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**SECURITIES AND EXCHANGE COMMISSION**

Washington, D. C. 20552

**FORM 10-Q**

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended December 31, 1999.

Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 0-24948

PVF Capital Corp.

(Exact name of registrant as specified in its charter)

United States

34-1659805

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer  
Identification No.)

25350 Rockside Road, Bedford Heights, Ohio

44146

(Address of principal executive offices)

(Zip Code)

(440) 439-2200

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES  NO

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock, \$0.01 Par Value

4,393,724

(Class)

(Outstanding at January 31, 2000)

# PVF CAPITAL CORP.

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PART I FINANCIAL INFORMATION  
ITEM 1

PVF CAPITAL CORP.

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(Unaudited)

<u>ASSETS</u>	<u>December 31, 1999</u>	<u>June 30, 1999</u>
Cash and cash equivalents:		
Cash and amounts due from depository institutions	\$ 4,693,687	\$ 4,140,460
Interest bearing deposits	447,989	573,872
Federal funds sold	7,050,000	5,375,000
Total cash and cash equivalents	12,191,676	10,089,332
Securities held to maturity, at cost	45,294,530	25,334,041
Loans receivable, net	441,250,502	395,550,737
Loans receivable held for sale, net	10,012,662	1,772,176
Mortgage-backed securities held to maturity, net	1,367,359	1,732,726
Office properties and equipment, net	1,794,984	2,003,211
Real estate owned, net	42,701	168,500
Investment in real estate	3,874,455	3,796,852
Investment required by law		
Stock in the Federal Home Loan Bank of Cincinnati	4,882,171	3,759,452
Prepaid expenses and other assets	3,253,180	4,994,438
Total Assets	<u>\$523,964,220</u>	<u>\$449,201,465</u>
 <b><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u></b>		
Liabilities		
Deposits	\$400,570,706	\$331,241,736
Advances from the Federal Home Loan Bank of Cincinnati	70,007,793	66,040,736
Advances from borrowers for taxes and insurance	5,887,201	5,463,660
Accrued expenses and other liabilities	6,655,221	7,599,525
Total Liabilities	483,120,921	410,345,657
Stockholders' Equity		
Serial preferred stock, none issued	—	—
Common stock, \$0.01 par value, 15,000,000 shares authorized; 4,392,724 and 4,389,888 shares issued, respectively	43,927	43,899
Paid in capital	20,253,851	20,250,236
Retained earnings-substantially restricted	21,149,498	18,632,923
Treasury Stock, at cost 48,685 and 5,500 shares, respectively	(603,977)	(71,250)
Total Stockholders' Equity	<u>40,843,299</u>	<u>38,855,808</u>
Total Liabilities and Stockholders' Equity	<u>\$523,964,220</u>	<u>\$449,201,465</u>

See accompanying notes to consolidated financial statements

**PVF CAPITAL CORP.**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

**(Unaudited)**

	<b>Three Months Ended December 31,</b>		<b>Six Months Ended December 31,</b>	
	<b>1999</b>	<b>1998</b>	<b>1999</b>	<b>1998</b>
Interest income				
Loans	\$9,208,043	\$8,383,739	\$17,776,479	\$16,651,096
Mortgage-backed securities	22,851	40,374	49,210	84,866
Cash and investment securities	699,263	510,787	1,216,722	1,136,875
Total interest income	<u>9,930,157</u>	<u>8,934,900</u>	<u>19,042,411</u>	<u>17,872,837</u>
Interest expense				
Deposits	4,354,848	4,348,972	8,223,472	8,787,947
Borrowings	1,081,769	729,569	2,112,812	1,455,823
Total interest expense	<u>5,436,617</u>	<u>5,078,541</u>	<u>10,336,284</u>	<u>10,243,770</u>
Net interest income	4,493,540	3,856,359	8,706,127	7,629,067
Provision for loan losses	100,000	0	450,000	0
Net interest income after provision for loan losses	<u>4,393,540</u>	<u>3,856,359</u>	<u>8,256,127</u>	<u>7,629,067</u>
Noninterest income, net				
Service and other fees	113,745	125,451	252,702	228,613
Mortgage banking activities, net	199,253	293,155	303,590	531,856
Insurance proceeds	0	0	692,143	0
Other, net	344,029	25,790	424,281	47,448
Total noninterest income, net	<u>657,027</u>	<u>444,396</u>	<u>1,672,716</u>	<u>807,917</u>
Noninterest expense				
Compensation and benefits	1,424,606	1,109,830	2,805,726	2,303,291
Office, occupancy, and equipment	507,295	466,186	976,970	895,025
Other	665,902	621,955	1,365,979	1,240,484
Total noninterest expense	<u>2,597,803</u>	<u>2,197,971</u>	<u>5,148,675</u>	<u>4,438,800</u>
Income before federal income tax provision	2,452,764	2,102,784	4,780,168	3,998,184
Federal income tax provision	818,472	696,000	1,593,889	1,328,000
Net income	<u>\$1,634,292</u>	<u>\$1,406,784</u>	<u>\$ 3,186,279</u>	<u>\$ 2,670,184</u>
Basic earnings per share	<u>\$ 0.37</u>	<u>\$ 0.32</u>	<u>\$ 0.73</u>	<u>\$ 0.61</u>
Diluted earnings per share	<u>\$ 0.36</u>	<u>\$ 0.31</u>	<u>\$ 0.70</u>	<u>\$ 0.59</u>

See accompanying notes to consolidated financial statements

PVF CAPITAL CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six Months Ended December 31,	
	1999	1998
<b>Operating Activities</b>		
Net Income	\$ 3,186,279	\$ 2,670,184
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Accretion of discount on marketable securities	(4,453)	0
Depreciation and amortization	300,915	303,230
Provision for losses on loans	450,000	0
Accretion of unearned discount and deferred loan origination fees, net	(558,315)	(566,877)
Gain on loans receivable held for sale, net	(81,251)	(339,720)
Gain on disposal of real estate owned, net	(7,882)	0
Change in accrued interest on investments, loans, and borrowings, net	(351,128)	(79,958)
Change in other assets and other liabilities, net	1,118,864	(1,371,324)
Origination of loans receivable held for sale, net	(20,073,228)	(33,570,267)
Sale of loans receivable held for sale, net	11,913,993	33,663,069
Net cash provided by (used in) operating activities	(4,106,206)	708,337
<b>Investing Activities</b>		
Loan and mortgage-backed securities repayments and originations, net	(44,765,442)	(17,630,556)
Disposals of real estate owned	125,799	438,816
Securities purchases	(19,995,313)	(10,433,000)
Securities maturities	39,277	22,818,595
FHLB stock purchases, dividends, net	(1,122,719)	(129,292)
Additions to office properties and equipment, net	(92,688)	(77,487)
Change in real estate held for investment	(77,603)	(122,501)
Net cash used in investing activities	(65,888,689)	(5,135,425)
<b>Financing activities</b>		
Net increase in demand deposits, NOW, and passbook savings	3,828,401	4,755,910
Net increase (decrease) in time deposits	65,500,569	(9,700,690)
Net increase in FHLB advances	3,967,057	4,854,095
Repayment of notes payable	0	(1,060,000)
Purchase of treasury stock	(532,727)	0
Proceeds from exercise of stock options	6,053	0
Cash dividend paid	(672,114)	(938)
Net cash provided by (used in) financing activities	72,097,239	(1,151,623)
Net increase (decrease) in cash and cash equivalents	2,102,344	(5,578,711)
Cash and cash equivalents at beginning of period	10,089,332	23,216,962
Cash and cash equivalents at end of period	\$ 12,191,676	\$ 17,638,251
Supplemental disclosures of cash flow information:		
Cash payments of interest expense	\$ 10,352,570	\$ 10,226,875
Cash payments of income taxes	\$ 1,680,000	\$ 1,600,000

See accompanying notes to consolidated financial statements

**PVF CAPITAL CORP.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 1999 and 1998**  
**(Unaudited)**

1. The accompanying condensed consolidated interim financial statements were prepared in accordance with regulations of the Securities and Exchange Commission for Form 10-Q. All information in the consolidated interim financial statements is unaudited except for the June 30, 1999 consolidated statement of financial condition which was derived from the Corporation's audited financial statements. Certain information required for a complete presentation in accordance with generally accepted accounting principles has been condensed or omitted. However, in the opinion of management, these interim financial statements contain all adjustments, consisting only of normal recurring accruals, necessary to fairly present the interim financial information. The results of operations for the three and six months ended December 31, 1999 are not necessarily indicative of the results to be expected for the entire year ending June 30, 2000. The results of operations for PVF Capital Corp. ("PVF" or the "Company") for the periods being reported have been derived primarily from the results of operation of Park View Federal Savings Bank (the "Bank"). PVF Capital Corp.'s common stock is traded on the NASDAQ SMALL-CAP ISSUES under the symbol PVFC.

2. Recently Issued Accounting Standards

SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" was issued in June 1998 and amended by SFAS No. 137 which deferred the effective date to fiscal years beginning after June 15, 2000. This statement establishes comprehensive accounting and reporting requirements for derivative instruments and hedging activities. This statement requires entities to recognize all derivatives as either assets or liabilities, with the instruments measured at fair value. The accounting for gains and losses resulting from changes in fair value of the derivative instrument depends on the use of the derivative and the type of risk being hedged. At the present time, the Bank is analyzing the effect of the adoption of SFAS No. 133 on the Bank's consolidated financial statements.

SFAS No. 134, "Accounting for Mortgage-Backed Securities Retained after Securitization of Mortgage Loans Held for Sale by a Mortgage Banking Enterprise" was issued in October 1998 and is effective for the first fiscal quarter beginning after December 15, 1998. This statement amends SFAS No. 65 to require that after the securitization of mortgage loans held for sale, an entity engaged in mortgage banking activities must classify the resulting mortgage-backed securities or other retained interests based on its ability and intent to sell or hold those investments. After the securitization of a mortgage loan held for sale, any retained mortgage-backed securities shall be classified in accordance with the provisions of SFAS No. 115.

PART I FINANCIAL INFORMATION  
ITEM 1

However, a mortgage banking enterprise must classify as trading any retained mortgage-backed securities that it commits to sell before or after the securitization process. The Bank has not historically securitized mortgage loans and retained the mortgage-backed security. Therefore, the adoption did not have any impact on the Company's consolidated financial statements.

3. The following table discloses Earnings Per Share for the three and six months ended December 31, 1999 and December 31, 1998.

Three months ended December 31,

	1999			1998		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Basic EPS						
Net						
Income	\$1,634,292	4,365,219	\$0.37	\$1,406,784	4,389,742	\$0.32
Effect of						
Stock						
Options		170,939	0.01		161,467	0.01
Diluted						
EPS						
Net						
Income	\$1,634,292	4,536,158	\$0.36	\$1,406,784	4,551,209	\$0.31

Six months ended December 31,

	1999			1998		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Basic EPS						
Net						
Income	\$3,186,279	4,373,372	\$0.73	\$2,670,184	4,389,742	\$0.61
Effect of						
Stock						
Options		172,844	0.03		167,873	0.02
Diluted						
EPS						
Net						
Income	\$3,186,279	4,546,216	\$0.70	\$2,670,184	4,557,615	\$0.59



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

The following analysis discusses changes in financial condition and results of operations at and for the three-month and six-month periods ended December 31, 1999 for PVF Capital Corp. ("PVF" or the "Company"), Park View Federal Savings Bank (the "Bank"), its principal and wholly-owned subsidiary, PVF Service Corporation ("PVFSC"), a wholly-owned real estate subsidiary, and PVF Holdings, Inc., a wholly-owned and currently inactive subsidiary.

**FORWARD-LOOKING STATEMENTS**

When used in this Form 10-Q, the words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," or similar expressions are intended to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to certain risks and uncertainties including changes in economic conditions in the Company's market area, changes in policies by regulatory agencies, fluctuations in interest rates, demand for loans in the Company's market area, competition that could cause actual results to differ materially from historical earnings and those presently anticipated or projected, and Year 2000 issues. The Company wishes to caution readers not to place undue reliance on any such forward-looking statements which speak only as of the date made. The Company wishes to advise readers that the factors listed above could affect the Company's financial performance and could cause the Company's actual results for future periods to differ materially from any opinions or statements expressed with respect to future periods in any current statements.

The Company does not undertake, and specifically disclaims any obligation, to publicly release the results of any revisions which may be made to any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

**FINANCIAL CONDITION**

Consolidated assets of PVF were \$524.0 million as of December 31, 1999, an increase of approximately \$74.8 million, or 16.6%, as compared to June 30, 1999. The Bank remained in regulatory capital compliance for tangible, core, and risk-based capital on a fully phased-in basis with capital levels of 7.06%, 7.06%, and 10.38% respectively at December 31, 1999.

During the six months ended December 31, 1999, the Company's cash and cash equivalents, which consist of cash, interest-bearing deposits and federal funds sold, increased \$2.1 million, or 20.8%, as compared to June 30, 1999. The change in the Company's cash and cash equivalents consisted of an increase in cash and interest-bearing deposits of \$0.4 million and an increase in federal funds sold of \$1.7 million.

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ITEM 2

**FINANCIAL CONDITION continued**

The net \$53.6 million, or 13.4%, increase in loans receivable and mortgage-backed securities during the six months ended December 31, 1999, resulted from an increase in loans receivable of \$54.0 million and a decrease in mortgage-backed securities of \$0.4 million. The increase of \$54.0 million in loans receivable included increases of \$19.8 million in one-to-four family residential loans, \$16.4 million in one-to-four family construction loans, \$6.9 million in commercial real estate loans, \$2.1 million in commercial construction real estate loans, \$3.9 million in home equity line of credit loans, \$3.8 million in commercial line of credit loans, \$2.5 million in multifamily loans, and \$0.9 million in consumer loans. These increases were partially offset by a \$1.2 million decrease in multifamily construction loans and \$1.1 million in land loans. The decrease in mortgage-backed securities resulted from payments received of \$0.4 million. The growth of the loan portfolio resulted in no material change to the composition of the portfolio.

Securities increased by \$20.0 million, or 78.8%, as a result of the Bank's decision to invest surplus cash balances in higher yielding agency securities rather than in overnight fed funds. The decrease of \$208,200 in office properties and equipment is primarily the result of the sale of the North Moreland office building. The decrease of \$125,800 in real estate owned ("REO") is attributable to the disposal of developed building lots. Investment in stock with the Federal Home Loan Bank of Cincinnati increased by \$1.1 million, or 29.9%, due to the purchase of \$964,400 in additional stock along with stock dividends paid. The decrease in prepaid expenses and other assets of \$1.7 million is primarily the result of adjustments to N.O.W. clearing accounts.

During the six months ended December 31, 1999, the opening of one new branch office and the relocation of an existing branch office combined with management's goal to build the deposit bases at these offices resulted in the Bank competing aggressively with market savings rates to increase total deposits by \$69.3 million, or 20.9%. The increase of \$4.0 million, or 6.0%, in advances from the Federal Home Loan Bank of Cincinnati was a result of the Bank's decision to take advantage of attractive short-term borrowing rates.

The increase in advances from borrowers for taxes and insurance of \$0.4 million, or 7.7%, is due to timing differences between the collection and payment of escrow funds. The decrease of \$0.9 million, or 12.4%, in accrued expenses and other liabilities is primarily the result of timing differences between the collection and remittance of payments received on loans serviced for investors.

The increase in deposits of \$69.3 million and Federal Home Loan Bank advances of \$4.0 million along with net income of \$3.2 million were used to fund the net increase in loans receivable and mortgage-backed securities of \$53.6 million, to purchase \$20.0 million in securities, to purchase \$964,400 of stock in the Federal Home Loan Bank of Cincinnati, and for the purchase of \$533,000 in treasury stock.

PART I FINANCIAL INFORMATION  
ITEM 2

**RESULTS OF OPERATIONS**

Three months ended December 31, 1999, compared  
to three months ended December 31, 1998.

PVF's net income is dependent primarily on its net interest income, which is the difference between interest earned on its loans and investments and interest paid on interest-bearing liabilities. Net interest income also includes amortization of loan origination fees, net of origination costs.

PVF's net income is also affected by the generation of non-interest income, which primarily consists of loan servicing income, service fees on deposit accounts, and gains on the sale of loans held for sale. Net interest income is determined by (i) the difference between yields earned on interest-earning assets and rates paid on interest-bearing liabilities ("interest-rate spread") and (ii) the relative amounts of interest-earning assets and interest-bearing liabilities. The Company's interest-rate spread is affected by regulatory, economic and competitive factors that influence interest rates, loan demand and deposit flows. In addition, net income is affected by the level of operating expenses and loan loss provisions.

The Company's net income for the three months ended December 31, 1999 was \$1,634,300 as compared to \$1,406,800 for the prior year comparable period. This represents an increase of \$227,500, or 16.2%, when compared with the prior year comparable period.

Net interest income for the three months ended December 31, 1999 increased by \$637,200, or 16.5%, as compared to the prior year comparable period, primarily due to an increase of \$995,300, or 11.1%, in interest income that resulted primarily from an increase of \$53.3 million in the average balance of interest-earning assets. This increased balance was offset partially by an 11 basis point decrease in the average return on interest-earning assets from the prior year comparable period. The average balance on deposits and advances increased by \$49.7 million from the prior year comparable period. This increased balance, partially offset by a 27 basis point decrease in the average cost of funds for the current period, resulted in an overall increase in interest expense of \$358,100, or 7.0%. The Company's net interest income increased because of an increase of 16 basis points in the Company's interest-rate spread during the current period as compared to the prior year comparable period, and balance sheet growth in both interest-earning assets and interest-bearing liabilities.

For the three months ended December 31, 1999, a \$100,000 provision for loan losses was recorded as compared to no provision for loan losses being recorded in the prior year comparable period. The Company uses a systematic approach to determine the adequacy of its loan loss allowance and the necessary provision for loan losses. The loan portfolio is reviewed and delinquent loan accounts are analyzed individually on a monthly basis with respect to payment history, ability to repay, probability of repayment, and loan-to-value percentage. Consideration is given to the types of loans in the

**RESULTS OF OPERATIONS continued**

portfolio and the overall risk inherent in the portfolio. After reviewing current economic conditions, changes to the size and composition of the loan portfolio, changes in delinquency status, levels of non-accruing loans, non-performing assets, impaired loans, and actual loan losses incurred by the Company, management establishes an appropriate reserve percentage applicable to each category of loans, and a provision for loan losses is recorded when necessary to bring the allowance to a level consistent with this analysis. Management believes it uses the best information available to make a determination as to the adequacy of the allowance for loan losses.

During the three months ended December 31, 1999, the Company experienced an increase in the level of impaired loans of \$228,000 and a decrease of \$126,000 in classified assets. Despite a decrease in classified assets, growth in the loan portfolio of \$33.5 million along with an increase in the level of impaired loans made it necessary to record a provision of \$100,000 for loan losses in the current period. For the three months ended December 31, 1998, the Company experienced a decrease in the level of impaired loans of \$607,000 and a decrease of \$370,000 in classified assets. Despite growth in the loan portfolio of \$9.2 million, it was not necessary to record a provision for loan losses due to a decrease in impaired loans and classified assets and no net charge-offs in the prior period. At December 31, 1999, the allowance for loan losses was \$3.1 million, which represented 43.6% of non-performing loans and 0.7% of net loans.

For the three months ended December 31, 1999, non-interest income increased \$212,600, or 47.8%, from the prior year comparable period. This resulted from an increase of \$318,200 in other non-interest income, net which was primarily the result of a gain of \$207,200 on the sale of the North Moreland office building along with an increase in rental income of \$77,500 and a recovery on a previously written-off asset of \$32,000 in the current period. This was partially offset by a decrease of \$93,900, or 32.0%, in income from mortgage-banking activities that resulted from a decrease in gain on loan sales of \$127,800 which was partially offset by a \$33,900 increase in servicing income in the current period. During these periods, PVF pursued a strategy of originating long-term, fixed-rate loans pursuant to Federal Home Loan Mortgage Corporation ("FHLMC") and Federal National Mortgage Association ("FNMA") guidelines and selling such loans to the FHLMC or the FNMA, while retaining the servicing. Service and other fees decreased by \$11,700, or 9.3%, from the prior year comparable period, primarily due to a decline in N.O.W. account fee income.

Non-interest expense for the three months ended December 31, 1999 increased by \$399,800, or 18.2%, from the prior year comparable period. This was primarily the result of a \$314,800, or 28.4% increase in compensation and benefits primarily attributable to increased staffing along with employee 401(k) benefits, incentive bonuses paid, and salary and wage adjustments. Office occupancy and equipment increased by \$41,100, or 8.8%, due to the opening of a new branch office and the relocation of an existing branch office. Other

PART I FINANCIAL INFORMATION  
ITEM 2

**RESULTS OF OPERATIONS continued**

non-interest expense increased by \$43,900, or 7.1%, primarily attributable to an increase in legal expenses and advertising in the current period. The increase in legal expenses is the result of costs incurred in defending lawsuits filed against the Bank and two other entities, PVF Financial Planning, Inc. and Emissary Financial Group, Inc., which are majority-owned subsidiaries of the Company's wholly-owned subsidiary, PVF Holdings, Inc. Information pertaining to these lawsuits is set forth in Item 3 of Form 10-K for the year ended June 30, 1999. There have been no significant changes to these lawsuits for the three-month period ended December 31, 1999.

The federal income tax provision for the three-month period ended December 31, 1999 increased to an effective rate of 33.4% for the current period from an effective rate of 33.1% for the prior year comparable period.

**RESULTS OF OPERATIONS** Six months ended December 31, 1999,  
compared to six months ended  
December 31, 1998.

PVF's net income is dependent primarily on its net interest income, which is the difference between interest earned on its loans and investments and interest paid on interest-bearing liabilities. Net interest income also includes amortization of loan origination fees, net of origination costs.

PVF's net income is also affected by the generation of non-interest income, which primarily consists of loan servicing income, service fees on deposit accounts, and gains on the sale of loans held for sale. Net interest income is determined by (i) the difference between yields earned on interest-earning assets and rates paid on interest-bearing liabilities ("interest-rate spread") and (ii) the relative amounts of interest-earning assets and interest-bearing liabilities. The Company's interest-rate spread is affected by regulatory, economic and competitive factors that influence interest rates, loan demand and deposit flows. In addition, net income is affected by the level of operating expenses and loan loss provisions.

The Company's net income for the six months ended December 31, 1999 was \$3,186,300 as compared to \$2,670,200 for the prior year comparable period. This represents an increase of \$516,100, or 19.3%, when compared with the prior year comparable period.

Net interest income for the six months ended December 31, 1999 increased by \$1,077,100, or 14.1%, primarily due to an increase of \$1,169,600, or 6.5%, in interest income that resulted primarily from an increase of \$37.8 million in the average balance of interest-earning assets. This increased balance was offset partially by a 19 basis point decrease in the average return on interest-earning assets from the prior year comparable period. The average balance on deposits and advances increased by \$34.7 million from the prior year

PART I FINANCIAL INFORMATION  
ITEM 2

**RESULTS OF OPERATIONS continued**

comparable period. This increased balance was offset by a 38 basis point decrease in the average cost of funds for the current period, and resulted in an overall increase in interest expense of \$92,500, or 0.90%. The Bank's net interest income increased due to an increase of 19 basis points in the Bank's interest-rate spread and balance sheet growth in both interest-earning assets and interest-bearing liabilities during the current period as compared to the prior year comparable period.

For the six months ended December 31, 1999, a \$450,000 provision for loan losses was recorded, while no provision for loan losses was recorded in the prior year comparable period. The Company uses a systematic approach to determine the adequacy of its loan loss allowance and the necessary provision for loan losses. The loan portfolio is reviewed and delinquent loan accounts are analyzed individually on a monthly basis with respect to payment history, ability to repay, probability of repayment, and loan-to-value percentage. Consideration is given to the types of loans in the portfolio and the overall risk inherent in the portfolio. After reviewing current economic conditions, changes to the size and composition of the loan portfolio, changes in delinquency status, levels of non-accruing loans, non-performing assets, impaired loans, and actual loan losses incurred by the Company, management establishes an appropriate reserve percentage applicable to each category of loans, and a provision for loan losses is recorded when necessary to bring the allowance to a level consistent with this analysis. Management believes it uses the best information available to make a determination as to the adequacy of the allowance for loan losses.

During the six months ended December 31, 1999, the Company experienced an increase in the level of impaired loans of \$1.5 million and an increase of \$1.1 million in classified assets. Due to the increase in the level of impaired loans and classified assets, as well as growth in the loan portfolio of \$54.0 million, management determined it was necessary and prudent to record a provision for loan losses of \$450,000 in the current period. During the six months ended December 31, 1998, the Company experienced a decrease in the level of impaired loans of \$477,000 and an increase of \$2.8 million in classified assets. Despite growth in the loan portfolio of \$19.4 million and an increase in classified assets, it was not necessary to record a provision for loan losses due to a decrease in impaired loans and no net charge-offs during the prior period. At December 31, 1999, the allowance for loan losses was \$3.1 million, which represents 43.6% of non-performing loans and 0.7% of net loans.

For the six months ended December 31, 1999, non-interest income increased \$864,800, or 107.0%, from the prior year comparable period. This was primarily the result of the receipt of an insurance payment of \$692,100 for legal costs previously incurred relating to the settlement of a lawsuit by PVF Holdings, Inc., a wholly-owned subsidiary of PVF Capital Corp. In addition, other non-interest income, net, increased by \$376,800 as a result of the gain of \$207,200

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ITEM 2

**RESULTS OF OPERATIONS continued**

on the sale of the North Moreland office building along with an increase in rental income of \$156,400 in the current period. This was partially offset by a decrease of \$228,300, or 42.9%, in income from mortgage-banking activities that resulted from a decrease in gain on loan sales of \$258,500 partially offset by a \$30,200 increase in servicing income in the current period. During these periods, PVF pursued a strategy of originating long-term, fixed-rate loans pursuant to Federal Home Loan Mortgage Corporation ("FHLMC") and Federal National Mortgage Association ("FNMA") guidelines and selling such loans to the FHLMC or the FNMA, while retaining the servicing. Service and other fees increased by \$24,100, or 10.5%, from the prior year comparable period, primarily due to increases in N.O.W. account fee income.

Noninterest expense for the six months ended December 31, 1999 increased by \$709,900, or 16.0%, from the prior year comparable period. This was primarily the result of a \$502,400, or 21.8%, increase in compensation and benefits primarily attributable to increased staffing along with employee 401(K) benefits, incentive bonuses paid, and salary and wage adjustments. Office occupancy and equipment increased by \$82,000, or 9.2%, due to the opening of a new branch office and the relocation of one of our existing branch offices. Other non-interest expense increased by \$125,500, or 10.1%, primarily attributable to an increase in legal expenses and advertising in the current period. The increase in legal expenses is the result of costs incurred in defending lawsuits filed against the Bank and two other entities, PVF Financial Planning, Inc. and Emissary Financial Group, Inc., which are majority-owned subsidiaries of the Company's wholly-owned subsidiary, PVF Holdings, Inc. Information pertaining to these lawsuits is set forth in Item 3 of Form 10-K for the year ended June 30, 1999. There have been no significant changes to these lawsuits for the six-month period ended December 31, 1999.

The federal income tax provision for the six-month period ended December 31, 1999 increased to an effective rate of 33.3% for the current period from an effective rate of 33.2% for the prior year comparable period.

**Year 2000**

Park View Federal did not experience any significant malfunctions or errors in its operating or business systems when the date changed from 1999 to 2000. Based on operations since January 1, 2000, the Company does not expect any significant impact on its ongoing business as a result of the "Year 2000 issue." However, it is possible that the full impact of the date change, which was of concern due to computer programs that use two digits instead of four digits to define years, has not been fully recognized. For example, it is possible that Year 2000 or similar issues such as leap year-related problems may occur with billing, payroll, or financial closings at month, quarterly, or year end. The Company believes that any such problems are likely to

PART I FINANCIAL INFORMATION  
ITEM 2

**Year 2000 continued**

be minor and correctable. In addition, the Company could still be negatively affected if its customers are adversely affected by the Year 2000 or similar issues. The Company currently is not aware of any significant Year 2000 or similar problems that have arisen for its customers.

The cost to the Bank to become Year 2000 ready did not have a material impact to the Bank's net income for any year. These efforts included replacing some outdated, non-compliant hardware and non-compliant software as well as identifying and remediating Year 2000 problems.



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**LIQUIDITY AND CAPITAL RESOURCES**

The Bank is required by federal regulations to maintain specific levels of “liquid” assets consisting of cash and other eligible investments. The current level of liquidity required by the Office of Thrift Supervision is 4% of the sum of net withdrawable savings and borrowings due within one year. The Bank’s liquidity at December 31, 1999 was 11.1%. Management believes the Bank has sufficient liquidity to meet its operational needs.

**ANNUAL MEETING VOTING RESULTS**

The Company’s Annual Meeting of Stockholders was held on October 18, 1999. A total of 3,504,620 shares of the Company’s common stock were represented at the Annual Meeting in person or by proxy.

Stockholders voted in favor of the election of three nominees for director. The voting results for each nominee were as follows:

<b>Nominee</b>	<b>Votes in Favor of election</b>	<b>Votes Against</b>
Creighton E. Miller	3,495,021	9,599
John R. Male	3,495,265	9,355
Stanley T. Jaros	3,495,265	9,355

There were 885,122 non-votes on the matter.

Proposal to ratify the appointment of KPMG LLP as independent certified public accountants of the Company for the fiscal year ending June 30, 2000.

<b>Votes For</b>	<b>Votes Against</b>	<b>Abstain</b>	<b>Not Voting</b>
3,497,673	0	6,947	885,122

There were no broker non-votes for the annual meeting.

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**QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

There have been no significant changes to the Company's interest rate risk position or any changes to how the Company manages its Asset/ Liability position since June 30, 1999.

Part II Other Information

Item 6. Exhibits and Reports on Form 8-K

(a) PVF did not file any reports on Form 8-K during the three-month period ended December 31, 1999.

## Signature

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

PVF Capital Corp.

(Registrant)

Date: February 11, 2000

/s/ C. Keith Swaney

C. Keith Swaney

Vice President and Treasurer