

PRUDENTIAL BANCORP, INC.
Form 10-Q
February 14, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 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: 000-55084

PRUDENTIAL BANCORP, INC.
(Exact Name of Registrant as Specified in Its Charter)

Pennsylvania
(State or Other Jurisdiction of Incorporation or
Organization)

46-2935427
(I.R.S. Employer Identification No.)

1834 Oregon Avenue Philadelphia,
Pennsylvania
(Address of Principal Executive Offices)

19145
Zip Code

(215) 755-1500
(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 ☒ 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

Edgar Filing: PRUDENTIAL BANCORP, INC. - Form 10-Q

(§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ☒ Yes ☐ No

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

Large accelerated filer	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	Smaller reporting company	<input checked="" type="checkbox"/>

(Do not check if a smaller reporting company)

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

Indicate the number of shares outstanding of each of the issuer’s classes of common stock as of the latest practical date: as of February 1, 2014, 9,544,809 shares were issued and outstanding.

PRUDENTIAL BANCORP, INC. AND SUBSIDIARIES

TABLE OF CONTENTS

	PAGE
PART I	FINANCIAL INFORMATION:
Item 1.	Consolidated Financial Statements
	Unaudited Consolidated Statements of Financial Condition December 31, 2013 and September 30, 2013 2
	Unaudited Consolidated Statements of Operations for the Three Months Ended December 31, 2013 and 2012 3
	Unaudited Consolidated Statements of Comprehensive (Loss) Income for for the Three Months Ended December 31, 2013 and 2012 4
	Unaudited Consolidated Statements of Changes in Stockholders' Equity for the Three Months Ended December 31, 2013 and 2012 5
	Unaudited Consolidated Statements of Cash Flows for the Three Months Ended December 31, 2013 and 2012 6
	Notes to Unaudited Consolidated Financial Statements 7
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations 34
Item 3.	Quantitative and Qualitative Disclosures About Market Risk 47
Item 4.	Controls and Procedures 47
PART II	OTHER INFORMATION
Item 1.	Legal Proceedings 48
Item 1A.	Risk Factors 48
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds 48
Item 3.	Defaults Upon Senior Securities 49
Item 4.	Mine Safety Disclosures 49
Item 5.	Other Information 49

Item 6.	Exhibits	49
SIGNATURES		50

PRUDENTIAL BANCORP, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	December 31, 2013	September 30, 2013
	(Dollars in Thousands)	
ASSETS		
Cash and amounts due from depository institutions	\$2,292	\$2,670
Interest-bearing deposits	54,114	156,314
Total cash and cash equivalents	56,406	158,984
Investment and mortgage-backed securities available for sale (amortized cost—December 31, 2013, \$45,120; September 30, 2013, \$43,744)	42,634	41,781
Investment and mortgage-backed securities held to maturity (estimated fair value—December 31, 2013, \$77,818; September 30, 2013, \$80,582)	82,984	83,732
Loans receivable—net of allowance for loan losses (December 31, 2013, \$2,353; September 30, 2013, \$2,353)	321,615	306,517
Accrued interest receivable	1,838	1,791
Real estate owned	406	406
Federal Home Loan Bank stock—at cost	1,181	1,181
Office properties and equipment—net	1,481	1,525
Bank owned life insurance	7,167	7,119
Prepaid expenses and other assets	8,018	3,555
Deferred tax asset-net	1,457	1,306
TOTAL ASSETS	\$525,187	\$607,897
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Deposits:		
Noninterest-bearing	\$2,526	\$3,474
Interest-bearing	386,444	539,274
Total deposits	388,970	542,748
Advances from Federal Home Loan Bank	340	340
Accrued interest payable	17	1,666
Advances from borrowers for taxes and insurance	2,467	1,480
Accounts payable and accrued expenses	2,912	1,751
Total liabilities	394,706	547,985
STOCKHOLDERS' EQUITY:		
Preferred stock, \$.01 par value, 10,000,000 shares authorized, none issued	-	-
	95	118

Edgar Filing: PRUDENTIAL BANCORP, INC. - Form 10-Q

Common stock, \$.01 par value, 40,000,000 shares authorized, issued and outstanding; 9,544,809 at December 31, 2013 and issued 11,862,693 and outstanding 9,646,183 at September 30, 2013		
Additional paid-in capital	94,219	55,297
Unearned ESOP shares	(2,509)	(2,565)
Treasury stock, at cost: 0 shares at December 31, 2013; 2,398,509 shares at September 30, 2013	-	(31,625)
Retained earnings	40,317	39,979
Accumulated other comprehensive loss	(1,641)	(1,292)
Total stockholders' equity	130,481	59,912
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$525,187	\$607,897

See notes to unaudited consolidated financial statements.

PRUDENTIAL BANCORP, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended December 31,	
	2013	2012
	(Dollars in Thousands Except Per Share Amounts)	
INTEREST INCOME:		
Interest on loans	\$ 3,138	\$ 3,253
Interest on mortgage-backed securities	329	634
Interest and dividends on investments	548	476
Interest on interest-bearing assets	54	34
Total interest income	4,069	4,397
INTEREST EXPENSE:		
Interest on deposits	905	1,220
Total interest expense	905	1,220
NET INTEREST INCOME	3,164	3,177
PROVISION FOR LOAN LOSSES	-	-
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	3,164	3,177
NON-INTEREST INCOME:		
Fees and other service charges	100	97
Gain on sale of securities available for sale, net	-	16
Total other-than-temporary impairment losses	(7)	(20)
Portion of loss recognized in other comprehensive income, before taxes	-	6
Net impairment losses recognized in earnings	(7)	(14)
Other	68	115
Total non-interest income	161	214
NON-INTEREST EXPENSE:		
Salaries and employee benefits	1,550	1,458
Data processing	107	110
Professional services	237	184
Office occupancy	93	97
Depreciation	82	86

Edgar Filing: PRUDENTIAL BANCORP, INC. - Form 10-Q

Payroll taxes	77	71
Director compensation	85	98
Deposit insurance	99	162
Real estate owned expense	35	103
Advertising	85	76
Other	353	323
Total non-interest expense	2,803	2,768
 INCOME BEFORE INCOME TAXES	 522	 623
 INCOME TAXES:		
Current expense	155	53
Deferred expense	29	298
 Total income tax expense	 184	 351
 NET INCOME	 \$ 338	 \$ 272
 BASIC EARNINGS PER SHARE	 \$ 0.04	 \$ 0.03
 DILUTED EARNINGS PER SHARE	 \$ 0.04	 \$ 0.03

See notes to unaudited consolidated financial statements.

PRUDENTIAL BANCORP, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

	Three months ended December 31,	
	2013	2012
	(Dollars in Thousands)	
Net income	\$ 338	\$ 272
Unrealized holding loss on available-for-sale securities	(536)	(342)
Tax effect	182	116
Reclassification adjustment for net gains realized in net income	-	(16)
Tax effect	-	5
Reclassification adjustment for other-than-temporary impairment losses on debt securities	7	14
Tax effect	(2)	(5)
Total other comprehensive loss	(349)	(228)
Comprehensive (Loss) Income	\$ (11)	\$ 44

See notes to unaudited consolidated financial statements

PRUDENTIAL BANCORP, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Stock	Additional Paid-In Capital	Unearned ESOP Shares	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
(Dollars in Thousands)							
BALANCE, OCTOBER 1, 2013	\$ 118	\$ 55,297	\$ (2,565)	\$ (31,625)	\$ 39,979	\$ (1,292)	\$ 59,912
Net income					338		338
Other comprehensive loss						(349)	(349)
Second-step conversion offering	(23)	38,725		31,625			70,327
Excess tax benefit from stock compensation plans		47					47
Stock option expense		71					71
Recognition and Retention Plan expense		77					77
ESOP shares committed to be released (5,339 shares)		2	56				58
BALANCE, December 31, 2013	\$ 95	\$ 94,219	\$ (2,509)	\$ -	\$ 40,317	\$ (1,641)	\$ 130,481

	Common Stock	Additional Paid-In Capital	Unearned ESOP Shares	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
(Dollars in Thousands)							
BALANCE, OCTOBER 1, 2012	\$ 118	\$ 54,618	\$ (2,787)	\$ (31,625)	\$ 38,224	\$ 1,283	\$ 59,831
Net income					272		272
						(228)	(228)

Other comprehensive loss							
Excess tax benefit from stock compensation plans	39						39
Stock option expense	55						55
Recognition and Retention Plan expense	64						64
ESOP shares committed to be released (5,339 shares)	(20)	55					35
BALANCE, December 31, 2012	\$ 118	\$ 54,756	\$ (2,732)	\$ (31,625)	\$ 38,496	\$ 1,055	\$ 60,068

See notes to unaudited consolidated financial statements

PRUDENTIAL BANCORP, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended December 31,	
	2013	2012
	(Dollars in Thousands)	
OPERATING ACTIVITIES:		
Net income	\$ 338	\$ 272
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation	82	86
Net accretion of premiums/discounts	(46)	(48)
Net accretion of deferred loan fees and costs	37	(50)
Impairment charge on investment and mortgage-backed securities	7	14
Share-based compensation expense	195	158
Gain on sale of investment and mortgage-backed securities	-	(16)
Gain on sale of real estate owned	-	(10)
Compensation expense of ESOP	58	35
Deferred income tax expense	29	298
Excess tax benefit related to stock compensation plans	(47)	(39)
Changes in assets and liabilities which used cash:		
Accrued interest receivable	(47)	(237)
Prepaid expenses and other assets	(4,511)	942
Accrued interest payable	(1,649)	(2,357)
Accounts payable and accrued expenses	1,161	(160)
Net cash used in operating activities	(4,393)	(1,112)
INVESTING ACTIVITIES:		
Purchase of investment and mortgage-backed securities held to maturity	-	(21,467)
Purchase of investment and mortgage-backed securities available for sale	(2,421)	(5,991)
Loans originated or acquired	(29,425)	(22,295)
Principal collected on loans	14,290	8,822
Principal payments received on investment and mortgage-backed securities:		
Held-to-maturity	761	5,379
Available-for-sale	1,065	4,893
Proceeds from redemption of FHLB stock	-	294
Proceeds from sale of investment and mortgage-backed securities	-	304
Proceeds from sale of real estate owned	-	208
Purchases of equipment	(38)	(31)
Net cash used in investing activities	(15,768)	(29,884)
FINANCING ACTIVITIES:		
Net (decrease) increase in demand deposits, NOW accounts, and savings accounts	(3,113)	4,976
Redemption of funds held in escrow relating to second-step conversion	(145,675)	-
Net decrease in certificates of deposit	(4,990)	(2,802)
Repayment of advances from Federal Home Loan Bank	-	(143)
Increase in advances from borrowers for taxes and insurance	987	916
Issuance of common stock relating to second-step conversion	38,702	-

Edgar Filing: PRUDENTIAL BANCORP, INC. - Form 10-Q

Cancellation of treasury stock	31,625	-
Excess tax benefit related to stock compensation plans	47	39
Net cash (used in) provided by financing activities	(82,417)	2,986
 NET DECREASE IN CASH AND CASH EQUIVALENTS	 (102,578)	 (28,010)
 CASH AND CASH EQUIVALENTS—Beginning of period	 158,984	 81,273
 CASH AND CASH EQUIVALENTS—End of period	 \$ 56,406	 \$ 53,263
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Interest paid on deposits and advances from Federal Home Loan Bank	\$ 2,554	\$ 3,577
 Income taxes paid	 \$ -	 \$ -
SUPPLEMENTAL DISCLOSURES OF NONCASH ITEMS:		
Real estate acquired in settlement of loans	\$ -	\$ 236

See notes to unaudited consolidated financial statements.

PRUDENTIAL BANCORP, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

Organization—On October 9, 2013, Prudential Mutual Holding Company (“MHC”) and Prudential Bancorp of Pennsylvania, Inc. (“Old Prudential”), the Pennsylvania chartered mid-tier holding company for Prudential Savings Bank (the “Bank”), completed a reorganization and conversion (the “second-step conversion”), pursuant to which Prudential Bancorp, Inc., a new Pennsylvania corporation (“Prudential” or the “Company”) become the holding company for the Bank and the MHC and Old Prudential ceased to exist. In connection with the second-step conversion, 7,141,602 shares of common stock, par value \$0.01 per share, of Prudential were sold in a subscription offering to certain depositors of the Bank for \$10 per share or in the aggregate (the “Offering”), and 2,403,207 shares of common stock were issued in exchange for the outstanding shares of common stock of Old Prudential, which were held by the “public” shareholders of Old Prudential. Each share of common stock of Old Prudential was converted into right to receive 0.9442 shares of common stock of the Company in the second step conversion. As a result of the second-step conversion, the former MHC and Old Prudential were merged in the Company and 2,540,255 (pre-conversion) treasury shares were cancelled.

The Bank is a community-oriented savings bank headquartered in South Philadelphia which was originally organized in 1886 as a Pennsylvania-chartered building and loan association known as “The South Philadelphia Building and Loan Association No. 2.” The Bank grew through a number of mergers with other mutual institutions with the last merger being with Continental Savings and Loan Association in 1983. The Bank converted to a Pennsylvania-chartered savings bank in August 2004. The banking office network currently consists of the headquarters and main office and six full-service branch offices. Six of the banking offices are located in Philadelphia (Philadelphia County) and one is in Drexel Hill in neighboring Delaware County, Pennsylvania. The Bank maintains ATMs at six of the banking offices. We also provide on-line banking services.

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

Basis of presentation—The accompanying unaudited consolidated financial statements were prepared pursuant to the rules and regulations of the United States Securities and Exchange Commission (“SEC”) for interim information and therefore do not include all the information or footnotes necessary for a complete presentation of financial condition, results of operations, changes in equity and cash flows in conformity with accounting principles generally accepted in the United States of America (“GAAP”). However, all normal recurring adjustments that, in the opinion of management, are necessary for a fair presentation of the financial statements have been included. The results for the three months ended December 31, 2013 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2014, or any other period. These financial statements should be read in conjunction with the audited consolidated financial statements of Prudential Bancorp, Inc. of Pennsylvania and the accompanying notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended September 30, 2013.

Use of Estimates in the Preparation of Financial Statements—The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported

amounts of income and expenses during the reporting period. The most significant estimates and assumptions in the Company's consolidated financial statements are recorded in the allowance for loan losses, deferred income taxes, other-than-temporary impairment, and the fair value measurement for financial instruments. Actual results could differ from those estimates.

Employee Stock Ownership Plan – The Company maintains an employee stock ownership plan as (“ESOP”) for substantially all of its full-time employees. The ESOP purchased 427,057 shares of the Company’s common stock for an aggregate cost of approximately \$4.5 million in fiscal 2005. The ESOP purchased an additional 255,564 shares during December 2013 and an additional 30,100 shares at the beginning January 2014, of the Company’s stock for an aggregated cost of approximately \$3.1 million. Shares of the Company’s common stock purchased by the ESOP are held in a suspense account until released for allocation to participants. Shares are allocated to each eligible participant based on the ratio of each such participant’s compensation, as defined in the ESOP, to the total compensation of all eligible plan participants. As the unearned shares are released from the suspense account, the Company recognizes compensation expense equal to the fair value of the ESOP shares during the periods in which they become committed to be released. To the extent that the fair value of the ESOP shares released differs from the cost of such shares, the difference is charged or credited to equity as additional paid-in capital. As of December 31, 2013, the Company had allocated a total of 165,523 shares from the suspense account to participants and committed to release an additional 10,679 shares. For the three months ended December 31, 2013, the Company recognized \$58,000 in compensation expense related to the ESOP. At December 31, 2013, 677,032 shares were held in the ESOP.

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

Dividends with respect to non-vested share awards are held by the Company’s Recognition and Retention Plan (“Plan”) Trust (the “Trust”) for the benefit of the recipients and are paid out proportionately by the Trust to the recipients of stock awards granted pursuant to the Plan as soon as practicable after the stock awards are earned.

Treasury Stock – Stock held in treasury by the Company is accounted for using the cost method, which treats stock held in treasury as a reduction to total stockholders’ equity. Effective October 9, 2013, all outstanding treasury stock was cancelled as part of the second-step conversion and related stock offering. As of September 30, 2013 the average cost per share of the approximately 2.4 million shares which had been repurchased by the Company was \$13.18. As of September 30, 2013, The MHC had purchased 536,306 shares at an average cost of \$10.91 per share, which the shares were issued and outstanding as of such date. As of September 30, 2013, 7,060,786 shares of common stock were owned by the MHC, 2,398,509 shares had been repurchased by the Company and were held as treasury stock with the remaining 2,403,398 shares owned by public shareholders.

FHLB Stock – FHLB stock is classified as a restricted equity security because ownership is restricted and there is not an established market for its resale. FHLB stock is carried at cost and is evaluated for impairment when certain conditions warrant further consideration. Management concluded that the FHLB stock was not impaired at December 31, 2013.

The Company is a member of the Federal Home Loan Bank of Pittsburgh and as such, is required to maintain a minimum investment in stock of the Federal Home Loan Bank that varies with the level of advances outstanding from the Federal Home Loan Bank. The stock is bought from and sold to the Federal Home Loan Bank based upon its

\$100 par value per share. The FHLB stock does not have a readily determinable fair value and as such is classified as restricted stock, carried at cost and evaluated for impairment by management. The stock's value is determined by the ultimate recoverability of the par value rather than by recognizing temporary declines. The determination of whether the par value will ultimately be recovered is influenced by criteria such as the following: (a) the significance of the decline in net assets of the Federal Home Loan Bank as compared to the capital stock amount and the length of time this situation has persisted; (b) commitments by the Federal Home Loan Bank to make payments required by law or regulation and the level of such payments in relation to the operating performance; (c) the impact of legislative and regulatory changes on the customer base of the Federal Home Loan Bank; and (d) the liquidity position of the Federal Home Loan Bank.

Recent Accounting Pronouncements

In February 2013, the FASB issued ASU 2013-04, Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation is Fixed at the Reporting Date. The update requires the measurement of obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date as the sum of the amount the reporting entity agreed to pay on the basis of its arrangement with its co-obligors as well as any additional amount that the entity expects to pay on behalf of its co-obligors. The new standard is effective retrospectively for fiscal years and interim periods within those years, beginning after December 15, 2013, and early adoption is permitted. This ASU is not expected to have a significant impact on the Company's financial statements.

In April 2013, the FASB issued ASU 2013-07, Presentation of Financial Statements (Topic 205): Liquidation Basis of Accounting. The amendments in this Update are being issued to clarify when an entity should apply the liquidation basis of accounting. In addition, the guidance provides principles for the recognition and measurement of assets and liabilities and requirements for financial statements prepared using the liquidation basis of accounting. The amendments require an entity to prepare its financial statements using the liquidation basis of accounting when liquidation is imminent. Liquidation is imminent when the likelihood is remote that the entity will return from liquidation and either (a) a plan for liquidation is approved by the person or persons with the authority to make such a plan effective and the likelihood is remote that the execution of the plan will be blocked by other parties or (b) a plan for liquidation is being imposed by other forces (for example, involuntary bankruptcy). If a plan for liquidation was specified in the entity's governing documents from the entity's inception (for example, limited-life entities), the entity should apply the liquidation basis of accounting only if the approved plan for liquidation differs from the plan for liquidation that was specified at the entity's inception. The amendments are effective for entities that determine liquidation is imminent during annual reporting periods beginning after December 15, 2013, and interim reporting periods therein. Entities should apply the requirements prospectively from the day that liquidation becomes imminent. Early adoption is permitted. Entities that use the liquidation basis of accounting as of the effective date in accordance with other Topics (for example, terminating employee benefit plans) are not required to apply the amendments. Instead, those entities should continue to apply the guidance in those other Topics until they have completed liquidation. This ASU is not expected to have a significant impact on the Company's financial statements.

In June 2013, the FASB issued ASU 2013-08, Financial Services – Investment Companies (Topic 946): Amendments to the Scope, Measurement, and Disclosure Requirements. The amendments in this Update affect the scope, measurement, and disclosure requirements for investment companies under U.S. GAAP. The amendments do all of the following: 1. Change the approach to the investment company assessment in Topic 946, clarify the characteristics of an investment company, and provide comprehensive guidance for assessing whether an entity is an investment Company. 2. Require an investment company to measure noncontrolling ownership interests in other investment companies at fair value rather than using the equity method of accounting. 3. Require the following additional disclosures: (a) the fact that the entity is an investment company and is applying the guidance in Topic 946, (b) information about changes, if any, in an entity's status as an investment company, and (c) information about financial support provided or contractually required to be provided by an investment company to any of its investees. The amendments in this Update are effective for an entity's interim and annual reporting periods in fiscal years that begin after December 15, 2013. Earlier application is prohibited. This ASU is not expected to have a significant impact on the Company's financial statements.

In July 2013, the FASB issued ASU 2013-10, Derivatives and Hedging (Topic 815): Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes. The amendments in this Update permit the Fed Funds Effective Swap Rate (OIS) to be used as a U.S. benchmark interest rate for hedge accounting purposes under Topic 815, in addition to UST and LIBOR. The amendments also remove the restriction on using different benchmark rates for similar hedges. The amendments are effective prospectively for qualifying new or re-designated hedging relationships entered into on or after July 17, 2013. The adoption of this standard is not expected to have a significant effect on future financial reporting.

In July 2013, the FASB issued ASU 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. This Update applies to all entities that have unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists at the reporting date. An unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as following situations. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The assessment of whether a deferred tax asset is available is based on the unrecognized tax benefit and deferred tax asset that exist at the reporting date and should be made presuming disallowance of the tax position at the reporting date. The amendments in this Update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. For nonpublic entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2014. Early adoption is permitted. The amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. The adoption of this standard is not expected to have a significant effect on future financial reporting.

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

In January 2014, the FASB issued ASU 2014-04, Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure. The amendments in this Update clarify that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require

interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The amendments in this Update are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. An entity can elect to adopt the amendments in this Update using either a modified retrospective transition method or a prospective transition method. This ASU is not expected to have a significant impact on the Company's financial statements.

2.

EARNINGS PER SHARE

Basic earnings per common share is computed by dividing net income available to common shareholders by the weighted average number of shares of common stock outstanding, net of any treasury shares, during the period. Diluted earnings per share is calculated by dividing net income available to common shareholders by the weighted average number of shares of common stock outstanding, net of any treasury shares, after consideration of the potential dilutive effect of common stock equivalents, based upon the treasury stock method using an average market price for the period. The outstanding and dilutive shares amounts for the three month period ended December 31, 2012, have been adjusted to apply the exchange ratio of 0.9442 shares for every one share as a result of the second-step conversion.

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

	Three Months Ended December 31,			
	2013		2012	
	Basic	Diluted	Basic	Diluted
	(Dollars in Thousands Except Per Share Data)			
Net income	\$ 338	\$ 338	\$ 272	\$ 272
Weighted average shares outstanding	9,224,496	9,224,496	9,184,631	9,184,631
Effect of common stock equivalents	-	262,234	-	33,690
Adjusted weighted average shares used in earnings				
per share computation	9,224,496	9,486,730	9,184,631	9,218,321
Earnings per share - basic and diluted	\$ 0.04	\$ 0.04	\$ 0.03	\$ 0.03

Options to purchase 383,016 shares and 417,714 shares of common stock at an exercise price greater than the current market value were outstanding at December 31, 2013 and 2012, respectively, but were not included in the computation of diluted earnings per share because to do so would have been antidilutive. The exercise price for the stock options representing the anti-dilutive shares was \$11.83 at December 31, 2013 and ranged from \$7.68 to \$11.83 at December 31, 2012.

3. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table presents the changes in accumulated other comprehensive income (loss) by component net of tax for the three months ended December 31, 2013:

	Unrealized gains (losses) on available for sale securities (a)
Balance as of October 1, 2013	\$ (1,292)
Other comprehensive loss before reclassification	(354)
Amount reclassified from accumulated other comprehensive income	5
Total other comprehensive loss	(349)
Balance as of December 31, 2013	\$ (1,641)

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

The following table presents significant amounts reclassified out of each component of accumulated other comprehensive income (loss) for the three months ended December 31, 2013:

Details about other comprehensive income	Three Months Amount Reclassified from Accumulated Other Comprehensive Income (Loss) (a)	Affected Line Item in the Statement Where Net Income is Presented
Unrealized gains on available for sale securities	\$ (7)	Net impairment losses recognized in earnings
	2	Income taxes
	\$ (5)	Net of tax

(a) Amounts in parentheses indicate debits to net income.

4. INVESTMENT AND MORTGAGE-BACKED SECURITIES

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

		December 31, 2013		
	Amortized	Gross	Gross	Fair
	Cost	Unrealized	Unrealized	Value
		Gains	Losses	
		(Dollars in Thousands)		
Securities Available for Sale:				
U.S. government and agency obligations	\$ 18,986	\$ -	\$ (2,220)	\$ 16,766
Mortgage-backed securities - U.S. government agencies	22,959	207	(976)	22,190
Mortgage-backed securities - non-agency (1)	3,169	497	(65)	