

MSB FINANCIAL CORP.
Form 10-Q
May 15, 2014
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the quarterly period ended

March 31, 2014

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the transition period
from

to

Commission File Number 001-33246

MSB FINANCIAL CORP.
(Exact name of registrant as specified in its charter)

UNITED STATES
(State or other jurisdiction of
incorporation or organization)

34-1981437
(I.R.S. Employer
Identification Number)

1902 Long Hill Road, Millington, New Jersey
(Address of principal executive offices)

07946-0417
(Zip Code)

Registrant's telephone
number, including area
code

(908) 647-4000

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

Edgar Filing: MSB FINANCIAL CORP. - Form 10-Q

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date:
May 08, 2014:

\$0.10 par value common stock 5,010,437 shares outstanding

MSB FINANCIAL CORP. AND SUBSIDIARIES

INDEX

	Page Number	
PART I - FINANCIAL INFORMATION		
Item 1:		
	Consolidated Financial Statements (Unaudited)	
	Consolidated Statements of Financial Condition at March 31, 2014 and June 30, 2013	2
	Consolidated Statements of Comprehensive Income (Loss) for the Three and Nine Months Ended March 31, 2014 and 2013	3
	Consolidated Statements of Cash Flows for the Nine Months Ended March 31, 2014 and 2013	5
	Notes to Consolidated Financial Statements (Unaudited)	6
Item 2:	Management's Discussion and Analysis of Financial Condition and Results of Operations	33
Item 3:	Quantitative and Qualitative Disclosures About Market Risk	40
Item 4:	Controls and Procedures	40
PART II - OTHER INFORMATION		
Item 1:	Legal Proceedings	40
Item 1A:	Risk Factors	40
Item 2:	Unregistered Sales of Equity Securities and Use of Proceeds	40
Item 3:	Defaults Upon Senior Securities	41
Item 4:	Mine Safety Disclosures	41
Item 5:	Other Information	41
Item 6:	Exhibits	41
SIGNATURES		42

CERTIFICATIONS

ITEM 1 – CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

MSB FINANCIAL CORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(Unaudited)

	March 31, 2014	June 30, 2013
	(Dollars in thousands, except share and per share amounts)	
Cash and due from banks	\$ 3,455	\$ 19,941
Interest-earning demand deposits with banks	1,276	4,814
Cash and Cash Equivalents	4,731	24,755
Securities held to maturity (fair value of \$82,696 and \$78,367, respectively)	85,247	80,912
Loans receivable, net of allowance for loan losses of \$3,727 and \$4,270, respectively	231,063	223,256
Other real estate owned	1,181	530
Premises and equipment	8,603	8,882
Federal Home Loan Bank of New York stock, at cost	1,827	1,827
Bank owned life insurance	7,081	6,919
Accrued interest receivable	1,187	1,229
Other assets	4,446	4,282
Total Assets	\$ 345,366	\$ 352,592
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Non-interest bearing	\$ 24,673	\$ 18,559
Interest bearing	247,156	261,908
Total Deposits	271,829	280,467
Advances from Federal Home Loan Bank of New York	30,000	30,000
Advance payments by borrowers for taxes and insurance	485	132
Other liabilities	2,567	2,480
Total Liabilities	304,881	313,079
Commitments and Contingencies		
Stockholders' Equity		
Common stock, par value \$0.10; 10,000,000 shares authorized; 5,620,625 issued; 5,010,437 and 5,010,437 shares outstanding, respectively	562	562
Paid-in capital	24,580	24,473

Edgar Filing: MSB FINANCIAL CORP. - Form 10-Q

Retained earnings	21,424		20,682
Unallocated common stock held by ESOP (80,094 and 92,740 shares, respectively)	(801)		(927)
Treasury stock, at cost, 610,188 and 610,188 shares, respectively	(5,244)		(5,244)
Accumulated other comprehensive loss	(36)		(33)
Total Stockholders' Equity	40,485		39,513
Total Liabilities and Stockholders' Equity	\$	345,366	\$ 352,592

See notes to unaudited consolidated financial statements.

MSB FINANCIAL CORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2014	2013	2014	2013
	(In thousands, except share and per share amounts)			
Interest Income:				
Loans receivable, including fees	\$2,549	\$2,594	\$7,536	\$7,962
Securities held to maturity	466	371	1,404	1,096
Other	23	20	68	69
Total Interest Income	3,038	2,985	9,008	9,127
Interest Expense				
Deposits	394	473	1,262	1,545
Borrowings	191	175	572	519
Total Interest Expense	585	648	1,834	2,064
Net Interest Income	2,453	2,337	7,174	7,063
Provision for Loan Losses	150	175	450	3,894
Net Interest Income after Provision for Loan Losses	2,303	2,162	6,724	3,169
Non-Interest Income				
Fees and service charges	110	76	310	237
Income from bank owned life insurance	53	54	162	162
Gain on trading securities	-	-	-	1
Other	21	29	75	80
Total Non-Interest Income	184	159	547	480
Non-Interest Expenses				
Salaries and employee benefits	947	980	2,832	2,901
Directors compensation	109	121	336	377
Occupancy and equipment	356	364	1,018	1,069
Service bureau fees	161	139	469	405
Advertising	39	47	110	119
FDIC assessment	91	73	339	219
Professional services	131	138	404	423
Other	283	326	633	801
Total Non-Interest Expenses	2,117	2,188	6,141	6,314
Income (Loss) before Income Taxes	370	133	1,130	(2,665)
Income Tax Expense (Benefit)	127	44	388	(1,087)
Net Income (Loss)	\$243	\$89	\$742	\$(1,578)
Weighted average number of common stock shares				
outstanding - basic and diluted	4,928	4,916	4,924	4,939
Earnings (Loss) per common share - basic and diluted	\$.05	\$.02	\$.15	\$(.32)

See notes to unaudited consolidated financial statements.

3

MSB FINANCIAL CORP AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
 (Unaudited)

Consolidated Statements of Comprehensive Income (Loss) – (Continued)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2014	2013	2014	2013
	(In thousands, except per share amounts)			
Other comprehensive (loss) income, net of tax				
Defined benefit pension plans:				
Reclassification adjustment for prior service cost included in net income, net of tax of \$-0- and \$2; and \$1 and \$3, for the three and nine months, respectively.	\$ 1	\$ 2	\$ 2	\$ 5
Reclassification adjustment for net actuarial (gain) loss included in net income, net of tax of (\$1) and \$3; and (\$3) and \$7, for the three and nine months, respectively.	(2)	2	(5)	7
Other comprehensive (loss) income	(1)	4	(3)	12
Comprehensive income (loss)	\$ 242	\$ 93	\$ 739	\$ (1,566)

See notes to unaudited consolidated financial statements.

MSB Financial Corp and Subsidiaries

Consolidated Statements of Cash Flows
(Unaudited)

	Nine Months Ended March 31,	
	2014	2013
	(In thousands)	
Cash Flows from Operating Activities:		
Net Income (Loss)	\$ 742	\$ (1,578)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Net accretion of securities discounts and deferred loan fees and costs	(7)	(247)
Depreciation and amortization of premises and equipment	376	428
Stock based compensation and allocation of ESOP stock	233	339
Provision for loan losses	450	3,894
(Gain) loss on sale of other real estate owned	(123)	11
Income from bank owned life insurance	(162)	(162)
Unrealized gain on trading securities	-	(1)
Decrease in accrued interest receivable	42	197
(Increase) in other assets	(162)	(819)
Increase (decrease) in other liabilities	82	(29)
Net Cash Provided by Operating Activities	1,471	2,033
Cash Flows from Investing Activities:		
Activity in held to maturity securities:		
Purchases	(8,380)	(64,780)
Maturities, calls and principal repayments	3,969	35,629
Net (increase) decrease in loans receivable	(9,793)	4,225
Purchase of premises and equipment	(97)	(45)
Purchase of bank owned life insurance	-	(588)
Purchase Federal Home Loan bank of New York stock	(202)	(450)
Redemption of Federal Home Loan bank New York stock	202	-
Proceeds from sale of other real estate owned	1,178	879
Capitalized improvements of other real estate owned	(87)	-
Proceeds from sale of trading securities	-	53
Net Cash Used in Investing Activities	(13,210)	(25,077)
Cash Flows from Financing Activities:		
Net decrease in deposits	(8,638)	(1,922)
Advances from Federal Home Loan bank	3,500	10,000
Repayment of advances from Federal Home Loan bank	(3,500)	-
Increase in advance payments by borrowers for taxes and insurance	353	28
Purchase of treasury stock	-	(472)
Net Cash (Used in) Provided by Financing Activities	(8,285)	7,634
Net Decrease in Cash and Cash Equivalents	(20,024)	(15,410)
Cash and Cash Equivalents – Beginning	24,755	33,757

Edgar Filing: MSB FINANCIAL CORP. - Form 10-Q

Cash and Cash Equivalents – Ending	\$ 4,731	\$ 18,347
Interest paid	\$ 1,838	\$ 2,064
Income taxes paid	\$ 1	\$ 195
Loan receivable transferred to other real estate owned	\$ 1,618	\$ 2,511

See notes to unaudited consolidated financial statements.

MSB FINANCIAL CORP. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Note 1 – Organization and Business

MSB Financial Corp. (the “Company”) is a federally-chartered corporation organized in 2004 for the purpose of acquiring all of the capital stock that Millington Savings Bank (the “Bank”) issued in its mutual holding company reorganization. The Company’s principal business is the ownership and operation of the Savings Bank.

MSB Financial, MHC (the “MHC”) is a federally-chartered mutual holding company that was formed in 2004 in connection with the mutual holding company reorganization of the Bank. The MHC has not engaged in any significant business other than its ownership interest in the Company since its formation. So long as the MHC is in existence, it will at all times own a majority of the outstanding stock of the Company. At March 31, 2013, the MHC owned 61.7% of the Company’s outstanding common shares.

The Bank is a New Jersey chartered stock savings bank and its deposits are insured by the Federal Deposit Insurance Corporation. The primary business of the Bank is attracting retail deposits from the general public and using those deposits together with funds generated from operations, principal repayments on securities and loans and borrowed funds, for its lending and investing activities. The Bank’s loan portfolio primarily consists of one-to-four family residential loans, commercial loans, and consumer loans. It also invests in U.S. government obligations and mortgage-backed securities. The Bank is regulated by the New Jersey Department of Banking and Insurance and the Federal Deposit Insurance Corporation. The Board of Governors of the Federal Reserve System (the “Federal Reserve”) regulates the MHC and the Company as savings and loan holding companies.

The primary business of Millington Savings Service Corp (the “Service Corp”) was the ownership and operation of a single commercial rental property. This property was sold during the year ended June 30, 2007. Currently the Service Corp is inactive.

Note 2 – Basis of Consolidated Financial Statement Presentation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, the Bank, and the Bank’s wholly owned subsidiary the Service Corp. All significant intercompany accounts and transactions have been eliminated in consolidation. These consolidated financial statements were prepared in accordance with instructions for Form 10-Q and Regulation S-X, and therefore, do not include all information or notes necessary for a complete presentation of financial condition, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States of America (“GAAP”).

In the opinion of management, all adjustments, consisting of only normal recurring adjustments or accruals, which are necessary for a fair presentation of the consolidated financial statements have been made at March 31, 2014 and June 30, 2013 and for the three and nine months ended March 31, 2014 and 2013. The results of operations for the three and nine months ended March 31, 2014 are not necessarily indicative of the results which may be expected for the entire fiscal year or other interim periods.

The data in the consolidated statement of financial condition at June 30, 2013 was derived from the Company's audited consolidated financial statements as of and for the year then ended. That data, along with the interim financial information presented in the consolidated statements of financial condition, comprehensive income (loss), and cash flows should be read in conjunction with the audited consolidated financial statements as of and for the year ended June 30, 2013, including the notes thereto included in the Company's Annual Report on Form 10-K.

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the dates of the consolidated statements of financial condition and revenues and expenses for the periods then ended. Actual results could differ significantly from those estimates.

A material estimate that is particularly susceptible to significant change relates to the determination of the allowance for loan losses. Management believes that the allowance for loan losses is adequate. While management uses all available information to recognize losses on loans, future additions to the allowance for loan losses may be necessary based on changes in economic conditions in the Company's market area. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses. Such agencies may require the Company to recognize additions to the allowance for loan losses based on their judgments about information available to them at the time of their examinations.

Note 3 – Subsequent Events

In accordance with Financial Accounting Standards Board (the "FASB") Accounting Standards Codification (the "ASC") Topic 855, Subsequent Events, management has evaluated potential subsequent events through the date the consolidated financial statements were issued.

Note 4 – Earnings (Loss) Per Share

Basic earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding during the period, exclusive of the unallocated shares held by the Employee Stock Ownership Plan ("ESOP") and unvested shares of restricted stock. Diluted earnings (loss) per share reflects the potential dilution that could occur if securities or other contracts to issue common stock, such as outstanding stock options, were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company. Diluted earnings (loss) per share is calculated by adjusting the weighted average number of shares of common stock outstanding to include the effect of contracts or securities exercisable (such as stock options) or which could be converted into common stock, if dilutive, using the treasury stock method. Diluted earnings (loss) per share did not differ from basic earnings per share for the three and nine months ended March 31, 2014 and 2013, as the 275,410 weighted average number of outstanding stock options were all anti-dilutive.

Note 5 – Stock Based Compensation

On March 10, 2008 the Company's stockholders approved the 2008 Stock Compensation and Incentive Plan (the "2008 Plan"). This plan permits the granting of up to 275,410 options to purchase Company common stock. Pursuant to the 2008 Plan, on May 9, 2008, the Board of Directors granted 275,410 options having an exercise price of \$10.75 per share, the fair market value of the Company's common stock at the grant date. The grant date fair value of the options was estimated to be \$2.99 per share based on the Black-Scholes option pricing model. Options are exercisable for 10 years from date of grant. As of June 30, 2013, all stock based compensation expense related to these awards had been

recognized. As such, no compensation expense related to these awards was recognized during the three and nine months ended March 31, 2014. The Company recognized \$41,000 and \$123,000 in stock based compensation expense with a tax benefit of \$16,000 and \$49,000, related to these awards for the three and nine month periods ended March 31, 2013, respectively.

On November 9, 2009 the Company's 2008 Plan was amended. The primary purpose of the amendment was to increase the number of shares of Company common stock authorized for issuance under the 2008 Plan from 275,410 to 385,574; with such additional shares to be available for awards in the form of restricted stock awards. The Company repurchased 110,164 shares of the Company common stock for an aggregate purchase price of \$932,000 and on December 14, 2009 granted the shares to certain employees and directors. The restricted stock awards vest over a five year period and are expensed over that time based on the fair value of the Company's common stock at the date of grant. During each of the three and nine month periods ended March 31, 2014 and 2013, the Company recognized stock based compensation expense related to these awards of \$45,000 and \$135,000 with a tax benefit of \$18,000 and \$54,000, respectively. As of March 31, 2014, \$126,000 in stock based compensation expense related to these awards remains to be recognized.

Note 6 - Fair Value Measurements

The Company uses fair value measurements to record fair value adjustments to certain assets and to determined fair value disclosures.

FASB ASC Topic 820, Fair Market Value Disclosures ("ASC 820"), defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact and (iv) willing to transact.

ASC 820 requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement cost). Valuation techniques should be consistently applied. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, ASC 820 establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

- Level 1 Inputs – Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

- Level 2 Inputs – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatilities, prepayment speeds, credit risks, etc.) or inputs that are derived principally from or corroborated by market data by correlation or other means.
- Level 3 Inputs – Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity’s own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. An asset’s or liability’s level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time. The Company’s valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future values. While management believes the Company’s valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Assets Measured at Fair Value on a Recurring Basis

The Bank did not have any financial assets measured at fair value on a recurring basis as of March 31, 2014 and June 30, 2013.

Assets Measured at Fair Value on a Non-Recurring Basis

Certain financial and non-financial 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 following table summarizes those assets measured at fair value on a non-recurring basis as of March 31, 2014 and June 30, 2013:

	March 31, 2014			Total Fair Value
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	
	(In thousands)			
Impaired loans	\$ —	\$ —	\$ 3,287	\$ 3,287
	June 30, 2013			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
	(In thousands)			
Impaired loans	\$ —	\$ —	\$ 15,066	\$ 15,066

Edgar Filing: MSB FINANCIAL CORP. - Form 10-Q

For Level 3 assets measured at fair value on non-recurring basis as of March 31, 2014 and June 30, 2013, the significant unobservable inputs used in fair value measurements were as follows:

	Fair Value Estimate	Valuation Techniques	As of March 31, 2014		Range (Weighted Average)
			(Dollars in thousands)	Unobservable Input	
Impaired loans	\$ 3,287	Appraisal of collateral		Appraisal adjustments Liquidation expense	0% to - 25.0% (18.9%) 4.5% to - 17.2% (7.1%)
As of June 30, 2013					
	Fair Value Estimate	Valuation Techniques	(Dollars in thousands)	Unobservable Input	Range (Weighted Average)
Impaired loans	\$ 15,066	Appraisal of collateral		Appraisal adjustments Liquidation expense	0% to - 37.9% (3.5%) 0.11% to - 27.4% (7.9%)

An impaired loan is measured for impairment at the time the loan is identified as impaired. Loans are considered impaired when based on current information and events it is probable that payments of interest and principal will not be made in accordance with the contractual terms of the loan agreement. The Company's impaired loans are generally collateral dependent and, as such, are carried at the lower of cost or estimated fair value less estimated selling costs. Fair values are estimated through current appraisals and adjusted as necessary to reflect current market conditions and as such are classified as Level 3.

Other real estate owned is carried at the lower of cost or fair value less estimated selling costs. The fair value of other real estate owned is determined based upon independent third-party appraisals of the properties. These assets are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements. As of March 31, 2014 and June 30, 2013 there was no further impairment of the other real estate owned balance below the cost basis established at the time the other real estate owned was originally recognized. Accordingly, the table above does not include other real estate owned.

Disclosure about Fair Value of Financial Instruments

Fair value of a financial instrument is defined above. Significant estimates were used for the purposes of disclosing fair values. Estimated fair values have been determined using the best available data and estimation methodology suitable for each category of financial instruments. However, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts the Company could have realized in a sales transaction on the dates indicated. The estimated fair value amounts have been measured as of their respective reporting dates, and have not been reevaluated or updated for purposes of these consolidated financial statements subsequent to those respective dates. As such, the estimated fair values

of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported.

The following information should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only provided for a limited portion of the Company's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Company's disclosures and those of other companies may not be meaningful.

The following presents the carrying amount and the fair value as of March 31, 2014 and June 30, 2013, and placement in the fair value hierarchy, of the Company's financial instruments which are carried on the consolidated statement of financial condition at cost and are not recorded at fair value on a recurring basis. This table excludes financial instruments for which the carrying amount approximates fair value, which includes cash and cash equivalents, Federal Home Loan Bank stock, accrued interest receivable, interest and non-interest bearing demand, savings and club deposits, and accrued interest payable.

	Carrying Amount (In thousands)	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
As of March 31, 2014					
Financial assets:					
Securities held to maturity	\$85,247	\$82,696	\$-	\$82,696	\$-
Loans receivable (1)	231,063	230,372	-	-	230,372
Financial liabilities:					
Certificate of deposits	98,106	99,755	-	99,755	-
Advances from Federal Home Loan Bank of New York	30,000	31,113	-	31,113	-
As of June 30, 2013					
Financial assets:					
Securities held to maturity	80,912	78,367	-	78,367	-
Loans receivable (1)	223,256	227,556	-	-	227,556
Financial liabilities:					
Certificate of deposits	109,948	111,797	-	111,797	-
Advances from Federal Home Loan Bank of New York	30,000	32,208	-	32,208	-

(1) Includes impaired loans measured at fair value on a non-recurring basis as discussed above.

Methods and assumptions used to estimate fair values of financial instruments not previously disclosed are as follows:

Cash and Cash Equivalents

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

Securities Held to Maturity

The fair value for securities held to maturity is based on quoted market prices, where available. If quoted market prices are not available, fair value is estimated using quoted market prices for similar securities.

Loans Receivable

The fair value of loans is based upon a multitude of sources, including assumed current market rates by category and the Company's current offering rates. Both fixed and variable rate loan fair values are derived at using a discounted cash flow methodology. For variable rate loans, repricing term, including next repricing date, repricing frequency and repricing rate are factored into the discounted cash flow formula.

Federal Home Loan Bank of New York Stock

The carrying amount of Federal Home Loan Bank of New York stock approximates fair value since the Company is generally able to redeem this stock at par.

Accrued Interest Receivable and Payable

The carrying amounts of accrued interest receivable and payable approximate fair value due to the short term nature of these instruments.

Deposits

Fair values for demand and savings and club accounts are, by definition, equal to the amount payable on demand at the reporting date. Fair values of certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on similar instruments with similar maturities.

Advances from Federal Home Loan Bank of New York

Fair values of advances are estimated using discounted cash flow analyses, based on rates currently available to the Company for advances from the Federal Home Loan Bank of New York with similar terms and remaining maturities.

Off-Balance Sheet Financial Instruments

Fair values of commitments to extend credit are estimated using the fees currently charged to enter into similar agreements, taking into account market interest rates, the remaining terms, and the present credit worthiness of the counterparties. As of March 31, 2014 and June 30, 2013, the fair value of the commitments to extend credit was not considered to be material.

Note 7 - Loans Receivable and Allowance for Credit Losses

The composition of loans receivable at March 31, 2014 and June 30, 2013 was as follows:

	March 31, 2014	June 30, 2013
	(In thousands)	
Residential mortgage:		
One-to-four family	\$ 143,355	\$ 136,704
Home equity	38,797	40,682
	182,152	177,386
Commercial real estate	32,441	32,171
Construction	11,559	8,895
Commercial and industrial	10,523	9,267
	54,523	50,333
Consumer:		
Deposit accounts	550	611
Automobile	19	111
Personal	35	32
Overdraft protection	189	175
	793	929
	237,468	228,648
Loans in process	(2,297)	(745)
Deferred loan fees	(381)	(377)
	\$ 234,790	\$ 227,526

Loans are stated at their outstanding unpaid principal balances, net of an allowance for loan losses and any deferred fees or costs. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct loan origination costs, are deferred and recognized as an adjustment of the yield (interest income) of the related loans. The Company is generally amortizing these amounts over the contractual life of the loan.

For all classes of loans receivable, the accrual of interest is discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectability of principal or interest, even though the loan is currently performing. Certain loans may remain on accrual status if they are in the process of collection and are either guaranteed or well secured. When a loan is placed on nonaccrual status, unpaid interest credited to income in the current year is reversed and unpaid interest accrued in prior years is charged against the allowance for loan losses. Interest received on nonaccrual loans, including impaired loans, generally is either applied against principal or reported as interest income, according to management's judgment as to the collectability of principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time (generally six months) and the ultimate collectability of the total contractual principal and interest is no longer in doubt. The past due status of all classes of loans receivable is determined based on contractual due dates for loan payments.

The allowance for credit losses consists of the allowance for loan losses and the reserve for unfunded lending commitments. The allowance for loan losses represents management's estimate of losses inherent in the loan portfolio as of the statement of financial condition date and is recorded as a reduction to loans. The reserve for unfunded lending commitments represents management's estimate of losses inherent in its unfunded loan commitments and is recorded in other liabilities, when required, on the consolidated statement of financial condition. The allowance for credit losses is increased by the provision for loan losses, and decreased by charge-offs, net of recoveries. All, or part, of the principal balance of loans receivable that are deemed uncollectible are charged against the allowance for loan losses when management determines that the repayment of that amount is highly unlikely. Any subsequent recoveries are credited to the allowance for loan losses. Non-residential consumer loans are generally charged off if they are more than 120 days past due on a contractual basis, earlier in the event of bankruptcy, or if there is an amount deemed uncollectible.

The allowance for loan losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. Management performs a quarterly evaluation of the adequacy of the allowance. The allowance is based on the Company's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revision as more information becomes available.

In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses. Such agencies may require the Bank to recognize additions to the allowance based on their judgments about information available to them at the time of their examinations.

The allowance calculation methodology includes segregation of the total loan portfolio into segments. The Company's loans receivable portfolio is comprised of the following segments: residential mortgage; commercial real estate; construction; commercial and industrial; and consumer. Some segments of the Company's loan receivable portfolio are further disaggregated into classes which allows management to more accurately monitor risk and performance.

The residential mortgage loan segment is disaggregated into two classes: one-to-four family loans, which are primarily first liens, and home equity loans, which consist of first and second liens. The commercial real estate loan segment includes owner and non-owner occupied loans which have medium risk based on historical experience with these type loans. The construction loan segment is further disaggregated into two classes: one-to-four family owner occupied, which includes land loans, whereby the owner is known and there is less risk, and other, whereby the property is generally under development and tends to have more risk than the one-to-four family owner occupied loans. The commercial and industrial loan segment consists of loans made for the purpose of financing the activities of commercial customers. The majority of commercial and industrial loans are secured by real estate and thus carry a lower risk than traditional commercial and industrial loans. The consumer loan segment consists primarily of installment loans and overdraft lines of credit connected with customer deposit accounts.

The allowance for loan losses consists of specific, general and unallocated components. The specific component relates to loans that are classified as impaired. For loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers pools of loans by loan class. These pools of loans are evaluated for loss exposure based upon

historical loss rates for each of these classes of loans, adjusted for qualitative factors. These qualitative risk factors include:

1. Lending policies and procedures, including underwriting standards and collection, charge-off, and recovery practices.
2. National, regional, and local economic and business conditions as well as the condition of various market segments, including the value of underlying collateral for collateral dependent loans.
3. Nature and volume of the portfolio and terms of loans.
4. Experience, ability, and depth of lending management and staff.
5. Volume and severity of past due, classified and nonaccrual loans as well as and other loan modifications.
6. Quality of the Company's loan review system, and the degree of oversight by the Company's Board of Directors.
7. Existence and effect of any concentrations of credit and changes in the level of such concentrations.
8. Effect of external factors, such as competition and legal and regulatory requirements.

Each factor is assigned a value to reflect improving, stable or declining conditions based on management's best judgment using relevant information available at the time of the evaluation.

An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

Impaired Loans

Management evaluates individual loans in all of the loan segments (including loans in residential mortgage and consumer segments) for possible impairment if the recorded investment in the loan is greater than \$200,000 and if the loan is either in nonaccrual status or is risk rated Substandard or worse or has been modified in a troubled debt restructuring. A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed.

Loans the terms of which are modified are classified as a troubled debt restructuring ("TDR") if the Company grants such borrowers concessions and it is deemed that those borrowers are experiencing financial difficulty. Concessions granted under a TDR generally involve a reduction in interest rate, a below market rate given the associated credit risk, or an extension of a loan's stated maturity date. Non-accrual TDRs are restored to accrual status if principal and interest payments, under the modified terms, are current for six consecutive months after modification. Loans classified as TDRs are designated as impaired until they are ultimately repaid in full or foreclosed and sold. The nature and extent of impairment of TDRs, including those which experienced a subsequent default, are considered in the determination of an appropriate level of allowance for loan losses.

Once the determination has been made that a loan is impaired, impairment is measured by comparing the recorded investment in the loan to one of the following: (a) the present value of expected cash flows (discounted at the loan's effective interest rate), (b) the loan's observable market price or (c)

the fair value of collateral adjusted for expected selling costs. The method is selected on a loan-by-loan basis with management primarily utilizing the fair value of collateral method.

The estimated fair values of the real estate collateral are determined primarily through third-party appraisals. When a real estate secured loan becomes impaired, a decision is made regarding whether an updated certified appraisal of the real estate is necessary. This decision is based on various considerations, including the age of the most recent appraisal, the loan-to-value ratio based on the original appraisal and the condition of the property. Appraised values are discounted to arrive at the estimated selling price of the collateral, which is considered to be the estimated fair value. The discounts also include estimated costs to sell the property.

The estimated fair values of the non-real estate collateral, such as accounts receivable, inventory and equipment, are determined based on the borrower's financial statements, inventory reports, accounts receivable agings or equipment appraisals or invoices. Indications of value from these sources are generally discounted based on the age of the financial information or the quality of the assets.

The evaluation of the need and amount of the allowance for impaired loans and whether a loan can be removed from impairment status is made on a quarterly basis. The Company's policy for recognizing interest income on impaired loans does not differ from its overall policy for interest recognition.

The following tables present impaired loans by class, segregated by those for which a related allowance was required and those for which a related allowance was not necessary as of March 31, 2014 and June 30, 2013. The average recorded investment and interest income recognized is presented for the three and nine month periods ended March 31, 2014 and 2013.

	March 31, 2014			June 30, 2013		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
(In thousands)						
With no related allowance recorded:						
Residential mortgage						
One-to-four family	\$15,780	\$16,532	\$-	\$13,817	\$14,747	\$-
Home equity	1,640	1,599	-	3,376	3,406	-
Commercial real estate	1,137	1,193	-	1,796	1,867	-
Construction						
One-to-four family						
occupied	1,707	1,936	-	-	-	-
Other	750	750	-	1,601	1,510	-
Commercial and industrial	504	688	-	750	1,103	-
	21,518	22,698	-	21,340	22,633	-
With an allowance recorded:						
Residential mortgage						
One-to-four family	269	392	17	1,469	1,720	58
Home equity	134	249	8	891	1,214	233
Commercial real estate	557	957	14	1,444	1,804	88
Construction						
One-to-four family						
occupied	-	-	-	1,707	1,936	23
Other	137	138	32	-	-	-
Commercial and industrial	329	502	78	150	100	31
	1,426	2,238	149	5,661	6,774	433
Total:						
Residential mortgage						
One-to-four family	16,049	16,924	17	15,286	16,467	58
Home equity	1,774	1,848	8	4,267	4,620	233
Commercial real estate	1,694	2,150	14	3,240	3,671	88
Construction						
One-to-four family						
occupied	1,707	1,936	-	1,707	1,936	23
Other	887	888	32	1,601	1,510	-
Commercial and industrial	833	1,190	78	900	1,203	31
	\$22,944	\$24,936	\$149	\$27,001	\$29,407	\$433

(1) As of March 31, 2014 and June 30, 2013, impaired loans listed above included \$16.6 million and \$18.1 million, respectively, of loans previously modified in TDRs and as such are considered impaired under GAAP. As of

March 31, 2014 and June 30, 2013, \$13.6 million and \$11.8 million, respectively, of these loans have been performing in accordance with their modified terms for an extended period of time and as such remain in accrual status.

	Three Months Ended March 31, 2014		Three Months Ended March 31, 2013	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(In thousands)			
With no related allowance recorded:				
Residential				
One-to-four family	\$ 15,376	\$ 163	\$ 12,350	\$ 139
Home equity	1,640	6	3,558	30
Commercial real estate	1,096	9	1,202	20
Construction				
One-to-four family occupied	1,707	24	-	-
Other	750	8	494	9
Commercial and industrial	659	7	648	7
	21,228	217	18,252	205
With an allowance recorded:				
Residential mortgage				
One-to-four family	269	-	2,853	13
Home equity	134	-	904	-
Commercial real estate	559	10	1,902	8
Construction				
One-to-four family occupied	-	-	1,705	21
Other	137	1	644	-
Commercial and industrial	177	1	378	1
Consumer	2	-	-	-
	1,278	12	8,386	43
Total:				
Residential mortgage				
One-to-four family	15,645	163	15,203	152
Home equity	1,774	6	4,462	30
Commercial real estate	1,655	19	3,104	28
Construction				
One-to-four family occupied	1,707	24	1,705	21
Other	887	9	1,138	9
Commercial and industrial	836	8	1,026	8
Consumer	2	-	-	-
	\$ 22,506	\$ 229	\$ 26,638	\$ 248

	Nine Months Ended March 31, 2014		Nine Months Ended March 31, 2013	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
	(In thousands)			
With no related allowance recorded:				
Residential				
One-to-four family	\$ 14,733	\$ 476	\$ 11,519	\$ 307
Home equity	2,089	34	3,404	99
Commercial real estate	1,261	29	1,729	48
Construction				
One-to-four family occupied	1,280	72	484	-
Other	963	30	438	9
Commercial and industrial	762	25	483	17
	21,088	666	18,057	480
With an allowance recorded:				
Residential mortgage				
One-to-four family	790	-	3,657	48
Home equity	368	-	699	7
Commercial real estate	940	28	1,528	14
Construction				
One-to-four family occupied	426	-	1,111	62
Other	103	2	807	-
Commercial and industrial	92	2	524	3
	2,719	32	8,326	134
Total:				
Residential mortgage				
One-to-four family	15,523	476	15,176	355
Home equity	2,457	34	4,103	106
Commercial real estate	2,201	57	3,257	62
Construction				
One-to-four family occupied	1,706	72	1,595	62
Other	1,066	32	1,245	9
Commercial and industrial	854	27	1,007	20
	\$ 23,807	\$ 698	\$ 26,383	\$ 614

Credit Quality Indicators

Management uses a ten point internal risk rating system to monitor the credit quality of the loans in the Company's commercial real estate, construction and commercial and industrial loan segments. The borrower's overall financial condition, repayment sources, guarantors and value of collateral, if appropriate, are evaluated annually or when credit deficiencies, such as delinquent loan payments, arise. The criticized rating categories utilized by management generally follow bank regulatory definitions. The first six risk rating categories are considered not criticized, and are aggregated as "Pass" rated. The "Special Mention" category includes assets that are currently protected, but are potentially weak, resulting in increased credit risk and deserving management's close attention. If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. Loans classified "Substandard" have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt and have a distinct possibility that some loss will be sustained if the weaknesses are not corrected. These include loans that are inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified "Doubtful" have all the weaknesses inherent in loans classified "Substandard" with the added characteristic that collection or liquidation in full, on the basis of current conditions and facts, is highly improbable. Loans classified as a "Loss" are considered uncollectible and subsequently charged off.

The following tables present the classes of the loans receivable portfolio summarized by the aggregate “Pass” and the criticized categories of “Special Mention”, “Substandard”, “Doubtful” and “Loss” within the internal risk rating system as of March 31, 2014 and June 30, 2013:

As of March 31, 2014	Pass	Special Mention	Substandard	Doubtful	Loss	Total
	(In thousands)					
Commercial real estate	\$ 28,982	\$ 2,044	\$ 1,338	\$ -	\$ 2	\$ 32,366
Construction						
One-to-four family owner occupied	427	-	1,844	-	-	2,271
Other	6,474	447	-	-	32	6,953
Commercial and Industrial	9,435	107	886	68	10	10,506
Total	\$ 45,318	\$ 2,598	\$ 4,068	\$ 68	\$ 44	\$ 52,096

As of June 30, 2013	Pass	Special Mention	Substandard	Doubtful	Loss	Total
	(In thousands)					
Commercial real estate	\$ 27,025	\$ 2,491	\$ 2,515	\$ -	\$ 72	\$ 32,103
Construction						
One-to-four family owner occupied	2,845	-	1,693	-	14	4,552
Other	1,980	988	-	601	-	3,569
Commercial and Industrial	8,188	113	923	-	22	9,246
Total	\$ 40,038	\$ 3,592	\$ 5,131	\$ 601	\$ 108	\$ 49,470

Management further monitors the performance and credit quality of the loan receivable portfolio by analyzing the age of the portfolio as determined by the length of time a recorded payment is past due. The following tables represent the classes of the loans receivable portfolio summarized by aging categories of performing loans and non-accrual loans as of March 31, 2014 and June 30, 2013:

As of March 31, 2014	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due (In thousands)	Current	Total Loans Receivables	Nonaccrual Loans	Loans Receivable > 90 Days and Accruing
Residential Mortgage								
One-to-four family	\$ 2,859	\$ 860	\$ 2,569	\$ 6,288	\$ 136,893	\$ 143,181	\$ 4,317	\$ 868
Home equity	37	553	1,097	1,687	37,033	38,720	1,418	177
Commercial real estate	-	-	966	966	31,400	32,366	1,103	427
Construction								
One-to-four family owner occupied	-	-	-	-	2,271	2,271	-	-
Other	-	-	-	-	6,953	6,953	-	-
Commercial and industrial	-	-	-	-	10,506	10,506	820	-
Consumer	8	-	388	396	397	793	-	-
Total	\$ 2,904	\$ 1,413	\$ 5,020	\$ 9,337	\$ 225,453	\$ 234,790	\$ 7,658	\$ 1,472

As of June 30, 2013	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due (In thousands)	Current	Total Loans Receivables	Nonaccrual Loans	Loans Receivable > 90 Days and Accruing
Residential Mortgage								
One-to-four family	\$ 3,910	\$ 1,525	\$ 5,822	\$ 11,257	\$ 125,189	\$ 136,446	\$ 7,955	\$ 501
Home equity	412	127	1,317	1,856	38,825	40,681	1,502	146
Commercial real estate	782	-	1,805	2,587	29,516	32,103	2,587	-
Construction								
One-to-four family owner occupied	-	-	-	-	4,552	4,552	-	-
Other	1,000	-	601	1,601	1,968	3,569	601	-
Commercial and industrial	472	49	280	801	8,445	9,246	-	-
Consumer	5	-	-	5	924	929	802	-
Total	\$ 6,581	\$ 1,701	\$ 9,825	\$ 18,107	\$ 209,419	\$ 227,526	\$ 13,447	\$ 647

Allowance for Loan Losses

The following tables summarize the allowance for loan losses, by the portfolio segment segregated into the amounts required for loans individually evaluated for impairment and the amounts required for loans collectively evaluated for impairment as of March 31, 2014 and June 30, 2013. The activity in the allowance for loan losses is presented for the three and nine month periods ended March 31, 2014 and 2013 (in thousands):

	As of March 31, 2014						Total
	Residential Mortgage	Commercial Real Estate	Construction	Commercial and Industrial	Consumer	Unallocated	
Allowance for loan losses:							
Ending balance	\$ 2,317	\$ 714	\$ 312	\$ 373	\$ 10	\$ 1	\$ 3,727
Ending balance: individually evaluated for impairment	\$ 25	\$ 14	\$ 32	\$ 78	\$ -	\$ -	\$ 149
Ending balance: collectively evaluated for impairment	\$ 2,292	\$ 700	\$ 280	\$ 295	\$ 10	\$ 1	\$ 3,578
Loans receivables:							
Ending balance	\$ 181,901	\$ 32,366	\$ 9,224	\$ 10,506	\$ 793	\$ -	\$ 234,790
Ending balance: individually evaluated for impairment	\$ 17,823	\$ 1,694	\$ 2,594	\$ 833	\$ -	\$ -	\$ 22,944
Ending balance: collectively evaluated for impairment	\$ 164,078	\$ 30,672	\$ 6,630	\$ 9,673	\$ 793	\$ -	\$ 211,846
	As of June 30, 2013						Total
	Residential Mortgage	Commercial Real Estate	Construction	Commercial and Industrial	Consumer	Unallocated	
Allowance for loan losses:							
Ending balance	\$ 3,036	\$ 706	\$ 238	\$ 276	\$ 11	\$ 3	\$ 4,270
Ending balance: individually evaluated for impairment	\$ 291	\$ 88	\$ 23	\$ 31	\$ -	\$ -	\$ 433
Ending balance: collectively evaluated for impairment	\$ 2,745	\$ 618	\$ 215	\$ 245	\$ 11	\$ 3	\$ 3,837
Loans receivables:							
Ending balance	\$ 177,127	\$ 32,103	\$ 8,121	\$ 9,246	\$ 929	\$ -	\$ 227,526
	\$ 19,553	\$ 3,240	\$ 3,308	\$ 900	\$ -	\$ -	\$ 27,001

Ending balance:
individually
evaluated for
impairment

Ending balance:
collectively evaluated
for impairment

\$ 157,574	\$ 28,863	\$ 4,813	\$ 8,346	\$ 929	\$ -	\$ 200,525
------------	-----------	----------	----------	--------	------	------------

Edgar Filing: MSB FINANCIAL CORP. - Form 10-Q

	Three Months Ended March 31, 2014						
	Residential Mortgage	Commercial Real Estate	Construction	Commercial and Industrial	Consumer	Unallocated	Total
Allowance for loan losses:							
Beginning Balance	\$ 2,366	\$ 619	\$ 286	\$ 293	\$ 12	\$ 3	\$ 3,579
Charge-offs	-	-	-	-	(2)	-	(2)
Recoveries	-	-	-	-	-	-	-
Provisions	(49)	95	26	80	-	(2)	150
Ending balance	\$ 2,317	\$ 714	\$ 312	\$ 373	\$ 10	\$ 1	\$ 3,727

	Nine Months Ended March 31, 2014						
	Residential Mortgage	Commercial Real Estate	Construction	Commercial and Industrial	Consumer	Unallocated	Total
Allowance for loan losses:							
Beginning Balance	\$ 3,036	\$ 706	\$ 238	\$ 276	\$ 11	\$ 3	\$ 4,270
Charge-offs	(498)	(340)	(119)	(54)	(2)	-	(1,013)
Recoveries	11	-	-	9	-	-	20
Provisions	(232)	348	193	142	1	(2)	450
Ending balance	\$ 2,317	\$ 714	\$ 312	\$ 373	\$ 10	\$ 1	\$ 3,727

	Three Months Ended March 31, 2013						
	Residential Mortgage	Commercial Real Estate	Construction	Commercial and Industrial	Consumer	Unallocated	Total
Allowance for loan losses:							
Beginning Balance	\$ 3,148	\$ 1,109	\$ 469	\$ 546	\$ 48	\$ -	\$ 5,320
Charge-offs	(457)	(225)	(85)	(180)	(5)	-	(952)
Recoveries	-	-	-	-	-	-	-
Provisions	539	(186)	(83)	(71)	(34)	10	175
Ending balance	\$ 3,230	\$ 698	\$ 301	\$ 295	\$ 9	\$ 10	\$ 4,543

	Nine Months Ended March 31, 2013						
	Residential Mortgage	Commercial Real Estate	Construction	Commercial and Industrial	Consumer	Unallocated	Total
Allowance for loan losses:							
Beginning Balance	\$ 1,808	\$ 445	\$ 527	\$ 272	\$ 13	\$ -	\$ 3,065
Charge-offs	(1,483)	(348)	(333)	(297)	(4)	-	(2,465)
Recoveries	49	-	-	-	-	-	49

Edgar Filing: MSB FINANCIAL CORP. - Form 10-Q

Provisions		2,856		601		107		320		-		10		3,894
Ending balance	\$	3,230	\$	698	\$	301	\$	295	\$	9	\$	10	\$	4,543

Federal regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses and may require the Company to recognize additions to the allowance based on their judgments about information available to them at the time of their examination, which may not be currently available to management. Based on management's comprehensive analysis of the loan portfolio, management believes the current level of the allowance for loan losses is adequate.

Troubled Debt Restructurings

The recorded investment balance of TDRs totaled \$16.6 million and \$18.1 million at March 31, 2014 and June 30, 2013 respectively. TDRs on accrual status were \$13.6 million and \$11.8 million at March 31, 2014 and June 30, 2013, while TDRs on non-accrual status were \$3.0 million and \$6.2 million at these respective dates. At March 31, 2014 and June 30, 2013, the allowance for loan losses included specific reserves of \$41,000 and \$152,000 related to TDRs respectively.

The following table summarizes by class loans modified in troubled debt restructurings during the three and nine-month periods ended March 31, 2014. There was one loan modified in troubled debt restructurings during the three months ended March 31, 2014. The Company had two loans modified in troubled debt restructurings during the nine month period ended March 31, 2014. One loan was re-amortized based on its current balance with no changes to interest rate or remaining term. Another loan had its balance increased due to the capitalization of property taxes and other fees. The Bank thereafter requires a monthly escrow for property taxes. In addition, the Bank also granted an interest-only period of 17 months. Once the interest-only period ends, the interest rate will decrease by 0.50% and repayments will include all principal, interest and escrow. The Bank also released one of the co-borrowers from the obligations under the loan. The final maturity date remained unchanged.

	Number of Contracts	Three Months Ended March 31, 2014	
		Pre-Modification Outstanding Recorded Investments	Post-Modification Outstanding Recorded Investments
(In thousands)			
Residential Mortgage One-to-four family	\$ 1	\$ 235	\$ 255
Total	\$ 1	\$ 235	\$ 255

	Number of Contracts	Nine Months Ended March 31, 2014	
		Pre-Modification Outstanding Recorded Investments	Post-Modification Outstanding Recorded Investments
(In thousands)			
Residential Mortgage One-to-four family	\$ 2	\$ 1,054	\$ 1,071
Total	\$ 2	\$ 1,054	\$ 1,071

	Number of Contracts	Three Months Ended March 31, 2013	
		Pre-Modification Outstanding Recorded Investments	Post-Modification Outstanding Recorded Investments
		(In thousands)	
Residential Mortgage			
One-to-four family	\$ 2	\$ 1,396	\$ 1,400
Commercial real estate	2	885	831
Construction			
Other	1	1,150	987
Commercial and industrial	2	68	68
Total	\$ 7	\$ 3,499	\$ 3,286

	Number of Contracts	Nine Months Ended March 31, 2013	
		Pre-Modification Outstanding Recorded Investments	Post-Modification Outstanding Recorded Investments
		(In thousands)	
Residential Mortgage			
One-to-four family	\$ 8	\$ 3,116	\$ 3,110
Commercial real estate	2	885	831
Construction			
Other	1	1,150	987
Commercial and industrial	4	214	214
Total	\$ 15	\$ 5,365	\$ 5,142

The following table summarizes loans modified in TDR during the previous 12 months and for which there was a subsequent payment default during the three and nine months ended March 31, 2014. The Company did not have any loans modified in TDR during the previous 12 months and for which there was a subsequent payment default during the three and nine months ended March 31, 2013. A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms.

	Number of Contracts	Three Months Ended March 31, 2014	
		Pre-Modification Outstanding Recorded Investments	Post-Modification Outstanding Recorded Investments
		(In thousands)	
Commercial real estate	\$ 1	\$ 49	\$ 23
Total	\$ 1	\$ 49	\$ 23

			Nine Months Ended March 31, 2014	
	Number of Contracts		Pre-Modification Outstanding Recorded Investments	Post-Modification Outstanding Recorded Investments
				(In thousands)
Commercial real estate	\$	1	\$	409
Commercial and industrial		1		49
Total	\$	2	\$	458
				\$
				432

Note 8 - Securities Held to Maturity

The amortized cost of securities held to maturity and their fair values as of March 31, 2014 and June 30, 2013, are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2014				
(In Thousands)				
U.S. U.S. Government agencies:				
Due after one year to five years	\$9,500	\$-	\$209	\$9,291
Due after five through ten years	25,677	19	1,038	24,658
Due after ten years	14,000	57	1,076	12,981
	49,177	76	2,323	46,930
Mortgage-backed securities	26,394	331	692	26,033
Corporate bonds:				
Due after one year to five years	4,640	46	13	4,673
Certificates of deposit:				
Due after one year to five years	5,036	27	3	5,060
	\$85,247	\$480	\$3,031	\$82,696
June 30, 2013				
(In Thousands)				
U.S. U.S. Government agencies:				
Due after one year to five years	\$4,000	\$-	\$88	\$3,912
Due after five through ten years	28,194	-	1,195	26,999
Due thereafter	14,000	84	848	13,236
	46,194	84	2,131	44,147
Mortgage-backed securities	24,768	297	754	24,311
Corporate bonds:				
Due after one year to five years	2,571	7	35	2,543
Due after five through ten years	2,098	8	37	2,069
	4,669	15	72	4,612
Certificates of deposit:				
Due within one year	245	1	-	246
Due after one through five years	5,036	16	1	5,051

Edgar Filing: MSB FINANCIAL CORP. - Form 10-Q

5,281	17	1	5,297
\$80,912	\$413	\$2,958	\$78,367

All mortgage-backed securities at March 31, 2014 and June 30, 2013 have been issued by FNMA, FHLMC or GNMA and are secured by one-to-four family residential real estate. The amortized cost and fair value of securities held to maturity at March 31, 2014 and June 30, 2013, as shown above, are reported by contractual maturity. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

There were no sales of securities held to maturity during the three or nine months ended March 31, 2014. At March 31, 2014 and June 30, 2013, securities held to maturity with a fair value of approximately \$771,000 and \$782,000, respectively, were pledged to secure public funds on deposit.

The following tables set forth the gross unrealized losses and fair value of securities in an unrealized loss position as of March 31, 2014 and June 30, 2013, and the length of time that such securities have been in a continuous unrealized loss position:

	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
(In thousands)						
March 31, 2014:						
U.S. Government agencies	\$35,646	\$2,033	\$6,210	\$290	\$41,856	\$2,323
Mortgage-backed securities	16,790	673	840	19	17,630	692
Corporate bonds	2,527	13	—	—	2,527	13
Certificates of deposit	487	3	—	—	487	3
	\$55,450	\$2,722	\$7,050	\$309	\$62,500	\$3,031

	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
(In thousands)						
June 30, 2013:						
U.S. Government agencies	\$42,048	\$2,131	\$—	\$ —	\$42,048	\$2,131
Mortgage-backed securities	18,401	754	—	—	18,401	754
Corporate bonds	2,980	72	—	—	2,980	72
Certificates of deposit	246	1	—	—	246	1
	\$63,675	\$2,958	\$—	\$ —	\$63,675	\$2,958

At March 31, 2014, management concluded that the unrealized losses summarized above (which related to thirty one U.S. Government agency bonds, fourteen mortgage-backed securities, four corporate bonds and two certificates of deposit compared to thirty-one U.S. Government agency bonds, fourteen mortgage-backed securities, five corporate bonds and one certificate of deposit as of June 30, 2013) are temporary in nature since they are not related to the underlying credit quality of the issuer. The Company does not intend to sell these securities and it is not more-likely-than-not that the Company would be required to sell these securities prior to the anticipated recovery of the remaining amortized cost. Management believes that the losses above are

primarily related to the change in market interest rates. Accordingly, the Company has not recognized an other-than-temporary impairment loss on these securities.

Note 9 – Retirement Plans

Periodic expenses for the Company’s retirement plans, which include the Directors’ Retirement Plan and the Executive Incentive Retirement Plan, were as follows:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2014	2013	2014	2013
	(In thousands)		(In thousands)	
Service cost	\$ 15	\$ 17	\$ 45	\$ 49
Interest cost	23	18	67	56
Amortization of unrecognized (gain) loss	(3)	5	(8)	14
Amortization of past service liability	1	3	3	8
	\$ 36	\$ 43	\$ 107	\$ 127

The Company previously disclosed in its Annual Report on Form 10-K as of June 30, 2013 that it expected to contribute \$92,000 to the Plan during the current fiscal year. As of March 31, 2014, the Company contributed \$69,000.

Note 10 – Stock Offering and Stock Repurchase Program

During the nine months ended March 31, 2014 the Company did not repurchase any shares of its common stock.

Note 11 – Recent Accounting Pronouncements

In February 2013, FASB issued Accounting Standards Update (“ASU”) 2013-02, Other Comprehensive Income – Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, which amends FASB ASC Top 220, Comprehensive Income (Topic 220). The amendments in this update supersede and replace the presentation requirements for reclassifications out of accumulated other comprehensive income in ASUs 2011-05 and 2011-12 for all public and private organizations. The amendments require an entity to provide additional information about reclassifications out of accumulated other comprehensive income. The new requirement about presenting information about amounts reclassified out of accumulated other comprehensive income and their corresponding effect on net income present, in one place, information about significant amounts reclassified and, in some cases, cross-references to related footnote disclosures. Previously, this information was presented in different places throughout the financial statements. For public entities, the amendments of this update were effective prospectively for annual reporting periods beginning after December 15, 2012 and interim periods within those years. The adoption of ASU 2011-05 as of July 1, 2013, did not have a significant impact on the Company’s presentation of the comprehensive income.

In July 2013, FASB issued ASU 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists, which provides

guidance on financial statement presentation of an unrecognized tax benefit when a net operating loss (NOL) carryforward, a similar tax loss, or a tax credit carryforward exists. The FASB's objective in issuing this ASU is to eliminate diversity in practice resulting from a lack of guidance on this topic in current U.S. GAAP. This ASU applies to all entities with unrecognized tax benefits that also have tax loss or tax credit carryforwards in the same tax jurisdiction as of the reporting date. For public entities, the guidance is effective for the fiscal years beginning after December 15, 2013 and interim periods within those years. The adoption of this guidance did not have a material impact on our consolidated financial statements. We do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

In January 2014, FASB issued ASU 2014-04, Receivables – Troubled Debt Restructurings by Creditors, which clarifies that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. For public entities, the guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. We do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

Note 12 – Reclassifications Out of Accumulated Other Comprehensive Income

Details about Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified from Accumulated Other Comprehensive Income (Loss) (a) Three Months Ended March 31, 2014	Amount Reclassified from Accumulated Other Comprehensive Income (Loss) (a) Nine Months Ended March 31, 2014	Affected Line Item in the Consolidated Statements of Comprehensive Income (Loss)
	(In thousands)		
Amortization of defined benefit pension items:			
Prior service costs	\$ (1) (b)	\$ (3)	Directors compensation
Unrecognized loss	(4) (b)	(13)	Directors compensation
Unrecognized gain	7 (b)	21	Salary and employee benefits
	2	5	Total before tax
	(1)	(2)	Income tax (expense)
Total reclassifications for the period	\$ 1	\$ 3	Net of tax

(a) Amounts in parenthesis indicate debits to profit/loss.

(b) These accumulated other comprehensive components are included in the computation of net periodic pension cost. (See Note 9 for additional details).

ITEM 2 – MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Form 10-Q contains forward-looking statements, which can be identified by the use of words such as “believes,” “expects,” “anticipates,” “estimates” or similar expressions. Forward – looking statements include:

- Statements of our goals, intentions and expectations;
- Statements regarding our business plans, prospects, growth and operating strategies;
- Statements regarding the quality of our loan and investment portfolios; and
- Estimates of our risks and future costs and benefits.

These forward-looking statements are subject to significant risks and uncertainties. Actual results may differ materially from those contemplated by the forward-looking statements due to, among others, the following factors:

- General economic conditions, either nationally or in our market area, that are worse than expected;
- The volatility of the financial and securities markets, including changes with respect to the market value of our financial assets;
- Changes in government regulation affecting financial institutions and the potential expenses associated therewith;
- Changes in the interest rate environment that reduce our interest margins or reduce the fair value of financial instruments;
- Our ability to enter into new markets and/or expand product offerings successfully and take advantage of growth opportunities;
- Increased competitive pressures among financial services companies;
- Changes in consumer spending, borrowing and savings habits;
- Legislative or regulatory changes that adversely affect our business;
- Adverse changes in the securities markets;
- Our ability to successfully manage our growth; and
- Changes in accounting policies and practices, as may be adopted by the bank regulatory agencies, the Financial Accounting Standards Board or the Public Company Accounting Oversight Board.

No forward-looking statement can be guaranteed and we specifically disclaim any obligation to update any forward-looking statement.

Critical Accounting Policies

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the dates of the consolidated statements of financial position and revenues and expenses for the periods then ended. Actual results could differ significantly from those estimates. A material estimate that is particularly susceptible to significant change relates to the determination of the allowance for loan losses.

The allowance for loan losses represents our best estimate of losses known and inherent in our loan portfolio that are both probable and reasonable to estimate. In determining the amount of the allowance for loan losses, we consider the losses inherent in our loan portfolio and changes in the nature and volume of our loan activities, along with general economic and real estate market conditions. We

utilize a two tier approach: (1) identification of impaired loans for which specific reserves may be established; and (2) establishment of general valuation allowances on the remainder of the loan portfolio. We maintain a loan review system which provides for a systematic review of the loan portfolio and the early identification of potential impaired loans. Such system takes into consideration, among other things, delinquency status, size of loan, type of collateral and the financial condition of the borrower. Specific loan loss allowances are established for identified loans based on a review of such information and/or appraisals of the underlying collateral. General loan loss allowances are based upon a combination of factors including, but not limited to, actual loan loss experience, composition of the loan portfolio, current economic conditions and management's judgment.

In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses. Such agencies may require the Company to recognize additions to the allowance based on their judgments about information available to them at the time of their examinations.

Although specific and general loan loss allowances are established in accordance with management's best estimate, actual losses are dependent upon future events and, as such, further provisions for loan losses may be necessary in order to increase the level of the allowance for loan losses. For example, our evaluation of the allowance includes consideration of current economic conditions, and a change in economic conditions could reduce the ability of our borrowers to make timely repayments of their loans. This could result in increased delinquencies and increased non-performing loans, and thus a need to make increased provisions to the allowance for loan losses, which would be a charge to income during the period the provision is made, resulting in a reduction to our earnings. A change in economic conditions could also adversely affect the value of the properties collateralizing our real estate loans, resulting in increased charge-offs against the allowance and reduced recoveries, and thus a need to make increased provisions to the allowance for loan losses. Furthermore, a change in the composition of our loan portfolio or growth of our loan portfolio could result in the need for additional provisions.

Comparison of Financial Condition at March 31, 2014 and June 30, 2013

General. Total assets decreased by \$7.2 million to \$345.4 million at March 31, 2014, from \$352.6 million at June 30, 2013, primarily due to a decrease of \$20.0 million in cash and cash equivalents, offset by a \$7.8 million increase in loans receivable, net and a \$4.3 million increase in securities held to maturity. Deposits were \$271.8 million at March 31, 2014, down \$8.6 million compared to \$280.5 million at June 30, 2013. The decrease in deposit balances was primarily due to the Company lowering its offering rates. FHLB advances were \$30.0 million at March 31, 2014 and June 30, 2013.

Total assets decreased by \$7.2 million between periods and total liabilities decreased by \$8.2 million, and the ratio of average interest-earning assets to average-interest bearing liabilities increased to 113.49% for the nine months ended March 31, 2014 as compared to 109.18% for year ended June 30, 2013. Stockholders' equity increased by \$972,000 to \$40.5 million at March 31, 2014 compared to \$39.5 million at June 30, 2013.

Loans. Loans receivable, net, increased by \$7.8 million, or 3.5% from \$223.3 million at June 30, 2013 to \$231.1 million at March 31, 2014. As a percentage of assets, loans increased to 66.9% at March 31, 2014 from 63.3% at June 30, 2013. The Company's one-to-four family loan portfolio grew by \$6.7 million or 4.9%, the construction loan portfolio increased by \$2.7 million or 30.0%, as did commercial and industrial loans, commercial real estate loans, overdraft protection and personal loans by \$1.3 million, \$270,000, \$14,000 and \$3,000 or 13.6%, 0.8%, 8.0% and 9.4%, respectively, between June 30, 2013 and March 31, 2014. Home equity loans decreased by \$1.9 million or 4.6%, as did automobile loans and

deposit account loans by \$92,000 or 82.9% and \$61,000 or 10.0%, respectively, between June 30, 2013 and March 31, 2014.

Securities. Our portfolio of securities held to maturity was at \$85.2 million at March 31, 2014 as compared to \$80.9 million at June 30, 2013. Maturities, calls and principal repayments during the nine months ended March 31, 2014 totaled \$3.9 million. We purchased \$8.4 million of new securities during the nine months ended March 31, 2014.

Deposits. Total deposits at March 31, 2014 were \$271.8 million, an \$8.6 million decrease as compared to \$280.5 million at June 30, 2013. Demand accounts increased by \$9.1 million, while certificate of deposit accounts decreased by \$11.8 million and, savings and club accounts decreased by \$5.9 million during nine-month period ended March 31, 2014.

Borrowings. Total borrowings at March 31, 2014 and June 30, 2013 amounted to \$30.0 million. The Bank did not have any short-term borrowings at March 31, 2014 or June 30, 2013.

Equity. Stockholders' equity was \$40.5 million at March 31, 2014 compared to \$39.5 at June 30, 2013, an increase of \$972,000 or 2.5%. The increase in stockholders' equity was primarily due to a \$742,000 increase in retained earnings related to net income, a \$107,000 increase in paid-in capital related to the Company's stock-based compensation plan and allocation of ESOP stock, a \$126,000 decrease in unallocated common stock held by the ESOP, offset by a \$3,000 increase in other comprehensive loss.

Comparison of Operating Results for the Three Months and Nine Months Ended March 31, 2014 and 2013

General. The Company's net income for the three months ended March 31, 2014 was \$243,000 compared to net income of \$89,000, for the three months ended March 31, 2013, an increase of \$154,000 or 173.0%. Net interest income was \$2.5 million for the three months ended March 31, 2014 compared to \$2.3 million for the three months ended March 31, 2013, an increase of \$116,000 or 5.0%. The provision for loan losses decreased by \$25,000, or 14.3%, for the three months ended March 31, 2014 compared to the three month ended March 31, 2013. Non-interest income increased by \$25,000, or 15.7%, while non-interest expense decreased by \$71,000, or 3.2%, for the three months ended March 31, 2014 compared to the three months ended March 31, 2013.

The Company recorded \$742,000 in net income for the nine months ended March 31, 2014 compared to a net loss of \$1.6 million, for the nine months ended March 31, 2013. Net interest income for the nine months ended March 31, 2014 was \$7.2 million compared to \$7.1 million for the nine months ended March 31, 2013, an increase of \$111,000 or 1.6%. The provision for loan losses decreased by \$3.4 million or 88.4% to \$450,000 for the nine months ended March 31, 2014 compared to \$3.9 million for the nine months ended March 31, 2013. Non-interest income increased by \$67,000 or 14.0% from \$480,000 for the nine months ended March 31, 2013 to \$547,000 for the nine months ended March 31, 2014. Non-interest expense decreased by \$173,000, or 2.7%, for the nine months ended March 31, 2014 compared to the nine months ended March 31, 2013. Total non-interest expense was \$6.1 million for the nine months ended March 31, 2014 compared to \$6.3 million for the nine-month period ended March 31, 2013.

Net Interest Income. Net interest income increased by \$116,000, or 5.0%, for the three-month period ended March 31, 2014, compared to the three months ended March 31, 2013. Interest income increased by \$53,000, or 1.8%, and interest expense decreased by \$63,000, or 9.7%, for the same three-month comparative period.

The increase of \$53,000 or 1.8% in total interest income for the three months ended March 31, 2014, resulted from a \$6.7 million or 2.1% increase in the average balance of interest-earning assets, offset by a one basis point decrease in yield. Average interest-earning assets increased \$6.7 million to \$323.3 million for the three months ended March 31, 2014, compared to \$316.6 million for the three months ended March 31, 2013. Interest income on loans decreased by \$45,000, or 1.7% for the three months ended March 31, 2014, compared to the same period in 2013 primarily due to a \$3.6 million or 1.5% decrease in average loan balances and a one basis point reduction in average yield. Interest income on securities held to maturity increased by \$95,000 or 25.6% for the three months ended March 31, 2014, compared to the three months ended March 31, 2013, as a result of a \$12.9 million, or 17.8%, increase in average balances and a 14 basis point increase in average yield. Other interest income reflected an increase of \$3,000, or 15.0%, in interest income primarily due to a 121 basis point increase in average yield and a \$2.7 million, or 41.8%, decrease in average balance for the three month period ended March 31, 2014 compared to the same period ended March 31, 2013.

Total interest expense decreased by \$63,000, or 9.7%, for the three months ended March 31, 2014, compared to the three months ended March 31, 2013. Average interest-bearing liabilities decreased \$5.2 million or 1.8%, from \$285.9 million for the three months ended March 31, 2013 to \$280.7 million for the three months ended March 31, 2014, and the average rate paid decreased by 8 basis points from 0.91% to 0.83%, for the respective periods. Interest expense on deposits decreased by \$79,000 or 16.7% for the three months ended March 31, 2014, compared to the three months ended March 31, 2013, as a result of a \$16.0 million or 6.1% decrease in average interest-bearing deposits from \$262.5 million to \$246.5 million and a eight basis point reduction in the average rate paid from 0.72% to 0.64%, for the respective periods. Time deposit average balances decreased \$15.1 million or 13.3% and average savings deposit balances decreased by \$2.7 million or 2.5%, while NOW average balances increased by \$1.8 million or 4.9% for the three months ended March 31, 2014 compared to the three months ended March 31, 2013. Time deposit average rates decreased by 12 basis points, while the average rates on savings deposits and NOW accounts each increased by two basis points, for the three months ended March 31, 2014, compared to the three months ended March 31, 2013. Federal Home Loan Bank advance average balances were \$34.2 million for the three-month period ended March 31, 2014 compared to \$23.4 million for the three months ended March 31, 2013. The average rate on Federal Home Loan Bank advances decreased by 75 basis points to 2.24% for the three months ended March 31, 2014 compared to 2.99% for the three months ended March 31, 2013.

Net interest income increased \$111,000, or 1.6%, to \$7.2 million for the nine months ended March 31, 2014, from \$7.1 million for the nine months ended March 31, 2013. Interest income decreased by \$119,000, or 1.3%, and interest expense decreased by \$230,000, or 11.1%, for the nine-month period ended March 31, 2014, compared to the nine-month period ended March 31, 2013.

The decrease of \$119,000, or 1.3%, in interest income for the nine months ended March 31, 2014 resulted from the combined effects of a \$10.4 million increase in average earning assets and an 18 basis point decrease in yield to 3.73%, compared to the nine months ended March 31, 2013. Interest income on loans decreased by \$426,000, or 5.4%, for the nine months ended March 31, 2014, compared to the nine months ended March 31, 2013. Average loan receivable balances decreased \$8.5 million or 3.5% to \$231.5 million for the nine months ended March 31, 2014, compared to \$240.0 million for the nine months ended March 31, 2013, while the average yield declined to 4.34% from 4.42%. Interest income on securities held to maturity increased \$308,000, or 28.1%, for the nine months ended March 31, 2014, compared to the nine months ended March 31, 2013, due to a \$20.3 million increase in average balances from \$65.4 million for the nine months ended March 31, 2013 to \$85.7 million for the nine months ended March 31, 2014, offset by a five basis point decrease in average yield from 2.23% for the nine months ended March 31, 2013 to 2.18% for the nine months ended March 31, 2014. Interest income on other interest-earning assets decreased by \$1,000, or 1.45%, for the nine month period ended March 31, 2014,

compared to the same nine month period in 2013, as the average yield increased by 43 basis points to 1.98% and average other interest earning-asset balances decreased by \$1.4 million or 23.1%.

The \$230,000, or 11.1%, decrease in interest expense for the nine months ended March 31, 2014, compared to the nine months ended March 31, 2013, was primarily due to a decrease of 11 basis points in average rate paid on interest bearing liabilities to 0.86% and a decrease of \$298,000 or 0.1% in average interest-bearing liabilities balances. Interest expense on deposits decreased by \$283,000, or 18.3%, for the nine months ended March 31, 2014, compared to the nine months ended March 31, 2013, as a result of \$11.4 million, or 4.4%, decrease in average interest-bearing deposits from \$262.8 million to \$251.3 million and an 11 basis point reduction in average rate from 0.78% to 0.67%, for the respective periods. NOW account average balances increased by \$2.8, million or 7.6%, for the nine month period ended March 31, 2014 compared to the nine months ended March 31, 2013, while time deposit and savings average balances decreased by \$12.9 million and \$1.3 million, or 11.1% and 1.2%, respectively, for the same comparative periods. The average rates on time deposits, savings deposits and NOW accounts decreased by 15 basis points, one basis point and one basis point, respectively, for the nine months ended March 31, 2014, compared to the same nine month period ended March 31, 2013. Federal Home Loan Bank advance average balances were \$32.2 million and \$21.1 million for the nine-month periods ended March 31, 2014 and March 31 2013, respectively. The average rate was 2.37% for the nine months ended March 31, 2014 compared to an average rate of 3.28% for the nine-month period ended March 31, 2013, representing a 91 basis point reduction in average rate.

Provision for Loan Losses. The loan loss provision for the three and nine months ended March 31, 2014 was \$150,000 and \$450,000, respectively, compared to \$175,000 and \$3.9 million for the same periods ended March 31, 2013. The provision for loan losses for the nine months ended March 31, 2013 included an additional provision of \$2.0 million deemed necessary to support the Company's planned asset disposition strategy approved by the Company's Board of Directors during the quarter ended December 31, 2012, the goal of which was to rapidly reduce (through strategies such as short sales, cash for keys, deeds in lieu of foreclosure and/or bulk sales) the dollar amount of non-performing loans in the Company's loan portfolio and thereby reduce the costs associated with the foreclosure process. The Company's management reviews the level of the allowance for loan losses on a quarterly basis based on a variety of factors including, but not limited to, (1) the risk characteristics of the loan portfolio, (2) current economic conditions, (3) actual losses previously experienced, (4) the Company's level of loan growth and (5) the existing level of reserves for loan losses that are probable and estimable. This analysis resulted in a lower provision for loan loss being required for the three and nine-month periods ended March 31, 2014. The reduction in the level of provision for loan loss primarily reflects lower levels of specific reserves related to non-performing loans individually evaluated for impairment which continued to decrease as a result of various above mentioned disposition activities. Also, there was a stabilization of the quantitative and qualitative factors during the nine months ended March 31, 2014 compared to upward-trending factors during the nine month period ended March 31, 2013, thus further reducing the need for additional provisions as of March 31, 2014. The Company experienced \$2,000 in net charge-offs (consisting of \$2,000 in charge-offs and no recoveries) for the three month period ended March 2014 compared to \$952,000 in net charge-offs (consisting of \$952,000 in charge-offs and no recoveries) for the three month period ended March 31, 2013. In addition, the Company experienced \$993,000 in net charge-offs (consisting of \$1,013,000 in charge-offs and \$20,000 in recoveries) for the nine months ended March 31, 2014 compared to \$2,416,000 in net charge-offs (consisting of \$2,465,000 in charge-offs and \$49,000 in recoveries) for the nine months ended March 31, 2013. The Company had \$9.1 million in non-performing loans as of March 31, 2014, compared to \$14.1 million as of June 30, 2013. The allowance for loan losses to total loans ratio was 1.57% at March 31, 2014, compared to 1.87% at June 30, 2013, while the allowance for loan losses to non-performing loans ratio increased from 30.30% at June 30, 2013 to 40.82% at March 31, 2014, primarily due to decreases in total non-performing loans at

March 31, 2014 compared to June 30, 2013. Non-performing loans to total loans and net charge-offs to average loans outstanding ratios were at 3.84% and 0.43%, respectively, at and for the nine month period ended March 31, 2014 compared to 6.16% and 1.19% at and for the nine month period ended June 30, 2013.

Non-Interest Income. This category includes fees derived from checking accounts, ATM transactions and debit card use and mortgage related fees. It also includes increases in the cash-surrender value of the bank owned life insurance and any unrealized gain or loss on trading securities.

Non-interest income increased by \$25,000, or 15.7%, to \$184,000 for the three months ended March 31, 2014 from \$159,000 for the three months ended March 31, 2013, primarily due to a \$34,000 or 44.7% increase in other fees and service charges offset by a \$1,000, or 1.9%, decrease in income from bank owned life insurance and an \$8,000 or 27.6% decrease in other non-interest income. Total non-interest income increased \$67,000, or 14.0%, from \$480,000 for the nine months ended March 31, 2013 to \$547,000 for the nine months ended March 31, 2014, partially due to a \$73,000, or 30.8%, increase in other fees and service charges, offset by a decrease of \$5,000 in other non-interest income or 6.3% for the nine months ended March 31, 2014 compared to March 31, 2013. The increase in other fees and service charges for both the three and nine month periods ended March 31, 2014 was primarily attributable to a penalty fee received on the early prepayment of an investment security held to maturity.

Non-Interest Expenses. Total non-interest expense decreased by \$71,000, or 3.2%, to \$2.1 million for the three months ended March 31, 2014 compared to \$2.2 million for the three months ended March 31, 2013. Other non-interest expense decreased by \$43,000, or 13.2%, salaries and employee benefits decreased by \$33,000, or 3.4%, Directors' compensation decreased by \$12,000 or 9.9%, as did occupancy and equipment, advertising and professional services by \$8,000, \$8,000 and \$7,000 or 2.2%, 17.0% and 5.1%, respectively, for the nine months ended March 31, 2014 compared to the nine months ended March 31, 2013, while service bureau fees and FDIC assessment expenses increased by \$22,000 or 15.8% and \$18,000 or 24.7% during the same comparative periods. The increase in service bureau fees was related to the expansion of services, while the increase in FDIC assessment was related to the increase in factors used in calculating the assessment. The decrease in other non-interest expense was primarily due to a \$60,000 reduction in other real estate expense, offset by a \$28,000 increase in miscellaneous operating expense for the three months ended March 31, 2014 compared to the three months ended March 31, 2013.

Our total non-interest expense for the nine months ended March 31, 2014 was \$6.1 million compared to \$6.3 million for the nine months ended March 31, 2013, a decrease of \$173,000 or 2.7%. Other non-interest expense decreased by \$168,000, or 21.0%, salaries and employee, occupancy and equipment, Directors' compensation, professional services and advertising expenses decreased by \$69,000 or 2.4%, \$51,000, or 4.8%, \$41,000, or 10.9%, \$19,000, or 4.5%, and \$9,000, or 7.6%, respectively, for the nine months ended March 31, 2014 compared to the nine months ended March 31, 2013. Correspondingly, FDIC assessments and service bureau fees increased by \$120,000 or 54.8% and \$64,000 or 15.8%, respectively for the nine month period ended March 31, 2014 compared to the nine months ended March 31, 2013. The increase in FDIC assessments for the nine months ended March 31, 2014 as compared to the nine months ended March 31, 2013, was primarily due to the change in factors used in calculating the assessment, whereby, the increase in service bureau fees for the same comparative period was related to the expansion of services. The significant reduction in other non-interest expense for the nine months ended March 31, 2014 compared to the nine months ended March 31, 2013, was primarily due to the reduction in net other real estate expense. The decrease in salaries and employee benefits and Directors' compensation expenses for the nine months ended March 31, 2014 compared to the nine months ended March 31, 2013, was primarily due the elimination of stock option expense, whereas the reduction in occupancy and equipment expense for the same comparative period was the

result of a reduction in depreciation expense. The decrease in non-operating expense was primarily due to a \$105,000 increase on the gain of other real estate sold, in addition to a \$71,000 reduction in other real estate expense for the nine months ended March 31, 2014 compared to the nine months ended March 31, 2013.

Income Taxes. Income taxes for the three months ended March 31, 2014 were \$127,000 or 34.3% of income before income taxes as compared to \$44,000 or 33.1% of income before income taxes for the three months ended March 31, 2013. Income taxes for the nine months ended March 31, 2014 were \$388,000 or 34.3% of income before taxes as compared to a \$1.1 million tax benefit for the nine months ended March 31, 2013 or 40.8% of the reported loss before income taxes.

Liquidity, Commitments and Capital Resources

The Bank must be capable of meeting its customer obligations at all times. Potential liquidity demands include funding loan commitments, cash withdrawals from deposit accounts and other funding needs as they present themselves. Accordingly, liquidity is measured by our ability to have sufficient cash reserves on hand, at a reasonable cost and/or with minimum losses.

Senior management is responsible for managing our overall liquidity position and risk and is responsible for ensuring that our liquidity needs are being met on both a daily and long term basis. The Financial Review Committee, comprised of senior management and chaired by President and Chief Executive Officer is responsible for establishing and reviewing our liquidity procedures, guidelines, and strategy on a periodic basis.

Our approach to managing day-to-day liquidity is measured through our daily calculation of investable funds and/or borrowing needs to ensure adequate liquidity. In addition, senior management constantly evaluates our short-term and long-term liquidity risk and strategy based on current market conditions, outside investment and/or borrowing opportunities, short and long-term economic trends, and anticipated short and long-term liquidity requirements. The Bank's loan and deposit rates may be adjusted as another means of managing short and long-term liquidity needs. We do not at present participate in derivatives or other types of hedging instruments to meet liquidity demands, as we take a conservative approach in managing liquidity.

At March 31, 2014, the Company had outstanding commitments to originate loans of \$1.7 million, construction loans in process of \$2.3 million, unused lines of credit of \$19.9 million (including \$17.3 million for home equity lines of credit), and standby letters of credit of \$249,000. Certificates of deposit scheduled to mature in one year or less at March 31, 2013, totaled \$58.1 million.

As of March 31, 2014, the Company had contractual obligations related to the long-term operating leases for the three branch locations that it leases (Dewy Meadow, RiverWalk and Martinsville).

The Company generates cash through deposits and/or borrowings from the Federal Home Loan Bank to meet its day-to-day funding obligations when required. At March 31, 2014, the total loans to deposits ratio was 85.0%. At March 31, 2014, the Company's collateralized borrowing limit with the Federal Home Loan Bank was \$71.5 million, of which \$30.0 million was outstanding. As of March 31, 2014, the Company also had a \$20.0 million line of credit with a financial institution for reverse repurchase agreements (which is a form of borrowing) that it could access if necessary.

Consistent with its goals to operate a sound and profitable financial organization, the Bank actively seeks to maintain its status as a well-capitalized institution in accordance with regulatory standards. As of March 31, 2014, the Bank exceeded all applicable regulatory capital requirements.

ITEM 3 – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

This item is not applicable to the Company as it is a smaller reporting company.

ITEM 4 – CONTROLS AND PROCEDURES

An evaluation was performed under the supervision, and with the participation of the Company’s management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company’s disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended) as of March 31, 2014. Based on such evaluation, the Company’s Chief Executive Officer and Chief Financial Officer have concluded that the Company’s disclosure controls and procedures are effective as of March 31, 2014.

No change in the Company’s internal controls over financial reporting (as defined in Rule 13a-15(f) promulgated under the Securities Exchange Act of 1934, as amended) occurred during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1 – LEGAL PROCEEDINGS

There were no material pending legal proceedings at March 31, 2014 to which the Company or its subsidiaries is a party other than ordinary routine litigation incidental to their respective businesses.

ITEM 1A – RISK FACTORS

This item is not applicable to the Company as it is a smaller reporting company.

ITEM 2 – UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table sets forth information regarding the Company’s repurchases of its common stock during the quarter ended March 31, 2014.

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part Of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
January 1 through 31, 2014	-	\$ -	-	59,837
February 1 through 28, 2014	-	-	-	59,837
	-	-	-	59,837

March 1 through 31,
2014
Total

- \$ -

40

ITEM 3 – DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4 – MINE SAFETY DISCLOSURES

Not applicable

ITEM 5 – OTHER INFORMATION

None

ITEM 6 – EXHIBITS

- 31.1 Certification of CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101.INS XBRL Instance Document
- 101.SCH XBRL Schema Document
- 101.CAL XBRL Calculation Linkbase Document
- 101.LAB XBRL Labels Linkbase Document
- 101.PRE XBRL Presentation Linkbase Document
- 101.DEF XBRL Definition Linkbase Document

SIGNATURES

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

MSB FINANCIAL CORP.
(Registrant)

Date May 15, 2014

/s/ Michael A. Shriner
Michael A. Shriner
President and Chief Executive Officer

Date May 15, 2014

/s/ Jeffrey E. Smith
Jeffrey E. Smith
Vice President and Chief Financial
Officer