Citizens Community Bancorp Inc.
Form 10-Q
August 12, 2013

UNITED STATES
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, 2013

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 001-33003

CITIZENS COMMUNITY BANCORP, INC.
(Exact name of registrant as specified in its charter)

Maryland (State or other jurisdiction of incorporation or organization)	20-5120010 (IRS Employer Identification Number)

2174 EastRidge Center, Eau Claire, WI 54701
(Address of principal executive offices)
715-836-9994
(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 and 15(d) of the Securities Exchange Act of 1934 during the past 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 a small reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (Check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x
APPLICABLE ONLY TO CORPORATE ISSUERS
Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date:
At August 12, 2013 there were 5,154,891 shares of the registrant's common stock, par value $0.01 per share, outstanding.

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PART 1 – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CITIZENS COMMUNITY BANCORP, INC.
Consolidated Balance Sheets
June 30, 2013 (unaudited) and September 30, 2012
(derived from audited financial statements)
(in thousands, except share data)

	June 30, 2013	September 30, 2012
Assets		
Cash and cash equivalents	$27,882	$23,259
Other interest-bearing deposits	1,992	—
Securities available for sale (at fair value)	69,177	67,111
Federal Home Loan Bank stock	3,300	3,800
Loans receivable	438,189	427,789
Allowance for loan losses	(6,055)	(5,745)
Loans receivable, net	432,134	422,044
Office properties and equipment, net	5,056	5,530
Accrued interest receivable	1,481	1,571
Intangible assets	232	274
Foreclosed and repossessed assets, net	808	542
Other assets	9,857	6,052
TOTAL ASSETS	$551,919	$530,183
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits	$442,208	$422,058
Federal Home Loan Bank advances	52,950	49,250
Other liabilities	2,939	3,772
Total liabilities	498,097	475,080
Stockholders' equity:		
Common stock—5,154,891 and 5,135,550 shares issued and outstanding, respectively	51	51
Additional paid-in capital	54,108	53,969
Retained earnings	2,185	1,529
Unearned deferred compensation	(181)	(94)
Accumulated other comprehensive loss	(2,341)	(352)
Total stockholders' equity	53,822	55,103
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$551,919	$530,183

See accompanying condensed notes to unaudited consolidated financial statements.

CITIZENS COMMUNITY BANCORP, INC.
Consolidated Statements of Operations (unaudited)
Three and Nine Months Ended June 30, 2013 and 2012
(in thousands, except per share data)

	Three Months Ended		Nine Months Ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Interest and dividend income:				
Interest and fees on loans	$5,710	$6,247	$17,412	$19,409
Interest on investments	263	446	1,029	1,135
Total interest and dividend income	5,973	6,693	18,441	20,544
Interest expense:				
Interest on deposits	1,187	1,274	3,644	4,115
Interest on borrowed funds	111	324	392	982
Total interest expense	1,298	1,598	4,036	5,097
Net interest income	4,675	5,095	14,405	15,447
Provision for loan losses	750	900	2,415	3,540
Net interest income after provision for loan losses	3,925	4,195	11,990	11,907
Non-interest income:				
Total fair value adjustments and other-than-temporary impairment	67	107	73	(2,644)
Portion of loss recognized in other comprehensive income (loss) (before tax)	(193)	(107)	(863)	1,971
Net gain (loss) on sale of available for sale securities	(56)	11	552	91
Net gain (loss) on available for sale securities	(182)	11	(238)	(582)
Service charges on deposit accounts	525	400	1,248	1,127
Loan fees and service charges	159	168	616	403
Other	187	166	519	448
Total non-interest income	689	745	2,145	1,396
Non-interest expense:				
Salaries and related benefits	2,259	2,237	6,689	6,600
Occupancy	626	617	1,864	1,838
Office	350	279	1,079	857
Data processing	443	389	1,236	1,120
Amortization of core deposit intangible	15	28	42	194
Advertising, marketing and public relations	44	47	131	147
FDIC premium assessment	66	124	418	518
Professional services	233	349	460	894
Other	323	284	989	1,115
Total non-interest expense	4,359	4,354	12,908	13,283
Income before provision for income tax	255	586	1,227	20
Provision for income taxes	89	237	468	19
Net income attributable to common stockholders	$166	$349	$759	$1
Per share information:				
Basic earnings	$0.03	$0.07	$0.15	$—
Diluted earnings	$0.03	$0.07	$0.15	$—
Cash dividends paid	$—	$—	$0.02	$—

See accompanying condensed notes to unaudited consolidated financial statements.

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CITIZENS COMMUNITY BANCORP, INC.
Consolidated Statements of Other Comprehensive Income (Loss) (unaudited)
Nine months ended June 30, 2013 and 2012
(in thousands, except per share data)

	Nine Months Ended	
	June 30, 2013	June 30, 2012
Net income attributable to common stockholders	$759	$1
Other comprehensive income (loss), net of tax:		
Securities available for sale		
Net unrealized (losses) gains arising during period	(2,795)	715
Reclassification adjustment for gains included in net income	332	54
Change for realized losses on securities available for sale for other-than-temporary impairment write-down	474	404
Unrealized (losses) gains on securities	(1,989)	1,173
Defined benefit plans:		
Amortization of unrecognized prior service costs and net gains	—	3
Total other comprehensive (loss) income, net of tax	(1,989)	1,176
Comprehensive (loss) income	$(1,230)	$1,177

Reclassifications out of accumulated other comprehensive income for the nine months ended June 30, 2013 were as follows:

Details about Accumulated Other Comprehensive Income Components	Amounts Reclassified from Accumulated Other Comprehensive Income (1)	Affected Line Item on the Statement of Operations
Unrealized gains and losses		
Gains (losses) on sale of securities	$552	Net gain (loss) on sale of available for sale securities
	73	Total fair value adjustments and other-than-temporary impairment
	(863)	Portion of loss recognized in other comprehensive income (loss) (before tax)
	(238)	
	95	Benefit for income taxes
Total reclassifications for the period	(143)	Net loss attributable to common shareholders

(1) Amounts in parentheses indicate decreases to profit/loss.

See accompanying condensed notes to unaudited consolidated financial statements.

CITIZENS COMMUNITY BANCORP, INC.
Consolidated Statement of Changes in Stockholders' Equity (unaudited)
Nine Months Ended June 30, 2013
(in thousands, except Shares)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Unearned Deferred Compensation	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount					
Balance, October 1, 2012	5,135,550	$51	$53,969	$1,529	$ (94)	$ (352)	$ 55,103
Net Income				759			759
Other comprehensive loss, net of tax						(1,989)	(1,989)
Forfeiture of unvested shares	(503)						—
Surrender of vested shares	(639)		(4)				(4)
Common stock awarded under recognition and retention plan	20,483		120		(120)		—
Stock option expense			23				23
Amortization of restricted stock					33		33
Cash Dividends ($0.02 per share)				(103)			(103)
Balance, June 30, 2013	5,154,891	$51	$54,108	$2,185	$ (181)	$ (2,341)	$ 53,822

See accompanying condensed notes to unaudited consolidated financial statements.

CITIZENS COMMUNITY BANCORP, INC.
Consolidated Statements of Cash Flows (unaudited)
Nine Months Ended June 30, 2013 and 2012
(in thousands, except per share data)

	Nine Months Ended	
	June 30, 2013	June 30, 2012
Cash flows from operating activities:		
Net income attributable to common stockholders	$759	$1
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization of premium/discount on securities	763	481
Depreciation	805	780
Provision for loan losses	2,415	3,540
Net realized gain on sale of securities	(552)	(91)
Other-than-temporary impairment on mortgage-backed securities	790	673
Amortization of core deposit intangible	42	194
Amortization of restricted stock	33	16
Stock based compensation expense	23	15
Loss on sale of office properties	16	134
Net gains from disposals of foreclosed properties	(70)	(32)
Provision for valuation allowance on foreclosed properties	67	144
Decrease in accrued interest receivable and other assets	557	1,044
(Decrease) increase in other liabilities	(833)	130
Total adjustments	4,056	7,028
Net cash provided by operating activities	4,815	7,029
Cash flows from investing activities:		
Purchase of securities available for sale	(59,164)	(47,521)
Purchase of bank owned life insurance	(3,000)	—
Net (increase) decrease in interest-bearing deposits	(1,992)	9,543
Proceeds from sale of securities available for sale	44,780	18,200
Principal payments on securities available for sale	8,001	7,116
Proceeds from sale of FHLB stock	500	1,361
Proceeds from sale of foreclosed properties	1,368	1,421
Net increase in loans	(14,083)	(3,616)
Net capital expenditures	(345)	(380)
Net cash received from sale of office properties	—	465
Net cash used in investing activities	(23,935)	(13,411)
Cash flows from financing activities:		
Net increase in Federal Home Loan Bank advances	3,700	17,750
Net increase (decrease) in deposits	20,150	(22,276)
Surrender of restricted shares of common stock	(4)	—
Cash dividends paid	(103)	—
Net cash provided by (used in) financing activities	23,743	(4,526)
Net increase (decrease) in cash and cash equivalents	4,623	(10,908)
Cash and cash equivalents at beginning of period	23,259	31,763
Cash and cash equivalents at end of period	$27,882	$20,855
Supplemental cash flow information:		
Cash paid during the year for:		
Interest on deposits	$3,648	$4,103
Interest on borrowings	$419	$988

Income taxes	$788	$21
Supplemental noncash disclosure:		
Transfers from loans receivable to foreclosed and repossessed assets	$1,616	$1,284

See accompanying condensed notes to unaudited consolidated financial statements.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
NOTE 1 – NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements include the accounts of Citizens Community Bancorp, Inc. (the “Company”) and its wholly owned subsidiary, Citizens Community Federal (the "Bank"), and have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) for interim financial statements. Citizens Community Bancorp was a successor to Citizens Community Federal as a result of a regulatory restructuring into the mutual holding company form, which was effective on March 29, 2004. Originally, Citizens Community Federal was a credit union. In December 2001, Citizens Community Federal converted to a federal mutual savings bank. In 2004, Citizens Community Federal reorganized into the mutual holding company form of organization. In 2006, Citizens Community Bancorp completed its second-step mutual to stock conversion.

The consolidated income of the Company is principally derived from the income of the Company’s wholly owned subsidiary. The Bank originates residential and consumer loans and accepts deposits from customers, primarily in Wisconsin, Minnesota and Michigan. The Bank operates 25 full-service offices; eight stand-alone locations and 17 branches predominantly located inside Walmart Supercenters.

The Bank is subject to competition from other financial institutions and non-financial institutions providing financial products. Additionally, the Bank is subject to the regulations of certain regulatory agencies and undergoes periodic examination by those regulatory agencies.

In preparing these consolidated financial statements, we evaluated the events and transactions that occurred through August 12, 2013, the date on which the financial statements were available to be issued. As of August 12, 2013, there were no subsequent events which required recognition or disclosure.

The accompanying consolidated interim financial statements are unaudited. However, in the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Unless otherwise stated, all amounts are in thousands.

Principles of Consolidation – The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Citizens Community Federal. All significant inter-company accounts and transactions have been eliminated.

Use of Estimates – Preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”) requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying disclosures. These estimates are based on management’s best knowledge of current events and actions the Company may undertake in the future. Estimates are used in accounting for, among other items, fair value of financial instruments, the allowance for loan losses, valuation of acquired intangible assets, useful lives for depreciation and amortization, indefinite-lived intangible assets and long-lived assets, deferred tax assets, uncertain income tax positions and contingencies. Management does not anticipate any material changes to estimates made herein in the near term. Factors that may cause sensitivity to the aforementioned estimates include but are not limited to external market factors such as market interest rates and unemployment rates, changes to operating policies and procedures, and changes in applicable banking regulations. Actual results may ultimately differ from estimates, although management does not generally believe such differences would materially affect the consolidated financial statements in any individual reporting period.

Securities – Securities are classified as available for sale when they might be sold before maturity. Securities available for sale are carried at fair value, with unrealized holding gains and losses deemed other than temporarily impaired due to non-credit issues being reported in other comprehensive income (loss), net of tax. Unrealized losses deemed other-than-temporary due to credit issues are reported in the Company’s earnings in the period in which the losses arise. Interest income includes amortization of purchase premium or accretion of purchase discount. Amortization of premiums and accretion of discounts are recognized in interest income using the interest method over the estimated lives of the securities.

In estimating other-than-temporary impairment (OTTI), management considers: (1) the length of time and extent that fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the

Company’s ability and intent to hold the security for a period sufficient to allow for any anticipated recovery in fair value. The difference between the present values of the cash flows expected to be collected and the amortized cost basis is the credit loss. The credit loss is the portion of OTTI that is recognized in operations and is a reduction to the cost basis of the security. The portion of other-than-temporary impairment related to all other factors is included in other comprehensive income (loss), net of the related tax effect.

Loans – Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of unearned interest, and deferred loan fees and costs. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the interest method without anticipating prepayments.

Interest income on commercial, mortgage and consumer loans is discontinued according to the following schedules:

•Commercial loans past due 90 days or more.

•Closed end consumer loans past due 120 days or more.

•Real estate loans and open ended consumer loans past due 180 days or more.

Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual status or charged off at an earlier date if collection of principal or interest is considered doubtful. All interest accrued but not received for a loan placed on nonaccrual status is reversed against interest income. Interest received on such loans is accounted for on the cash basis or cost recovery method until qualifying for return to accrual status. Loans are returned to accrual status when payments are made that bring the loan account current with the contractual term of the loan and a 6 month payment history has been established. Interest on impaired loans considered troubled debt restructurings (“TDRs”) or substandard, less than 90 days delinquent, is recognized as income as it accrues based on the revised terms of the loan over an established period of continued payment. Substandard loans, as defined by the U.S. Comptroller of the Currency, our primary banking regulator, are loans that are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any.

Real estate loans and open ended consumer loans are charged off to estimated net realizable value less estimated selling costs at the earlier of when (a) the loan is deemed by management to be uncollectible, or (b) the loan becomes past due 180 days or more. Closed end consumer loans are charged off to net realizable value at the earlier of when (a) the loan is deemed by management to be uncollectible, or (b) the loan becomes past due 120 days or more.

Allowance for Loan Losses – The allowance for loan losses (“ALL”) is a valuation allowance for probable and inherent credit losses in our loan portfolio. Loan losses are charged against the ALL when management believes that the collectability of a loan balance is unlikely. Subsequent recoveries, if any, are credited to the ALL. Management estimates the required ALL balance taking into account the following factors: past loan loss experience; the nature, volume and composition of the loan portfolio; known and inherent risks in the portfolio; information about specific borrowers’ ability to repay; estimated collateral values; current economic conditions; and other relevant factors determined by management. The ALL consists of specific and general components. The specific component relates to loans that are individually classified as impaired. The general component covers non-impaired loans and is based on historical loss experience adjusted for certain qualitative factors. The entire ALL balance is available for any loan that, in management’s judgment, should be charged off.

A loan is impaired when full payment under the loan terms is not expected. Impaired loans consist of all TDRs, as well as individual substandard loans not considered a TDR, when full payment under the loan terms is not expected. All TDRs are individually evaluated for impairment. See Note 3, “Loans, Allowance for Loan Losses and Impaired Loans” for more information on what we consider to be a TDR. If a TDR or substandard loan is deemed to be impaired, a specific ALL allocation is established so that the loan is reported, net, at either (a) the present value of estimated future cash flows using the loan’s existing rate; or (b) at the fair value of any collateral less estimated disposal costs, if repayment is expected solely from the underlying collateral of the loan. For TDRs less than 90+ days past due, and certain TDRs that are less than 90+ days delinquent, the likelihood of the loan migrating to over 90 days past due is also factored when determining the specific ALL allocation. Large groups of smaller balance homogeneous loans, such as non-TDR commercial, consumer and residential real estate loans, are collectively evaluated for impairment, and accordingly, are not separately identified for impairment disclosures.

Foreclosed and Repossessed Assets, net – Assets acquired through foreclosure or repossession, are initially recorded at fair value, less estimated costs to sell, which establishes a new cost basis. If the fair value declines subsequent to foreclosure or repossession, a valuation allowance is recorded through expense. Costs incurred after acquisition are expensed, and are included in non-interest expense, other on the Consolidated Statements of Operations. Foreclosed and repossessed asset balances were $808 and $542 at June 30, 2013 and September 30, 2012, respectively.

Income Taxes – The Company accounts for income taxes in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (“ASC”) Topic 740, “Income Taxes.” Under this guidance, deferred taxes are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates that will apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized as income or expense in the period that includes the enactment date. See Note 6, "Income Taxes" for details on the Company’s income taxes.

The Company regularly reviews the carrying amount of its net deferred tax assets to determine if the establishment of a valuation allowance is necessary. If based on the available evidence, it is more likely than not that all or a portion of the Company’s net deferred tax assets will not be realized in future periods, a deferred tax valuation allowance would be established. Consideration is given to various positive and negative factors that could affect the realization of the deferred tax assets. In evaluating this available evidence, management considers, among other things, historical performance, expectations of future earnings, the ability to carry back losses to recoup taxes previously paid, the length of statutory carry forward periods, any experience with utilization of operating loss and tax credit carry forwards not expiring, tax planning strategies and timing of reversals of temporary differences. Significant judgment is required in assessing future earnings trends and the timing of reversals of temporary differences. Accordingly, the Company’s evaluation is based on current tax laws as well as management’s expectations of future performance.

Earnings Per Share – Basic earnings per common share is net income or loss divided by the weighted average number of common shares outstanding during the period. Diluted earnings per common share include the dilutive effect of additional potential common shares issuable during the period, consisting of stock options outstanding under the Company’s stock incentive plans.

Reclassifications – Certain items previously reported were reclassified for consistency with the current presentation.

Recent Accounting Pronouncements - On February 5, 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update ("ASU") 2013-02 "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income." ASU 2013-02 requires new disclosure for items reclassified out of accumulated other comprehensive income. ASU 2013-02 is intended to help entities improve the transparency of changes in other comprehensive income and items reclassified out of accumulated other comprehensive income in their financial statements. For public entities, ASU 2013-02 is effective prospectively for fiscal years beginning after December 15, 2012. Early adoption is permitted. The Company has adopted ASU 2013-02 effective March 31, 2013. The adoption of ASU 2013-02 had no material effect on the Company's results of operations, financial position or cash flows.

NOTE 2 – FAIR VALUE ACCOUNTING

ASC Topic 820-10, “Fair Value Measurements and Disclosures” establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The statement describes three levels of inputs that may be used to measure fair value:

Level 1- Quoted prices (unadjusted) for identical assets or liabilities in active markets that the Company has the ability to access as of the measurement date.

Level 2- Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3- Significant unobservable inputs that reflect the Company’s assumptions about the factors that market participants would use in pricing an asset or liability.

A financial instrument’s categorization within the valuation hierarchy is based upon the lowest level of input within the valuation hierarchy that is significant to the fair value measurement.

The fair value of securities available for sale is determined by obtaining market price quotes from independent third parties wherever such quotes are available (Level 1 inputs) or matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities’ relationship to other benchmark quoted securities (Level 2 inputs). Where such quotes are not available, the Company utilizes independent third party valuation analysis to support the Company’s estimates and judgments in determining fair value (Level 3 inputs).

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Assets Measured on a Recurring Basis

Level 3 assets measured on a recurring basis are certain investments for which little or no market activity exists or whose value of the underlying collateral is not market observable. Management's valuation uses both observable as well as unobservable inputs to assist in the Level 3 valuation of mortgage backed securities held by the Bank, employing a methodology that considers future cash flows along with risk-adjusted returns. The inputs in this methodology are as follows: ability and intent to hold to maturity, mortgage underwriting rates, market prices/conditions, loan type, loan-to-value ratio, strength of borrower, loan age, delinquencies, prepayment/cash flows, liquidity, expected future cash flows, rating agency actions, and a discount rate, which is assumed to be approximately equal to the coupon rate for each security. The Company had an independent valuation conducted for all Level 3 securities as of June 30, 2013.

The following tables present the financial instruments measured at fair value on a recurring basis as of June 30, 2013 and September 30, 2012:

	Fair Value	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2013				
Securities available for sale:				
U.S. Agency securities	$19,813		$19,813	
U.S. Agency mortgage-backed securities	6,323	—	6,323	—
U.S. Agency Floating Rate Bonds	6,731	—	6,731	—
Fannie Mae mortgage-backed securities	14,507	—	14,507	—
Freddie Mac mortgage-backed securities	9,671	—	9,671	—
Non-agency mortgage-backed securities	1,371	—	—	1,371
General Obligation Municipal Bonds	9,256	—	9,256	—
Revenue Municipal Bonds	1,505	—	1,505	—
Total	$69,177	$—	$67,806	$1,371
September 30, 2012				
Securities available for sale:				
U.S. Agency mortgage-backed securities	$17,022	$—	$17,022	$—
U.S. Agency Floating Rate Bonds	7,977	—	7,977	—
Fannie Mae mortgage-backed securities	11,817	—	11,817	—
Freddie Mac mortgage-backed securities	11,887	—	11,887	—
Non-agency mortgage-backed securities	6,586	—	—	6,586
General Obligation Municipal Bonds	9,463	—	9,463	—
Revenue Municipal Bonds	2,359	—	2,359	—
Total	$67,111	$—	$60,525	$6,586

The following table presents a reconciliation of non-agency mortgage-backed securities held by the Bank measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the nine months ended, June 30, 2013 and 2012:

	Nine Months Ended	
	June 30, 2013	June 30, 2012
Balance beginning of period	$6,586	$9,143
Total gains or losses (realized/unrealized):		
Included in earnings	(790)	(673)
Included in other comprehensive loss	1,074	1,379
Sales	(3,802)	—
Payments, accretion and amortization	(1,697)	(2,433)

Balance end of period	$1,371	$7,416

Assets Measured on a Nonrecurring Basis

The following tables present the financial instruments measured at fair value on a nonrecurring basis as of June 30, 2013 and September 30, 2012:

	Fair Value	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2013				
Foreclosed and repossessed assets, net	$808	$ —	$—	$808
Loans restructured in a TDR	8,414	—	—	8,414
Total	$9,222	$ —	$—	$9,222
September 30, 2012				
Foreclosed and repossessed assets, net	$542	$ —	$—	$542
Loans restructured in a TDR	7,511	—	—	7,511
Total	$8,053	$ —	$—	$8,053

The fair value of TDRs was determined by obtaining independent third party appraisals and/or internally developed collateral valuations to support the Company’s estimates and judgments in determining the fair value of the underlying collateral supporting TDRs.

The fair value of foreclosed and repossessed assets was determined by obtaining market price quotes from independent third parties wherever such quotes are available. Where such quotes are not available, the Company utilizes independent third party appraisals to support the Company’s estimates and judgments in determining fair value.

Fair Values of Financial Instruments

ASC 825-10 and ASC 270-10, Interim Disclosures about Fair Value Financial Instruments, require disclosures about fair value financial instruments and significant assumptions used to estimate fair value. The estimated fair values of financial instruments not previously disclosed are determined as follows:

Cash and Cash Equivalents

Due to their short-term nature, the carrying amounts of cash and cash equivalents are considered to be a reasonable estimate of fair value.

Other Interest-Bearing Deposits

Fair value of interest bearing deposits is estimated based on their carrying amounts.

Federal Home Loan Bank (FHLB) Stock

Federal Home Loan Bank Stock is carried at cost, which is its redeemable fair value since the market for the stock is restricted.

Loans Receivable, net

Fair value is estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type such as real estate and consumer. The fair value of loans is calculated by discounting scheduled cash flows through the estimated maturity date using market discount rates reflecting the credit and interest rate risk inherent in the loan. The estimate of maturity is based on the Bank’s repayment schedules for each loan classification.

Accrued Interest Receivable and Payable

Due to their short-term nature, the carrying amounts of accrued interest receivable and payable, respectively, are considered to be a reasonable estimate of fair value.

Deposits

The fair value of deposits with no stated maturity, such as demand deposits, savings accounts, and money market accounts, is the amount payable on demand at the reporting date. The fair value of fixed rate certificate accounts is calculated by using discounted cash flows applying interest rates currently being offered on similar certificates.

Federal Home Loan Bank Advances

The fair value of long-term borrowed funds is estimated using discounted cash flows based on the Bank's current incremental borrowing rates for similar borrowing arrangements. The carrying value of short-term borrowed funds approximates its fair value.

Off-Balance-Sheet Instruments

The fair value of off-balance sheet commitments would be estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements, the current interest rates, and the present creditworthiness of the customers. Since this amount is immaterial to the Company's consolidated financial statements, no amounts for fair value are presented.

The carrying amount and estimated fair value of financial instruments as of the dates indicated were as follows:

	June 30, 2013		September 30, 2012	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash and cash equivalents	$27,882	$27,882	$23,259	$23,259
Interest-bearing deposits	1,992	1,992	—	—
Securities available for sale	69,177	69,177	67,111	67,111
FHLB stock	3,300	3,300	3,800	3,800
Loans receivable, net	432,134	450,185	422,044	452,520
Accrued interest receivable	1,481	1,481	1,571	1,571
Financial liabilities:				
Deposits	$442,208	$446,331	$422,058	$427,893
FHLB advances	52,950	53,041	49,250	50,254
Accrued interest payable	31	31	99	99

NOTE 3 – LOANS, ALLOWANCE FOR LOAN LOSSES AND IMPAIRED LOANS

The ALL represents management's estimate of probable and inherent credit losses in the Bank's loan portfolio. Estimating the amount of the ALL requires the exercise of significant judgment and the use of estimates related to the amount and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans based on historical loss experience, and consideration of other qualitative factors such as current economic trends and conditions, all of which may be susceptible to significant change.

There are many factors affecting the ALL; some are quantitative, while others require qualitative judgment. The process for determining the ALL (which management believes adequately considers potential factors which result in probable credit losses), includes subjective elements and, therefore, may be susceptible to significant change. To the extent actual outcomes differ from management estimates, additional provision for loan losses could be required that could adversely affect the Company's earnings or financial position in future periods. Allocations of the ALL may be made for specific loans but the entire ALL is available for any loan that, in management's judgment, should be charged-off or for which an actual loss is realized.

Changes in the ALL by loan type for the periods presented below were as follows:

	Real Estate	Consumer and Other	Total
Nine Months then Ended June 30, 2013:			
Allowance for Loan Losses:			
Beginning balance, October 1, 2012	$2,287	$3,458	$5,745
Charge-offs	(1,114)	(1,238)	(2,352)
Recoveries	26	221	247
Provision	1,259	1,156	2,415
Ending balance, June 30, 2013	$2,458	$3,597	$6,055
Allowance for Loan Losses at June 30, 2013:			
Amount of Allowance for Loan Losses arising from loans individually evaluated for impairment	$786	$246	$1,032
Amount of Allowance for Loan Losses arising from loans collectively evaluated for impairment	$1,672	$3,351	$5,023
Loans Receivable as of June 30, 2013:			
Ending balance	$267,320	$170,869	$438,189
Ending balance: individually evaluated for impairment	$4,142	$1,061	$5,203
Ending balance: collectively evaluated for impairment	$263,178	$169,808	$432,986

	Real Estate	Consumer and Other	Total
Year ended September 30, 2012			
Allowance for Loan Losses:			
Beginning balance, October 1, 2011	$1,907	$2,991	$4,898
Charge-offs	(1,984)	(1,965)	(3,949)
Recoveries	30	326	356
Provision	2,334	2,106	4,440
Ending balance, September 30, 2012	$2,287	$3,458	$5,745
Allowance for Loan Losses at September 30, 2012:			
Amount of Allowance for Loan Losses arising from loans individually evaluated for impairment	$500	$124	$624
Amount of Allowance for Loan Losses arising from loans collectively evaluated for impairment	$1,787	$3,334	$5,121
Loans Receivable as of September 30, 2012:			
Ending balance	$271,739	$156,050	$427,789
Ending balance: individually evaluated for impairment	$4,371	$946	$5,317
Ending balance: collectively evaluated for impairment	$267,368	$155,104	$422,472

The Bank has originated substantially all loans currently recorded on the Company's consolidated balance sheet. During October 2012, the Bank entered into an agreement to purchase consumer loans from a third party on an ongoing basis. Pursuant to the ongoing loan purchase agreement, a restricted reserve account was established at 3% of the outstanding consumer loan balances purchased, with such percentage amount of the loans being deposited into a segregated reserve account. The funds in the reserve account are to be released to compensate the Bank for any purchased loans that are ultimately charged off. As of June 30, 2013, the balance of the consumer loans purchased was $15,028. The balance in the cash reserve account was $454, which is included in Deposits on the consolidated balance sheet.

Loans receivable by loan type as of the end of the periods shown below were as follows:

	Real Estate Loans		Consumer and Other Loans		Total Loans	
	June 30, 2013	September 30, 2012	June 30, 2013	September 30, 2012	June 30, 2013	September 30, 2012
Performing loans						
Performing TDR loans	$5,745	$5,751	$1,117	$1,055	$6,862	$6,806
Performing loans other	259,087	260,719	169,256	154,427	428,343	415,146
Total performing loans	264,832	266,470	170,373	155,482	435,205	421,952
Nonperforming loans (1)						
Nonperforming TDR loans	1,338	1,259	214	70	1,552	1,329
Nonperforming loans other	1,150	4,010	282	498	1,432	4,508
Total nonperforming loans	$2,488	$5,269	$496	$568	$2,984	$5,837
Total loans	$267,320	$271,739	$170,869	$156,050	$438,189	$427,789

(1) Nonperforming loans are either 90+ days past due or nonaccrual.

An aging analysis of the Company’s real estate and consumer and other loans as of June 30, 2013 and September 30, 2012, respectively, was as follows:

	1 Month Past Due	2 Months Past Due	Greater Than 3 Months	Total Past Due	Current	Total Loans	Recorded Investment > 3 months and Accruing
June 30, 2013							
Real estate loans	$1,458	$524	$2,202	$4,184	$263,136	$267,320	$ 195
Consumer and other loans	1,017	252	287	1,556	169,313	170,869	122
Total	$2,475	$776	$2,489	$5,740	$432,449	$438,189	$ 317
September 30, 2012							
Real estate loans	$1,814	$676	$3,348	$5,838	$265,901	$271,739	$ —
Consumer and other loans	1,846	453	341	2,640	153,410	156,050	—
Total	$3,660	$1,129	$3,689	$8,478	$419,311	$427,789	$ —

At June 30, 2013, the Company has identified $8,414 of TDR loans and $3,229 of substandard loans as impaired, including $6,862 of performing TDR loans. A loan is identified as impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement. Performing TDRs consist of loans that have been modified and are performing in accordance with the modified terms for a sufficient length of time, generally six months, or loans that were modified on a proactive basis.
A summary of the Company's impaired loans as of June 30, 2013 and September 30, 2012 was as follows:

	With No Related Allowance Recorded			With An Allowance Recorded			Totals		
	Real Estate	Consumer and Other	Total	Real Estate	Consumer and Other	Total	Real Estate	Consumer and Other	Total
Recorded investment at June 30, 2013	$ 5,356	$ 1,084	$ 6,440	$ 4,142	$ 1,061	$ 5,203	$ 9,498	$ 2,145	$ 11,643
Unpaid balance at June 30, 2013	5,356	1,084	6,440	4,142	1,061	5,203	9,498	2,145	11,643
Recorded investment at September 30, 2012	2,720	179	2,899	4,290	946	5,236	7,010	1,125	8,135
Unpaid balance at September 30, 2012	2,720	179	2,899	4,290	946	5,236	7,010	1,125	8,135
Average recorded investment; nine months ended June 30, 2013	3,895	569	4,464	4,331	1,015	5,346	8,226	1,584	9,810
Average recorded investment; twelve months ended September 30, 2012	3,128	343	3,471	3,092	837	3,929	6,220	1,180	7,400
Interest income received; nine months ended June 30, 2013	158	67	225	53	31	84	211	98	309
Interest income received; twelve months ended September 30, 2012	43	8	51	78	27	105	121	35	156

Troubled Debt Restructuring – A TDR includes a loan modification where a borrower is experiencing financial difficulty and the Bank grants a concession to that borrower that the Bank would not otherwise consider except for the borrower's financial difficulties. Concessions include extension of loan terms, renewals of existing balloon loans, reductions in interest rates and consolidating existing Bank loans at modified terms. A TDR may be either on accrual or nonaccrual status based upon the performance of the borrower and management's assessment of collectability. If a TDR is placed on nonaccrual status, it remains there until a sufficient period of performance under the restructured terms has occurred at which time it is returned to accrual status. There were 9 delinquent TDRs, greater than 60 days past due, with a recorded investment of $1,086 at June 30, 2013, compared to 11 such loans with a recorded investment of $1,221 at September 30, 2012. A summary of loans by loan type modified in a troubled debt restructuring as of June 30, 2013 and June 30, 2012, and during each of the nine months then ended, was as follows:

	Real Estate	Consumer and Other	Total
June 30, 2013 and			
Nine Months then Ended:			
Accruing / Performing:			
Beginning balance	$5,751	$1,055	$6,806
Principal payments	(353)	(231)	(584)
Charge-offs	(55)	(4)	(59)
Advances	17	3	20
New restructured (1)	149	182	331
Class transfers (2)	701	112	813
Transfers between accrual/non-accrual	(465)	—	(465)
Ending balance	$5,745	$1,117	$6,862
Non-accrual / Non-performing:			
Beginning balance	$1,259	$70	$1,329
Principal payments	(524)	(64)	(588)
Charge-offs	(156)	(13)	(169)
Advances	12	3	15
New restructured (1)	—	1	1
Class transfers (2)	282	217	499
Transfers between accrual/non-accrual	465		