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THOMSON  
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*Annual Report*

June 30, 2004

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 **PVF CAPITAL CORP.**

**PROCESSED**

**SEP 20 2004**

**THOMSON  
FINANCIAL**

 PARKING

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## To Our Shareholders

We are pleased to report that PVF Capital Corp. enjoyed another solid year of earnings, which enabled us to pay a competitive dividend rate and boost retained earnings for the year ended June 30, 2004. Earnings were \$6.9 million, or \$0.98 basic earnings per share and \$0.96 diluted earnings per share. In addition, return on average assets was 0.96 percent and return on average common equity was 11.26 percent for the year.

During the year, the Company invested in and introduced new technologies that are transforming the way we do business. This modernization and improvement to our technological infrastructure was performed in order to offer our customers enhanced services as well as to position the Company to take advantage of the cost savings benefits provided. One of these enhancements will be the release of our new online banking service during the second quarter of this fiscal year. This technology will offer our customers the ability to access current loan and deposit account information, transfer funds between accounts, pay bills online, as well as aggregate and view all of their participating online financial accounts from a range of financial institutions in a single web page.

Consolidated assets of the Company increased \$12.3 million to \$755.7 million, while total stockholders' equity of PVF Capital Corp. increased to \$63.4 million at June 30, 2004. Loans receivable and mortgage-backed securities held to maturity increased by \$33.7 million and \$33.8 million, respectively, while loans receivable held for sale declined by \$21.7 million. The decline in loans receivable held for sale resulted from a decrease in refinancing activity attributable to rising interest rates. Securities held to maturity increased by \$27.5 million as management made the decision to invest in short-term agency securities. Funds from the decrease of \$79.3 million in cash and cash equivalents were invested in new loan production, mortgage-backed securities and securities. Deposit balances remained stable, as management utilized attractive short-term advances to fund asset growth.

In June 2004, PVF Capital Corp. formed a trust that issued \$10.0 million of subordinated debt. The Company intends to use \$7.0 million of the proceeds from the sale of these securities to increase its investment in Park View Federal Savings Bank and the balance to purchase treasury stock in accordance with our existing stock repurchase program. The \$7.0 million investment in Park View Federal Savings Bank will increase the Bank's regulatory capital ratios and increase lending limits.

Due to the efforts of our branch network and a strong staff of mortgage loan originators, we were able to close a total of \$415.4 million in mortgage loans for the year. In addition, the Company sold \$301.0 million in fixed-rate mortgage loans and recorded profits of \$4.6 million on mortgage banking activity for the year. As a result of these sales, the Company increased its mortgage servicing portfolio by \$87.8 million to \$746.8 million and carried a net mortgage servicing asset of \$5.4 million, or 72 basis points, of the total servicing portfolio at June 30, 2004.

Our stock repurchase program originally announced in June of 1999 to purchase up to 5 percent of the Company's common stock was expanded in August 2002 to acquire up to an additional 5 percent of the Company's common stock. The August 2002 plan was renewed for an additional 12 months in July 2004. Pursuant to these plans and our cash dividend policy, the Company repurchased a total of 377,870 shares, or 5.1 percent, of its common stock through June 30, 2004 and paid a \$0.269 per share cash dividend for the year. Continuation of the stock repurchase program and cash dividend policy will be dependent on the Company's financial condition, earnings, capital needs, regulatory requirements, and market conditions. In July 2004, the Company announced a quarterly cash dividend of \$0.067 per share (adjusted for 2004 stock dividend) on the outstanding shares of common stock that was paid in August 2004. Additionally, in July 2004, the Company announced a 10 percent stock dividend, also paid in August 2004.

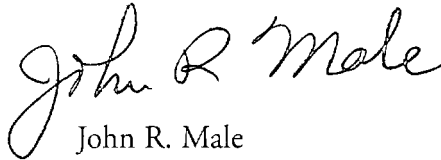
In December 2003 and January 2004, Park View Federal successfully opened a new full-service branch office in Streetsboro, Ohio and a loan origination office in Canal Fulton, Ohio. Also, in June 2004, our Mayfield Heights branch office was relocated to a more convenient location in the same proximity as the former office.

The growth of our branch network continues to open new markets in residential, construction, multi-family, and commercial real estate lending and has increased our ability to attract new consumer deposits. The opening of the Streetsboro, Ohio branch office brings the number of full-service branch offices we have located throughout greater Cleveland to sixteen. We plan to continue our efforts to identify new locations for the further expansion of our branch network.

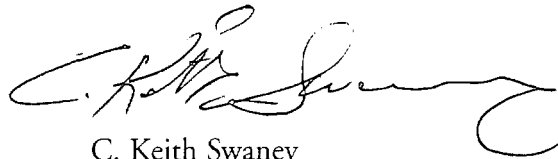
Visit our web site at [www.pvfsb.com](http://www.pvfsb.com). The site provides information about our products and services, and provides access to current loan and deposit account rates, terms, and other information.

We invite all shareholders to attend the Annual Meeting of Stockholders of PVF Capital Corp. on Monday, October 18, 2004 at 10:00 a.m., at PVF Capital Corp.'s Corporate Center, 30000 Aurora Road, Solon, Ohio. We look forward to another successful year of service and dedication to the community, its members, our shareholders, and our customers.

Sincerely,



John R. Male  
Chairman of the Board  
and Chief Executive Officer

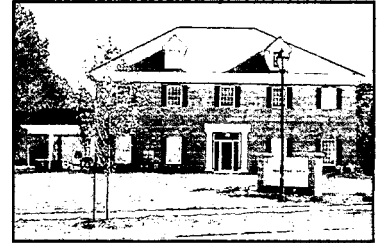


C. Keith Swaney  
President, Chief Operating Officer  
and Treasurer

**FULL SERVICE LOCATIONS**

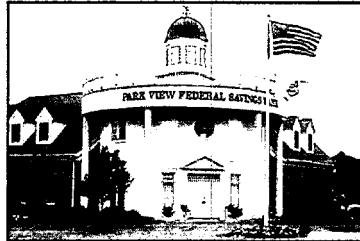
**Avon Office**

36311 Detroit Rd.  
Avon, OH 44011  
Tel: 440-934-3580



**Bainbridge Office**

8500 Washington St.  
Chagrin Falls, OH 44023  
Tel: 440-543-8889



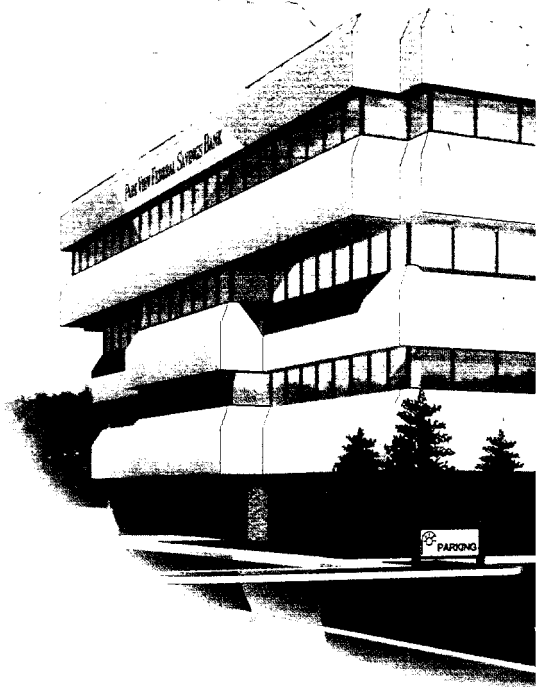
**Beachwood Office**

La Place  
2111 Richmond Rd.  
Beachwood, OH 44122  
Tel: 216-831-6373



**Corporate Center Office**

30000 Aurora Rd.  
Solon, OH 44139  
Tel: 440-914-3900



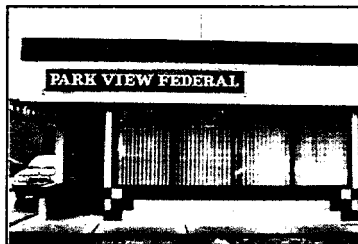
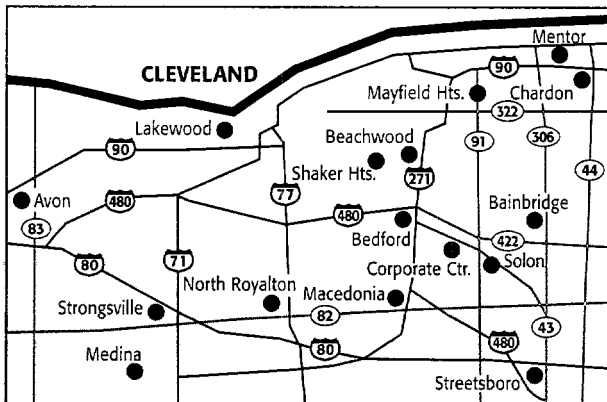
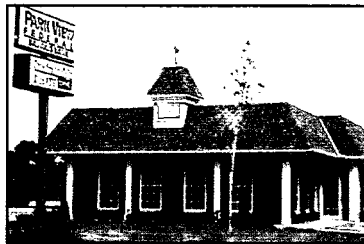
**Bedford Office**

413 Northfield Rd.  
Bedford, OH 44146  
Tel: 440-439-2200



**Chardon Office**

408 Water St.  
Chardon, OH 44024  
Tel: 440-285-2343



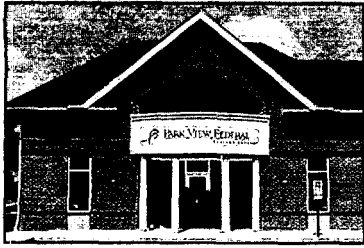
**Lakewood-Cleveland Office**

11010 Clifton Blvd.  
Cleveland, OH 44102  
Tel: 216-631-8900



**Macedonia Office**

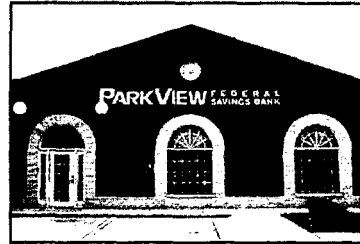
497 East Aurora Rd.  
Macedonia, OH 44056  
Tel: 330-468-0055



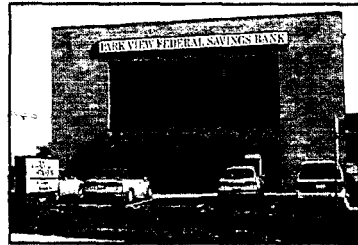
**Mayfield Heights Office**  
1244 SOM Center Rd.  
Mayfield Hts., OH 44124  
Tel: 440-449-8597



**Medina Office**  
Reserve Square  
3613 Medina Rd.  
Medina, OH 44256  
Tel: 330-721-7484



**Mentor Office**  
Heisley Corners  
6990 Heisley Rd.  
Mentor, OH 44060  
Tel: 440-944-0276



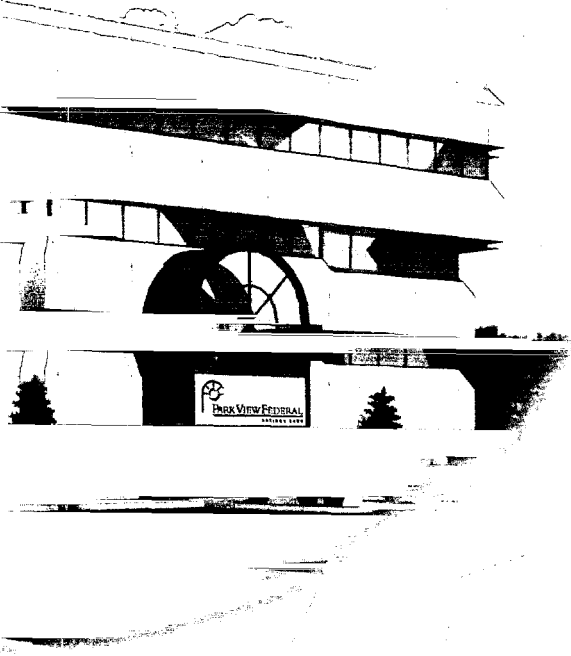
**North Royalton Office**  
13901 Ridge Rd.  
North Royalton, OH 44133  
Tel: 440-582-7417



**Shaker Heights Office**  
Shaker Towne Centre  
16909 Chagrin Blvd.  
Shaker Hts., OH 44120  
Tel: 216-283-4003



**Solon Office**  
Solar Shopping Center  
34400 Aurora Rd.  
Solon, OH 44139  
Tel: 440-542-6070



**Streetsboro Office**  
9305 Market Square Dr.  
Streetsboro, OH 44241  
Tel: 330-626-9444



**Strongsville Office**  
17780 Pearl Rd.  
Strongsville, OH 44136  
Tel: 440-878-6010

Park View Federal's conveniently located full-service branch offices, with ample parking facilities immediately adjacent to each office, are equipped with state-of-the-art technology to process any transaction quickly and efficiently. Our loan officers and account representatives are available to answer any questions about our financial products and services. We pride ourselves on providing our customers with the best in financial assistance and personal service.



**PARK VIEW FEDERAL**

SAVINGS BANK

**Better service from a better bank.**

 ELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

*Financial Condition Data:*

	At June 30,				
	2004	2003	2002	2001	2000
(dollars in thousands)					
Total assets .....	\$755,687	\$743,404	\$679,620	\$736,525	\$612,986
Loans receivable, net .....	610,681	576,985	560,577	570,228	510,650
Loans receivable held for sale, net .....	11,871	33,604	11,680	6,152	10,738
Mortgage-backed securities held to maturity .....	36,779	2,931	7,211	17,912	1,208
Cash and cash equivalents .....	17,470	96,751	14,314	65,395	5,672
Securities .....	27,500	33	55,121	50,212	65,259
Deposits .....	526,493	526,429	479,672	480,532	440,982
FHLB advances and notes payable .....	147,526	125,938	129,028	190,567	114,974
Stockholders' equity .....	63,361	58,603	52,299	48,006	42,900
Number of:					
Real estate loans outstanding .....	5,094	4,778	4,484	4,431	4,160
Savings accounts .....	31,226	32,081	30,223	30,567	28,915
Offices .....	16	15	13	12	11

*Operating Data:*

	Year Ended June 30,				
	2004	2003	2002	2001	2000
(dollars in thousands except for earnings per share)					
Interest income .....	\$ 39,109	\$ 43,482	\$ 48,814	\$ 53,962	\$ 42,026
Interest expense .....	<u>16,739</u>	<u>20,646</u>	<u>27,060</u>	<u>34,118</u>	<u>23,972</u>
Net interest income					
before provision for loan losses .....	22,370	22,836	21,754	19,844	18,054
Provision for loan losses .....	<u>597</u>	<u>0</u>	<u>558</u>	<u>225</u>	<u>850</u>
Net interest income					
after provision for loan losses .....	21,773	22,836	21,196	19,619	17,204
Non-interest income .....	6,130	5,893	3,751	2,600	2,681
Non-interest expense .....	<u>17,571</u>	<u>16,509</u>	<u>14,139</u>	<u>12,218</u>	<u>10,410</u>
Income before federal income taxes .....	10,332	12,220	10,808	10,001	9,475
Federal income taxes .....	<u>3,422</u>	<u>4,124</u>	<u>3,635</u>	<u>3,365</u>	<u>3,163</u>
Net income .....	<u>\$ 6,910</u>	<u>\$ 8,096</u>	<u>\$ 7,173</u>	<u>\$ 6,636</u>	<u>\$ 6,312</u>
Basic earnings per share <sup>(1)</sup> .....	<u>\$ 0.98</u>	<u>\$ 1.16</u>	<u>\$ 1.02</u>	<u>\$ 0.96</u>	<u>\$ 0.90</u>
Diluted earnings per share <sup>(1)</sup> .....	<u>\$ 0.96</u>	<u>\$ 1.14</u>	<u>\$ 1.00</u>	<u>\$ 0.92</u>	<u>\$ 0.87</u>

<sup>(1)</sup> Adjusted for stock dividends.



*Other Data:*

	At or For the Year Ended June 30,				
	2004	2003	2002	2001	2000
Return on average assets .....	0.96%	1.15%	1.03%	1.00%	1.21%
Return on average equity .....	11.26%	14.60%	14.19%	14.62%	15.45%
Interest rate spread .....	3.12%	3.13%	2.95%	2.75%	3.21%
Net interest margin .....	3.31%	3.37%	3.26%	3.09%	3.59%
Average interest-earning assets to average interest-bearing liabilities .....	107.62%	108.10%	107.64%	106.45%	107.98%
Non-accruing loans (> 90 days) and repossessed assets to total assets .....	1.42%	1.06%	1.23%	0.91%	0.87%
Stockholders' equity to total assets .....	8.38%	7.88%	7.70%	6.52%	7.00%
Ratio of average equity to average assets .....	8.49%	7.86%	7.24%	6.79%	7.80%
Dividend payout ratio (cash dividends paid divided by net income) .....	26.64%	20.44%	21.42%	20.78%	21.77%

*Bank Regulatory Capital Ratios:*

Ratio of tangible capital to adjusted total assets .....	7.97%	7.73%	7.88%	6.46%	6.68%
Ratio of core capital to adjusted total assets .....	7.97%	7.73%	7.88%	6.46%	6.68%
Ratio of Tier-1 risk-based capital to risk-weighted assets .....	9.54%	9.92%	10.84%	9.56%	9.24%
Ratio of risk-based capital to risk-weighted assets .....	10.19%	10.55%	11.63%	10.26%	10.00%

### *General*

PVF Capital Corp. ("PVF" or the "Company") is the holding company for Park View Federal Savings Bank ("Park View Federal" or the "Bank"), its principal and wholly-owned subsidiary, and a federally chartered savings bank headquartered in Solon, Ohio. Park View Federal has 16 branch offices located in Cleveland and surrounding communities, including a recently opened branch office in Streetsboro, Ohio, and a loan origination office in Canal Fulton, Ohio. The Bank's principal business consists of attracting deposits from the general public through its branch offices and investing these funds in loans secured by first mortgages on real estate located in its market area, which consists of Cuyahoga, Lake, Geauga, Portage, Summit, Stark, Medina, and Lorain Counties in Ohio. The Bank has concentrated its activities on serving the borrowing needs of local homeowners and builders in its market area by originating both fixed-rate and adjustable-rate single-family mortgage loans, as well as construction loans, commercial real estate loans, and multi-family residential real estate loans. In addition, the Bank originates loans secured by second mortgages, including equity line of credit loans secured by real estate, and non real estate loans. Lending activities are influenced by the demand for and supply of housing, competition among lenders, the level of interest rates, and the availability of funds. Deposit flows and cost of funds are influenced by prevailing market rates of interest, primarily on competing investments, account maturities, and the level of personal income and savings in the market area.

### *Forward-Looking Statements*

When used in this Annual Report, 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, and competition that could cause actual results to differ materially from historical earnings and those presently anticipated or projected. 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 result 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.

### *Overview of Financial Condition at June 30, 2004, 2003, and 2002*

PVF had total assets of \$755.7 million, \$743.4 million, and \$679.6 million at June 30, 2004, 2003, and 2002, respectively. The primary source of the Bank's total assets has been its loan portfolio. Net loans receivable, loans receivable held for sale, and mortgage-backed securities totaled \$659.3 million, \$613.5 million, and \$579.5 million at June 30, 2004, 2003, and 2002, respectively. The increase of \$45.8 million at June 30, 2004 resulted from an increase in loans receivable of \$33.7 million, a decrease in loans receivable held for sale of \$21.7 million, and an increase in mortgage-backed securities of \$33.8 million. The increase of loans receivable resulted from increases, net of deferred fees, of \$27.8 million in commercial real estate loans, \$15.7 million in home equity line of credit loans, \$4.0 million in commercial equity line of credit loans, \$2.2 million in non real estate loans, and \$1.1 million in land loans. These increases were offset by decreases, net of deferred fees, of \$11.6 million in one-to-four family residential loans, \$3.3 million in construction loans, and \$2.2 million in multi-family loans. The decline in loans receivable held for sale of \$21.7 million is attributable to a slowdown in refinancing activity resulting from rising interest rates in the current period. The increase in mortgage-backed securities resulted from the purchase of \$39.9 million in mortgage-backed securities less payments received of \$6.1 million. Securities totaled \$27.5 million, \$0.03 million, and \$55.1 million, and cash and cash

equivalents totaled \$17.5 million, \$96.8 million, and \$14.3 million at June 30, 2004, 2003, and 2002, respectively. The Bank invested \$15.0 million in Bank Owned Life Insurance ("BOLI") during the year ended June 30, 2004. The BOLI was purchased to improve return on assets and return on equity, as well as to take advantage of the tax-free return on investment.

The securities portfolio has been and will continue to be used primarily to meet the liquidity requirements of the Bank in its deposit taking and lending activities.

The Bank has adopted a policy that permits investment only in U.S. government and agency securities or Triple-A-rated securities. The Bank invests primarily in securities having a final maturity of five years or less, federal funds sold, and deposits at the Federal Home Loan Bank ("FHLB") of Cincinnati. The entire portfolio matures within five years or less, and the Bank has no plans to change the short-term nature of its securities portfolio.

The Bank's deposits totaled \$526.5 million, \$526.4 million, and \$479.7 million at June 30, 2004, 2003, and 2002, respectively. Advances from the FHLB amounted to \$135.0 million, \$120.1 million, and \$120.7 million at June 30, 2004, 2003, and 2002, respectively. Management's decision to borrow FHLB advances and to match market savings rates resulted in an increase in FHLB advances of \$14.9 million and a slight increase in savings deposits of \$0.1 million for the year ended June 30, 2004. In June 2004, the Company formed a trust that issued \$10.0 million in subordinated debt. The Company intends to use \$7.0 million of the proceeds from the sale of these securities to increase its investment in Park View Federal Savings Bank and the balance to purchase treasury stock in accordance with our existing stock repurchase program.

Funds from the decrease of \$79.3 million in cash and cash equivalents, a decrease in loans receivable held for sale of \$21.7 million, an increase in FHLB advances of \$14.9 million, the issuance of \$10.0 million in subordinated debt, and the increase in stockholders' equity of \$4.8 million were used to fund the net increase of \$67.5 million in loans receivable and mortgage-backed securities held to maturity, purchase \$27.5 million in securities, fund the increase of \$15.9 million in prepaid expenses and other assets resulting from the investment in BOLI, fund the decrease of \$14.1 million in accrued

expenses and other liabilities and advances from borrowers for tax and insurance, repay \$3.3 million in notes payable, and fund the increase of \$2.3 million in office property and equipment.

### Capital

PVF's stockholders' equity totaled \$63.4 million, \$58.6 million, and \$52.3 million at the years ended June 30, 2004, 2003, and 2002, respectively. The increases were the result of the retention of net earnings less cash dividends paid and purchased treasury stock.

The Bank's primary regulator, The Office of Thrift Supervision ("OTS") has implemented a statutory framework for capital requirements which establishes five categories of capital strength ranging from "well capitalized" to "critically undercapitalized." An institution's category depends upon its capital level in relation to relevant capital measures, including two risk-based capital measures, a tangible capital measure, and a core/leverage capital measure. At June 30, 2004, the Bank was in compliance with all of the current applicable regulatory capital measurements to meet the definition of a well-capitalized institution, as demonstrated in the following table:

(dollars in thousands)	Park View Federal Capital	Percent of Assets <sup>(1)</sup>	Requirement for Well-Capitalized Institution
GAAP capital	\$60,716	7.97%	N/A
Tangible capital	\$60,658	7.97%	N/A
Core capital	\$60,658	7.97%	5.00%
Tier-1 risk-based capital	\$60,658	9.54%	6.00%
Risk-based capital	\$64,835	10.19%	10.00%

<sup>(1)</sup> Tangible and core capital levels are shown as a percentage of total adjusted assets; risk-based capital levels are shown as a percentage of risk-weighted assets.

### Common Stock and Dividends

The Company's common stock trades under the symbol "PVFC" on the NASDAQ Small-Cap Market. A 10 percent stock dividend was issued in August 2004, 2003, and 2002. As adjusted to reflect all stock dividends and purchases of treasury stock, the Company had 7,044,365 shares of common stock outstanding and approximately 244 holders of record of the common stock at September 7, 2004. OTS regulations applicable to all Federal Savings Banks such as Park View Federal

limit the dividends that may be paid by the Bank to PVF. Any dividends paid may not reduce the Bank's capital below minimum regulatory requirements.

In June 1999, the Company announced a stock repurchase program to acquire up to 5 percent of the Company's common stock and a quarterly cash dividend policy. In August 2002, the Company announced that it had implemented a new stock repurchase program to acquire up to an additional 5 percent of the Company's common stock. The stock repurchase program is dependent on market conditions with no guarantee as to the exact number of shares to be repurchased. At June 30, 2004, as adjusted to reflect all stock dividends, the Company had acquired a total of 377,870 shares, or 5.1 percent, of the Company's common stock. The cash dividend policy remains dependent upon the Company's financial condition, earnings, capital needs, regulatory requirements, and economic conditions. A quarterly cash dividend of \$0.074 per share, prior to adjustment for stock dividends, was paid on the Company's outstanding common stock in fiscal 2004, 2003, and 2002.

The following table sets forth certain information as to the range of the high and low bid prices for the Company's common stock for the calendar quarters indicated. <sup>(1)</sup>

	Fiscal 2004		Fiscal 2003	
	High Bid	Low Bid	High Bid	Low Bid
Fourth Quarter	\$15.44	\$11.64	\$12.19	\$10.75
Third Quarter	15.95	12.95	11.83	9.92
Second Quarter	14.97	12.95	10.72	8.35
First Quarter	13.68	11.33	9.03	5.70

<sup>(1)</sup> Quotations reflect inter-dealer prices without retail mark-up, mark-down, or commission, and may not represent actual transactions. Bid prices have been adjusted to reflect the previously described stock dividends.

### Liquidity and Capital Resources

The Company's liquidity measures its ability to fund loans and meet withdrawals of deposits and other cash outflows in a cost-effective manner. The Company's primary sources of funds for operations are deposits from its primary market area, principal and interest payments on loans and mortgage-backed securities, sales of loans, proceeds from maturing securities, and advances from the FHLB of Cincinnati. While loan and mortgage-

backed securities payments and maturing securities are relatively stable sources of funds, deposit flows and loan and mortgage-backed securities prepayments are greatly influenced by prevailing interest rates, economic conditions, and competition. FHLB advances may be used on a short-term basis to compensate for deposit outflows or on a long-term basis to support expanded lending and investment activities.

The Bank uses its capital resources principally to meet its ongoing commitment to fund existing and continuing loan commitments, fund maturing certificates of deposit and deposit withdrawals, repay borrowings, maintain its liquidity, and meet operating expenses. At June 30, 2004, the Bank had commitments to originate loans totaling \$58.4 million, commitments to fund equity lines of credit totaling \$82.0 million, and \$72.0 million of undisbursed loans in process. Scheduled maturities of certificates of deposit during the 12 months following June 30, 2004 total \$304.1 million. Management believes that a significant portion of the amounts maturing during fiscal 2005 will be reinvested with the Bank because they are retail deposits, however, no assurances can be made that this will occur.

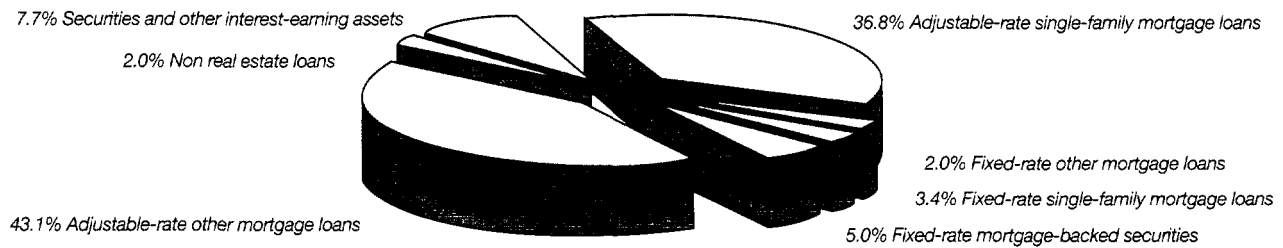
Park View Federal maintains liquid assets sufficient to meet operational needs. The Bank's most liquid assets are cash and cash equivalents, which are short-term, highly-liquid investments that are readily convertible to known amounts of cash. The levels of such assets are dependent upon the Bank's operating, financing, and investment activities at any given time. Management believes that the liquidity levels maintained are more than adequate to meet potential deposit outflows, repay maturing FHLB advances, fund new loan demand, and cover normal operations.

### Market Risk Management

Market risk is the risk of loss arising from adverse changes in the fair value of financial instruments due to changes in interest rates, exchange rates, and equity prices. The Bank's market risk is composed of interest rate risk.

Asset/Liability Management: The Bank's asset and liability committee ("ALCO"), which includes senior management representatives and two outside directors, monitors and considers methods of managing the rate sensitivity and repricing characteristics of the balance sheet components consistent with maintaining

### Profile of Interest Earning Assets



acceptable levels of changes in net portfolio value (“NPV”) and net interest income. Park View Federal’s asset and liability management program is designed to minimize the impact of sudden and sustained changes in interest rates on NPV and net interest income.

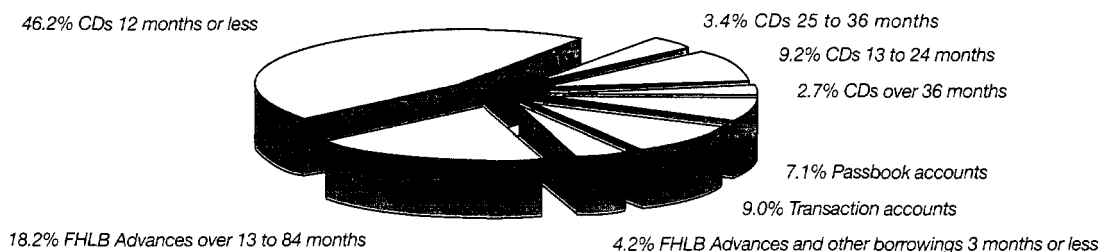
The Bank’s exposure to interest rate risk is reviewed on a quarterly basis by the Board of Directors and the ALCO. Exposure to interest rate risk is measured with the use of interest rate sensitivity analysis to determine the Bank’s change in NPV in the event of hypothetical changes in interest rates, while interest rate sensitivity gap analysis is used to determine the repricing characteristics of the Bank’s assets and liabilities. If estimated changes to NPV and net interest income are not within the limits established by the Board, the Board may direct management to adjust its asset and liability mix to bring interest rate risk within Board-approved limits.

In order to reduce the exposure to interest rate fluctuations, the Bank has developed strategies to manage its liquidity, shorten its effective maturity, and increase the interest rate sensitivity of its asset base. Management has sought to decrease the average maturity of its assets by emphasizing the origination of adjustable-rate residential mortgage loans and adjustable-rate mortgage loans for the acquisition, development, and construction of residential and commercial real estate,

all of which are retained by the Bank for its portfolio. In addition, all long-term, fixed-rate mortgages are underwritten according to guidelines of the Federal Home Loan Mortgage Corporation (“FHLMC”) and the Federal National Mortgage Association (“FNMA”) and are either swapped with the FHLMC and the FNMA in exchange for mortgage-backed securities secured by such loans, which are then sold in the market or sold directly for cash in the secondary market.

Interest rate sensitivity analysis is used to measure the Bank’s interest rate risk by computing estimated changes in NPV of its cash flows from assets, liabilities, and off-balance sheet items in the event of a range of assumed changes in market interest rates. NPV represents the market value of portfolio equity and is equal to the market value of assets minus the market value of liabilities, with adjustments made for off-balance sheet items. This analysis assesses the risk of loss in market risk sensitive instruments in the event of an immediate and sustained 1 and 2 percent increase or decrease in market interest rates. The Bank’s Board of Directors has adopted an interest rate risk policy which establishes maximum decreases in the NPV ratio (ratio of market value of portfolio equity to the market value of portfolio assets) of 0.5 and 1.0 percent in the event of an immediate and sustained 1 and 2 percent increase or decrease in market interest rates.

### Profile of Interest Bearing Liabilities



The following table presents the Bank's projected change in NPV for the various rate shock levels at June 30, 2004 and 2003. All market risk sensitive instruments

presented in this table are held to maturity or available for sale. The Bank has no trading securities.

(dollars in thousands) Change in Interest Rates	June 30, 2004			June 30, 2003		
	Market Value of Portfolio Equity	Dollar Change	NPV Ratio	Market Value of Portfolio Equity	Dollar Change	NPV Ratio
+2%	\$ 74,999	\$(8,703)	9.69%	\$ 71,763	\$ 6,455	9.37%
+1%	80,232	(3,472)	10.25	68,847	3,539	8.95
0	83,703		10.59	65,308		8.46
-1%	83,477	(226)	10.49	59,358	(5,950)	7.66
-2%	N/A	N/A	N/A	N/A	N/A	N/A

The table illustrates that for June 30, 2004, in the event of an immediate and sustained increase in prevailing market interest rates, the Bank's NPV ratio would be expected to decrease, while in the event of an immediate and sustained decrease in prevailing market rates, the Bank's NPV ratio would decline slightly. For June 30, 2003, in the event of an immediate and sustained increase in prevailing market interest rates, the Bank's NPV ratio would be expected to increase, while in the event of an immediate and sustained decrease in prevailing market rates, the Bank's NPV ratio would be expected to decrease. The Bank carefully monitors the maturity and repricing of its interest-earning assets and interest-bearing liabilities to minimize the effect of changing interest rates on its NPV. At June 30, 2004, the Bank's estimated changes in NPV ratio were within the targets established by the Board of Directors in the event of an immediate and sustained increase or decrease in prevailing market interest rates. The Bank's interest rate risk ("IRR") position is the result of the repricing characteristics of assets and liabilities. The balance sheet is primarily comprised of interest-earning assets having a maturity and repricing period of one month to five years. These assets were funded utilizing interest-bearing liabilities having a final maturity of two years or less and advances convertible at the option of the FHLB of Cincinnati. Management will carefully monitor its IRR position and will make the necessary adjustments to its asset and liability mix to bring the Bank's NPV ratio to within target levels established by the Board of Directors.

NPV is calculated by the OTS using information provided by the Bank. The calculation is based on the net present value of discounted cash flows utilizing market prepayment assumptions and market rates of interest provided by Bloomberg quotations and surveys performed during the quarters ended June 30, 2004 and 2003, with adjustments made to reflect the shift in the Treasury yield curve between the survey date and the quarter-end date.

Computation of prospective effects of hypothetical interest rate changes are based on numerous assumptions, including relative levels of market interest rates, loan prepayments, and deposit decay, and should not be relied upon as indicative of actual results. Further, the computations do not contemplate any actions the Bank may undertake in response to changes in interest rates.

Certain shortcomings are inherent in the method of analysis presented in the computation of NPV. Actual values may differ from those projections set forth in the table, should market conditions vary from assumptions used in the preparation of the table. Certain assets such as adjustable-rate loans, which represent the Bank's primary loan product, have features which restrict changes in interest rates on a short-term basis and over the life of the asset. In addition, the proportion of adjustable-rate loans in the Bank's portfolio could decrease in future periods if market interest rates remain at or decrease below current levels due to refinance activity. Further, in the event of a change in interest

rates, prepayment and early withdrawal levels would likely deviate significantly from those assumed in the table. Finally, the ability of many borrowers to repay their adjustable-rate debt may decrease in the event of an interest rate increase.

The Company uses interest rate sensitivity gap analysis to monitor the relationship between the maturity and repricing of its interest-earning assets and interest-bearing liabilities, while maintaining an acceptable interest rate spread. Interest rate sensitivity gap is defined as the difference between the amount of interest-earning assets maturing or repricing within a specific time period and the amount of interest-bearing liabilities maturing or repricing within that time period. A gap is considered positive when the amount of interest-rate-sensitive assets exceeds the amount of interest-rate-sensitive liabilities, and is considered negative when the amount of interest-rate-sensitive liabilities exceeds the amount of interest-

rate-sensitive assets. Generally, during a period of rising interest rates, a negative gap would adversely affect net interest income, while a positive gap would result in an increase in net interest income. Conversely, during a period of falling interest rates, a negative gap would result in an increase in net interest income, while a positive gap would negatively affect net interest income. Management's goal is to maintain a reasonable balance between exposure to interest rate fluctuations and earnings.

The following table summarizes the Company's interest rate sensitivity gap analysis at June 30, 2004. The table indicates that the Company's one year and under ratio of cumulative gap to total assets is a positive 7.8 percent, one-to-three year ratio of cumulative gap to total assets is a positive 1.9 percent, and three-to-five year ratio of cumulative gap to total assets is a positive 14.0 percent.

(dollars in thousands)	Within 1 Year	1-3 Years	3-5 Years	>5 Years	Total
Total interest-rate-sensitive assets .....	\$390,630	\$101,335	\$150,117	\$ 72,860	\$714,942
Total interest-rate-sensitive liabilities .....	331,594	146,191	58,572	121,233	657,590
Periodic GAP .....	59,036	(44,856)	91,545	(48,373)	57,352
Cumulative GAP .....	59,036	14,180	105,725	57,352	
Ratio of cumulative GAP to total assets .....	7.8%	1.9%	14.0%	7.6%	

## COMMITMENTS, CONTINGENCIES AND OFF-BALANCE SHEET RISK

The Company is a party to financial instruments with off-balance sheet risk including commitments to originate new loans, commitments to extend credit under existing lines of credit and commitments to sell loans. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheet.

Off-balance sheet financial instruments whose contract amounts represent credit and interest rate risk are summarized as follows:

(dollars in thousands)	June 30,	
	2004	2003
Commitments to originate:		
Mortgage loans held for sale	\$29,805	\$66,782
Mortgage loans held for investment	28,619	12,669
Unfunded home equity and commercial real estate lines of credit	82,028	68,445
Undisbursed portion of loan proceeds	72,042	59,763
Commitments to sell loans held for sale	10,842	89,630
Standby letters of credit	4,329	1,417

Commitments to originate new loans or to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Loan commitments generally expire within 30 to 60 days. Most home equity line of credit commitments are for a term of five years, and commercial real estate lines of credit are generally renewable every two years. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the borrower.

Commitments to sell loans held for sale are agreements to sell loans to a third party at an agreed-upon price. The fair value of commitments to originate mortgage loans held for sale and commitments to sell loans held for sale at June 30, 2004 was not considered material.

The following table presents as of June 30, 2004, PVF Capital Corp.'s significant fixed and determinable contractual obligations by payment date. The payment amounts represent those amounts contractually due to the recipient and do not include any unamortized premiums or discounts or other similar carrying value adjustments. Further discussion of the nature of each obligation is included in the referenced note to the consolidated financial statements.

Contractual Obligations: (dollars in thousands)	Note Reference	Within 1 Year	1-3 Years	3-5 Years	>5 Years	Total
Deposits without a stated maturity.....	7	\$122,210	-	-	-	\$122,210
Certificates of deposit .....	7	304,108	82,682	17,493	-	404,283
Advances from the FHLB of Cincinnati .....	8	15,000	40	20,000	100,000	135,040
Notes payable .....	9	85	2,401	-	10,000	12,486
Operating leases .....	11	765	1,520	1,190	1,086	4,561

## *R*ESULTS OF OPERATIONS

### *General*

PVF Capital Corp.'s net income for the year ended June 30, 2004 was \$6.9 million, or \$0.98 basic earnings per share and \$0.96 diluted earnings per share as compared to \$8.1 million, or \$1.16 basic earnings per share and \$1.14 diluted earnings per share for fiscal 2003, and \$7.2 million, or \$1.02 basic earnings per share and \$1.00 diluted earnings per share for fiscal 2002. All per share amounts have been adjusted for stock dividends.

Net income for the current year decreased by \$1.2 million from the prior fiscal year and \$0.3 million from fiscal 2002. The decrease in net income from 2003 is

due to a decrease in net interest income and an increase in the provision for loan losses and non-interest expense.

### *Net Interest Income*

Net interest income amounted to \$22.4 million for the year ended June 30, 2004, as compared to \$22.8 million and \$21.8 million for the years ended June 30, 2003 and 2002, respectively. Changes in the level of net interest income reflect changes in interest rates and changes in volume of interest-earning assets and interest-bearing liabilities. Tables 1 and 2 provide information as to changes in the Bank's net interest income.



Table 1 sets forth certain information relating to the Bank's average interest-earning assets (loans and securities) and interest-bearing liabilities (deposits and borrowings) and reflects the average yield on assets and average cost of liabilities for the periods and at the dates

indicated. Such yields and costs are derived by dividing interest income or interest expense by the average daily balance of assets or liabilities, respectively, for the periods presented. During the periods indicated, non-accrual loans are included in the net loan category.

Table 1

**Average Balances, Interest, and Average Yields and Rates  
For the Year Ended June 30,**

(dollars in thousands)	2004			2003			2002		
	Average Balance	Interest	Yield/ Cost	Average Balance	Interest	Yield/ Cost	Average Balance	Interest	Yield/ Cost
<b>Interest-earning assets:</b>									
Loans .....	\$610,081	\$ 36,605	6.00%	\$601,122	\$ 40,690	6.77%	\$581,812	\$ 44,323	7.62%
Mortgage-backed securities .....	39,180	1,860	4.75	4,705	285	6.06	11,662	719	6.17
Securities and other interest-earning assets .....	<u>27,538</u>	<u>645</u>	2.34	<u>70,861</u>	<u>2,507</u>	3.54	<u>73,588</u>	<u>3,772</u>	5.13
Total interest-earning assets .....	676,799	<u>39,110</u>	5.78	676,688	<u>43,482</u>	6.43	667,062	<u>48,814</u>	7.32
Non-interest-earning assets .....	<u>46,232</u>			<u>27,709</u>			<u>30,112</u>		
Total assets .....	<u>\$723,031</u>			<u>\$704,397</u>			<u>\$697,174</u>		
<b>Interest-bearing liabilities:</b>									
Deposits .....	\$497,803	\$ 11,351	2.28	\$496,910	\$ 15,170	3.05	\$471,320	\$ 20,995	4.45
FHLB advances .....	127,020	5,237	4.12	122,034	5,205	4.27	142,820	5,824	4.08
Notes payable .....	<u>4,049</u>	<u>152</u>	3.75	<u>7,060</u>	<u>271</u>	3.84	<u>5,600</u>	<u>241</u>	4.30
Total interest-bearing liabilities .....	628,872	<u>16,740</u>	<u>2.66</u>	626,004	<u>20,646</u>	<u>3.30</u>	619,740	<u>27,060</u>	<u>4.37</u>
Non-interest-bearing liabilities .....	<u>32,780</u>			<u>23,031</u>			<u>26,947</u>		
Total liabilities .....	661,652			649,035			646,687		
Stockholders' equity .....	<u>61,379</u>			<u>55,362</u>			<u>50,487</u>		
Total liabilities and stockholders' equity .....	<u>\$723,031</u>			<u>\$704,397</u>			<u>\$697,174</u>		
Net interest income .....		<u>\$ 22,370</u>			<u>\$ 22,836</u>			<u>\$ 21,754</u>	
Interest rate spread .....			<u>3.12%</u>			<u>3.13%</u>			<u>2.95%</u>
Net yield on interest-earning assets .....			<u>3.31%</u>			<u>3.37%</u>			<u>3.26%</u>
Ratio of average interest-earning assets to average interest-bearing liabilities .....	<u>107.62%</u>			<u>108.10%</u>			<u>107.64%</u>		

Table 1 also presents information for the periods indicated with respect to the difference between the weighted-average yield earned on interest-earning assets and weighted-average rate paid on interest-bearing liabilities, or "interest rate spread," which savings institutions have traditionally used as an indicator of profitability. Another indicator of an institution's net

interest income is its "net interest margin" or "net yield on interest-earning assets," which is its net interest income divided by the average balance of net interest-earning assets. Net interest income is affected by the interest rate spread and by the relative amounts of interest-earning assets and interest-bearing liabilities.

Table 2 illustrates the extent to which changes in interest rates and shifts in the volume of interest-related assets and liabilities have affected the Bank's interest income and expense during the years indicated. The table shows the changes by major component, distinguishing between changes relating to volume (changes in average

volume multiplied by average old rate) and changes relating to rate (changes in average rate multiplied by average old volume). Changes not solely attributable to volume or rate have been allocated in proportion to the changes due to volume and rate.

Table 2

	Year Ended June 30,					
	2004			2003		
	vs.		Total	vs.		Total
	Increase (Decrease)			Increase (Decrease)		
Due to						
	Volume	Rate		Volume	Rate	
(dollars in thousands)						
Interest income:						
Loans .....	\$ 537	\$(4,622)	\$(4,085)	\$ 1,471	\$(5,103)	\$(3,632)
Mortgage-backed securities .....	1,637	(62)	1,575	(429)	(5)	(434)
Securities and other interest-earning assets .....	<u>(1,014)</u>	<u>(848)</u>	<u>(1,862)</u>	<u>(97)</u>	<u>(1,169)</u>	<u>(1,266)</u>
Total interest-earning assets .....	<u>1,160</u>	<u>(5,532)</u>	<u>(4,372)</u>	<u>945</u>	<u>(6,277)</u>	<u>(5,332)</u>
Interest expense:						
Deposits .....	20	(3,839)	(3,819)	1,140	(6,965)	(5,825)
FHLB advances .....	206	(174)	32	(848)	(228)	(620)
Notes payable .....	<u>(113)</u>	<u>(6)</u>	<u>(119)</u>	<u>63</u>	<u>(32)</u>	<u>31</u>
Total interest-bearing liabilities .....	<u>113</u>	<u>(4,019)</u>	<u>(3,906)</u>	<u>355</u>	<u>(6,769)</u>	<u>(6,414)</u>
Net interest income .....	<u>\$ 1,047</u>	<u>\$(1,513)</u>	<u>\$ (466)</u>	<u>\$ 590</u>	<u>\$ 492</u>	<u>\$ 1,082</u>

As is evidenced by these tables, interest rate changes had a negative effect on the Bank's net interest income for the year ended June 30, 2004 and a positive effect on the Bank's net interest income for the year ended June 30, 2003. Due to the repricing characteristics of the Bank's loan portfolio and short-term nature of its deposit portfolio, along with changing interest rates during the years ended June 30, 2004 and 2003, the Bank experienced a decrease of 1 basis point in its interest rate spread to 3.12 percent for fiscal 2004 from 3.13 percent for fiscal 2003 and from 2.95 percent for fiscal 2002. These changes in interest rate spread contributed to a decrease in net interest income for the year ended June 30, 2004 of \$1.5 million, and an increase in net interest income for the year ended June 30, 2003 of \$0.5 million due to interest rate changes.

Net interest income was favorably affected by volume changes during the years ended June 30, 2004 and 2003. Accordingly, net interest income grew by \$1.0 million

and \$0.6 million due to volume changes for the years ended June 30, 2004 and 2003, respectively.

The rate/volume analysis illustrates the effect that volatile interest rate environments can have on a financial institution. A flattening yield curve will typically have a negative effect on net interest income, while a steepening yield curve will typically have a positive effect on net interest income.

#### *Provision for Loan Losses*

The Bank carefully monitors its loan portfolio and establishes levels of general and specific reserves for loan losses. Provisions for loan losses are charged to earnings to bring the total allowances for loan losses to a level considered adequate by management to provide for probable loan losses inherent in the loan portfolio as of each balance sheet date, based on prior loss experience, volume and type of lending conducted by the Bank, industry standards, and past due loans in the Bank's loan portfolio. The Bank's policies require the review of

assets on a regular basis, and the Bank appropriately classifies loans as well as other assets if warranted. The Bank establishes specific provisions for loan losses when a loan is deemed to be uncollectible in an amount equal to the net book value of the loan or to any portion of the loan deemed uncollectible. A loan that is classified as either substandard or doubtful is assigned an allowance based upon the specific circumstances on a loan-by-loan basis after consideration of the underlying collateral and other pertinent economic and market conditions. In addition, the Bank maintains general allowances based upon the establishment of a risk category for each type of loan in the Bank's portfolio.

The Bank uses a systematic approach in determining the adequacy of its loan loss allowance and the necessary provision for loan losses, whereby the loan portfolio is reviewed generally and delinquent loan accounts are analyzed individually, on a monthly basis. Consideration is given primarily to the types of loans in the portfolio and the overall risk inherent in the portfolio as well as, with respect to individual loans, account status, payment history, ability to repay and probability of repayment, and loan-to-value percentages. After reviewing current economic conditions, changes in delinquency status, and actual loan losses incurred by the Bank, 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 with respect to the allowance for loan losses, recognizing that future adjustments may be necessary depending upon a change in economic conditions.

During 2004, the Bank experienced growth in the loan portfolio of \$33.7 million, or 5.8 percent, much of which was in commercial real estate loans. In addition, the level of impaired loans increased from \$7.2 million to \$7.9 million, while the specific allowance related to impaired loans decreased from \$235,000 to \$200,000. The allowance for loan losses to impaired loans was 56 percent in the current period, compared to 54 percent at June 30, 2003. Net charge-offs increased from \$19,000 in 2003 to \$103,000 in 2004. Therefore, taking into consideration the growth of the portfolio, the level of impaired loans, as well as net charge-offs and the overall performance of the loan portfolio, the

Bank provided \$597,000 of additional provision to increase the allowance to a level deemed appropriate of \$4.4 million.

During 2003, the Bank experienced growth in the loan portfolio of \$16.4 million, or 2.9 percent, while substantially maintaining the composition of the loan portfolio. In addition, the level of impaired loans decreased from \$10.4 million to \$7.2 million, while the specific allowance related to impaired loans increased from \$30,000 to \$235,000. The decrease in the level of impaired loans to total loans caused the percentage of allowance for loan losses to impaired loans to increase from 38 to 54 percent. Net charge-offs decreased from \$176,000 in 2002 to \$19,000 in 2003. Therefore, taking into consideration the growth of the portfolio, the level of impaired loans, as well as net charge-offs and the overall performance of the loan portfolio, the Bank provided no additional provision and maintained the allowance at a level deemed appropriate of \$3.9 million.

#### *Non-interest Income*

Non-interest income amounted to \$6.1 million, \$5.9 million, and \$3.8 million for the years ended June 30, 2004, 2003, and 2002, respectively. The fluctuations in non-interest income are due primarily to fluctuations in income derived from mortgage banking activities, fee income on deposit accounts, gains on sale of real estate owned, and the increase in the cash surrender value of bank owned life insurance. Income attributable to mortgage banking activities consists of loan servicing income, gains and losses on the sale of loans, and market valuation provisions and recoveries. Income from mortgage banking activities amounted to \$4.6 million, \$4.9 million, and \$3.0 million for the years ended June 30, 2004, 2003, and 2002, respectively. The income from mortgage banking activities is primarily due to net profit realized on the sale of loans. The results of operations from mortgage banking activity are attributable in large part to historically low market interest rates and are not necessarily indicative of expected future results. Other non-interest income amounted to \$1.5 million, \$1.0 million, and \$0.8 million for the years ended June 30, 2004, 2003, and 2002, respectively. The increase in other non-interest income of \$0.5 million from the year ended June 30, 2003 to June 30, 2004 is attributable to gains realized on the sale of real estate owned and the increase in the

cash surrender value of bank owned life insurance in 2004. The increase in other non-interest income of \$0.2 million from the year ended June 30, 2002 to June 30, 2003 is primarily due to an increase in loan prepayment fee and late charge fee income. Changes in other non-interest income are typically the result of service and other miscellaneous fee income, rental income, insurance proceeds, income realized on the sale of assets and investments, and the disposal of real estate owned properties.

### *Non-interest Expense*

Non-interest expense amounted to \$17.6 million, \$16.5 million, and \$14.1 million for the years ended June 30, 2004, 2003, and 2002, respectively. The principal component of non-interest expense is compensation and related benefits which amounted to \$9.6 million, \$8.7 million, and \$7.6 million for the years ended June 30, 2004, 2003, and 2002, respectively. The increase in compensation for the years ended June 30, 2004 and 2003 is due primarily to growth in the staff, employee 401K benefits, a compensation incentive plan for management, and salary and wage adjustments to employees. Office occupancy totaled \$3.4 million, \$3.2 million, and \$2.8 million for the years ended June 30, 2004, 2003, and 2002, respectively. The increased office occupancy expense is attributable to maintenance and repairs to office buildings, and the cost of opening and operating additional branch offices. Other non-interest expense totaled \$4.6 million, \$4.6 million, and \$3.7 million for the years ended June 30, 2004, 2003, and 2002, respectively. Changes in other non-interest expense are primarily the result of advertising, professional and legal services, insurance expenses, outside services, and franchise tax expense.

### *Federal Income Taxes*

The Company's federal income tax expense was \$3.4 million, \$4.1 million, and \$3.6 million for the years ended June 30, 2004, 2003, and 2002, respectively. Due to the availability of tax credits for the years ended June 30, 2004, 2003, and 2002, and other miscellaneous deductions, the Company's effective federal income tax rate was below the expected tax rate of 35 percent with an effective rate of 33 percent for the year ended June 30, 2004, and an effective rate of 34 percent for the years ended June 30, 2003, and 2002, respectively.

### *Impact of Inflation and Changing Prices*

The consolidated financial statements and related data presented herein have been prepared in accordance with generally accepted accounting principles, which requires the measurement of financial position and operating results in terms of historical dollars, without considering changes in the relative purchasing power of money over time due to inflation. Unlike most industrial companies, substantially all of the assets and liabilities of the Company are monetary in nature. As a result, interest rates have a more significant impact on the Company's performance than the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or in the same magnitude as the prices of goods and services, since such prices are affected by inflation to a larger extent than interest rates. For further information regarding the effect of interest rate fluctuations on the Company, see "Market Risk Management."

### *Critical Accounting Policies and Estimates*

The accounting and reporting policies of PVF Capital Corp. are in accordance with accounting principles generally accepted within the United States of America and conform to general practices within the banking industry. Application of these principles requires management to make estimates, assumptions and judgments that affect the amounts reported in the financial statements and accompanying notes. These estimates, assumptions and judgments are based on information available as of the date of the financial statements. Accordingly, as this information changes, the financial statements could reflect different estimates, assumptions and judgments.

The most significant accounting policies followed by PVF Capital Corp. are presented in Note 1 to the consolidated financial statements. Accounting and reporting policies for the allowance for loan losses and mortgage servicing rights are deemed critical since they involve the use of estimates and require significant management judgments. PVF Capital Corp. provides further detail on the methodology and reporting of the allowance for loan losses in Note 4 and mortgage servicing rights in Note 5.



## Office Locations and Hours

**Avon Office**

36311 Detroit Road  
Avon, Ohio 44011  
440-934-3580

**Bainbridge Office**

8500 Washington Street  
Chagrin Falls, Ohio 44023  
440-543-8889

**Bedford Office**

413 Northfield Road  
Bedford, Ohio 44146  
440-439-2200

**Chardon Office**

408 Water Street  
Chardon, Ohio 44024  
440-285-2343

**Macedonia Office**

497 East Aurora Road  
Macedonia, Ohio 44056  
330-468-0055

**Mayfield Heights Office**

1244 SOM Center Road  
Mayfield Hts., Ohio 44124  
440-449-8597

**Medina Office**

Reserve Square  
3613 Medina Road  
Medina, Ohio 44256  
330-721-7484

**Mentor Office**

Heisley Corners  
6990 Heisley Road  
Mentor, Ohio 44060  
440-944-0276

**North Royalton Office**

13901 Ridge Road  
North Royalton, Ohio 44133  
440-582-7417

**Solon Office**

Solar Shopping Center  
34400 Aurora Road  
Solon, Ohio 44139  
440-542-6070

**Streetsboro Office**

9305 Market Square Drive  
P.O. Box 2130  
Streetsboro, Ohio 44241  
330-626-9444

**Strongsville Office**

17780 Pearl Road  
Strongsville, Ohio 44136  
440-878-6010

**LOBBY**

**Mon., Tues., Wed., Thurs.:**

9:00 am - 4:30 pm

**Friday:** 9:00 am - 5:30 pm

**Saturday:** 9:00 am - 1:00 pm

**AUTO TELLER**

**Mon., Tues., Wed., Thurs.:**

9:00 am - 5:00 pm

**Friday:** 9:00 am - 6:00 pm

**Saturday:** 9:00 am - 1:00 pm

**Beachwood Office**

La Place  
2111 Richmond Road  
Beachwood, Ohio 44122  
216-831-6373

**Lakewood-Cleveland Office**

11010 Clifton Blvd.  
Cleveland, Ohio 44102  
216-631-8900

**LOBBY**

**Mon., Tues., Thurs.:**

9:00 am - 4:30 pm

**Friday:** 9:00 am - 5:30 pm

**Saturday:** 9:00 am - 1:00 pm

**Closed Wednesday**

**AUTO TELLER**

**Mon., Tues., Thurs.:**

9:00 am - 5:00 pm

**Friday:** 9:00 am - 6:00 pm

**Saturday:** 9:00 am - 1:00 pm

**Closed Wednesday**

**Shaker Heights Office**

Shaker Towne Centre  
16909 Chagrin Blvd.  
Shaker Hts., Ohio 44120  
216-283-4003

**LOBBY**

**Mon., Tues., Wed., Thurs.:**

9:00 am - 4:30 pm

**Friday:** 9:00 am - 6:00 pm

**Saturday:** 9:00 am - 1:00 pm

**Corporate Center Office**

30000 Aurora Road  
Solon, Ohio 44139  
440-914-3900

**LOBBY & AUTO TELLER**

**Monday - Friday:**

9:00 am - 5:00 pm

**Closed Saturday**



## Board of Directors

**John R. Male**

Chairman of the Board and  
Chief Executive Officer

**C. Keith Swaney**

President, Chief Operating Officer  
and Chief Financial Officer

**Gerald A. Fallon**

Retired

**Robert K. Healey**

Retired

**Ronald D. Holman, II**

Partner  
Cavitch, Familo, Durkin & Frutkin

**Stanley T. Jaros**

Partner  
Moriarty & Jaros, P.L.L.

**Raymond J. Negrelli**

President  
Raymond J. Negrelli, Inc.

**Stuart D. Neidus**

Chairman and  
Chief Executive Officer  
Anthony & Sylvan Pools Corporation

## Officers

**John R. Male**

Chairman of the Board and  
Chief Executive Officer

**C. Keith Swaney**

President, Chief Operating Officer  
and Chief Financial Officer

**Jeffrey N. Male**

Executive Vice President

**William J. Harr, Jr.**

Senior Vice President  
Lending

**Anne M. Johnson**

Senior Vice President  
Operations

**Carol S. Porter**

Corporate Secretary and  
Marketing Director

**Edward B. Debevec**

Treasurer

**Mark E. Fosnaught**

Vice President  
Branch Coordinator

**Adeline Novak**

Vice President  
Human Resources

**Robert J. Papa**

Vice President  
Construction Lending

**John E. Schimmelmann**

Vice President  
Deposit Operations

**Kennaird H. Stewart**

Vice President  
Commercial Real Estate Lending

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders  
PVF Capital Corp.  
Solon, Ohio

We have audited the accompanying consolidated statements of financial condition of PVF Capital Corp. ("Company") as of June 30, 2004 and 2003, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended June 30, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of PVF Capital Corp. as of June 30, 2004 and 2003, and the results of its operations and its cash flows for each of the three years in the period ended June 30, 2004 in conformity with U.S. generally accepted accounting principles.

*Crowe Chickal Company LLP*

Cleveland, Ohio  
July 16, 2004

PVF CAPITAL CORP.  
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION  
Years ended June 30, 2004 and 2003

ASSETS	2004	2003
Cash and amounts due from depository institutions	\$ 4,550,446	\$ 9,755,224
Interest bearing deposits	894,327	3,946,019
Federal funds sold	12,025,000	83,050,000
Cash and cash equivalents	17,469,773	96,751,243
Securities held to maturity (fair values of \$27,399,975 and \$33,252, respectively)	27,500,000	33,252
Mortgage-backed securities held to maturity (fair values of \$35,390,465 and \$3,032,386, respectively)	36,779,289	2,930,543
Loans receivable held for sale, net	11,870,775	33,603,895
Loans receivable, net of allowance of \$4,376,704 and \$3,882,839	610,680,821	576,985,116
Office properties and equipment, net	13,888,392	11,555,919
Real estate owned	70,000	448,865
Federal Home Loan Bank stock	10,825,600	10,396,399
Prepaid expenses and other assets	26,602,759	10,698,571
Total assets	<u>\$ 755,687,409</u>	<u>\$ 743,403,803</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Liabilities:		
Deposits	\$ 526,492,714	\$ 526,428,927
Short-term advances from the FHLB	15,000,000	-
Long-term advances from the FHLB	120,039,831	120,123,220
Notes payable	2,486,250	5,815,150
Subordinated debentures	10,000,000	-
Advances from borrowers for taxes and insurance	2,376,872	7,964,653
Accrued expenses and other liabilities	15,930,799	24,468,717
Total liabilities	<u>692,326,466</u>	<u>684,800,667</u>
Commitments and contingencies		
Stockholders' equity:		
Serial preferred stock, \$.01 par value, 1,000,000 shares authorized; none issued	-	-
Common stock, \$.01 par value, 15,000,000 shares authorized; 7,420,045 and 6,717,283 shares issued, respectively	74,200	67,173
Additional paid-in capital	58,378,089	47,176,696
Retained earnings	8,035,847	14,486,460
Treasury stock, at cost, 377,870 and 343,519 shares, respectively	(3,127,193)	(3,127,193)
Total stockholders' equity	<u>63,360,943</u>	<u>58,603,136</u>
Total liabilities and stockholders' equity	<u>\$ 755,687,409</u>	<u>\$ 743,403,803</u>

See accompanying notes to consolidated financial statements.



PVF CAPITAL CORP.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
Years ended June 30, 2004, 2003 and 2002

	2004	2003	2002
Interest income:			
Loans	\$ 36,604,621	\$ 40,690,675	\$ 44,322,897
Mortgage-backed securities	1,860,224	285,167	719,321
Federal Home Loan Bank stock	429,402	449,026	505,673
Cash and securities	215,394	2,057,829	3,266,790
Total interest income	<u>39,109,641</u>	<u>43,482,697</u>	<u>48,814,681</u>
Interest expense:			
Deposits	11,351,365	15,169,502	20,995,003
Borrowings	5,387,849	5,476,773	6,065,389
Total interest expense	<u>16,739,214</u>	<u>20,646,275</u>	<u>27,060,392</u>
Net interest income	<u>22,370,427</u>	<u>22,836,422</u>	<u>21,754,289</u>
Provision for loan losses:	597,300	-	558,000
Net interest income after provision for loan losses	<u>21,773,127</u>	<u>22,836,422</u>	<u>21,196,289</u>
Noninterest income:			
Service and other fees	660,646	743,877	625,631
Mortgage banking activities, net	4,632,561	4,922,069	2,985,424
Gain on sale of real estate owned	488,839	-	-
Other, net	347,710	227,057	139,913
Total noninterest income	<u>6,129,756</u>	<u>5,893,003</u>	<u>3,750,968</u>
Noninterest expense:			
Compensation and benefits	9,590,924	8,694,397	7,643,251
Office, occupancy, and equipment	3,394,285	3,151,956	2,758,158
Insurance	232,926	262,366	226,511
Professional and legal	397,179	518,648	425,185
Advertising	373,702	499,438	368,775
Outside services	876,799	857,050	520,181
Franchise tax	728,400	647,890	581,990
Other	1,977,065	1,877,460	1,614,584
Total noninterest expense	<u>17,571,280</u>	<u>16,509,205</u>	<u>14,138,635</u>
Income before federal income taxes	<u>10,331,603</u>	<u>12,220,220</u>	<u>10,808,622</u>
Federal income taxes:			
Current	2,287,524	3,966,092	3,431,586
Deferred	1,134,025	157,672	203,727
	<u>3,421,549</u>	<u>4,123,764</u>	<u>3,635,313</u>
Net income	<u>\$ 6,910,054</u>	<u>\$ 8,096,456</u>	<u>\$ 7,173,309</u>
Basic earnings per share	<u>\$ 0.98</u>	<u>\$ 1.16</u>	<u>\$ 1.02</u>
Diluted earnings per share	<u>\$ 0.96</u>	<u>\$ 1.14</u>	<u>\$ 1.00</u>

See accompanying notes to consolidated financial statements.

PVF CAPITAL CORP.  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
Years ended June 30, 2004, 2003 and 2002

	Common stock	Additional paid-in capital	Retained Earnings	Treasury stock	Total
Balance at June 30, 2001	\$ 53,394	\$ 31,346,497	\$ 17,768,859	\$ (1,162,615)	\$ 48,006,135
Net income	—	—	7,173,309	—	7,173,309
Stock options exercised, 173,492 shares	1,735	293,425	—	—	295,160
Cash paid in lieu of fractional shares	—	—	(2,869)	—	(2,869)
Stock dividend issued, 551,870 shares	5,519	5,772,560	(5,778,079)	—	—
Cash dividend, \$0.222 per share	—	—	(1,533,555)	—	(1,533,555)
Purchase of 136,395 shares of Treasury stock	—	—	—	(1,639,602)	(1,639,602)
Balance at June 30, 2002	60,648	37,412,482	17,627,665	(2,802,217)	52,298,578
Net income	—	—	8,096,456	—	8,096,456
Stock options exercised, 41,909 shares	419	187,502	—	—	187,921
Cash paid in lieu of fractional shares	—	—	(2,159)	—	(2,159)
Stock dividend issued, 610,565 shares	6,106	9,576,712	(9,582,818)	—	—
Cash dividend, \$0.245 per share	—	—	(1,652,684)	—	(1,652,684)
Purchase of 28,615 shares of Treasury stock	—	—	—	(324,976)	(324,976)
Balance at June 30, 2003	67,173	47,176,696	14,486,460	(3,127,193)	58,603,136
Net income	—	—	6,910,054	—	6,910,054
Stock options exercised, 34,580 shares	346	256,447	—	—	256,793
Stock purchased and retired, 6,373 shares	(64)	(94,147)	—	—	(94,211)
Cash paid in lieu of fractional shares	—	—	(2,814)	—	(2,814)
Stock dividend issued, 674,555 shares	6,745	11,039,093	(11,045,838)	—	—
Cash dividend, \$0.330 per share	—	—	(2,312,015)	—	(2,312,015)
Balance at June 30, 2004	<u>\$ 74,200</u>	<u>\$ 58,378,089</u>	<u>\$ 8,035,847</u>	<u>\$ (3,127,193)</u>	<u>\$ 63,360,943</u>

See accompanying notes to consolidated financial statements.

PVF CAPITAL CORP.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
Years ended June 30, 2004, 2003 and 2002

	2004	2003	2002
<b>Operating activities:</b>			
Net income	\$ 6,910,054	\$ 8,096,456	\$ 7,173,309
Adjustments required to reconcile net income to net cash from operating activities:			
Amortization of premium on mortgage-backed securities	72,548	1,771	1,771
Depreciation	1,658,958	1,407,503	1,060,530
Provision for loan losses	597,300	—	558,000
Accretion of deferred loan origination fees, net	(1,108,263)	(1,244,214)	(1,130,822)
Gain on disposal of real estate owned	(488,839)	—	—
FHLB stock dividends	(429,201)	(448,775)	(505,319)
Deferred income tax provision	1,134,025	157,672	203,727
Proceeds from loans held for sale	301,018,063	453,735,624	295,706,407
Originations of loans held for sale	(277,787,331)	(475,659,784)	(301,234,328)
Gain on the sale of loans, net	(5,260,163)	(6,727,015)	(2,981,311)
Net change in other assets and other liabilities	(7,841,279)	12,410,926	(1,620,985)
Net cash from operating activities	<u>18,475,872</u>	<u>(8,269,836)</u>	<u>(2,769,021)</u>
<b>Investing activities:</b>			
Loans originated	(137,580,380)	(170,534,726)	(135,864,877)
Principal repayments on loans	104,195,639	162,351,576	149,065,323
Principal repayments on mortgage-backed securities held to maturity	5,932,009	4,364,892	10,916,457
Purchase of mortgage-backed securities held to maturity	(39,853,303)	—	—
Purchase of securities held to maturity	(27,500,000)	(30,000,000)	(55,000,000)
Maturities and calls of securities held to maturity	33,252	85,087,959	50,090,394
Additions to office properties and equipment	(3,991,431)	(3,146,074)	(3,094,421)
Acquisition of bank-owned life insurance	(15,000,000)	—	—
Disposals of real estate owned	1,166,703	114,259	353,100
Acquisition of real estate owned	(70,000)	—	—
(Additions) disposal of real estate held for investment, net	525,000	(50,000)	(350,000)
Net cash from investing activities	<u>(112,142,511)</u>	<u>48,187,886</u>	<u>16,115,976</u>

See accompanying notes to consolidated financial statements.

PVF CAPITAL CORP.  
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)  
Years ended June 30, 2004, 2003 and 2002

	2004	2003	2002
<b>Financing Activities:</b>			
Payments on long-term FHLB advances	(83,389)	(616,476)	(65,127,160)
Net change in short-term FHLB advances	15,000,000	—	—
Proceeds from notes payable	—	—	6,650,000
Repayment of notes payable	(3,328,900)	(2,472,870)	(3,061,980)
Net change in NOW and passbook savings	(2,052,829)	16,190,703	23,728,050
Proceeds from issuance of certificates of deposit	107,020,928	135,463,914	88,664,759
Payments on maturing certificates of deposit	(104,904,312)	(104,897,908)	(113,252,740)
Proceeds from issuance of subordinated debentures	10,000,000	—	—
Net increase (decrease) in advances from borrowers	(5,587,781)	644,040	851,552
Payment of cash dividend	(1,841,130)	(1,654,844)	(1,536,424)
Purchase of treasury stock	—	(324,975)	(1,639,602)
Proceeds from exercise of stock options	256,793	187,921	295,169
Stock repurchased and retired	(94,211)	—	—
Net cash from financing activities	<u>14,385,169</u>	<u>42,519,505</u>	<u>(64,428,385)</u>
Net increase (decrease) in cash and cash equivalents	(79,281,470)	82,437,555	(51,081,430)
Cash and cash equivalents at beginning of year	96,751,243	14,313,688	65,395,118
Cash and cash equivalents at end of year	<u>\$ 17,469,773</u>	<u>\$ 96,751,243</u>	<u>\$ 14,313,688</u>
<b>Supplemental disclosures of cash flow information:</b>			
Cash payments of interest	\$ 16,740,542	\$ 20,733,040	\$ 28,600,682
Cash payments of income taxes	2,760,000	4,020,000	2,825,000
<b>Supplemental schedule of noncash investing and financing activities:</b>			
Transfers to real estate owned	\$ 200,000	\$ —	\$ 355,132

See accompanying notes to consolidated financial statements.

PVF CAPITAL CORP.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Years ended June 30, 2004, 2003 and 2002

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND RELATED MATTERS**

The accounting and reporting policies of PVF Capital Corp. and its subsidiaries ("Company") conform to accounting principles generally accepted in the United States of America and general industry practice. The Company's principal subsidiary, Park View Federal Savings Bank ("Bank"), is principally engaged in the business of offering savings deposits through the issuance of savings accounts, money market accounts, and certificates of deposit and lending funds primarily for the purchase, construction, and improvement of real estate in Cuyahoga, Summit, Geauga, Lake, Medina, Lorain and Portage Counties, Ohio. The deposit accounts of the Bank are insured up to applicable limits under the Savings Association Insurance Fund ("SAIF") of the Federal Deposit Insurance Corporation ("FDIC") and are backed by the full faith and credit of the United States government. The following is a description of the significant policies, which the Company follows in preparing and presenting its consolidated financial statements.

Principles of Consolidation: The consolidated financial statements include the accounts of PVF Capital Corp., and its wholly-owned subsidiaries, Park View Federal Savings Bank, PVF Service Corporation ("PVFSC"), PVF Holdings, Inc., and Mid-Pines Land Co. PVFSC owns some Bank premises and leases them to the Bank. PVF Holdings, Inc. and Mid-Pines Land Co. did not have any significant assets or activity as of or for the years ended June 30, 2004, 2003, or 2002. All significant intercompany transactions and balances are eliminated in consolidation.

PVFSC has entered into various nonconsolidated joint ventures that own real estate including properties leased to the Bank.

PVF Capital Trust I ("Trust") was created for the sole purpose of issuing trust preferred securities. The Trust is not consolidated into the financial statements.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The allowance for loan losses, the valuation of mortgage servicing rights, and fair value of financial instruments are particularly subject to change.

Securities: The Company classifies all securities as held to maturity. Securities held to maturity are limited to debt securities that the Company has the positive intent and the ability to hold to maturity; these securities are reported at amortized cost. Securities that could be sold in the future because of changes in interest rates or other factors are not to be classified as held to maturity. Other securities such as Federal Home Loan Bank stock are carried at cost.

PVF CAPITAL CORP.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Years ended June 30, 2004, 2003 and 2002

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND RELATED MATTERS (Continued)**

Gains or losses on calls exercised on securities are recognized at the date of call (trade date). Premiums and discounts are amortized or accreted over the life of the related security as an adjustment to yield. Dividends and interest income are recognized when earned.

A decline in fair value of any held to maturity security below cost that is deemed other than temporary is charged to earnings resulting in establishment of a new cost basis for the security.

Loans Receivable: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of deferred loan fees and costs, and an allowance for loan losses. Interest income is reported in the interest method and includes amortization of net deferred loan fees and costs over the loan term.

Uncollectible interest on loans that are contractually 90 days or more past due is charged off against interest income. Income is subsequently recognized only to the extent cash payments are received until the loan is determined to be performing in accordance with the applicable loan terms in which case the loan is returned to accrual status.

Allowance for Loan Losses: The allowance for loan losses is maintained at a level to absorb probable incurred losses in the portfolio as of the balance sheet date. The adequacy of the allowance for loan losses is periodically evaluated by the Bank based upon the overall portfolio composition and general market conditions as well as information about specific borrower situations and estimated collateral values. While management uses the best information available to make these evaluations, future adjustments to the allowance may be necessary if economic conditions change substantially from the assumptions used in making the evaluations. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged-off. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal and interest according to the contractual terms of the loan agreement. Since the Bank's loans are primarily collateral dependent, measurement of impairment is based on the fair value of the collateral.

Mortgage Banking Activities: Mortgage loans originated and intended for sale in the secondary market include deferred origination fees and costs and are carried at the lower of cost or fair value, determined on an aggregate basis. The fair value of mortgage loans held for sale is based on market prices and yields at period end in normal market outlets used by the Company.

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(Continued)

PVF CAPITAL CORP.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Years ended June 30, 2004, 2003 and 2002

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND RELATED MATTERS (Continued)**

The Company sells the loans on either a servicing retained or servicing released basis. Servicing rights are recognized as assets for the allocated value of retained servicing rights on loans sold. The capitalized cost of loan servicing rights is amortized in proportion to and over the period of estimated net future servicing revenue. The expected period of the estimated net servicing income is based, in part on the expected prepayment of the underlying mortgages.

Mortgage servicing rights are periodically evaluated for impairment. Impairment represents the excess of amortized cost over its estimated fair value. Impairment is evaluated based upon the fair value of the assets. Fair value is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market-based assumptions. Any impairment is reported as a valuation allowance. The impairment charges incurred and reversed during the periods ended June 30, 2004 and 2003 were a result of this process and the change in market values during those periods.

Office Properties and Equipment: Land is carried at cost. Buildings and equipment are stated at cost less accumulated depreciation. Depreciation and amortization are computed using the straight-line method at rates expected to amortize the cost of the assets over their estimated useful lives or, with respect to leasehold improvements, the term of the lease, if shorter. Estimated lives range from one to forty years.

Bank-Owned Life Insurance: The Company has purchased life insurance policies on certain key executives. Bank-owned life insurance is recorded at its cash surrender value, or the amount that can be realized.

Income Taxes: Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

Real Estate Owned: Assets acquired through or instead of loan foreclosure are initially recorded at the lower of cost or fair value less estimated selling costs. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Costs after acquisition are expensed.

Long-Term Assets: Office properties and equipment and other long-term assets are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value.

PVF CAPITAL CORP.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Years ended June 30, 2004, 2003 and 2002

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND RELATED MATTERS (Continued)**

Statements of Cash Flows: For purposes of the consolidated statements of cash flows, the Company considers cash and amounts due from depository institutions, interest bearing deposits, and federal funds sold with original maturities of less than three months to be cash equivalents. Net cash flows are reported for NOW and passbook savings accounts, and advances from borrowers.

Stock Compensation: Employee compensation expense under stock option plans is reported using the intrinsic value method. No stock-based compensation cost is reflected in net income, as all options granted had an exercise price equal to or greater than the market price of the underlying stock at the date of grant. The following table illustrates the effect on net income and earnings per share if expense was measured using the fair value recognition provisions of FASB Statement No. 123, *Accounting for Stock-Based Compensation*.

	2004	2003	2002
Net income as reported	\$ 6,910,054	\$ 8,096,456	\$ 7,173,309
Deduct: Stock-based compensation expense determined under fair value based method	100,135	124,135	104,521
Pro forma net income	<u>\$ 6,809,919</u>	<u>\$ 7,972,321</u>	<u>\$ 7,068,788</u>
Basic earnings per share as reported	\$ 0.98	\$ 1.16	\$ 1.02
Pro forma basic earnings per share	\$ 0.97	\$ 1.14	\$ 1.01
Diluted earnings per share as reported	\$ 0.96	\$ 1.14	\$ 1.00
Pro forma diluted earnings per share	\$ 0.95	\$ 1.12	\$ 0.98

The pro forma effects are computed using option pricing models, using the following weighted-average assumptions as of grant date.

	2004	2003	2002
Risk-free interest rate	3.76 %	3.50 %	4.73 %
Expected option life	7 years	7 years	7 years
Expected stock price volatility	29.78 %	35.00 %	37.00 %
Dividend yield	1.99 %	2.50 %	2.73 %

Earnings Per Share: Basic earnings per share are calculated by dividing net income for the period by the weighted average number of shares of common stock outstanding during the period. The assumed exercise of stock options is included in the calculation of diluted earnings per share.

(Continued)



PVF CAPITAL CORP.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Years ended June 30, 2004, 2003 and 2002

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND RELATED MATTERS (Continued)**

The per share data for 2004, 2003 and 2002 are adjusted to reflect the 10% stock dividends declared June 2004, June 2003, and June 2002.

Loss Contingencies: Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there now are such matters that will have a material effect on the financial statements.

Loan Commitments and Related Financial Instruments: Financial instruments include off-balance sheet credit instruments, such as commitments to make loans issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Instruments, such as standby letters of credit, are considered financial guarantees in accordance with FASB Interpretation No. 45.

Restrictions on Cash: Cash on deposit with another institution of \$348,000 and \$1,096,000 was required to meet regulatory reserve requirements at June 30, 2004 and 2003, respectively. These balances do not earn interest.

Fair Value of Financial Instruments: Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

Operating Segments: While the Company's chief decision-makers monitor the revenue streams of the various Company products and services, the identifiable segments are not material and operations are managed and financial performance is evaluated on a Company-wide basis. Accordingly, all of the Company's financial service operations are considered by management to be aggregated in one reportable operating segment.

Reclassifications: Certain reclassifications have been made to the prior year amounts to conform to the current year presentation.

PVF CAPITAL CORP.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Years ended June 30, 2004, 2003 and 2002

**NOTE 2 - SECURITIES**

Securities held to maturity at June 30, 2004 and 2003 are summarized as follows:

	2004			
	Carrying Amount	Gross Unrecognized Gain	Gross Unrecognized Loss	Estimated Fair Value
United States agency securities	\$ 27,500,000	\$ —	\$ (100,025)	\$ 27,399,975
Due after one year through five years	\$ 27,500,000	\$ —	\$ (100,025)	\$ 27,399,975

	2003			
	Carrying Amount	Gross Unrecognized Gain	Gross Unrecognized Loss	Estimated Fair Value
Municipal bond	\$ 33,252	\$ —	\$ —	\$ 33,252
Due within one year	\$ 33,252	\$ —	\$ —	\$ 33,252

There were no sales of securities for the years ended June 30, 2004, 2003 or 2002.

At year end 2004 and 2003, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of shareholders' equity.

Securities with unrealized losses at year end 2004 not recognized in income are as follows:

Description of Securities	Less than 12 Months		Total	
	Fair Value	Unrecognized Loss	Fair Value	Unrecognized Loss
United States agency securities	\$ 27,399,975	\$ (100,025)	\$ 27,399,975	\$ (100,025)

Unrecognized losses on these securities have not been recognized into income because the securities are of high credit quality and management has the intent and ability to hold them until maturity and the unrecognized losses are attributable to changes in interest rates.

(Continued)

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**NOTE 3 - MORTGAGE-BACKED SECURITIES**

Mortgage-backed securities held to maturity at June 30, 2004 and 2003 are summarized as follows:

	2004			
	Carrying Amount	Gross Unrecognized Gain	Gross Unrecognized Loss	Estimated Fair Value
FNMA mortgage-backed securities	\$ 35,774,087	\$ 5,350	\$ (1,400,267)	\$ 34,379,170
FHLMC mortgage-backed securities	1,005,202	6,093	-	1,011,295
	<u>\$ 36,779,289</u>	<u>\$ 11,443</u>	<u>\$ (1,400,267)</u>	<u>\$ 35,390,465</u>
Due after ten years	<u>\$ 36,779,289</u>	<u>\$ 11,443</u>	<u>\$ (1,400,267)</u>	<u>\$ 35,390,465</u>
	2003			
	Carrying Amount	Gross Unrecognized Gain	Gross Unrecognized Loss	Estimated Fair Value
FNMA mortgage-backed securities	\$ 89,721	\$ 2,909	-	\$ 92,630
FHLMC mortgage-backed securities	2,840,822	98,934	-	2,939,756
	<u>\$ 2,930,543</u>	<u>\$ 101,843</u>	<u>\$ -</u>	<u>\$ 3,032,386</u>

There were no sales of mortgage-backed securities for the years ended June 30, 2004, 2003 or 2002.

Mortgage-backed securities with unrealized losses at year end 2004 not recognized in income are as follows:

Description of Mortgage-backed Securities	Less than 12 Months		Total	
	Fair Value	Unrecognized Loss	Fair Value	Unrecognized Loss
FNMA mortgage-backed securities	<u>\$ 34,286,991</u>	<u>\$ (1,400,267)</u>	<u>\$ 34,286,991</u>	<u>\$ (1,400,267)</u>

Unrecognized losses on these securities have not been recognized into income because the securities are of high credit quality and management has the intent and ability to hold them until maturity and the unrecognized losses are attributable to changes in interest rates.

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**NOTE 4 - LOANS RECEIVABLE**

Loans receivable at June 30, 2004 and 2003, consist of the following:

	2004	2003
Real estate mortgages:		
One-to-four family residential	\$ 128,209,918	\$ 139,774,348
Home equity line of credit	83,505,220	67,822,058
Multi-family residential	38,776,777	40,941,727
Commercial	175,323,234	146,686,357
Commercial equity line of credit	38,113,453	34,080,887
Land	54,047,091	52,962,675
Construction - residential	70,832,624	73,160,279
Construction - multi-family	-	217,378
Construction - commercial	15,678,754	16,496,096
Total real estate mortgages	604,487,071	572,141,805
Non real estate loans	13,951,135	11,760,916
	618,438,206	583,902,721
Net deferred loan origination fees	(3,380,681)	(3,034,766)
Allowance for loan losses	(4,376,704)	(3,882,839)
	\$ 610,680,821	\$ 576,985,116

A summary of the changes in the allowance for loan losses for the years ended June 30, 2004, 2003, and 2002, is as follows:

	2004	2003	2002
Beginning balance	\$ 3,882,839	\$ 3,901,839	\$ 3,520,198
Provision charged to operations	597,300	-	558,000
Charge-offs	(132,435)	(19,000)	(206,078)
Recoveries	29,000	-	29,719
Ending balance	\$ 4,376,704	\$ 3,882,839	\$ 3,901,839

(Continued)

PVF CAPITAL CORP.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 4 - LOANS RECEIVABLE (Continued)**

The following is a summary of the principal balances of nonperforming loans at June 30:

	2004	2003
Loans on nonaccrual status:		
Real estate mortgages:		
One-to-four family residential	\$ 4,707,428	\$ 3,072,917
Commercial	4,455,529	2,879,445
Multi-family residential	—	137,085
Construction and land	1,469,754	1,347,905
Total loans on nonaccrual status	10,632,711	7,437,352
Loans past due 90 days, still on accrual status:		
Real estate mortgages:		
One-to-four family residential	69,703	—
Commercial	432,941	—
Construction and land	—	275,461
Total nonaccrual and past due loans	\$ 11,135,355	\$ 7,712,813

At June 30, 2004 and 2003, the recorded investment in loans, which have been identified as being impaired, totaled \$7,865,000, and \$7,172,000, respectively. Included in the impaired amount at June 30, 2004 and 2003, is \$706,131, and \$1,095,934, respectively, related to loans with a corresponding valuation allowance of \$200,000, and \$234,719, respectively.

Average impaired loans for the years ended June 30, 2004, 2003 and 2002 amounted to \$7,926,000, \$9,172,000, and \$5,101,000, respectively. The Company recognized \$165,300 and \$406,900 in interest on impaired loans in 2004 and 2003. No interest was recognized on impaired loans in 2002.

(Continued)

PVF CAPITAL CORP.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 5 - MORTGAGE BANKING ACTIVITIES**

Mortgage banking activities, net, including gains and losses on sales of loans, for each of the years in the three-year period ended June 30, 2004, consist of the following:

	2004	2003	2002
Mortgage loan servicing fees	\$ 1,761,286	\$ 1,446,168	\$ 1,116,929
Amortization and changes in valuation allowance for mortgage servicing rights	(2,388,888)	(3,251,114)	(1,112,817)
Gross realized:			
Gains on sales of loans	6,930,590	8,214,611	3,079,814
Losses on sales of loans	(1,670,427)	(1,487,596)	(98,502)
	<u>\$ 4,632,561</u>	<u>\$ 4,922,069</u>	<u>\$ 2,985,424</u>

At June 30, 2004 and 2003, the Company was servicing whole and participation mortgage loans for others aggregating \$746,787,300, and \$658,967,272, respectively. These loans are not reported as assets. The Company had \$11,755,302, and \$20,143,571 at June 30, 2004 and 2003, respectively, of funds collected on mortgage loans serviced for others which is included in accrued expenses and other liabilities.

Originated mortgage servicing rights capitalized and amortized during the years ended June 30, 2004, 2003 and 2002 were as follows:

	2004	2003	2002
Beginning balance	\$ 4,655,182	\$ 3,255,147	\$ 1,284,678
Originated	3,762,551	3,981,149	3,083,286
Amortized	(3,058,888)	(2,581,114)	(1,112,817)
Ending balance	<u>\$ 5,358,845</u>	<u>\$ 4,655,182</u>	<u>\$ 3,255,147</u>
Valuation Allowance			
Beginning balance	\$ 670,000	\$ -	\$ -
Additions expensed	-	670,000	-
Reductions credited to expense	(670,000)	-	-
Ending balance	<u>\$ -</u>	<u>\$ 670,000</u>	<u>\$ -</u>

**NOTE 6 - OFFICE PROPERTIES AND EQUIPMENT**

Office properties and equipment at cost, less accumulated depreciation and amortization at June 30, 2004 and 2003 are summarized as follows:

	2004	2003
Land and land improvements	\$ 1,034,892	\$ 847,500
Building and building improvements	5,576,225	4,702,678
Leasehold improvements	5,699,721	4,966,034
Furniture and equipment	10,471,403	8,436,598
	<u>22,782,241</u>	<u>18,952,810</u>
Less accumulated depreciation and amortization	(8,893,849)	(7,396,891)
	<u>\$ 13,888,392</u>	<u>\$ 11,555,919</u>

(Continued)

PVF CAPITAL CORP.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 7 - DEPOSITS**

Deposit balances at June 30, 2004 and 2003 are summarized by interest rate as follows:

	2004		2003	
	Amount	%	Amount	%
NOW and money market accounts				
Noninterest bearing	—	—	\$ 14,682,098	2.8%
Interest bearing	0.245 - 4.00%	11.2	66,389,265	12.6
		75,484,042	81,071,363	15.4
Passbook savings	1.00 - 2.50%	8.9	43,191,519	8.2
Certificates of deposit	0.50 - 1.99%	20.9	71,825,960	13.6
	2.00 - 2.99	29.6	100,173,672	19.0
	3.00 - 3.99	12.6	147,737,107	28.1
	4.00 - 4.99	9.6	53,456,947	10.2
	5.00 - 5.99	2.9	20,956,710	4.0
	6.00 - 6.99	0.9	6,283,529	1.2
	7.00 - 7.99	0.3	1,651,935	0.3
	8.00 - 8.99	0.0	80,185	0.0
		404,282,661	402,166,045	84.6
		<u>\$ 526,492,714</u>	<u>\$ 526,428,927</u>	<u>100.0%</u>
Weighted average rate on deposits		<u>2.19%</u>		<u>2.61%</u>
		2004	2003	
		Amount	Amount	%
Remaining term to maturity of certificates of deposit:				
12 months or less		\$ 304,107,729	\$ 249,316,121	62.0%
13 to 24 months		60,283,357	115,880,269	28.8
25 to 36 months		22,398,689	13,613,069	3.4
37 to 48 months		17,492,886	23,356,586	5.8
		<u>\$ 404,282,661</u>	<u>\$ 402,166,045</u>	<u>100.0%</u>
Weighted average rate on certificates of deposit		<u>2.78%</u>		<u>3.23%</u>

(Continued)

PVF CAPITAL CORP.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 7 - DEPOSITS (Continued)**

Time deposits in amounts of \$100,000 or more totaled approximately \$119,851,000 and \$109,893,000 at June 30, 2004 and 2003, respectively.

Interest expense on deposits is summarized as follows:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
NOW accounts	\$ 276,456	\$ 899,621	\$ 1,079,276
Passbook accounts	227,222	470,504	660,260
Certificates of deposit	<u>10,847,687</u>	<u>13,799,377</u>	<u>19,255,467</u>
	<u>\$ 11,351,365</u>	<u>\$ 15,169,502</u>	<u>\$ 20,995,003</u>

**NOTE 8 - ADVANCES FROM THE FEDERAL HOME LOAN BANK OF CINCINNATI**

Advances from the Federal Home Loan Bank of Cincinnati ("FHLB"), with maturities and interest rates thereon at June 30, 2004 and 2003, were as follows:

<u>Maturity</u>	<u>Interest rate</u>	<u>2004</u>	<u>2003</u>
July 1, 2004	1.25	\$ 15,000,000	—
February 2006	6.05	39,831	123,220
February 2008	5.37	10,000,000	10,000,000
March 2008	5.64	10,000,000	10,000,000
March 2011	3.94	50,000,000	50,000,000
May 2011	4.16	50,000,000	50,000,000
		<u>\$ 135,039,831</u>	<u>\$ 120,123,220</u>
Weighted average interest rate		<u>3.96%</u>	<u>4.29%</u>

Each of the advances, except the advance maturing in July 2004 and February 2006, is a convertible fixed-rate advance. Each of these is convertible at the option of the FHLB to LIBOR. Alternatively, if the conversion option is exercised, the Bank could repay these advances without prepayment penalty. The Bank maintains two lines of credit totaling \$130,000,000, with the Federal Home Loan Bank of Cincinnati ("FHLB"). The \$100,000,000 repurchase line matures in October 2004. At June 30, 2004, \$15,000,000 was drawn on the repurchase line of credit. The Bank has chosen to take daily advances from this line, with the interest rate set daily. The \$30,000,000 cash management line matures in October 2004.

In order to secure these advances, the Bank has pledged mortgage loans with unpaid principal balances aggregating approximately \$308,369,000 and \$113,341,000 at June 30, 2004 and 2003, respectively, plus FHLB stock. In addition, at June 30, 2003, \$21,000,000 in overnight cash was pledged for such advances.

(Continued)



PVF CAPITAL CORP.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 9 - SUBORDINATED DEBENTURES AND NOTES PAYABLE**

On March 8, 2002, one of the Company's subsidiaries obtained a \$3.4 million term loan with a remaining unpaid principal balance of \$2.5 million from another federally insured institution to refinance the Company's Solon headquarters building. The note carries a variable interest rate that adjusts to LIBOR plus 230 basis points. The loan matures on March 15, 2007. The loan is guaranteed by the Company.

Principal repayments on the note are scheduled as follows:

2005	\$ 85,470
2006	92,520
2007	<u>2,308,260</u>
	<u>\$ 2,486,250</u>

In June 2004, the Company formed a special purpose entity, PVF Capital Trust I ("Trust"), for the sole purpose of issuing \$10,000,000 of variable-rate trust preferred securities. The Company issued Subordinated Deferrable Interest Debentures ("subordinated debentures") to the Trust in exchange for the proceeds of the offering of the trust preferred securities. The trust preferred security carries a variable interest rate that adjusts to LIBOR plus 260 basis points. At June 30, 2004 the interest rate was 4.20%.

The subordinated debentures are the sole asset of the trust. The trust preferred securities will mature June 29, 2034 but may be redeemed by the Trust at par, at its option, starting June 29, 2009.

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**NOTE 10 - FEDERAL INCOME TAXES**

The provision for federal income taxes differs from the amounts computed by applying the U.S. federal income tax statutory rate to income before federal income taxes. These differences are reconciled as follows:

	2004		2003		2002	
	Amount	%	Amount	%	Amount	%
Computed expected tax	\$ 3,616,061	35.0%	\$ 4,277,077	35.0%	\$ 3,783,018	35.0%
Increase (decrease) in tax resulting from:						
Benefit of graduated rates	(103,316)	(1.0)	(100,000)	(1.0)	(100,000)	(1.0)
Tax credits	(111,646)	(1.1)	(111,646)	(0.9)	(111,646)	(1.0)
Other, net	20,450	0.2	58,333	0.6	63,941	0.6
	<u>\$ 3,421,549</u>	<u>33.1%</u>	<u>\$ 4,123,764</u>	<u>33.7%</u>	<u>\$ 3,635,313</u>	<u>33.6%</u>

The net tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at June 30, 2004 and 2003 are:

	2004	2003
Deferred tax assets:		
Loan loss and other reserves	\$ 1,420,079	\$ 1,294,629
Deferred compensation	566,264	426,964
Unrealized gains on loans held for sale	—	364,130
Other	47,637	36,909
Total gross deferred tax assets	<u>2,033,980</u>	<u>2,122,632</u>
Deferred tax liabilities:		
Deferred loan fees, net	357,693	358,953
FHLB stock dividend	1,366,273	1,187,603
Originated mortgage servicing asset	1,822,007	1,354,962
Fixed assets	962,627	728,809
Other	354,766	187,666
Total gross deferred tax liabilities	<u>4,863,366</u>	<u>3,817,993</u>
Net deferred tax liability	<u>\$ (2,829,386)</u>	<u>\$ (1,695,361)</u>

A valuation allowance is established to reduce the deferred tax asset if it is more likely than not that the related tax benefits will not be realized. In management's opinion, it is more likely than not that the tax benefits will be realized; consequently, no valuation allowance has been established as of June 30, 2004 or 2003.

(Continued)

PVF CAPITAL CORP.  
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**NOTE 10 - FEDERAL INCOME TAXES (Continued)**

Retained earnings at June 30, 2004 and 2003 include approximately \$4,516,000 for which no provision for federal income tax has been made. The related unrealized deferred tax liability was approximately \$1,535,000 at June 30, 2004 and 2003. This amount represents allocations of income during years prior to 1988 to bad debt deductions for tax purposes only. These qualifying and nonqualifying base year reserves and supplemental reserves will be recaptured into income in the event of certain distributions and redemptions. Such recapture would create income for tax purposes only, which would be subject to the then current corporate income tax rate. Recapture would not occur upon the reorganization, merger, or acquisition of the Bank, nor if the Bank is merged or liquidated tax-free into a bank or undergoes a charter change. If the Bank fails to qualify as a bank or merges into a nonbank entity, these reserves will be recaptured into income.

**NOTE 11 - LEASES**

The Company leases certain premises from unrelated and related parties. Future minimum payments under noncancelable operating leases with initial or remaining terms of one year or more consisted of the following at June 30, 2004:

<u>Year ending June 30,</u>	<u>Leases With Unrelated Parties</u>	<u>Leases With Related Parties</u>	<u>Total Leases</u>
2005	\$ 564,960	\$ 199,807	\$ 764,767
2006	561,200	199,807	761,007
2007	559,200	199,807	759,007
2008	478,296	160,617	639,213
2009	409,426	141,472	550,898
Thereafter	502,837	583,334	1,086,171
Total minimum lease payments	<u>\$ 3,075,920</u>	<u>\$ 1,485,144</u>	<u>\$ 4,561,063</u>

During the years ended June 30, 2004, 2003, and 2002, rental expense was \$695,307, \$647,596, and \$555,030, respectively.

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PVF CAPITAL CORP.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 12 - LOAN COMMITMENTS AND OTHER RELATED ACTIVITIES**

In the normal course of business, the Bank enters into commitments with off-balance sheet risk to meet the financing needs of its customers. Commitments to extend credit involve elements of credit risk and interest rate risk in excess of the amount recognized in the consolidated statements of financial condition. The Bank's exposure to credit loss in the event of nonperformance by the other party to the commitment is represented by the contractual amount of the commitment. The Bank uses the same credit policies in making commitments as it does for on-balance sheet instruments. Interest rate risk on commitments to extend credit results from the possibility that interest rates may have moved unfavorably from the position of the Bank since the time the commitment was made.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates of 60 to 120 days or other termination clauses and may require payment of a fee. Since some of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained by the Bank upon extension of credit is based on management's credit evaluation of the applicant. Collateral held is generally residential and commercial real estate.

The Bank's lending is concentrated in Northeastern Ohio, and as a result, the economic conditions and market for real estate in Northeastern Ohio could have a significant impact on the Bank.

At June 30, 2004 and 2003, the Bank had the following commitments:

	2004	2003
Commitments to sell mortgage loans in the secondary market	\$ 10,841,600	\$ 89,630,300
Commitments to fund variable-rate mortgage loans	28,618,869	12,669,150
Commitments to fund fixed-rate mortgage loans	29,805,425	66,782,101
Commitments to fund equity lines of credit	82,028,000	68,445,000
Undisbursed portion of loan proceeds	72,042,000	59,763,000

The fixed-rate loan commitments have interest rates ranging from 4.25% to 7.25%.

At June 30, 2004, there were \$4,329,428 of outstanding standby letters of credit. The fair value of these instruments was immaterial.

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(Continued)

PVF CAPITAL CORP.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 13 - REGULATORY CAPITAL**

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Office of Thrift Supervision ("OTS") regulations requires savings institutions to maintain certain minimum levels of regulatory capital. An institution that fails to comply with its regulatory capital requirements must obtain OTS approval of a capital plan and can be subject to a capital directive and certain restrictions on its operations. At June 30, 2004, the minimum regulatory capital regulations require institutions to have equity capital to total tangible assets of 1.5%; a minimum leverage ratio of core (Tier 1) capital to total adjusted tangible assets of 4.0%; and a minimum ratio of total capital to risk weighted assets of 8.0%. At June 30, 2004 and 2003, the Bank exceeded all of the aforementioned regulatory capital requirements.

Regulations limit capital distributions by savings institutions. Generally, capital distributions are limited to undistributed net income for the current and prior two years. At June 30, 2004, this limitation was \$12,836,000 and is not expected to prevent the Company from paying its normal cash dividends.

The most recent notification from the Office of Thrift Supervision categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the institution's category.

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**NOTE 13 - REGULATORY CAPITAL (Continued)**

At June 30, 2004 and 2003, the Bank was in compliance with regulatory capital requirements as set forth below (dollars in thousands):

	<u>Tangible Capital</u>	<u>Tier-1 Core Capital</u>	<u>Tier-1 Risk-Based Capital</u>	<u>Total Risk-Based Capital</u>
June 30, 2004:				
GAAP capital	\$ 60,716	\$ 60,716	\$ 60,716	\$ 60,716
Nonallowable component	(58)	(58)	(58)	(58)
General loan valuation allowances	—	—	—	4,177
Regulatory capital	<u>\$ 60,658</u>	<u>\$ 60,658</u>	<u>\$ 60,658</u>	<u>\$ 64,835</u>
Total assets	\$ 761,443	\$ 761,443	\$ 761,443	\$ 761,443
Adjusted total assets	761,385	761,385	—	—
Risk-weighted assets	—	—	636,040	636,040
Actual capital ratio	7.97%	7.97%	9.54%	10.19%
Regulatory requirement for capital adequacy purposes	1.50%	4.00%	4.00%	8.00%
Regulatory capital category - well-capitalized - equal to or greater than	NA	5.00%	6.00%	10.00%
	<u>Tangible Capital</u>	<u>Tier-1 Core Capital</u>	<u>Tier-1 Risk-Based Capital</u>	<u>Total Risk-Based Capital</u>
June 30, 2003:				
GAAP capital	\$ 57,656	\$ 57,656	\$ 57,656	\$ 57,656
Nonallowable component	(108)	(108)	(108)	(108)
General loan valuation allowances	—	—	—	3,648
Regulatory capital	<u>\$ 57,548</u>	<u>\$ 57,548</u>	<u>\$ 57,548</u>	<u>\$ 61,196</u>
Total assets	\$ 744,105	\$ 744,105	\$ 744,105	\$ 744,105
Adjusted total assets	743,997	743,997	—	—
Risk-weighted assets	—	—	580,305	580,305
Actual capital ratio	7.73%	7.73%	9.92%	10.55%
Regulatory requirement for capital adequacy purposes	1.50%	4.00%	4.00%	8.00%
Regulatory capital category - well-capitalized - equal to or greater than	NA	5.00%	6.00%	10.00%

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PVF CAPITAL CORP.  
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**NOTE 14 - RELATED PARTY TRANSACTIONS**

Loans to principal officers, directors, and their affiliates in 2004 were as follows.

Beginning balance	\$ 5,774,000
New Loans	1,209,000
Repayments	<u>(685,000)</u>
Ending balance	<u>\$ 6,298,000</u>

**NOTE 15 - STOCK OPTIONS**

The Bank offered stock options to the directors and officers of the Bank under various option plans.

All of the options authorized under the 1992 plan have been granted and exercised. The options granted under the 1996 plan are exercisable over a ten-year period, with vesting ranging from zero to five years as stated in the individual option agreements. The options granted under the 2000 plan are exercisable over a ten-year period and vest immediately.

Options were granted at fair market value and, accordingly, no charges were reflected in compensation and benefits expense due to the granting of stock options. The excess of the option price over the par value of the shares purchased through the exercise of stock options is credited to additional paid in capital.

A summary of the activity in the plan is as follows:

	2004		2003		2002	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding beginning of year	404,719	\$ 7.51	424,379	\$ 6.83	608,332	\$ 4.45
Exercised	(38,118)	6.68	(72,705)	5.01	(263,547)	1.77
Expired	-	-	(5,520)	8.84	-	-
Granted	43,560	13.78	58,564	9.37	79,594	8.15
Outstanding end of year	<u>410,161</u>	<u>\$ 8.25</u>	<u>404,719</u>	<u>\$ 7.51</u>	<u>424,379</u>	<u>\$ 6.83</u>
Exercisable end of year	<u>\$ 319,703</u>	<u>\$ 7.75</u>	<u>\$ 291,084</u>	<u>\$ 7.26</u>	<u>\$ 250,553</u>	<u>\$ 6.97</u>
Weighted average fair value of options granted during the year		\$ 4.06		\$ 3.55		\$ 3.68

(Continued)

PVF CAPITAL CORP.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 Years ended June 30, 2004, 2003 and 2002

**NOTE 15 - STOCK OPTIONS (Continued)**

Options outstanding at June 30, 2004 were as follows:

Range of Exercise Price	Outstanding		Exercisable	
	Number	Weighted Average Remaining Contractual Life	Number	Weighted Average Exercise Price
\$ 5.14 - \$ 6.72	113,300	4.86	108,294	\$ 6.01
\$ 7.39 - \$ 8.55	197,278	5.02	159,718	7.93
\$ 9.15 - \$14.90	99,583	7.93	51,691	10.83
Total	410,161	5.68	319,703	\$ 7.75

**NOTE 16 - EARNINGS PER SHARE**

The following is a reconciliation of basic earnings per share to diluted earnings per share for the years ended June 30:

	2004		
	Net Income	Shares	Per-Share Amount
Basic EPS:			
Income available to common shareholders	\$ 6,910,054	7,021,403	\$ 0.98
Dilutive effect of assumed exercises of stock options		170,005	(0.02)
Diluted EPS:			
Income available to common shareholders	\$ 6,910,054	7,191,408	\$ 0.96
	2003		
	Net Income	Shares	Per-Share Amount
Basic EPS:			
Income available to common shareholders	\$ 8,096,456	7,005,054	\$ 1.16
Dilutive effect of assumed exercises of stock options	-	110,713	(0.02)
Diluted EPS:			
Income available to common shareholders	\$ 8,096,456	7,115,767	\$ 1.14
	2002		
	Net Income	Shares	Per-Share Amount
Basic EPS:			
Income available to common shareholders	\$ 7,173,309	7,013,882	\$ 1.02
Dilutive effect of assumed exercises of stock options	-	183,128	(0.02)
Diluted EPS:			
Income available to common shareholders	\$ 7,173,309	7,197,010	\$ 1.00

(Continued)



PVF CAPITAL CORP.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Years ended June 30, 2004, 2003 and 2002

**NOTE 16 - EARNINGS PER SHARE** (Continued)

No options were anti-dilutive for the years ended June 30, 2003 or 2002 as market price in all cases was greater than the exercise price; 43,560 options were anti-dilutive for the year ended June 30, 2004.

**NOTE 17 - FAIR VALUE OF FINANCIAL INSTRUMENTS**

The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is necessarily required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

	<u>June 30, 2004</u>		<u>June 30, 2003</u>	
	<u>Carrying Amount</u>	<u>Estimated Fair Value</u>	<u>Carrying Amount</u>	<u>Estimated Fair Value</u>
	(in thousands)			
<b>Assets:</b>				
Cash and amounts due from depository institutions	\$ 4,550	4,550	9,755	9,755
Interest-bearing deposits	894	894	3,946	3,946
Federal funds sold	12,025	12,025	83,050	83,050
Securities held to maturity	27,500	27,400	33	33
Mortgage-backed securities held to maturity	36,779	35,390	2,931	3,032
Loans receivable held for:				
Investment, net	610,681	625,210	576,985	593,829
Loans receivable held for:				
Sale, net	11,871	11,871	33,604	34,380
Federal Home Loan Bank stock	10,826	10,826	10,396	10,396
Accrued interest receivable	2,664	2,664	2,686	2,686
<b>Liabilities:</b>				
Demand deposits and passbook savings	\$ (122,210)	(122,210)	(124,263)	(124,263)
Time deposits	(404,283)	(405,977)	(402,166)	(410,934)
Advances from the Federal Home Loan Bank of Cincinnati	(135,040)	(139,328)	(120,123)	(131,958)
Subordinated debentures	(10,000)	(10,000)	—	—
Notes payable	(2,486)	(2,486)	(5,815)	(5,815)
Accrued interest payable	(465)	(465)	(466)	(466)

(Continued)

PVF CAPITAL CORP.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Years ended June 30, 2004, 2003 and 2002

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**NOTE 17 - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)**

*Cash and amounts due from depository institutions, interest bearing deposits, and federal funds sold.* The carrying amount is a reasonable estimate of fair value because of the short maturity of these instruments.

*Securities and mortgage-backed securities.* Estimated fair value for securities and mortgage-backed securities is based on quoted market prices.

*Loans receivable held for investment and held for sale.* For loans receivable held for sale, fair value is estimated using the quoted market prices for securities backed by similar loans, adjusted for differences in loan characteristics. For performing loans receivable held for investment, fair value is estimated by discounting contractual cash flows adjusted for prepayment estimates using discount rates based on secondary market sources adjusted to reflect differences in servicing and credit costs. For other loans, cash flows and maturities are estimated based on contractual interest rates and historical experience and are discounted using secondary market rates adjusted for differences in servicing and credit costs.

Fair value for significant nonperforming loans is based on recent external appraisals. If appraisals are not available, estimated cash flows are discounted using a rate commensurate with the risk associated with the estimated cash flows. Assumptions regarding credit risk, cash flows, and discount rates are judgmentally determined using available market information and specific borrower information.

*Federal Home Loan Bank stock.* This item is valued at cost, which represents redemption value and approximates fair value.

*Demand deposits and time deposits.* The fair value of demand deposits, savings accounts, and certain money market deposits is the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposit is estimated using discounted cash flows and rates currently offered for deposits of similar remaining maturities.

*Advances from the Federal Home Loan Bank of Cincinnati.* The fair value of the Bank's FHLB debt is estimated based on the current rates offered to the Bank for debt of the same remaining maturities.

*Notes payable and subordinated debentures.* The carrying value of the Company's variable rate note payable is a reasonable estimate of fair value based on the current incremental borrowing rate for similar types of borrowing arrangements.

*Accrued interest receivable and accrued interest payable.* The carrying amount is a reasonable estimate of the fair value.

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(Continued)

PVF CAPITAL CORP.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 Years ended June 30, 2004, 2003 and 2002

**NOTE 17 - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)**

*Off-balance-sheet instruments.* The fair value of commitments is estimated using the fees currently charged to enter similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of undisbursed lines of credit is based on fees currently charged for similar agreements or on estimated cost to terminate them or otherwise settle the obligations with the counterparties at the reporting date. The carrying amount and fair value of off-balance-sheet instruments is not significant as of June 30, 2004 and 2003.

**NOTE 18 - PARENT COMPANY**

The following are condensed statements of financial condition as of June 30, 2004 and 2003 and related condensed statements of operations and cash flows for the years ended June 30, 2004, 2003 and 2002 for PVF Capital Corp.

**CONDENSED STATEMENTS OF FINANCIAL CONDITION**

	2004	2003
Cash and amounts due from depository institutions	\$ 10,126,841	\$ 19,459
Prepaid expenses and other assets	1,396,246	1,422,778
Investment in Bank subsidiary	60,715,669	57,656,188
Investment in non-Bank subsidiaries	2,704,429	2,146,364
Total assets	\$ 74,943,185	\$ 61,244,789
Accrued expenses and other liabilities	\$ 1,582,242	\$ 141,653
Note payable	-	2,500,000
Subordinated debentures	10,000,000	-
Stockholders' equity	63,360,943	58,603,136
Total liabilities and stockholders' equity	\$ 74,943,185	\$ 61,244,789

(Continued)

PVF CAPITAL CORP.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Years ended June 30, 2004, 2003 and 2002

**NOTE 18 - PARENT COMPANY (Continued)**

**CONDENSED STATEMENTS OF OPERATIONS**

	2004	2003	2002
Income:			
Mortgage banking activities	\$ 16,210	\$ 88,602	\$ 142,140
Dividends from Bank subsidiary	3,500,000	3,950,000	1,545,000
Other, net	-	-	-
	<u>3,516,210</u>	<u>4,038,602</u>	<u>1,687,140</u>
Expenses:			
Interest expense	46,847	137,483	276,418
General and administrative	278,931	284,890	214,296
	<u>325,778</u>	<u>422,373</u>	<u>490,714</u>
Income before federal income taxes and equity in undistributed net income of subsidiaries	3,190,432	3,616,229	1,196,426
Federal income tax benefit	105,204	112,615	116,951
Income before equity in undistributed net income of subsidiaries	3,295,636	3,728,844	1,313,377
Equity in undistributed net income of subsidiaries	3,614,418	4,367,612	5,859,932
Net income	<u>\$ 6,910,054</u>	<u>\$ 8,096,456</u>	<u>\$ 7,173,309</u>

**CONDENSED STATEMENTS OF CASH FLOWS**

	2004	2003	2002
Operating activities:			
Net income	\$ 6,910,054	\$ 8,096,456	\$ 7,173,309
Equity in undistributed net income of subsidiaries	(3,614,418)	(4,367,612)	(5,859,932)
Repayment of advance from subsidiary	1,140,000	440,000	1,615,873
Other, net	(149,706)	(38,471)	(33,581)
Net cash from operating activities	<u>4,285,930</u>	<u>4,130,373</u>	<u>2,895,669</u>
Financing activities:			
Repayment on note payable	(2,500,000)	(2,400,000)	(3,050,000)
Proceeds from note payable	-	-	3,250,000
Proceeds from subordinated debentures	10,000,000	-	-
Proceeds from exercise of stock options	256,793	162,307	142,377
Stock purchased and retired	(94,211)	-	-
Dividends paid	(1,841,130)	(1,654,844)	(1,536,424)
Purchase of treasury stock	-	(324,975)	(1,639,602)
Net cash from financing activities	<u>5,821,452</u>	<u>(4,217,512)</u>	<u>(2,833,649)</u>
Net increase (decrease) in cash and cash-equivalents	10,107,382	(87,139)	62,020
Cash and cash equivalents at beginning of year	19,459	106,598	44,578
Cash and cash equivalents at end of year	<u>\$ 10,126,841</u>	<u>\$ 19,459</u>	<u>\$ 106,598</u>

(Continued)

PVF CAPITAL CORP.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Years ended June 30, 2004, 2003 and 2002

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**NOTE 19 - EMPLOYEE BENEFIT PLANS**

401(k) Savings Plan: Employees who have reached age 18 and have completed one year of eligibility service are eligible to participate in the Company's 401(k) Savings Plan. The plan allows eligible employees to contribute up to 15% of their compensation with the Company matching up to 50% of the first 4% contributed by the employee, as determined by the Company for the contribution period. The plan also permits the Company to make a profit sharing contribution at its discretion up to 4% of the employee's compensation. Participants vest in the Company's contributions ratably over six years.

The total of the Company's matching and profit sharing contribution cost related to the plan for the years ended June 30, 2004, 2003, and 2002 was \$120,722, \$104,094, and \$89,966, respectively.

Supplemental Executive Retirement Plan: During fiscal year 2000, the Company established a Supplemental Executive Retirement Plan ("SERP") to provide additional retirement benefits to participating executive officers. The SERP was adopted in order to provide benefits to such executives whose benefits are reduced under the Company's tax-qualified benefit plans pursuant to limitations under the Internal Revenue Code. The SERP is subject to certain vesting provisions, and provides that the executives shall receive a supplemental retirement benefit if the executive's employment is terminated after reaching the normal retirement. For the years ended June 30, 2004, 2003, and 2002, the Company recognized expense under the SERP of \$445,775, \$401,400, and \$223,800, respectively.

PVF CAPITAL CORP.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Years ended June 30, 2004, 2003 and 2002

**NOTE 20 - SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)**

The following is a summary of the unaudited consolidated quarterly results of operations for 2004 and 2003 (in thousands of dollars, except per share data): <sup>(1)</sup>

	Quarters for the year ended June 30, 2004			
	First	Second	Third	Fourth
Interest income	\$ 10,058	\$ 9,830	\$ 9,576	\$ 9,646
Interest expense	4,311	4,078	4,097	4,254
Net interest income	5,747	5,752	5,479	5,392
Provision for losses on loans	100	192	140	165
Noninterest income	3,312	868	837	1,113
Noninterest expense	4,538	4,362	4,425	4,246
Income before taxes	4,421	2,066	1,751	2,094
Federal income taxes	1,489	716	565	652
Net income	\$ 2,932	\$ 1,350	\$ 1,186	\$ 1,442
Basic earnings per share <sup>(2)</sup>	\$ 0.42	\$ 0.19	\$ 0.17	\$ 0.20
Diluted earnings per share <sup>(2)</sup>	\$ 0.41	\$ 0.19	\$ 0.16	\$ 0.20

	Quarters for the year ended June 30, 2003			
	First	Second	Third	Fourth
Interest income	\$ 11,404	\$ 11,299	\$ 10,415	\$ 10,364
Interest expense	5,825	5,317	4,740	4,764
Net interest income	5,579	5,982	5,675	5,600
Provision for losses on loans	-	-	-	-
Noninterest income	750	1,838	1,597	1,708
Noninterest expense	3,801	4,412	4,114	4,181
Income before taxes	2,528	3,408	3,158	3,127
Federal income taxes	840	1,151	1,064	1,069
Net Income	\$ 1,688	\$ 2,257	\$ 2,094	\$ 2,058
Basic earnings per share <sup>(2)</sup>	\$ 0.24	\$ 0.32	\$ 0.30	\$ 0.30
Diluted earnings per share <sup>(2)</sup>	\$ 0.24	\$ 0.32	\$ 0.29	\$ 0.29

<sup>(1)</sup> The total of the four quarterly amounts may not equal the full year amount due to rounding.

<sup>(2)</sup> After giving effect to a 10% stock dividend, declared on June 24, 2003 and issued on August 29, 2003 and a 10% stock dividend, declared on June 22, 2004 and issued August 31, 2004.



## Board of Directors

**John R. Male**

Chairman of the Board and  
Chief Executive Officer

**C. Keith Swaney**

President, Chief Operating Officer  
and Treasurer

**Gerald A. Fallon**

Retired

**Robert K. Healey**

Retired

**Ronald D. Holman, II**

Partner  
Cavitch, Familo, Durkin & Frutkin

**Stanley T. Jaros**

Partner  
Moriarty & Jaros, P.L.L.

**Raymond J. Negrelli**

President  
Raymond J. Negrelli, Inc.

**Stuart D. Neidus**

Chairman and  
Chief Executive Officer  
Anthony & Sylvan Pools Corporation

## General Information

**Independent**

**Certified Accountants**

Crowe, Chizek and Company LLP  
Landerbrook Corporate Center One  
5900 Landerbrook Drive  
Suite 205  
Cleveland, Ohio 44124

**General Counsel**

Moriarty & Jaros, P.L.L.  
30000 Chagrin Boulevard  
Suite 200  
Pepper Pike, Ohio 44124

**Transfer Agent and Registrar**

National City Bank, Dept. 5352  
Corporate Trust Operations  
P.O. Box 92301  
Cleveland, Ohio 44193-0900

**Special Counsel**

Muldoon Murphy Faucette & Aguggia LLP  
5101 Wisconsin Avenue, N.W.  
Washington, D.C. 20016

**Stock Listing**

NASDAQ Small-Cap Market  
Symbol: PVFC

**Annual Meeting**

The 2004 Annual Meeting of Stockholders  
will be held on October 18, 2004 at 10:00 a.m.  
at the Company's Corporate Center,  
30000 Aurora Road, Solon, Ohio.

**Annual Report on Form 10-K**

A copy of the Company's Annual Report on  
Form 10-K for the fiscal year ended June 30,  
2004 as filed with the Securities and Exchange  
Commission will be furnished without charge  
to stockholders upon written request to the  
Corporate Secretary, PVF Capital Corp.,  
30000 Aurora Road, Solon, Ohio 44139.

## Executive Officers

**John R. Male**

Chairman of the Board and  
Chief Executive Officer

**C. Keith Swaney**

President, Chief Operating Officer  
and Treasurer

**Jeffrey N. Male**

Vice President and Secretary



Corporate Center  
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