MALVERN BANCORP, INC.
Form 10-Q
February 13, 2015

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended December 31, 2014

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number: 000-54835

MALVERN BANCORP, INC.
(Exact Name of Registrant as Specified in Its Charter)

Pennsylvania (State or Other Jurisdiction of Incorporation or Organization)	45-5307782 (IRS Employer Identification No.)
42 Lancaster Avenue, Paoli, Pennsylvania (Address of Principal Executive Offices)	19301 (Zip Code)

(610) 644-9400
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or smaller reporting company. See definition of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act (check one):

Large accelerated filer	Accelerated filer	Non-accelerated filer (Do not check if smaller reporting company)	Smaller reporting company

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

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

Common Stock, no par value:	6,558,473 shares
(Title of Class)	(Outstanding as of February 11, 2015)

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PART I – FINANCIAL INFORMATION

The following unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X, and, accordingly, do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. However, in the opinion of management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended December 31, 2014 are not necessarily indicative of the results that may be expected for the full year ending September 30, 2015, or for any other interim period. The Malvern Bancorp, Inc. 2014 Annual Report on Form 10-K should be read in conjunction with these financial statements.

Item 1. Financial Statements

MALVERN BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(in thousands, except for share and per share data)	December 31, 2014 (Unaudited)	September 30, 2014
ASSETS		
Cash and due from depository institutions	$ 1,404	$ 1,203
Interest bearing deposits in depository institutions	46,648	17,984
Cash and cash equivalents	48,052	19,187
Investment securities available for sale, at fair value	135,786	100,943
Restricted stock, at cost	3,805	3,503
Loans receivable, net of allowance for loan losses of $4,600 and $4,589, respectively	383,389	386,074
Other real estate owned	1,494	1,964
Accrued interest receivable	1,623	1,322
Property and equipment, net	6,718	6,823
Deferred income taxes, net	2,419	2,376
Bank-owned life insurance	18,397	18,264
Other assets	1,487	1,808
Total Assets	$ 603,170	$ 542,264
LIABILITIES		
Deposits:		
Deposits – noninterest-bearing	$ 22,342	$ 23,059
Deposits – interest-bearing	418,283	389,894
Total Deposits	440,625	412,953
FHLB advances	78,000	48,000
Advances from borrowers for taxes and insurance	3,134	1,786
Accrued interest payable	251	149
Other liabilities	3,275	2,604
Total Liabilities	525,285	465,492
Commitments and Contingencies	-	-
SHAREHOLDERS' EQUITY		
Preferred stock, $0.01 par value, 10,000,000 shares authorized, none issued	-	-
Common stock, $0.01 par value, 40,000,000 shares authorized, issued and outstanding: 6,558,473	66	66
Additional paid-in capital	60,322	60,317
Retained earnings	20,437	20,116
Unearned Employee Stock Ownership Plan (ESOP) shares	(1,885)	(1,922)
Accumulated other comprehensive income	(1,055)	(1,805)
Total Shareholders' equity	77,885	76,772
Total Liabilities and Shareholders' equity	$ 603,170	$ 542,264

See accompanying notes to unaudited consolidated financial statements.

MALVERN BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended December 31,	
(in thousands, except for share and per share data)	2014	2013
Interest and Dividend Income		
Loans, including fees	$ 4,202	$ 4,527
Investment securities, taxable	514	555
Investment securities, tax-exempt	37	54
Dividends, restricted stock	37	14
Interest-bearing cash accounts	23	15
Total Interest and Dividend Income	4,813	5,165
Interest Expense		
Deposits	859	1,067
Long-term borrowings	393	263
Total Interest Expense	1,252	1,330
Net Interest Income	3,561	3,835
Provision for Loan Losses	90	80
Net Interest Income after Provision for Loan Losses	3,471	3,755
Other Income		
Service charges and other fees	270	258
Rental income-other	64	64
Gain on sale of investments, net	26	14
Gain on sale of loans, net	19	27
Earnings on bank-owned life insurance	132	145
Total Other Income	511	508
Other Expense		
Salaries and employee benefits	1,728	2,067
Occupancy expense	424	516
Federal deposit insurance premium	167	191
Advertising	85	158
Data processing	302	330
Professional fees	343	485
Other real estate owned (income)/expense, net	(36)	13
Other operating expenses	648	436
Total Other Expenses	3,661	4,196
Income before income tax expense	321	67
Income tax expense	-	3
Net Income	$ 321	$ 64
Basic Earnings Per Share	$ 0.05	$ 0.01
Dividends Declared Per Share	$ 0.00	$ 0.00

See accompanying notes to unaudited consolidated financial statements.

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MALVERN BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited)

	Three Months Ended December 31,	
(in thousands, except for share and per share data)	2014	2013
Net Income	$ 321	$ 64
Other Comprehensive Income (Loss):		
Changes in net unrealized net gains and losses on securities available for sale	1,163	(1,354)
Gains realized on sale of securities in net income (1)	(26)	(14)
	1,137	(1,368)
Deferred income tax effect	(387)	465
Total other comprehensive income (loss)	750	(903)
Total comprehensive income (loss)	$ 1,071	$ (839)

(1) Amounts are included in nets gains on sales of securities on the Consolidated Statements of Operations in total other income. Related income tax expense in the amount of $9 and $4, respectively, are included in income tax expense.

See accompanying notes to unaudited consolidated financial statements.

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MALVERN BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Unaudited)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Unearned ESOP Shares	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
	(in thousands, except share and per share data)						
Balance, October 1, 2013	$66	$60,302	$19,793	$-	$(2,067)	$(2,688)	$75,406
Net Income	-	-	64	-	-	-	64
Other comprehensive loss	-	-	-	-	-	(903)	(903)
Committed to be released ESOP shares (3,600 shares)	-	9	-	-	37	-	46
Balance, December 31, 2013	$ 66	$ 60,311	$ 19,857	$ -	$ (2,030)	$ (3,591)	$ 74,613
Balance, October 1, 2014	$ 66	$ 60,317	$ 20,116	$ -	$ (1,922)	$ (1,805)	$ 76,772
Net Income	-	-	321	-	-	-	321
Other comprehensive income	-	-	-	-	-	750	750
Committed to be released ESOP shares (3,600 shares)	-	5	-	-	37	-	42
Balance, December 31, 2014	$ 66	$ 60,322	$ 20,437	$ -	$ (1,885)	$ (1,055)	$ 77,885

See accompanying notes to unaudited consolidated financial statements.

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MALVERN BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended December 31,	
	2014	2013
(in thousands)		
Cash Flows from Operating Activities		
Net income	$ 321	$ 64
Adjustments to reconcile net income to net cash (used in) operating activities:		
Depreciation expense	159	163
Provision for loan losses	90	80
Deferred income taxes (benefit) expense	(430)	419
ESOP expense	42	46
Accretion of premiums and discounts on investment securities, net	(2,596)	(657)
Amortization (accretion) of loan origination fees and costs	136	(87)
Amortization (accretion) of mortgage service rights	20	(2)
Net gain on sale of investment securities available for sale	(26)	(14)
Net gain on sale of secondary market loans	(19)	(27)
Proceeds on sale of secondary market loans	982	2,007
Originations of secondary market loans	(963)	(1,980)
Gain on sale of other real estate owned	(53)	(6)
Write down of other real estate owned	19	11
Earnings on bank-owned life insurance	(132)	(145)
Increase in accrued interest receivable	(301)	(34)
Increase (decrease) in accrued interest payable	102	(6)
Increase in other liabilities	671	88
Decrease (increase) in other assets	310	(434)
Net Cash Used in Operating Activities	(1,668)	(514)
Cash Flows from Investing Activities		
Proceeds from maturities and principal collections:		
Investment securities available for sale	5,034	3,586
Proceeds from sale of investment securities available for sale	21,051	824
Purchases of investment securities available for sale	(57,169)	(4,266)
Proceeds from sale of loans	-	10,367
Loan buyback for sale of loans	-	(1,117)
Loan purchases	-	(6,747)
Loan originations and principal collections, net	2,459	2,411
Proceeds from sale of other real estate owned	503	1,496
Additions to mortgage servicing rights	(8)	(13)
Net increase in restricted stock	(302)	(198)
Purchases of property and equipment	(55)	(44)
Net Cash (Used in) Provided by Investing Activities	(28,487)	6,299
Cash Flows from Financing Activities		
Net increase (decrease) in deposits	27,672	(13,595)
Proceeds for long-term borrowings	30,000	5,000

Increase in advances from borrowers for taxes and insurance		1,348		1,793
Net Cash Provided by (Used in) Financing Activities		59,020		(6,802)
Net Increase (Decrease) in Cash and Cash Equivalents		28,865		(1,017)
Cash and Cash Equivalent – Beginning		19,187		23,687
Cash and Cash Equivalent – Ending	$	48,052	$	22,670
Supplementary Cash Flows Information				
Interest paid	$	1,150	$	1,336
Income taxes paid	$	0.00	$	17
Non-cash transfer of loans to other real estate owned	$	0.00	$	11

See accompanying notes to unaudited consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Basis of Presentation

The consolidated financial statements of Malvern Bancorp, Inc. (the “Company” or “Malvern Bancorp”) include the accounts of the Company and its wholly-owned subsidiary, Malvern Federal Savings Bank (“Malvern Federal Savings” or the “Bank”) and the Bank’s subsidiary, Strategic Asset Management Group, Inc. All significant intercompany accounts and transactions have been eliminated from the accompanying consolidated financial statements.

The Bank is a federally chartered stock savings bank which was originally organized in 1887. The Bank operates from its headquarters in Paoli, Pennsylvania and through its seven full service financial center offices in Chester and Delaware Counties, Pennsylvania.

In preparing the consolidated financial statements, management has made estimates and assumptions that affect the reported amounts of assets and liabilities as of the dates of the consolidated statements of condition and that affect the results of operations for the periods presented. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to change in the near term relate to the determination of the allowance for loan losses, other real estate owned, the evaluation of deferred tax assets and the other-than-temporary impairment evaluation of securities.

The consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles (“U.S. GAAP”).

Note 2 – Recent Accounting Pronouncements

In January 2015, Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2015-01, “Income Statement — Extraordinary and Unusual Items (Subtopic 225-20)”. This Update eliminates from GAAP the concept of extraordinary items. Subtopic 225-20, Income Statement—Extraordinary and Unusual Items, required that an entity separately classify, present, and disclose extraordinary events and transactions. Presently, an event or transaction is presumed to be an ordinary and usual activity of the reporting entity unless evidence clearly supports its classification as an extraordinary item. Paragraph 225-20-45-2 contains the following criteria that must both be met for extraordinary classification, (1) unusual nature - the underlying event or transaction should possess a high degree of abnormality and be of a type clearly unrelated to, or only incidentally related to, the ordinary and typical activities of the entity, taking into account the environment in which the entity operates; and (2) infrequency of occurrence - the underlying event or transaction should be of a type that would not reasonably be expected to recur in the foreseeable future, taking into account the environment in which the entity operates. The amendments in ASU 2015-01 are effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted. The adoption of this ASU is not expected to have a material impact on the Company’s financial statements.

In August 2014, the FASB issued ASU No. 2014-14, “Receivables — Troubled Debt Restructurings by Creditors”. The amendment requires that a mortgage loan be derecognized and that a separate other receivable be recognized upon foreclosure if the following conditions are met, (1) the loan has a government guarantee that is not separable from the loan before foreclosure; (2) at the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim; and (3) at the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed. Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. The amendments in ASU 2014-14 are effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2014. Early adoption is permitted. The adoption of this ASU is not expected to have a material impact on the Company’s financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 – Recent Accounting Pronouncement–(continued)

In June 2014, the FASB issued ASU No. 2014-12, “Compensation — Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period.” The amendments require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. Specifically, if the performance target becomes probable of being achieved before the end of the requisite service period, the remaining unrecognized compensation cost should be recognized prospectively over the remaining requisite service period. Further, the total amount of compensation cost recognized during and after the requisite service period should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest. The amendments are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015 with early adoption permitted. The Company is currently evaluating the effect that ASU 2014-12 will have on its consolidated financial statements.

In June 2014, the FASB issued ASU No. 2014-11, “Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures.” The amendments in the ASU require repurchase-to-maturity transactions to be recorded and accounted for as secured borrowings. Amendments to Topic 860 also require separate accounting for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty (i.e., a repurchase financing), which will result in secured borrowing accounting for the repurchase agreement. Additionally, the amendments require an entity to disclose information on transfers accounted for as sales in transactions that are economically similar to repurchase agreements, and provide increased transparency about the types of collateral pledged in repurchase agreements and similar transactions accounted for as secured borrowings. The accounting amendments related to repurchase-to-maturity and repurchase financing transactions, and disclosures for certain transactions accounted for as a sale are effective for interim and annual periods beginning after December 15, 2014. The disclosures for repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions accounted for as secured borrowings are required to be presented for annual periods beginning after December 15, 2014, and for interim periods beginning after March 15, 2015. The Company is currently evaluating the effect that ASU 2014-11 will have on its consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers (Topic 606): The amendments in ASU 2014-09 supersede the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance.” The core principle of the amendments require an entity to recognize revenue upon the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance provides five steps to be analyzed to accomplish the core principle. The amendments are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. The Company is currently evaluating the effect and method of adoption that ASU 2014-09 will have on its consolidated financial statements.

In January 2014, the FASB issued ASU No. 2014-04, “Receivables — Troubled Debt Restructurings by Creditors (Subtopic 310-40) — Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure.” The amendments are intended to clarify when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan should be derecognized and the real estate recognized. These amendments clarify that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either: (a) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure; or (b) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additional disclosures are required. The amendments are effective for annual periods and interim periods within those annual periods beginning after December 15, 2014. The adoption of this ASU is not expected to have a material impact on our financial position or results of operations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3 – Earnings Per Share

Basic earnings per common share is computed based on the weighted average number of shares outstanding reduced by unearned ESOP shares. Diluted earnings per share is computed based on the weighted average number of shares outstanding and common stock equivalents ("CSEs") that would arise from the exercise of dilutive securities reduced by unearned ESOP shares. As of December 31, 2014 and for the three months ended December 31, 2014 and 2013 the Company had not issued and did not have any outstanding CSEs and, at the present time, the Company's capital structure has no potential dilutive securities.

The following table sets forth the composition of the weighted average shares (denominator) used in the earnings per share computations.

	Three Months Ended December 31,	
	2014	2013
(in thousands, except per share data)		
Net Income	$ 321	$ 64
Weighted average shares outstanding	6,558,473	6,558,473
Average unearned ESOP shares	(170,541)	(184,941)
Weighted average shares outstanding – basic	6,387,932	6,373,532
Earnings per share – basic	$ 0.05	$ 0.01

Note 4 – Employee Stock Ownership Plan

The Company established an employee stock ownership plan ("ESOP") for substantially all of its full-time employees. The current ESOP trustee is Pentegra. Shares of the Company's common stock purchased by the ESOP are held until released for allocation to participants. Shares released are allocated to each eligible participant based on the ratio of each such participant's base compensation to the total base compensation of all eligible plan participants. As the unearned shares are committed to be released and allocated among participants, the Company recognizes compensation expense equal to the fair value of the ESOP shares during the periods in which they become committed to be released. To the extent that the fair value of the ESOP shares released differs from the cost of such shares, the difference is charged or credited to additional paid-in capital. During the period from May 20, 2008 to September 30, 2008, the ESOP purchased 241,178 shares of the common stock for approximately $2.6 million, an average price of $10.86 per share, which was funded by a loan from Malvern Federal Bancorp, Inc. The ESOP loan is being repaid principally from the Bank's contributions to the ESOP. The loan, which bears an interest rate of 5%, is being repaid in quarterly installments through 2026. Shares are released to participants proportionately as the loan is repaid. During the three months ended December 31, 2014 and 2013, there were 3,600 and 3,600 shares, respectively, committed to be released. At December 31, 2014, there were 168,765 unallocated shares and 90,453 allocated shares held by the ESOP which had an aggregate fair value of approximately $2.0 million.

Note 5 - Investment Securities

The Company's investment securities are all classified as available-for-sale at December 31, 2014 and September 30, 2014. Investment securities available-for-sale are reported at fair value with unrealized gains or losses included in equity, net of tax. Accordingly, the carrying value of such securities reflects their fair value at the balance sheet date. Fair value is based upon either quoted market prices, or in certain cases where there is limited activity in the market for a particular instrument, assumptions are made to determine their fair value.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Investment securities available for sale at December 31, 2014 and September 30, 2014 consisted of the following:

	December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
U.S. government agencies	$16,693	$-	$(314)	$16,379
State and municipal obligations	18,815	60	(51)	18,824
Single issuer trust preferred security	1,000	-	(150)	850
Corporate debt securities	34,512	94	(135)	34,471
	71,020	154	(650)	70,524
Mortgage-backed securities:				
Federal National Mortgage Association (FNMA), fixed-rate	17,015	-	(229)	16,786
Federal Home Loan Mortgage Company (FHLMC), fixed-rate	15,039	7	(123)	14,923
Collateralized mortgage obligations (CMO), fixed-rate	34,311	29	(787)	33,553
	66,365	36	(1,139)	65,262
	$137,385	$190	$(1,789)	$135,786

	September 30, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
U.S. government agencies	$19,719	$1	$(464)	$19,256
State and municipal obligations	2,543	-	(43)	2,500
Single issuer trust preferred security	1,000	-	(120)	880
Corporate debt securities	1,504	21	-	1,525
	24,766	22	(627)	24,161
Mortgage-backed securities:				
Federal National Mortgage Association (FNMA):				
Adjustable-rate	403	15	-	418
Fixed-rate	17,390	9	(591)	16,808
Federal Home Loan Mortgage Company (FHLMC):				
Adjustable-rate	3,562	33	-	3,595
Fixed-rate	12,336	-	(340)	11,996
Collateralized mortgage obligations (CMO), fixed-rate	45,222	46	(1,303)	43,965
	78,913	103	(2,234)	76,782
	$103,679	$125	$(2,861)	$100,943

For the three months ended December 31, 2014, proceeds of available for sale investment securities sold amounted to approximately $21.1 million. Gross realized gains on investment securities sold amounted to approximately $99,000, while gross realized losses amounted to approximately $73,000, for the period. For the three months ended December 31, 2013, proceeds of investment securities sold amounted to approximately $824,000. Gross realized gains on investment securities sold amounted to approximately $14,000, while there were no gross realized losses, for the period.

The varying amount of sales from the available-for-sale portfolio over the past few years, reflect the significant volatility present in the market. Given the historic low interest rates prevalent in the market, it is necessary for the Company to protect itself from interest rate exposure. Securities that once appeared to be sound investments can, after changes in the market, become securities that the Company has the flexibility to sell to avoid losses and mismatches of interest-earning assets and interest-bearing liabilities at a later time.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5 - Investment Securities – (continued)

The following tables indicate gross unrealized losses not recognized in income and fair value, aggregated by investment category and the length of time individual securities have been in a continuous unrealized loss position at December 31, 2014 and September 30, 2014:

	December 31, 2014					
	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair value	Unrealized Losses
	(In thousands)					
Investment Securities Available for Sale:						
U.S. government agencies	$541	$(4)	$15,839	$(310)	$16,380	$(314)
State and municipal obligations	6,479	(32)	1,483	(19)	7,962	(51)
Single issuer trust preferred security	-	-	850	(150)	850	(150)
Corporate securities	20,170	(135)	-	-	20,170	(135)
Mortgage-backed securities:						
FNMA, fixed-rate	-	-	16,786	(229)	16,786	(229)
FHLMC, fixed-rate	1,738	(18)	6,350	(105)	8,088	(123)
CMO, fixed-rate	2,557	(47)	26,964	(740)	29,521	(787)
	$31,485	$(236)	$68,272	$(1,553)	$99,757	$(1,789)

	September 30, 2014					
	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair value	Unrealized Losses
	(In thousands)					
Investment Securities Available for Sale:						
U.S. government agencies	$-	$-	$18,267	$(464)	$18,267	$(464)
State and municipal obligations	-	-	2,501	(43)	2,501	(43)
Single issuer trust preferred security	-	-	880	(120)	880	(120)
Mortgage-backed securities:						
FNMA, fixed-rate	-	-	16,715	(591)	16,715	(591)
FHLMC, fixed-rate	-	-	11,996	(340)	11,996	(340)
CMO, fixed-rate	3,945	(54)	36,185	(1,249)	40,130	(1,303)
	$3,945	$(54)	$86,544	$(2,807)	$90,489	$(2,861)

As of December 31, 2014, the estimated fair value of the securities disclosed above was primarily dependent upon the movement in market interest rates particularly given the negligible inherent credit risk associated with these securities. These investment securities are comprised of securities that are rated investment grade by at least one bond credit rating service. Although the fair value will fluctuate as the market interest rates move, management believes that these fair values will recover as the underlying portfolios mature and are reinvested in market rate yielding investments. As of December 31, 2014, the Company held 18 U.S. government agency securities, nine tax-free municipal bonds, eight corporate securities, 46 mortgage-backed securities and one single issuer trust preferred security which were in an unrealized loss position. The Company does not intend to sell and expects that it is not more likely than not that it will be required to sell these securities until such time as the value recovers or the securities mature. Management does not believe any individual unrealized loss as of December 31, 2014 represents other-than-temporary impairment.

During the quarter ended December 31, 2014, the gross unrealized loss of the single issuer trust preferred security increased by $30,000 from an unrealized loss at September 30, 2014 of $120,000 to an unrealized loss of $150,000 as of December 31, 2014. On a quarterly basis, management will continue to monitor the performance of this security and the markets to determine the true economic value of this security.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5 - Investment Securities – (continued)

At December 31, 2014 and September 30, 2014 the Company had no securities pledged to secure public deposits.

The following table presents information for investment securities available-for-sale at December 31, 2014, based on scheduled maturities. Actual maturities can be expected to differ from scheduled maturities due to prepayment or early call options of the issuer.

	Available for Sale	
	Amortized Cost	Fair Value
	(In thousands)	
Within 1 year	$-	$-
Over 1 year through 5 years	12,103	12,001
After 5 years through 10 years	34,994	34,754
Over 10 years	90,288	89,031
	$137,385	$135,786

Note 6 - Loans Receivable and Related Allowance for Loan Losses

Loans receivable in the Company's portfolio consisted of the following at the dates indicated below:

	December 31, 2014	September 30, 2014
	(in thousands)	
Residential mortgage	$229,507	$231,324
Construction and Development:		
Residential and commercial	6,039	5,964
Land	-	1,033
Total Construction and Development	6,039	6,997
Commercial:		
Commercial real estate	67,274	71,579
Multi-family	5,450	1,032
Other	5,603	5,480
Total Commercial	78,327	78,091
Consumer:		
Home equity lines of credit	24,430	22,292
Second mortgages	45,051	47,034
Other	2,675	2,839
Total Consumer	72,156	72,165
Total loans	386,029	388,577
Deferred loan cost, net	1,960	2,086
Allowance for loan losses	(4,600)	(4,589)
Total loans receivable, net	$ 383,389	$ 386,074

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6 - Loans Receivable and Related Allowance for Loan Losses – (continued)

The following tables summarize the primary classes of the allowance for loan losses ("ALLL"), segregated into the amount required for loans individually evaluated for impairment and the amount required for loans collectively evaluated for impairment as of December 31, 2014 and September 30, 2014. Activity in the allowance is presented for the three months ended December 31, 2014 and 2013 and the year ended September 30, 2014, respectively.

Three Months Ended December 31, 2014											
		Construction and Development		Commercial			Consumer				
	Residential Mortgage	Residential and Commercial	Land	Commercial Real Estate	Multi-family	Other	Home Equity Lines of Credit	Second Mortgages	Other	Unallocated	Total
	(In thousands)										
Allowance for loan losses:											
Beginning balance	$1,672	$291	$13	$1,248	$29	$50	$168	$1,033	$23	$62	$4,589
Charge-offs	-	(1)	-	(48)	-	-	-	(31)	(17)	-	(97)
Recoveries	1	-	-	2	-	1	-	12	2	-	18
Provision	(25)	73	(13)	(120)	123	(2)	(14)	(98)	21	145	90
Ending Balance	$1,648	$363	$-	$1,082	$152	$49	$154	$916	$29	$207	$4,600
Ending balance: individually evaluated for impairment	$-	$-	$-	$-	$-	$-	$-	$-	$-	$-	$-
Ending balance: collectively evaluated for impairment	$1,648	$363	$-	$1,082	$152	$49	$154	$916	$29	$207	$4,600
Loans receivable:											
Ending balance	$229,507	$6,039	$-	$67,274	$5,450	$5,603	$24,430	$45,051	$2,675		$386,029
Ending balance:	$962	$143	$-	$609	$-	$898	$20	$708	$-		$3,340

individually evaluated for impairment											
Ending balance: collectively evaluated for impairment	$228,545	$5,896	$-	$66,665	$5,450	$4,705	$24,410	$44,343	$2,675		$382,689

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6 - Loans Receivable and Related Allowance for Loan Losses – (continued)

	Three Months Ended December 31, 2013										
		Construction and Development		Commercial			Consumer				
	Residential Mortgage	Residential and Commercial	Land	Commercial Real Estate	Multi-family	Other	Home Equity Lines of Credit	Second Mortgages	Other	Unallocated	Total
	(In thousands)										
Allowance for loan losses:											
Beginning balance	$1,414	$164	$56	$1,726	$40	$59	$137	$1,393	$22	$79	$5,090
Charge-offs	-	(37)	-	-	-	-	(14)	(320)	(2)	-	(373)
Recoveries	11	-	-	2	-	1	-	33	1	-	48
Provision	255	66	(3)	(295)	(14)	14	7	36	2	12	80
Ending Balance	$1,680	$193	$53	$1,433	$26	$74	$130	$1,142	$23	$91	$4,845
Ending balance: individually evaluated for impairment	$-	$-	$-	$-	$-	$-	$-	$-	$-	$-	$-
Ending balance: collectively evaluated for impairment	$1,680	$193	$53	$1,433	$26	$74	$130	$1,142	$23	$91	$4,845
Loans receivable:											
Ending balance	$246,139	$7,213	$2,148	$70,511	$2,051	$5,913	$20,649	$52,532	$2,809		$409,965
Ending balance: individually evaluated for impairment	$1,821	$993	$237	$-	$-	$900	$20	$583	$-		$4,554
	$244,318	$6,220	$1,911	$70,511	$2,051	$5,013	$20,629	$51,949	$2,809		$405,411

Ending balance: collectively evaluated for impairment

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6 - Loans Receivable and Related Allowance for Loan Losses – (continued)

	Year Ended September 30, 2014										
		Construction and Development		Commercial			Consumer				
	Residential Mortgage	Residential and Commercial	Land	Commercial Real Estate	Multi-family	Other	Home Equity Lines of Credit	Second Mortgages	Other	Unallocated	Total
	(In thousands)										
Allowance for loan losses:											
Beginning balance	$1,414	$164	$56	$1,726	$40	$59	$137	$1,393	$22	$79	$5,090
Charge-offs	(83)	(37)	-	(183)	-	-	(14)	(618)	(6)	-	(941)
Recoveries	23	1	-	9	-	3	1	136	4	-	177
Provision	318	163	(43)	(304)	(11)	(12)	44	122	3	(17)	263
Ending Balance	$1,672	$291	$13	$1,248	$29	$50	$168	$1,033	$23	$62	$4,589
Ending balance: individually evaluated for impairment	$-	$-	$-	$-	$-	$-	$-	$-	$-	$-	$-
Ending balance: collectively evaluated for impairment	$1,672	$291	$13	$1,248	$29	$50	$168	$1,033	$23	$62	$4,589
Loans receivable:											
Ending balance	$231,324	$5,964	$1,033	$71,579	$1,032	$5,480	$22,292	$47,034	$2,839		$388,577
Ending balance: individually evaluated for impairment	$999	$187	$-	$504	$-	$900	$115	$695	$-		$3,400
	$230,325	$5,777	$1,033	$71,075	$1,032	$4,580	$22,177	$46,339	$2,839		$385,177

Ending
balance:
collectively
evaluated
for
impairment

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6 - Loans Receivable and Related Allowance for Loan Losses – (continued)

The following table presents impaired loans in portfolio by class, segregated by those for which a specific allowance was required and those for which a specific allowance was not necessary as of December 31, 2014 and September 30, 2014.

	Impaired Loans With Specific Allowance		Impaired Loans With No Specific Allowance	Total Impaired Loans	
	Recorded Investment	Related Allowance	Recorded Investment	Recorded Investment	Unpaid Principal Balance
			(In thousands)		
December 31, 2014:					
Residential mortgage	$-	$-	$962	$962	$1,115
Construction and Development:					
Residential and commercial	-	-	143	143	943
Commercial:					
Commercial real estate	-	-	609	609	840
Other	-	-	898	898	897
Consumer:					
Home equity lines of credit	-	-	20	20	36
Second mortgages	-	-	708	708	897
Total impaired loans	$-	$-	$3,340	$3,340	$4,728
September 30, 2014:					
Residential mortgage	$-	$-	$999	$999	$1,149
Construction and Development:					
Residential and commercial	-	-	187	187	842
Commercial:	-	-			
Commercial real estate	-	-	504	504	688
Other	-	-	900	900	900
Consumer:					
Home equity lines of credit	-	-	115	115	135
Second mortgages	-	-	695	695	894
Total impaired loans	$-	$-	$3,400	$3,400	$4,608

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6 - Loans Receivable and Related Allowance for Loan Losses – (continued)

The following table presents the average recorded investment in impaired loans in portfolio and related interest income recognized for three months ended December 31, 2014 and 2013.

	Average Impaired Loans	Interest Income Recognized on Impaired Loans
	(In thousands)	
Three Months Ended December 31, 2014:		
Residential mortgage	$ 918	$ -
Construction and Development:		
Residential and commercial	179	1
Commercial:		
Commercial real estate	523	-
Other	899	12
Consumer:		
Home equity lines of credit	35	-
Second mortgages	729	-
Total	$ 3,283	$ 13
Three Months Ended December 31, 2013:		
Residential mortgage	$ 1,363	$ -
Construction and Development:		
Residential and commercial	411	3
Land	237	3
Commercial:		
Other	900	7
Consumer:		
Home equity lines of credit	21	-
Second mortgages	570	-
Total	$ 3,502	$ 13

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6 - Loans Receivable and Related Allowance for Loan Losses – (continued)

The following table presents the classes of the loan portfolio summarized by loans considered to be rated as pass and the categories of special mention, substandard and doubtful within the Company's internal risk rating system as of December 31, 2014 and September 30, 2014.

	December 31, 2014				
	Pass	Special Mention	Substandard	Doubtful	Total
			(In thousands)		
Residential mortgage	$228,161	$134	$1,212	$-	$229,507
Construction and Development:					
Residential and commercial	5,209	687	143	-	6,039
Land	-	-	-	-	-
Commercial:					
Commercial real estate	58,271	4,546	4,457	-	67,274
Multi-family	5,157	293	-	-	5,450
Other	4,421	284	898	-	5,603
Consumer:					
Home equity lines of credit	24,310	-	120	-	24,430
Second mortgages	44,200	21	830	-	45,051
Other	2,660	15	-	-	2,675
Total	$372,389	$5,980	$7,660	$-	$386,029

	September 30, 2014				
	Pass	Special Mention	Substandard	Doubtful	Total
			(In thousands)		
Residential mortgage	$230,065	$137	$1,122	$-	$231,324
Construction and Development:					
Residential and commercial	5,777	-	187	-	5,964
Land	1,033	-	-	-	1,033
Commercial:					
Commercial real estate	63,125	5,797	2,657	-	71,579
Multi-family	1,032	-	-	-	1,032
Other	3,555	1,025	900	-	5,480