ESSA Bancorp, Inc.
Form 10-Q
August 10, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **Quarterly Report Pursuant To Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended June 30, 2015

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 No. 001-33384

ESSA Bancorp, Inc.

(Exact name of registrant as specified in its charter)

Pennsylvania	**20-8023072**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**
200 Palmer Street, Stroudsburg, Pennsylvania	**18360**
(Address of Principal Executive Offices)	**(Zip Code)**

(570) 421-0531

(Registrant s telephone number)

N/A

(Former name or former address, if changed since last report)

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

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

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

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨	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 x

As of August 3, 2015 there were 11,412,821 shares of the Registrant s common stock, par value $0.01 per share, outstanding.

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Part I. Financial Information

Item 1. Financial Statements

ESSA BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEET

(UNAUDITED)

	June 30, 2015	September 30, 2014
	(dollars in thousands)	
Cash and due from banks	$ 16,017	$ 20,884
Interest-bearing deposits with other institutions	1,675	1,417
Total cash and cash equivalents	17,692	22,301
Certificates of deposit	1,750	1,767
Investment securities available for sale, at fair value	381,375	383,078
Loans receivable (net of allowance for loan losses of $8,767 and $8,634)	1,092,527	1,058,267
Regulatory stock, at cost	14,537	14,284
Premises and equipment, net	16,655	16,957
Bank-owned life insurance	30,421	29,720
Foreclosed real estate	2,595	2,759
Intangible assets, net	1,910	2,396
Goodwill	10,259	10,259
Deferred income taxes	11,045	12,027
Other assets	18,058	21,000
TOTAL ASSETS	$ 1,598,824	$ 1,574,815
LIABILITIES		
Deposits	$ 1,075,553	$ 1,133,889
Short-term borrowings	120,856	108,020
Other borrowings	208,805	151,300
Advances by borrowers for taxes and insurance	11,617	4,093
Other liabilities	10,666	10,204
TOTAL LIABILITIES	1,427,497	1,407,506
STOCKHOLDERS EQUITY		
Preferred Stock ($.01 par value; 10,000,000 shares authorized, none issued)		
Common stock ($.01 par value; 40,000,000 shares authorized, 18,133,095 issued; 11,419,321 and 11,590,378 outstanding at June 30, 2015 and September 30, 2014)	181	181

Additional paid in capital	182,358	182,486
Unallocated common stock held by the Employee Stock Ownership Plan (ESOP)	(9,740)	(10,079)
Retained earnings	82,289	77,413
Treasury stock, at cost; 6,713,774 and 6,542,717 shares outstanding at June 30, 2015 and September 30, 2014, respectively	(82,105)	(80,113)
Accumulated other comprehensive loss	(1,656)	(2,579)
TOTAL STOCKHOLDERS EQUITY	171,327	167,309
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 1,598,824	$ 1,574,815

See accompanying notes to the unaudited consolidated financial statements.

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ESSA BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF INCOME

(UNAUDITED)

	For the Three Months Ended June 30,		For the Nine Months Ended June 30,	
	2015	2014	2015	2014
	(dollars in thousands, except per share data)			
INTEREST INCOME				
Loans receivable, including fees	$ 11,398	$ 11,807	$ 33,947	$ 32,173
Investment securities:				
Taxable	1,741	1,632	5,429	4,682
Exempt from federal income tax	248	173	721	318
Other investment income	181	173	759	317
Total interest income	13,568	13,785	40,856	37,490
INTEREST EXPENSE				
Deposits	1,800	2,015	5,643	5,909
Short-term borrowings	118	54	324	104
Other borrowings	639	619	1,826	1,951
Total interest expense	2,557	2,688	7,793	7,964
NET INTEREST INCOME	11,011	11,097	33,063	29,526
Provision for loan losses	525	500	1,500	2,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	10,486	10,597	31,563	27,526
NONINTEREST INCOME				
Service fees on deposit accounts	842	828	2,426	2,342
Services charges and fees on loans	274	283	863	572
Trust and investment fees	218	260	660	701
Gain/(loss) on sale of investments, net	194	(10)	398	226
Earnings on Bank-owned life insurance	231	234	701	687
Insurance commissions	183	205	582	625
Gain on acquisition		241		241
Other	6	59	33	85

Total noninterest income	1,948	2,100	5,663	5,479
NONINTEREST EXPENSE				
Compensation and employee benefits	5,213	4,912	15,559	13,577
Occupancy and equipment	996	1,051	3,111	3,034
Professional fees	517	441	1,438	1,348
Data processing	861	977	2,566	2,426
Advertising	373	243	725	463
Federal Deposit Insurance Corporation (FDIC) premiums	269	266	850	730
(Gain)/loss on foreclosed real estate	8	(65)	(167)	(116)
Merger related costs		176		522
Amortization of intangible assets	157	282	486	756
Other	965	812	2,855	1,987
Total noninterest expense	9,359	9,095	27,423	24,727
Income before income taxes	3,075	3,602	9,803	8,278
Income taxes	618	976	2,318	2,146
NET INCOME	$ 2,457	$ 2,626	$ 7,485	$ 6,132
Earnings per share				
Basic	$ 0.24	$ 0.24	$ 0.72	$ 0.56
Diluted	$ 0.23	$ 0.24	$ 0.71	$ 0.56
Dividends per share	$ 0.09	$ 0.07	$ 0.25	$ 0.19

See accompanying notes to the unaudited consolidated financial statements.

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ESSA BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(UNAUDITED)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2015	2014	2015	2014
	(dollars in thousands)			
Net income	$ 2,457	$ 2,626	$ 7,485	$ 6,132
Other comprehensive income (loss):				
Investment securities available for sale:				
Unrealized holding gain (loss)	(3,496)	3,281	1,616	2,578
Tax effect	1,188	(1,116)	(549)	(877)
Reclassification of (gains) losses recognized in net income	(194)	10	(398)	(226)
Tax effect	66	(3)	135	77
Net of tax amount	(2,436)	2,172	804	1,552
Pension plan adjustment:				
Related to actuarial losses and prior service cost	61	7	181	21
Tax effect	(22)	(2)	(62)	(7)
Net of tax amount	39	5	119	14
Total other comprehensive income (loss)	(2,397)	2,177	923	1,566
Comprehensive income	$ 60	$ 4,803	$ 8,408	$ 7,698

See accompanying notes to the unaudited consolidated financial statements.

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ESSA BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY

(UNAUDITED)

	Common Stock							
	Number of Shares	Amount	Additional Paid In Capital	Unallocated Common Stock Held by the ESOP	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Stockholders Equity
				(dollars in thousands)				
Balance, September 30, 2014	11,590,378	$ 181	$ 182,486	$ (10,079)	$ 77,413	$ (80,113)	$ (2,579)	$ 167,309
Net income					7,485			7,485
Other comprehensive income							923	923
Cash dividends declared ($.25 per share)					(2,609)			(2,609)
Stock based compensation			81					81
Allocation of ESOP stock			76	339				415
Allocation of treasury shares to incentive plan			(285)			285		
Treasury shares purchased	(171,057)					(2,277)		(2,277)
Balance, June 30, 2015	11,419,321	$ 181	$ 182,358	$ (9,740)	$ 82,289	$ (82,105)	$ (1,656)	$ 171,327

See accompanying notes to the unaudited consolidated financial statements.

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ESSA BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS

(UNAUDITED)

	For the Nine Months Ended June 30,	
	2015	**2014**
	(dollars in thousands)	
OPERATING ACTIVITIES		
Net income	$ 7,485	$ 6,132
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,500	2,000
Provision for depreciation and amortization	980	948
Amortization and accretion of discounts and premiums, net	322	829
Net gain on sale of investment securities	(398)	(226)
Compensation expense on ESOP	415	371
Stock based compensation	81	170
Increase in accrued interest receivable	(54)	(629)
Increase in accrued interest payable	99	202
Earnings on bank-owned life insurance	(701)	(687)
Deferred federal income taxes	(507)	(738)
Gain on foreclosed real estate, net	(167)	(116)
Amortization of identifiable intangible assets	486	756
Other, net	4,478	1,701
Net cash provided by operating activities	14,019	10,713
INVESTING ACTIVITIES		
Maturities of certificates of deposit	17	
Investment securities available for sale:		
Proceeds from sale of investment securities	5,904	8,065
Proceeds from principal repayments and maturities	46,953	27,863
Purchases	(50,532)	(37,720)
(Increase) decrease in loans receivable, net	(37,329)	27,025
Redemption of regulatory stock	11,660	2,431
Purchase of regulatory stock	(11,913)	(4,204)
Proceeds from sale of foreclosed real estate	2,543	2,038
Acquisition, including cash acquired		(15,415)
Capital improvements to foreclosed real estate	30	
Purchase of premises, equipment, and software	(604)	(498)
Net cash (used for) provided by investing activities	(33,271)	9,585

FINANCING ACTIVITIES				
Decrease in deposits, net		(58,336)		(68,902)
Net increase in short-term borrowings		12,836		55,749
Proceeds from other borrowings		66,705		42,500
Repayment of other borrowings		(9,200)		(56,387)
Increase in advances by borrowers for taxes and insurance		7,524		6,962
Purchase of treasury stock shares		(2,277)		(1,328)
Dividends on common stock		(2,609)		(2,060)
Net cash provided by (used for) financing activities		14,643		(23,466)
Decrease in cash and cash equivalents		(4,609)		(3,168)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		22,301		26,648
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$	17,692	$	23,480
SUPPLEMENTAL CASH FLOW DISCLOSURES				
Cash Paid:				
Interest	$	7,694	$	7,762
Income taxes		250		2
Noncash items:				
Transfers from loans to foreclosed real estate		2,242		2,342
Acquisition of FNCB:				
Cash received				4,640
Noncash assets acquired				
Loans receivable and accrued interest receivable				1,033
Premises and equipment				1,626
Goodwill				1,442
Total non cash assets			$	4,101
Liabilities assumed:				
Certificates of deposit				3,069
Deposits other than certificates of deposit				5,683
Total liabilities				8,752
Net noncash assets acquired				(4,651)
Cash acquired			$	11
Acquisition of Franklin Security Bank assets and liabilities:				
Noncash assets acquired				
Investment securities, available for sale				55,901
Loans receivable				152,188
Federal Home Loan Bank stock				1,569
Premises and equipment				176
Foreclosed real estate				436

Intangible assets, net		889
Deferred income taxes		1,031
Other assets		2,504
Total assets acquired	$	214,694
Liabilities assumed:		
Certificates of deposit		90,869
Deposits other than certificates of deposit		71,317
Other borrowings		30,177
Other liabilities		2,265
Total liabilities		194,628
Net noncash assets acquired		20,066
Cash acquired	$	(19,825)

See accompanying notes to the unaudited consolidated financial statements.

ESSA BANCORP, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

(unaudited)

1. Nature of Operations and Basis of Presentation

The consolidated financial statements include the accounts of ESSA Bancorp, Inc. (the Company), its wholly owned subsidiary, ESSA Bank & Trust (the Bank), and the Bank s wholly owned subsidiaries, ESSACOR Inc.; Pocono Investments Company; ESSA Advisory Services, LLC; Integrated Financial Corporation; and Integrated Abstract Incorporated, a wholly owned subsidiary of Integrated Financial Corporation. The primary purpose of the Company is to act as a holding company for the Bank. On November 6, 2014, the Company converted its status from a savings and loan holding company to a bank holding company. In addition, the Bank converted from a Pennsylvania-chartered savings association to a Pennsylvania-chartered savings bank. The Bank s primary business consists of the taking of deposits and granting of loans to customers generally in Monroe, Northampton, Lehigh, Lackawanna, and Luzerne Counties, Pennsylvania. The Bank is subject to regulation and supervision by the Pennsylvania Department of Banking and Securities and the Federal Deposit Insurance Corporation. The investment in subsidiary on the parent company s financial statements is carried at the parent company s equity in the underlying net assets.

ESSACOR, Inc. is a Pennsylvania corporation that has been used to purchase properties at tax sales that represent collateral for delinquent loans of the Bank. Pocono Investment Company is a Delaware corporation formed as an investment company subsidiary to hold and manage certain investments, including certain intellectual property. ESSA Advisory Services, LLC is a Pennsylvania limited liability company owned 100 percent by ESSA Bank & Trust. ESSA Advisory Services, LLC is a full-service insurance benefits consulting company offering group services such as health insurance, life insurance, short-term and long-term disability, dental, vision, and 401(k) retirement planning as well as individual health products. Integrated Financial Corporation is a Pennsylvania Corporation that provided investment advisory services to the general public and is currently inactive. Integrated Abstract Incorporated is a Pennsylvania Corporation that provided title insurance services and is currently inactive. All significant intercompany accounts and transactions have been eliminated in consolidation.

The unaudited consolidated financial statements reflect all adjustments, which in the opinion of management, are necessary for a fair presentation of the results of the interim periods and are of a normal and recurring nature. Operating results for the nine month period ended June 30, 2015 are not necessarily indicative of the results that may be expected for the year ending September 30, 2015.

2. Earnings per Share

The following table sets forth the composition of the weighted-average common shares (denominator) used in the basic and diluted earnings per share computation for the three and nine month periods ended June 30, 2015 and 2014.

	Three months ended		Nine months ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014

Weighted-average common shares outstanding	18,133,095	18,133,095	18,133,095	18,133,095
Average treasury stock shares	(6,709,111)	(6,272,961)	(6,671,091)	(6,233,349)
Average unearned ESOP shares	(967,514)	(1,012,790)	(978,875)	(1,024,151)
Average unearned non-vested shares	(25,008)	(9,752)	(19,045)	(11,233)
Weighted average common shares and common stock equivalents used to calculate basic earnings per share	10,431,462	10,837,592	10,464,084	10,864,362
Additional common stock equivalents (non-vested stock) used to calculate diluted earnings per share	627			
Additional common stock equivalents (stock options) used to calculate diluted earnings per share	133,034		69,620	
Weighted average common shares and common stock equivalents used to calculate diluted earnings per share	10,565,123	10,837,592	10,533,704	10,864,362

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At June 30, 2015 and 2014 there were options to purchase 317,910 shares of common stock outstanding at a price of $12.35 per share that were not included in the computation of diluted EPS because to do so would have been anti-dilutive. At June 30, 2015 and 2014 there were 35,057 and 4,440 shares, respectively, of nonvested stock outstanding at prices of $12.27 and $10.94 per share, respectively that were not included in the computation of diluted EPS because to do so would have been anti-dilutive.

3. Use of Estimates in the Preparation of Financial Statements

The accounting principles followed by the Company and its subsidiaries and the methods of applying these principles conform to U.S. generally accepted accounting principles (GAAP) and to general practice within the banking industry. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the Consolidated Balance Sheet date and related revenues and expenses for the period. Actual results could differ significantly from those estimates.

4. Recent Accounting Pronouncements:

<u>Recent Accounting Pronouncements:</u>

In January 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-01, *Investments Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects.* The amendments in this Update permit reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense (benefit). The amendments in this Update should be applied retrospectively to all periods presented. A reporting entity that uses the effective yield method to account for its investments in qualified affordable housing projects before the date of adoption may continue to apply the effective yield method for those preexisting investments. The amendments in this Update are effective for public business entities for annual periods and interim reporting periods within those annual periods, beginning after December 15, 2014. Early adoption is permitted. This Update is not expected to have a significant impact on the Company s financial statements.

In January 2014, the FASB issued ASU 2014-04, *Receivables Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure.* The amendments in this Update 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 (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) 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. Additionally, the amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The amendments in this Update are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. An entity can elect to adopt the amendments in this Update using either a modified retrospective transition method or a prospective transition method. This Update is not expected to have a significant impact on the Company s financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (a new revenue recognition standard). The Update s core principle is that a company will recognize revenue to depict the transfer of 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. In addition, this update specifies the accounting for certain costs to obtain or fulfill a contract with a customer and expands disclosure requirements for revenue recognition. This Update is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. The Company is evaluating the effect of adopting this new accounting Update.

In June 2014, the FASB issued ASU 2014-11, *Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures*. The amendments in this Update change the accounting for repurchase-to-maturity transactions to secured borrowing accounting. For repurchase financing arrangements, the amendments require separate accounting for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty, which will result in secured borrowing accounting for the repurchase agreement. The amendments also require enhanced disclosures. The accounting changes in this Update are effective for the first interim or annual period beginning after December 15, 2014. An entity is required to present changes in accounting for transactions outstanding on the effective date as a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption. Earlier application is prohibited. The disclosure for certain transactions accounted for as a sale is required to be presented for interim and annual periods beginning after December 15, 2014, and the disclosure for repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions accounted for as secured borrowings is required to be presented for annual periods beginning after December 15, 2014, and for interim periods beginning after March 15, 2015. The disclosures are not required to be presented for comparative periods before the effective date. This Update did not have a significant impact on the Company s financial statements.

In June 2014, the FASB issued ASU 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. The amendments in this Update are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Earlier adoption is permitted. Entities may apply the amendments in this Update either (a) prospectively to all awards granted or modified after the effective date or (b) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. If retrospective transition is adopted, the cumulative effect of applying this Update as of the beginning of the earliest annual period presented in the financial statements should be recognized as an adjustment to the opening retained earnings balance at that date. Additionally, if retrospective transition is adopted, an entity may use hindsight in measuring and recognizing the compensation cost. This Update is not expected to have a significant impact on the Company s financial statements.

In August 2014, the FASB issued ASU 2014-14, *Receivables Troubled Debt Restructurings by Creditors (Subtopic 310-40)*. The amendments in this Update require 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 this Update are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. This Update is not expected to have a significant impact on the Company s financial statements

In August 2014, the FASB issued ASU 2014-15, *Presentation of Financial Statements -Going Concern (Subtopic* 205-40). The amendments in this Update provide guidance in accounting principles generally accepted in the United States of America about management s responsibility to evaluate whether there is substantial doubt about an entity s ability to continue as a going concern and to provide related footnote disclosures. The amendments in this Update are effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted. This Update is not expected to have a significant impact on the Company s financial statements.

In November 2014, the FASB issued ASU 2014-16, *Derivatives and Hedging (Topic 815): Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity (a consensus of the FASB Emerging Issues Task Force).* This ASU clarifies how current U.S. GAAP should be interpreted in subjectively evaluating the economic characteristics and risks of a host contract in a hybrid financial instrument that is issued in the form of a share. Public business entities are required to implement the new requirements in fiscal years and interim periods within those fiscal years beginning after December 15, 2015. This Update is not expected to have a significant impact on the Company s financial statements.

In January 2015, the FASB issued ASU 2015-01, *Income Statement Extraordinary and Unusual Items,* as part of its initiative to reduce complexity in accounting standards. This Update eliminates from GAAP the concept of extraordinary items. The amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. A reporting entity may apply the amendments prospectively. A reporting entity also may apply the amendments retrospectively to all prior periods presented in the financial statements. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. This Update is not expected to have a significant impact on the Company s financial statements.

In February 2015, the FASB issued ASU 2015-02, *Consolidation (Topic 810)*. The amendments in this Update affect reporting entities that are required to evaluate whether they should consolidate certain legal entities. All legal entities are subject to reevaluation under the revised consolidation model. Specifically, the amendments (1) Modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities (VIEs) or voting interest entities; (2) Eliminate the presumption that a general partner should consolidate a limited partnership; (3) Affect the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships; (4) Provide a scope exception from consolidation guidance for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds. The amendments in this Update are effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. For all other entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2016, and for interim periods within fiscal years beginning after December 15, 2017. This Update is not expected to have a significant impact on the Company s financial statements.

In April 2015, the FASB issued ASU 2015-03, *Interest-Imputation of Interest (Subtopic 835-30)*, as part of its initiative to reduce complexity in accounting standards. To simplify presentation of debt issuance costs, the amendments in this Update require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this Update. For public business entities, the amendments in this Update are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. For all other entities, the amendments in this Update are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within fiscal years beginning after December 15, 2016. An entity should apply the new guidance on a retrospective basis, wherein the balance sheet of each individual period presented should be adjusted to reflect the period-specific effects of applying the new guidance. This Update is not expected to have a significant impact on the Company s financial statements.

In April 2015, the FASB issued ASU 2015-04, *Compensation-Retirement Benefits (Topic 715),* as part of its initiative to reduce complexity in accounting standards. For an entity with a fiscal year-end that does not coincide with a month-end, the amendments in this Update provide a practical expedient that permits the entity to measure defined benefit plan assets and obligations using the month-end that is closest to the entity s fiscal year-end and apply that practical expedient consistently from year to year. The practical expedient should be applied consistently to all plans if an entity has more than one plan. The amendments in this Update are effective for public business entities for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. For all other entities, the amendments in this Update are effective for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017. Earlier application is permitted. This Update is not expected to have a significant impact on the Company s financial statements.

In April 2015, the FASB issued ASU 2015-05, *Intangible Goodwill and Other Internal Use Software (Topic 350-40)*, as part of its initiative to reduce complexity in accounting standards. This guidance will help entities evaluate the accounting for fees paid by a customer in a cloud computing arrangement. The amendments in this Update provide guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. For public business entities, the Board decided that the amendments will be effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2015. For all other entities, the amendments will be effective for annual periods beginning after December 15, 2015, and interim periods in annual periods beginning after December 15, 2016. Early adoption is permitted for all entities. This Update is not expected to have a significant impact on the Company s financial statements.

In May 2015, the FASB issued ASU 2015-08*, Business Combinations - Pushdown Accounting - Amendment to SEC Paragraphs Pursuant to Staff Accounting Bulletin No. 115*. This ASU was issued to amend various SEC paragraphs pursuant to the issuance of Staff Accounting Bulletin No. 115. This Update did not have a significant impact on the Company s financial statements.

In May 2015, the FASB issued ASU 2015-09, *Financial Services-Insurance (Topic 944) - Disclosure about Short-Duration Contracts*. The amendments apply to all insurance entities that issue short-duration contracts as defined in Topic 944, *Financial Services-Insurance*. The amendments require insurance entities to disclose for annual reporting periods certain information about the liability for unpaid claims and claim adjustment expenses. The amendments also require insurance entities to disclose information about significant changes in methodologies and assumptions used to calculate the liability for unpaid claims and claim adjustment expenses, including reasons for the change and the effects on the financial statements. Additionally, the amendments require insurance entities to disclose for annual and interim reporting periods a rollforward of the liability for unpaid claims and claim adjustment expenses, described in Topic 944. For health insurance claims, the amendments require the disclosure of the total of incurred-but-not-reported liabilities plus expected development on reported claims included in the liability for unpaid claims and claim adjustment expenses. For public business entities, the amendments in this Update are effective for annual periods beginning after December 15, 2015, and interim periods within annual periods beginning after December 15, 2016. For all other entities, the amendments in this Update are effective for annual periods beginning after December 15, 2016, and interim periods within annual periods beginning after December 15, 2017. This Update is not expected to have a significant impact on the Company s financial statements.

In June 2015, the FASB issued ASU 2015-10, *Technical Corrections and Improvements*. The amendments in this Update represent changes to clarify the Codification, correct unintended application of guidance, or make minor improvements to the Codification that are not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities. Transition guidance varies based on the amendments in this Update. The amendments in this Update that require transition guidance are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. All other amendments will be effective upon the issuance of this Update. This Update is not expected to have a significant impact on the Company s financial statements.

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5. Investment Securities

The amortized cost, gross unrealized gains and losses, and fair value of investment securities available for sale are summarized as follows (in thousands):

	June 30, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for Sale				
Fannie Mae	$ 134,184	$ 1,470	$ (913)	$ 134,741
Freddie Mac	92,368	738	(562)	92,544
Governmental National Mortgage Association	16,534	106	(77)	16,563
Other mortgage-backed securities	2,663		(12)	2,651
Total mortgage-backed securities	245,749	2,314	(1,564)	246,499
Obligations of states and political subdivisions	48,887	1,293	(376)	49,804
U.S. government agency securities	44,246	280	(14)	44,512
Corporate obligations	21,493	142	(236)	21,399
Trust-preferred securities	3,194	277		3,471
Other debt securities	15,579	122	(36)	15,665
Total debt securities	379,148	4,428	(2,226)	381,350
Equity securities - financial services	25			25
Total	$ 379,173	$ 4,428	$ (2,226)	$ 381,375

	September 30, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for Sale				
Fannie Mae	$ 144,291	$ 1,327	$ (1,550)	$ 144,068
Freddie Mac	99,556	548	(1,277)	98,827
Governmental National Mortgage Association	19,446	92	(161)	19,377
Other mortgage-backed securities	2,795		(15)	2,780
Total mortgage-backed securities	266,088	1,967	(3,003)	265,052
Obligations of states and political subdivisions	41,375	1,654	(258)	42,771
U.S. government agency securities	47,821	192	(383)	47,630
Corporate obligations	13,140	236	(48)	13,328
Trust-preferred securities	5,027	594		5,621
Other debt securities	6,618	51	(18)	6,651

Total debt securities	380,069	4,694	(3,710)	381,053
Equity securities - financial services	2,025			2,025
Total	$ 382,094	$ 4,694	$ (3,710)	$ 383,078

The amortized cost and fair value of debt securities at June 30, 2015, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties (in thousands):

	Available For Sale	
	Amortized Cost	Fair Value
Due in one year or less	$ 6,506	$ 6,516
Due after one year through five years	49,366	49,771
Due after five years through ten years	64,198	64,601
Due after ten years	259,078	260,462
Total	$ 379,148	$ 381,350

For the three months ended June 30, 2015, the Company realized gross gains of $194,000 and no gross losses on proceeds from the sale of investment securities of $2.6 million. For the nine months ended June 30, 2015, the Company realized gross gains of $398,000 and no gross losses on proceeds from the sale of investment securities of $5.9 million. For the three months ended June 30, 2014, the Company realized gross losses of $10,000 on proceeds from the sale of investment securities of $100. For the nine months ended June 30, 2014, the Company realized gross gains of $247,000 and gross losses of $21,000 on proceeds from the sale of investment securities of $8.1 million.

6. Unrealized Losses on Securities

The following table shows the Company s gross unrealized losses and fair value, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position (dollars in thousands):

	June 30, 2015						
	Number of Securities	Less than Twelve Months		Twelve Months or Greater		Total	
		Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fannie Mae	26	$ 15,652	$ (129)	$ 24,511	$ (784)	$ 40,163	$ (913)
Freddie Mac	21	15,946	(101)	16,010	(461)	31,956	(562)
Governmental National Mortgage Association	4	1,244	(7)	2,399	(70)	3,643	(77)
Other mortgage-backed securities	3			2,651	(12)	2,651	(12)
Obligations of states and political subdivisions	14	9,172	(195)	4,581	(181)	13,753	(376)
U.S. government agency securities	4	7,986	(13)	1,000	(1)	8,986	(14)
Corporate obligations	10	9,906	(214)	979	(22)	10,885	(236)
Other debt securities	7	6,097	(27)	1,801	(9)	7,898	(36)
Total	89	66,003	(686)	53,932	(1,540)	119,935	(2,226)

		September 30, 2014					
	Number of Securities	Less than Twelve Months		Twelve Months or Greater		Total	
		Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fannie Mae	39	$ 34,377	$ (164)	$ 33,249	$ (1,386)	$ 67,626	$ (1,550)
Freddie Mac	36	38,210	(216)	29,269	(1,061)	67,479	(1,277)
Governmental National Mortgage Association	5	4,127	(22)	2,981	(139)	7,108	(161)
Other mortgage-backed securities	3			2,780	(15)	2,780	(15)
Obligations of states and political subdivisions	5			7,207	(258)	7,207	(258)
U.S. government agency securities	11	8,004	(25)	18,629	(358)	26,633	(383)
Corporate obligations	5	3,142	(32)	1,130	(16)	4,272	(48)
Other debt securities	2	1,980	(18)			1,980	(18)
Total	106	$ 89,840	$ (477)	$ 95,245	$ (3,233)	$ 185,085	$ (3,710)

The Company s investment securities portfolio contains unrealized losses on securities, including mortgage-related instruments issued or backed by the full faith and credit of the United States government, or generally viewed as having the implied guarantee of the U.S. government, other mortgage backed securities, debt obligations of a U.S. state or political subdivision, corporate debt obligations and equity securities.

The Company reviews its position quarterly and has asserted that at June 30, 2015, the declines outlined in the above table represent temporary declines and the Company would not be required to sell the security before its anticipated recovery in market value.

The Company has concluded that any impairment of its investment securities portfolio is not other than temporary but is the result of interest rate changes that are not expected to result in the non-collection of principal and interest during the period.

7. Loans Receivable, Net and Allowance for Loan Losses

Loans receivable consist of the following (in thousands):

	June 30, 2015	September 30, 2014
Real estate loans:		
Residential	$ 618,198	$ 654,152
Construction	1,151	1,367
Commercial	195,503	190,536
Commercial	35,035	25,807
Obligations of states and political subdivisions	56,868	49,177
Home equity loans and lines of credit	40,975	41,387
Auto Loans	150,370	100,571
Other	3,194	3,904
	1,101,294	1,066,901
Less allowance for loan losses	8,767	8,634
Net loans	$ 1,092,527	$ 1,058,267

	Total Loans	Individually Evaluated for Impairment	Loans Acquired with Deteriorated Credit Quality	Collectively Evaluated for Impairment
June 30, 2015				
Real estate loans:				
Residential	$ 618,198	$ 12,671	$	$ 605,527
Construction	1,151			1,151
Commercial	195,503	15,627	4,365	175,511

Commercial	35,035	219	74	34,742
Obligations of states and political subdivisions	56,868			56,868
Home equity loans and lines of credit	40,975	607		40,368
Auto loans	150,370	340		150,030
Other	3,194			3,194
Total	$ 1,101,294	$ 29,464	$ 4,439	$ 1,067,391

	Total Loans	Individually Evaluated for Impairment	Loans Acquired with Deteriorated Credit Quality	Collectively Evaluated for Impairment
September 30, 2014				
Real estate loans:				
Residential	$ 654,152	$ 13,528	$ 110	$ 640,514
Construction	1,367			1,367
Commercial	190,536	17,517	4,727	168,292
Commercial	25,807	456	263	25,088
Obligations of states and political subdivisions	49,177			49,177
Home equity loans and lines of credit	41,387	266	(3)	41,124
Auto loans	100,571	101		100,470
Other	3,904			3,904
Total	$ 1,066,901	$ 31,868	$ 5,097	$ 1,029,936

We maintain a loan review system that allows for a periodic review of our loan portfolio and the early identification of potential impaired loans. Such system takes into consideration, among other things, delinquency status, size of loans, type and market value of collateral and financial condition of the borrowers. Specific loan loss allowances are established for identified losses based on a review of such information. A loan evaluated for impairment is considered to be impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. All loans identified as impaired are evaluated independently. We do not aggregate such loans for evaluation purposes. Impairment is measured on a loan-by-loan basis for commercial and construction loans by the present value of expected future cash flows discounted at the loan s effective interest rate, the loan s obtainable market price, or the fair value of the collateral if the loan is collateral-dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer and residential mortgage loans for impairment disclosures, unless such loans are part of a larger relationship that is impaired, or are classified as a troubled debt restructuring.

A loan is considered to be a troubled debt restructuring (TDR) loan when the Company grants a concession to the borrower because of the borrower s financial condition that it would not otherwise consider. Such concessions include the reduction of interest rates, forgiveness of principal or interest, or other modifications of interest rates that are less than the current market rate for new obligations with similar risk. TDR loans that are in compliance with their modified terms and that yield a market rate may be removed from the TDR status after one year of performance.

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The following table includes the recorded investment and unpaid principal balances for impaired loans with the associated allowance amount, if applicable (in thousands).

	Recorded Investment	Unpaid Principal Balance	Associated Allowance
June 30, 2015			
With no specific allowance recorded:			
Real estate loans			
Residential	$ 9,378	$ 11,231	$
Construction			
Commercial	19,847	20,789	
Commercial	293	305	
Obligations of states and political subdivisions			
Home equity loans and lines of credit	529	533	
Auto loans	159	237	
Other			
Total	30,206	33,095	
With an allowance recorded:			
Real estate loans			
Residential	3,293	3,761	432
Construction			
Commercial	145	174	1
Commercial			
Obligations of states and political subdivisions			
Home equity loans and lines of credit	78	106	69
Auto loans	181	181	76
Other			
Total	3,697	4,222	578
Total:			
Real estate loans			
Residential	12,671	14,992	432
Construction			
Commercial	19,992	20,963	1
Commercial	293	305	
Obligations of states and political subdivisions			
Home equity loans and lines of credit	607	639	69
Auto loans	340	418	76
Other			

Total Impaired Loans	$ 33,903	$ 37,317	$ 578

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	Recorded Investment	Unpaid Principal Balance	Associated Allowance
September 30, 2014			
With no specific allowance recorded:			
Real Estate Loans			
Residential	$ 11,030	$ 13,225	$
Construction			
Commercial	21,587	22,428	
Commercial	719	777	
Obligations of states and political subdivisions			
Home equity loans and lines of credit	210	377	
Auto Loans	101	101	
Other			
Total	33,647	36,908	
With an allowance recorded:			
Real Estate Loans			
Residential	2,608	2,997	334
Construction			
Commercial	657	677	84
Commercial			
Obligations of states and political subdivisions			
Home equity loans and lines of credit	53	76	50
Auto Loans			
Other			
Total	3,318	3,750	468
Total:			
Real Estate Loans			
Residential	13,638	16,222	334
Construction			
Commercial	22,244	23,105	84
Commercial	719	777	
Obligations of states and political subdivisions			
Home equity loans and lines of credit	263	453	50
Auto Loans	101	101	
Other			
Total Impaired Loans	$ 36,965	$ 40,658	$ 468

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The following table represents the average recorded investments in the impaired loans and the related amount of interest recognized during the time within the period that the impaired loans were impaired (in thousands).

	Three months ended June 30,			
	2015 Average Recorded Investment	2014 Average Recorded Investment	2015 Interest Income Recognized	2014 Interest Income Recognized
With no specific allowance recorded:				
Real estate loans				
Residential	$ 9,522	$ 8,989	$ 59	$ 92
Construction				
Commercial	20,152	20,640	222	179
Commercial	306	3,289	2	43
Obligations of states and political subdivisions				
Home equity loans and lines of credit	433	215	2	2
Auto loans	116			
Other				
Total	30,529	33,133	285	316
With an allowance recorded:				
Real estate loans				
Residential	2,697	3,806	3	21
Construction				
Commercial	146	978		
Commercial				
Obligations of states and political subdivisions				
Home equity loans and lines of credit	51	37		
Auto loans	60		2	
Other				
Total	2,954	4,821	5	21
Total:				
Real estate loans				
Residential	12,219	12,795	62	113
Construction				
Commercial	20,298	21,618	222	179
Commercial	306	3,289	2	43
Obligations of states and political subdivisions				
Home equity loans and lines of credit	484	252	2	2

Auto loans	176		2	
Other				
Total Impaired Loans	$ 33,483	$ 37,954	$ 290	$ 337

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	Nine months ended June 30,			
	2015 Average Recorded Investment	2014 Average Recorded Investment	2015 Interest Income Recognized	2014 Interest Income Recognized
With no specific allowance recorded:				
Real estate loans				
Residential	$ 10,334	$ 9,556	$ 222	$ 242
Construction				
Commercial	20,729	20,241	606	553
Commercial	550	1,764	6	49
Obligations of states and political subdivisions				
Home equity loans and lines of credit	307	285	4	4
Auto loans	74		1	
Other				
Total	31,994	31,846	839	848
With an allowance recorded:				
Real estate loans				
Residential	2,535	3,425	45	79
Construction				
Commercial	343	1,896		
Commercial				
Obligations of states and political subdivisions				
Home equity loans and lines of credit	34	17		
Auto loans	83		5	
Other				
Total	2,995	5,338	50	79
Total:				
Real estate loans				
Residential	12,869	12,981	267	321
Construction				
Commercial	21,072	22,137	606	553
Commercial	550	1,764	6	49
Obligations of states and political subdivisions				
Home equity loans and lines of credit	341	302	4	4
Auto loans	157		6	
Other				
Total Impaired Loans	$ 34,989	$ 37,184	$ 889	$ 927

The Company uses a ten-point internal risk-rating system to monitor the credit quality of the overall loan portfolio. The first six categories are considered not criticized and are aggregated as Pass-rated. The criticized rating categories utilized by management generally follow bank regulatory definitions. The Special Mention category includes assets that are fundamentally sound yet, exhibit potentially unacceptable credit risk or deteriorating trends or characteristics which if left uncorrected, may result in deterioration of the repayment prospects for the asset or in the Company s credit position at some future date. Loans in the Substandard category have well-defined weaknesses that jeopardize the liquidation of the debt and have a distinct possibility that some loss will be sustained if the weaknesses are not corrected. All loans greater than 90 days past due are considered Substandard. Loans in the Doubtful category have all the weaknesses inherent in one classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. Loans in the Loss category are considered uncollectible and of little value that their continuance as bankable assets is not warranted. Certain residential real estate loans, construction loans, home equity loans and lines of credit, auto loans and other consumer loans are underwritten and structured using standardized criteria and characteristics, primarily payment performance, and are normally risk rated and monitored collectively on a monthly basis. These are typically loans to individuals in the consumer categories and are delineated as either performing or non-performing.

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To help ensure that risk ratings are accurate and reflect the present and future capacity of borrowers to repay a loan as agreed, the Bank has a structured loan rating process with several layers of internal and external oversight. Generally, consumer and residential mortgage loans are included in the Pass categories unless a specific action, such as bankruptcy, repossession, or death occurs to raise awareness of a possible credit event. The Bank s Commercial Loan Officers are responsible for the timely and accurate risk rating of the loans in their portfolios at origination and on an ongoing basis. The Bank s Commercial Loan Officers perform an annual review of all commercial relationships $500,000 or greater. Confirmation of the appropriate risk grade is included in the review on an ongoing basis. The Bank engages an external consultant to conduct loan reviews on at least a semi-annual basis. Generally, the external consultant reviews commercial relationships greater than $1,000,000 and/or all criticized relationships. Detailed reviews, including plans for resolution, are performed on loans classified as Substandard on a quarterly basis. Loans in the Special Mention and Substandard categories that are collectively evaluated for impairment are given separate consideration in the determination of the allowance.

The following tables present the classes of the loan portfolio summarized by the aggregate Pass and the criticized categories of Special Mention, Substandard and Doubtful within the internal risk rating system as of June 30, 2015 and September 30, 2014 (in thousands):

June 30, 2015	**Pass**	**Special Mention**	**Substandard**	**Doubtful**	**Total**
Commercial real estate loans	$ 169,502	$ 3,382	$ 22,619	$	$ 195,503
Commercial	32,325	2,295	415		35,035
Obligations of states and political subdivisions	56,868				56,868
Total	$ 258,695	$ 5,677	$ 23,034	$	$ 287,406

September 30, 2014	**Pass**	**Special Mention**	**Substandard**	**Doubtful**	**Total**
Commercial real estate loans	$ 160,749	$ 8,020	$ 21,469	$ 298	$ 190,536
Commercial	24,874	345	588		25,807
Obligations of states and political subdivisions	49,177				49,177
Total	$ 234,800	$ 8,365	$ 22,057	$ 298	$ 265,520

All other loans are underwritten and structured using standardized criteria and characteristics, primarily payment performance, and are normally risk rated and monitored collectively on a monthly basis. These are typically loans to individuals in the consumer categories and are delineated as either performing or non-performing. The following tables present the risk ratings in the consumer categories of performing and non-performing loans at June 30, 2015 and September 30, 2014 (in thousands):

	Performing	**Non-performing**	**Total**
June 30, 2015			
Real estate loans:			

Residential	$	608,002	$	10,196	$ 618,198
Construction		1,151			1,151
Home equity loans and lines of credit		40,281		694	40,975
Auto loans		150,263		107	150,370
Other		3,156		38	3,194
Total	$	802,853	$	11,035	$ 813,888

	Performing		Non-performing		Total
September 30, 2014					
Real estate loans:					
Residential	$	644,374	$	9,778	$ 654,152
Construction		1,367			1,367
Home equity loans and lines of credit		41,128		259	41,387
Auto loans		100,571			100,571
Other		3,884		20	3,904
Total	$	791,324	$	10,057	$ 801,381

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Management further monitors the performance and credit quality of the loan portfolio by analyzing the age of the portfolio as determined by the length of time a recorded payment is past due. The following tables present the classes of the loan portfolio summarized by the aging categories of performing loans and nonaccrual loans as of June 30, 2015 and September 30, 2014 (in thousands):

	Current	31-60 Days Past Due	61-90 Days Past Due	Greater than 90 Days Past Due and still accruing	Non-Accrual	Total Past Due and Non-Accrual	Total Loans
June 30, 2015							