

PRUDENTIAL BANCORP, INC.  
Form 10-Q  
May 10, 2016

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, DC 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 March 31, 2016**

**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: 000-55084**

**Prudential Bancorp, Inc.**

(Exact Name of Registrant as Specified in Its Charter)

**Pennsylvania**

(State or Other Jurisdiction of Incorporation or Organization)

**46-2935427**

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

**1834 West Oregon Avenue**

**19145**

**Philadelphia, Pennsylvania**

(Address of Principal Executive Offices)

Zip Code

**(215) 755-1500**

(Registrant's Telephone Number, Including Area Code)

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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

Non-accelerated filer  (Do not check if a smaller reporting company)

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

Indicate the number of shares outstanding of each of the issuer’s classes of common stock as of the latest practical date: as of April 30, 2016, 9,544,809 shares were issued and 8,060,799 outstanding.

**PRUDENTIAL BANCORP, INC. AND SUBSIDIARIES**

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**PRUDENTIAL BANCORP, INC. AND SUBSIDIARIES****UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION**

	March 31, 2016	September 30, 2015
	(Dollars in Thousands)	
<b>ASSETS</b>		
Cash and amounts due from depository institutions	\$2,030	\$ 2,150
Interest-bearing deposits	5,300	9,122
Total cash and cash equivalents	7,330	11,272
Investment and mortgage-backed securities available for sale (amortized cost— March 31, 2016, \$142,048; September 30, 2015, \$77,456)	143,235	77,483
Investment and mortgage-backed securities held to maturity (fair value— March 31, 2016, \$45,591; September 30, 2015, \$66,877)	44,488	66,384
Loans receivable—net of allowance for loan losses (March 31, 2016, \$3,038; September 30, 2015, \$2,930)	322,182	312,633
Accrued interest receivable	1,774	1,665
Real estate owned	-	869
Federal Home Loan Bank stock—at cost	1,851	369
Office properties and equipment—net	1,495	1,492
Bank owned life insurance	12,890	12,722
Prepaid expenses and other assets	1,848	1,325
Deferred tax assets-net	451	975
<b>TOTAL ASSETS</b>	<b>\$537,544</b>	<b>\$ 487,189</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>LIABILITIES:</b>		
Deposits:		
Noninterest-bearing	\$2,775	\$ 2,293
Interest-bearing	381,295	362,781
Total deposits	384,070	365,074
Advances from Federal Home Loan Bank	37,059	-
Accrued interest payable	543	1,291
Advances from borrowers for taxes and insurance	1,777	1,670
Accounts payable and accrued expenses	1,770	2,153
Total liabilities	425,219	370,188
<b>STOCKHOLDERS' EQUITY:</b>		
Preferred stock, \$.01 par value, 10,000,000 shares authorized, none issued	-	-

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Common stock, \$.01 par value, 40,000,000 shares authorized; 9,544,809 issued and 8,060,799 outstanding at March 31, 2016 and 9,544,809 issued and 8,449,625 outstanding at September 30, 2015	95	95
Additional paid-in capital	95,213	95,286
Unearned Employee Stock Ownership Plan shares	(4,738 )	(4,926 )
Treasury stock, at cost: 1,484,010 shares at March 31, 2016 and 1,095,184 at September 30, 2015	(20,756 )	(14,691 )
Retained earnings	41,728	41,219
Accumulated other comprehensive income	783	18
Total stockholders' equity	112,325	117,001
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$537,544</b>	<b>\$ 487,189</b>

See notes to unaudited consolidated financial statements.

PRUDENTIAL bancorp, inc. and subsidiarIES

## UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended March 31,		Six Months Ended March 31,	
	2016	2015	2016	2015
	(Dollars in Thousands, Except Per Share Data)			
<b>INTEREST INCOME:</b>				
Interest on loans	\$ 3,166	\$ 3,287	\$ 6,226	\$ 6,544
Interest on mortgage-backed securities	683	450	1,195	866
Interest and dividends on investments	509	552	988	1,100
Interest on interest-bearing assets	8	15	13	34
Total interest income	4,366	4,304	8,422	8,544
<b>INTEREST EXPENSE:</b>				
Interest on deposits	743	871	1,495	1,772
Interest on advances from Federal Home Loan Bank	106	-	154	-
Total interest expense	849	871	1,649	1,772
NET INTEREST INCOME	3,517	3,433	6,773	6,772
PROVISION FOR LOAN LOSSES	75	300	75	375
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	3,442	3,133	6,698	6,397
<b>NON-INTEREST INCOME:</b>				
Fees and other service charges	110	95	229	196
Gain on sale of loans, net	1	-	2	138
Gain on the sale of office properties	-	1,793	-	1,793
Income from bank owned life insurance	84	87	168	177
Other	14	13	84	34
Total non-interest income	209	1,988	483	2,338
<b>NON-INTEREST EXPENSE:</b>				
Salaries and employee benefits	1,670	2,091	3,387	3,840
Data processing	112	106	228	212
Professional services	241	344	520	620
Office occupancy	259	267	507	490
Director compensation	102	82	228	168
Deposit insurance	90	68	172	136
Real estate owned expense	-	4	2	29

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Advertising	21	73	38	103
Other	301	476	610	839
Total non-interest expense	2,796	3,511	5,692	6,437
INCOME BEFORE INCOME TAXES	855	1,610	1,489	2,298
INCOME TAXES:				
Current expense	80	113	397	325
Deferred expense (benefit)	227	(204 )	131	(199 )
Total income tax expense	307	(91 )	528	126
NET INCOME	\$ 548	\$ 1,701	\$ 961	\$ 2,172
BASIC EARNINGS PER SHARE	\$ 0.08	\$ 0.20	\$ 0.13	\$ 0.25
DILUTED EARNINGS PER SHARE	\$ 0.07	\$ 0.18	\$ 0.12	\$ 0.22
DIVIDENDS PER SHARE	\$ 0.03	\$ 0.03	\$ 0.06	\$ 0.06

See notes to unaudited consolidated financial statements.



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UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three months ended March 31,		Six months ended March 31,	
	2016	2015	2016	2015
	(Dollars in Thousands)		(Dollars in Thousands)	
Net income	\$ 548	\$ 1,701	\$ 961	\$ 2,172
Unrealized holding gains on available-for-sale securities	2,344	861	1,160	1,597
Tax effect	(797 )	(293 )	(395 )	(543 )
Total other comprehensive income	1,547	568	765	1,054
Comprehensive Income	\$ 2,095	\$ 2,269	\$ 1,726	\$ 3,226

See notes to unaudited consolidated financial statements.

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## UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Stock	Additional Paid-In Capital	Unearned ESOP Shares	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
(Dollars in Thousands, Except Per Share Data)							
BALANCE, OCTOBER 1, 2015	\$95	\$95,286	\$(4,926)	\$(14,691)	\$41,219	\$18	\$117,001
Net income					961		961
Other comprehensive income						765	765
Dividends paid (\$0.06 per share)					(452)		(452)
Excess tax benefit from stock compensation plans		111					111
Purchase of treasury stock (430,626 shares)				(6,705)			(6,705)
Treasury stock used for Recognition and Retention Plan (41,800 shares issued)		(640)		640			-
Stock option expense		219					219
Recognition and Retention Plan expense		160					160
ESOP shares committed to be released (17,758 shares)		77	188				265
BALANCE, MARCH 31, 2016	\$95	\$95,213	\$(4,738)	\$(20,756)	\$41,728	\$783	\$112,325

	Common Stock	Additional Paid-In Capital	Unearned ESOP Shares	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
(Dollars in Thousands, Except Per Share Data)							
BALANCE, OCTOBER 1, 2014	\$95	\$94,397	\$(5,302)	\$-	\$41,188	\$(953)	\$129,425

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Net income					2,172		2,172
Other comprehensive income						1,054	1,054
Dividends paid (\$0.06 per share)					(519 )		(519 )
Excess tax benefit from stock compensation plans	48						48
Purchase of treasury stock (309,614 shares)					(3,790 )		(3,790 )
Stock option expense	99						99
Recognition and Retention Plan expense	69						69
ESOP shares committed to be released (17,756 shares)	50	188					238
BALANCE, MARCH 31, 2015	\$95	\$94,663	\$ (5,114 )	\$ (3,790 )	\$42,841	\$ 101	\$ 128,796

See notes to unaudited consolidated financial statements.

## PRUDENTIAL BANCORP, INC. AND SUBSIDIARIES

## UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended March	
	31,	
	2016	2015
	(Dollars in Thousands)	
<b>OPERATING ACTIVITIES:</b>		
Net income	\$ 961	\$ 2,172
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	158	155
Net amortization (accretion) of premiums/discounts	66	(129)
Provision for loan losses	75	375
Net amortization of deferred loan fees and costs	106	129
Share-based compensation expense for stock options and awards	379	168
Income from bank owned life insurance	(168)	(177)
Gain from sale of loans	(2)	(138)
Gain on sale of office properties	-	(1,793)
Gain on sale of other real estate owned	(58)	-
Originations of loans held for sale	(450)	(2,400)
Proceeds from sale of loans held for sale	452	2,538
Compensation expense of ESOP	265	238
Deferred income tax expense (benefit)	131	(199)
Changes in assets and liabilities which used cash:		
Accrued interest receivable	(109)	(31)
Prepaid expenses and other assets	(497)	712
Accrued interest payable	(748)	(979)
Accounts payable and accrued expenses	(383)	(229)
Net cash provided by operating activities	178	412
<b>INVESTING ACTIVITIES:</b>		
Purchase of investment and mortgage-backed securities available for sale	(46,828)	-
Purchase of corporate bonds available for sale	(19,421)	(13,751)
Loans originated or acquired	(29,146)	(45,444)
Principal collected on loans	19,416	38,148
Principal payments received on investment and mortgage-backed securities:		
Held-to-maturity	21,913	7,265
Available-for-sale	1,546	2,195
Proceeds from redemption of FHLB stock	-	871
Purchase of FHLB stock	(1,482)	-
Proceeds from sale of real estate owned	927	360
Proceeds from sale of office properties	-	1,849
Purchases of equipment	(161)	(229)
Net cash used in investing activities	(53,236)	(8,736)
<b>FINANCING ACTIVITIES:</b>		
Net decrease in demand deposits, NOW accounts, and savings accounts	(2,788)	(2,457)

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Net increase (decrease) in certificates of deposit	21,784	(3,093 )
Proceeds from FHLB advances	38,000	-
Decrease in advances from borrowers for taxes and insurance	107	385
Repayment of FHLB advances	(941 )	(210 )
Cash dividends paid	(452 )	(519 )
Purchase of treasury stock, net	(6,705 )	(3,790 )
Excess tax benefit related to stock compensation plans	111	48
Net cash provided by (used in) financing activities	49,116	(9,636 )
NET DECREASE IN CASH AND CASH EQUIVALENTS	(3,942 )	(17,960 )
CASH AND CASH EQUIVALENTS—Beginning of period	11,272	45,382
CASH AND CASH EQUIVALENTS—End of period	\$ 7,330	\$ 27,422
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Interest paid on deposits and advances from Federal Home Loan Bank	\$ 2,397	\$ 2,751
Income taxes paid	\$ 350	\$ 475

See notes to unaudited consolidated financial statements.

PRUDENTIAL BANCORP, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

Prudential Bancorp, Inc. (the “Company”) is a Pennsylvania corporation and the parent holding company for Prudential Saving Bank (the “Bank”). It is a registered bank holding company.

The Bank is a community-oriented Pennsylvania-chartered savings bank headquartered in South Philadelphia. The banking office network currently consists of the headquarters and main office and five full-service branch offices. Five of the banking offices are located in Philadelphia (Philadelphia County), and one is in Drexel Hill, Delaware County, Pennsylvania. The Bank maintains ATMs at all six of the banking offices. The Bank also provides on-line and mobile banking services.

The Bank is subject to regulation by the Pennsylvania Department of Banking and Securities (the “Department”), as its chartering authority and primary regulator, and by the Federal Deposit Insurance Corporation (the “FDIC”), which insures the Bank’s deposits up to applicable limits. As a bank holding company, Prudential is subject to the regulation of the Board of Governors of the Federal Reserve System.

**Basis of presentation** – The accompanying unaudited consolidated financial statements were prepared pursuant to the rules and regulations of the U. S. Securities and Exchange Commission (“SEC”) for interim information and therefore do not include all the information or footnotes necessary for a complete presentation of financial condition, results of operations, comprehensive income, changes in equity and cash flows in conformity with accounting principles generally accepted in the United States of America (“GAAP”). However, all normal recurring adjustments that, in the opinion of management, are necessary for a fair presentation of the financial statements have been included. The results for the three and six months ended March 31, 2016 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2016, or any other period. These financial statements should be read in conjunction with the audited consolidated financial statements of Prudential, and the accompanying notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended September 30, 2015.

**Use of Estimates in the Financial Statements**—The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. The most significant estimates and assumptions in the Company’s consolidated financial statements are recorded in the allowance for loan losses, deferred income taxes, other-than-temporary impairment, and the fair value measurement for financial instruments. Actual results could differ

from those estimates.

***Share-Based Compensation*** – The Company accounts for stock-based compensation issued to employees, and where appropriate, non-employees, at fair value. Under fair value provisions, stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the appropriate vesting period using the straight-line method. The amount of stock-based compensation recognized at any date must at least equal the portion of the grant date fair value of the award that is vested at that date and as a result it may be necessary to recognize the expense using a ratable method. Determining the fair value of stock-based awards at the date of grant requires judgment, including estimating the expected term of the stock options and the expected volatility of the Company's stock. In addition, judgment is required in estimating the amount of stock-based awards that are expected to be forfeited. If actual results differ significantly from these estimates or different key assumptions were used, it could have a material effect on the Company's consolidated financial statements.

Dividends with respect to non-vested share awards granted pursuant to the Company's 2008 Recognition and Retention Plan ("Plan") and held in the Trust (the "Trust") are held for the benefit of the recipients and are paid out proportionately by the Trust to the recipients of stock awards granted pursuant to the Plan as soon as practicable after the stock awards are earned. A recipient of a share award granted under the 2014 Stock Incentive Plan is not entitled to receive any dividends declared on the common stock subject to the award until earned.

**Treasury Stock** – Stock held in treasury by the Company is accounted for using the cost method, which treats stock held in treasury as a reduction to total stockholders' equity. During the six month period ended March 31, 2016, the Company repurchased 430,626 shares at an approximate total cost of \$6.7 million, in addition the Company purchased 41,000 shares at an aggregate cost of \$640,000 out of treasury for the benefit of the Company's 2014 Stock Incentive Plan.

**FHLB Stock** – FHLB stock is classified as a restricted equity security because ownership is restricted and there is not an established market for its resale. FHLB stock is carried at cost and is evaluated for impairment when certain conditions warrant further consideration. Management concluded that the FHLB stock was not impaired at March 31, 2016.

### ***Recent Accounting Pronouncements***

In January 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU" or "Update") 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 recognize 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 became 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 ASU did not 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 requirements of the applicable jurisdiction. The amendments in this Update were 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 ASU did not 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. This ASU is not expected to 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 ASU 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 ASU is not expected to have a significant impact on the Company's financial statements.

In November 2014, the FASB issued ASU 2014-17, *Business Combinations (Topic 805): Pushdown Accounting*. The amendments in this Update apply to the separate financial statements of an acquired entity and its subsidiaries that are a business or nonprofit activity (either public or nonpublic) upon the occurrence of an event in which an acquirer (an individual or an entity) obtains control of the acquired entity. An acquired entity may elect the option to apply pushdown accounting in the reporting period in which the change-in-control event occurs. If pushdown accounting is not applied in the reporting period in which the change-in-control event occurs, an acquired entity will have the option to elect to apply pushdown accounting in a subsequent reporting period to the acquired entity's most recent change-in-control event. The amendments in this Update were effective on November 18, 2014. After the effective date, an acquired entity was permitted to make an election to apply the guidance to future change-in-control events or to its most recent change-in-control event. This ASU did not 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 annual periods, and interim periods within those annual periods, 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 ASU 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; and (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 ASU 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 ASU is not expected to have a significant impact on the Company’s financial statements.

In April 2015, the FASB issued ASU 2015-05, *Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 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 FASB 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 ASU is not expected to have a significant impact on the Company’s financial statements.

In April 2015, the FASB issued ASU 2015-06, *Earnings Per Share (Topic 260): Effects on Historical Earnings per Unit of Master Limited Partnership Dropdown Transactions*. Topic 260, Earnings Per Share, contains guidance that addresses master limited partnerships that originated from Emerging Issues Task Force (“EITF”) Issue No. 07-4, *Application of the Two-Class Method Under FASB Statement No. 128 to Master Limited Partnerships*. Under Topic 260, master limited partnerships apply the two-class method of calculating earnings per unit because the general partner, limited partners, and incentive distribution rights holders each participate differently in the distribution of available cash in accordance with the contractual rights contained in the partnership agreement. The amendments in this Update specify that for purposes of calculating historical earnings per unit under the two-class method, the earnings (losses) of a transferred business before the date of a dropdown transaction should be allocated entirely to the general partner. In that circumstance, the previously reported earnings per unit of the limited partners (which is typically the earnings per unit measure presented in the financial statements) would not change as a result of the dropdown transaction. Qualitative disclosures about how the rights to the earnings (losses) differ before and after the dropdown transaction occurs for purposes of computing earnings per unit under the two-class method are also required. The amendments in this Update are effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Earlier application is permitted. This ASU is not expected to have a significant impact on the Company’s financial statements.

In May 2015, the FASB issued ASU 2015-07, *Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)*. The Update applies to reporting entities that elect to measure the fair value of an investment using the net asset value per share (or its equivalent) practical expedient. Under the amendments in this Update, investments for which fair value is measured at net asset value per share (or its equivalent) using the practical expedient should not be categorized in the fair value hierarchy. Removing those investments from the fair value hierarchy not only eliminates the diversity in practice resulting from the way in which investments measured at net asset value per share (or its equivalent) with future redemption dates are classified, but also ensures that all investments categorized in the fair value hierarchy are classified using a consistent approach. Investments that calculate net asset value per share (or its equivalent), but for which the practical expedient is not applied will continue to be included in the fair value hierarchy. A reporting entity should continue to disclose information on investments for which fair value is measured at net asset value (or its equivalent) as a practical expedient to help users understand the nature and risks of the investments and whether the investments, if sold, are probable of being sold at amounts different from net asset value. The amendments in this Update are effective for public business entities 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 fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. A reporting entity should apply the amendments retrospectively to all periods presented. The retrospective approach requires that an investment for which fair value is measured using the net asset value per share practical expedient be removed from the fair value hierarchy in all periods presented in an entity's financial statements. Earlier application is permitted. This ASU 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 which deleted certain topics related to push down accounting in order to make the SEC's interpretive guidance consistent with current accounting and audit guidance. This ASU 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 ASU 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 FASB Accounting Standards Codification (“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 ASU. This ASU is not expected to have a significant impact on the Company’s financial statements.

In August 2015, the FASB issued ASU 2015-14, *Revenue from Contract with Customers (Topic 606)*. The amendments in this Update defer the effective date of ASU 2014-09 for all entities by one year. Public business entities, certain not-for-profit entities, and certain employee benefit plans should apply the guidance in ASU 2014-09 to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. All other entities should apply the guidance in ASU 2014-09 to annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019. The Company is evaluating the effect of adopting this new accounting ASU.

In September 2015, the FASB issued ASU 2015-16, *Business Combinations (Topic 805)*. The amendments in this Update require that an acquirer recognizes adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The amendments in this Update require that the acquirer record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. The amendments in this Update require an entity to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. For all other entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017. This ASU is not expected to have a significant impact on the Company's financial statements.

In November 2015, the FASB issued ASU 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes*. The amendments in this Update require that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The amendments in this Update apply to all entities that present a classified statement of financial position. For public business entities, the amendments in this Update are effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. For all other entities, the amendments in this Update are effective for financial statements issued for annual periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. Earlier application is permitted for all entities as of the beginning of an interim or annual reporting period. The amendments in this Update may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. This ASU is not expected to have a significant impact on the Company's financial statements.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. This Update applies to all entities that hold financial assets or owe financial liabilities and is intended to provide more useful information on the recognition, measurement, presentation, and disclosure of financial instruments. Among other things, this Update (a) requires equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income; (b) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to



identify impairment; (c) eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities; (d) eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; (e) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; (f) requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; (g) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements; and (h) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. For all other entities including not-for-profit entities and employee benefit plans within the scope of Topics 960 through 965 on plan accounting, the amendments in this Update are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. All entities that are not public business entities may adopt the amendments in this Update earlier as of the fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company is currently evaluating the impact the adoption of the standard will have on the Company's financial position or results of operations.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The standard requires lessees to recognize the assets and liabilities that arise from leases on the balance sheet. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. A short-term lease is defined as one in which: (a) the lease term is 12 months or less, and (b) there is not an option to purchase the underlying asset that the lessee is reasonably certain to exercise. For short-term leases, lessees may elect to recognize lease payments over the lease term on a straight-line basis. For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2018, and interim periods within those years. For all other entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15, 2020. The amendments should be applied at the beginning of the earliest period presented using a modified retrospective approach with earlier application permitted as of the beginning of an interim or annual reporting period. This ASU is not expected to have a significant impact on the Company's financial statements.

In March 2016, the FASB issued ASU 2016-04, *Liabilities – Extinguishments of Liabilities (Subtopic 405-20)*. The standard provides that liabilities related to the sale of prepaid stored-value products within the scope of this Update are financial liabilities. The amendments in the Update provide a narrow scope exception to the guidance in Subtopic 405-20 to require that breakage for those liabilities be accounted for consistent with the breakage guidance in Topic 606. The amendments in this Update are effective for public business entities, certain not-for-profit entities, and certain employee benefit plans for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. For all other entities, the amendments are effective for financial statements issued for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Earlier application is permitted, including adoption in an interim period. This ASU is not expected to have a significant impact on the Company's financial statements.

In March 2016, the FASB issued ASU 2016-05, *Derivatives and Hedging (Topic 815)*. The amendments in this Update apply to all reporting entities for which there is a change in the counterparty to a derivative instrument that has been designated as a hedging instrument under Topic 815. The standards in this Update clarify that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument under Topic 815 does not, in and of itself, require designation of that hedging relationship provided that all other hedge accounting criteria continue to be met. For public business entities, the amendments in this Update are effective for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. For all other entities, the amendments in this ASU are effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018. An entity has an option to apply the amendments in this ASU on either a prospective basis or a modified retrospective basis. Early adoption is permitted, including adoption in an interim period. This ASU is not expected to have a significant impact on the Company's financial statements.

In March 2016, the FASB issued ASU 2016-06, *Derivatives and Hedging (Topic 815)*. The amendments apply to all entities that are issuers of or investors in debt instruments (or hybrid financial instruments that are determined to have a debt host) with embedded call (put) options. The amendments in this update clarify the requirements for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt host. An entity performing the assessment under the amendments in this Update is required to assess the embedded call (put) options solely in accordance with the four-step decision sequence. For public business entities, the amendments in this Update are effective for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. For entities other than public business entities, the amendments in this Update are effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018. Early adoption is permitted, including adoption in an interim period. This ASU is not expected to have a significant impact on the Company's financial statements.

In March 2016, the FASB issued ASU 2016-07, *Investments – Equity Method and Joint Ventures (Topic 323)*. The Update affects all entities that have an investment that becomes qualified for the equity method of accounting as a result of an increase in the level of ownership interest or degree of influence. The amendments in this Update eliminate the requirement that when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, an investor must adjust the investment, results of operations, and retained earnings retroactively on a step-by-step basis as if the equity method had been in effect during all previous periods that the investment had been held. The amendments require that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. Therefore, upon qualifying for the equity method of accounting, no retroactive adjustment of the investment is required. The amendments in this Update require that an entity that has an available-for-sale equity security that becomes qualified for the equity method of accounting recognize through earnings the unrealized holding gain or loss in accumulated other comprehensive income at the date the investment becomes qualified for use of the equity method. The amendments in this Update are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. The amendments should be applied prospectively upon their effective date to increases in the level of ownership interest or degree of influence that result in the adoption of the equity method. Earlier application is permitted. This ASU is not expected to have a significant impact on the Company's financial statements.

In March 2016, the FASB issued ASU 2016-08, *Revenue from Contracts with Customers (Topic 606)*. The amendments in this Update affect entities with transactions included within the scope of Topic 606, which includes entities that enter into contracts with customers to transfer goods or services (that are an output of the entity's ordinary activities) in exchange for consideration. The amendments in this update do not change the core principle of the guidance in Topic 606; they simply clarify the implementation guidance on principal versus agent considerations. The amendments in this Update are intended to improve the operability and understandability of the implementation guidance on principal versus agent considerations. The amendments in this Update affect the guidance in ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which is not yet effective. The effective date and transition requirements for the amendments in this Update are the same as the effective date and transition requirements of Update 2014-09. ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, defers the effective date of Update 2014-09 by one year. The Company is currently evaluating

the impact the adoption of the standard will have on the Company's financial position or results of operations.

In March 2016, the FASB issued ASU 2016-09, *Compensation – Stock Compensation (Topic 718)*. The amendments in this Update affect all entities that issue share-based payment awards to their employees. The standards in this Update provide simplification for several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as with equity or liabilities, and classification on the statement of cash flows. Some of the areas for simplification apply only to nonpublic entities. In addition to those simplifications, the amendments eliminate the guidance in Topic 718 that was indefinitely deferred shortly after the issuance of FASB Statement No. 123 (revised 2004), *Share-Based Payment*. This should not result in a change in practice because the guidance that is being superseded was never effective. For public business entities, the amendments in this Update are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. For all other entities, the amendments are effective for annual periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. Early adoption is permitted for any entity in any interim or annual period. This ASU is not expected to have a significant impact on the Company's financial statements.

In April 2016, the FASB issued ASU 2016-10, *Revenue from Contracts with Customers (Topic 606)*. The amendments in this Update affect entities with transactions included within the scope of Topic 606, which includes entities that enter into contracts with customers to transfer goods or services in exchange for consideration. The amendments in this Update do not change the core principle for revenue recognition in Topic 606. Instead, the amendments provide (1) more detailed guidance in a few areas and (2) additional implementation guidance and examples based on feedback the FASB received from its stakeholders. The amendments are expected to reduce the degree of judgment necessary to comply with Topic 606, which the FASB expects will reduce the potential for diversity arising in practice and reduce the cost and complexity of applying the guidance. The amendments in this Update affect the guidance in ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which is not yet effective. The effective date and transition requirements for the amendments in this Update are the same as the effective date and transition requirements in Topic 606 (and any other Topic amended by Update 2014-09). ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, defers the effective date of Update 2014-09 by one year. The Company is currently evaluating the impact the adoption of the standard will have on the Company's financial position and/or results of operations.

## 2.

## EARNINGS PER SHARE

Basic earnings per common share is computed by dividing net income available to common shareholders by the weighted average number of shares of common stock outstanding, net of any treasury shares, during the period. Diluted earnings per share is calculated by dividing net income available to common shareholders by the weighted average number of shares of common stock outstanding, net of any treasury shares, after consideration of the potential dilutive effect of common stock equivalents, based upon the treasury stock method using an average market price for the period.

The calculated basic and diluted earnings per share are as follows:

	Three Months Ended March 31,			
	2016		2015	
	Basic	Diluted	Basic	Diluted
	(Dollars in Thousands Except Per Share Data)			
Net income	\$548	\$548	\$1,701	\$1,701
Weighted average shares outstanding	7,380,880	7,380,880	8,571,846	8,571,846
Effect of common stock equivalents	-	270,973	-	1,103,728
Adjusted weighted average shares used in earnings per share computation	7,380,880	7,651,853	8,571,846	9,675,574
Earnings per share - basic and diluted	\$0.08	\$0.07	\$0.20	\$0.18



	Six Months Ended March 31,			
	2016		2015	
	Basic	Diluted	Basic	Diluted
	(Dollars in Thousands Except Per Share Data)			
Net income	\$961	\$961	\$2,172	\$2,172
Weighted average shares outstanding	7,498,933	7,498,933	8,712,938	8,712,938
Effect of common stock equivalents	-	246,791	-	1,163,172
Adjusted weighted average shares used in earnings per share computation	7,498,933	7,745,724	8,712,938	9,876,110
Earnings per share - basic and diluted	\$0.13	\$0.12	\$0.25	\$0.22

All exercisable stock options outstanding as of March 31, 2016 and 2015 had exercise prices below the then current per share market price for the Company's common stock and were considered dilutive for the earnings per share calculation.

### 3. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table presents the changes in accumulated other comprehensive (loss) income by component, net of tax:

	Three Months Ended March 31,	
	2016	2015
	(Dollars in Thousands)	
	Unrealized gains (losses) on available for sale securities (a)	Unrealized gains (losses) on available for sale securities (a)
Beginning Balance	\$ (764 )	\$ (467 )
Other comprehensive income gain before reclassification	1,547	568
Total other comprehensive income	1,547	568
Ending Balance	\$ 783	\$ 101

(a) All amounts are net of tax. Amounts in parentheses indicate debits.

	Six Months Ended March 31,	
	2016	2015
	(Dollars in Thousands)	
	Unrealized gains (losses) on available for sale securities (a)	Unrealized gains (losses) on available for sale securities (a)
Beginning Balance	\$ 18	\$ (953 )
Other comprehensive income gain before reclassification	765	1,054
Total other comprehensive income	765	1,054
Ending Balance	\$ 783	\$ 101

(a) All amounts are net of tax. Amounts in parentheses indicate debits.



#### 4. INVESTMENT AND MORTGAGE-BACKED SECURITIES

The amortized cost and fair value of investment and mortgage-backed securities, with gross unrealized gains and losses, are as follows:

	March 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in Thousands)			
Securities Available for Sale:				
U.S. government and agency obligations	\$18,988	\$ 11	\$ (25)	) \$18,974
Mortgage-backed securities - U.S. government agencies	103,653	1,060	(132)	) 104,581
Corporate bonds	19,401	243	-	) 19,644
Total debt securities available for sale	142,042	1,314	(157)	) 143,199
FHLMC preferred stock	6	30	-	) 36
Total securities available for sale	\$142,048	\$ 1,344	\$ (157)	) \$143,235
Securities Held to Maturity:				
U.S. government and agency obligations	\$34,102	\$ 423	\$ (135)	) \$34,390
Mortgage-backed securities - U.S. government agencies	10,386	815	-	) 11,201
Total securities held to maturity	\$44,488	\$ 1,238	\$ (135)	) \$45,591

	September 30, 2015			
	Amortized	Gross	Gross	Fair
	Cost	Unrealized	Unrealized	Value
		Gains	Losses	
	(Dollars in Thousands)			
<b>Securities Available for Sale:</b>				
U.S. government and agency obligations	\$18,988	\$ -	\$ (276)	) \$18,712
Mortgage-backed securities - U.S. government agencies	58,462	475	(225)	) 58,712
Total debt securities available for sale	77,450	475	(501)	) 77,424
FHLMC preferred stock	6	53	-	59
Total securities available for sale	\$77,456	\$ 528	\$ (501)	) \$77,483
<b>Securities Held to Maturity:</b>				
U.S. government and agency obligations	\$54,929	\$ 462	\$ (849)	) \$54,542
Mortgage-backed securities - U.S. government agencies	11,455	880	-	12,335
Total securities held to maturity	\$66,384	\$ 1,342	\$ (849)	) \$66,877

The following table shows the gross unrealized losses and related fair values of the Company's investment securities, aggregated by investment category and length of time that individual securities had been in a continuous loss position at March 31, 2016:

	Less than 12 months		More than 12 months		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
(Dollars in Thousands)						
<b>Securities Available for Sale:</b>						
U.S. government and agency obligations	\$(10)	\$2,990	\$(15 )	\$ 4,984	\$(25 )	\$7,974
Mortgage-backed securities - U.S. government agencies	(41)	10,246	(91 )	11,462	(132)	21,708
<b>Total securities available for sale</b>	<b>(51)</b>	<b>13,236</b>	<b>(106 )</b>	<b>16,446</b>	<b>(157)</b>	<b>29,682</b>
<b>Securities Held to Maturity:</b>						
U.S. government and agency obligations	(7 )	5,987	(128 )	13,846	(135)	19,833
<b>Total securities held to maturity</b>	<b>(7 )</b>	<b>5,987</b>	<b>(128 )</b>	<b>13,846</b>	<b>(135)</b>	<b>19,833</b>
<b>Total</b>	<b>\$(58)</b>	<b>\$19,223</b>	<b>\$(234 )</b>	<b>\$ 30,292</b>	<b>\$(292)</b>	<b>\$49,515</b>

The following table shows the gross unrealized losses and related fair values of the Company's investment securities, aggregated by investment category and length of time that individual securities had been in a continuous loss position at September 30, 2015:

	Less than 12 months		More than 12 months		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
(Dollars in Thousands)						
<b>Securities Available for Sale:</b>						
U.S. government and agency obligations	\$(85 )	\$4,910	\$(191 )	\$ 13,802	\$(276 )	\$ 18,712
Mortgage-backed securities - agency	(138)	22,173	(87 )	9,206	(225 )	31,379
<b>Total securities available for sale</b>	<b>(223)</b>	<b>27,083</b>	<b>(278 )</b>	<b>23,008</b>	<b>(501 )</b>	<b>50,091</b>
<b>Securities Held to Maturity:</b>						
U.S. government and agency obligations	-	-	(849 )	42,603	(849 )	42,603
<b>Total securities held to maturity</b>	<b>-</b>	<b>-</b>	<b>(849 )</b>	<b>42,603</b>	<b>(849 )</b>	<b>42,603</b>
<b>Total</b>	<b>\$(223)</b>	<b>\$27,083</b>	<b>\$(1,127 )</b>	<b>\$ 65,611</b>	<b>\$(1,350)</b>	<b>\$92,694</b>

Management evaluates securities for other-than-temporary impairment ("OTTI") at least once each quarter, and more frequently when economic or market concerns warrant such evaluation. The evaluation is based upon factors such as the creditworthiness of the issuers/guarantors, the underlying collateral, if applicable, and the continuing performance of the securities. Management also evaluates other facts and circumstances that may be indicative of an OTTI condition. This includes, but is not limited to, an evaluation of the type of security, the length of time and extent to which the fair value of the security has been less than cost, and the near-term prospects of the issuer.

The Company assesses whether a credit loss exists with respect to a security by considering whether (1) the Company has the intent to sell the security, (2) it is more likely than not that it will be required to sell the security before recovery has occurred, or (3) it does not expect to recover the entire amortized cost basis of the security. The Company bifurcates the OTTI impact on impaired securities where impairment in value was deemed to be other than temporary between the component representing credit loss and the component representing loss related to other factors. The portion of the fair value decline attributable to credit loss must be recognized through a charge to earnings. The credit component is determined by comparing the present value of the cash flows expected to be collected, discounted at the rate in effect before recognizing any OTTI, with the amortized cost basis of the debt security. The Company uses the cash flows expected to be realized from the security, which includes assumptions about interest rates, timing and severity of defaults, estimates of potential recoveries, the cash flow distribution from the security and other factors, then applies a discount rate equal to the effective yield of the security. The difference between the present value of the expected cash flows and the amortized book value is considered a credit loss. The

fair value of the security is determined using the same expected cash flows; the discount rate is a rate the Company determines from open market and other sources as appropriate for the particular security. The difference between the fair value and the security's remaining amortized cost is recognized in other comprehensive income (loss).

During the three and six months ended March 31, 2016 and 2015, the Company did not record any credit losses on investment securities through either earnings.

**U.S. Government Agency Obligations** - The Company's investments reflected in the tables above in U.S. Government agency obligations consist of debt of the FHLB and Federal Farm Credit System ("FFCS"). These securities are typically rated AAA by one of the internationally recognized credit rating services. At March 31, 2016, U.S. Government and agency obligations in a gross unrealized loss for less than 12 months consisted of three securities. There were nine securities in a gross unrealized loss for more than 12 months at such date. The unrealized losses on these debt securities relate principally to the changes in market interest rates and are not a result of a projected shortfall of cash flows. The Company anticipates it will recover the entire amortized cost basis of the securities. As a result, the Company does not consider these investments to be other-than-temporarily impaired at March 31, 2016.

**U.S. Agency Issued Mortgage-Backed Securities** - At March 31, 2016, there were seven securities in a gross unrealized loss for less than 12 months while there were seven securities in a gross unrealized loss for more than 12 months at such date. These securities represent asset-backed issues that are issued or guaranteed by a U.S. Government sponsored agency or carry the full faith and credit of the United States through a government agency and are currently rated AAA by at least one bond credit rating agency. As a result, the Company does not consider these investments to be other-than-temporarily impaired at March 31, 2016.

**Corporate Debt Securities** - The Company invested in investment grade corporate debt bonds, issued by large public Companies. At March 31, 2016, there were no securities in an unrealized loss position.

The amortized cost and fair value of debt securities, 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.

The maturity table below excludes mortgage-backed securities because the contractual maturities of such securities are not indicative of actual maturities due to significant prepayments.

	March 31, 2016			
	Held to Maturity		Available for Sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in Thousands)			
Due within one year	\$-	\$-	\$-	\$-
Due after one through five years	-	-	-	-
Due after five through ten years	1,999	2,235	19,401	19,644
Due after ten years	32,103	32,155	18,988	18,974

Total	\$34,102	\$34,390	\$38,389	\$38,618
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During both three and six month periods ended March 31, 2016 and 2015, no securities were sold.

## 5. LOANS RECEIVABLE

Loans receivable consist of the following:

	March 31, 2016	September 30, 2015
	(Dollars in Thousands)	
One-to-four family residential	\$248,720	\$ 259,163
Multi-family residential	4,617	6,249
Commercial real estate	45,801	25,799
Construction and land development	36,338	38,953
Consumer	649	392
 Total loans	 336,125	 330,556
Undisbursed portion of loans-in-process	(12,838 )	(17,097 )
Deferred loan costs	1,933	2,104
Allowance for loan losses	(3,038 )	(2,930 )
 Net loans	 \$322,182	 \$ 312,633

The following table summarizes by loan segment the balance in the allowance for loan losses and the loans individually and collectively evaluated for impairment by loan segment at March 31, 2016:

	One- to-four family residential	Multi-family residential	Commercial real estate	Construction and land development	Consumer	Unallocated	Total
	(Dollars in Thousands)						
Allowance for Loan Losses:							
Individually evaluated for impairment	\$-	\$ -	\$ -	\$ -	\$ -	\$ -	\$-
Collectively evaluated for impairment	1,511	43	428	773	7	276	3,038
Total ending allowance balance	\$1,511	\$ 43	\$ 428	\$ 773	\$ 7	\$ 276	\$3,038
Loans:							
Individually evaluated for impairment	\$5,435	\$ 343	\$ 3,694	\$ 9,503	\$ -		\$18,975
Collectively evaluated for impairment	243,285	4,274	42,107	26,835	649		317,150



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Total loans	\$248,720	\$ 4,617	\$ 45,801	\$ 36,338	\$ 649	\$ -	\$336,125
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The following table summarizes by loan segment the balance in the allowance for loan losses and the loans individually and collectively evaluated for impairment by loan segment at September 30, 2015:

	One- to-four family residential (Dollars in Thousands)	Multi-family residential	Commercial real estate	Construction and land development	Commercial business	Consumer	Unallocated	Total
Allowance for Loan Losses:								
Individually evaluated for impairment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Collectively evaluated for impairment	1,635	66	231	724	-	5	269	2,930
Total loans	\$ 1,635	\$ 66	\$ 231	\$ 724	\$ -	\$ 5	\$ 269	\$ 2,930
Loans:								
Individually evaluated for impairment	\$ 4,206	\$ -	\$ 3,768	\$ 8,796	\$ -	\$ -	\$ -	\$ 16,770
Collectively evaluated for impairment	254,957	6,249	22,031	30,157	-	392	-	313,786
Total loans	\$ 259,163	\$ 6,249	\$ 25,799	\$ 38,953	\$ -	\$ 392	\$ -	\$ 330,556

The loan portfolio is segmented at a level that allows management to monitor both risk and performance. Management evaluates for potential impairment all construction loans, commercial real estate and commercial business loans and all loans 90 plus days delinquent as to principal and/or interest. Loans are considered to be impaired when, based on current information and events, it is probable that the Company will be unable to collect in full the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement.

Once the determination is made that a loan is impaired, the determination of whether a specific allocation of the allowance is necessary is generally measured by comparing the recorded investment in the loan to the fair value of the loan using one of the following three methods: (a) the present value of the expected future cash flows discounted at the loan's effective interest rate; (b) the loan's observable market price; or (c) the fair value of the collateral less selling costs. Management primarily utilizes the fair value of collateral method as a practically expedient alternative. On collateral method evaluations, any portion of the loan deemed uncollectible is charged-off against the loan loss allowance.

The following table presents impaired loans by class as of March 31, 2016, segregated by those for which a specific allowance was required and those for which a specific allowance was not required.



	Impaired Loans with Specific Allowance		Impaired Loans with No Specific Allowance		Total Impaired Loans
	Recorded Investment	Related Allowance	Recorded Investment	Recorded Investment	
One-to-four family residential	\$-	\$ -	\$ 5,435	\$ 5,435	\$ 5,780
Multi-family residential	-	-	343	343	343
Commercial real estate	-	-	3,694	3,694	3,694
Construction and land development	-	-	9,503	9,503	9,503
Total Loans	\$-	\$ -	\$ 18,975	\$ 18,975	\$ 19,320

The following table presents impaired loans by class as of September 30, 2015, segregated by those for which a specific allowance was required and those for which a specific allowance was not required.

	Impaired Loans with Specific Allowance		Impaired Loans with No Specific Allowance		Total Impaired Loans
	Recorded Investment	Related Allowance	Recorded Investment	Recorded Investment	
One-to-four family residential	\$-	\$ -	\$ 4,206	\$ 4,206	\$ 4,550
Commercial real estate	-	-	3,768	3,768	3,768
Construction and land development	-	-	8,796	8,796	8,796
Total Loans	\$-	\$ -	\$ 16,770	\$ 16,770	\$ 17,114

The following table presents the average recorded investment in impaired loans and related interest income recognized for the periods indicated:

	Three Months Ended March 31, 2016		
	Average Recorded Investment	Income Recognized on Accrual Basis	Income Recognized on Cash Basis
	(Dollars in Thousands)		
One-to-four family residential	\$ 5,069	\$ 20	\$ 29
Multi-family residential	345	-	-
Commercial real estate	3,703	27	-
Construction and land development	9,410	126	-
Total Loans	\$ 18,527	\$ 173	\$ 29

	Six Months Ended March 31, 2016		
	Average Recorded Investment	Income Recognized on Accrual Basis	Income Recognized on Cash Basis
	(Dollars in Thousands)		
One-to-four family residential	\$ 4,781	\$ 43	\$ 59
Multi-family residential	348	-	-
Commercial real estate	3,725	42	12
Construction and land development	9,206	252	64
Total Loans	\$ 18,060	\$ 337	\$ 135

	Three Months Ended March 31, 2015		
	Average Recorded Investment	Income Recognized on Accrual Basis	Income Recognized on Cash Basis
	(Dollars in Thousands)		
One-to-four family residential	\$ 10,068	\$ 124	\$ 42
Multi-family residential	361	6	-
Commercial real estate	3,758	51	24
Construction and land development	7,743	106	64
Total Loans	\$ 21,930	\$ 287	\$ 130

	Six Months Ended March 31, 2015		
	Average Recorded Investment (Dollars in Thousands)	Income Recognized on Accrual Basis	Income Recognized on Cash Basis
One-to-four family residential	\$ 10,179	\$ 263	\$ 77
Multi-family residential	363	13	-
Commercial real estate	3,764	102	35
Construction and land development	7,628	210	64
Total Loans	\$ 21,934	\$ 588	\$ 176

Federal regulations and our policy require that the Company utilize an internal asset classification system as a means of reporting problem and potential problem assets. The Company has incorporated an internal asset classification system, consistent with Federal banking regulations, as a part of its credit monitoring system. Management currently classifies problem and potential problem assets as “special mention”, “substandard,” “doubtful” or “loss” assets. An asset is considered “substandard” if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. “Substandard” assets include those characterized by the “distinct possibility” that the insured institution will sustain “some loss” if the deficiencies are not corrected. Assets classified as “doubtful” have all of the weaknesses inherent in those classified “substandard” with the added characteristic that the weaknesses present make “collection or liquidation in full,” on the basis of currently existing facts, conditions, and values, “highly questionable and improbable.” Assets classified as “loss” are those considered “uncollectible” and of such little value that their continuance as assets without the establishment of a specific loss reserve is not warranted. Assets which do not currently expose the insured institution to sufficient risk to warrant classification in one of the aforementioned categories but possess weaknesses are required to be designated “special mention.”

The following table presents the classes of the loan portfolio in which a formal risk weighting system is utilized summarized by the aggregate “Pass” and the criticized category of “special mention”, and the classified categories of “substandard”, “doubtful” and “loss” within the Company’s risk rating system as applied to the loan portfolio. The Company had no loans classified as “doubtful” or “loss” at either of the dates presented.

	March 31, 2016			
	Pass	Special Mention	Substandard	Total Loans
	(Dollars in Thousands)			
One-to-four family residential	\$2,355	\$ 1,705	\$ 1,375	\$5,435
Multi-family residential	4,274	-	343	4,617
Commercial real estate	42,088	956	2,757	45,801
Construction and land development	26,834	-	9,504	36,338
Total Loans	\$75,551	\$ 2,661	\$ 13,979	\$92,191

	September 30, 2015			Total Loans
	Pass	Special Mention	Substandard	
	(Dollars in Thousands)			
One-to-four family residential	\$ 1,348	\$ 2,107	\$ 751	\$4,206
Multi-family residential	5,898	351	-	6,249
Commercial real estate	22,005	965	2,829	25,799
Construction and land development	30,157	-	8,796	38,953
Total Loans	\$59,408	\$ 3,423	\$ 12,376	\$75,207

The Company evaluates the classification of one-to-four family residential and consumer loans primarily on a pooled basis. If the Company becomes aware that adverse or distressed conditions exist that may affect a particular single-family residential loan, the loan is downgraded following the above definitions of special mention, substandard, doubtful and loss.

The following table represents loans in which a formal risk rating system is not utilized, but loans are segregated between performing and non-performing based primarily on delinquency status. Non-performing loans that would be included in the table are those loans greater than 90 days past due that do not have a designated risk rating.

	March 31, 2016		Total Loans
	Non- Performing	Performing	
	(Dollars in Thousands)		
One-to-four family residential	\$243,285	\$ -	\$243,285
Consumer	649	-	649
Total Loans	\$243,934	\$ -	\$243,934

	September 30, 2015		Total Loans
	Non- Performing	Performing	
	(Dollars in Thousands)		
One-to-four family residential	\$254,957	\$ -	\$254,957
Consumer	392	-	392
Total Loans	\$255,349	\$ -	\$255,349

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 due or overdue, as the case may be. The following table presents the loan categories of the loan portfolio summarized by the aging categories of performing and delinquent loans and nonaccrual loans:





March 31, 2016							
	Current	30-89 Days Past Due	90 Days + Past Due	90 Days+ Past Due and Accruing	Total Past Due and Accruing	Total Loans	Non- Accrual
(Dollars in Thousands)							
One-to-four family residential	\$243,804	\$ 2,266	\$ 2,650	\$ -	\$ 2,266	\$248,720	\$4,145
Multi-family residential	4,617	-	-	-	-	4,617	-
Commercial real estate	43,994	1,625	182	-	272	45,801	1,535
Construction and land development	29,374	6,964	-	-	-	36,338	9,503
Consumer	540	109	-	-	109	649	-
<b>Total Loans</b>	<b>\$322,329</b>	<b>\$ 10,964</b>	<b>\$ 2,832</b>	<b>\$ -</b>	<b>\$ 2,647</b>	<b>\$336,125</b>	<b>\$15,183</b>
September 30, 2015							
	Current	30-89 Days Past Due	90 Days + Past Due	90 Days+ Past Due and Accruing	Total Past Due and Accruing	Total Loans	Non- Accrual
(Dollars in Thousands)							
One-to-four family residential	\$255,669	\$ 1,462	\$ 2,032	\$ -	\$ 1,462	\$259,163	\$3,547
Multi-family residential	6,249	-	-	-	-	6,249	-
Commercial real estate	25,114	504	181	-	504	25,799	1,589
Construction and land development	38,953	-	-	-	-	38,953	8,796
Consumer	392	-	-	-	-	392	-
<b>Total Loans</b>	<b>\$326,377</b>	<b>\$ 1,966</b>	<b>\$ 2,213</b>	<b>\$ -</b>	<b>\$ 1,966</b>	<b>\$330,556</b>	<b>\$13,932</b>

The allowance for loan losses is established through a provision for loan losses charged to expense. The Company maintains the allowance at a level believed to cover all known and inherent losses in the portfolio that are both probable and reasonable to estimate at each reporting date. Management reviews the allowance for loan losses no less than quarterly in order to identify these inherent losses and to assess the overall collection probability for the loan portfolio in view of these inherent losses. For each primary type of loan, a loss factor is established reflecting an estimate of the known and inherent losses in such loan type contained in the portfolio using both a quantitative analysis as well as consideration of qualitative factors. The evaluation process includes, among other things, an analysis of delinquency trends, non-performing loan trends, the level of charge-offs and recoveries, prior loss experience, total loans outstanding, the volume of loan originations, the type, size and geographic concentration of the Company's loans, the value of collateral securing the loans, the borrowers' ability to repay and repayment performance, the number of loans requiring heightened management oversight, local economic conditions and industry experience.

Commercial real estate loans entail significant additional credit risks compared to owner-occupied one-to-four family residential mortgage loans, as they generally involve large loan balances concentrated with single borrowers or groups of related borrowers. In addition, the payment experience on loans secured by income-producing properties typically depends on the successful operation of the related real estate project and/or business operation of the borrower who is, in some cases, also the primary occupant, and thus may be subject to a greater extent to the effects of adverse conditions in the real estate market and in the economy in general. Commercial business loans typically involve a higher risk of default than residential loans of like duration since their repayment is generally dependent on the successful operation of the borrower's business and the sufficiency of collateral, if any. Land acquisition, development and construction lending exposes the Company to greater credit risk than permanent mortgage financing. The repayment of land acquisition, development and construction loans depends upon the sale of the property to third parties or the availability of permanent financing upon completion of all improvements. These events may adversely affect both the borrowers as well as the value of the collateral property. Such lending is additionally subject to the risk that if the estimate of construction cost proves to be inaccurate, the Company potentially will be compelled to advance additional funds. In addition, if the estimate of value proves to be inaccurate, the Company may be confronted with a project, when completed, having less value than the loan amount. If the Company is forced to foreclose on a project prior to completion, there is no assurance that the Company would be able to recover the entire unpaid portion of the loan.

The following table summarizes the primary segments of the allowance for loan losses. Activity in the allowance is presented for the three month periods ended March 31, 2016 and 2015:

	Three Months Ended March 31, 2016						Total
	One- to four-family residential	Multi-family residential	Commercial real estate	Construction and land development	Consumer	Unallocated	
ALLL balance at December 31, 2015	\$ 1,471	\$ 58	\$ 359	\$ 757	\$ 8	\$ 266	\$ 2,919
Charge-offs	-	-	-	-	-	-	-
Recoveries	-	-	-	44	-	-	44
Provision	40	(15 )	69	(28 )	(1 )	10	75
ALLL balance at March 31, 2016	\$ 1,511	\$ 43	\$ 428	\$ 773	\$ 7	\$ 276	\$ 3,038

	Six Months Ended March 31, 2016						Total
	One- to four-family residential	Multi-family residential	Commercial real estate	Construction and land development	Consumer	Unallocated	
ALLL balance at September 30, 2015	\$ 1,635	\$ 66	\$ 231	\$ 724	\$ 5	\$ 269	\$ 2,930
Charge-offs	(11 )	-	-	-	-	-	(11 )
Recoveries	-	-	-	44	-	-	44

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Provision	(113 )	(23 )	197	5	2	7	75
ALLL balance at March 31, 2016	\$1,511	\$ 43	\$ 428	\$ 773	\$ 7	\$ 276	\$3,038

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	Three Months Ended March 31, 2015							Total
	One- four-family residential	Multi- family residential	Commercial real estate	Construction and land development	Commercial business	Consumer	Unallocated	
ALLL balance at December 31, 2014	\$ 1,492	\$ 51	\$ 216	\$ 493	\$ 5	\$ 4	\$ 239	\$ 2,500
Charge-offs	(212 )	-	-	-	-	-	-	(212 )
Recoveries	-	-	-	-	-	-	-	-
Provision	265	-	(9 )	52	(5 )	-	(3 )	300
ALLL balance at March 31, 2015	\$ 1,545	\$ 51	\$ 207	\$ 545	\$ -	\$ 4	\$ 236	\$ 2,588

	Six Months Ended March 31, 2015							Total
	One- four-family residential	Multi- family residential	Commercial real estate	Construction and land development	Commercial business	Consumer	Unallocated	
ALLL balance at September 30, 2014	\$ 1,663	\$ 67	\$ 122	\$ 323	\$ 15	\$ 4	\$ 231	\$ 2,425
Charge-offs	(212 )	-	-	-	-	-	-	(212 )
Recoveries	-	-	-	-	-	-	-	-
Provision	94	(16 )	85	222	(15 )	-	5	375
ALLL balance at March 31, 2015	\$ 1,545	\$ 51	\$ 207	\$ 545	\$ -	\$ 4	\$ 236	\$ 2,588

The Company recorded a provision for loan losses in the amount of \$75,000 for both the three and six months ended March 31, 2016, compared to the \$300,000 provision for the three months and \$375,000 for the six months periods ended March 31, 2015.

At March 31, 2016, the Company had ten loans classified as TDRs aggregating \$7.9 million, consisting of two single-family residential real estate loans which amounted to \$1.6 million, one construction and land development loan totaling \$3.4 million and seven commercial real estate loans which amounted to \$2.9 million. Of these loans, one single-family residential real estate loan totaling \$1.4 million was determined to be non-performing until management has made the decision to designate this credits as performing. Typically management will wait until a minimum of six consecutive contractual payments have been made prior to changing the designation. All TDRs, with the exception of one commercial real estate loan totaling \$756,000, were classified as "substandard" as of March 31, 2016. During the three months ended March 31, 2016, two loans classified as TDR, consisting of one construction loan in the amount of \$3.4 million and one commercial real estate loan in the amount of \$731,000 missed payments and were considered 60-89 days past due. These two loans are a part of the Company's largest lending relationship.



The Company did not restructure any debt during the three and six month periods ended March 31, 2016 and 2015.

## 6. DEPOSITS

Deposits consist of the following major classifications:

	March 31, 2016		September 30, 2015	
	Amount	Percent	Amount	Percent
	(Dollars in Thousands)			
Money market deposit accounts	\$57,470	15.0 %	\$60,736	16.6 %
Interest-bearing checking accounts	36,001	9.4	35,649	9.8
Non-interest bearing checking accounts	2,775	0.7	2,293	0.6
Passbook, club and statement savings	69,999	18.2	70,355	19.3
Certificates maturing in six months or less	69,843	18.2	49,857	13.7
Certificates maturing in more than six months	147,982	38.5	146,184	40.0
Total	\$384,070	100.0 %	\$365,074	100.0 %

Certificates of \$250,000 and over totaled \$17.2 million as of March 31, 2016 and \$32.7 million as of September 30, 2015.

## 7. ADVANCES

Pursuant to collateral agreement with the FHLB of Pittsburgh advances are secured by qualifying first mortgage loans.

Type	Maturity Date	Amount	Coupon	Call Date
		(Dollars in Thousands)		
Fixed Rate -Advance	1-Apr-16	\$ 3,000	0.60 %	Not Applicable
Fixed Rate -Advance	4-Apr-16	3,000	0.60 %	Not Applicable
Fixed Rate -Advance	17-Nov-17	10,000	1.20 %	Not Applicable
Fixed Rate -Amortizing	1-Dec-17	3,505	1.16 %	Not Applicable
Fixed Rate -Advance	4-Dec-17	2,000	1.15 %	Not Applicable
Fixed Rate -Advance	16-Nov-18	7,500	1.40 %	Not Applicable
Fixed Rate -Advance	3-Dec-18	3,000	1.54 %	Not Applicable

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Fixed Rate -Amortizing	18-Nov-19	5,054	1.53	% Not Applicable
		\$ 37,059	1.21	%

## 8. INCOME TAXES

Items that gave rise to significant portions of deferred income taxes are as follows:

	March 31, 2016	September 30, 2015
	(Dollars in Thousands)	
Deferred tax assets:		
Allowance for loan losses	\$ 1,210	\$ 1,185
Nonaccrual interest	96	86
Accrued vacation	37	119
Capital loss carryforward	506	534
Split dollar life insurance	19	19
Post-retirement benefits	104	126
Employee benefit plans	579	530
Total deferred tax assets	2,551	2,599
Valuation allowance	(506 )	(534 )
Total deferred tax assets, net of valuation allowance	2,045	2,065
Deferred tax liabilities:		
Property	533	365
Unrealized gains on available for sale securities	404	10
Deferred loan fees	657	715
Total deferred tax liabilities	1,594	1,090
Net deferred tax assets	\$ 451	\$ 975

The Company establishes a valuation allowance for deferred tax assets when management believes that the use of the deferred tax assets is not likely to be realized through a carry back to taxable income in prior years or future reversals of existing taxable temporary differences, and/or to a lesser extent, future taxable income. The tax deduction generated by the redemption of the shares of a mutual fund held by the Bank and the subsequent impairment charge on the assets acquired through the redemption in kind are considered capital losses and can only be utilized to the extent of capital gains over a five year period, resulting in the establishment of a valuation allowance for the carryforward period. The valuation allowance totaled \$506,000 at March 31, 2016, and \$534,000 at September 30, 2015.

There is currently no liability for uncertain tax positions and no known unrecognized tax benefits. The Company recognizes, when applicable, interest and penalties related to unrecognized tax benefits in the provision for income taxes in the Consolidated Statements of Operations as a component of income tax expense. The Company's federal and state income tax returns for taxable years through September 30, 2012 have been closed for purposes of examination by the Internal Revenue Service and the Pennsylvania Department of Revenue.





## 9. STOCK COMPENSATION PLANS

The Company maintains an employee stock ownership plan (“ESOP”) for substantially all of its full-time employees. The ESOP purchased 427,057 shares (on a converted basis) of the Company’s common stock for an aggregate cost of approximately \$4.5 million in fiscal 2005. The ESOP purchased an additional 255,564 shares during December 2013 and an additional 30,100 shares at the beginning January 2014, of the Company’s common stock for an aggregate cost of approximately \$3.1 million. The shares were purchased with the proceeds of loans from the Company. Shares of the Company’s common stock purchased by the ESOP are held in a suspense account until released for allocation to participants as the loans are repaid. Shares are allocated to each eligible participant based on the ratio of each such participant’s compensation, as defined in the ESOP, to the total compensation of all eligible plan participants. As the unearned shares are released from the suspense account, 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 equity as additional paid-in capital. As of March 31, 2016, the ESOP held 697,271 shares and the Company had allocated a total of 286,635 shares from the suspense account to participants. For the six months ended March 31, 2016 and 2015, the Company recognized \$265,000 and \$238,000, respectively, in compensation expense related to the ESOP.

The Company maintains the 2008 Recognition and Retention Plan (“2008 RRP”) which is administered by a committee of the Board of Directors of the Company. The RRP provides for the grant of shares of common stock of the Company to officers, employees and directors of the Company. In order to fund the grant of shares under the RRP, the RRP Trust purchased 213,528 shares (on a converted basis) of the Company’s common stock in the open market for approximately \$2.5 million, at an average purchase price per share of \$11.49 as part of the 2008 RRP. The Company made sufficient contributions to the RRP Trust to fund these purchases. As of March 31, 2016, all the shares, with exception of 6,262 shares that had been forfeited, had been awarded as part of the 2008 RRP. Shares subject to awards under the 2008 RRP generally vest at the rate of 20% per year over five years. During February 2015, shareholders approved the 2014 Stock Incentive Plan (the “2014 SIP”). As part of the 2014 SIP, a maximum of 285,655 shares can be awarded as restricted stock awards or units, of which 235,500 shares were awarded during February 2015 of which 30,500 shares had been forfeited as of March 31, 2016.

Compensation expense related to the shares subject to restricted stock awards granted is recognized ratably over the five-year vesting period in an amount which totals the grant date fair value multiplied by the number of shares subject to the grant. During the three and six months ended March 31, 2016, an aggregate of \$115,000 and \$243,000, respectively, was recognized in compensation expense for the 2008 RRP and the grants pursuant to the 2014 SIP. Income tax benefits of \$39,000 and \$83,000 were recognized for the three and six months ended March 31, 2016. During the three and six months ended March 31, 2015, \$84,000 and \$105,000 was recognized in compensation expense for the 2008 RRP and the grants pursuant to the 2014 SIP. An income tax benefit of \$29,000 and \$36,000, respectively, was recognized for the three and six months ended March 31, 2015. At March 31, 2016, approximately \$2.5 million in additional compensation expense for the shares awarded which remained outstanding related to the 2008 RRP and for the 2014 SIP remained unrecognized. At March 31, 2015, approximately \$3.0 million in additional compensation expense for the shares awarded related to the 2018 RRP and the 2014 SIP remained unrecognized.



A summary of the Company's non-vested stock award activity for the six months ended March 31, 2016 and 2015 is presented in the following tables:

	Six Months Ended March 31, 2016	
	Number of Shares (1)	Weighted Average Grant Date Fair Value
Nonvested stock awards at October 1, 2015	241,428	\$ 11.74
Issued	-	-
Forfeited	(36,762 )	11.55
Vested	(49,511 )	11.47
Nonvested stock awards at the March 31, 2016	155,155	\$ 11.87

	Six Months Ended March 31, 2015	
	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested stock awards at October 1, 2014	38,055	\$ 8.07
Issued	235,500	12.23
Forfeited	-	-
Vested	(9,578 )	8.07
Nonvested stock awards at the March 31, 2015	263,977	\$ 12.07

The Company maintains the 2008 Stock Option Plan (the "2008 Option Plan") which authorizes the grant of stock options to officers, employees and directors of the Company to acquire shares of common stock with an exercise price at least equal to the fair market value of the common stock on the grant date. Options generally become vested and exercisable at the rate of 20% per year over five years and are generally exercisable for a period of ten years after the grant date. A total of 533,808 shares (on a converted basis) of common stock were approved for future issuance pursuant to the 2008 Stock Option Plan. As of March 31, 2016, all of the options had been awarded under the 2008 Option Plan. As of March 31, 2016, 442,155 options (on a converted basis) were vested under the 2008 Option Plan. The 2014 SIP reserved up to 714,145 shares for issuance pursuant to options. Options to purchase 587,112 shares were awarded during February 2015, 608,737 shares pursuant to the 2014 SIP and the remainder pursuant to the 2008 Option Plan. As of March 31, 2016, the 2008 Option Plan had 7,932 forfeited shares and the 2014 SIP had 78,000 forfeited shares.

A summary of the status of the Company's stock options under the 2008 Option Plan and the 2014 SIP as of March 31, 2016 and 2015 are presented below:



	Six Months Ended March 31, 2016	
	Number of Shares	Weighted Average Exercise Price
Outstanding at October 1, 2015	1,074,430	\$ 11.92
Granted	-	-
Exercised	(130,535 )	11.49
Forfeited	(93,939 )	11.55
Outstanding at March 31, 2016	849,956	\$ 12.03
Exercisable at March 31, 2016	347,037	\$ 11.38

	Six Months Ended March 31, 2015	
	Number of Shares	Weighted Average Exercise Price
Outstanding at October 1, 2014	530,084	\$ 10.86
Granted	608,737	12.23
Exercised	-	-
Forfeited	-	-
Outstanding at March 31, 2015	1,138,821	\$ 11.59
Exercisable at March 31, 2015	417,767	\$ 11.37

The weighted average remaining contractual term was approximately 6.5 years for options outstanding as of March 31, 2016.

The estimated fair value of options granted during fiscal 2009 was \$2.98 per share, \$2.92 for options granted during fiscal 2010, \$3.34 for options granted during fiscal 2013, \$4.67 for the options granted during fiscal 2014 and \$4.58 for options granted during fiscal 2015. The fair value for grants made in fiscal 2015 was estimated on the date of grant using the Black-Scholes pricing model with the following assumptions: an exercise and fair value of \$12.23, expected term of seven years, volatility rate of 38.16%, interest rate of 1.62% and a yield rate of 0.98%.

During the three and six months ended March 31, 2016, \$112,000 and \$248,000 was recognized in compensation expense for options granted pursuant to the 2008 Option Plan and the 2014 SIP. Tax benefits of \$13,000 and \$29,000, respectively, were recognized for the three and six months ended March 31, 2016. During the three and six months ended March 31, 2015, \$86,000 and \$111,000, respectively, was recognized in compensation expense for options granted pursuant to the 2008 Option Plan and the 2014 SIP. Tax benefits of \$9,000 and \$12,000, respectively, were recognized for the three and six months ended March 31, 2015.

At March 31, 2016, there was approximately \$2.1 million in additional compensation expense to be recognized for awarded options which remained outstanding and unvested at such date. The weighted average period over which this expense will be recognized is approximately 3.9 years.

10. COMMITMENTS AND CONTINGENT LIABILITIES

At March 31, 2016, the Company had \$23.0 million in outstanding commitments to originate fixed and variable-rate loans with market interest rates ranging from 3.75% to 5.50%. At September 30, 2015, the Company had \$2.5 million in outstanding commitments to originate fixed and variable-rate loans with market interest rates ranging from 4.25% to 5.25%. The aggregate undisbursed portion of loans-in-process amounted to \$12.8 million at March 31, 2016 and \$17.0 million at September 30, 2015.

The Company also had commitments under unused lines of credit of \$3.4 million as of March 31, 2016 and \$6.1 million as of September 30, 2015 and letters of credit outstanding of \$2.9 million as of March 31, 2016 and \$2.6 million as of September 30, 2015.

Among the Company's contingent liabilities are exposures to limited recourse arrangements with respect to the Company's sales of whole loans and participation interests. At March 31, 2016, the exposure, which represents a portion of credit risk associated with the interests sold, amounted to \$49,000. This exposure is for the life of the related loans and payables, on our proportionate share, as actual losses are incurred.

The Company is involved in various legal proceedings occurring in the ordinary course of business. Management of the Company, based on discussions with litigation counsel, believes that such proceedings will not have a material adverse effect on the financial condition, operations or cash flows of the Company. However, there can be no assurance that any of the outstanding legal proceedings to which the Company is a party will not be decided adversely to the Company's interests and not have a material adverse effect on the financial condition and operations of the Company.

10. FAIR VALUE MEASUREMENT

The fair value estimates presented herein are based on pertinent information available to management as of March 31, 2016 and September 30, 2015, respectively. Although management is not aware of any factors that would significantly affect the fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since that date and, therefore, current estimates of fair value may differ significantly from the amounts presented herein.

Generally accepted accounting principles used in the United States establish a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value.



The three broad levels of hierarchy are as follows:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted

Level 2 prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is

Level 3 determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Those assets as of March 31, 2016 which are to be measured at fair value on a recurring basis are as follows:

	Category Used for Fair Value Measurement			
	Level 1	Level 2	Level 3	Total
	(Dollars in Thousands)			
Assets:				
Securities available for sale:				
U.S. Government and agency obligations	\$ -	\$ 18,974	\$ -	\$ 18,974
Mortgage-backed securities - U.S. Government agencies	-	104,581	-	104,581
Corporate bonds	-	19,644	-	19,644
FHLMC preferred stock	36	-	-	36
Total	\$ 36	\$ 143,199	\$ -	\$ 143,235

Those assets as of September 30, 2015 which are measured at fair value on a recurring basis are as follows:

	Category Used for Fair Value Measurement			
	Level 1	Level 2	Level 3	Total
	(Dollars in Thousands)			
Assets:				
Securities available for sale:				
U.S. Government and agency obligations	\$ -	\$ 18,712	\$ -	\$ 18,712
Mortgage-backed securities - U.S. Government agencies	-	58,712	-	58,712
FHLMC preferred stock	59	-	-	59
Total	\$ 59	\$ 77,424	\$ -	\$ 77,483

Certain assets are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). The Company measures impaired loans and real estate owned at fair value on a non-recurring basis.

### Impaired Loans

The Company considers loans to be impaired when it becomes more likely than not that the Company will be unable to collect all amounts due in accordance with the contractual terms of the loan agreements. Collateral dependent impaired loans are based on the fair value of the collateral which is based on appraisals and would be categorized as Level 2 measurement. In some cases, adjustments are made to the appraised values for various factors including the age of the appraisal, age of the comparable included in the appraisal, and known changes in the market and in the

collateral. These adjustments are based upon unobservable inputs, and therefore, the fair value measurement has been categorized as a Level 3 measurement. These loans are reviewed for impairment and written down to their net realizable value by charges against the allowance for loan losses. The collateral underlying these loans had a fair value in excess of \$19.0 million, as of March 31, 2016.

Real Estate Owned

Once an asset is determined to be uncollectible, the underlying collateral is generally repossessed and reclassified to foreclosed real estate and repossessed assets. These repossessed assets are carried at the lower of cost or fair value of the collateral, based on independent appraisals, less cost to sell and would be categorized as Level 2 measurement. In some cases, adjustments are made to the appraised values for various factors including age of the appraisal, age of the comparable included in the appraisal, and known changes in the market and in the collateral. Thus the evaluations are based upon unobservable inputs, and therefore, the fair value measurement has been categorized as a Level 3 measurement.

**Summary of Non-Recurring Fair Value Measurements**

At March 31, 2016 (Dollars in Thousands)				
	Level 1	Level 2	Level 3	Total
Impaired loans	\$-	\$ -	\$18,975	\$18,975
Total	\$-	\$ -	\$18,975	\$18,975

At September 30, 2015 (Dollars in Thousands)				
	Level 1	Level 2	Level 3	Total
Impaired loans	\$-	\$-	\$16,770	\$16,770
Real estate owned	-	869	-	869
Total	\$-	\$869	\$16,770	\$17,639

The following table provides information describing the valuation processes used to determine nonrecurring fair value measurements categorized within Level 3 of the fair value hierarchy:

At March 31, 2016 (Dollars in Thousands)				
	Fair Value	Valuation Technique	Unobservable Input	Range/ Weighted Ave.
Impaired loans	\$18,975	Property appraisals (1) (3)	Management discount for selling costs, property type and market volatility (2)	10% discount
At September 30, 2015 (Dollars in Thousands)				
	Fair Value	Valuation Technique	Unobservable Input	Range/ Weighted Ave.
Impaired loans	\$16,770	Property appraisals (1) (3)	Management discount for selling costs, property type and market volatility (2)	10% discount
Real estate owned	\$869	Property appraisals (1)(3)	Management discount for selling costs, property type and market volatility (2)	10% discount

(1)

Fair value is generally determined through independent appraisals of the underlying collateral, which generally includes various Level 3 inputs, which are not identifiable.

Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated (2) liquidation expenses. The range and weighted average of liquidation expenses and other appraisal adjustments are presented as a percent of the appraisal.

(3) Includes qualitative adjustments by management and estimated liquidation expenses.

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

	Carrying Amount	Fair Value	Fair Value Measurements at March 31, 2016		
			(Level 1)	(Level 2)	(Level 3)
	(Dollars in Thousands)				
<b>Assets:</b>					
Cash and cash equivalents	\$7,330	\$7,330	\$7,330	\$-	\$-
Investment and mortgage-backed securities available for sale	143,235	143,235	36	143,199	-
Investment and mortgage-backed securities held to maturity	44,488	45,591	-	45,591	-
Loans receivable, net	322,182	322,200	-	-	322,200
Accrued interest receivable	1,774	1,774	1,774	-	-
Federal Home Loan Bank stock	1,851	1,851	1,851	-	-
Bank owned life insurance	12,890	12,890	12,890	-	-
<b>Liabilities:</b>					
Checking accounts	38,776	38,776	38,776	-	-
Money market deposit accounts	57,470	57,470	57,470	-	-
Passbook, club and statement savings accounts	69,999	69,999	69,999	-	-
Certificates of deposit	217,825	220,340	-	-	220,340
Advances from Federal Home Loan Bank	37,059	37,096	-	-	37,096
Accrued interest payable	543	543	543	-	-
Advances from borrowers for taxes and insurance	1,777	1,777	1,777	-	-

	Carrying Amount	Fair Value	Fair Value Measurements at September 30, 2015		
			(Level 1)	(Level 2)	(Level 3)
(Dollars in Thousands)					
<b>Assets:</b>					
Cash and cash equivalents	\$11,272	\$11,272	\$11,272	\$-	\$-
Investment and mortgage-backed securities available for sale	77,483	77,483	59	77,424	-
Investment and mortgage-backed securities held to maturity	66,384	66,877	-	66,877	-
Loans receivable, net	312,633	312,613	-	-	312,613
Accrued interest receivable	1,665	1,665	1,665	-	-
Federal Home Loan Bank stock	369	369	369	-	-
Bank owned life insurance	12,722	12,722	12,722	-	-
<b>Liabilities:</b>					
Checking accounts	37,942	37,942	37,942	-	-
Money market deposit accounts	60,736	60,736	60,736	-	-
Passbook, club and statement savings accounts	70,355	70,355	70,355	-	-
Certificates of deposit	196,041	199,639	-	-	199,639
Accrued interest payable	1,291	1,291	1,291	-	-
Advances from borrowers for taxes and insurance	1,670	1,670	1,670	-	-

**Cash and Cash Equivalents**—For cash and cash equivalents, the carrying amount is a reasonable estimate of fair value.

**Investments and Mortgage-Backed Securities**—The fair value of investment securities and mortgage-backed securities is based on quoted market prices, dealer quotes, and prices obtained from independent pricing services.

**Loans Receivable**—The fair value of loans is estimated based on present value using the current market rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. The carrying value that fair value is compared to is net of the allowance for loan losses and other associated premiums and discounts. Due to the significant judgment involved in evaluating credit quality, loans are classified within Level 3 of the fair value hierarchy.

**Accrued Interest Receivable** – For accrued interest receivable, the carrying amount is a reasonable estimate of fair value.

**Federal Home Loan Bank (FHLB) Stock**—Although FHLB stock is an equity interest in an FHLB, it is carried at cost because it does not have a readily determinable fair value as its ownership is restricted and it lacks a market. The estimated fair value approximates the carrying amount.

**Bank Owned Life Insurance**—The fair value of bank owned life insurance is based on the cash surrender value obtained from an independent advisor that is derivable from observable market inputs.

**Checking Accounts, Money Market Deposit Accounts, Passbook Accounts, Club Accounts, Statement Savings Accounts, and Certificates of Deposit**—The fair value of passbook accounts, club accounts, statement savings accounts, checking accounts, and money market deposit accounts is the amount reported in the financial statements. The fair value of certificates of deposit is based on market rates currently offered for deposits of similar remaining maturity.



**Advances from Federal Home Loan Bank**—The fair value of advances from FHLB is the amount payable on demand at the reporting date.

**Accrued Interest Payable** – For accrued interest payable, the carrying amount is a reasonable estimate of fair value.

**Advances from borrowers for taxes and insurance** – For advances from borrowers for taxes and insurance, the carrying amount is a reasonable estimate of fair value.

**Commitments to Extend Credit and Letters of Credit**—The majority of the Bank’s commitments to extend credit and letters of credit carry current market interest rates if converted to loans. Because commitments to extend credit and letters of credit are generally unassignable by either the Bank or the borrower, they only have value to the Bank and the borrower. The estimated fair value approximates the recorded deferred fee amounts, which are not significant.

## **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion should be read in conjunction with our unaudited consolidated financial statements included elsewhere in this Form 10-Q and with our Annual Report on Form 10-K for the year ended September 30, 2015 (the “Form 10-K”).

**Overview.** Prudential Bancorp, Inc. (the “Company”) was formed by Prudential Bancorp, Inc. of Pennsylvania to become the successor holding company for Prudential Savings Bank (the “Bank”) as a result of the second-step conversion completed in October 2013. The Company’s results of operations are primarily dependent on the results of the Bank, which is a wholly owned subsidiary of the Company. The Company’s results of operations depend to a large extent on net interest income, which primarily is the difference between the income earned on its loan and securities portfolios and the cost of funds, which is the interest paid on deposits and borrowings. Results of operations are also affected by our provisions for loan losses, non-interest income (which includes impairment charges) and non-interest expense. Non-interest expense principally consists of salaries and employee benefits, office occupancy expense, depreciation, data processing expense, payroll taxes and other expense. Our results of operations are also significantly affected by general economic and competitive conditions, particularly changes in interest rates, government policies and actions of regulatory authorities. Future changes in applicable laws, regulations or government policies may materially impact our financial condition and results of operations. The Bank is subject to regulation by the Federal Deposit Insurance Corporation (the “FDIC”) and the Pennsylvania Department of Banking and Securities (the “Department”). The Bank’s main office is in Philadelphia, Pennsylvania, with five additional full-service banking offices located in Philadelphia and Delaware Counties in Pennsylvania. The Bank’s primary business consists of attracting

deposits from the general public and using those funds together with borrowings to originate loans and to invest primarily in U.S. Government and agency securities and mortgage-backed securities. In November 2005, the Bank formed PSB Delaware, Inc., a Delaware corporation, as a subsidiary of the Bank. In March 2006, all mortgage-backed securities then owned by the Company's predecessor were transferred to PSB Delaware, Inc. PSB Delaware, Inc.'s activities are included as part of the consolidated financial statements.

**Critical Accounting Policies.** In reviewing and understanding financial information for the Company, you are encouraged to read and understand the significant accounting policies used in preparing our financial statements. These policies are described in Note 1 of the notes to our unaudited consolidated financial statements included in Item 1 hereof as well as in Note 2 to our audited consolidated financial statements included in the Form 10-K. The accounting and financial reporting policies of the Company conform to accounting principles generally accepted in the United States of America ("U.S. GAAP") and to general practices within the banking industry. Accordingly, the financial statements require certain estimates, judgments and assumptions, which are believed to be reasonable, based upon the information available. These estimates and assumptions affect the reported amounts of assets and liabilities as well as contingent assets and contingent liabilities at the date of the financial statements and the reported amounts of income and expenses during the periods presented. The following accounting policies comprise those that management believes are the most critical to aid in fully understanding and evaluating our reported financial results. These policies require numerous estimates or economic assumptions that may prove inaccurate or may be subject to variations which may significantly affect our reported results and financial condition for the period or in future periods.

*Allowance for Loan Losses.* The allowance for loan losses is established through a provision for loan losses charged to expense. Losses are charged against the allowance for loan losses when management believes that the collectability in full of the principal of a loan is unlikely. Subsequent recoveries are added to the allowance. The allowance for loan losses is maintained at a level that management considers adequate to provide for estimated losses and impairments based upon an evaluation of known and inherent losses in the loan portfolio that are both probable and reasonable to estimate. Loan impairment is evaluated based on the fair value of collateral or estimated net realizable value. It is the policy of management to provide for losses on unidentified loans in its portfolio in addition to criticized and classified loans.

Management monitors its allowance for loan losses at least quarterly and makes adjustments to the allowance through the provision for loan losses as economic conditions and other pertinent factors indicate. The quarterly review and adjustment of the qualitative factors employed in the allowance methodology and the updating of historic loss experience allow for timely reaction to emerging conditions and trends. In this context, a series of qualitative factors are used in a methodology as a measurement of how current circumstances are affecting the loan portfolio. Included in these qualitative factors are:

- Levels of past due, classified, criticized and non-accrual loans, troubled debt restructurings and loan modifications;
  - Nature and volume of loans;
- Changes in lending policies and procedures, underwriting standards, collections, charge-offs and recoveries and for commercial loans, the level of loans being approved with exceptions to the Bank's lending policy;
  - Experience, ability and depth of management and staff;
  - National and local economic and business conditions, including various market segments;
  - Quality of the Company's loan review system and the degree of Board oversight;
  - Concentrations of credit and changes in levels of such concentrations; and
  - Effect of external factors on the level of estimated credit losses in the current portfolio.

In determining the allowance for loan losses, management has established a general pooled allowance. Values assigned to the qualitative factors and those developed from historic loss experience provide a dynamic basis for the calculation of reserve factors for both pass-rated loans (the general pooled allowance) and those for criticized and classified loans. The amount of the specific allowance is determined through a loan-by-loan analysis of certain large dollar commercial real estate loans, construction and land development loans and multi-family. Loans not individually reviewed are evaluated as a group using reserve factor percentages based on historical loss experience and the qualitative factors described above. In determining the appropriate level of the general pooled allowance, management makes estimates based on internal risk ratings, which take into account such factors as debt service coverage, loan-to-value ratios and external factors. Estimates are periodically measured against actual loss experience.

This evaluation is inherently subjective as it requires material estimates including, among others, exposure at default, the amount and timing of expected future cash flows on impaired loans, value of collateral, estimated losses on our commercial, construction and residential loan portfolios and historical loss experience. All of these estimates may be susceptible to significant change.



While management uses the best information available to make loan loss allowance evaluations, adjustments to the allowance may be necessary based on changes in economic and other conditions or changes in accounting guidance. In addition, the Department and the FDIC, as an integral part of their examination processes, periodically review our allowance for loan losses. The Department and the FDIC may require the recognition of adjustments to the allowance for loan losses based on their judgment of information available to them at the time of their examination. To the extent that actual outcomes differ from management's estimates, additional provisions to the allowance for loan losses may be required that would adversely affect earnings in future periods.

*Investment and mortgage-backed securities available for sale.* Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated using quoted prices of securities with similar characteristics or discounted cash flows and are classified within Level 2 of the fair value hierarchy. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy, although there were no securities with that classification as of March 31, 2016 or September 30, 2015.

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. The Company determines whether the unrealized losses are temporary or not in accordance with U.S. GAAP. The evaluation is based upon factors such as the creditworthiness of the issuers/guarantors, the underlying collateral, if applicable, and the continuing performance of the securities. In addition, the Company also considers the likelihood that the security will be required to be sold because of regulatory concerns, our internal intent not to dispose of the security prior to maturity and whether the entire cost basis of the security is expected to be recovered. In determining whether the cost basis will be recovered, management evaluates other facts and circumstances that may be indicative of an "other-than-temporary" impairment condition. This includes, but is not limited to, an evaluation of the type of security, length of time and extent to which the fair value has been less than cost, and near-term prospects of the issuer.

In addition, certain assets are measured at fair value on a non-recurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). The Company measures impaired loans and investment securities, both available-for-sale ("AFS") and held-to-maturity ("HTM"), at fair value on a non-recurring basis.

Valuation techniques and models utilized for measuring financial assets and liabilities are reviewed and validated by the Company at least quarterly.

*Income Taxes.* The Company accounts for income taxes in accordance with U.S. GAAP. The Company records deferred income taxes that reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Management exercises

significant judgment in the evaluation of the amount and timing of the recognition of the resulting tax assets and liabilities. The judgments and estimates required for the evaluation are updated based upon changes in business factors and the tax laws. If actual results differ from the assumptions and other considerations used in estimating the amount and timing of tax recognized, there can be no assurance that additional expenses will not be required in future periods.

In evaluating our ability to recover deferred tax assets, we consider all available positive and negative evidence, including our past operating results and our forecast of future taxable income. In determining future taxable income, we make assumptions for the amount of taxable income, the reversal of temporary differences and the implementation of feasible and prudent tax planning strategies. These assumptions require us to make judgments about our future taxable income and are consistent with the plans and estimates we use to manage our business. Any reduction in estimated future taxable income may require us to record an additional valuation allowance against our deferred tax assets. An increase in the valuation allowance would result in additional income tax expense in the period and could have a significant impact on our future earnings.

U.S. GAAP prescribes a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. The Company recognizes, when applicable, interest and penalties related to unrecognized tax benefits in the provision for income taxes in the consolidated income statement. Assessment of uncertain tax positions requires careful consideration of the technical merits of a position based on management's analysis of tax regulations and interpretations. Significant judgment may be involved in the assessment of the tax position.

**Forward-looking Statements.** In addition to historical information, this Quarterly Report on Form 10-Q includes certain "forward-looking statements" based on management's current expectations. The Company's actual results could differ materially, as such term is defined in the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, from management's expectations. Such forward-looking statements include statements regarding management's current intentions, beliefs or expectations as well as the assumptions on which such statements are based. These forward-looking statements are subject to significant business, economic and competitive uncertainties and contingencies, many of which are not subject to the Company's control. You are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially from those contemplated by such forward-looking statements. Factors that could cause future results to vary from current management expectations include, but are not limited to, general economic conditions, legislative and regulatory changes, monetary and fiscal policies of the federal government, changes in tax policies, rates and regulations of federal, state and local tax authorities, changes in interest rates, deposit flows, the cost of funds, demand for loan products, demand for financial services, competition, changes in the quality or composition of the Company's loan and investment portfolios, changes in accounting principles, policies or guidelines and other economic, competitive, governmental and technological factors affecting the Company's operations, markets, products, services and fees.

The Company undertakes no obligation to update or revise any forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes to future operating results that occur subsequent to the date such forward-looking statements are made unless required by law or regulations.

**Market Overview.** Although the economy slowly improved during 2014 and 2015, we still view the current environment as challenging.

The Company continues to focus on the credit quality of its customers, closely monitoring the financial status of borrowers throughout the Company's markets, gathering information, working on early detection of potential problems, taking pre-emptive steps where necessary and performing the analysis required to maintain adequate reserves for loan losses.

Despite the current market and economic conditions, the Company continues to maintain capital well in excess of regulatory requirements.

The following discussion provides further details on the financial condition of the Company at March 31, 2016 and September 30, 2015, and the results of operations for the three months ended December 31, 2015 and 2014.

**COMPARISON OF FINANCIAL CONDITION AT MARCH 31, 2016 AND SEPTEMBER 30, 2015**

At March 31, 2016, the Company had total assets of \$537.5 million, as compared to \$487.2 million at September 30, 2015, an increase of 10.3%. The increase in total assets was primarily due to the implementation of an investment leverage strategy where the Bank purchased \$20.0 million of GNMA mortgage-backed securities and \$15.0 million investment grade corporate bonds funded by variable-term FHLB advances. In addition the Bank increased its outstanding loan balance by \$9.5 million or 3.1% to \$322.2 million at March 31, 2016.

Total liabilities increased by \$55.0 million to \$425.2 million at March 31, 2016 from \$370.2 million at September 30, 2015. Total deposits increased \$19.0 million, primarily due to a \$21.8 million in short-term certificate of deposits, partially offset by a decline of \$3.3 million in money market accounts. During the quarter ended March 31, 2016, the Bank maintained FHLB advances of \$37.1 million with variable maturities of which \$35.0 million was used to fund the Bank's investment leverage strategy mentioned above.



Total stockholders' equity decreased by \$4.7 million to \$112.3 million at March 31, 2016 from \$117.0 million at September 30, 2015. The decrease was primarily due to the \$6.7 million expended in the acquisition of treasury stock in connection with the Company's stock repurchase program and to a lesser degree the declaration of approximately \$452,000 in cash dividends. This decrease was partially offset by \$961,000 in net income during the six months ended March 31, 2016 combined with a \$765,000 after-tax increase in the value of the available-for-sale securities portfolio.

### COMPARISON OF RESULTS OF OPERATIONS FOR THE THREE AND SIX MONTHS ENDED MARCH 31, 2016 AND 2015

**Net income.** The Company recognized net income of \$548,000, or \$0.08 per basic share and per diluted share, for the quarter ended March 31, 2016 as compared to \$1.7 million, or \$0.20 per basic and \$0.18 per diluted share, for the same quarter in 2015. For the six months ended March 31, 2016, the Company recognized net income of \$961,000 or \$0.13 per basic and \$0.12 per diluted share, as compared to net income of \$2.2 million, or \$0.25 per basic share and \$0.22 per diluted share, for the comparable period in 2015. The profitability for the three and six months ended March 31, 2016 was primarily due to the Company's efforts in the reduction of operating expenses, whereas the same periods in 2015 was primarily due to the recognition of approximately \$1.8 million in gain on the completion of the previously announced agreement sale of our Center City branch office. The Company was able to offset the federal tax impact due to the utilization of prior capital loss carryforwards available to it.

**Net interest income.** For the three months ended March 31, 2016, net interest income increased to \$3.5 million as compared to \$3.4 million for the same period in 2015. The increase reflected an \$62,000 or 1.4% increase in interest income combined with a decrease of \$22,000 or 2.5% in interest paid on deposits and borrowings. The increase in interest income primarily resulted from the increase of \$63.7 million in the average outstanding balance of mortgage-backed securities partially resulting from the implementation a leverage strategy. The increase in interest income was partially offset by a decrease in the overall yield on interest-earning assets of 5 basis points. To partially fund the growth in earning assets and the purchase additional treasury stock, the Company increased borrowings from the FHLB. During the quarter ended March 31, 2016, the Company maintained an average balance of \$32.3 million with a weighted average yield of 1.32%, an increase of \$32.1 million from the same period in 2015. Total cost of funds decreased nine basis points to 0.82% at March 31, 2016, from 0.91% from the same period in 2015 due to the maturity of higher yielding certificates of deposits and the reduction in the rate paid on core deposits.

Net interest income remained stable at \$6.8 million for both six months ended March 31, 2016 and 2015. Interest income decreased \$121,000 to \$8.4 million for the six month period ended March 31, 2016, compared to \$8.5 million for the same period in 2015. This decrease was offset by a decrease in interest expense of \$123,000 from the comparable period in 2015. The decrease in interest expense resulted primarily from an 8 basis point decrease to 0.83% in the weighted average rate paid on interest-bearing liabilities resulting in large part to a reduction in interest rates paid on core deposits and certificates of deposit, partially offset by an increase in the average balance outstanding of FHLB advances. A majority of these advances were used to fund the Company's leverage strategy. The decrease in interest income resulted from a 1 basis point decrease to 3.39% in the weighted average yield earned on

interest-earning assets and by an \$8.6 million or 1.4% decrease to \$495.1 million in the average balance of interest-earning assets for the six months ended March 31, 2016 as compared to the same period in fiscal 2015. The decrease in the weighted average yield earned was primarily reflected the reduction of yields earned on loans and mortgage-backed securities.

For the three months ended March 31, 2016, the net interest margin was 2.73% compared to 2.77% for the same period in fiscal 2015. For the six months ended March 31, 2016, the net interest margin was 2.73% as compared to 2.70% for the same period in fiscal 2015. The improvement in the net interest margin during the six month period of fiscal 2016 was primarily due to the Company's effort in reducing the overall cost of its funds.

**Average balances, net interest income, and yields earned and rates paid.** The following table shows for the periods indicated the total dollar amount of interest earned from average interest-earning assets and the resulting yields, as well as the interest expense on average interest-bearing liabilities and the resulting costs, expressed both in dollars and rates, the interest rate spread and the net interest margin. Average yields and rates have been annualized. Tax-exempt income and yields have not been adjusted to a tax-equivalent basis. All average balances are based on monthly balances. Management does not believe that the monthly averages differ significantly from what the daily averages would be.

	Three Months Ended March 31, 2016			2015			
	Average Balance	Interest	Average Yield/Rate (1)	Average Balance	Interest	Average Yield/Rate (1)	
(Dollars in Thousands)							
Interest-earning assets:							
Investment securities	\$60,871	\$415	2.73	% \$84,085	\$552	2.66	%
Mortgage-backed securities	120,971	777	2.58	57,240	450	3.19	
Loans receivable(2)	322,133	3,166	3.94	330,341	3,287	4.04	
Other interest-earning assets	7,290	8	0.44	30,326	15	0.20	
Total interest-earning assets	511,265	4,366	3.43	501,992	4,304	3.48	
Cash and non-interest-bearing balances	1,912			2,222			
Other non-interest-earning assets	19,009			16,510			
Total assets	\$532,186			\$520,724			
Interest-bearing liabilities:							
Savings accounts	\$72,333	22	0.12	\$73,432	53	0.29	
Money market deposit and NOW accounts	94,716	46	0.19	99,612	85	0.35	
Certificates of deposit	213,597	674	1.27	212,027	732	1.40	
Total deposits	380,646	742	0.78	385,071	870	0.92	
Advances from Federal Home Loan Bank	32,287	106	1.32	221	-	0.00	
Advances from borrowers for taxes and insurance	1,998	1	0.20	2,300	1	0.18	
Total interest-bearing liabilities	414,931	849	0.82	387,592	871	0.91	
Non-interest-bearing liabilities:							
Non-interest-bearing demand accounts	2,721			2,204			
Other liabilities	427			972			
Total liabilities	418,079			390,768			
Stockholders' equity	114,107			129,956			
Total liabilities and stockholders' equity	\$532,186			\$520,724			
Net interest-earning assets	\$96,334			\$114,400			
Net interest income; interest rate spread		\$3,517	2.52	%	\$3,433	2.57	%
Net interest margin(3)			2.73	%		2.77	%

Average interest-earning assets to average interest-bearing liabilities	123.22 %	129.52 %
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- (1) Yields and rates for the three month periods are annualized.
- (2) Includes non-accrual loans. Calculated net of unamortized deferred fees, undisbursed portion of loans-in-process and the allowance for loan losses.
- (3) Equals net interest income divided by average interest-earning assets.

	Six Months Ended March 31, 2016			2015			
	Average Balance	Interest	Average Yield/Rate (1)	Average Balance	Interest	Average Yield/Rate (1)	
(Dollars in Thousands)							
Interest-earning assets:							
Investment securities	\$64,973	\$855	2.62	% \$85,293	\$1,100	2.59	%
Mortgage-backed securities	101,962	1,328	2.60	56,338	866	3.08	
Loans receivable(2)	318,570	6,226	3.90	328,235	6,544	4.00	
Other interest-earning assets	9,547	13	0.27	33,741	34	0.20	
Total interest-earning assets	495,052	8,422	3.39	503,607	8,544	3.40	
Cash and non-interest-bearing balances	1,940			2,241			
Other non-interest-earning assets	19,420			17,419			
Total assets	\$516,412			\$523,267			
Interest-bearing liabilities:							
Savings accounts	\$72,665	47	0.13	\$74,841	110	0.29	
Money market deposit and NOW accounts	93,339	96	0.21	100,392	173	0.35	
Certificates of deposit	203,440	1,350	1.32	211,923	1,487	1.41	
Total deposits	369,444	1,493	0.81	387,156	1,770	0.92	
Advances from Federal Home Loan Bank	23,306	154	1.32	281	-	0.00	
Advances from borrowers for taxes and insurance	1,892	2	0.21	2,028	2	0.20	
Total interest-bearing liabilities	394,642	1,649	0.83	389,465	1,772	0.91	
Non-interest-bearing liabilities:							
Non-interest-bearing demand accounts	2,689			2,306			
Other liabilities	3,219			2,163			
Total liabilities	400,550			393,934			
Stockholders' equity	115,861			129,333			
Total liabilities and stockholders' equity	\$516,411			\$523,267			
Net interest-earning assets	\$100,410			\$114,142			
Net interest income; interest rate spread		\$6,773	2.56	%	\$6,772	2.57	%
Net interest margin(3)			2.73	%		2.70	%
Average interest-earning assets to average interest-bearing liabilities		125.44%			129.31%		

(1) Yields and rates for the six month periods are annualized.

(2) Includes non-accrual loans. Calculated net of unamortized deferred fees, undisbursed portion of loans-in-process and the allowance for loan losses.

(3) Equals net interest income divided by average interest-earning assets.

**Provision for loan losses.** The Company established provisions for loan losses of \$75,000 during the three and six months ended March 31, 2016, primarily due to the increased level of commercial real estate and construction loans outstanding. During the three and six months ended March 31, 2015, the Company established provisions for loan losses of \$300,000 and \$375,000, respectively, primarily due to the increase in the level of commercial real estate and construction loans outstanding as well as to the charge-offs incurred during the second quarter of fiscal 2015 combined with the classification of the entire outstanding amount of the Company's largest loan relationship as non-performing. During the six months ended March 31, 2016, the Company recorded charge-offs totaling \$11,000, along with a recovery of \$44,000 during the three and six months ended March 31, 2016. The Bank's largest lending relationship, which consists of eight loans aggregating \$10.9 million, is classified as non-performing due to concerns with projected cash flows available to fund its future obligations. During the quarter, the Bank attempted to re-negotiate the payment priorities from the proceeds generated from the sales of individual units from the primary project. When the Bank and borrower did not achieved an acceptable agreement, the Bank initiated a demand for full payment. As of March 31, 2016, the complete relationship was analyzed for impairment using the standards required in Accounting Standards Codification Topic 310 (formerly FASB No. 114). The relationship was deemed to have sufficient collateral, thereby no impairment was recognized. The borrower's primary project, the development of 169 residential lots, has received all required permits and preparation of the necessary infrastructure has commenced. The Company believes that the allowance for loan losses at March 31, 2016 was sufficient to cover all inherent and known losses associated with the loan portfolio at such date.

The Company's methodology for assessing the adequacy of the allowance establishes both specific and general pooled allocations of the allowance. Loans are assigned ratings, either individually for larger credits or in homogeneous pools, based on an internally developed grading system. The resulting determinations are reviewed and approved by senior management.

At March 31, 2016, the Company's non-performing assets totaled \$15.2 million or 2.8% of total assets as compared to \$13.9 million or 3.0% of total assets at September 30, 2015, all of which was due to the placement on non-accrual of the entire loan relationship described above. Non-performing loans and assets at March 31, 2016 included five construction loans aggregating \$9.5 million, 16 one-to four-family residential loans aggregating \$2.7 million, one single-family residential investment property loan totaling \$1.4 million and three commercial real estate loans aggregating \$1.5 million. At March 31, 2016, the Company had ten loans aggregating \$7.9 million that were classified as troubled debt restructurings ("TDRs"). Three of such loans aggregating \$5.6 million as of March 31, 2016 were classified as non-performing as a result of not achieving a sufficiently long payment history, under the restructured terms, to justify returning the loans to performing (accrual) status. Two of these three loans totaling \$4.2 million (which are part of the Company's largest relationship discussed above) are 60-89 days past due resulting from the discontinuation of funding by the Company due to the re-negotiation of the project's cash flows. The remaining eight TDRs have performed in accordance with the terms of their revised agreements. As of March 31, 2016, the Company had reviewed \$19.0 million of loans for possible impairment of which \$14.0 million was deemed classified as substandard compared to \$16.7 million reviewed for possible impairment and \$12.4 million of which was classified substandard as of September 30, 2015. At March 31, 2016, "substandard" loans consisted of 20 loans. We did not have any assets classified as "doubtful" or "loss" at either March 31, 2016 or September 30, 2015.

The allowance for loan losses totaled \$3.0 million, or 0.9% of total loans and 18.9% of total non-performing loans at March 31, 2016 as compared to \$2.9 million, or 0.9% of total loans and 21.0% of total non-performing loans at September 30, 2015.

At March 31, 2016, the Company had \$2.8 million of loans delinquent 30-89 days as to interest and/or principal. Such amount consisted of 14 one-to-four family loans totaling \$2.6 million, two commercial real estate loans totaling \$272,000 and two consumer loans totaling \$109,000.

At March 31, 2016, we also had a total of five loans totaling \$2.7 million that had been designated "special mention". These loans consist of three loans extended to a single borrower and are secured by real estate. All of the loans were designated "special mention" due to concerns with regard to the borrower's cash flow situation. At September 30, 2015, we had a total of eight loans aggregating \$3.4 million designated as "special mention".

The following table shows the amounts of non-performing assets (defined as non-accruing loans, accruing loans 90 days or more past and real estate owned) as of December 31, 2015 and September 30, 2015. At neither date did the

Company have any accruing loans 90 days or more past due that were accruing.



	March 31, 2016	September 30, 2015		
	(Dollars in Thousands)			
Non-accruing loans:				
One-to-four family residential	\$ 4,145	\$ 3,547		
Commercial real estate	1,535	1,589		
Construction and land development	9,503	8,796		
Total non-accruing loans	15,184	13,932		
Real estate owned, net: (1)	-	869		
Total non-performing assets	\$ 15,184	\$ 14,801		
Total non-performing loans as a percentage of loans, net	4.71	%	4.46	%
Total non-performing loans as a percentage of total assets	2.82	%	3.04	%
Total non-performing assets as a percentage of total assets	2.82	%	3.04	%

(1) Real estate owned balances are shown net of related loss allowances and consist solely of real property.

**Non-interest income.** Non-interest income amounted to \$209,000 and \$483,000 for the three and six month periods ended March 31, 2016, compared to \$2.0 million and \$2.3 million, respectively, for the comparable periods in 2015. The primary variance between 2016 and 2015 was attributed to the \$1.8 million gain on the sale of our Center City branch office as well as the recognition of a \$138,000 gain on the sale of a loan originated through the Small Business Administration program. By comparison, during the three and six month periods ended March 31, 2016, the Company recorded increased service charges and other income.

**Non-interest expense.** For the three and six month periods ended March 31, 2016, non-interest expense decreased \$715,000 or 20.4% and \$745,000 or 11.6%, respectively, compared to the same periods in the prior year. The primary reasons for the decreases for the three and six month periods ended March 31, 2016 were decreases in salaries and employee benefits (primarily reduction in the expense of Equity benefits), professional services, office occupancy, advertising and other operating expenses. The reduction in operating expenses were a direct result of a comprehensive expense reduction plan announced at the beginning of the fiscal year.

**Income tax expense.** For the three month period ended March 31, 2015, the Company recorded a tax expense of \$307,000, compared to a \$91,000 tax benefit for the same period in 2015. For the six month period ended March 31, 2016, the Company recorded income tax expense of \$528,000 as compared to \$126,000 for the same period in 2015. The Company's tax obligation for both three and six month periods in fiscal 2015 was greatly reduced due its ability to utilize its prior period capital loss carryforwards to offset the entire amount of the gain it recorded relating to the sale of its Center City branch office.



## LIQUIDITY AND CAPITAL RESOURCES

The Company's liquidity, represented by cash and cash equivalents, is a product of its operating, investing and financing activities. Our primary sources of funds are deposits, scheduled principal and interest payments on loans, loan prepayments and the maturity of loans, mortgage-backed securities and other investments, and other funds provided from operations. While scheduled payments from the amortization of loans and mortgage-backed securities and maturing investment securities are relatively predictable sources of funds, deposit flows and loan and securities prepayments can be greatly influenced by market rates of interest, economic conditions and competition. We also maintain excess funds in short-term, interest-earning assets that provide additional liquidity. At March 31, 2016, our cash and cash equivalents amounted to \$7.3 million. In addition, our AFS investment securities amounted to an aggregate of \$143.2 million at such date.

We use our liquidity to fund existing and future loan commitments, to fund maturing certificates of deposit and demand deposit withdrawals, to invest in other interest-earning assets, and to meet operating expenses. At March 31, 2016, the Company had \$23.1 million in outstanding commitments to originate fixed and variable-rate loans, not including loans in process. The Company also had commitments under unused lines of credit of \$3.3 million and letters of credit outstanding of \$2.8 million at March 31, 2016. Certificates of deposit as of March 31, 2016 that are maturing in one year or less totaled \$131.4 million. Based upon historical experience, we anticipate that a significant portion of the maturing certificates of deposit will be redeposited with us.

In addition to cash flows from loan and securities payments and prepayments as well as from sales of available for sale securities, we have significant borrowing capacity available to fund liquidity needs should the need arise. Our borrowings consist solely of advances from the Federal Home Loan Bank of Pittsburgh ("FHLB"), of which we are a member. Under terms of the collateral agreement with the FHLB, we pledge residential mortgage loans as well as our stock in the FHLB as collateral for such advances. At March 31, 2016, we had \$37.1 million in outstanding FHLB advances and had the ability to obtain an additional \$157.7 million in FHLB advances. Additional borrowing capacity with the FHLB could be obtained with the pledging of certain investment securities. The Bank has also obtained approval to borrow from the Federal Reserve Bank discount window.

We anticipate that we will continue to have sufficient funds and alternative funding sources to meet our current commitments.

The following table summarizes the Company's and Bank's regulatory capital ratios as of March 31, 2016 and September 30, 2015 and compares them to current regulatory guidelines.

	Actual Ratio		Required for Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
March 31, 2016:						
Tier 1 capital (to average assets)						
The Company	20.76	%	N/A		N/A	
The Bank	18.28	%	4.0	%	5.0	%
Tier 1 common (to risk-weighted assets)						
The Company	42.36	%	N/A		N/A	
The Bank	37.38	%	5.1	%(a)	6.5	%
Tier 1 capital (to risk-weighted assets)						
The Company	42.07	%	N/A		N/A	
The Bank	37.09	%	6.6	%(a)	8.0	%
Total capital (to risk-weighted assets)						
The Company	43.25	%	N/A		N/A	
The Bank	38.27	%	8.6	%(a)	10.0	%
September 30, 2015:						