MALVERN BANCORP, INC.
Form 10-Q
August 09, 2016

UNITED STATES OF AMERICA

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended June 30, 2016

OR

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

For the transition period from _______ to _______

Commission File Number: 000-54835

MALVERN BANCORP, INC.

(Exact Name of Registrant as Specified in Its Charter)

Pennsylvania	**45-5307782**
(State or Other Jurisdiction of	(IRS Employer
Incorporation or Organization)	Identification No.)

42 Lancaster Avenue, Paoli, Pennsylvania 19301

(Address of Principal Executive Offices) (Zip Code)

(610) 644-9400

(Registrant's Telephone Number, Including Area Code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§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 x No ¨

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

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

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

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

Common Stock, par value $0.01:	**6,560,713 shares**
(Title of Class)	(Outstanding as of August 8, 2016)

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PART I – FINANCIAL INFORMATION

The following unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X, and, accordingly, do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. However, in the opinion of management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended June 30, 2016 are not necessarily indicative of the results that may be expected for the full year ending September 30, 2016, or for any other interim period. The Malvern Bancorp, Inc. 2015 Annual Report on Form 10-K should be read in conjunction with these financial statements.

Item 1. Financial Statements

MALVERN BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(**in thousands, except for share and per share data)**	June 30, 2016	September 30, 2015
	(unaudited)	
ASSETS		
Cash and due from depository institutions	$ 1,331	$ 16,026
Interest bearing deposits in depository institutions	77,052	24,237
Total cash and cash equivalents	78,383	40,263
Investment securities available for sale, at fair value	80,555	128,354
Investment securities held to maturity at cost (fair value of $46,146 and $56,825)	45,834	57,221
Restricted stock, at cost	5,548	4,765
Loans held for sale	304	—
Loans receivable, net of allowance for loan losses of $5,343 and $4,667, respectively	553,971	391,307
Other real estate owned	700	1,168
Accrued interest receivable	2,714	2,484
Property and equipment, net	6,654	6,535
Deferred income taxes, net	1,598	2,874
Bank-owned life insurance	18,289	17,905
Other assets	1,755	2,814
Total assets	$ 796,305	$ 655,690
LIABILITIES		
Deposits:		
Non-interest bearing	$ 29,416	$ 27,010
Interest-bearing	549,627	438,512
Total deposits	579,043	465,522
FHLB Advances	123,000	103,000
Advances from borrowers for taxes and insurance	3,935	1,806
Accrued interest payable	436	396
Other liabilities	3,241	3,575
Total liabilities	709,655	574,299
SHAREHOLDERS' EQUITY		
Preferred stock, $0.01 par value, 10,000,000 shares authorized, none issued	—	—
Common stock, $0.01 par value, 40,000,000 shares authorized, issued and outstanding: 6,560,713 shares at June 30, 2016 and 6,558,473 at September 30, 2015	66	66
Additional paid in capital	60,437	60,365
Retained earnings	28,013	23,814
Unearned Employee Stock Ownership Plan (ESOP) shares	(1,665)	(1,775)

Accumulated other comprehensive loss	(201)	(1,079)
Total shareholders' equity	86,650	81,391
Total liabilities and shareholders' equity	$ 796,305	$ 655,690

See accompanying notes to unaudited consolidated financial statements.

MALVERN BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended June 30,		Nine Months Ended June 30,	
(in thousands, except for share and per share data)	2016	2015	2016	2015
Interest and Dividend Income				
Loans, including fees	$ 5,560	$ 4,028	$ 15,226	$ 12,356
Investment securities, taxable	643	859	2,313	2,151
Investment securities, tax-exempt	192	172	577	305
Dividends, restricted stock	65	65	182	244
Interest-bearing cash accounts	70	15	129	62
Total Interest and Dividend Income	6,530	5,139	18,427	15,118
Interest Expense				
Deposits	1,180	843	3,305	2,561
Borrowings	570	458	1,631	1,322
Total Interest Expense	1,750	1,301	4,936	3,883
Net interest income	4,780	3,838	13,491	11,235
Provision for Loan Losses	472	—	847	90
Net Interest Income after Provision for Loan Losses	4,308	3,838	12,644	11,145
Other Income				
Service charges and other fees	227	286	665	820
Rental income-other	55	61	155	189
Net gains on sales of investments, net	229	145	421	437
Net gains on sale of loans, net	20	16	90	55
Earnings on bank-owned life insurance	128	132	387	395
Total Other Income	659	640	1,718	1,896
Other Expense				
Salaries and employee benefits	1,600	1,333	4,621	4,611
Occupancy expense	469	407	1,348	1,296
Federal deposit insurance premium	40	203	472	554
Advertising	26	54	81	199
Data processing	278	312	845	915
Professional fees	415	364	1,176	1,141
Other real estate owned (income) expense, net	(8)	32	(1)	(63)
Other operating expenses	558	568	1,621	1,854
Total Other Expense	3,378	3,273	10,163	10,507
Income before income tax expense	1,589	1,205	4,199	2,534
Income tax expense	—	—	—	—
Net Income	$ 1,589	$ 1,205	$ 4,199	$ 2,534

Earnings Per Common Share:

Basic	$ 0.25	$ 0.19	$ 0.66	$ 0.40
Diluted	$ 0.25	n/a	$ 0.66	n/a
Weighted Average Common Shares Outstanding:				
Basic	6,411,766	6,395,126	6,407,403	6,391,514
Diluted	6,411,804	n/a	6,407,433	n/a
Dividends Declared Per Share	$ 0.00	$ 0.00	$ 0.00	$ 0.00

See accompanying notes to unaudited consolidated financial statements.

MALVERN BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

(in thousands)	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Nine Months Ended June 30, 2016	Nine Months Ended June 30, 2015
Net Income	$ 1,589	$ 1,205	$ 4,199	$ 2,534
Other Comprehensive Income (Loss), Net of Tax:				
Unrealized holding gains on available-for-sale securities	972	(2,001)	2,111	1,108
Tax effect	(330)	680	(718)	(377)
Net of tax amount	642	(1,321)	1,393	731
Reclassification adjustment for net gains arising during the period	(229)	(145)	(421)	(437)
Tax effect	78	49	143	148
Net of tax amount	(151)	(96)	(278)	(289)
Accretion of unrealized holding losses on securities transferred from available-for-sale to held-to-maturity	3	(82)	7	(115)
Tax effect	(1)	28	(2)	39
Net of tax amount	2	(54)	5	(76)
Fair value adjustments on derivatives	(278)	—	(527)	—
Tax effect	94	—	285	—
Net of tax amount	(184)	—	(242)	—
Total other comprehensive income (loss)	309	(1,471)	878	366
Total comprehensive income (loss)	$ 1,898	$ (266)	$ 5,077	$ 2,900

See accompanying notes to unaudited consolidated financial statements.

MALVERN BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Unearned ESOP Shares	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	(in thousands, except share data)					
Balance, October 1, 2014	$66	$ 60,317	$ 20,116	$ (1,922)	$ (1,805)	$ 76,772
Net Income	—	—	2,534	—	—	2,534
Other comprehensive income	—	—	—	—	366	366
Committed to be released ESOP shares (10,800 shares)	—	29	—	111	—	140
Balance, June 30, 2015	$66	$ 60,346	$ 22,650	$ (1,811)	$ (1,439)	$ 79,812
Balance, October 1, 2015	$66	$ 60,365	$ 23,814	$ (1,775)	$ (1,079)	$ 81,391
Net Income	—	—	4,199	—	—	4,199
Other comprehensive income	—	—	—	—	878	878
Committed to be released ESOP shares (10,800 shares)	—	72	—	110	—	182
Balance, June 30, 2016	$66	$ 60,437	$ 28,013	$ (1,665)	$ (201)	$ 86,650

See accompanying notes to unaudited consolidated financial statements.

MALVERN BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine Months Ended June 30,	
(in thousands)	**2016**	**2015**
Cash Flows from Operating Activities		
Net income	$ 4,199	$ 2,534
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	478	484
Provision for loan losses	847	90
Deferred income taxes expense (benefit)	985	(628)
ESOP expense	182	140
Amortization of premiums and discounts on investment securities, net	967	505
Amortization of loan origination fees and costs	930	305
Amortization of mortgage service rights	52	64
Net gain on sale of investment securities available-for-sale	(421)	(437)
Net gain on sale of secondary market loans	(90)	(55)
Proceeds on sale of secondary market loans	4,116	1,555
Originations of secondary market loans	(4,026)	(1,500)
Gain on sale of other real estate owned	(45)	(121)
Write down of other real estate owned	20	54
Earnings on bank-owned life insurance	(387)	(395)
Increase in accrued interest receivable	(230)	(1,082)
Increase in accrued interest payable	40	197
(Decrease) increase in other liabilities	(334)	1,019
(Increase) decrease in other assets	(567)	231
Net Cash Provided by Operating Activities	6,716	2,960
Cash Flows from Investing Activities		
Investment securities available-for-sale:		
Purchases	(2,115)	(151,623)
Sales	50,469	59,427
Maturities, calls and principal repayments	790	5,594
Investment securities held-to-maturity:		
Purchases	—	(4,152)
Maturities, calls and principal repayments	11,193	2,432
(Loan originations) and principal collections, net	(164,745)	12,817
Proceeds from sale of other real estate owned	493	973
Additions to mortgage servicing rights	—	(17)
Proceeds from death benefit of bank-owned life insurance	1,049	—
Net increase in restricted stock	(783)	(866)
Purchases of property and equipment	(597)	(163)
Net Cash Used in Investing Activities	(104,246)	(75,578)

Cash Flows from Financing Activities		
Net increase in deposits	113,521	30,265
Proceeds from long-term borrowings	86,000	78,000
Repayment of long-term borrowings	(66,000)	(33,000)
Increase in advances from borrowers for taxes and insurance	2,129	2,459
Net Cash Provided by Financing Activities	135,650	77,724
Net Increase in Cash and Cash Equivalents	38,120	5,106
Cash and Cash Equivalent – Beginning	40,263	19,187
Cash and Cash Equivalent – Ending	$ 78,383	$ 24,293
Supplementary Cash Flows Information		
Interest paid	$ 4,896	$ 3,685
Non-cash transfer of loans to other real estate owned	$ —	$ 308
Transfer from investment securities available-for-sale to investment securities held-to-maturity	$ —	$ 57,523
Non-cash transfer of loans to loans held for sale	$ 304	$ 657

See accompanying notes to unaudited consolidated financial statements.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Basis of Presentation

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

The Bank is a federally chartered stock savings bank which was originally organized in 1887. The Bank operates from its headquarters in Paoli, Pennsylvania and through its eight full service financial center offices in Chester and Delaware Counties, Pennsylvania and a private banking loan production headquarters office in Morristown, New Jersey.

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

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

Note 2 – Recent Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-13, "Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." The ASU requires an organization to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. Organizations will continue to use judgment to determine which loss estimation method is appropriate for their circumstances. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. For public companies, this update will be effective for interim and annual periods beginning after December 15, 2019. The Company has not yet determined the impact the adoption of ASU 2016-13 will have on the consolidated financial statements and related disclosures.

In May 2016, the FASB issued ASU No. 2016-12 “Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients.” The guidance is intended to clarify the guidance previously issued in May 2014 related to the recognition of revenue from contracts with customers. The updated guidance includes narrow-scope improvements intended to address implementation issues and to provide additional practical expedients in the guidance. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2017, with early adoption permitted for interim and annual reporting periods beginning after December 15, 2016. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 2 – Recent Accounting Pronouncements – (continued)

In April 2016, the FASB issued ASU No. 2016-10 “Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing.” The guidance is intended to clarify the guidance previously issued in May 2014 related to the recognition of revenue from contracts with customers. The updated guidance is intended to reduce the cost and complexity of applying the guidance on identifying promised goods or services in a contract and to improve the operability and understandability of the implementation guidance regarding the licensing of intellectual property. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2017, with early adoption permitted for interim and annual reporting periods beginning after December 15, 2016. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, “Compensation - Stock Compensation (Topic 718): Improvements to Employee share-Based Payment Accounting.” The new guidance simplifies certain aspects related to income taxes, statement of cash flows, and forfeitures when accounting for share-based payment transactions. This new guidance will be effective for the Company for the first reporting period beginning after December 15, 2016, with earlier adoption permitted. Certain of the amendments related to timing of the recognition of tax benefits and tax withholding requirements should be applied using a modified retrospective transition method. Amendments related to the presentation of the statement of cash flows should be applied retrospectively. All other provisions may be applied on a prospective or modified retrospective basis. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-05, “Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships.” The new guidance clarifies that a change in the counterparties to a derivative contract, i.e., a novation, in and of itself, does not require the de-designation of a hedging relationship. An entity will, however, still need to evaluate whether it is probable that the counterparty will perform under the contract as part of its ongoing effectiveness assessment for hedge accounting. This new guidance will be effective for the Company for the first reporting period beginning after December 15, 2016, with earlier adoption permitted. Adoption of the new guidance can be applied on a modified retrospective or prospective basis. The Company is currently evaluating the effect that the standard will have on its consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU No. 2016-02, “Leases (Topic 842).” The guidance in this update supersedes the current lease accounting guidance for both the lessees and lessors under ASC 840, Leases. The new guidance requires lessees to evaluate whether a lease is a finance lease using criteria that are similar to what lessees use today to determine whether they have a capital lease. Leases not classified as finance leases are classified as operating leases. This classification will determine whether the lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. The lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to today's guidance for operating leases. The new guidance will require lessors to account for leases using an approach that is substantially similar to the existing guidance for sales-type, direct financing leases and operating leases. This new guidance will be effective for the Company for the first reporting period beginning after December 15, 2018, with earlier adoption permitted. Adoption of the amendment must be applied on a modified retrospective approach. The Company is currently evaluating the effect that the standard will have on its consolidated financial statements and related disclosures.

In January 2016, the FASB issued ASU No. 2016-01, "Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities." The new guidance is intended to improve the recognition and measurement of financial instruments. The ASU affects public and private companies, not-for-profit organizations, and employee benefit plans that hold financial assets or owe financial liabilities. ASU No. 2016-01 is effective for interim and annual reporting periods beginning after December 15, 2017. The Company is currently evaluating the effect that the standard will have on its consolidated financial statements and related disclosures.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 2 – Recent Accounting Pronouncements – (continued)

In November 2015, the FASB issued ASU No. 2015-17, “Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes.” The FASB is issuing the amendments in this Update as part of its initiative to reduce complexity in accounting standards (the Simplification Initiative). The objective of the Simplification Initiative is to identify, evaluate, and improve areas of generally accepted accounting principles (“GAAP”) for which cost and complexity can be reduced while maintaining or improving the usefulness of the information provided to users of financial statements. To simplify the presentation of deferred income taxes, the amendments in this Update require that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The amendments in this Update apply to all entities that present a classified statement of financial position. The current requirement that deferred tax liabilities and assets of a tax-paying component of an entity be offset and presented as a single amount is not affected by the amendments in this Update. ASU No. 2015-17 is effective for interim and annual reporting periods beginning after December 15, 2016. Early adoption is permitted, including adoption in an interim period. All other amendments will be effective upon the issuance of this Update. The Company has evaluated the standard and determined that it has no effect on the Company’s consolidated financial statements and related disclosures.

Note 3 – Earnings Per Share

Basic earnings per common share is computed based on the weighted average number of shares outstanding reduced by unearned ESOP shares. Diluted earnings per share is computed based on the weighted average number of shares outstanding and common stock equivalents (“CSEs”) that would arise from the exercise of dilutive securities reduced by unearned ESOP shares. For the three and nine months ended June 30, 2016, the Company had issued 5,000 shares of stock options, as well as 2,240 restricted shares, which are considered CSEs. For the three and nine months ended June 30, 2015, the Company had not issued and did not have any outstanding CSEs.

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
(in thousands, except for share and per share data)	2016	2015	2016	2015
Net Income	$ 1,589	$ 1,205	$ 4,199	$ 2,534

Weighted average shares outstanding	6,560,713	6,558,473	6,559,961	6,558,473
Average unearned ESOP shares	(148,947)	(163,347)	(152,558)	(166,959)
Basic weighted average shares outstanding	6,411,766	6,395,126	6,407,403	6,391,514
Plus: effect of dilutive options	38	—	30	—
Diluted weighted average common shares outstanding	6,411,804	—	6,407,433	—
Earnings per share:				
Basic	$ 0.25	$ 0.19	$ 0.66	$ 0.40
Diluted	$ 0.25	n/a	$ 0.66	n/a

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 4 – Employee Stock Ownership Plan

The Company established an employee stock ownership plan (“ESOP”) for substantially all of its full-time employees. The current ESOP trustee is the Bank’s Board of Directors. Shares of the Company’s common stock purchased by the ESOP are held until released for allocation to participants. Shares released are allocated to each eligible participant based on the ratio of each such participant’s base compensation to the total base compensation of all eligible plan participants. As the unearned shares are committed to be released and allocated among participants, the Company recognizes compensation expense equal to the fair value of the ESOP shares during the periods in which they become committed to be released. To the extent that the fair value of the ESOP shares released differs from the cost of such shares, the difference is charged or credited to additional paid-in capital. During the period from May 20, 2008 to September 30, 2008, the ESOP purchased 241,178 shares of the common stock for approximately $2.6 million, an average price of $10.86 per share, which was funded by a loan from Malvern Federal Bancorp, Inc. (the Company’s predecessor). The ESOP loan is being repaid principally from the Bank’s contributions to the ESOP. The loan, which bears an interest rate of 5%, is being repaid in quarterly installments through 2026. Shares are released to participants proportionately as the loan is repaid. During the three and nine months ended June 30, 2016 and 2015, there were 3,600 and 10,800 shares, respectively, committed to be released. At June 30, 2016, there were 147,165 unallocated shares and 112,053 allocated shares held by the ESOP which had an aggregate fair value of approximately $2.3 million.

Note 5 - Investment Securities

The Company’s investment securities are classified as available-for-sale or held-to-maturity at June 30, 2016 and at September 30, 2015. Investment securities available-for-sale are reported at fair value with unrealized gains or losses included in equity, net of tax. Accordingly, the carrying value of such securities reflects their fair value at the balance sheet date. Fair value is based upon either quoted market prices, or in certain cases where there is limited activity in the market for a particular instrument, assumptions are made to determine their fair value.

Transfers of debt securities from the available-for-sale category to the held-to-maturity category are made at fair value at the date of transfer. The unrealized holding gain or loss at the date of transfer remains in accumulated other comprehensive income and in the carrying value of the held-to-maturity investment security. Unrealized holding gains or losses that remain in accumulated other comprehensive income are amortized or accreted over the remaining life of the security as an adjustment of yield, offsetting the related amortization of the premium or accretion of the discount. Premiums or discounts on investment securities are amortized or accreted using the effective interest method over the life of the security as an adjustment of yield.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 5 - Investment Securities – (continued)

The following tables present information related to the Company's investment securities at June 30, 2016 and September 30, 2015.

	June 30, 2016 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Investment Securities Available-for-Sale:				
State and municipal obligations	$26,176	$ 657	$ —	$26,833
Single issuer trust preferred security	1,000	—	(167)	833
Corporate debt securities	41,362	316	(371)	41,307
	68,538	973	(538)	68,973
Mortgage-backed securities:				
Federal National Mortgage Association (FNMA), fixed-rate	5,950	70	—	6,020
Federal Home Loan Mortgage Company (FHLMC), fixed-rate	5,496	66	—	5,562
	11,446	136	—	11,582
Total	$79,984	$ 1,109	$ (538)	$80,555
Investment Securities Held-to-Maturity:				
U.S. government agencies	$6,803	$ 29	$ (1)	$6,831
State and municipal obligations	9,889	184	—	10,073
Corporate debt securities	3,940	26	—	3,966
Mortgage-backed securities:				
Collateralized mortgage obligations, fixed-rate	25,202	154	(80)	25,276
Total	$45,834	$ 393	$ (81)	$46,146
Total investment securities	$125,818	$ 1,502	$ (619)	$126,701

	September 30, 2015 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Investment Securities Available-for-Sale:				
U.S. government agencies	$816	$ —	$ (1)	$815
State and municipal obligations	42,007	192	(116)	42,083

Single issuer trust preferred security	1,000	—	(150)	850
Corporate debt securities	70,874	34	(926)	69,982
	114,697	226	(1,193)	113,730
Mortgage-backed securities:				
Federal National Mortgage Association (FNMA), fixed-rate	8,797	—	(105)	8,692
Federal Home Loan Mortgage Company (FHLMC), fixed-rate	5,986	—	(54)	5,932
	14,783	—	(159)	14,624
Total	$129,480	$ 226	$ (1,352)	$128,354
Investment Securities Held-to-Maturity:				
U.S. government agencies	$14,301	$ 8	$ (13)	$14,296
State and municipal obligations	10,075	23	(75)	10,023
Corporate debt securities	4,011	—	(55)	3,956
Mortgage-backed securities:				
Collateralized mortgage obligations, fixed-rate	28,834	55	(339)	28,550
Total	$57,221	$ 86	$ (482)	$56,825
Total investment securities	$186,701	$ 312	$ (1,834)	$185,179

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 5 - Investment Securities – (continued)

During the year ended September 30, 2015, the Company transferred at fair value approximately $57.5 million in available-for-sale investment securities to the held-to-maturity category. The net unrealized loss at date of transfer amounted to $115,000 which is being amortized over the remaining life of the securities as an adjustment of yield, offsetting the related amortization of the premium or accretion of the discount on the transferred securities. No gains or losses were recognized at the time of transfer. Management considers the held-to-maturity classification of these investment securities to be appropriate as the Company has the positive intent and ability to hold these securities to maturity.

For the nine months ended June 30, 2016, proceeds of available-for-sale investment securities sold amounted to approximately $50.5 million. Gross realized gains on investment securities sold amounted to approximately $451,000, while gross realized losses amounted to approximately $30,000 for the period. For the nine months ended June 30, 2015, proceeds of investment securities sold amounted to approximately $59.4 million. Gross realized gains on investment securities sold amounted to approximately $532,000, while gross realized losses amounted to approximately $95,000, for the nine months ended June 30, 2015.

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

The following tables indicate gross unrealized losses not recognized in income and fair value, aggregated by investment category and the length of time individual securities have been in a continuous unrealized loss position at June 30, 2016 and September 30, 2015:

	June 30, 2016					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair value	Unrealized Losses
	(in thousands)					

Investment Securities Available-for-Sale:						
Single issuer trust preferred security	$—	$ —	$833	$ (167)	$833	$ (167)
Corporate debt securities	3,533	(18)	13,248	(353)	16,781	(371)
Total	$3,533	$ (18)	$14,081	$ (520)	$17,614	$ (538)
Investment Securities Held-to-Maturity:						
U.S. government agencies	999	(1)	—	—	999	(1)
Mortgage-backed securities:						
CMO, fixed-rate	2,095	(4)	7,132	(76)	9,227	(80)
Total	3,094	(5)	7,132	(76)	10,226	(81)
Total investment securities	$6,627	$ (23)	$21,213	$ (596)	$27,840	$ (619)

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 5 - Investment Securities – (continued)

	September 30, 2015					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair value	Unrealized Losses
	(in thousands)					
Investment Securities Available-for-Sale:						
U.S. government agencies	$—	$ —	$815	$ (1)	$815	$ (1)
State and municipal obligations	18,223	(116)	—	—	18,223	(116)
Single issuer trust preferred security	—	—	850	(150)	850	(150)
Corporate debt securities	58,064	(926)	—	—	58,064	(926)
Mortgage-backed securities:						
FNMA, fixed-rate	5,459	(53)	3,233	(52)	8,692	(105)
FHLMC, fixed-rate	3,280	(25)	2,652	(29)	5,932	(54)
Total	$85,026	$ (1,120)	$7,550	$ (232)	$92,576	$ (1,352)
Investment Securities Held-to-Maturity:						
U.S. government agencies	4,792	(13)	—	—	4,792	(13)
State and municipal obligations	6,917	(75)	—	—	6,917	(75)
Corporate debt securities	3,957	(55)	—	—	3,957	(55)
Mortgage-backed securities:						
CMO, fixed-rate	22,734	(339)	—	—	22,734	(339)
Total	38,400	(482)	—	—	38,400	(482)
Total investment securities	$123,426	$ (1,602)	$7,550	$ (232)	$130,976	$ (1,834)

As of June 30, 2016, the estimated fair value of the securities disclosed above was primarily dependent upon the movement in market interest rates, particularly given the negligible inherent credit risk associated with these securities. These investment securities are comprised of securities that are rated investment grade by at least one bond credit rating service. Although the fair value will fluctuate as market interest rates move, management believes that these fair values will recover as the underlying portfolios mature and are reinvested in market rate yielding investments. As of June 30, 2016, the Company held one U.S. government agency security, 11 corporate debt securities, 12 mortgage-backed securities and one single issuer trust preferred security which were in an unrealized loss position. The Company does not intend to sell and expects that it is not more likely than not that it will be required to sell these securities until such time as the value recovers or the securities mature. Management does not believe any individual unrealized loss as of June 30, 2016 represents other-than-temporary impairment.

At June 30, 2016 and September 30, 2015, the Company had no securities pledged to secure public deposits.

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 5 - Investment Securities – (continued)

The following table presents information for investment securities at June 30, 2016, based on scheduled maturities. Actual maturities can be expected to differ from scheduled maturities due to prepayment or early call options of the issuer.

	June 30, 2016 Amortized Cost	**Fair Value**
	(in thousands)	
Investment Securities Available-for-Sale:		
Due in one year or less	$—	$ —
Due after one year through five years	20,320	20,503
Due after five years through ten years	37,869	38,057
Due after ten years	21,795	21,995
Total	$79,984	$ 80,555
Investment Securities Held-to-Maturity:		
Due after one year through five years	$6,803	$ 6,832
Due after five years through ten years	5,875	6,032
Due after ten years	33,156	33,282
Total	$45,834	$ 46,146
Total investment securities	$125,818	$ 126,701

Note 6 - Loans Receivable and Related Allowance for Loan Losses

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

	June 30, 2016	September 30, 2015
	(in thousands)	
Residential mortgage	$210,621	$ 214,958
Construction and Development:		
Residential and commercial	14,050	5,677

Land	9,904	2,142
Total Construction and Development	23,954	7,819
Commercial:		
Commercial real estate	211,516	87,686
Multi-family	20,102	7,444
Other	37,091	13,380
Total Commercial	268,709	108,510
Consumer:		
Home equity lines of credit	21,035	22,919
Second mortgages	31,752	37,633
Other	2,088	2,359
Total Consumer	54,875	62,911
Total loans	558,159	394,198
Deferred loan fees and cost, net	1,155	1,776
Allowance for loan losses	(5,343)	(4,667)
Total loans receivable, net	$553,971	$ 391,307

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

The following tables summarize the primary classes of the allowance for loan losses ("ALLL"), segregated into the amount required for loans individually evaluated for impairment and the amount required for loans collectively evaluated for impairment as of June 30, 2016 and September 30, 2015. Activity in the allowance is presented for the three and nine months ended June 30, 2016 and 2015 and the year ended September 30, 2015, respectively.

	Three Months Ended June 30, 2016										
		Construction and Development		Commercial			Consumer				
	Residential Mortgage	Residential and Commercial	Land	**Commercial Real Estate**	Multi-family	Other	Home Equity Lines of Credit	Second Mortgages	Other	Unallocated	Total
	(in thousands)										
Allowance for loan losses:											
Beginning balance	$1,399	$ 74	$ 106	$1,529	$ 151	$193	$133	$ 580	$29	$ 743	$4,937
Charge-offs	-	(91)	-	-	-	-	-	-	(11)	-	(102)
Recoveries	(23)	39	-	-	-	-	1	15	4	-	36
Provision	(150)	236	16	266	(13)	(37)	(9)	(72)	10	225	472
Ending Balance	$1,226	$ 258	$ 122	$1,795	$ 138	$156	$125	$ 523	$32	$ 968	$5,343

	Three Months Ended June 30, 2015										
		Construction and Development		Commercial			Consumer				
	Residential Mortgage	Residential and Commercial	Land	**Commercial Real Estate**	Multi-family	Other	Home Equity Lines of Credit	Second Mortgages	Other	Unallocated	Total
	(in thousands)										
Allowance for loan losses:											
Beginning balance	$1,587	$ 308	$ 5	$1,058	$ 157	$ 59	$143	$ 851	$ 32	$ 412	$4,612

Charge-offs	-	-	-	-	-	-	-	(107)	-	-	(107)
Recoveries	16	23	-	3	-	1	-	23	3	-	69
Provision	(71)	3	(5)	(25)	(9)	30	(2)	(36)	(6)	121	-
Ending Balance	$1,532	$ 334	$ -	$1,036	$ 148	$ 90	$141	$ 731	$ 29	$ 533	$4,574

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

	Nine Months Ended June 30, 2016										
		Construction and Development		Commercial			Consumer				
	Residential Mortgage	Residential and Commercial	Land	**Commercial Real Estate**	Multi-family	Other	Home Equity Lines of Credit	Second Mortgages	Other	Unallocated	Total
	(in thousands)										
Allowance for loan losses:											
Beginning balance	$1,486	$30	$35	$1,235	$104	$108	$139	$761	$24	$745	$4,667
Charge-offs	(9)	(91)	-	(99)	-	-	-	(255)	(54)	-	(508)
Recoveries	17	243	-	3	-	2	1	59	12	-	337
Provisions	(268)	76	87	656	34	46	(15)	(42)	50	223	847
Ending Balance	$1,226	$258	$122	$1,795	$138	$156	$125	$523	$32	$968	$5,343
Ending balance: individually evaluated for impairment	$-	$-	$-	$-	$-	$-	$-	$24	$-	$-	$24
Ending balance: collectively evaluated for impairment	$1,266	$258	$122	$1,795	$138	$156	$125	$499	$32	$968	$5,319
Loans receivable:											
Ending balance	$210,621	$14,050	$9,904	$211,516	$20,102	$37,091	$21,035	$31,752	$2,088		$558,159
Ending balance: individually evaluated	$787	$109	$-	$1,850	$-	$-	$20	$232	$-		$2,998

for impairment								
Ending balance: collectively evaluated for impairment	$209,834	$13,941	$9,904	$209,666	$20,102	$37,091	$21,015	$31,520