Anchor Bancorp
Form 10-Q
May 07, 2012
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2012

or

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

For the transition period from _____ to _____

Commission File Number: 001-34965

ANCHOR BANCORP

(Exact name of registrant as specified in its charter)

Washington	26-3356075
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer I.D. Number)
601 Woodland Square Loop SE, Lacey, Washington	98503
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (360) 491-2250

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: As of May 7, 2012, there were 2,550,000, shares of common stock, $.01 par value per share, outstanding.

ANCHOR BANCORP
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As used in this report, the terms, "we," "our," and "us," and "Company" refer to Anchor Bancorp and its consolidated subsidiaries, unless the context indicates otherwise. When we refer to "Anchor Bank" or the "Bank" in this report, we are referring to Anchor Bank, a wholly owned subsidiary of Anchor Bancorp.

Item 1. Financial Statements

ANCHOR BANCORP AND SUBSIDIARY
CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except share data) (Unaudited)	March 31, 2012	June 30, 2011
ASSETS		
Cash and due from banks	$83,434	$63,757
Securities available for sale, at fair value, amortized cost of $51,747 and $35,814, respectively	52,349	38,163
Securities held-to-maturity, at amortized cost, fair value of $8,166 and $8,157, respectively	7,647	7,587
Loans held for sale	408	225
Loans receivable, net of allowance for loan losses of $5,803 and $7,239, respectively	295,703	325,464
Life insurance investment, net of surrender charges	18,107	17,612
Accrued interest receivable	1,658	1,810
Real estate owned, net	8,402	12,597
Federal Home Loan Bank ("FHLB") stock, at cost	6,510	6,510
Property, premises, and equipment, at cost, less accumulated depreciation of $15,510 and $15,234, respectively	12,274	13,076
Deferred tax asset, net	555	551
Prepaid expenses and other assets	998	1,583
Total assets	$488,045	$488,935
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Noninterest-bearing	$33,939	$30,288
Interest-bearing	317,617	309,186
Total deposits	351,556	339,474
FHLB advances	74,900	85,900
Advance payments by borrowers for taxes and insurance	2,185	1,389
Supplemental Executive Retirement Plan liability	1,717	1,838
Accounts payable and other liabilities	3,311	2,882
Total liabilities	433,669	431,483
Commitments and Contingencies		
STOCKHOLDERS' EQUITY		
Preferred stock, $.01 par value per share authorized 5,000,000 shares; no shares issued or outstanding	-	-
Common stock, $.01 par value per share, authorized 45,000,000 shares; 2,550,000 issued and 2,455,933 outstanding at March 31, 2012 and 2,550,000 shares issued and 2,450,833 outstanding at June 30, 2011	25	25

Additional paid-in capital	23,202	23,187
Retained earnings, substantially restricted	32,059	33,458
Unearned Employee Stock Ownership Plan (“ESOP”) shares	(941)	(992)
Accumulated other comprehensive income, net of tax	31	1,774
Total stockholders’ equity	54,376	57,452
Total liabilities and stockholders’ equity	$488,045	$488,935

See accompanying notes to consolidated financial statements.

ANCHOR BANCORP AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
(Dollars in thousands, except share data) (Unaudited)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2012	2011	2012	2011
Interest income:				
Loans receivable, including fees	$4,838	$5,613	$15,265	$17,963
Securities	66	85	245	259
Mortgage-backed securities	509	503	1,459	1,659
Total interest income	5,413	6,201	16,969	19,881
Interest expense:				
Deposits	1,145	1,292	3,650	4,564
FHLB advances	348	401	1,057	1,779
Total interest expense	1,493	1,693	4,707	6,343
Net interest income before provision for loan losses	3,920	4,508	12,262	13,538
Provision for loan losses	300	3,608	1,300	5,118
Net interest income after provision for loan losses	3,620	900	10,962	8,420
Noninterest income				
Deposit service fees	443	503	1,479	1,767
Other deposit fees	202	211	626	642
Gain on sale of investments	609	-	1,487	135
Loan fees	260	217	745	750
Gain (loss) on sale of loans	55	(14)	22	174
Other income	293	308	915	979
Total noninterest income	1,862	1,225	5,274	4,447
Noninterest expense				
Compensation and benefits	2,075	2,077	6,270	6,406
General and administrative expenses	870	824	2,882	2,699
Real estate owned impairment	287	759	1,875	2,046
Real estate owned holding costs	233	195	688	790
Federal Deposit Insurance Corporation ("FDIC") insurance premiums	254	262	757	887
Information technology	640	495	2,676	1,507
Occupancy and equipment	503	612	1,553	1,783
Deposit services	277	172	504	517
Marketing	177	131	501	406
Loss on sale of property, premises and equipment	-	-	107	168
Gain on sale of real estate owned	(57)	(52)	(179)	(218)
Total noninterest expense	5,259	5,475	17,634	16,991
Gain (loss) before benefit for income tax	223	(3,350)	(1,398)	(4,124)
Benefit for income tax	-	-	-	-
Net income (loss)	$223	$(3,350)	$(1,398)	$(4,124)
Basic earnings (loss) per share	$0.09	$(1.36)	$(0.57)	$(1.36)
Diluted earnings (loss) per share	$0.09	$(1.36)	$(0.57)	$(1.36)

See accompanying notes to consolidated financial statements.

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ANCHOR BANCORP AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(Dollars in thousands, except share data) (Unaudited)

	Nine Months Ended March 31, 2012	Nine Months Ended March 31, 2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$(1,398)	$(4,124)
Adjustments to reconcile net loss to net cash from operating activities		
Depreciation and amortization	703	863
Net amortization of premiums on securities	44	72
Provision for loan losses	1,300	5,118
ESOP expense	51	13
Real estate owned impairment	1,875	2,046
Deferred income taxes, net of valuation allowance	(4)	(355)
Income from life insurance investment	(495)	(524)
Loss (gain) on sale of loans held for sale	(22)	(174)
Gain on sale of investments	(1,487)	(135)
Originations of loans held for sale	(13,303)	(9,827)
Proceeds from sale of loans held for sale	13,140	13,368
Loss on sale of property, premises, and equipment	107	168
Gain on sale of real estate owned	(179)	(218)
(Decrease) Increase in operating assets and liabilities:		
Accrued interest receivable	152	306
Prepaid expenses, other assets, and income tax receivable	585	1,474
Supplemental Executive Retirement Plan	(121)	(28)
Accounts payable and other liabilities	429	(1,264)
Net cash provided by operating activities	1,377	6,779
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of available-for-sale securities	27,216	4,035
Purchases of available-for-sale investments	(47,977)	-
Purchase of held-to-maturity investments	(1,537)	-
Principal repayments on mortgage-backed securities available-for-sale	6,291	4,945
Principal repayments on mortgage-backed securities held-to-maturity	1,469	1,978
Loan originations, net of undisbursed loan proceeds and principal repayments	21,852	34,349
Proceeds from sale of real estate owned	9,231	6,593
Capital improvements on real estate owned	(115)	(273)
Proceeds from sale of property, premises, and equipment	117	-
Purchase of fixed assets	(125)	105
Net cash provided by investing activities	16,422	51,732
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in deposits	12,082	(13,330)
Net change in advance payments by borrowers for taxes and insurance	796	855
Proceeds from FHLB advances	-	47,543
Repayment on FHLB advances	(11,000)	(86,043)
Proceeds from stock offering, net of costs.	-	23,239

Purchase of ESOP share	-	(1,020)
Net cash provided (used by) from financing activities	1,878	(28,756)

(Continued)

See accompanying notes to consolidated financial statements.

ANCHOR BANCORP AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)
(Dollars in thousands, except share data) (Unaudited)

	Nine Months Ended March 31, 2012	Nine Months Ended March 31, 2011
NET CHANGE IN CASH AND DUE FROM BANKS	19,677	29,755
Beginning of period	63,757	32,831
End of period	$83,434	$62,586
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Noncash investing activities		
Net loans transferred to real estate owned	$6,617	$8,456
Originations of mortgage servicing rights	$70	$42
Cash paid during the period for interest	$4,729	$6,567

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ANCHOR BANCORP AND SUBSIDIARY
SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 - Nature of Business

Anchor Bancorp (the "Company"), a Washington corporation, was formed in connection with the conversion of Anchor Mutual Savings Bank (the "Bank") from the mutual to the stock form of organization. On January 25, 2011, the Bank completed its conversion from mutual to stock form, changed its name to "Anchor Bank" and became the wholly-owned subsidiary of the Company. Since the Bank's conversion and the Company's stock offering were consummated on January 25, 2011, the information contained in this Form 10-Q before that date, pertain to the operations of the Bank (see Note 3 of these Selected Notes to Consolidated Financial Statements), which was completed on January 25, 2011.

Anchor Bank is a community-based savings bank primarily serving Western Washington through its 13 full-service bank offices (including three Wal-Mart store locations) and one loan production office located within Grays Harbor, Thurston, Lewis, Pierce, and Mason counties, Washington. Anchor Bank's business consists of attracting deposits from the public and utilizing those deposits to originate loans.

Note 2 - Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X as promulgated by the Securities and Exchange Commission ("SEC"). Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the financial position and results of operations for the periods presented have been included. It is recommended that these unaudited interim consolidated financial statements be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended June 30, 2011 ("2011 Form 10-K"). The results of operations for the three and nine months ended March 31, 2012 are not necessarily indicative of results that may be expected for the entire fiscal year ending June 30, 2012. Certain prior year amounts have been reclassified to conform to current fiscal year presentation. The reclassifications had no impact on previously reported net income (loss) or equity.

Note 3 - Conversion and Change in Corporate Form

On January 25, 2011, in accordance with a Plan of Conversion ("Plan") adopted by its Board of Directors and as approved by its depositors and borrowers, Anchor Mutual Savings Bank (i) converted from a mutual savings bank to a stock savings bank, (ii) changed its name to "Anchor Bank", and (iii) became the wholly-owned subsidiary of Anchor Bancorp, a bank holding company registered with the Board of Governors of the Federal Reserve System. In connection with the conversion, the Company issued an aggregate of 2,550,000 shares of common stock at an offering price of $10.00 per share for gross proceeds of $25.5 million. The cost of conversion and the issuance of capital stock was approximately $2.3 million, which was deducted from the proceeds of the offering.

Pursuant to the Plan, the Company formed an employee stock ownership plan ("ESOP"), which subscribed for 4% of the common stock sold in the offering, or 102,000 shares. As provided for in the Plan, the Bank established a liquidation account in the amount of retained earnings as of June 30, 2010. The liquidation account is maintained for the benefit of eligible savings account holders as of June 30, 2007 and supplemental eligible account holders as of September 30, 2010 who maintain deposit accounts in the Bank after the conversion. The conversion was accounted for as a change in corporate form with the historic basis of the Bank’s assets, liabilities, and equity unchanged as a result.

ANCHOR BANCORP AND SUBSIDIARY
SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 4 - Recently Issued Accounting Pronouncements

In January 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-01, Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20. This ASU temporarily delays the effective date of the disclosures about troubled debt restructurings in update 2010-20 for public entities. The delay is intended to allow FASB and ASU time to complete its deliberations on what constitutes a troubled debt restructuring. The effective date of the new disclosures about troubled debt restructurings for public entities and the guidance for determining what constitutes a troubled debt restructuring will then be coordinated. The guidance is effective for interim and annual periods ending after September 15, 2011. The adoption of this ASU did not have a material impact on the Company's consolidated financial statements or results of operations.

In April 2011, FASB issued ASU No. 2011-02, A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring. This update provides additional guidance relating to when creditors should classify loan modifications as troubled debt restructurings. This ASU also ends the deferral issued in January 2010 of the disclosures about troubled debt restructurings required by ASU No. 2010-20. The provisions of ASU No. 2011-02 and the disclosure requirements of ASU No. 2010-20 are effective for the Company's interim reporting period ended September 30, 2011. The guidance applies retrospectively to restructurings occurring on or after July 1, 2011. The adoption of this ASU did not have a material impact on the Company's consolidated financial statements or results of operations.

In April 2011, the FASB issued ASU No. 2011-03, Reconsideration of Effective Control for Repurchase Agreements. This update amends existing guidance to remove from the assessment of effective control, the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee and, as well, the collateral maintenance implementation guidance related to that criterion. ASU No. 2011-03 is effective for the Company's reporting period beginning on or after December 15, 2011. The guidance applies prospectively to transactions or modification of existing transactions that occur on or after the effective date and early adoption is not permitted. The adoption of this ASU is not expected to have a material impact on the Company's consolidated financial statements or results of operations.

In April 2011, the FASB issued ASU No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. This update amends existing guidance regarding the highest and best use and valuation premise by clarifying these concepts are only applicable to measuring the fair value of nonfinancial assets. The update also clarifies that the fair value measurement of financial assets and financial liabilities, which have offsetting market risks or counterparty credit risks that are managed on a portfolio basis, when several criteria are met, can be measured at the net risk position. Additional disclosures about Level 3 fair value measurements are required including a quantitative disclosure of the unobservable inputs and assumptions used in the measurement, a description of the valuation process in place, and discussion of the sensitivity of fair value changes in unobservable inputs and interrelationships about those inputs, as well as disclosure of the level of the fair value of items that are not measured at fair value in the financial statements but disclosure of fair value is required.

The provisions of ASU No. 2011-04 are effective for the Company's reporting period beginning after December 15, 2011 and should be applied prospectively. The Company is currently evaluating the impact of this ASU and does not expect it to have a material impact on the Company's consolidated financial statements or results of operations.

In June 2011, the FASB issued ASU No. 2011-05, Presentation of Comprehensive Income. The update amends current guidance to allow a company the option of presenting the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The provisions do not change the items that must be reported in other comprehensive income or when an item of other comprehensive must to reclassified to net income. The amendments do not change the option for a company to present components of other comprehensive income either net of related tax effects or before related tax effects, with one amount shown for the aggregate income tax expense (benefit) related to the total of other comprehensive income items. The amendments do not affect how earnings per share is calculated or presented. The provisions of ASU No. 2011-05 are effective for the Company's reporting periods beginning after December 15, 2011 and should be applied retrospectively. Early

ANCHOR BANCORP AND SUBSIDIARY
SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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adoption is permitted although the Company has not yet adopted this ASU and there are no required transition disclosures. The adoption of this ASU is not expected to have a material impact on the Company's consolidated financial statements or results of operations.

In September 2011, FASB issued ASU 2011-08, "Testing Goodwill for Impairment" ("ASU 2011-08"). ASU 2011-08 amends Topic 350, "Intangibles - Goodwill and Other", to simplify how entities, both public and nonpublic, test goodwill for impairment. The amendments in ASU 2011-08 permit an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350. The more-likely-than-not threshold is defined as having a likelihood of more than 50 percent. Previous guidance under Topic 350 required an entity to test goodwill for impairment, on at least an annual basis, by comparing the fair value of a reporting unit with its carrying amount, including goodwill (step one). If the fair value of a reporting unit is less than its carrying amount, then the second step of the test must be performed to measure the amount of the impairment loss, if any. Under the amendments in this Update, an entity is not required to calculate the fair value of a reporting unit unless the entity determines that it is more likely than not that its fair value is less than its carrying amount. This ASU is effective for the Company's financial statements for annual and interim periods beginning on or after December 15, 2011, and must be applied prospectively. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial position or results of operations.

In September 2011, FASB issued ASU 2011-09, "Compensation-Retirement Benefits-Multiemployer Plans". The current recognition and measurement guidance for an employer's participation in a multiemployer plan requires that an employer recognize its required contribution to the plan as pension or other postretirement benefit cost for the period and recognize a liability for any contributions due at the reporting date. That guidance is unchanged by these amendments. Furthermore, the amendments do not change the requirement that an employer apply the recognition, measurement, and disclosure provisions for contingencies in Topic 450 if an obligation due to withdrawal from a multiemployer plan is either probable (accrue a liability and disclose the contingency) or reasonably possible (disclose the contingency). For public entities, the amendments in this update are effective for annual periods for fiscal years ending after December 15, 2011, with early adoption permitted. The amendments should be applied retrospectively for all prior periods presented. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial position or results of operations.

In December 2011, FASB issued ASU 2011-10, Derecognition of in Substance Real Estate - a Scope Clarification (a consensus of the FASB Emerging Issues Task Force). Under the ASU, a reporting entity that ceases to have a controlling financial interest in a subsidiary that is in substance real estate as a result of default on the subsidiary's nonrecourse debt would apply FASB ASC Subtopic 360-20, Property, Plant, and Equipment - Real Estate Sales, to determine whether to derecognize assets and liabilities of that subsidiary. For a public entity, the ASU is effective prospectively for a deconsolidation event that takes place in fiscal years, and interim periods within those years, beginning on or after June 15, 2012. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial position or results of operations.

In December 2011, FASB issued ASU 2011-11, Disclosures about Offsetting Assets and Liabilities, in conjunction with the International Accounting Standard Board's ("IASB") issuance of amendments to Disclosures - Offsetting Financial Assets and Financial Liabilities (Amendments to International Financial Reporting Standards ("IFRS")7) . While the boards retained the existing offsetting models under U.S. GAAP and IFRS, the new standards require disclosures to allow investors to better compare financial statements prepared under U.S. GAAP with financial statements prepared under IFRS. The new standards are effective for annual periods beginning January 1, 2013, and interim periods within those annual periods. Retrospective application is required. The amendments in this update will enhance disclosures required by U.S. GAAP by requiring improved information about financial instruments and derivative instruments that are either (1) offset in accordance with either Section 210-20-45 or Section 815-10-45 or (2) subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in accordance with either Section 210-20-45 or Section 815-10-45. This information will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements on an entity's financial position, including the effect or potential effect of rights of setoff associated with certain financial instruments and derivative instruments in the scope of this update. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial position or results of operations.

ANCHOR BANCORP AND SUBSIDIARY
SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 5 -Regulatory Order, Economic Environment, and Management's Plans

On August 12, 2009, the Bank entered into a Stipulation and Consent to the Issuance of an Order to Cease and Desist (the "Order") with the FDIC and the Washington Department of Financial Institutions ("DFI"). The FDIC and DFI determined that the Bank had engaged in unsafe or unsound the banking practices. Under the terms of the Order, the Bank cannot declare dividends without the prior written approval of the FDIC and the DFI. Other material provisions of the Order require the Bank to: (i) maintain Tier 1 capital in an amount equal to or exceeding 10% of Anchor Bank's total assets and a liquidity ratio of 15% (ii) reduce the assets classified as substandard and/or doubtful as a percent of capital to not more than 30% and (iii) prepare and submit progress reports to the FDIC and DFI. The Order will remain in effect until modified or terminated by the FDIC and the DFI. The Bank has been actively engaged in responding to the concerns raised by the Order and was in compliance with the required capital, liquidity and classified assets ratios at March 31, 2012.   Management believes the Bank is taking appropriate steps to comply with the other requirements of the Order. For additional information regarding the Order, see Item 1A, Risk Factors, "We are subject to increased regulatory scrutiny and are subject to certain business limitations. Further, we may be subject to more severe future regulatory enforcement actions if our financial condition or performance weakens further." in our 2011 Form 10-K.

The Order does not restrict the Bank from transacting its normal banking business. The Bank has continued to serve its customers in all areas including making loans, establishing lines of credit, accepting deposits, and processing the banking transactions. All customer deposits remain fully insured to the highest limits set by the FDIC. The FDIC and DFI did not impose any monetary penalties in connection with the Order.

Although the Bank was "well capitalized" at March 31, 2012, based on financial statements prepared in accordance with generally accepted accounting principles in the United States and the general percentages in the regulatory guidelines, because of the deficiencies cited in the Order, the Bank is not regarded as "well capitalized" for federal regulatory purposes.

Note 6 - Earnings (Loss) Per Share

Basic earnings (loss) per share are computed by dividing income or loss, as applicable, available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflect the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. The following table presents a reconciliation of the components used to compute basic and diluted earnings (loss) per share. The Company completed its stock conversion on January 25, 2011.

	For the Quarter Ended March 31, 2012	For the Nine Months Ended March 31, 2012	For the Period January 25, 2011 to March 31, 2011
	(Dollars in thousands, except share data)		
Net income (loss)	$ 223	$ (1,398)	$ (3,334)

Weighted-average common shares outstanding		2,455,083		2,453,383			2,448,017	
Basic earnings (loss) per share	$	0.09	$	(0.57	)	$	(1.36	)
Diluted earnings (loss) per share	$	0.09	$	(0.57	)	$	(1.36	)

Basic and diluted earnings (loss) per share are the same amount for the three and nine months ended March 31, 2012 as the Company does not have any additional potential common shares issuable.

ANCHOR BANCORP AND SUBSIDIARY
SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 7 - Investments

The amortized cost and estimated fair market values of investment securities (classified by class) were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In thousands)		
March 31, 2012				
Securities available-for-sale				
Municipal bonds	$1,965	$36	$-	$2,001
Mortgage-backed securities	49,782	681	(115)	50,348
	$51,747	$717	$(115)	$52,349
Securities held-to-maturity				
Mortgage-backed securities	$7,502	$519	$-	$8,021
Municipal bonds	145	-	-	145
	$7,647	$519	$-	$8,166

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In thousands)		
June 30, 2011				
Securities available-for-sale				
Municipal bonds	$2,355	$45	$-	$2,400
U.S. government agency securities	3,000	45	-	3,045
Mortgage-backed securities	30,459	2,259	-	32,718
	$35,814	$2,349	$-	$38,163
Securities held-to-maturity				
Mortgage-backed securities	$7,438	$570	$-	$8,008
Municipal bonds	149	-	-	149
	$7,587	$570	$-	$8,157

At March 31, 2012 there were 21 securities in an unrealized loss position. At June 30, 2011, there were no securities in an unrealized loss position. The fair value of temporarily impaired securities, the amount of unrealized losses, and the length of time these unrealized losses existed as of March 31, 2012 were as follows:

	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(In thousands)			
March 31, 2012						

Investments available for sale						
Municipal bonds	$26,254	$(115)	$-	$-	$26,254	$(115)

ANCHOR BANCORP AND SUBSIDIARY
SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Contractual maturities of securities at March 31, 2012 are listed below. Expected maturities of mortgage-backed securities may differ from contractual maturities because borrowers may have the right to call or prepay the obligations; therefore, these securities are classified separately with no specific maturity date.

March 31, 2012	Amortized Cost	Fair Value
	(In thousands)	
Securities available-for-sale		
Due within one year	$ 305	$ 309
Due one to five years	1,345	1,377
Due after five years to ten years	105	105
Due after ten years	210	210
Mortgage-backed securities	49,782	50,348
	$ 51,747	$ 52,349

	Amortized Cost	Fair Value
	(In thousands)	
Securities held-to-maturity		
Due after ten years	$ 145	$ 145
Mortgage-backed securities	7,502	8,021
	$ 7,647	$ 8,166

Sales of securities and maturities for the three and nine months ended March 31, 2012 and 2011 are summarized as follows:

	Three Months ended March 31, 2012	2011	Nine Months ended March 31, 2012	2011
Proceeds from sales and maturities	$9,052	$-	$27,216	$4,035
Gross realized gains	$609	$-	$1,487	$135
Gross realized losses	$-	$-	$-	$-

At March 31, 2012, securities with total book values of $4.1 million and total fair values of $4.5 million were pledged to secure certain public deposits. Securities with total book values of $876,000 and total fair values of $926,000 were pledged to secure certificates of deposit in excess of FDIC-insured limits. Securities with total book values of $5.0 million and total fair values of $5.1 million were pledged to secure FHLB borrowings. Proceeds from the sales of securities for the three months ended March 31, 2012 and 2011 were $9.1 million and $0, respectively. Proceeds from the sales of securities for the nine months ended March 31, 2012 and 2011 were $23.8 million and $3.4 million, respectively.

ANCHOR BANCORP AND SUBSIDIARY
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Note 8 - Loans Receivable, net

Loans receivable consisted of the following at the dates indicated:

	March 31, 2012	June 30, 2011
	(In thousands)	
Real estate		
One-to-four family	$ 86,861	$ 97,133
Multi-family	43,705	42,608
Commercial real estate	96,173	105,997
Construction	6,979	11,650
Land	6,579	6,723
Total real estate	240,297	264,111
Consumer		
Home equity	33,299	35,729
Credit cards	5,211	7,101
Automobile	3,779	5,547
Other consumer loans	2,863	3,595
Total consumer	45,152	51,972
Commercial business	16,629	17,268
Total loans	302,078	333,351
Less		
Deferred loan fees and unamortized discount on purchased loans	572	648
Allowance for loan losses	5,803	7,239
	$ 295,703	$ 325,464

Allowance for Loan Losses. The allowance for loan losses must be maintained at a level necessary to absorb specific losses on impaired loans and probable losses inherent in the loan portfolio. The assessment includes analysis of several different factors, including delinquency, charge-off rates and the changing risk profile of our loan portfolio, as well as local economic conditions such as unemployment rates, bankruptcies and vacancy rates of business and residential properties.

ANCHOR BANCORP AND SUBSIDIARY
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(Unaudited)

The following table presents the activity in the allowance for loan losses by portfolio segment for the quarter ended March 31, 2012:

	One-to-four family	Multi-family	Commercial real estate	Construction	Land	Consumer(1)	Commercial business	2012 Total
				(In thousands)				
Allowance for loan losses:								
Beginning balance	$1,975	$289	$ 584	$ 236	$267	$ 2,074	$ 1,044	$6,469
Provision for loan losses	235	(22)	121	167	(6)	(82)	(113)	300
Charge-offs	(422)	-	(154)	(228)	-	(253)	(29)	(1,086)
Recoveries	43	-	3	18	-	35	21	120
Ending balance	$1,831	$267	$ 554	$ 193	$261	$ 1,774	$ 923	$5,803

(1) Consumer loans include home equity, credit cards, auto, and other consumer loans. The only class of consumer loans with impairment are home equity loans.

The following table presents the activity in the allowance for loan losses by portfolio segment for the nine months ended March 31, 2012:

	One-to-four family	Multi-family	Commercial real estate	Construction	Land	Consumer(1)	Commercial business	2012 Total
				(In thousands)				
Allowance for loan losses:								
Beginning balance	$1,980	$88	$ 173	$ 1,163	$191	$ 2,135	$ 1,509	$7,239
Provision for loan losses	834	179	862	(663)	70	672	(654)	1,300
Charge-offs	(1,391)	-	(491)	(561)	-	(1,143)	(62)	(3,648)
Recoveries	408	-	10	254	-	110	130	912
Ending balance	$1,831	$267	$ 554	$ 193	$261	$ 1,774	$ 923	$5,803

(1) Consumer loans include home equity, credit cards, auto, and other consumer loans. The only class of consumer loans with impairment are home equity loans.

The following table presents the activity in the allowance for loan losses for the three and nine months ended March 31, 2011:

	Three Months Ended	Nine Months Ended

	March 31, 2011	March 31, 2011
	(In thousands)	
Beginning balance	$ 10,902	$ 16,788
Provision for losses	3,608	5,118
Charge-offs	(6,835)	(14,379)
Recoveries	100	248
Ending balance	$ 7,775	$ 7,775

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ANCHOR BANCORP AND SUBSIDIARY
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(Unaudited)

A loan is considered impaired when we have determined that we may be unable to collect payments of principal or interest when due under the terms of the loan. In the process of identifying loans as impaired, management takes into consideration factors which include payment history and status, collateral value, financial condition of the borrower, and the probability of collecting scheduled payments in the future. Minor payment delays and insignificant payment shortfalls typically do not result in a loan being classified as impaired. The significance of payment delays and shortfalls is considered by management on a case by case basis, after taking into consideration the totality of circumstances surrounding the loans and the borrowers, including payment history and amounts of any payment shortfall, length and reason for delay, and likelihood of return to stable performance. Impairment is measured on a loan by loan basis for all loans in the portfolio except for credit cards, auto, and consumer loans.

The following table presents loans individually evaluated for impairment by class of loans for the quarter-to-date ("QTD") and year-to-date ("YTD") as of March 31, 2012:

	Recorded Investments (1)	Unpaid Principal Balance (2)	Related Allowance	QTD Average Recorded Investments	YTD Average Investment in Impaired Loans	QTD Interest Income Recognized	YTD Interest Income Recognized
With no allowance recorded							
One-to-four family	$11,691	$13,164	$-	$13,663	$14,088	$133	$398
Multi-family	2,696	2,846	-	2,847	1,644	27	81
Commercial real estate	6,078	6,152	-	7,155	6,678	65	196
Construction	3,941	3,955	-	4,440	5,707	8	25
Land	116	160	-	155	198	2	7
Home equity	279	394	-	458	368	4	11
Commercial business	3,121	3,221	-	2,562	4,426	43	129
With an allowance recorded							
One-to-four family	$-	$-	$-	$-	$670	$-	$-
Multi-family	-	-	-	-	-	-	-
Commercial real estate	-	-	-	-	190	-	-
Construction	-	-	-	-	1,423	-	-
Home equity	-	-	-	-	21	-	-
Other consumer	-	-	-	-	-	-	-
	-	-	-	-	195	-	-

Commercial business							
Total							
One-to-four family	$11,691	$13,164	$-	$13,663	$14,758	$133	$398
Multi-family	2,696	2,846	-	2,847	1,644	27	81
Commercial real estate	6,078	6,152	-	7,155	6,868	65	196
Construction	3,941	3,955	-	4,440	7,130	8	25
Land	116	160	-	155	198	2	7
Home equity	279	394	-	458	388	4	11
Other consumer	-	-	-	-	-	-	-
Commercial business	3,121	3,221	-	2,562	4,621	43	129
Total	$27,922	$29,892	$-	$31,278	$35,606	$282	$847

(1) Represents the loan balance less charge offs.
(2) Contractual loan principal balance.

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ANCHOR BANCORP AND SUBSIDIARY
SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The following table presents loans individually evaluated for impairment by class of loans as of June 30, 2011:

	Recorded Investments (Loan Balance Less Charge offs)	Unpaid Principal Balance	Related Allowance
		(In thousands)	
With no allowance recorded			
One-to-four family	$ 13,481	$ 15,012	$ -
Multi-family	437	442	-
Commercial real estate	7,153	7,203	-
Construction	5,256	7,458	-
Land	139	139	-
Home equity	332	341	-
Commercial business	2,692	5,630	-
With an allowance recorded			
One-to-four family	$ 1,331	$ 1,340	$ 326
Commercial real estate	380	380	6
Construction	2,845	2,845	649
Home equity	41	41	41
Commercial business	390	390	133
Total			
One-to-four family	$ 14,812	$ 16,352	$ 326
Multi-family	437	442	-
Commercial real estate	7,533	7,583	6
Construction	8,101	10,303	649
Land	139	139	-
Home equity	373	382	41
Commercial business	3,082	6,020	133
Total	$ 34,477	$ 41,221	$ 1,155

For the three and nine months ended March 31, 2011, average impaired loans were $25.6 million and $24.8 million, respectively, with interest income recognized on impaired loans for the same periods of $147,000 and $427,000, respectively.

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(Unaudited)

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of March 31, 2012:

	One-to-four family	Multi-family	Commercial real estate	Construction	Land	Consumer(1)	Commercial business	Total
	(In thousands)							
Allowance for loan losses:								
Ending balance	$1,831	$267	$ 554	$ 193	$261	$ 1,774	$ 923	$5,803
Ending balance: individually evaluated for impairment	-	-	-	-	-	-	-	-
Ending balance: collectively evaluated for impairment	$1,831	$267	$ 554	$ 193	$261	$ 1,774	$ 923	$5,803
Loans receivable:								
Ending balance	$86,861	$43,705	$96,173	$6,979	$6,579	$45,152	$16,629	$302,078
Ending balance: individually evaluated for impairment	11,691	2,696	6,078	3,941	116	279	3,121	27,922
Ending balance: collectively evaluated for impairment	$75,170	$41,009	$90,095	$3,038	$6,463	$44,873	$13,508	$274,156

(1) Consumer loans include home equity, credit cards, auto and other loans. The only class of consumer loans with impairment are home equity loans.

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of June 30, 2011:

	One-to-four family	Multi-family	Commercial real estate	Construction	Land	Consumer(1)	Commercial business	Total
Allowance for loan losses:								
Ending balance	$ 1,980	$88	$ 173	$ 1,163	$191	$ 2,135	$ 1,509	$7,239
Ending balance: individually evaluated for impairment	326	-	6	649	-	41	133	1,155
Ending balance: collectively	$ 1,654	$88	$ 167	$ 514	$191	$ 2,094	$ 1,376	$6,084

evaluated for impairment								
Loans receivable:								
Ending balance	$97,133	$43,705	$105,997	$11,650	$6,723	$51,972	$17,268	$333,351
Ending balance: individually evaluated for impairment	14,812	437	7,533	8,101	139	373	3,082	34,477
Ending balance: collectively evaluated for impairment	$82,321	$42,171	$98,464	$3,549	$6,584	$51,599	$14,186	$298,874

(1) Consumer loans include home equity, credit cards, auto and other consumer loans. The only class of consumer loans with impairments are home equity loans.

Non-Accrual and Past Due Loans. Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. Loans are placed on non-accrual when, in management's opinion, the borrower may be unable to meet payment of obligations as they become due, as well as when required by regulatory provisions.

ANCHOR BANCORP AND SUBSIDIARY
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The following table presents the recorded investment in nonaccrual and loans past due 90 days and still accruing by class of loans as of the dates indicated:

	March 31, 2012	June 30, 2011
	(In thousands)	
One-to-four family	$ 2,654	$ 3,157
Commercial real estate	4,075	2,280
Construction	3,369	6,900
Land	66	90
Home equity	293	122
Automobile	93	63
Credit cards	17	137
Other	7	51
Commercial business	454	1,369
Total	$ 11,028	$ 14,169

The table above includes $10.0 million in nonaccrual and $1.0 million in past due 90 days or more and still accruing, net of partial loan charge-offs at March 31, 2012. There were $11.0 million nonaccrual and $3.2 million in past due 90 days or more and still accruing, net of partial loan charge-offs at June 30, 2011.

The following table presents past due loans, net of partial loan charge offs, by class, as of March 31, 2012:

	30-59 Days Past Due	60-89 Days Past Due	90 Days Or More Past Due	Total Past Due	Current	Total Loans
			(In thousands)			
One-to-four family	$2,456	$680	$2,654	$5,790	$81,071	$86,861
Multi-family	-	-	-	-	43,705	43,705
Commercial real estate	121	-	4,075	4,196	91,977	96,173
Construction	-	-	3,369	3,369	3,610	6,979
Land	-	-	66	66	6,513	6,579
Home equity	565	9	293	867	32,432	33,299
Credit cards	35	40	17	92	5,119	5,211
Automobile	65	-	93	158	3,621	3,779
Other	18	-	7	25	2,838	2,863
Commercial business	1,334	-	454	1,788	14,841	16,629
Total	$4,594	$729	$11,028	$16,351	$285,727	$302,078

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ANCHOR BANCORP AND SUBSIDIARY
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(Unaudited)

The following table presents past due loans, net of partial loan charge offs, by class as of June 30, 2011:

	30-59 Days Past Due	60-89 Days Past Due	90 Days Or More Past Due	Total Past Due	Current	Total Loans
			(In thousands)			
One-to-four family	$3,220	$2,310	$3,157	$8,687	$88,446	$97,133
Multi-family	329	-	-	329	42,279	42,608
Commercial real estate	2,934	716	2,280	5,930	100,067	105,997
Construction	-	910	6,900	7,810	3,840	11,650
Land	33	-	90	123	6,600	6,723
Home equity	321	164	122	607	35,122	35,729
Credit cards	84	194	137	415	6,686	7,101
Automobile	102	76	63	241	5,306	5,547
Other	48	-	51	99	3,496	3,595
Commercial business	47	390	1,369	1,806	15,462	17,268
Total	$7,118	$4,760	$14,169	$26,047	$307,304	$333,351

Credit Quality Indicators. Federal regulations provide for the classification of lower quality loans and other assets, such as debt and equity securities, as substandard, doubtful or loss. An asset is considered substandard if it is inadequately protected by the current net worth and pay capacity of the borrower or of any collateral pledged. Substandard assets include those characterized by the distinct possibility that we will sustain some loss if the deficiencies are not corrected. Assets classified as doubtful have all the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses present make collection or liquidation in full highly questionable and improbable, on the basis of currently existing facts, conditions and values. Assets classified as loss are those considered uncollectible and of such little value that their continuance as assets without the establishment of a specific loss reserve is not warranted.

When we classify problem assets as either substandard or doubtful, we may establish a specific allowance to address the risk specifically or we may allow the loss to be addressed in the general allowance. General allowances represent loss allowances which have been established to recognize the inherent risk associated with lending activities, but which, unlike specific allowances, have not been specifically allocated to particular problem assets. When an insured institution classifies problem assets as a loss, it is required to charge off such assets in the period in which they are deemed uncollectible. Assets that do not currently expose us to sufficient risk to warrant classification as substandard or doubtful but possess identified weaknesses are required to be classified as either watch or special mention assets.

We also use early indicator loan grades to identify and track potential problem loans which do not rise to the levels described for substandard, doubtful or loss. The grades for watch and special mention are assigned to loans which have been criticized based upon known characteristics such as periodic payment delinquency or stale financial information from the borrower and/or guarantors. Loans identified as criticized (watch and special mention) or classified (substandard, doubtful, or loss) are subject to problem loan reporting not less than every three months.

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ANCHOR BANCORP AND SUBSIDIARY
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The following table represents the internally assigned grade as of March 31, 2012, by class of loans:

	One-to-four family	Multi-family	Commercial real estate	Construction	Land	Home equity	Credit cards	Automobile	Other consumer	Commercial business	Total
						(In thousands)					
Grade:											
Pass	$69,460	$28,704	$58,035	$1,502	$6,395	$31,001	$5,119	$3,572	$2,785	$8,304	$214,877
Watch	2,751	2,960	18,885	-	43	1,422	75	109	20	1,450	27,715
Special Mention	1,877	7,266	8,880	-	-	162	-	5	52	280	18,522
Substandard	12,773	4,775	10,373	5,477	141	714	17	93	6	6,595	40,964
Doubtful	-	-	-	-	-	-	-	-	-	-	
Total	$86,861	$43,705	$96,173	$6,979	$6,579	$33,299	$5,211	$3,779	$2,863	$16,629	$302,078

The following table represents the credit risk profile based on payment activity as of March 31, 2012, by class of loans:

	One-to-four family	Multi-family	Commercial real estate	Construction	Land	Home equity	Credit cards	Automobile	Other consumer	Commercial business	Total
						(In thousands)					
Performing	$84,207	$43,705	$92,098	$3,610	$6,513	$33,006	$5,194	$3,686	$2,856	$16,175	$291,050
Nonperforming(1)	2,654	-	4,075	3,369	66	293	17	93	7	454	11,028
Total	$86,861	$43,705	$96,173	$6,979	$6,579	$33,299	$5,211	$3,779	$2,863	$16,629	$302,078

(1) Loans that are more than 90 days past due and nonaccrual loans are considered nonperforming.

The following table represents the internally assigned grade as of June 30, 2011, by class of loans:

	One-to-four family	Multi-family	Commercial real estate	Construction	Land	Home equity	Credit card	Auto-mobile	Other con-sumer	Commercial business	Total
						(In thousands)					
Grade:											
Pass	$78,374	$32,775	$76,529	$2,164	$5,493	$33,750	$6,686	$5,247	$3,505	$8,967	$253,490
Watch	1,240	3,382	15,972	1,076	43	645	278	135	21	1,659	24,451
Special Mention	495	4,797	985	-	-	74	-	76	-	611	7,038

Substandard	17,024	1,654	12,511	8,410	1,187	1,260	137	89	69	6,031	48,372
Total	$97,133	$42,608	$105,997	$11,650	$6,723	$35,729	$7,101	$5,547	$3,595	$17,268	$333,351

ANCHOR BANCORP AND SUBSIDIARY
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The following table represents the credit risk profile based on payment activity as of June 30, 2011, by class of loans:

	One-to-four family	Multi-family	Commercial real estate	Construction	Land	Home equity	Credit cards	Auto-mobile	Other con-sumer	Commercial business	Total
						(In thousands)					
Performing	$93,976	$42,608	$103,717	$4,750	$6,633	$35,607	$6,964	$5,484	$3,544	$15,899	$319,18
Nonperforming(1)	3,157	-	2,280	6,900	90	122	137	63	51	1,369	14,169
Total	$97,133	$42,608	$105,997	$11,650	$6,723	$35,729	$7,101	$5,547	$3,595	$17,268	$333,35

(1) Loans that are more than 90 days past due and nonaccrual loans are considered nonperforming.

Troubled Debt Restructure. At March 31, 2012, troubled debt restructured loans (“TDRs”), included in impaired loans above, totaled $15.3 million with $1.4 million currently in non-accrual. Restructured loans are an option that the Bank uses to minimize risk of loss and is a concession granted to a borrower experiencing financial difficulties for economical or legal reasons, that it would not otherwise consider. The modifications have included items such as lowering the interest on the loan for a period of time and extending the maturity date of the loan. These modifications are made only when there is a reasonable and attainable workout plan that has been agreed to by the borrower and is in the Bank’s best interest. At March 31, 2012, there were no commitments to lend additional funds to borrowers whose loans have been modified in a TDR.

The Bank has utilized a combination of rate and term modifications for its TDRs.

The following table represents restructured loans by accrual versus nonaccrual status and by loan class as of March 31, 2012:

	March 31, 2012		
	Accrual Status	Nonaccrual Status	Total Modifications
		(In thousands)	
One-to-four family	$ 9,077	$ 1,228	$ 10,305
Multi-family	2,696	-	2,696
Commercial real estate	0	167	167
Construction	572	-	572
Land	75	-	75
Home equity	154	-	154
Automobile	-	-	-
Other consumer	-	-	-
Commercial business	1,314	-	1,314

Total	$ 13,888	$ 1,395	$ 15,283

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The following table represents newly restructured loans by type of modification that occurred during the three months ended March 31, 2012:

Pre TDR recorded investment	Number of Contracts	Rate Modifications	Term Modifications	Payment Modifications	Combination Modifications	Total Modifications
			(Dollars in thousands)			
One-to-four family	1	$ -	$ -	$ -	$ 331	$ 331
Total	1	$ -	$ -	$ -	$ 331	$ 331

Post TDR recorded investment	Number of Contracts	Rate Modifications	Term Modifications	Payment Modifications	Combination Modifications	Total Modifications
			(Dollars in thousands)			
One-to-four family	1	$ -	$ -	$ -	$ 180	$ 180
Total	1	$ -	$ -	$ -	$ 180	$ 180

The following table presents newly restructured loans by type of modification that occurred during the nine months ended March 31, 2012:

Pre TDR recorded investment	Number of Contracts	Rate Modifications	Term Modifications	Payment Modifications	Combination Modifications	Total Modifications
			(Dollars in thousands)			
One-to-four family	6	$ -	$ -	$ -	$ 1,972	$ 1,972
Multi-family	1	-	-	-	2,410	2,410
Commercial business	1	-	-	-	104	104
Total	8	$ -	$ -	$ -	$ 4,486	$ 4,486

Post TDR recorded investment	Number of Contracts	Rate Modifications	Term Modifications	Payment Modifications	Combination Modifications	Total Modifications
			(Dollars in thousands)			
One-to-four family	6	$ -	$ -	$ -	$ 1,620	$ 1,620
Multi-family	1	-	-	-	2,265	2,265
Commercial	1	-	-	-	96	96

business						
Total	8	$ -	$ -	$ -	$ 3,981	$ 3,981

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The following table below represents loans modified as troubled debt restructuring within the previous 12 months for which there was a payment default during the past quarter ended March 31, 2012:

Post TDR investment	Three Months Ended March 31, 2012 (In thousands)
One-to-four family	$ 1,691
Multi-family	-
Commercial real estate	166
Construction	-
Land	-
Home equity	67
Automobile	-
Other consumer	-
Commercial business	-
Total	$ 1,924

Note 9 - Real Estate Owned, net

The following table is a summary of real estate owned for the quarter ended March 31, 2012 and 2011:

	Three Months Ended March 31, 2012	2011
	(In thousands)	
Balance at the beginning of the period	$ 8,177	$ 16,494
Loans transferred to real estate owned	3,009	924
Capitalized improvements	18	107
Sales	(2,514)	(1,889)
Impairments	(288)	(758)
Balance at the end of the period	$ 8,402	$ 14,878

The following table is a summary of real estate owned for the nine months ended March 31, 2012 and 2011:
738338

	Nine Months Ended March 31, 2012	2011
	(In thousands)	
Balance at the beginning of the period	$ 12,597	$ 14,570
Loans transferred to real estate owned	6,617	8,456
Capitalized improvements	115	273

Sales		(9,052)		(6,375)
Impairments		(1,875)		(2,046)
Balance at the end of the period	$	8,402	$	14,878

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Note 10 - Employee Benefit Plans

Employee Stock Ownership Plan

On January 25, 2011, the Company established an ESOP for the benefit of substantially all employees. The ESOP borrowed $1.0 million from the Company and used those funds to acquire 102,000 shares of the Company's common stock at the time of the initial public offering at a price of $10.00 per share.

Shares purchased by the ESOP with the loan proceeds are held in a suspense account and allocated to ESOP participants on a pro rata basis as principal and interest payments are made by the ESOP to the Company. The loan is secured by shares purchased with the loan proceeds and will be repaid by the ESOP with funds from the Company's discretionary contributions to the ESOP and earnings on the ESOP assets. Payments of principal and interest are due annually on June 30, the Company's fiscal year end.

As shares are committed to be released from collateral, the Company reports compensation expense equal to the daily average market prices of the shares and the shares become outstanding for EPS computations. The compensation expense is accrued throughout the year.

Shares held by the ESOP as of March 31, 2012 are as follows:

	March 31, 2012
Allocated shares	7,933
Unallocated shares	94,067
Total ESOP shares	102,000
Fair value of unallocated shares	$ 799,569

Note 11 - Fair Value Measurements

Assets and liabilities measured at fair value on a recurring basis - Assets and liabilities are considered to be fair valued on a recurring basis if fair value is measured regularly. The following definitions describe the levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2: Significant observable inputs other than quoted prices included within Level 1, such as quoted prices in markets that are not active, and inputs other than quoted prices that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a company's own assumptions about the assumptions market participants would use in pricing an asset or liability based on the best information available in the circumstances.

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(Unaudited)

There were no transfers between Level 1, Level 2, or Level 3 during the three or nine months ended March 31, 2012.The following table shows the Company's assets and liabilities at the dates indicated measured at fair value on a recurring basis:

	March 31, 2012			
	Level 1	Level 2	Level 3	Total
		(In thousands)		
Municipal bonds	$ -	$ 2,001	$ -	$ 2,001
Mortgage-backed securities	-	50,348	-	50,348

	June 30, 2011			
	Level 1	Level 2	Level 3	Total
		(In thousands)		
Municipal bonds	$ -	$ 2,400	$ -	$ 2,400
U.S. government agency securities	-	3,045	-	3,045
Mortgage-backed securities	-	32,718	-	32,718

Assets and liabilities measured at fair value on a nonrecurring basis - Assets and liabilities are considered to be fair valued on a nonrecurring basis if the fair value measurement of the instrument does not necessarily result in a change in the amount recorded on the balance sheet. Generally, nonrecurring valuation is the result of the application of other accounting pronouncements that require assets or liabilities to be assessed for impairment or recorded at the lower of cost or fair value. The following table presents the Company's assets measured at fair value on a nonrecurring basis at the dates indicated:

	March 31, 2012				
	Level 1	Level 2	Level 3	Total	Total Gains (Losses)
			(In thousands)		
Impaired loans (1)	$-	$-	$13,052	$13,052	$(1,946)
Real estate owned	$-	$-	$8,402	$8,402	$(6,147)
Loans held for sale (2)	$408	$-	$-	$408	$-

(1) The balance disclosed for impaired loans represents the impaired loans where fair value is less than unpaid principal prior to impairment at March 31, 2012.
(2) The fair value is based on quoted market prices obtained from Federal Home Loan Mortgage Corporation ("FHLMC") or from direct sales to other third parties. FHLMC quotes are updated daily and represent prices at which loans are exchanged in high volumes and in a liquid market.

	June 30, 2011				
	Level 1	Level 2	Level 3	Total	Total Gains (Losses)
			(In thousands)		

Impaired loans (3)	$ -	$-	$16,758	$16,758	$(6,673)
Real estate owned	$ -	$-	$12,597	$12,597	$(12,404)
Loans held for sale (4)	$ 225	$-	$-	$225	$-

(3) The balance disclosed for impaired loans represents the impaired loans where fair value is less than unpaid principal prior to impairment at June 30, 2011.
(4) The fair value is based on quoted market prices obtained from FHLMC or from direct sales to other third parties. FHLMC quotes are updated daily and represent prices at which loans are exchanged in high volumes and in a liquid market.

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The impaired loans amount above represents impaired, collateral dependent loans that have been adjusted to fair value. When we identify a collateral dependent loan as impaired, we measure the impairment using the current fair value of the collateral, less selling costs. Depending on the characteristics of a loan, the fair value of collateral is generally estimated by obtaining external appraisals. The significant unobservable inputs are the differences between comparables in the appraisal. If we determine that the value of the impaired loan is less than the recorded investment in the loan, we recognize this impairment and adjust the carrying value of the loan to fair value through the allowance for loan and lease losses. The loss represents charge-offs or impairments on collateral dependent loans for fair value adjustments based on the fair value of collateral.

The real estate owned amount above represents impaired real estate that has been adjusted to fair value. At the time of foreclosure, other real estate owned is recorded at the lower of the carrying amount of the loan or fair value less costs to sell, which becomes the property’s new basis. Any impairment based on the asset’s fair value at the date of acquisition are charged to the allowance for loan and lease losses. After foreclosure, management periodically performs valuations such that the real estate is carried at the lower of its new cost basis or fair value, net of estimated costs to sell. Fair value adjustments on other real estate owned are recognized within net loss on real estate owned. Depending on the characteristics of a loan, the fair value of collateral is generally estimated by obtaining external appraisals. The significant unobservable inputs are the difference between comparables in the appraisal. The loss represents impairments on other real estate owned for fair value adjustments based on the fair value of the real estate. The fair value of impaired loans and real estate owned is estimated using the fair value of the collateral less estimated selling costs.

There were no transfers in or out of Level 3 during the nine months ended March 31, 2012. The estimated fair values of financial instruments at the dates indicated are as follows:

	March 31, 2012		June 30, 2011	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(In thousands)			
Assets				
Cash and due from banks	$83,434	$83,434	$63,757	$63,757
Securities available-for-sale, at fair value	52,349	52,349	38,163	38,163
Securities held-to-maturity	7,647	8,166	7,587	8,157
Loans held for sale	408	408	225	225
Loans receivable, net of allowance for loan losses	295,703	279,542	325,464	308,053
Life insurance investment, net of surrender charges	18,107	18,107	17,612	17,612
Accrued interest receivable	1,658	1,658	1,810	1,810
FHLB stock, at cost	6,510	6,510	6,510	6,510
Liabilities				
Demand deposits, savings and money market	174,172	174,172	157,955	157,955
Certificates of deposit	177,384	174,811	181,519	179,526

FHLB advances	74,900	76,220	85,900	86,375
Advance payments by borrowers for taxes and insurance	2,185	2,185	1,389	1,389

Commitments to extend credit represent the principal categories of off-balance-sheet financial instruments. The fair values of these commitments are not material since they are for a short period of time and are subject to customary credit terms.

ANCHOR BANCORP AND SUBSIDIARY
SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The following presents the carrying amount, fair value, and placement in the fair value hierarchy of the Company's financial instruments as of March 31, 2012 and June 30, 2011. This table excludes financial instruments for which the carrying amount approximates fair value. For short-term financial assets such as cash and due from banks, the carrying amount is a reasonable estimate of fair value due to the relatively short time between the origination of the instrument and its expected realization. For financial liabilities such as demand deposits, savings, and money market, the carrying amount is a reasonable estimate of fair value due to these products having no stated maturity.

			Fair Value Measurements		
	Carrying Amount	Fair Value	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
			(In thousands)		
March 31. 2012					
Financial Instruments-Assets					
Securities held-to-maturity	$ 7,647	$ 8,166	$ -	$ 8,166	$ -
Loans receivable, net of allowance for loan losses	$ 295,703	$ 279,542	$ -	$ -	$ 279,542
Financial Instruments-Liabilities					
Certificates of deposit	$ 177,384	$ 174,811	$ -	$ 174,811	$ -
FHLB advances	$ 74,900	$ 76,220	$ -	$ 76,220	$ -
June 30. 2011					
Financial Instruments-Assets					
Securities held-to-maturity	$ 7,587	$ 8,157	$ -	$ 8,157	$ -
Loans receivable, net of allowance for loan losses	$ 325,464	$ 308,053	$ -	$ -	$ 308,053
Financial Instruments-Liabilities					
Certificates of deposit	$ 181,519	$ 179,526	$ -	$ 179,526	$ -
FHLB advances	$ 85,900	$ 86,375	$ -	$ 86,375	$ -

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

Cash and due from banks - For cash, the carrying amount is a reasonable estimate of fair value.

Securities - The estimated fair values of securities are based on quoted market prices of similar securities.

Loans held for sale - The fair value of loans held-for-sale is based on quoted market prices from FHLMC. The FHLMC quotes are updated daily and represent prices at which loans are exchanged in high volumes and in a liquid market.

Loans receivable, net - The fair value of loans is estimated by using comparable market statistics. The loan portfolio was segregated into various categories and a weighted average valuation discount that approximated similar loan sales was applied to each category.

Life insurance investment - The carrying amount is a reasonable estimate of its fair value.

FHLB stock - FHLB stock is carried at par and does not have a readily determinable fair value. Ownership of FHLB stock is restricted to the member institutions, and can only be purchased and redeemed at par. Due to ongoing turmoil in the capital and mortgage markets, the FHLB of Seattle has a risk-based capital deficiency largely as a result of write-downs on their private label mortgage-backed securities portfolios.

Demand deposits, savings, money market, and certificates of deposit - The fair value of the Bank’s demand deposits, savings, and money market accounts is the amount payable on demand. The fair value of fixed-maturity certificates is estimated using a discounted cash flow analysis using current rates offered for deposits of similar remaining maturities.

FHLB advances - The fair value of the Bank’s FHLB advances was calculated using the discounted cash flow method. The discount rate was equal to the current rate offered by the FHLB for advances of similar remaining maturities.

Accrued interest receivable and advance payments by borrowers for taxes and insurance - The carrying value has been determined to be a reasonable estimate of their fair value.

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

Forward-Looking Statements and "Safe Harbor" statement under the Private Securities Litigation Reform Act of 1995

This report contains forward-looking statements, which are not statements of historical fact and often include the words "believes," "expects," "anticipates," "estimates," "forecasts," "intends," "plans," "targets," "potentially," "probably," "p "outlook" or similar expressions or future or conditional verbs such as "may," "will," "should," "would" and "could." Forward-looking statements include statements with respect to our beliefs, plans, objectives, goals, expectations, assumptions and statements about future performance. These forward-looking statements are subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from the results anticipated, including, but not limited to:

- the credit risks of lending activities, including changes in the level and trend of loan delinquencies and write offs and changes in our allowance for loan losses and provision for loan losses that may be impacted by deterioration in the housing and commercial real estate markets;
- changes in general economic conditions, either nationally or in our market areas;
- changes in the levels of general interest rates, and the relative differences between short and long term interest rates, deposit interest rates, our net interest margin and funding sources;
- fluctuations in the demand for loans, the number of unsold homes, land and other properties and fluctuations in real estate values in our market area;
- secondary market conditions for loans and our ability to sell loans in the secondary market;
- results of examinations of us by the FDIC, DFI or other regulatory authorities, including the possibility that any such regulatory authority may, among other things, require us to increase our reserve for loan losses, write-down assets, change the Bank's regulatory capital position or affect our ability to borrow funds or maintain or increase deposits, which could adversely affect our liquidity and earnings;
- the Bank's compliance with the Order or other regulatory enforcement actions and the possibility that the Bank will be unable to fully comply with the Order which could result in the imposition of additional requirements or restrictions;
- legislative or regulatory changes that adversely affect our business including the effect of the Dodd-Frank Act, changes in regulatory policies and principles, or the interpretation of regulatory capital or other rules;
- the Bank's ability to attract and retain deposits;
- further increases in premiums for deposit insurance;
- our ability to control operating costs and expenses;
- the use of estimates in determining fair value of certain of our assets, which estimates may prove to be incorrect and result in significant declines in valuation;
- difficulties in reducing risks associated with the loans on the Bank's balance sheet;
- staffing fluctuations in response to product demand or the implementation of corporate strategies that affect our workforce and potential associated charges;
- computer systems on which we depend could fail or experience a security breach;
- our ability to retain key members of the Bank's senior management team;
- costs and effects of litigation, including settlements and judgments;
- increased competitive pressures among financial services companies;
- changes in consumer spending, borrowing and savings habits;
- the availability of resources to address changes in laws, rules, or regulations or to respond to regulatory actions;
- adverse changes in the securities markets;
- inability of key third-party providers to perform their obligations to us;
- changes in accounting policies and practices, as may be adopted by the financial institution regulatory agencies, or the Financial Accounting Standards Board, including additional guidance and interpretation on accounting issues and details of the implementation of new accounting methods including relating to fair value accounting and loan loss

reserve requirements; and

- other economic, competitive, governmental, regulatory, and technological factors affecting our operations, pricing, products and services and the other risks described elsewhere in this Form 10-Q.

Some of these and other factors are discussed in our 2011 Form10-K under Item 1A. “Risk Factors.” Such developments could have an adverse impact on our financial position and results of operations.

Any of the forward-looking statements that we make in this quarterly report and in other public statements we make may turn out to be wrong because of inaccurate assumptions we might make, because of the factors illustrated above or because of other factors that we cannot foresee. Because of these and other uncertainties, our actual future results may be materially different from the results indicated by these forward-looking statements and you should not rely on such statements. We undertake no obligation to publicly update or revise any forward-looking statements included or incorporated by reference in this document or to update the reasons why actual results could differ from those contained in such statements, whether as a result of new information, future events or otherwise. Because of these and other uncertainties, our actual results for fiscal year 2012 and beyond may differ materially from those expressed in any forward-looking statements by or on behalf of us, and could negatively affect our financial condition, liquidity and operating and stock price performance.

Background and Overview

Anchor Bancorp, a Washington corporation, was formed for the purpose of becoming the bank holding company for Anchor Bank in connection with the Bank’s conversion from mutual to stock form, which was completed on January 25, 2011. At March 31, 2012, we had total assets of $488.0 million, total deposits of $351.6 million and total stockholders' equity of $54.4 million. Anchor Bancorp’s business activities generally are limited to passive investment activities and oversight of its investment in Anchor Bank. Accordingly, the information set forth in this report, including consolidated financial statements and related data, relates primarily to Anchor Bank.

Anchor Bank is a Washington chartered savings bank that was organized in 1907 as a Washington state chartered savings and loan association, converted to a federal mutual savings and loan association in 1935, converted to a Washington state chartered mutual savings bank in 1990 and converted to stock form in 2011. Anchor Bank is a community-based savings bank primarily serving Western Washington through 13 full-service banking offices (including three Wal-Mart store locations) located within Grays Harbor, Thurston, Lewis, Pierce, and Mason counties, Washington. We are in the business of attracting deposits from the public and utilizing those deposits to originate loans. We offer a wide range of loan products to meet the demands of our customers; however, most of our loans are collateralized by real estate. Historically, lending activities have been primarily directed toward the origination of one- to four-family residential construction, commercial real estate and consumer loans. Since 1990, we have also offered commercial real estate loans and multi-family loans primarily in Western Washington. To an increasing extent in recent years, lending activities have also included the origination of residential construction loans through brokers, in particular within the Portland, Oregon metropolitan area and increased reliance on non-core deposit sources of funds.

On August 12, 2009, Anchor Bank became subject to the Order, issued with its consent, by the FDIC and DFI. The Order is a formal corrective action pursuant to which Anchor Bank has agreed to take certain measures in the areas of capital, loan loss allowance determination, risk management, liquidity management, board oversight and monitoring of compliance, and imposes certain operating restrictions on Anchor Bank. Management and the Bank’s Board of Directors have been taking action and implementing programs to comply with the requirements of the Order. Information regarding Anchor Bank’s compliance with the Order is included in Note 5 to the Selected Notes to Consolidated Financial Statements included in Item 1 of this Form 10-Q and Item 1A. “Risk Factors - Cease and Desist Order” in the 2011 Form10-K.

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Critical Accounting Estimates and Related Accounting Policies

We use estimates and assumptions in our consolidated financial statements in accordance with generally accepted accounting principles. Management has identified several accounting policies that, due to the judgments, estimates and assumptions inherent in those policies, are critical to an understanding of our consolidated financial statements. These policies relate to the determination of the allowance for loan losses and the associated provision for loan losses, deferred income taxes and the associated income tax expense, as well as valuation of real estate owned. Management reviews the allowance for loan losses for adequacy on a monthly basis and establishes a provision for loan losses that it believes is sufficient for the loan portfolio growth expected and the loan quality of the existing portfolio. The carrying value of real estate owned is assessed on a quarterly basis. Income tax expense and deferred income taxes are calculated using an estimated tax rate and are based on management's understanding of our effective tax rate and the tax code.

Allowance for Loan Losses. Management recognizes that loan losses may occur over the life of a loan and that the allowance for loan losses must be maintained at a level necessary to absorb specific losses on impaired loans and probable losses inherent in the loan portfolio. Our Board of Directors and management assesses the allowance for loan losses on a quarterly basis. The Executive Loan Committee analyzes several different factors including delinquency rates, charge-off rates and the changing risk profile of our loan portfolio, as well as local economic conditions such as unemployment rates, the bankruptcies and vacancy rates of business and residential properties.

We believe that the accounting estimate related to the allowance for loan losses is a critical accounting estimate because it is highly susceptible to change from period to period, requiring management to make assumptions about future losses on loans. The impact of a sudden large loss could deplete the allowance and require increased provisions to replenish the allowance, which would negatively affect earnings.

Our methodology for analyzing the allowance for loan losses consists of specific allocations on significant individual credits that meet the definition of impaired and a general allowance amount. The specific allowance component is determined when management believes that the collectability of a specifically identified large loan has been impaired and a loss is probable. The general allowance component relates to assets with no well-defined deficiency or weakness and takes into consideration loss that is inherent within the portfolio but has not been realized. The general allowance is determined by applying an expected loss percentage to various classes of loans with similar characteristics and classified loans that are not analyzed specifically for impairment. Because of the imprecision in calculating inherent and potential losses, the national and local economic conditions are also assessed to determine if the general allowance is adequate to cover losses. The allowance is increased by the provision for loan losses, which is charged against current period operating results and decreased by the amount of actual loan charge-offs, net of recoveries.

Deferred Income Taxes. Deferred income taxes are reported for temporary differences between items of income or expense reported in the financial statements and those reported for income tax purposes. Deferred taxes are computed using the asset and liability method. Under this method, a deferred tax asset or liability is determined based on the enacted tax rates that will be in effect when the differences between the financial statement carrying amounts and tax basis of existing assets and liabilities are expected to be reported in an institution's income tax returns. Deferred tax assets are deferred tax consequences attributable to deductible temporary differences and carryforwards. After the deferred tax asset has been measured using the applicable enacted tax rate and provisions of the enacted tax law, it is then necessary to assess the need for a valuation allowance. A valuation allowance is needed when, based on the weight of the available evidence, it is more likely than not that some portion of the deferred tax asset will not be realized. As required by GAAP, available evidence is weighted heavily on cumulative losses with less weight placed on future projected profitability. Realization of the deferred tax asset is dependent on whether there will be sufficient future taxable income of the appropriate character in the period during which deductible temporary differences reverse or within the carryback and carryforward periods available under tax law. Based upon the available evidence, we recorded a valuation allowance of $7.7 million at March 31, 2012. The deferred tax provision for the period is equal to the net change in the net deferred tax asset from the beginning to the end of the period, less amounts applicable to the change in value related to securities available for sale. The effect on deferred taxes of a change in tax rates is recognized as income in the period that includes the enactment date. The primary differences between financial statement income and taxable income result from deferred loan fees and costs, mortgage servicing rights, loan loss reserves and dividends received from the FHLB of Seattle. Deferred income taxes do not include a liability for pre-1988 bad debt deductions allowed to thrift institutions that may be recaptured if the institution fails to qualify as a bank for income tax purposes in the future.

Real Estate Owned. Real estate acquired through foreclosure is transferred to the real estate owned asset classification at fair value and subsequently carried at lower cost of market. Costs associated with real estate owned for maintenance, repair, property tax, etc., are expensed during the period incurred. Assets held in real estate owned are reviewed monthly for potential impairment. When impairment is indicated the impairment is charged against current period operating results and netted against the real estate owned to reflect a net book value. At disposition any residual difference is either charged to current period earnings as a loss on sale or reflected as income in a gain on sale.

Comparison of Financial Condition at March 31, 2012 and June 30, 2011

General. Total assets decreased by $890,000, or 0.2%, to $488.0 million at March 31, 2012, from $488.9 million at June 30, 2011. We increased our liquidity during this period as cash and due from banks increased $19.7 million, or 30.9%, loans receivable decreased $29.8 million, or 9.1%, and securities available for sale (which includes mortgage-backed securities) increased, $14.2 million, or 37.2%.

Mortgage-backed securities available for sale increased $17.6 million, or 53.9%, to $50.3 million at March 31, 2012 from $32.7 million at June 30, 2011. The increase in this portfolio was primarily the result of purchases of 36 FHLMC mortgage- backed securities totaling $48.0 million, sales of 40 FHLMC mortgage-backed securities totaling $24.1 million, and contractual payments of $6.3 million. The sales were due to rebalancing the investment portfolio to shorten the duration of the portfolio from 30 year to 15 year mortgage-backed securities.

Loans receivable, net, decreased $29.8 million or 9.1% to $295.7 million at March 31, 2012 from $325.5 million at June 30, 2011. The decline in the loan portfolio was the result of the current economic conditions and weak loan demand from creditworthy borrowers, charge-offs, and transfers of non-performing loans to real estate owned, as well as pay downs due to normal borrower activity. The total construction and land loan portfolios decreased $4.8 million to $13.6 million at March 31, 2012 from $18.4 million at June 30, 2011 as a result of loan repayments.

Assets. Total assets decreased $890,000 at March 31, 2012 from June 30, 2011. The following table details the increases and decreases in the composition of the Bank's assets from June 30, 2011 to March 31, 2012:

	Balance at March 31, 2012	Balance at June 30, 2011	Increase/(Decrease) Amount	Percent
	(Dollars in thousands)			
Cash and due from banks	$83,434	$63,757	$19,677	30.9 %
Mortgage-backed securities, available-for- sale	50,348	32,718	17,630	53.9
Mortgage-backed securities, held to maturity	7,502	7,438	64	0.9
Loans receivable, net of allowance for loan losses	295,703	325,464	(29,761)	(9.1)
Real estate owned , net	8,402	12,597	(4,195)	(33.3)

Cash and due from banks increased $19.7 million or 30.9% at March 31, 2012 from June 30, 2011 as weak loan demand combined with our continued focus on reducing non-performing assets resulted in loan originations of $32.7 million during the nine months ended March 31, 2012 as compared to $25.9 million in the same period last year. We are also maintaining a higher liquidity position as compared to historical levels for regulatory and asset-liability purposes.

Loans receivable, net, decreased $29.8 million or 9.1% to $295.7 million at March 31, 2012 from $325.5 million at June 30, 2011 primarily as a result of lower loan demand from creditworthy borrowers, charge-offs, and transfers of non-performing loans to real estate owned, as well as pay downs due to normal borrower activity. During the nine months ended March 31, 2012, $6.6 million of non- performing loans were transferred to real estate owned. We also continued to reduce our exposure to construction and land loans, with our total construction and land loan portfolios decreasing $4.8 million for the nine months ended March 31, 2012. In addition, our commercial real estate and commercial business loan portfolios decreased $9.8 million and $639,000 million, respectively, during the nine months ended March 31, 2012.

Deposits. Deposits increased $12.1 million, or 3.6%, to $351.6 million at March 31, 2012 from $339.5 million at June 30, 2011. The increase in deposits was due in part to our ongoing marketing strategy to focus on core deposits.

The following table details the changes in deposit accounts at the dates indicated:

	Balance at March 31, 2012	Balance at June 30, 2011	Increase/(Decrease) Amount	Percent
	(Dollars in thousands)			
Noninterest-bearing demand deposits	$33,939	$30,288	$3,651	12.1 %
Interest-bearing demand deposits	19,980	17,387	2,593	14.9
Money market accounts	83,364	78,017	5,347	6.9
Savings deposits	36,889	32,263	4,626	14.3
Certificates of deposit				
Retail certificates	177,384	181,519	(4,135)	(2.3)
Brokered certificates	-	-	-	-
Total deposit accounts	$351,556	$339,474	$$ 12,082	3.6 %

Borrowings. FHLB advances decreased $11.0 million, or 12.8%, to $74.9 million at March 31, 2012 from $85.9 million at June 30, 2011. The decrease reflected our continued focus on reducing wholesale funds.

Stockholders' Equity. Total stockholders' equity decreased $3.1 million, or 5.4%, to $54.4 million at March 31, 2012 from $57.5 million at June 30, 2011. The decrease was primarily due to the $1.4 million loss during the nine months ended March 31, 2012. Other comprehensive income decreased $1.7 million to $31,000 at March 31, 2012, which was a result of sales of investments during the period.

Comparison of Operating Results for the Three and Nine Months ended March 31, 2012 and 2011

General. Net income for the three months ended March 31, 2012 was $223,000 compared to a net loss of $3.4 million for the three months ended March 31, 2011. For the nine months ended March 31, 2012 the net loss was $1.4 million compared to net loss of $4.1 million for the comparable period in 2011.

Net Interest Income. Net interest income before the provision for loan losses decreased $588,000, or 13.0%, to $3.9 million for the quarter ended March 31, 2012 from $4.5 million for the quarter ended March 31, 2011. For the nine months ended March 31, 2012 net interest income before the provision for loan losses, decreased $1.3 million, or 9.4%, to $12.3 million from $13.5 million for the nine months ended March 31, 2011.

The Company's net interest margin decreased 40 basis points to 3.47% for the three months ended March 31, 2012, from 3.87% for the comparable period in 2011. The decrease was primarily due to the decline in the yield on loans and investments. Our yield on interest-earning assets decreased to 4.79% for the quarter ended March 31, 2012 from 5.32% for the same period last year.

The decline in the yield of interest-earning assets was primarily attributable to the downward repricing of investment securities, and a higher level of excess liquidity invested at a nominal yield. The average cost of interest-bearing liabilities decreased 13 basis points to 1.52% for the three months ended March 31, 2012 compared to 1.65% for the same period in the prior year. This decrease was primarily due to a 29 basis point decrease in the average cost of money market accounts and a 13 basis point decrease in certificates of deposit.

The following table sets forth the results of balance sheet changes in interest rates to the Bank's net interest income for the three months ended March 31, 2012 compared to the same period in 2011. 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). Changes attributable to both rate and volume, which cannot be segregated, are allocated proportionately to the changes in rate and volume.

	Three Months Ended March 31, 2012 Compared to Three Months Ended March 31, 2011		
	Increase (Decrease) Due to		
	Rate	Volume	Total
		(In thousands)	
Interest-earning assets:			
Loans receivable, including fees	$ (3)	$ (772)	$ (775)
Mortgage-backed securities	(104)	110	6
Investment securities, FHLB stock and cash and due from banks	(56)	37	(19)
Total net change in income on interest-earning assets	$ 163	$ (625)	$ (788)
Interest-bearing liabilities:			
Savings deposits	$ (18)	$ 8	$ (10)
Interest-bearing demand deposits	(2)	0	(2)
Money market accounts	(62)	17	(45)
Certificates of deposit	(59)	(31)	(90)
FHLB advances	43	(96)	(53)
Total net change in expense on interest-bearing liabilities	(98)	(102)	(200)
Total increase (decrease) in net interest income	$ (65)	$ (523)	$ (588)

For the nine months ended March 31, 2012, our net interest margin decreased 16 basis points to 3.61% compared to 3.77% for the same period in 2011. The average cost of interest-bearing liabilities decreased 36 basis points to 1.60% for the nine months ended March 31, 2012 compared to 1.96% for the same period of the prior year. This decrease is primarily a result of a 32 basis point decrease in the average cost of FHLB borrowings due to the elimination of higher priced borrowings through payoff at normal maturity dates and a 36 basis point decrease in the average cost of certificates of deposits during the nine months ended March 31, 2012.

The following table sets forth the results of balance sheet changes in interest rates to our net interest for the nine months ended March 31, 2012 compared to the same period in 2011:

	Nine Months Ended March 31, 2012 Compared to Nine Months Ended March 31, 2011 Increase (Decrease) Due to		
	Rate	Volume	Total
		(In thousands)	
Interest-earning assets:			
Loans receivable, net	$ (16)	$ (2,682)	$ (2,698)
Mortgage-backed securities	(129)	(71)	(200)
Investment securities, FHLB stock and cash and due from banks	(178)	164	(14)
Total net change in income on interest-earning assets	$ (323)	$ (2,589)	$ (2,912)
Interest-bearing liabilities:			
Savings deposits	$ (36)	$ 22	$ (14)
Interest-bearing demand deposits	(7)	(4)	(11)
Money market accounts	(172)	54	(118)
Certificates of deposit	(490)	(281)	(771)
FHLB advances	(186)	(536)	(722)
Total net change in expense on interest-bearing liabilities	(891)	(745)	(1,636)
Total increase (decrease) in net interest income	$ 568	$ (1,844)	$ (1,276)

Interest Income. Total interest income for the three months ended March 31, 2012 decreased $788,000, or 12.7%, to $5.4 million, from $6.2 million for the three months ended March 31, 2011. The decrease during the period was primarily attributable to the decline in net loans receivable and interest earning investments.

The following table compares average interest-earning asset balances, associated yields, and resulting changes in interest income for the three months ended March 31, 2012 and 2011:

	Three Months Ended March 31, 2012		2011		
	Average Balance	Yield	Average Balance	Yield	Increase/ (Decrease) in Interest and Dividend Income from 2011
			(Dollars in thousands)		
Loans receivable, net (1)	$312,474	6.19 %	$362,275	6.20 %	$(775)
Mortgage-backed securities	51,698	3.94	42,408	4.74	6
Investment securities	2,153	4.64	5,989	4.34	(40)
FHLB stock	6,510	-	6,510	-	-

Cash and due from banks	79,507	0.21		48,746	0.16		21	
Total interest-earning assets	$452,342	4.79	%	$465,928	5.32	%	$(788	)

(1) Non-accruing loans have been included in the table as loans carrying a zero yield for the period that they have been on non-accrual. Calculated net of deferred loan fees, loan discounts, and loans in process.

For the nine months ended March 31, 2012, total interest income decreased $2.9 million, or 14.7%, to $17.0 million, from $19.9 million for the nine months ended March 31, 2011. The decrease was primarily the result of a $56.8 million decrease in the average balance of loans receivable during the period.

The following table compares average interest-earning asset balances, associated yields, and resulting changes in interest income for the nine months ended March 31, 2012 and 2011:

	Nine Months Ended March 31,				
	2012		2011		Increase/ (Decrease) in Interest and Dividend Income from 2011
	Average Balance	Yield	Average Balance	Yield	
	(Dollars in thousands)				
Loans receivable, net (1)	$323,301	6.30 %	$380,055	6.30 %	$(2,698)
Mortgage-backed securities	44,758	4.35	46,772	4.73	(200)
Investment securities	3,820	4.36	6,407	4.22	(78)
FHLB stock	6,510	-	6,510	-	-
Cash and due from banks	73,904	0.22	38,654	0.19	64
Total interest-earning assets	$452,293	5.00 %	$478,398	5.54 %	$(2,912)

(1) Non-accruing loans have been included in the table as loans carrying a zero yield for the period that they have been on non-accrual. Calculated net of deferred loan fees, loan discounts, and loans in process.

Interest Expense. Interest expense decreased $200,000, or 11.8%, to $1.5 million for the three months ended March 31, 2012, from $1.7 million for the three months ended March 31, 2011. The average cost of interest-bearing liabilities decreased 13 basis points to 1.52% for the three months ended March 31, 2012 compared to 1.65% for the same period of the prior year. The decrease was primarily due to a 13 basis point decline in our average cost of certificates of deposit and a 23 basis point increase in the average cost of FHLB advances combined with decreases of $23.5 million and $5.4 million in average FHLB advances and average certificates of deposit, respectively, during the first fiscal quarter as compared to the same period last year. The average balance of total interest-bearing liabilities decreased $16.4 million, or 4.0%, to $392.9 million for the three months ended March 31, 2012 from $409.3 million for the three months ended March 31, 2011.

The following table details average balances cost of funds and the change in interest expense for the three months ended March 31, 2012 and 2011:

	Three Months Ended March 31,				
	2012		2011		Increase/ (Decrease) in Interest Expense from 2011
	Average Balance	Cost	Average Balance	Cost	

	(In thousands)					
Savings deposits	$35,547	0.50	%	$30,847	0.70	%	$(10)
Interest-bearing demand deposits	19,177	0.25		18,983	0.30		(2)
Money market deposits	84,416	0.58		76,826	0.87		(45)
Certificates of deposit	178,876	2.16		184,270	2.29		(90)
FHLB advances	74,900	1.86		98,400	1.63		(53)
Total interest-bearing liabilities	$392,916	1.52	%	$409,326	1.65	%	$(200)

For the nine months ended March 31, 2012 interest expense decreased $1.6 million, or 25.8%, to $4.7 million for the nine months ended March 31, 2012 from $6.3 million for the nine months ended March 31, 2011. Average interest-bearing liabilities decreased $37.7 million, or 8.8%, to $392.9 million for the nine months ended March 31, 2012 compared to $430.6 million for the same period in 2011. The average cost of interest-bearing liabilities decreased 36 basis points to 1.60% for the nine months ended March 31, 2012 compared to 1.96% for the same period of the prior year. The decrease was primarily a result of a 32 basis point decrease in the average cost of FHLB borrowings due to the elimination of higher priced borrowings through payoff at normal maturity dates and a 36 basis point decrease in the average cost of certificates of deposit due to the decline in brokered certificates of deposit during the nine months ended March 31, 2012.

The following table details average balances, cost of funds and the change in interest expense for the nine months ended March 31, 2012 and 2011:

	Nine Months Ended March 31,				
	2012		2011		Increase/ (Decrease) in Interest Expense from 2011
	Average Balance	Cost	Average Balance	Cost	
	(Dollars in thousands)				
Savings deposits	$34,563	0.61 %	$30,636	0.74 %	$(14)
Interest-bearing demand deposits	19,310	0.25	20,995	0.30	(11)
Money market deposits	82,143	0.71	74,928	0.99	(118)
Certificates of deposit	181,339	2.22	195,867	2.58	(771)
FHLB advances	75,567	1.87	108,191	2.19	(722)
Total interest-bearing liabilities	$392,922	1.60 %	$430,617	1.96 %	$(1,636)

Provision for Loan Losses. In connection with its analysis of the loan portfolio at March 31, 2012, management determined that a provision for loan losses of $300,000 was required for the three months ended March 31, 2012, compared to the $3.6 million provision for loan losses established for the three months ended March 31, 2011. The provision reflects the continued weakness in the general economy and real estate market and reflects the decline in non-performing loans during the current fiscal quarter as well as net charge-offs of $966,000. Non-performing loans were $11.0 million, or 2.3% of total assets, at March 31, 2012, compared to $14.2 million, or 2.9% of total assets, at June 30, 2011. The specific allowance component is created when management believes that the collectability of a specific large loan, such as a real estate, multi-family or commercial real estate loan, has been impaired and a loss is probable. The allowance is increased by the provision for loan losses, which is charged against current period earnings and decreased by the amount of actual loan charge-offs, net of recoveries.

Management considers the allowance for loan losses at March 31, 2012 to be adequate to cover probable losses inherent in the loan portfolio based on the assessment of the above-mentioned factors affecting the loan portfolio. While management believes the estimates and assumptions used in its determination of the adequacy of the allowance are reasonable, there can be no assurance that such estimates and assumptions will not be proven incorrect in the future, or that the actual amount of future provisions will not exceed the amount of past provisions or that any increased provisions that may be required will not adversely impact the Bank's financial condition and results of operations. In addition, the determination of the amount of the Bank's allowance for loan losses is subject to review by the Bank regulators, as part of the routine examination process, which may result in the establishment of additional reserves based upon their judgment of information available to them at the time of their examination.

The provision for loan losses is impacted by the historical performance and current risk factors associated with each loan type in our portfolio. As we increase the loan portfolio, we anticipate an increase in the allowance for loan losses based upon both portfolio growth and the risk characteristics associated with the respective portfolio type.

The following table details activity and information related to the allowance for loan losses at and for the three months ended March 31, 2012 and 2011:

	At or For the Three Months Ended March 31, 2012	2011
	(In thousands)	
Provision for loan losses	$300	$3,608
Net charge-offs	$966	$6,735
Allowance for loan losses	$5,803	$7,775
Allowance for loan losses as a percentage of gross loans receivable at the end of the period	1.9 %	2.2 %
Nonaccrual and 90 days or more past due loans	$11,028	$18,753
Allowance for loan losses as a percentage of non-performing loans at the end of the period	52.6 %	41.5 %
Nonaccrual and 90 days or more past due loans as a percentage of loans receivable at the end of the period	3.7 %	5.4 %
Total loans	$302,078	$349,975

The following table details activity and information related to the allowance for loan losses at and for the nine months ended March 31, 2012 and 2011:

	At or For the Nine Months Ended March 31, 2012	2011
	(In thousands)	
Provision for loan losses	$1,300	$5,118
Net charge-offs	$2,736	$14,131
Allowance for loan losses	$5,803	$7,775
Allowance for loan losses as a percentage of gross loans receivable at the end of the period	1.9 %	2.2 %
Nonaccrual and 90 days or more past due loans	$11,028	$18,753
Allowance for loan losses as a percentage of non-performing loans at the end of the period	52.6 %	41.5 %
Nonaccrual and 90 days or more past due loans as a percentage of loans receivable at the end of the period	3.7 %	5.4 %
Total loans	$302,078	$349,975

Noninterest Income. Noninterest income increased $637,000, or 52.0%, to $1.9 million for the three months ended March 31, 2012 from $1.2 million for the same quarter in 2011. The following table provides a detailed analysis of the changes in the components of noninterest income for the three months ended March 31, 2012 compared to the same period in 2011:

	Three Months Ended March 31,		Increase (decrease)	
	2012	2011	Amount	Percent
	(Dollars in thousands)			
Deposit services fees	$ 443	$ 503	$ (60)	(11.9)%
Other deposit fees	202	211	(9)	(4.3)
Gain on sale of investments	609	-	609	N/A
Loan fees	260	217	43	19.8
Gain (loss) on sale of loans	55	(14)	69	(492.9)
Other income	293	308	(15)	(4.9)
Total noninterest income	$ 1,862	$ 1,225	$ 637	52.0 %

Noninterest income increased during the quarter ended March 31, 2012, primarily as a result of gains on sale of investments offset by a decrease in deposit service fees, loans fees and offset by an increase in gain on sale of loans. We recorded an increase in gain on sale of investments as we sold 22 investments for gains in the three months ended March 31, 2012 compared to no sales for gains in the three months ended March 31, 2011. The decrease in deposit services fees was related to the Bank’s three branch closures, and a decrease in ATM fee and overdraft fee income as a result of the new opt-in rules. The increase in the amount of gain on the sale of loans was the result of greater volume of loans sold into the secondary market during the three months ended March 31, 2012 compared to the three months ended March 31, 2011, which was attributable to increased demand for one-to-four family loans as a result of refinancing activity.

The following table provides a detailed analysis of the changes in the components of noninterest income for the nine months ended March 31, 2012 compared to the same period in 2011:

	Nine Months Ended March 31,		Increase (decrease)	
	2012	2011	Amount	Percent
	(Dollars in thousands)			
Deposit services fees	$ 1,479	$ 1,767	$ (288)	(16.3)%
Other deposit fees	626	642	(16)	(2.5)
Gain on the sale of investments	1,487	135	1,352	1,001.5
Loan fees	745	750	(5)	(.7)
Gain on sale of loans	22	174	(152)	(87.4)
Other income	915	979	(64)	(6.5)
Total noninterest income	$ 5,274	$ 4,447	$ 827	18.6 %

Noninterest income increased $827,000, or 18.6%, to $5.3 million during the nine months ended March 31, 2012 from $4.4 million for the same period in 2011. The increase was primarily a result of a $1.4 million increase in gains on the sales of investments offset by a decrease in deposit fees due to three Wal-Mart branch closures. The decrease in the amount of gain on the sale of loans was the result of a lower volume of loans sold into the secondary market during the nine months ended March 31, 2012 compared to the nine months ended March 31, 2011, which was attributable to lower demand for one-to-four home loans and less refinancing activity.

Noninterest Expense. The following tables provide an analysis of the changes in the components of noninterest expense for the three months ended March 31, 2012 and 2011:

	Three Months Ended March 31,		Increase (decrease)	
	2012	2011	Amount	Percent
	(Dollars in thousands)			
Compensation and benefits	$ 2,075	$ 2,077	$ (2)	(0.1) %
General and administrative expenses	870	824	46	5.6
Real estate owned impairment	287	759	(472)	(62.2)
Real estate owned holding costs	233	195	38	19.5
FDIC Insurance premiums	254	262	(8)	(3.1)
Information technology	640	495	145	29.3
Occupancy and equipment	503	612	(109)	(17.8)
Deposit services	277	172	105	61.0
Marketing	177	131	46	35.1
Loss on sale or premises and equipment	-	-	0	0
Gain on sale of real estate owned	(57)	(52)	(5)	9.6
Total noninterest expense	$ 5,259	$ 5,475	$ (216)	(3.9)%

Noninterest expense decreased $216,000, or 3.9%, to $5.3 million for the three months ended March 31, 2012 from $5.5 million for the three months ended March 31, 2011primarily due to our information technology expense, which increased $145,000 during the quarter. Costs related to a core systems conversion scheduled for April, 2012 are $198,000 this quarter. This conversion will increase operational efficiency, reduce expenses and add additional products and services such as mobile banking that we will offer our customers. Real estate owned impairment decreased $472,000 or 62.2% to $287,000 due to incremental stabilization of real estate values. The Company's efficiency ratio, which is the percentage of noninterest expense to net interest income plus noninterest income, was 91.0% for the three months ended March 31, 2012 compared to 95.5% for the three months ended March 31, 2011.

The following tables provide an analysis of the changes in the components of noninterest expense for the nine months ended March 31, 2012 and 2011:

	Nine Months Ended March 31,		Increase (decrease)	
	2012	2011	Amount	Percent
	(Dollars in thousands)			
Compensation and benefits	$ 6,270	$ 6,406	$ (136)	(2.1)%
General and administrative expenses	2,882	2,699	183	6.8
Real estate owned impairment	1,875	2,046	(171)	(8.4)
Real estate holding costs	688	790	(102)	(12.9)
FDIC Insurance premium	757	887	(130)	(14.7)
Information technology	2,676	1,507	1,169	77.6
Occupancy and equipment	1,553	1,783	(230)	(12.9)
Deposit services	504	517	(13)	(2.5)
Marketing	501	406	95	23.4
Loss on sale of premises, and equipment	107	168	(61)	(36.3)
Gain on sale of real estate owned	(179)	(218)	39	(17.9)
Total noninterest expense	$ 17,634	$ 16,991	$ 643	3.8 %

For the nine months ended March 31, 2012, noninterest expense increased $643,000 or 3.8%, to $17.6 million from $17.0 million for the nine months ended March 31, 2011 primarily due to information technology expense. The expense for information technology increased $1.2 million, of which $1.1 million is related to core systems conversion scheduled for April, 2012. FDIC insurance premiums expense decreased $130,000 due to lower balances in our deposit accounts as the Bank reduced its brokered certificate of deposits. As a result of our branch closures, occupancy expense decreased $230,000. Compensation and benefits decreased as a result of three Wal-Mart branch closures. Real estate owned holding costs and impairment expenses decreased due to a decline in properties held as real estate owned during the comparative periods. Our efficiency ratio, which is the percentage of noninterest expense to net interest income plus noninterest income, was 100.6% for the nine months ended March 31, 2012 compared to 94.5% for the nine months ended March 31, 2011.

Provision (benefit) for Income Tax. As a result of uncertainties surrounding our realization of additional deferred tax assets, the Bank has not recorded a tax benefit for the nine months ended March 31, 2012.

Liquidity, Commitments and Capital Resources

Liquidity. We are required to have enough cash flow in order to maintain sufficient liquidity to ensure a safe and sound operation. Historically, we have maintained cash flow above the minimum level believed to be adequate to meet the requirements of normal operations, including potential deposit outflows. On a monthly basis, we review and update cash flow projections to ensure that adequate liquidity is maintained.

Our primary sources of funds are from customer deposits, loan repayments, loan sales, investment payments, maturing investment securities and advances from the FHLB of Seattle. These funds, together with retained earnings and equity, are used to make loans, acquire investment securities and other assets, and fund continuing operations. While maturities and the scheduled amortization of loans are a predictable source of funds, deposit flows and mortgage prepayments are greatly influenced by the level of interest rates, economic conditions and competition.

We believe that our current liquidity position is sufficient to fund all of our existing commitments. At March 31, 2012, the total approved loan origination commitments outstanding amounted to $1.1 million. At the same date, unused lines of credit were $23.7 million.

For purposes of determining our liquidity position, we use a concept of basic surplus, which is derived from the total of available for sale securities, as well as other liquid assets, less short-term liabilities. Our Board of Directors has established a target range for basic surplus of 5% to 7%. For the three months ended March 31, 2012, our average basic surplus was 20.6%, which indicates we exceeded the liquidity standard set by the Board. The Order requires Anchor Bank to establish liquidity and funds management policy that includes specific provisions to maintain a liquidity ratio of at least 15%. As of March 31, 2012 the Bank's liquidity ratio was 37.8%.

Liquidity management is both a daily and long-term function of business management. Excess liquidity is generally invested in short-term investments such as overnight deposits or mortgage-backed securities. On a longer-term basis, we maintain a strategy of investing in various lending products. We use our sources of funds primarily to meet ongoing commitments, to pay maturing certificates of deposit and savings withdrawals, to fund loan commitments and to maintain our portfolio of mortgage-backed securities and investment securities.

Certificates of deposit scheduled to mature in one year or less at March 31, 2012 totaled $77.9 million. We had no brokered deposits at March 31, 2012. Management's policy is to generally maintain deposit rates at levels that are competitive with other local financial institutions. Based on historical experience, we believe that a significant portion of maturing deposits will remain with the Bank. In addition, we had the ability to borrow an additional $39.0 million from the FHLB of Seattle.

We measure our liquidity based on our ability to fund assets and to meet liability obligations when they come due. Liquidity (and funding) risk occurs when funds cannot be raised at reasonable prices, or in a reasonable time frame, to meet our normal or unanticipated obligations. We regularly monitor the mix between our assets and liabilities to manage effectively our liquidity and funding requirements.

Our primary source of funds is the Bank's deposits. When deposits are not available to provide the funds for our assets, we use alternative funding sources. These sources include, but are not limited to: cash management from the FHLB of Seattle, wholesale funding, brokered deposits, federal funds purchased and dealer repurchase agreements, as well as other short-term alternatives. Alternatively, we may also liquidate assets to meet our funding needs. On a monthly basis, we estimate our liquidity sources and needs for the coming three-month, nine-month, and one-year time periods. Also, we determine funding concentrations and our need for sources of funds other than deposits. This information is used by our Asset Liability Management Committee in forecasting funding needs and investing opportunities.

The Company is a separate legal entity from the Bank and provides for its own liquidity to pay its operating expenses and other financial obligations. The Company's primary sources of income are ESOP loan payments and ESOP loan interest income as there is no ability to receive dividends from the Bank in the near future. The Bank's strategic business plan filed with the FDIC in connection with the Order contemplates no payment of dividends throughout the three-year period covered by the plan and we do not expect the Bank will be permitted to pay dividends as long as the Order remains in effect. In addition, the FDIC's non-objection of the conversion restricts us from making any distributions to stockholders that represent a return of capital without the written non-objection of the FDIC Regional Director.

Commitments and Off-Balance Sheet Arrangements. We are a party to financial instruments with off-balance sheet risk in the normal course of business in order to meet the financing needs of our customers. These financial instruments generally include commitments to originate mortgage, commercial and consumer loans, and involve to varying degrees, elements of credit and interest rate risk in excess of amounts recognized in the consolidated balance sheets. Our maximum exposure to credit loss in the event of nonperformance by the borrower is represented by the contractual amount of those instruments. Because some commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

The same credit policies are used in making commitments as are used for on-balance sheet instruments. Collateral is required in instances where deemed necessary.

Undisbursed balances of loans closed include funds not disbursed but committed for construction projects. Unused lines of credit include funds not disbursed, but committed for, home equity, commercial and consumer lines of credit.

Commercial letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. Those guarantees are primarily used to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

The following is a summary of commitments and contingent liabilities with off-balance sheet risks as of March 31, 2012:

	Amount of Commitment Expiration Per Period	
	Total Amounts Committed	Due in One Year
	(In thousands)	
Commitments to originate loans (1)	$ 1,091	$ 1,091
Lines of Credit (2)		
Fixed rate (3)	1,878	1,878
Adjustable rate	21,863	21,863
Undisbursed balance of lines of credit	$ 23,741	$ 23,741

(1) Interest rates on fixed rate loans range from 3.25% to 7.75%.
(2) At March 31, 2012 there were no reserves for unfunded commitments.
(3) Includes standby letters of credit.

Operating lease commitment - The Bank leases space for branches and operations located in Olympia, Hoquiam, Shelton, Chehalis, and Puyallup, Washington. These leases run for periods ranging from three to five years. All leases require the Bank to pay all taxes, maintenance, and utility costs, as well as maintain certain types of insurance. The annual lease commitments for the next five years are as follows:

	Payments due by period			
Contractual obligations	Total	Less than 1 year	1-3 years	Over 3-5 years
	(In thousands)			
Operating lease obligations	$ 348	$ 210	$ 138	$ -

Capital. Consistent with our goal to operate a sound and profitable financial organization, we actively seek to maintain a “well capitalized” institution in accordance with regulatory standards and the Order. As of March 31, 2012 the Bank exceeded all regulatory capital requirements with Tier 1 Leverage-Based Capital, Tier 1 Risk-Based Capital and Total Risk-Based Capital ratios of 10.8%, 16.7%, and 18.0% respectively. As of June 30, 2011 these ratios were 10.7%, 15.8%, and 17.1%, respectively. Although the Bank was “well capitalized” at March 31, 2012, based on financial statements prepared in accordance with generally accepted accounting principles in the United States and the general percentages in the regulatory guidelines, because of the deficiencies cited in the Order, the Bank entered into with the DFI and the FDIC, the Bank is not regarded as “well capitalized” for federal regulatory purposes.

Anchor Bancorp exceeded all regulatory capital requirements with Tier 1 Leverage-Based Capital, Tier 1 Risk- Based Capital and Total Risk-Based Capital ratios of 11.2%, 17.3%, and 18.6%, respectively, as of March 31, 2012.

For additional information regarding the Order, see the discussion included in Note 5 to the Selected Notes to Consolidated Financial Statements included in Item 1 of this Form 10-Q.

The Bank's actual capital accounts and ratios are also presented in the following table:

Anchor Bank	Actual		Minimum Capital Requirement		Minimum to be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
As of March 31, 2012						
Total capital (to risk-weighted assets)	$56,445	18.0 %	$25,092	8.0 %	$31,365	10.0 %
Tier I capital (to risk-weighted assets)	$52,501	16.7 %	$12,546	4.0 %	$18,819	6.0 %
Tier I leverage capital (to average assets)	$52,501	10.8 %	$19,364	4.0 %	$24,205	5.0 %

The following table is the Anchor Bancorp's capital ratios as of March 31, 2012:

Anchor Bancorp	Actual	
	Amount	Ratio
	(Dollars in thousands)	
As of March 31, 2012		
Total capital (to risk-weighted assets)	$ 58,235	18.6 %
Tier I capital (to risk-weighted assets)	$ 54,291	17.3 %
Tier I leverage capital (to average assets)	$ 54,291	11.2 %

Item 3. Quantitative and Qualitative Disclosures about Market Risk

There has not been any material change in the market risk disclosures contained in the Company's Annual Report on Form 10-K for the year ended June 30, 2011.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures.

An evaluation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934 (the "Exchange Act")) was carried out under the supervision and with the participation of the Company's Chief Executive Officer, Chief Financial Officer, and other members of the Company's management team as of the end of the period covered by this quarterly report. The Company's Chief Executive Officer and Chief Financial Officer concluded that as of March 31, 2012, the Company's disclosure controls and procedures were effective in ensuring that the information required to be disclosed by the Company in the reports it files or submits under the Act is (i) accumulated and communicated to the Company's management (including the Chief Executive Officer and Chief Financial Officer) in a timely manner, and (ii) recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

(b) Changes in Internal Controls.

There have been no changes in the Company's internal control over financial reporting (as defined in 13a-15(f) of the Exchange Act) that occurred during the quarter ended March 31, 2012, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. A number of internal control procedures were, however, modified during the quarter in conjunction with the Bank's internal control testing. The Company also continued to implement suggestions from its internal auditor and independent auditors to strengthen existing controls.

The Company intends to continually review and evaluate the design and effectiveness of its disclosure controls and procedures and to improve its controls and procedures over time and to correct any deficiencies that it may discover in the future. The goal is to ensure that senior management has timely access to all material financial and non-financial information concerning the Company's business. While the Company believes the present design of its disclosure controls and procedures is effective to achieve its goal, future events affecting its business may cause the Company to modify its disclosure controls and procedures. The Company does not expect that its disclosure controls and procedures and internal control over financial reporting will prevent every error or instance of fraud. A control procedure, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control procedure are met. Because of the inherent limitations in all control procedures, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns in controls or procedures can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any control procedure is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control procedure, misstatements due to error or fraud may occur and not be detected.

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, the Company is engaged in legal proceedings in the ordinary course of business, none of which are currently considered to have a material impact on the Company's financial position or results of operations.

Item 1A. Risk Factors

There have been no material changes to the risk factors set forth in Part I. Item 1A of the Company's Annual Report on Form 10-K for the year ended June 30, 2011.

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

During the nine months ended March 31, 2012, we did not sell any securities that were not registered under the Securities Act of 1933. We did not execute any open market repurchases of our common stock from July 1, 2011 through March 31, 2012.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

Not applicable.

Item 6. Exhibits

3.1	Articles of Incorporation of the Registrant (1)
3.2	Amended and Restated Bylaws of the Registrant (2)
10.1	Form of Anchor Bank Employee Severance Compensation Plan (1)
10.2	Anchor Mutual Savings Bank Phantom Stock Plan (1)
10.3	Form of 401(k) Retirement Plan (1)
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act
32	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act

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* Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

(1) Filed as an exhibit to the Registrant's Registration Statement on Form S-1 (333-154734)

(2) Filed as an exhibit to the Registrant's Current Report on Form 8-K filed with the SEC on December 16, 2011.

SIGNATURES

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

ANCHOR BANCORP

Date: May 4, 2012

/s/Jerald L. Shaw
Jerald L. Shaw
President and Chief Executive Officer
(Principal Executive Officer)

Date: May 4, 2012

/s/Terri L. Degner
Terri L. Degner
Executive Vice President and
Chief Financial Officer
(Principal Financial and Accounting Officer)

EXHIBIT INDEX

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