presents the dollar amount of changes in interest income and interest expense for major components of interest-earning assets and interest-bearing liabilities. It distinguishes between the increase related to higher outstanding balances and that due to the unprecedented levels and volatility of interest rates. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to (i) changes in volume (i.e., changes in volume multiplied by old rate) and (ii) changes in rate (i.e., changes in rate multiplied by old volume). For purposes of this table, changes attributable to both rate and volume, which cannot be segregated have been allocated proportionately to the change due to volume and the change due to rate.

Interest and Dividend Income. Our total interest and dividend income amounted to \$32.8 million for the year ended September 30, 2007 compared to \$30.2 million for the year ended September 30, 2006. The primary reason for the \$2.6 million increase in interest and dividend income in fiscal 2007 compared to fiscal 2006 was a \$2.3 million, or 8.0%, increase in interest earned on loans. The increase in interest earned on loans in fiscal 2007 was due primarily to a 16 basis point (100 basis points being equal to 1.0%) increase in the average yield earned on our loans together with a \$23.4 million, or 5.3%, increase in the average balance of our loan portfolio in fiscal 2007 compared to fiscal 2006. The increase in the average yield on our net loans in fiscal 2007 compared to fiscal 2006 reflects our focus on originating commercial real estate and construction loans as well as home equity loans and lines of credit, all of which have higher yields than one-to four-family residential mortgage loans, as well as the increase in market rates of interest during the period. Our interest earned on deposits in other institutions increased by \$188,000 to \$324,000 in the fiscal year ended September 30, 2007 compared to \$136,000 in fiscal 2006. The primary reason for the increase in fiscal 2007 was \$1.4 million, or 23.5%, increase in the average balances of deposits in other banks in fiscal 2007 compared to fiscal 2006. Our average balance of funds deposited in other banks was lower in fiscal 2006 in part due to our prepayment of \$4.9 million of FHLB advances in fiscal 2006. Interest income on investment securities increased by \$96,000, or 8.2%, in fiscal 2007 compared to fiscal 2006. The increase in interest income on investment securities in 2007 was due to a 64 basis point increase in the average yield earned, which more than offset a \$2.6 million, or 7.0%, decrease in the average balance of our investment securities portfolio.

Interest Expense. Our total interest expense amounted to \$19.2 million for the year ended September 30, 2007 compared to \$16.5 million for the year ended September 30, 2006, an increase of \$2.7 million or 16.6%. The reason for the increase in interest expense in fiscal 2007 compared to fiscal 2006 was an increase in the average balance of our total deposits and increases in the average rates paid on most of our deposit products in fiscal 2007 compared to fiscal 2006. The average balance of our total deposits increased by \$25.1 million, or 6.4%, in fiscal 2007 compared to fiscal 2006 due primarily to an \$20.7 million increase in the average balance of money market accounts together with an \$11.5 million increase in the average balance of certificates of deposit. The average rate paid on our deposits increased by 55 basis points in fiscal 2007 compared to fiscal 2006 due primarily to increases in the average rates paid on our money market accounts and certificate accounts in fiscal 2007 compared to fiscal 2006. Our expense on borrowings amounted to \$3.8 million in fiscal 2007 compared to \$4.2 million in fiscal 2006, a

decrease of \$356,000 or 8.5%. The average balance of our borrowings was reduced by \$6.2 million in fiscal 2007 compared to fiscal 2006, which more than offset a three basis point increase in the average cost of borrowed funds to 6.01% during the year ended September 30, 2007. Given the increases in deposit levels in fiscal 2007, we repaid approximately \$4.9 million FHLB advances during the fiscal year.

Provision for Loan Losses. We have identified the evaluation of the allowance for loan losses as a critical accounting policy where amounts are sensitive to material variation. This policy is significantly affected by our judgment and uncertainties and there is a likelihood that materially different amounts would be reported under different, but reasonably plausible, conditions or assumptions. Our activity in the provision for loan losses, which are charges or recoveries to operating results, is undertaken in order to maintain a level of total allowance for losses that management believes covers all known and inherent losses that are both probable and reasonably estimable at each reporting date. Our evaluation process typically includes, among other things, an analysis of delinquency trends, non-performing loan trends, the level of charge-offs and recoveries, prior loss experience, total loans outstanding, the volume of loan originations, the type, size and geographic concentration of our loans, the value of collateral securing the loan, the borrower's ability to repay and repayment performance, the number of loans requiring heightened management oversight, local economic conditions and industry experience. The establishment of the allowance for loan losses is significantly affected by management judgment and uncertainties and there is a likelihood that different amounts would be reported under different conditions or assumptions. Various regulatory agencies, as an integral part of their examination process, periodically review our allowance for loan losses. Such agencies may require it to make additional provisions for estimated loan losses based upon judgments different from those of management.

During the year ended September 30, 2007, we made a \$1.3 million provision to our allowance for loan losses compared to a \$451,000 provision in the year ended September 30, 2006. The provision in fiscal 2007 was due primarily to one classified commercial real estate loan with an outstanding balance of \$3.5 million at September 30, 2007 secured by a mixed use building in State's capital, United States. We increased our allowance for loan losses by \$852,000 in fiscal 2007 upon review of this loan. "*Asset Quality – Asset Classification.*" The \$1.3 million provision for loan losses made in fiscal 2007 reflected management's assessment, based on the information available at the time, of the inherent level of losses in the bank's loan portfolio.

Other Income. Our other, or non-interest, income decreased by \$98,000, or 6.3%, to \$1.5 million for the year ended September 30, 2007 compared to \$1.6 million for the year ended September 30, 2006. The primary reasons for the decrease in other income in fiscal 2007 compared to fiscal 2006 was the absence of any gain on the sale of loans, compared to \$102,000 in such gain in fiscal 2006, as well as an \$8,000 loss taken upon the sale of available for sale securities.

Our income from service charges and other fees increased slightly in the year ended September 30, 2007 over the year ended September 30, 2006, while our income from BOLI increased \$25,000, or 12.6%, in fiscal 2007 due primarily to the purchase of additional BOLI coverage in fiscal 2007.

Other Expenses. Our other, or non-interest, expenses increased by \$391,000, or 4.0%, to \$10.2 million for the year ended September 30, 2007 compared to \$9.8 million for the year ended September 30, 2006. The primary reasons for the increase in other expenses were increases in salary and employee benefits expenses of \$236,000, or 4.8%, in fiscal 2007 compared to fiscal 2006. In addition to normal salary adjustments, our salary and benefit expense increase in fiscal 2007 due to the addition of three full-time and five part-time employees as well as increased health insurance premiums. Our advertising expense increased by \$245,000, or 88.3%, to \$523,000 in the year ended September 30, 2007 compared to \$278,000 in the year ended September 30, 2006. We increased our marketing efforts in fiscal 2007 by adding television and billboard advertising as well as increasing our newspaper and direct mail promotional efforts. In addition, our occupancy expense increased by \$160,000, or 9.7%, in fiscal 2007 compared to fiscal 2006 reflecting in large part renovations at one of our branch offices and additional depreciation costs. Partially offsetting these increases in other expenses was a \$389,000, or 22.6%, reduction in other operating expenses to \$1.3 million in fiscal 2007 compared to \$1.7 million in fiscal 2006. Other operating expenses were higher in fiscal 2006 primarily due to a \$339,000 fee incurred upon the prepayment of \$4.9 million in FHLB advances in fiscal 2007. No such prepayment fees were incurred in fiscal 2007.

Income Tax Expense. Our income tax expense decreased by \$665,000 to \$1.1 million for the year ended September 30, 2007 compared to \$1.8 million for the year ended September 30, 2006. The decrease in income tax expense was due primarily to the decrease in pre-tax income. Our effective Federal tax rate was 31.7% for the year ended September 30, 2007 compared to 35.8% for the year ended September 30, 2006. During fiscal 2007, we reduced our effective tax rate primarily through increased contributions to organizations for which we received a credit for purposes of our United States income taxes.

Comparison for Operating Results for the Years Ended September 30, 2006 and September 30, 2005

General. Our net income increased by \$699,000 or 27.9% to \$3.2 million for the year ended September 30, 2006 compared to \$2.5 million for the year ended September 30, 2005. The primary reason for the increase in our net income in fiscal 2006 compared to fiscal 2005 was a \$1.9 million increase in net interest income, which more than offset a \$566,000 increase in other expenses, a \$161,000 increase in the provision for loan losses and a \$679,000 increase in income tax expense in fiscal 2006 compared to fiscal 2005.

Interest and Dividend Income. Our total interest and dividend income amounted to \$30.2 million for the year ended September 30, 2006 compared to \$25.4 million for the year ended September 30, 2005. The primary reason for the \$4.7 million, or 18.6%, increase in interest and dividend income in fiscal 2006 compared to fiscal 2005 was a \$5.2 million increase in interest income on loans due primarily to a \$48.9 million, or 12.5%, increase in the average balance of our loan portfolio in fiscal 2006 compared to fiscal 2005 together with a 53 basis point increase in the average yield earned on loans. The increase in the average balance of loans in fiscal 2006 over fiscal 2005 primarily reflects the significant amount of new loans we were originating in fiscal 2006. Interest income on our investment securities decreased by \$485,000 in fiscal 2006 compared to fiscal 2005 due primarily to \$19.0 million decrease in the average balance of our investment securities which more than offset a 13 basis point increase in the average yield earned.

Interest Expense. Our total interest expense increased to \$16.5 million for the year ended September 30, 2006 compared to \$13.7 million for the year ended September 30, 2005. The increase was primarily due to \$2.1 million increase in interest paid on deposits. The average balance of our deposits increased by \$10.6 million in fiscal 2006 compared to fiscal 2005, due primarily to a \$17.1 million increase in the average balance of our certificates of deposit which was partially offset by a \$6.6 million decrease in core deposits. The average rate paid on all deposits increased by 47 basis points to 3.14% in fiscal 2006 compared to 2.67% in fiscal 2005. Interest paid on borrowings increased by \$664,000, or 18.8%, to \$4.2 million in fiscal 2006 compared to \$3.5 million in fiscal 2005. The average balance of our borrowings increased by \$14.2 million, or 25.4%, in fiscal 2006 compared to fiscal 2005, which more than offset a 34 basis point or 5.4% decrease in the average rate paid on borrowed funds in fiscal 2006.

Provision for Loan Losses. As previously discussed, we made a \$451,000 provision for loan losses in fiscal 2006. Our provision for loan losses was \$290,000 for the fiscal year ended September 30, 2005. The primary reason for the increase in our provision for loan losses in fiscal 2006 compared to fiscal 2005 was due to one \$1.5 million commercial real estate loan which was placed on non-accrual status in fiscal 2006. We increased our allowance for loan losses by \$225,000 in fiscal 2006 upon consideration of this loan. This loan was repaid in full in fiscal 2007.

Other Income. Our other income was \$1.6 million for the year ended September 30, 2006 compared to \$1.4 million for the year ended September 30, 2005. In fiscal 2006, our other income increased by \$166,000 over fiscal 2005 due primarily to a \$179,000, or 22.2%, increase in service charges and fees, primarily as a result of increases in the amount of loan fees due primarily to increased originations of commercial real estate and construction loans as well as increases in the fee schedule for such loans and increased fees on certain deposit products, such as DDA accounts, and increased promotion of such products. In addition, in fiscal 2006, we recognized a \$25,000 gain on the sale of available for sale investment securities compared to a \$231,000 loss on such sales in fiscal 2005. Partially offsetting these items was a reduction in the gain recorded on sales of loans to \$102,000 in fiscal 2006 compared to \$240,000 in fiscal 2005.

Other Expenses. Our other expenses amounted to \$9.8 million in the fiscal year ended September 30, 2006 compared to \$9.2 million in the fiscal year ended September 30, 2005. The primary reason for the \$566,000, or 6.2%, increase in other expenses in fiscal 2006 compared to fiscal 2005 was a \$444,000 increase in salaries and employee benefit expense in fiscal 2006. In addition, our other operating expenses increased by \$142,000 in fiscal 2006 compared to fiscal 2005 due primarily to a \$339,000 prepayment fee incurred in fiscal 2006 upon the prepayment of \$5.0 million of FHLB advances with a weighted average rate of 7.13%.

Income Tax Expense. Our income tax expense was \$1.8 million in the year ended September 30, 2006 compared to \$1.1 million in year ended September 30, 2005. The primary reason for the increase in income tax expense in fiscal 2006 compared to fiscal 2005 was the increase in pre-tax income. Our effective Federal tax rate was 35.8% in fiscal 2006 compared to 30.7% in fiscal 2005.

Liquidity and Capital Resources

Our primary sources of funds are from deposits, amortization of loans, loan prepayments and the maturity of loans, mortgage-backed securities and other investments, and other funds provided from operations. While scheduled payments from the amortization of loans and mortgage-backed securities and maturing investment securities are relatively predictable sources of funds, deposit flows and loan prepayments can be greatly influenced by general interest rates, economic conditions and competition. We also maintain excess funds in short-term, interest-bearing assets that provide additional liquidity. At September 30, 2007, our cash and cash equivalents amounted to \$19.0 million. In addition, at such date our available for sale investment securities amounted to \$29.1 million.

We use our liquidity to fund existing and future loan commitments, to fund maturing certificates of deposit and demand deposit withdrawals, to invest in other interest-earning assets, and to meet operating expenses. At September 30, 2007, we had certificates of deposit maturing within the next 12 months amounting to \$204.2 million. Based upon historical experience, we anticipate that a significant portion of the maturing certificates of deposit will be redeposited with us. For the year ended September 30, 2007, the average balance of our outstanding FHLB advances was \$57.2 million. At September 30, 2007, we had \$63.4 million in outstanding FHLB advances and we had \$252.2 million in additional FHLB advances available to us. In addition, at September 30, 2007, we had a \$50.0 million line of credit with the FHLB, of which we had \$8.0 million outstanding and \$42.0 million was available.

In addition to cash flow from loan and securities payments and prepayments as well as from sales of available for sale securities, we have significant borrowing capacity available to fund liquidity needs. In recent years we have utilized borrowings as a cost efficient addition to deposits as a source of funds. Our borrowings consist solely of advances and short-term borrowings from the FHLB of Pittsburgh, of which we are a member. Under terms of the collateral agreement with the Federal Home Loan Bank, we pledge residential mortgage loans and mortgage-backed securities as well as our stock in the Federal Home Loan Bank as collateral for such advances.

Off-Balance Sheet Arrangements

In the normal course of operations, the bank engages in a variety of financial transactions that, in accordance with accounting principles generally accepted in the United States of America, are not recorded in its financial statements. These transactions involve, to varying degrees, elements of credit, interest rate, and liquidity risk. Such transactions are used primarily to manage customers' requests for funding and take the form of loan commitments, lines of credit and letters of credit.

The contractual amounts of commitments to extend credit represent the amounts of potential accounting loss should the contract be fully drawn upon, the customer defaults and the value of any existing collateral becomes worthless. XXXXX Savings Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. Financial instruments whose contract amounts represent credit risk at September 30, 2007 and 2006 are as follows:

September 30,

	2007	2006
(Dollars in thousands)		
Commitments to extend credit: ⁽¹⁾		
Future loan commitments	\$ 4,977	\$ 1,199
Undisbursed construction loans	43,346	36,445
Undisbursed home equity lines of credit	18,862	20,001
Undisbursed commercial lines of credit	8,566	9,411
Overdraft protection lines	900	964
Standby letters of credit	2,277	1,925
Total Commitments	\$ 78,928	\$ 69,945

- (1) Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments may require payment of a fee and generally have fixed expiration dates or other termination clauses.

We anticipate that we will continue to have sufficient funds and alternative funding sources to meet our current commitments.

Impact of Inflation and Changing Prices

The financial statements, accompanying notes, and related financial data of XXXXX Savings Bank presented herein have been prepared in accordance with generally accepted accounting principles, which require the measurement of financial position and operating results in terms of historical dollars without considering the changes in purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased cost of operations. Most of our assets and liabilities are monetary in nature; therefore, the impact of interest rates has a greater impact on its performance than the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services.

Recent Accounting Pronouncements

In March 2007, the FASB ratified EITF Issue No. 06-10, “*Accounting for Collateral Assignment Split-Dollar Life Insurance Agreements*” (EITF 06-10). EITF 06-10 provides guidance for determining a liability for the postretirement benefit obligation as well as recognition and measurement of the associated asset on the basis of the terms of the collateral assignment agreement. EITF 06-10 is effective for fiscal years beginning after December 15, 2007. We are currently assessing the impact of EITF 06-10 on our consolidated financial position and results of operations.

In February 2007, the FASB issued Statement of Financial Accounting Standards (“SFAS”) No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities-Including an amendment of FASB Statement No. 115. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected will be recognized in earnings at each subsequent reporting date. SFAS No. 159 is effective for us on October 1, 2008. We are evaluating the impact that the adoption of SFAS No. 159 will have on our consolidated financial position and results of operations.

In September 2006, the FASB issued FASB Statement No. 157, Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. FASB Statement No. 157 applies to other accounting pronouncements that require or permit fair value measurements. The new guidance is effective for financial statements issued for fiscal years beginning after November 15, 2007, and for interim periods within those fiscal years. We are currently evaluating the potential impact, if any, of the adoption of FASB Statement No. 157 on our consolidated financial position, results of operations and cash flows.

In July 2006, the FASB issued FASB Interpretation (“FIN”) No. 48 Accounting for Uncertainty in Income Taxes. This Interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements in accordance with SFAS No. 109, Accounting for Income Taxes. This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. This Interpretation is effective for fiscal years beginning after December 15, 2006. The implementation of this standard did not have a material impact on our consolidated financial position or results of operations.

In May 2007, the Financial Accounting Standards Board (“FASB”) issued FASB Staff Position (“FSP”) FIN 48-1 “*Definition of Settlement in FASB Interpretation No. 48*” (FSP FIN 48-1). FSP FIN 48-1 provides guidance on how to determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. FSP FIN 48-1 is effective retroactively to October 1, 2006. The implementation of this standard did not have a material impact on our consolidated financial position or results of operations.

On September 7, 2006, the EITF reached a conclusion on EITF Issue No. 06-5, “*Accounting for Purchases of Life Insurance – Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4, Accounting for Purchases of Life Insurance*” (“EITF 06-5”). The scope of EITF 06-5 consists of six separate issues relating to accounting for life insurance policies purchased by entities protecting against the loss of “*key persons*.” The six issues are clarifications of previously issued guidance on FASB Technical Bulletin No. 85-4. EITF 06-5 is effective for fiscal years beginning after December 15, 2006. We are currently evaluating the impact the adoption of EITF 06-5 will have on our consolidated financial statements.

In September 2006, FASB ratified the consensus reached by the EITF in Issue 06-4, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements. EITF 06-4 applies to life insurance arrangements that provide an employee with a specified benefit that is not limited to the employee’s active service period, including certain bank-owned life insurance (“*BOLI*”) policies. EITF 06-4 requires an employer to recognize a liability and related compensation costs for future benefits that extend to postretirement periods. EITF 06-4 is effective for fiscal years beginning after December 31, 2007, with earlier application permitted. We are continuing to evaluate the impact of this consensus, which may require us to recognize an additional liability and compensation expense related to our BOLI policies.