
HARLEYSVILLE SAVINGS FINANCIAL CORPORATION

2015
Annual Report

HARLEYSVILLE SAVINGS FINANCIAL CORPORATION
2015 ANNUAL REPORT

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CORPORATE PROFILE

Harleysville Savings Financial Corporation is a Pennsylvania corporation headquartered in Harleysville, Pennsylvania. The Company became the bank holding company for Harleysville Savings Bank in connection with the holding company reorganization of the Bank in February 2000 (the “Reorganization”). In August 1987, the Bank’s predecessor, Harleysville Savings Association, converted to the stock form of organization. The Bank, whose predecessor was originally, incorporated in 1915, converted from a Pennsylvania chartered, permanent reserve fund savings association to a Pennsylvania chartered stock savings bank in June 1991. The Bank operates from six full-service offices located in Montgomery County and one office located in Bucks County, Pennsylvania. The Bank’s primary market area includes Montgomery County, which has the third largest population and the second highest per capita income in the Commonwealth of Pennsylvania, and, to a lesser extent, Bucks County. As of September 30, 2015, the Company had \$770.5 million of total assets, \$514.2 million of deposits and \$63.9 million of stockholders’ equity. The Company’s stockholders’ equity constituted 8.3% of total assets as of September 30, 2015.

The Bank’s primary business consists of attracting deposits from the general public and business customers through a variety of deposit programs and investing such deposits principally in first mortgage loans secured by residential properties in the Bank’s primary market area. The Bank also originates a variety of consumer loans, predominately home equity loans and lines of credit also secured by residential properties in the Bank’s primary lending area. The Bank is also engaged in the general commercial banking business, and provides a full range of commercial loans and commercial real estate loans to customers in the Bank’s primary market area. The Bank serves its customers through its full-service branch network, the internet, telephone and mobile banking.

Deposits with the Bank are insured to the maximum extent provided by law through the Deposit Insurance Fund administered by the Federal Deposit Insurance Corporation (“FDIC”). The Bank is subject to examination and comprehensive regulation by the FDIC and the Pennsylvania Department of Banking (“Department”). It is also a member of the Federal Home Loan Bank of Pittsburgh (“FHLB of Pittsburgh” or “FHLB”), which is one of the 11 regional banks comprising the Federal Home Loan Bank System (“FHLB System”). The Bank is also subject to regulations of the Board of Governors of the Federal Reserve System (“Federal Reserve Board”) governing reserves required to be maintained against deposits and certain other matters.

The Company’s principal executive offices are located at 271 Main Street, Harleysville, Pennsylvania 19438 and its telephone number is (215) 256-8828.

Competition

The Company faces significant competition in attracting deposits. Its most direct competition for deposits has historically come from commercial banks and other savings institutions located in its market area. The Company faces additional significant competition for investors’ funds from other financial intermediaries. The Company competes for deposits principally by offering depositors a variety of deposit programs, convenient branch locations, hours and other services. The Company does not rely upon any individual group or entity for a material portion of its deposits.

The Company’s competition for real estate loans comes principally from mortgage banking companies, other savings institutions, commercial banks and credit unions. The Bank competes for loan originations primarily through the interest rates and loan fees it charges, the efficiency and quality of services it provides borrowers, referrals from real estate brokers and builders, and the variety of its products. Factors which affect competition include the general and local economic conditions, current interest rate levels and volatility in the mortgage markets.

STOCK MARKET INFORMATION

Harleysville Savings Financial Corporation's common stock trades on the OTC Bulletin Board under the symbol "HARL". Prices shown below reflect the prices reported on the OTC Bulletin Board during the indicated periods. The closing price of the common stock on September 30, 2015 was \$18.60 per share. There were 3,704,013 shares of common stock outstanding as of September 30, 2015, held by approximately 1,000 stockholders of record, not including the number of persons or entities whose stock is held in nominee or "street" name through various brokerage firms and banks.

For The Quarter Ended	High	Low	Close	Cash Dividends Declared
September 30, 2015	\$19.00	\$18.10	\$18.60	\$0.21
June 30, 2015	19.00	18.00	18.70	0.21
March 31, 2015	20.00	17.20	18.35	0.21
December 31, 2014	17.93	16.50	17.20	0.21
September 30, 2014	\$17.75	\$16.30	\$16.50	\$0.21
June 30, 2014	17.51	16.65	17.20	0.21
March 31, 2014	18.25	17.00	17.50	0.21
December 31, 2013	19.00	16.90	18.00	0.21

Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion is intended to assist in understanding our financial condition, and the results of operations for Harleysville Savings Financial Corporation, and its subsidiary Harleysville Savings Bank, for the fiscal years ended September 30, 2015 and 2014. The information in this section should be read in conjunction with the Company's financial statements and the accompanying notes included elsewhere herein.

Overview

Harleysville Savings Financial Corporation, a bank holding company, of which Harleysville Savings Bank (the "Bank"), is a wholly owned subsidiary, was formed in February 2000. For purposes of this discussion, the Company, including its wholly owned subsidiary, will be referred to as the "Company." The Company's earnings are primarily dependent upon its net interest income, which is determined by (i) the difference between yields earned on interest-earning assets and rates paid on interest-bearing liabilities ("interest rate spread") and (ii) the relative amounts of interest-earning assets and interest-bearing liabilities outstanding. The Company's interest rate spread is affected by regulatory, economic, and competitive factors that influence interest rates, loan demand and deposit flows. The Company, like other thrift institutions, is vulnerable to an increase in interest rates to the extent that interest-bearing liabilities mature or reprice more rapidly than interest-earning assets. To reduce the effect of adverse changes in interest rates on its operations, the Company has adopted certain asset and liability management strategies, described below. The Company's earnings are also affected by, among other factors, other non-interest income, other expenses, and income taxes.

The Company's total assets at September 30, 2015 amounted to \$770.5 million compared to \$791.4 million as of September 30, 2014. The decrease in assets was primarily due to a decrease in total investments of \$35.6 million. The decrease in investments was partially offset by an increase in loans receivable of \$14.8 million. Total liabilities at September 30, 2015 were \$706.6 million compared to \$728.2 million at September 30, 2014. The decrease in liabilities was due to a decrease in borrowings of \$33.3 million which was partially offset by an increase in total deposits of \$12.0 million. Stockholders' equity totaled \$63.9 million at September 30, 2015 compared to \$63.2 million at September 30, 2014.

During fiscal 2015, net interest income increased \$892,000 or 4.7% from the prior fiscal year. This increase was primarily due to an increase in the interest rate spread to 2.5% in fiscal year 2015 from 2.3% in fiscal year 2014, despite a 3.3% decrease in the average interest-earning assets and a 5.0% decrease in average interest-bearing liabilities. Net income for both fiscal 2015 and 2014 was \$4.9 million. The Company's return on average assets (net income divided by average total assets) was 0.6% during fiscal 2015 compared to 0.6% during fiscal 2014. Return on average equity (net income divided by average equity) was 7.8% during fiscal 2015 compared to 7.9% during fiscal 2014.

Results of Operations

The following table sets forth as of the periods indicated, information regarding: (i) the total dollar amounts of interest income from interest-earning assets and the resulting average yields; (ii) the total dollar amount of interest expense on interest-bearing liabilities and the resulting average costs; (iii) net interest income; (iv) interest rate spread; (v) net interest-earning assets; (vi) the net yield earned on interest-earning assets; and (vii) the ratio of total interest-earning assets to total interest-bearing liabilities. Average balances are calculated on a monthly basis. Yields on tax-exempt assets have not been calculated on a fully tax-exempt basis.

For The Year Ended September 30,						
	2015			2014		
	Average Balance	Interest	Yield/Rate	Average Balance	Interest	Yield/Rate
Interest-earning assets:						
Mortgage loans (2)(3)	\$285,329	\$ 13,968	4.90%	\$277,802	\$ 14,083	5.07%
Mortgage-backed securities	161,857	3,193	1.97%	194,733	3,873	1.99%
Commercial loans (3)	132,401	6,022	4.55%	122,500	5,798	4.73%
Consumer and other loans (3)	107,621	3,709	3.45%	102,258	3,586	3.51%
Investments	<u>65,104</u>	<u>1,900</u>	<u>2.92%</u>	<u>80,257</u>	<u>1,898</u>	<u>2.36%</u>
Total interest-earning assets	<u>752,312</u>	<u>28,792</u>	<u>3.83%</u>	<u>777,550</u>	<u>29,238</u>	<u>3.76%</u>
Interest-bearing liabilities:						
Savings and money market	195,780	535	0.27%	181,462	370	0.20%
Checking	85,205	49	0.06%	81,667	53	0.06%
Certificates of deposit	<u>176,464</u>	<u>1,734</u>	<u>0.98%</u>	<u>217,895</u>	<u>2,814</u>	<u>1.29%</u>
Total deposits	457,449	2,318	0.51%	481,024	3,237	0.67%
Borrowings	<u>201,836</u>	<u>6,505</u>	<u>3.22%</u>	<u>213,263</u>	<u>6,924</u>	<u>3.25%</u>
Total interest-bearing liabilities	<u>659,285</u>	<u>8,823</u>	<u>1.34%</u>	<u>694,287</u>	<u>10,161</u>	<u>1.46%</u>
Net interest income/interest rate spread		\$ <u>19,969</u>	<u>2.49%</u>		\$ <u>19,077</u>	<u>2.30%</u>
Net interest-earning assets/net yield on interest-earning assets(1)	\$ <u>93,027</u>		<u>2.66%</u>	\$ <u>83,263</u>		<u>2.46%</u>
Ratio of interest-earning assets to interest-bearing liabilities			<u>114.1%</u>			<u>111.9%</u>

(1) Net interest income divided by average interest-earning assets.

(2) Loan fee income is immaterial to this analysis.

(3) There were 39 non-accruing loans totaling \$10.7 million at September 30, 2015 and 49 non-accruing loans totaling \$12.1 million at September 30, 2014.

Net Interest Income

Net interest income increased by \$892,000 or 4.7% in fiscal 2015, over the prior year. The increase in the net interest income in fiscal 2015 was due to an increase in the interest rate spread between interest earning assets and interest bearing liabilities in spite of a decrease in the Consolidated Statement of Financial Condition. The driving factors are further explained below under “- Interest Income” and “- Interest Expense.”

Interest Income

Interest income on mortgage loans decreased by \$115,000 or 0.8% in fiscal 2015 from the prior year. During fiscal 2015, the average balance of mortgage loans increased \$7.5 million or 2.7% and the yield decreased by 17 basis points. The majority of loans during the year were fixed rate mortgages. The decrease in interest on mortgage-backed securities reflects a decrease in the yield of 2 basis points, with a decrease in the average balance of \$32.9 million in fiscal 2015. During fiscal 2015, the consumer and other loan average balance increased \$5.4 million or 5.2% and the yield decreased by 6 basis points. The increase in interest income on commercial loans during fiscal 2015 reflected an increase in average balance of \$9.9 million, which was partially offset by a decrease in yield of 18 basis points.

Interest and dividends on investments increased by \$2,000 or 0.11% in fiscal 2015 from fiscal 2014. During fiscal 2015, the increase in income resulted from an increase in the yield of 56 basis points, despite a decrease in the average balance of \$15.2 million or 18.9%.

Interest Expense

Interest expense on deposits decreased \$919,000 or 28.4% in fiscal 2015 as compared to the prior year. In fiscal 2015, the average balance of deposits decreased by \$23.6 million. The average rate paid on deposits was 0.5% for the year ended September 30, 2015, compared to 0.7% for the year ended September 30, 2014. The average rate paid on deposits is a direct reflection of the extended low interest rate environment.

Interest expense on borrowings decreased by \$419,000 or 6.1% in fiscal 2015 compared to the prior year. The decrease in fiscal 2015 was primarily the result of a decrease in the average balance of borrowings of \$11.4 million or 5.4%.

Provision for Loan Losses

Management establishes reserves for losses on loans when it determines that losses are probable. The adequacy of loan loss reserves is based upon a regular monthly review of loan delinquencies and “classified assets”, as well as local and national economic trends. The allowance for loan losses totaled \$3.7 million at September 30, 2015, compared to \$3.3 million for fiscal year ended September 30, 2014 or 0.7% of total loans at September 30, 2015 and 2014. The Company recorded a provision for loan losses of \$875,000 in fiscal 2015 compared to \$880,000 in fiscal 2014. The provision for loan loss reflects the Company’s analysis and review of its loan portfolio and assessment of the underlying risks associated with delinquent loans as well as loans classified for regulatory purposes. For additional analysis of the allowance refer to Note 4 – Loans Receivable in the Consolidated Financial Statements.

Other Income

The Company’s total other income decreased to \$2.4 million in fiscal 2015 compared to \$2.8 million in fiscal 2014. The decrease in other income is primarily due to a decrease in gain on sales of mortgage-backed securities of \$221,000 in fiscal 2015 compared to \$709,000 in fiscal 2014.

Customer service fees were \$507,000 and \$533,000 in fiscal 2015 and 2014, respectively. The decrease was due to less NSF fees during 2015. In addition, there was a decrease in income related to the Bank’s investment in the Laurel Abstract Company.

Other, which consists primarily of loan servicing fees, the sale of non-deposit products, and insurance commissions, increased by \$147,000 or 13.0% during fiscal 2015. The fees, which comprise other income, are set by the Company at a level that is intended to cover the cost of providing the related services and expenses to customers.

Other Expenses

Salaries and employee benefits increased by \$387,000 or 5.0% in fiscal 2015 as compared to fiscal 2014. The increased expenses of salaries and employee benefits during the periods are attributable to normal salary increases and an increase in group hospitalization.

Data processing costs increased by \$100,000 in fiscal 2015. The increase in data processing expenses in fiscal 2015 was attributable to the implementation of debit card instant issuance, the offering of reward based products and additional electronic banking services.

Other expenses, which consist primarily of advertising expenses, directors' fees, ATM network fees, professional fees, checking account costs, REO expenses, and stockholders expense increased by \$118,000 or 4.1% in fiscal 2015 compared to fiscal 2014. The increase in other expenses in 2015 was attributable to an increase in commercial loan expense as well as an increase in Rewards expense.

FDIC insurance expense for the fiscal year 2015 decreased \$22,000 or 3.5% from fiscal 2014 due to a change in the assessment rate.

Income Taxes

The Company recorded income tax provisions of \$2.4 million in both fiscal year 2015 and 2014. The effective tax rate was 33.1% in fiscal 2015 compared to 33.2% in fiscal 2014. See Note 8 of the Consolidated Financial Statements which provides an analysis of the provision for income taxes.



INDEPENDENT AUDITOR'S REPORT

Audit Committee
Harleysville Savings Financial Corporation

Harleysville, Pennsylvania

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Harleysville Savings Financial Corporation and subsidiaries which comprise the consolidated statement of financial condition as of September 30, 2015 and 2014; the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the years then ended; and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Harleysville Savings Financial Corporation and subsidiaries as of September 30, 2015 and 2014, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A. R. Snodgrass, P.C.

Wexford, Pennsylvania
December 3, 2015

Consolidated Statements of Financial Condition

(In thousands, except share data)	September 30,	
	2015	2014
Assets		
Cash and amounts due from depository institutions	\$ 6,840	\$ 5,947
Interest-bearing demand deposits	<u>8,030</u>	<u>6,280</u>
Total cash and cash equivalents	14,870	12,227
Investments and mortgage-backed securities:		
Available for sale (amortized cost – 2015, \$857; 2014, \$856)	882	882
Held to maturity (fair value – 2015, \$201,604; 2014, \$234,225)	197,928	233,548
Loans receivable (net of allowance for loan losses - 2015, \$3,688; 2014, \$3,336)	519,511	504,691
Accrued interest receivable	2,188	2,276
Federal Home Loan Bank stock - at cost	6,910	9,858
Foreclosed real estate	657	649
Office properties and equipment, net	10,692	10,858
Bank-owned life insurance	15,285	14,881
Prepaid expenses and other assets	<u>1,561</u>	<u>1,483</u>
TOTAL ASSETS	\$ <u>770,484</u>	\$ <u>791,353</u>
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits	\$ 514,240	\$ 502,251
Short-term borrowings	32,958	50,336
Long-term debt	152,247	168,131
Accrued interest payable	576	647
Advances from borrowers for taxes and insurance	1,314	1,505
Other liabilities	<u>5,281</u>	<u>5,321</u>
Total liabilities	<u>706,616</u>	<u>728,191</u>
Commitments and contingencies (Notes 13 & 14)	-	-
Stockholders' Equity:		
Preferred Stock: \$.01 par value; 7,500,000 shares authorized; none issued	-	-
Common stock: \$.01 par value; 15,000,000 shares authorized; 3,921,177 shares issued: shares outstanding 2015, 3,704,013; 2014, 3,767,647	39	39
Additional paid-in capital	8,958	8,951
Treasury stock, at cost (2015, 217,164 shares; 2014, 153,530 shares)	(3,627)	(2,517)
Retained earnings - partially restricted	58,482	56,672
Accumulated other comprehensive income	<u>16</u>	<u>17</u>
Total stockholders' equity	<u>63,868</u>	<u>63,162</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ <u>770,484</u>	\$ <u>791,353</u>

See notes to consolidated financial statements.

Consolidated Statements of Income

(In thousands, except share and per share data)	Year Ended September 30,	
	2015	2014
Interest and Dividend Income:		
Interest and fees on mortgage loans	\$ 13,968	\$ 14,083
Interest on commercial loans	6,022	5,798
Interest on consumer and other loans	3,709	3,586
Interest on mortgage-backed securities	3,193	3,873
Interest on taxable investments	1,294	1,275
Interest on tax-exempt investments	<u>606</u>	<u>623</u>
Total interest and dividend income	<u>28,792</u>	<u>29,238</u>
Interest Expense:		
Interest on deposits	2,318	3,237
Interest on short-term borrowings	125	109
Interest on long-term debt	<u>6,380</u>	<u>6,815</u>
Total interest expense	<u>8,823</u>	<u>10,161</u>
Net Interest Income	19,969	19,077
Provision for Loan Losses	<u>875</u>	<u>880</u>
Net Interest Income, after Provision for Loan Losses	<u>19,094</u>	<u>18,197</u>
Other Income:		
Customer service fees	507	533
Realized gains on securities	221	709
Income on bank-owned life insurance	404	416
Other income	<u>1,281</u>	<u>1,134</u>
Total other income	<u>2,413</u>	<u>2,792</u>
Other Expenses:		
Salaries and employee benefits	8,221	7,834
Occupancy and equipment	1,306	1,374
Deposit insurance premiums	614	636
Data processing	975	875
Other	<u>3,031</u>	<u>2,913</u>
Total other expenses	<u>14,147</u>	<u>13,632</u>
Income before Income Tax Expense	7,360	7,357
Income tax expense	<u>2,434</u>	<u>2,440</u>
Net Income	<u>\$ 4,926</u>	<u>\$ 4,917</u>
Earnings Per Share:		
Basic	\$ <u>1.33</u>	\$ <u>1.30</u>
Diluted	\$ <u>1.30</u>	\$ <u>1.27</u>
Weighted Average Shares Outstanding:		
Basic	<u>3,714,089</u>	<u>3,789,714</u>
Diluted	<u>3,793,381</u>	<u>3,858,312</u>

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

(In thousands)	Year Ended September 30,	
	2015	2014
Net Income	\$ 4,926	\$ 4,917
Other Comprehensive Loss:		
Unrealized gains on available-for-sale-securities	(2)	(23)
Income tax effect	1	7
Reclassification adjustment for investment security gains included in net income	-	-
Income tax effect	-	-
Other comprehensive loss, net of tax	(1)	(16)
Comprehensive income	<u>\$ 4,925</u>	<u>\$ 4,901</u>

See notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity

(In thousands, except share and per share data)

	Common Stock Shares Outstanding	Common Stock	Additional Paid-in Capital	Retained Earnings- Partially Restricted	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
Balance at September 30, 2013	3,786,627	\$ 39	\$ 8,763	\$ 54,940	\$ 33	\$ (2,158)	\$ 61,617
Net income				4,917			4,917
Dividends - \$.84 per share				(3,185)			(3,185)
Restricted stock awards	2,432		(37)			37	-
Stock based compensation			231				231
Treasury stock delivered under 401k	5,366		13			82	95
Treasury stock purchase	(44,692)					(756)	(756)
Treasury stock delivered under dividend reinvestment plan	10,740		20			168	188
Employee options exercised	7,174		(39)			110	71
Other comprehensive loss					(16)		(16)
Balance at September 30, 2014	3,767,647	39	8,951	56,672	17	(2,517)	63,162
Net income				4,926			4,926
Dividends - \$.84 per share				(3,116)			(3,116)
Restricted stock awards	3,740		(63)			63	-
Stock based compensation			227				227
Treasury stock delivered under 401k	2,821		2			55	57
Treasury stock purchase	(95,919)					(1,664)	(1,664)
Treasury stock delivered under dividend reinvestment plan	10,490		11			177	188
Employee options exercised	15,234		(170)			259	89
Other comprehensive loss					(1)		(1)
Balance at September 30, 2015	<u>3,704,013</u>	<u>\$ 39</u>	<u>\$ 8,958</u>	<u>\$ 58,482</u>	<u>\$ 16</u>	<u>\$ (3,627)</u>	<u>\$ 63,868</u>

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(In thousands)

	Year Ended September 30,	
	2015	2014
Operating Activities:		
Net Income	\$ 4,926	\$ 4,917
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	563	589
Gain on premises and equipment	-	(25)
Provision for loan losses	875	880
Deferred income taxes	(131)	(34)
Gains on sales of securities	(221)	(709)
Gain on sale of foreclosed real estate	(72)	(18)
Amortization of deferred fees	40	68
Net accretion of premiums and discounts	222	621
Increase in cash surrender value of bank owned life insurance	(404)	(416)
Stock based compensation	227	231
Changes in assets and liabilities which provided (used) cash:		
Increase (decrease) in accounts payable and accrued expenses	(40)	1,456
Increase in prepaid expenses and other assets	53	56
Decrease in accrued interest receivable	88	137
Decrease in accrued interest payable	(71)	(129)
Net cash provided by operating activities	<u>6,055</u>	<u>7,624</u>
Investing Activities:		
Purchase of mortgage-backed securities held to maturity	(8,605)	(8,274)
Purchase of investment securities available-for-sale	(56,181)	(28,405)
Purchase of FHLB stock	(3,078)	(3,431)
Redemption of FHLB stock	6,026	2,643
Proceeds from the redemption of investment securities available-for-sale	56,180	30,894
Proceeds from maturities of investment securities held to maturity	9,944	6,709
Proceeds from sales of mortgage-backed securities held to maturity	2,157	11,906
Principal collected on mortgage-backed securities held to maturity	32,123	32,696
Proceeds from sale of foreclosed real estate	934	46
Increase in loans, net	(16,605)	(29,596)
Purchase of premises and equipment	(397)	(288)
Disposal of premises and equipment	-	44
Net cash provided by investing activities	<u>22,498</u>	<u>14,944</u>
Financing Activities:		
Net increase in demand deposits, NOW accounts and savings accounts	43,978	14,476
Net decrease in certificates of deposit	(31,989)	(46,943)
Cash dividends	(3,116)	(3,185)
(Decrease) increase in other borrowings – short term	(17,378)	16,861
Proceeds from long-term debt	-	19,900
Repayment of long-term debt	(15,884)	(26,352)
Acquisition of treasury stock	(1,664)	(756)
Sale of treasury stock delivered under employee stock plans	334	354
Net (decrease) increase in advances from borrowers for taxes and insurance	(191)	176
Net cash used in financing activities	<u>(25,910)</u>	<u>(25,469)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,643	(2,901)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>12,227</u>	<u>15,128</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 14,870</u>	<u>\$ 12,227</u>
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for:		
Interest (credited and paid)	\$ 8,894	\$ 10,290
Income taxes	2,350	1,625
Non-cash transfer of loans to foreclosed real estate	870	649
<i>See notes to consolidated financial statements</i>		

Notes to Consolidated Financial Statements

1. Nature of Operations and Organizational Structure

Harleysville Savings Financial Corporation (the Company) is a bank holding company that is regulated by the Federal Reserve Bank of Philadelphia. Harleysville Savings Bank (the Bank) is a wholly owned subsidiary and is regulated by the FDIC and the Pennsylvania Department of Banking. The Bank is principally in the business of attracting deposits through its branch offices and investing those deposits, together with funds from borrowings and operations, primarily in single family residential, commercial, consumer loans and investments. The Bank's customers are primarily in southeastern Pennsylvania.

2. Summary of Significant Accounting Policies

Principles of Consolidation - The accompanying consolidated financial statements include the accounts of the Company, the Bank, and the Bank's wholly owned subsidiary, HSB Inc., a Delaware subsidiary which was formed in order to accommodate the transfer of certain assets, Freedom Financial Solutions LLC that allows the Company to offer non-deposit products and HARL, LLC that allows the Bank to invest in equity investments. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates in Preparation of the Consolidated Financial Statements - The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Consolidated Statement of Financial Condition and the reported amounts of income and expenses during the reporting period. The most significant of these estimates and assumptions in the Company's consolidated financial statements is the allowance for loan losses and other-than-temporary impairment of investments. Actual results could differ from those estimates.

Significant Group Concentrations of Credit Risk - Most of the Company's activities are with customers located within the southeastern region of Pennsylvania. Note 3 discusses the types of securities that the Company invests in. Note 4 discusses the types of lending that the Company engages in. The Company does not have any significant concentrations to any one industry or customer.

Cash and Cash Equivalents - For purposes of the Consolidated Statements of Cash Flows, cash and cash equivalents include cash and amounts due from depository institutions, including interest-bearing demand deposits in banks with original maturities of less than 90 days.

Investment and Mortgage-Backed Securities - The Company classifies and accounts for debt and equity securities as follows:

Held to Maturity - Debt securities that management has the positive intent and ability to hold until maturity are classified as held to maturity and are carried at their remaining unpaid principal balance, net of unamortized premiums or unaccreted discounts. Premiums are amortized and discounts are accreted using the interest method over the estimated remaining term of the underlying security.

Available for Sale - Debt and equity securities that will be held for indefinite periods of time, including securities that may be sold in response to changes in market interest or prepayment rates, needs for liquidity and changes in the availability of and the yield of alternative investments are classified as available for sale. These assets are carried at fair value. Unrealized gains and losses are excluded from earnings and are reported net of tax in other comprehensive income. Realized gains and losses on the sale of investment securities are recorded as of the trade date, reported in the Consolidated Statements of Income and determined using the amortized cost of the specific security sold.

For all securities that are in an unrealized loss position for an extended period of time and for all securities whose fair value is significantly below amortized cost, the Company performs an evaluation of the specific events attributable to the market decline of the security. The Company considers the length of time and extent

to which the security's fair value has been below cost as well as the general market conditions, industry characteristics, and the fundamental operating results of the issuer to determine if the decline is other-than-temporary. The Company also considers as part of the evaluation its intent and ability to hold the security and whether it is more likely than not that it will be required to sell the security before its fair value has recovered to a level at least equal to the amortized cost.

For equity securities, once a decline in value is determined to be other-than-temporary, the value of the equity security is reduced to fair value and a corresponding charge to earnings is recognized.

For debt securities, accounting guidance specifies that (a) if a company does not have the intent to sell a debt security prior to recovery and (b) it is more likely than not that it will not have to sell the debt security prior to recovery, the security would not be considered other-than-temporarily impaired unless there is a credit loss. When an entity does not intend to sell the security, and it is more likely than not, the entity will not have to sell the security before recovery of its cost basis, it will recognize the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income. For held to maturity debt securities, the amount of an other-than-temporary impairment recorded in other comprehensive income for the noncredit portion of a previous other-than-temporary impairment should be amortized prospectively over the remaining life of the security on the basis of the timing of future estimated cash flows of the security.

When the Company determines that a security's unrealized loss is other-than-temporary, an impairment loss is recognized in the period in which the decline in value is determined to be other-than-temporary.

Loans - The Company grants commercial, mortgage and consumer loans to customers. A substantial portion of the loan portfolio is represented by mortgage loans throughout southeastern Pennsylvania. The ability of the Company's debtors to honor their contracts is dependent upon the general economic conditions in this area.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans.

Loans Held for Sale - Loans originated and intended for sale in the secondary market are carried at the lower of cost or market. Gains and losses on loan sales (sales proceeds minus carrying value) are recorded in noninterest income, and direct loan origination costs and fees are deferred at origination of the loan and are recognized in noninterest income upon sale of the loan.

Interest Income on Loans - Interest income is accrued on the unpaid principal balance. Interest on loans is recognized as income when earned. The accrual of interest on loans is discontinued at the time the loan is 90 days delinquent unless the credit is well-secured and in process of collection. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off are reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Deferred Loan Fees - Loan origination fees, net of certain direct origination costs, are deferred and the balance is amortized to income as an adjustment over the life of the loan using the interest method.

Allowance for Loan Losses - The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. An allowance for loan losses is maintained at a level that management considers adequate to provide for losses based upon evaluation of known and inherent risks in the loan portfolio. The loan loss reserves are established as an allowance for estimated losses based on the probable losses of the loan

portfolio. In assessing risk, management considers historical experience, volume and composition of lending conducted by the Company, industry standards, and status of nonperforming loans, general economic conditions as they relate to the Company's market area, and other factors related to the collectibility of the Company's loan portfolio.

The allowance for loan losses consists of three elements: (1) specific allowances for impaired loans; (2) a general valuation allowance on all classified loans which are not impaired; and (3) a general valuation allowance on the remainder of the loan portfolio. This is consistent with the regulatory method of classifying reserves. Although the amount of each element of the allowance is determined separately, the entire allowance for loan losses is available for the entire portfolio. An allowance for impaired loans is established in the amounts by which the discounted cash flows (or collateral value or observable market price) are lower than the carrying value of the loan. A general allowance is established for classified loans that are not impaired. These loans are segregated by loan category, and allowance percentages are assigned to each category based on inherent losses associated with each type of lending and consideration that these loans, in the aggregate, represent an above-average credit risk and that more of these loans will prove to be uncollectible compared to loans in the general portfolio.

Foreclosed Real Estate - Real estate acquired through, or in lieu of, loan foreclosures are carried at the lesser of cost or fair value of the property, based on an appraisal less cost to sell. Costs relating to the development and improvement of the property are capitalized, and those relating to holding the property are charged to expense. The Company had foreclosed real estate of \$657,000 and \$649,000 as of September 30, 2015 and 2014, respectively.

Office Properties and Equipment - Land is carried at cost. Office properties and equipment are recorded at cost, less accumulated depreciation. Depreciation is computed using the straight-line method over the expected useful lives of the assets that range from four to forty years. The costs of maintenance and repairs are expensed as they are incurred, and renewals and betterments are capitalized.

Federal Home Loan Bank Stock - Federal law requires a member institution of the Federal Home Loan Bank (FHLB) to hold stock of its district FHLB according to a predetermined formula. The restricted stock is carried at cost.

Management's determination of whether these investments are impaired is based on their assessment of the ultimate recoverability of their cost rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability of their cost is influenced by criteria such as (1) the significance of the decline in net assets of the FHLB as compared to the capital stock amount for the FHLB and the length of time this situation has persisted, (2) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLB, and (3) the impact of legislative and regulatory changes on institutions and, accordingly, on the customer base of the FHLB.

Cash Surrender Value of Bank-Owned Life Insurance (BOLI) - The Bank funded the purchase of insurance policies on the lives of officers and employees of the Bank. The Company has recognized any increase in cash surrender value of life insurance, net of insurance costs, in the Consolidated Statements of Income as income on BOLI. The cash surrender value of the insurance policies is recorded as an asset in other assets in the Consolidated Statements of Financial Condition and amounted to \$15.3 million and \$14.9 million at September 30, 2015 and 2014, respectively.

Income Taxes - Deferred income taxes are recognized for the tax consequences of "temporary differences" by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. The Company and its subsidiary file a consolidated federal income tax return.

The Company analyzes each tax position taken in its tax returns and determines the likelihood that the position will be realized. Only tax positions that are “more likely than not” to be realized can be recognized in the Company’s financial statements. For tax positions that do not meet this recognition threshold, the Company will record an unrecognized tax benefit for the difference between the position taken on the tax return and the amount recognized in the financial statements. The Company does not have any material unrecognized tax benefits or accrued interest or penalties at September 30, 2015 and 2014, or during the years then ended. No unrecognized tax benefits are expected to arise within the next twelve months. The Company’s policy is to account for interest as a component of interest expense and penalties as a component of other expenses. The Company and its subsidiaries are subject to U.S. Federal income tax as well as income tax of the Commonwealth of Pennsylvania. The Company is no longer subject to examination by taxing authorities for the years before October 1, 2012.

Transfers of Financial Assets - Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Treasury Stock - The Company records treasury stock purchases at cost. Gains and losses on subsequent reissuance of shares are credited or charged to additional paid-in capital using the average-cost method.

Stock Based Compensation - The Company currently has several stock based compensation plans in place for employees and directors of the Company. The Company recognizes the cost of employee services received in exchange for an award of equity investment based on grant-date fair value of the award. That cost will be recognized over the period during which an employee is required to provide service in exchange for the award. Stock-based compensation expense for the years ended September 30, 2015 and 2014 was \$227,000 and \$231,000, respectively. The tax benefit recognized related to the compensation expense for the years ended September 30, 2015 and 2014 was \$24,000 and \$26,000, respectively.

Earnings Per Share - Basic earnings per common share is computed based on the weighted average number of shares outstanding. Diluted earnings per share is computed based on the weighted average number of shares outstanding, increased by additional common shares that would have been outstanding if dilutive potential common shares had been issued. Potential common shares that may be issued by the Company relate to outstanding stock options and unvested stock awards, and are determined using the treasury stock method. The number of anti-dilutive options that are excluded from the earnings per share calculation for the years ended September 30, 2015 and 2014 were 54,111 and 189,486, respectively. For the year ended September 30, 2015, the exercise price for the 54,111 options representing anti-dilutive shares ranged from \$17.80 to \$18.10. For the year ended September 30, 2014, the exercise price for the options representing anti-dilutive shares was \$18.10. The weighted average shares outstanding used to calculate earnings per share were as follows:

	Year Ended September 30,	
	2015	2014
Weighted average shares outstanding – basic	3,714,089	3,789,714
Increase in shares due to dilutive potential common shares	79,292	68,598
Weighted average shares outstanding – diluted	<u>3,793,381</u>	<u>3,858,312</u>

Other Comprehensive Income - The Company presents, as a component of comprehensive income, amounts from transactions and other events, which are currently excluded from the Consolidated Statements of Income and are recorded directly to stockholders’ equity. The Company’s other comprehensive income consists of net unrealized holding gains or losses on securities available-for-sale, net of income taxes.

Reclassifications - Certain amounts in the prior period's financial statements have been reclassified to conform with the current year classifications. The reclassifications had no effect on net income.

Recent Accounting Pronouncements - 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 follows. 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. This ASU is not expected to have a significant impact on the Company's financial statements.

In January 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-01, *Investments – Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects*. The amendments in this Update permit reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and 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 Update did not have a significant impact on the Company's financial statements.

In January 2014, the FASB issued ASU 2014-04, *Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure*. The amendments in this Update clarify that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to 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 Update did not have a

significant impact on the Company's financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (a new revenue recognition standard). The Update's core principle is that a company will recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, this update specifies the accounting for certain costs to obtain or fulfill a contract with a customer and expands disclosure requirements for revenue recognition. This Update is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. This Update is not expected to have a significant impact on the Company's financial statements.

In June 2014, the FASB issued ASU 2014-12, *Compensation-Stock Compensation (Topic 718): Accounting for Share-Based Payments when the Terms of an Award Provide that a Performance Target Could Be Achieved After the Requisite Service Period*. The amendments require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. The amendments in this Update are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Earlier adoption is permitted. Entities may apply the amendments in this Update either (a) prospectively to all awards granted or modified after the effective date or (b) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. If retrospective transition is adopted, the cumulative effect of applying this Update as of the beginning of the earliest annual period presented in the financial statements should be recognized as an adjustment to the opening retained earnings balance at that date. Additionally, if retrospective transition is adopted, an entity may use hindsight in measuring and recognizing the compensation cost. This Update is not expected to have a significant impact on the Company's financial statements.

In August 2014, the FASB issued ASU 2014-14, *Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40)*. The amendments in this Update require that a mortgage loan be derecognized and that a separate other receivable be recognized upon foreclosure if the following conditions are met: (1) the loan has a government guarantee that is not separable from the loan before foreclosure, (2) at the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim, and (3) at the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed. Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. 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. This Update did not have a significant impact on the Company's financial statements.

In August 2014, the FASB issued ASU 2014-15, *Presentation of Financial Statements -Going Concern (Subtopic 205-40)*. The amendments in this Update provide guidance in accounting principles generally accepted in the United States of America about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. The amendments in this Update are effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted. This Update is not expected to have a significant impact on the Company's financial statements.

In November 2014, the FASB issued ASU 2014-16, *Derivatives and Hedging (Topic 815): Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity (a consensus of the FASB Emerging Issues Task Force)*. This Update clarifies how current U.S. GAAP should be interpreted in subjectively evaluating the economic characteristics and risks of a host contract in a hybrid financial instrument that is issued in the form of a share. Public business entities are required to implement the new requirements in fiscal years and interim periods within those fiscal years

beginning after December 15, 2015. This Update is not expected to have a significant impact on the Company's financial statements.

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

In January 2015, the FASB issued ASU 2015-01, *Income Statement – Extraordinary and Unusual Items*, as part of its initiative to reduce complexity in accounting standards. This Update eliminates from U.S. GAAP the concept of extraordinary items. The amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. A reporting entity may apply the amendments prospectively. A reporting entity may also apply the amendments retrospectively to all prior periods presented in the financial statements. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. This Update is not expected to have a significant impact on the Company's financial statements.

In February 2015, the FASB issued ASU 2015-02, *Consolidation (Topic 810)*. The amendments in this Update affect reporting entities that are required to evaluate whether they should consolidate certain legal entities. All legal entities are subject to reevaluation under the revised consolidation model. Specifically, the amendments (1) modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities ("VIEs") or voting interest entities; (2) eliminate the presumption that a general partner should consolidate a limited partnership; (3) affect the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related-party relationships; and (4) provide a scope exception from consolidation guidance for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds. The amendments in this Update are effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. For all other entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2016, and for interim periods within fiscal years beginning after December 15, 2017. This Update is not expected to have a significant impact on the Company's financial statements.

In April 2015, the FASB issued ASU 2015-03, *Interest – Imputation of Interest (Subtopic 835-30)*, as part of its initiative to reduce complexity in accounting standards. To simplify presentation of debt issuance costs, the amendments in this Update require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this Update. For public business entities, the amendments in this Update are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. For all other entities, the amendments in this Update are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within fiscal years beginning after December 15, 2016. An entity should apply the new guidance on a retrospective basis, wherein the balance sheet of each individual period presented should be adjusted to reflect the period-specific effects of applying the new guidance. This Update is not expected to have a significant impact on the Company's financial statements.

In April 2015, the FASB issued ASU 2015-04, *Compensation – Retirement Benefits (Topic 715)*, as part of its initiative to reduce complexity in accounting standards. For an entity with a fiscal year-end that does not coincide with a month-end, the amendments in this Update provide a practical expedient that permits the entity to measure defined benefit plan assets and obligations using the month-end that is closest to the entity's fiscal year-end and apply that practical expedient consistently from year to year. The practical expedient should be applied consistently to all plans if an entity has more than one plan. The amendments in this Update are effective for public business entities for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. For all other entities, the amendments in this Update are effective for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017. Earlier application is permitted. This Update is not expected to have a significant impact on the Company's financial statements.

In April 2015, the FASB issued ASU 2015-05, *Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40)*, as part of its initiative to reduce complexity in accounting standards. This guidance will help entities evaluate the accounting for fees paid by a customer in a cloud computing arrangement. The amendments in this Update provide guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. For public business entities, the FASB decided that the amendments will be effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2015. For all other entities, the amendments will be effective for annual periods beginning after December 15, 2015, and interim periods in annual periods beginning after December 15, 2016. Early adoption is permitted for all entities. This Update is not expected to have a significant impact on the Company's financial statements.

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

In May 2015, the FASB issued ASU 2015-07, *Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)*. The Update applies to reporting entities that elect to measure the fair value of an investment using the net asset value per share (or its equivalent) practical expedient. Under the amendments in this Update, investments for which fair value is measured at net asset value per share (or its equivalent) using the practical expedient should not be categorized in the fair value hierarchy. Removing those investments from the fair value hierarchy not only eliminates the diversity in practice resulting from the way in which investments measured at net asset value per share (or its equivalent) with future redemption dates are classified, but also ensures that all investments categorized in the fair value hierarchy are classified using a

consistent approach. Investments that calculate net asset value per share (or its equivalent), but for which the practical expedient is not applied will continue to be included in the fair value hierarchy. A reporting entity should continue to disclose information on investments for which fair value is measured at net asset value (or its equivalent) as a practical expedient to help users understand the nature and risks of the investments and whether the investments, if sold, are probable of being sold at amounts different from net asset value. The amendments in this Update are effective for public business entities for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. For all other entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. A reporting entity should apply the amendments retrospectively to all periods presented. The retrospective approach requires that an investment for which fair value is measured using the net asset value per share practical expedient be removed from the fair value hierarchy in all periods presented in an entity's financial statements. Earlier application is permitted. This Update is not expected to have a significant impact on the Company's financial statements.

In May 2015, the FASB issued ASU 2015-08, *Business Combinations – Pushdown Accounting – Amendment to SEC Paragraphs Pursuant to Staff Accounting Bulletin No. 115*. This Update was issued to amend various SEC paragraphs pursuant to the issuance of Staff Accounting Bulletin No. 115. This Update is not expected to have a significant impact on the Company's financial statements.

In May 2015, the FASB issued ASU 2015-09, *Financial Services – Insurance (Topic 944): Disclosure About Short-Duration Contracts*. The amendments apply to all insurance entities that issue short-duration contracts as defined in Topic 944, *Financial Services – Insurance*. The amendments require insurance entities to disclose for annual reporting periods certain information about the liability for unpaid claims and claim adjustment expenses. The amendments also require insurance entities to disclose information about significant changes in methodologies and assumptions used to calculate the liability for unpaid claims and claim adjustment expenses, including reasons for the change and the effects on the financial statements. Additionally, the amendments require insurance entities to disclose for annual and interim reporting periods a rollforward of the liability for unpaid claims and claim adjustment expenses, described in Topic 944. For health insurance claims, the amendments require the disclosure of the total of incurred-but-not-reported liabilities plus expected development on reported claims included in the liability for unpaid claims and claim adjustment expenses. For public business entities, the amendments in this Update are effective for annual periods beginning after December 15, 2015, and interim periods within annual periods beginning after December 15, 2016. For all other entities, the amendments in this Update are effective for annual periods beginning after December 15, 2016, and interim periods within annual periods beginning after December 15, 2017. This Update is not expected to have a significant impact on the Company's financial statements.

In June 2015, the FASB issued ASU 2015-10, *Technical Corrections and Improvements*. The amendments in this Update represent changes to clarify the FASB Accounting Standards Codification ("Codification"), correct unintended application of guidance, or make minor improvements to the Codification that are not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities. Transition guidance varies based on the amendments in this Update. The amendments in this Update that require transition guidance are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. All other amendments will be effective upon the issuance of this Update. This Update is not expected to have a significant impact on the Company's financial statements.

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

periods beginning after December 15, 2019. The Company is evaluating the effect of adopting this new accounting Update.

In August 2015, the FASB issued ASU 2015-15, *Interest – Imputation of Interest (Subtopic 835-30): Presentation And Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements - Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting*. This Update adds SEC paragraphs pursuant to the SEC Staff Announcement at the June 18, 2015 Emerging Issues Task Force meeting about the presentation and subsequent measurement of debt issuance costs associated with line-of-credit arrangements. This Update is not expected to have a significant impact on the Company's financial statements.

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

3. INVESTMENT AND MORTGAGE-BACKED SECURITIES

The amortized cost and fair value of the Company's securities with gross unrealized gains and losses, as of September 30, 2015 and 2014 are as follows:

Available for sale securities:

September 30, 2015				
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Collateralized mortgage obligations	\$ 785	\$ 25	\$ -	\$ 810
U.S. Government money market funds	<u>72</u>	<u>-</u>	<u>-</u>	<u>72</u>
Total Available for Sale Securities	<u>\$ 857</u>	<u>\$ 25</u>	<u>\$ -</u>	<u>\$ 882</u>

September 30, 2014				
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Collateralized mortgage obligations	\$ 785	\$ 26	\$ -	\$ 811
U.S. Government money market funds	<u>71</u>	<u>-</u>	<u>-</u>	<u>71</u>
Total Available for Sale Securities	<u>\$ 856</u>	<u>\$ 26</u>	<u>\$ -</u>	<u>\$ 882</u>

Held to maturity securities:

September 30, 2015				
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mortgage-backed securities- U.S. Government Sponsored Enterprises (GSE'S)	\$ 147,048	\$ 3,193	\$ (123)	\$ 150,118
Collateralized mortgage obligations	2,994	20	(1)	3,013
Municipal bonds	15,490	818	(47)	16,261
U.S. Government Agencies	<u>32,396</u>	<u>21</u>	<u>(205)</u>	<u>32,212</u>
Total Held to Maturity Securities	<u>\$ 197,928</u>	<u>\$ 4,052</u>	<u>\$ (376)</u>	<u>\$ 201,604</u>

September 30, 2014				
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mortgage-backed securities- U.S. Government Sponsored Enterprises (GSE'S)	\$ 172,044	\$ 2,716	\$ (1,369)	\$ 173,391
Collateralized mortgage obligations	3,735	29	(18)	3,746
Municipal bonds	15,877	931	(39)	16,769
U.S. Government Agencies	<u>41,892</u>	<u>-</u>	<u>(1,573)</u>	<u>40,319</u>
Total Held to Maturity Securities	<u>\$ 233,548</u>	<u>\$ 3,676</u>	<u>\$ (2,999)</u>	<u>\$ 234,225</u>

All the Company's mortgage-backed securities and collateralized mortgage obligations are residential. At September 30, 2015, the Bank held \$3.0 million in Collateralized Mortgage Obligations (CMOs) of which \$2.6 million were issued by Government Sponsored Enterprises and \$369,000 were privately issued.

Proceeds from the sales of held-to-maturity mortgage-backed securities during the year ended September 30, 2015 were \$2.4 million with a related gross realized gain of \$221,000. At the time of sale, all of the mortgage-backed securities had been paid down at least 85% of their original par.

Proceeds from the sales of held-to-maturity mortgage-backed securities during the year ended September 30, 2014 were \$12.6 million with a related gross realized gain of \$709,000. At the time of sale, all of the mortgage-backed securities had been paid down at least 85% of their original par.

There were no sales of investment securities available for sale during years ended September 30, 2015 and 2014.

A summary of securities with unrealized losses, aggregated by category, as of September 30, 2015 and September 30, 2014 is as follows:

September 30, 2015						
Less than 12 Months			12 Months or Longer			
(In thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Total Fair Value	Total Unrealized Losses
Mortgage-backed securities	\$ 1,354	\$ (19)	\$ 10,896	\$ (104)	\$ 12,250	\$ (123)
Collateralized mortgage obligations	860	(1)	-	-	860	(1)
Municipal bonds	1,808	(47)	-	-	1,808	(47)
U.S. Government Agencies	1,963	(36)	16,731	(169)	18,694	(205)
Total temporarily impaired securities	<u>\$ 5,985</u>	<u>\$ (103)</u>	<u>\$ 27,627</u>	<u>\$ (273)</u>	<u>\$ 33,612</u>	<u>\$ (376)</u>

September 30, 2014						
Less than 12 Months			12 Months or Longer			
(In thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Total Fair Value	Total Unrealized Losses
Mortgage-backed securities	\$ 26,096	\$ (99)	\$ 67,353	\$ (1,270)	\$ 93,449	\$ (1,369)
Collateralized mortgage obligations	-	-	954	(18)	954	(18)
Municipal bonds	-	-	3,201	(39)	3,201	(39)
U.S. Government Agencies	6,493	(6)	33,827	(1,567)	40,320	(1,573)
Total temporarily impaired securities	<u>\$ 32,589</u>	<u>\$ (105)</u>	<u>\$ 105,335</u>	<u>\$ (2,894)</u>	<u>\$ 137,924</u>	<u>\$ (2,999)</u>

At September 30, 2015, debt securities in a gross unrealized loss position consisted of 18 securities that at such date had an aggregate depreciation of 1.1% from the Company's amortized cost basis. Management believes that the estimated fair value of the securities disclosed above is primarily dependent upon the movement in market interest rates. Management evaluated the length of time and the extent to which the fair value has been less than cost; the financial condition and near term prospects of the issuer, including any specific events which may influence the operations of the issuer. The Company has the ability and intent to hold these securities until maturity and the Company does not believe it will be required to sell such securities prior to the recovery of the amortized cost basis. Management does not believe any individual unrealized loss on debt securities as of September 30, 2015 represents other-than-temporary impairment.

The following table sets forth the stated maturities of the investment and mortgage-backed securities at September 30, 2015. Money market funds are not included in the table based on lack of maturity.

	September 30, 2015	
(In thousands)	Amortized Cost	Fair Value
Available for sale:		
Due after ten years	\$ <u>785</u>	\$ <u>810</u>
Total	\$ <u>785</u>	\$ <u>810</u>
Held to maturity:		
Due in one year or less	\$ 576	\$ 609
Due after one year through five years	276	279
Due after five years through ten years	61,703	62,545
Due after ten years	<u>135,373</u>	<u>138,171</u>
Total	\$ <u>197,928</u>	\$ <u>201,604</u>

Certain of the Company's investment securities, totaling \$23.5 million and \$28.6 million at September 30, 2015 and 2014, respectively, were pledged as collateral to secure deposit sweep accounts and public deposits as required or permitted by law. Other securities totaling \$39.0 million and \$40.2 million at September 30, 2015 and 2014, respectively, were pledged for long-term advances of \$35 million as described in Note 7.

4. LOANS RECEIVABLE

Loans receivable consists of the following:

(In thousands)	September 30,	
	2015	2014
Residential Mortgages	\$ 288,559	\$ 286,158
Construction	6,267	5,460
Home Equity	91,984	91,932
Commercial Mortgages	130,221	117,635
Commercial Business Loans	8,600	9,736
Consumer Non-Real Estate	<u>498</u>	<u>635</u>
Total	526,129	511,556
Undisbursed portion of loans in process	(2,617)	(3,138)
Deferred loan fees	(313)	(391)
Allowance for loan losses	<u>(3,688)</u>	<u>(3,336)</u>
Loans Receivable - net	\$ <u>519,511</u>	\$ <u>504,691</u>

At September 30, 2015 and 2014, the Company was servicing residential mortgage loans for others amounting to approximately \$18.3 million and \$19.4 million, respectively. Servicing loans for others generally consists of collecting mortgage payments, maintaining escrow accounts, disbursing payments to investors and foreclosure processing. Loan servicing income is recognized over the life of the loan. The Company receives a servicing fee of 0.25% on sold loans, which totaled \$59,000 as of September 30, 2015. These servicing fees are included in prepaid expenses and other assets on the Consolidated Statements of Financial Condition. In connection with the loans serviced for others, the Company held borrowers' escrow balances of approximately \$71,000 and \$78,000 at September 30, 2015 and 2014, respectively.

The Bank has had, and may be expected to have in the future, loan transactions in the ordinary course of business with directors, officers, principal stockholders, their immediate families and affiliated companies (commonly referred to as related parties), on the same terms including interest rates and collateral, as those prevailing at the time for comparable transactions with others. Loans to related parties at September 30, 2015 and 2014, were approximately \$2.7 million and \$2.8 million, respectively. Additional loans and repayments,

net, for the year ended September 30, 2015 were \$87,000 compared to \$2.2 million for the year ended September 30, 2014.

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

The allowance for loan losses represents management's estimate of losses inherent in the loan portfolio as of the Consolidated Statements of Financial Condition date and is recorded as a reduction to loans. The allowance for loan losses is increased by the provision for loan losses, and decreased by charge-offs, net of recoveries. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance. All, or part, of the principal balance of loans receivable are charged off to the allowance as soon as it is determined that the repayment of all, or part, of the principal balance is highly unlikely. Because all identified losses are immediately charged off, no portion of the allowance for loan losses is restricted to any individual loan or groups of loans, and the entire allowance is available to absorb any and all loan losses.

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

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as impaired. For loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers pools of loans by loan class. These pools of loans are evaluated for loss exposure based upon historical loss rates for each of these categories of loans, adjusted for qualitative factors. These significant factors may include changes in lending policies and procedures, changes in existing general economic and business conditions affecting our primary lending areas, credit quality trends, collateral value, loan volumes and concentrations, seasoning of the loan portfolio, recent loss experience in particular segments of the portfolio, duration of the current business cycle and bank regulatory examination results. The applied loss factors are reevaluated quarterly to ensure their relevance in the current economic environment.

Residential mortgage lending generally entails a lower risk of default than other types of lending. Other consumer loans and commercial real estate loans generally involve more risk of collectability because of the type and nature of the collateral and, in certain cases, the absence of collateral. It is the Company's policy to

establish specific reserves for losses on delinquent commercial loans when it determines that losses are probable.

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

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for loans by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent.

An allowance for loan losses is established for an impaired loan if its carrying value exceeds its estimated fair value. The estimated fair values of substantially all of the Company's impaired loans are measured based on the estimated fair value of the loan's collateral. Interest payments on impaired loans and non-accrual loans are applied to principal unless the ability to collect the principal amount is fully secured, in which case interest is recognized on the cash basis.

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

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

The allowance calculation methodology includes further segregation of loan classes into risk rating categories. The borrower's overall financial condition, repayment sources, guarantors and value of collateral, if appropriate, are evaluated annually for commercial loans or when credit deficiencies arise, such as delinquent loan payments, for commercial and consumer loans. Credit quality risk ratings include regulatory classifications of special mention, substandard, doubtful and loss. Loans criticized special mention have potential weaknesses that deserve management's close attention. If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. Loans classified substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They include loans that are inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified doubtful have all the weaknesses inherent in loans classified substandard with the added characteristic that collection or liquidation in full, on the basis of current conditions and facts, is highly improbable. Loans classified as a loss are considered uncollectible and are charged to the allowance for loan losses. Loans not classified are rated pass.

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

The following table presents the classes of the loan portfolio summarized by the aggregate pass rating and the classified ratings of special mention, substandard and doubtful within the Company's internal risk rating system as of September 30, 2015 and 2014:

September 30, 2015

(In thousands)	<u>Pass</u>	<u>Special Mention</u>	<u>Substandard</u>	<u>Doubtful</u>	<u>Total</u>
Residential Mortgages	\$ 285,180	\$ 273	\$ 2,621	\$ 485	\$ 288,559
Construction	6,267	-	-	-	6,267
Home Equity	91,217	250	517	-	91,984
Commercial Mortgages	118,010	4,928	7,112	171	130,221
Commercial Business Loans	8,446	154	-	-	8,600
Consumer Non-Real Estate	498	-	-	-	498
Total	<u>\$ 509,618</u>	<u>\$ 5,605</u>	<u>\$ 10,250</u>	<u>\$ 656</u>	<u>\$ 526,129</u>

September 30, 2014

(In thousands)	<u>Pass</u>	<u>Special Mention</u>	<u>Substandard</u>	<u>Doubtful</u>	<u>Total</u>
Residential Mortgages	\$ 281,669	\$ 302	\$ 2,873	\$ 1,314	\$ 286,158
Construction	5,460	-	-	-	5,460
Home Equity	91,318	255	359	-	91,932
Commercial Mortgages	101,996	8,141	7,295	203	117,635
Commercial Business Loans	9,556	180	-	-	9,736
Consumer Non-Real Estate	560	-	-	75	635
Total	<u>\$ 490,559</u>	<u>\$ 8,878</u>	<u>\$ 10,527</u>	<u>\$ 1,592</u>	<u>\$ 511,556</u>

The following table summarizes information in regards to impaired loans by loan portfolio class as of September 30, 2015 and for the year then ended:

(In thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Residential Mortgages	\$ 2,178	\$ 2,347	\$ -	\$ 2,197	\$ 61
Construction	-	-	-	-	-
Home Equity	251	364	-	254	3
Commercial Mortgages	5,438	6,293	-	5,453	20
Commercial Business Loans	-	-	-	-	-
Consumer Non-Real Estate	-	1	-	-	-
Subtotal:	<u>7,867</u>	<u>9,005</u>	<u>-</u>	<u>7,904</u>	<u>84</u>
With an allowance recorded:					
Residential Mortgages	928	928	(49)	938	43
Construction	-	-	-	-	-
Home Equity	266	266	(215)	266	9
Commercial Mortgages	1,845	1,845	(185)	1,898	-
Commercial Business Loans	-	-	-	-	-
Consumer Non-Real Estate	-	-	-	-	-
Subtotal:	<u>3,039</u>	<u>3,039</u>	<u>(449)</u>	<u>3,102</u>	<u>52</u>
Total:					
Residential Mortgages	3,106	3,275	(49)	3,135	104
Construction	-	-	-	-	-
Home Equity	517	630	(215)	520	12
Commercial Mortgages	7,283	8,138	(185)	7,351	20
Commercial Business Loans	-	-	-	-	-
Consumer Non-Real Estate	-	1	-	-	-
Totals:	<u>\$ 10,906</u>	<u>\$ 12,044</u>	<u>\$ (449)</u>	<u>\$ 11,006</u>	<u>\$ 136</u>

The following table summarizes information in regards to impaired loans by loan portfolio class as of September 30, 2014 and for the year then ended:

(In thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Residential Mortgages	\$ 3,232	\$ 3,483	\$ -	\$ 3,514	\$ 125
Construction	-	-	-	-	-
Home Equity	205	273	-	276	8
Commercial Mortgages	3,975	4,528	-	4,530	95
Commercial Business Loans	-	-	-	-	-
Consumer Non-Real Estate	75	137	-	137	2
Subtotal:	<u>7,487</u>	<u>8,421</u>	<u>-</u>	<u>8,457</u>	<u>230</u>
With an allowance recorded:					
Residential Mortgages	954	963	(88)	970	53
Construction	-	-	-	-	-
Home Equity	154	154	(136)	154	7
Commercial Mortgages	3,523	3,731	(288)	3,753	75
Commercial Business Loans	-	-	-	-	-
Consumer Non-Real Estate	-	-	-	-	-
Subtotal:	<u>4,631</u>	<u>4,848</u>	<u>(512)</u>	<u>4,877</u>	<u>135</u>
Total:					
Residential Mortgages	4,186	4,446	(88)	4,484	178
Construction	-	-	-	-	-
Home Equity	359	427	(136)	430	15
Commercial Mortgages	7,498	8,259	(288)	8,283	170
Commercial Business Loans	-	-	-	-	-
Consumer Non-Real Estate	75	137	-	137	2
Totals:	<u>\$ 12,118</u>	<u>\$ 13,269</u>	<u>\$ (512)</u>	<u>\$ 13,334</u>	<u>\$ 365</u>

The performance and credit quality of the loan portfolio is also monitored by the analyzing the age of the loans receivable as determined by the length of time a recorded payment is past due. The following tables present the classes of the loan portfolio summarized by the past due status as of September 30, 2015 and 2014:

September 30, 2015

(In thousands)	30-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans Receivable	Loans Receivable > 90 Days and Accruing
Residential Mortgages	\$ 4,970	\$ 2,801	\$ 7,771	\$280,788	\$ 288,559	\$ -
Construction	-	-	-	6,267	6,267	-
Home Equity	184	100	284	91,700	91,984	-
Commercial Mortgages	-	5,438	5,438	124,783	130,221	-
Commercial Business Loans	-	-	-	8,600	8,600	-
Consumer Non-Real Estate	13	-	13	485	498	-
Total	<u>\$ 5,167</u>	<u>\$ 8,339</u>	<u>\$ 13,506</u>	<u>\$512,623</u>	<u>\$ 526,129</u>	<u>\$ -</u>

September 30, 2014

(In thousands)	<u>30-89 Days Past Due</u>	<u>Greater than 90 Days</u>	<u>Total Past Due</u>	<u>Current</u>	<u>Total Loans Receivable</u>	<u>Loans Receivable > 90 Days and Accruing</u>
Residential Mortgages	\$ 5,508	\$ 3,232	\$ 8,740	\$277,418	\$ 286,158	\$ -
Construction	-	-	-	5,460	5,460	-
Home Equity	187	359	546	91,386	91,932	-
Commercial Mortgages	-	5,550	5,550	112,085	117,635	-
Commercial Business Loans	-	-	-	9,736	9,736	-
Consumer Non-Real Estate	<u>10</u>	<u>13</u>	<u>23</u>	<u>612</u>	<u>635</u>	<u>13</u>
Total	<u>\$ 5,705</u>	<u>\$ 9,154</u>	<u>\$ 14,859</u>	<u>\$496,697</u>	<u>\$ 511,556</u>	<u>\$ 13</u>

The following table presents nonaccrual loans by classes of the loan portfolio for the years ended September 30, 2015 and 2014:

(In thousands)	<u>September 30, 2015</u>	<u>September 30, 2014</u>
Residential Mortgages	\$ 3,000	\$ 4,188
Home Equity	453	359
Commercial Mortgages	7,283	7,498
Consumer Non-Real Estate	<u>-</u>	<u>75</u>
Total	<u>\$ 10,736</u>	<u>\$ 12,120</u>

Interest income on nonaccrual loans not recognized during 2015 and 2014 was \$271,000 and \$204,000 respectively.

The following table provides the activity in the allowance for loan losses by loan class for the years ended September 30, 2015 and 2014 and the balance in the allowance for loan losses at September 30, 2015 and 2014 disaggregated on the basis of the Company's impairment method by loan class along with the balance of loans receivable by class disaggregated on the basis of the Company's impairment methodology.

September 30, 2015								
(In thousands)	Residential Mortgages	Construction	Home Equity	Commercial Mortgages	Commercial Business Loans	Consumer Non-Real Estate	Unallocated	Totals
Beginning Balance, September 30, 2014	\$ 984	\$ -	\$ 557	\$ 1,525	\$ 191	\$ 38	\$ 41	\$ 3,336
Charge-offs	(471)	-	(41)	(94)	-	(23)	-	(629)
Recoveries	100	-	-	-	-	6	-	106
Provisions	489	-	195	(3)	(22)	3	213	875
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Ending balance, September 30, 2015	<u>\$ 1,102</u>	<u>\$ -</u>	<u>\$ 711</u>	<u>\$ 1,428</u>	<u>\$ 169</u>	<u>\$ 24</u>	<u>\$ 254</u>	<u>\$ 3,688</u>
Ending balance:								
Individually evaluated for impairment	\$ 49	\$ -	\$ 215	\$ 185	\$ -	\$ -	\$ -	\$ 449
Ending balance:								
Collectively evaluated for impairment	\$ 1,053	\$ -	\$ 496	\$ 1,243	\$ 169	\$ 24	\$ 254	\$ 3,239
Loans:								
Ending balance:	\$ 288,559	\$ 6,267	\$ 91,984	\$ 130,221	\$ 8,600	\$ 498	\$ -	\$ 526,129
Ending balance:								
Individually evaluated for impairment	\$ 3,106	\$ -	\$ 517	\$ 7,283	\$ -	\$ -	\$ -	\$ 10,906
Ending balance:								
Collectively evaluated for impairment	\$ 285,453	\$ 6,267	\$ 91,467	\$ 122,938	\$ 8,600	\$ 498	\$ -	\$ 515,223

During the fiscal year ended September 30, 2015 credit provisions were recorded in the commercial mortgage and commercial business loan portfolios while the residential mortgage, home equity, and consumer non-real estate portfolios required provision expense. The credit provisions in the commercial mortgage portfolio were the result of a decrease in specific reserves associated with impaired loans partially offset by an increase in qualitative factors. The credit provisions in the commercial business portfolio were the result of a decrease in the overall loan balances in the category partially offset by increased qualitative factors. Provision expense recorded for the residential mortgage and home equity portfolios was the result of increased historical loss factors. Provision expense recorded for the consumer non-real estate portfolio declined due to an improvement in historical loss factors and declining balances within the portfolio.

September 30, 2014

(In thousands)	Residential Mortgages	Construction	Home Equity	Commercial Mortgages	Commercial Business Loans	Consumer Non-Real Estate	Unallocated	Totals
Beginning Balance, September 30, 2013	\$ 818	\$ -	\$ 337	\$ 1,750	\$ 51	\$ 81	\$ 308	\$ 3,345
Charge-offs	(596)	-	(107)	(185)	-	(44)	-	(932)
Recoveries	-	-	-	-	-	43	-	43
Provisions	762	-	327	(40)	140	(42)	(267)	880
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Ending balance, September 30, 2014	<u>\$ 984</u>	<u>\$ -</u>	<u>\$ 557</u>	<u>\$ 1,525</u>	<u>\$ 191</u>	<u>\$ 38</u>	<u>\$ 41</u>	<u>\$ 3,336</u>
Ending balance:								
Individually evaluated for impairment	\$ 88	\$ -	\$ 136	\$ 288	\$ -	\$ -	\$ -	\$ 512
Ending balance:								
Collectively evaluated for impairment	\$ 896	\$ -	\$ 421	\$ 1,237	\$ 191	\$ 38	\$ 41	\$ 2,824
Loans:								
Ending balance:	\$ 286,158	\$ 5,460	\$ 91,932	\$ 117,635	\$ 9,736	\$ 635	\$ -	\$ 511,556
Ending balance:								
Individually evaluated for impairment	\$ 4,186	\$ -	\$ 359	\$ 7,498	\$ -	\$ 75	\$ -	\$ 12,118
Ending balance:								
Collectively evaluated for impairment	\$ 281,972	\$ 5,460	\$ 91,573	\$ 110,137	\$ 9,736	\$ 560	\$ -	\$ 499,438

During the fiscal year ended September 30, 2014 credit provisions were recorded in the commercial mortgage and consumer non-real estate portfolios while the residential mortgage, home equity, and commercial business portfolios required provision expense. The credit provisions in the commercial mortgage portfolio were the result of decreased qualitative factors and a decrease in specific reserves associated with impaired loans. The credit provisions in the consumer non-real estate portfolio were the result of decreased qualitative factors and a decrease in the volume of loans. Provision expense recorded for the residential mortgage portfolio was the result of increased historical loss factors. The increased allowance attributable to the home equity portfolio was the result of increases in the volume of loans and increases in the historical loss factors. The provision expenses recorded in the commercial business loan portfolio was caused by an increased volume of loans.

A troubled debt restructuring (“TDR”) is a formal restructure of a loan when the lender, for economic or legal reasons related to the borrower’s financial difficulties, grants a concession to the borrower. The concessions may be granted in various forms, including reduction in the stated interest rate, reduction in the loan balance or accrued interest, or extension of the maturity date.

The following table summarizes information in regards to troubled debt restructurings for the twelve months ended September 30, 2015 (in thousands):

	<u>Number of Contracts</u>	<u>Pre-Modification Outstanding Recorded Investments</u>	<u>Post-Modification Outstanding Recorded Investments</u>
Troubled Debt Restructurings			
Commercial real estate	4	\$ 5,066	\$ 4,633
Residential mortgages	<u>4</u>	<u>759</u>	<u>637</u>
Totals	<u>8</u>	<u>\$ 5,825</u>	<u>\$ 5,270</u>

As indicated in the table above, the Company modified four commercial real estate loans and four mortgage loans with a recorded investment of \$5.3 million during the twelve months ended September 30, 2015. As a result of the modified terms of the new loans, the Company extended the maturity on one of the eight of the modified loans and modified the interest rate on the remaining seven modified loans. The effective interest rate of the new terms of the modified loans was reduced when compared to the weighted average interest rate of the original terms of the modified loans. Four of the TDRs that were modified to reduce the interest rate totaling \$2.9 million, subsequently defaulted.

The following table summarizes information in regards to troubled debt restructurings for the twelve months ended September 30, 2014 (in thousands):

	<u>Number of Contracts</u>	<u>Pre-Modification Outstanding Recorded Investments</u>	<u>Post-Modification Outstanding Recorded Investments</u>
Troubled Debt Restructurings			
Commercial real estate	4	\$ 5,067	\$ 4,785
Residential mortgages	<u>3</u>	<u>694</u>	<u>591</u>
Totals	<u>7</u>	<u>\$ 5,761</u>	<u>\$ 5,376</u>

As indicated in the table above, the Company modified four commercial real estate loans and three mortgage loans with a recorded investment of \$5.4 million during the twelve months ended September 30, 2014. As a result of the modified terms of the new loans, the Company extended the maturity on one of the seven of the modified loans and modified the interest rate on the remaining six modified loans. The effective interest rate of the new terms of the modified loans was reduced when compared to the weighted average interest rate of the original terms of the modified loans. Three of the TDRs that were modified to reduce the interest rate totaling \$2.8 million, subsequently defaulted.

5. OFFICE PROPERTIES AND EQUIPMENT

Office properties and equipment are summarized by major classifications as follows:

(In thousands)	September 30,	
	2015	2014
Land	\$ 3,277	\$ 3,277
Buildings	10,322	10,305
Fixed assets suspense	-	6
Furniture, fixtures and equipment	5,704	5,657
Data processing	696	357
Automobiles	<u>126</u>	<u>126</u>
Total	20,125	19,728
Less accumulated depreciation	<u>(9,433)</u>	<u>(8,870)</u>
Net	<u>\$10,692</u>	<u>\$10,858</u>

Depreciation expense for the years ended September 30, 2015 and 2014 amounted to approximately \$563,000 and \$589,000, respectively.

6. DEPOSITS

Deposits are summarized as follows:

(In thousands)	September 30,			
	2015		2014	
	Amount	Weighted Interest Rate	Amount	Weighted Interest Rate
Non-interest-bearing checking accounts	\$ 50,237	0.00%	\$ 33,742	0.00%
NOW accounts	45,834	0.04	46,228	0.04
Interest-bearing checking accounts	44,330	0.38	33,985	0.19
Money market deposit accounts	200,375	0.22	182,957	0.17
Passbook and club accounts	4,171	0.65	4,057	0.67
Certificate of deposit accounts	<u>169,293</u>	<u>0.92</u>	<u>201,282</u>	<u>1.07</u>
Total Deposits	<u>\$514,240</u>	<u>0.43%</u>	<u>\$502,251</u>	<u>0.51%</u>

At September 30, 2015, the amounts of scheduled maturities of certificate of deposit accounts were as follows (in thousands):

For the year ended September 30,	2016	\$ 86,639
	2017	39,136
	2018	21,496
	2019	15,842
	2020	<u>6,180</u>
Total		<u>\$ 169,293</u>

The aggregate amount of certificate accounts in denominations of \$250,000 or more at September 30, 2015 and 2014 amounted to approximately \$7.0 million and \$7.4 million, respectively.

Interest expense on savings deposits is composed of the following:

(In thousands)	Year Ended September 30,	
	2015	2014
NOW, interest-bearing checking and MMDA accounts	\$ 535	\$ 370
Passbook and club accounts	49	53
Certificate accounts	<u>1,734</u>	<u>2,814</u>
Total	\$ <u>2,318</u>	\$ <u>3,237</u>

7. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

The Bank's short-term borrowings activities are summarized as follows:

<u>FHLB RepoPlus Advance</u>	<u>2015</u>	<u>2014</u>
	(Dollar in thousands)	
Balance at year-end	\$32,958	\$50,336
Maximum amount of outstanding at any month-end	48,554	50,336
Average balance outstanding during the year	31,813	36,379
Weighted-average interest rate:		
As of year-end	0.38%	0.22%
Paid during the year	0.39%	0.30%

Average amounts outstanding during the year represent daily average balances, while weighted-average interest rates represent interest expense divided by the related average balance for the period indicated.

The Bank maintains the Repo Plus Advance credit arrangement, which is renewable annually, with the FHLB. The line maintains a variable rate of interest that may be reset daily at the FHLB's discretion. The Bank's maximum borrowing capacity under the credit arrangement with the FHLB as of September 30, 2015, is approximately \$343.7 million. FHLB advances are secured by a blanket security agreement that includes the Company's FHLB stock as well as certain residential mortgage loans and investments. In addition, there are three long-term advances from Citigroup that are secured by investment and mortgage-backed securities totaling \$35 million.

Long-term debt consists of the following (dollars in thousands):

Description	Maturity Range		Weighted Average Interest Rate	Stated Interest Rate Range		2015	2014
	From	To		From	To		
Fixed rate	1/7/2016	4/24/2018	0.82%	0.54%	4.16%	\$ 21,247	\$ 22,131
Convertible	6/2/2016	9/19/2018	4.32%	3.46%	5.29%	96,000	111,000
Other long-term debt	3/9/2017	2/2/2018	4.14%	3.29%	4.55%	<u>35,000</u>	<u>35,000</u>
						<u>\$152,247</u>	<u>\$168,131</u>

Maturities of long-term advances as of September 30, 2015 are summarized as follows:

		<u>Amount</u>	<u>Weighted Average Rate</u>
		(In thousands)	
FHLB long-term debt:			
	2016	\$ 30,404	2.00%
	2017	35,526	4.56%
	2018	<u>51,317</u>	<u>4.08%</u>
Total FHLB long-term debt		<u>117,247</u>	<u>3.69%</u>
Other long-term debt:			
	2017	10,000	4.37%
	2018	<u>25,000</u>	<u>4.05%</u>
Total other long-term debt fixed		<u>35,000</u>	<u>4.14%</u>
Total long-term debt		\$ <u>152,247</u>	<u>3.79%</u>

8. INCOME TAXES

The Company computes its reserve for bad debts under the specific charge-off method. The bad debt deduction allowable under this method is available to large banks with assets greater than \$500 million. Generally, this method allows the Company to deduct an annual addition to the reserve for bad debts equal to its net charge-offs. Retained earnings at September 30, 2015 and 2014 includes approximately \$1,325,000 representing bad debt deductions for which no deferred income taxes have been provided.

The expense for income taxes differs from that computed at the statutory federal corporate tax rate as follows:

	Year Ended September 30,		2014	
	2015	Percentage of Pretax Income	Amount	Percentage of Pretax Income
(In thousands)	<u>Amount</u>		<u>Amount</u>	
At statutory rate	\$ 2,502	34.0%	\$ 2,501	34.0%
Adjustments resulting from:				
Tax-exempt income	(336)	(4.5)	(344)	(4.6)
State tax-net of federal tax benefit	223	3.0	253	3.4
Other	<u>45</u>	<u>0.6</u>	<u>30</u>	<u>0.4</u>
Expense per consolidated statements of income	\$ <u>2,434</u>	<u>33.1%</u>	\$ <u>2,440</u>	<u>33.2%</u>

Income tax expense is summarized as follows:

	Year Ended September 30,	
	2015	2014
(In thousands)		
Current	\$ 2,565	\$ 2,474
Deferred	<u>(131)</u>	<u>(34)</u>
Total Income Tax Expense	\$ <u>2,434</u>	\$ <u>2,440</u>

Items that gave rise to significant portions of the deferred tax accounts are as follows:

(In thousands)	September 30,	
	2015	2014
Deferred Tax Assets:		
Deferred Loan Fees	\$ 1	\$ 1
Allowance for Loan Losses	1,254	1,134
Non-accrual interest	-	-
Non-deductible capital losses	75	108
Securities impairment	-	-
Other	451	373
Sub-Total	<u>1,781</u>	<u>1,616</u>
Deferred Tax Liabilities:		
Unrealized gain on investment securities	(8)	(17)
Properties and equipment	(829)	(795)
Sub-Total	<u>(837)</u>	<u>(812)</u>
Total	\$ <u>944</u>	\$ <u>804</u>

9. REGULATORY CAPITAL REQUIREMENTS

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under U.S. GAAP, regulatory reporting requirements, and regulatory capital standards. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulatory capital standards to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital (as defined) to risk-weighted assets (as defined), common equity Tier 1 capital (as defined) to total risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of September 30, 2015, that the Bank meets all capital adequacy requirements to which it is subject.

As of September 30, 2015, and September 30, 2014, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain minimum total risk-based capital, Tier 1 risk-based capital, common equity Tier 1 risk-based capital, and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the institution's category.

The Bank's actual capital amounts and ratios are also presented in the table.

(In thousands)	Actual		For Capital Adequacy Purposes		To Be Considered Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
At September 30, 2015						
Tier 1 Capital (to assets)	\$63,876	8.30%	\$30,774	4.00%	\$38,467	5.00%
Common Equity Tier 1 Capital (to risk weighted assets)	63,876	12.74%	22,560	4.50%	32,587	6.50%
Tier 1 Capital (to risk weighted assets)	63,876	12.74%	30,080	6.00%	40,107	8.00%
Total Capital (to risk weighted assets)	67,649	13.49%	40,107	8.00%	50,133	10.00%
At September 30, 2014						
Tier 1 Capital (to assets)	\$63,126	7.97%	\$31,668	4.00%	\$39,585	5.00%
Tier 1 Capital (to risk weighted assets)	63,126	13.08%	28,966	6.00%	38,622	8.00%
Total Capital (to risk weighted assets)	66,547	13.78%	38,622	8.00%	48,277	10.00%

The Company's capital ratios are not significantly different than the Bank's disclosed above.

10. RETIREMENT SAVINGS PLANS

The Company has a qualified 401 (k) retirement savings plan covering all full-time employees meeting certain eligibility requirements. Contributions for the plan are at the discretion of the Company's Board of Directors. Compensation expense related to the plan was \$518,000 and \$489,000 for the years ended September 30, 2015 and 2014, respectively.

11. STOCK BASED COMPENSATION AND EMPLOYEE STOCK PURCHASE PLAN

In January 2001, the stockholders approved the 2000 Stock Option Plan. This plan consists of two parts: Plan I - incentive stock options and Plan II - compensatory stock options.

In January 2006, the stockholders approved the 2005 Stock Option Plan. This plan consists of two parts: Plan I - incentive stock options and Plan II - compensatory stock options. There are 20,372 shares remaining for grant under this plan.

In January 2010, the stockholders approved the 2009 Stock Incentive Plan which provides 300,000 shares for the granting of incentive stock options, compensatory stock options, stock appreciation rights and share awards of restrictive stock. The number of shares available to be issued as share awards will not exceed 75,000 shares. There are 94,483 shares remaining for grant under this plan.

The life of the options under the above plans is ten years. The vesting period for the options is between one and five years.

A summary of transactions under these plans follows:

	2015		2014	
	Options	Weighted Average Price	Options	Weighted Average Price
Outstanding, beginning of year	492,346	\$ 15.19	500,087	\$ 15.12
Exercised	(76,575)	16.23	(30,217)	16.44
Forfeited	(26,250)	17.53	(4,250)	16.40
Expired	-	-	(2,500)	17.16
Granted	43,426	16.95	29,226	18.10
Outstanding, end of year	432,947	\$ 15.05	492,346	\$ 15.19
Options exercisable, end of year	281,722	\$ 14.36	275,308	\$ 15.30

A summary of the exercise price ranges at September 30, 2015 and 2014 is as follows:

2015			
Number of Option Shares	Exercise Price Range	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price per Share
157,872	\$ 12.50-13.42	3.28	\$ 12.74
160,014	13.43-17.16	6.37	15.32
115,061	17.17-18.10	4.95	17.82
432,947	\$ 12.50-18.10	4.86	\$ 15.05

2014			
Number of Option Shares	Exercise Price Range	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price per Share
170,272	\$ 11.90-13.05	4.29	\$ 12.74
132,588	13.06-17.16	6.30	14.67
189,486	17.17-18.10	4.15	17.76
492,346	\$ 11.90-18.10	4.78	\$ 15.19

At September 30, 2015 and 2014, the aggregate intrinsic value of options outstanding was \$1.5 million and \$882,000, respectively. At September 30, 2015 and 2014, the aggregate intrinsic value of options exercisable was \$1.2 million and \$489,000, respectively. For the years ended September 30, 2015 and 2014, the aggregate intrinsic value of options exercised was \$183,000 and \$55,500, respectively.

The aggregate intrinsic value of a stock option represents the total pre-tax intrinsic value (the amount by which the current market value of the underlying stock exceeds the exercise price of the option) that would have been received by the option holder had all option holders exercised their options on September 30, 2015. This amount changes based on changes in the market value of the Company's common stock.

The weighted average fair value of stock options granted in the years ended September 30, 2015 and 2014 was \$1.56 and \$2.64, respectively, and was estimated at the date of grant using a Binomial Option Pricing Model with the following weighted-average assumptions while the market price of the Company's common stock at the date of grant is used for restricted stock awards:

	Year Ended September 30,	
	2015	2014
Risk free interest rate of return	2.00%	1.98%
Expected option life	84 months	84 months
Expected volatility	15.00%	21.00%
Expected dividends	4.96%	4.64%

The expected volatility is based on historic volatility. The risk-free interest rates for periods within the contractual life of the awards are based on the U.S. Treasury yield curve in effect at the time of the grant. The expected life is based on historical exercise experience. The dividend yield assumption is based on the Company's history and expectation of dividend payouts.

Stock based compensation expense related to stock options for the years ended September 30, 2015 and 2014 was \$157,000 or \$148,000 net of tax, and \$156,000 or \$147,000 net of tax, respectively. As of September 30, 2015, there was approximately \$93,000 of total unrecognized compensation cost related to non-vested stock options under the plans.

On November 12, 2010, 2,822 shares of restricted stock were awarded. The restricted shares awarded had a grant date fair value of \$15.15 per share. The restricted stock awarded vest 20% annually beginning November 14, 2011. On November 3, 2011, 3,006 shares of restricted stock were awarded. The restricted shares awarded had a grant date fair value of \$14.84 per share. The restricted stock awarded vests 33% annually beginning November 4, 2012. On April 4, 2013, 2,601 shares of restricted stock were awarded. The restricted shares awarded had a grant date fair value of \$17.80 per share. The restricted stock awarded vests 33% annually beginning April 4, 2014. On November 6, 2013, 3,928 shares of restricted stock were awarded. The restricted shares awarded had a grant date fair value of \$18.10 per share. The restricted stock awarded vests 33% annually beginning November 6, 2014. On November 10, 2014, 4,976 shares of restricted stock were awarded. The restricted shares awarded had a grant date fair value of \$16.95 per share. The restricted stock awarded vests 33% annually beginning November 10, 2015. During the years ended September 30, 2015 and 2014, \$80,000 and \$75,000, respectively in compensation expense was recognized in regard to these restricted stock awards. At September 30, 2015, there was \$49,000 of unrecognized compensation expense related to the restricted stock awards which is expected to be recognized over a period of three years.

Restricted stock award activity for the year ended September 30, 2015 was as follows:

	<u>Number of shares</u>	<u>Weighted Average Grant Date Fair Value</u>
Unvested restricted stock, beginning of year	7,793	\$ 17.19
Granted	4,976	16.95
Forfeited	-	-
Vested	<u>(3,740)</u>	<u>16.71</u>
Unvested restricted stock, end of year	<u>9,029</u>	<u>\$ 17.25</u>

Restricted stock award activity for the year ended September 30, 2014 was as follows:

	Number of shares	Weighted Average Grant Date Fair Value
Unvested restricted stock, beginning of year	6,297	\$ 16.15
Granted	3,928	18.10
Forfeited	-	-
Vested	<u>(2,432)</u>	<u>15.97</u>
Unvested restricted stock, end of year	<u>7,793</u>	<u>\$ 17.19</u>

The Company also has established an Employee Stock Purchase Plan (the “Purchase Plan”) whereby employees may elect to make contributions to the Purchase Plan in an aggregate amount not less than 2% or more than 10% of such employee’s total compensation. These contributions would then be used to purchase stock during an offering period determined by the Company’s Salary and Benefits Committee. The purchase price of the stock would be the lesser of 85% of the market price on the first day or the last day of the offering period. During 2015 and 2014, no shares were issued to employees, respectively. At September 30, 2015 and 2014, there were 53,583 shares available for future purchase. The Company suspended participation in the Purchase Plan in March 2005 and the plan is not currently active.

12. ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table presents the changes in accumulated other comprehensive income by component net of tax for the years ended September 30, 2015 and 2014.

	Unrealized gains on available for sale securities (a)
	(In thousands)
Balance as of September 30, 2014	\$ 17
Other comprehensive loss before reclassification	(1)
Amount reclassified from accumulated other comprehensive income	-
Total other comprehensive loss	<u>(1)</u>
Balance as of September 30, 2015	<u>\$ 16</u>

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

	Unrealized gains on available for sale securities (a)
	(In thousands)
Balance as of September 30, 2013	\$ 33
Other comprehensive loss before reclassification	(16)
Amount reclassified from accumulated other comprehensive income	-
Total other comprehensive loss	<u>(16)</u>
Balance as of September 30, 2014	<u>\$ 17</u>

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

There were no items that were reclassified from accumulated other comprehensive income for the years ended September 30, 2015 and 2014.

13. COMMITMENTS

At September 30, 2015, the Company had approximately \$11.7 million in outstanding commitments to originate mortgage loans, of which \$11.1 million were fixed rates ranging from 3.00% to 5.25% and \$603,000 were adjustable rates ranging from 3.38% to 3.75%. The unfunded home equity line of credit commitments at September 30, 2015 were \$63.5 million. The Company had \$7.4 million and \$3.5 million of committed commercial and consumer loans, respectively, at September 30, 2015. In addition, the Company had \$15.8 million of unused commercial lines of credit at September 30, 2015. The amounts of undisbursed portions of loans in process at September 30, 2015 were \$2.9 million. The Company had a total of \$498,000 in standby letters of credit. Also, at September 30, 2015, the Company had no outstanding futures or options positions.

Outstanding letters of credit written are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The majority of these standby letters of credit expire within the next twelve months. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending other loan commitments. The Company requires collateral supporting these letters of credit as deemed necessary. Management believes that the proceeds obtained through a liquidation of such collateral would be sufficient to cover the maximum potential amount of future payments required under the corresponding guarantees. The current amount of the liability as of September 30, 2015 for guarantees under standby letters of credit issued is not material.

The Company leases land for two of its branch offices. Rent expense amounted to \$140,000 and \$139,000 for the years ended September 30, 2015 and 2014. Minimum rental commitments for the next five years at September 30, 2015, are summarized below:

<u>Fiscal Year</u>	<u>Rental Amount</u> (In thousands)
2016	\$ 144
2017	150
2018	157
2019	157
2020	<u>161</u>
Total	\$ <u>769</u>

The Company is required to maintain reserve funds in cash or on deposit with the Federal Reserve Bank. The required reserve was \$3.9 million for the year ended September 30, 2015.

14. LEGAL CONTINGENCIES

Various legal claims also arise from time to time in the normal course of business which, in the opinion of management, will have no material effect on the Company's consolidated financial statements.

15. RESTRICTED RETAINED EARNINGS

At the time of conversion to a stock savings bank, in 1987, the Bank established a liquidation account in an amount equal to the Bank's net worth as reflected in the latest Consolidated Statements of Financial Condition of the Bank contained in the offering circular utilized in the conversion. The function of the liquidation account is to establish a priority on liquidation and, except with respect to the payment of cash dividends on, or the re-purchase of, any of the common stock by the Bank, the existence of the liquidation account will not operate to restrict the use or application of any of the net worth accounts of the Bank. In the event of a complete liquidation of the Bank (and only in such event), each eligible account holder will be entitled to receive a pro rata distribution from the liquidation account, based on such holder's proportionate amount of the

total current adjusted balances from deposit accounts then held by all eligible account holders, before any liquidation distribution may be made with respect to stockholders. The liquidation account was approximately \$2,300,000 at September 30, 2015. Furthermore, the Company may not repurchase any of its stock if the effect thereof would cause the Company's net worth to be reduced below (i) the amount required for the liquidation account or (ii) the regulatory capital requirements.

16. FAIR VALUE MEASUREMENTS AND DISCLOSURES

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with accounting guidance, the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumption used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

The fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is determined at a reasonable point within the range that is most representative of fair value under current market conditions.

The guidance establishes a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under are as follows:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2: Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability.

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported with little or no market activity).

An asset's or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at September 30, 2015 and 2014 are as follows (in thousands):

Description	Total	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
September 30, 2015 Available for sale securities:				
Collateralized mortgage obligations	\$ 810	\$ -	\$ 810	\$ -
U.S. Government money market funds	<u>72</u>	<u>72</u>	<u>-</u>	<u>-</u>
Totals	<u>\$ 882</u>	<u>\$ 72</u>	<u>\$ 810</u>	<u>\$ -</u>

Description	Total	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
September 30, 2014 Available for sale securities:				
Collateralized mortgage obligations	\$ 811	\$ -	\$ 811	\$ -
U.S. Government money market funds	<u>71</u>	<u>71</u>	<u>-</u>	<u>-</u>
Totals	<u>\$ 882</u>	<u>\$ 71</u>	<u>\$ 811</u>	<u>\$ -</u>

There were no transfers in and out of Level 1 and Level 2 fair value measurements for the year ended September 30, 2015.

For assets measured at fair value on a non recurring basis, the fair value measurements by level within the fair value hierarchy used at September 30, 2015 and 2014 are as follows (in thousands):

Description	September 30, 2015	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
Impaired Loans	\$ 10,457	\$ -	\$ -	\$ 10,457
Foreclosed Real Estate	<u>657</u>	<u>-</u>	<u>-</u>	<u>657</u>
Totals	<u>\$ 11,114</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,114</u>
Description	September 30, 2014	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
Impaired Loans	\$ 11,606	\$ -	\$ -	\$ 11,606
Foreclosed Real Estate	<u>649</u>	<u>-</u>	<u>-</u>	<u>649</u>
Totals	<u>\$ 12,255</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,255</u>

The following valuation techniques were used to measure fair value of the Company's financial instruments in the tables above and below.

The following table below presents additional quantitative information about Level 3 assets measured at fair value on a nonrecurring basis (in thousands):

Quantitative Information about Level 3 Fair Value Measurements

September 30, 2015				
Description	Fair Value	Valuation Technique	Unobservable Input	Range (Weighted Average) (3)
Impaired loans	\$ 10,457	Fair Value of Collateral (1)	Appraised Value (2)	10% - 27% (18%)
Foreclosed Real Estate	657	Appraised Value (2)	Appraised Value (2)	17%

Quantitative Information about Level 3 Fair Value Measurements

September 30, 2014				
Description	Fair Value	Valuation Technique	Unobservable Input	Range (Weighted Average) (3)
Impaired loans	\$ 11,606	Fair Value of Collateral (1)	Appraised Value (2)	10% - 27% (18%)
Foreclosed Real Estate	649	Appraised Value (2)	Appraised Value (2)	17%

- (1) Fair value is generally determined through independent appraisals of the underlying collateral, which include Level 3 inputs that are not identifiable.
- (2) Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated liquidation expenses.
- (3) The range and weighted average of qualitative factors such as economic conditions and estimated liquidation expenses are presented as a percent of the appraised value.

The significant unobservable inputs for impaired loans are the appraised value or an agreed upon sales price. These values are adjusted for estimated costs to sell which are incremental direct costs to transact a sale such as broker commission, legal fees, closing costs and title transfer fees. The costs must be considered essential to the sale and would not have been incurred if the decision to sell had not been made. The costs to sell are based on costs associated with the Company's actual sales of other real estate owned which are assessed annually.

Other real estate owned is measured at fair value, less costs to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of the carrying amount or fair value, less costs to sell.

The following information should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only provided for a limited portion of the Company's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Company's disclosures and those of other companies may not be meaningful. The following methods and assumptions were used to estimate the fair values of the Company's financial instruments at September 30, 2015 and 2014.

Cash and Cash Equivalents (Carried at Cost)

The carrying amounts reported in the Consolidated Statements of Financial Condition for cash and short-term instruments approximate those assets' fair values.

Securities

The fair value of securities available for sale (carried at fair value) and held to maturity (carried at amortized cost) are determined by obtaining quoted market prices on nationally recognized securities exchanges (Level 1), or matrix pricing (Level 2), which is a mathematical technique used widely 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 prices. The Company currently holds U.S. Government money market funds and equity securities both of which are classified as Level 1, because quoted prices are available for these securities in an active market.

The Bank's investment portfolio is maintained by a third-party which utilizes Interactive Data Corporation (IDC) as its primary source for security valuations. IDC is not affiliated with or owned by a securities broker, dealer or underwriter, nor is it actively involved in the business of investment management or securities trading. Some of the major asset classes that IDC provides pricing and market inputs are as follows: U.S. Agency/Government Sponsored Enterprise (GSE) issues, U.S. high grade municipal issues, and U.S. Structured Securities Agency/GSE Collateralized Mortgage Obligation issues. The methodology used to price the above asset classes include: broker quotes, proprietary modes, vast descriptive terms and conditions databases, as well as extensive quality control programs. Market inputs used to help determine the fair value hierarchy include but not limited to: security characteristics, ratings updates, prepayment schedules; cash flows and yield to maturity. Based on these methodologies employed by IDC; FTN Financial and HSB considers these evaluations Level 2 in reference to ASC 820 with the exception of inactive markets. There are no securities in an inactive environment.

Loans Receivable (Carried at Cost)

The fair values of loans, excluding impaired loans are estimated using discounted cash flow analyses, using market rates at the Consolidated Statements of Financial Condition date that reflect the credit and interest rate-risk inherent in the loans. Projected future cash flows are calculated based upon contractual maturity or call dates, projected repayments and prepayments of principal. Generally, for variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values.

Impaired loans are those loans which the Company has measured impairment generally based on the fair value of the loan's collateral. Fair value is generally determined based upon independent third-party appraisals of the properties, or discounted cash flows based upon the expected proceeds. These assets are included as Level 3 values, based upon the lowest level of input that is significant to the fair value measurements.

Loans Held For Sale (Carried at Lower of Cost or Fair Value)

The fair value of loans held for sale is determined, when possible, using quoted secondary-market prices. If no such quoted prices exist, the fair value of a loan is determined using quoted prices for a similar loan or loans, adjusted for the specific attributes of that loan.

Federal Home Loan Bank Stock (Carried at Cost)

The carrying amount of this restricted investment in bank stock approximates fair value, and considers the limited marketability of this security.

Bank Owned Life Insurance

Fair value is equal to the cash surrender value of the life insurance policies.

Accrued Interest Receivable and Payable (Carried at Cost)

The carrying amount of accrued interest receivable and accrued interest payable approximates their fair value.

Deposit Liabilities (Carried at Cost)

The fair values disclosed for demand deposits (e.g., interest and noninterest checking, passbook savings and money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered in the market on certificates to a schedule of an aggregated expected monthly maturities on time deposits.

Borrowings (Carried at Cost)

Fair values of borrowings are estimated using discounted cash flow analysis, based on quoted prices for new advances with similar credit risk characteristics, terms and remaining maturity. These prices obtained from this active market represent a market value that is deemed to represent the transfer price if the liability were assumed by a third party.

Off-Balance Sheet financial Instruments (Disclosed at Cost)

Fair values for the Company's off-balance sheet financial instruments (lending commitments and letters of credit) are based on fees currently charged in the market to enter into similar agreements, taking into account, the remain terms of the agreements and the counterparties' credit standing. The fair value of these off-balance sheet financial instruments are not considered material as of September 30, 2015 and 2014.

The fair value amounts have been determined by the Company using available market information appropriate valuation methodologies. However, considerable judgment is necessarily required to interpret the data to develop the estimates.

The carrying amounts and fair values of all the Company's financial instruments as of September 30, 2015 and 2014 are as follows:

	Fair Value Measurements at September 30, 2015				
(In thousands)	Carrying Amount	Estimated Fair Value	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:					
Cash and cash equivalents	\$ 14,870	\$ 14,870	\$ 14,870	\$ -	\$ -
Securities held to maturity	197,928	201,604	-	201,604	-
Securities available-for-sale	882	882	72	810	-
Loans receivable - net	519,511	547,750	-	-	547,750
Federal Home Loan Bank stock	6,910	6,910	6,910	-	-
Bank-owned life insurance	15,285	15,285	15,285	-	-
Accrued interest receivable	2,188	2,188	2,188	-	-
Liabilities:					
Checking, passbook, club and NOW deposit accounts	144,572	144,572	144,572	-	-
Money Market deposit accounts	200,375	200,375	200,375	-	-
Certificate of deposit accounts	169,293	169,089	-	-	169,089
Short-term borrowings	32,958	32,958	32,958	-	-
Long-term borrowings	152,247	155,928	-	-	155,928
Accrued interest payable	576	576	576	-	-
Off-balance sheet financial instruments	-	-	-	-	-

			Fair Value Measurements at September 30, 2014		
			Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(In thousands)	Carrying Amount	Estimated Fair Value			
Assets:					
Cash and cash equivalents	\$ 12,227	\$ 12,227	\$ 12,227	\$ -	\$ -
Securities held to maturity	233,548	234,225	-	234,225	-
Securities available-for-sale	882	882	71	811	-
Loans receivable - net	504,691	528,786	-	-	528,786
Federal Home Loan Bank stock	9,858	9,858	9,858	-	-
Bank-owned life insurance	14,881	14,881	14,881	-	-
Accrued interest receivable	2,276	2,276	2,276	-	-
Liabilities:					
Checking, passbook, club and NOW deposit accounts	118,012	118,012	118,012	-	-
Money Market deposit accounts	182,957	182,957	182,957	-	-
Certificate of deposit accounts	201,282	204,605	-	-	204,605
Short-term borrowings	50,336	50,336	50,336	-	-
Long-term borrowings	168,131	180,325	-	-	180,325
Accrued interest payable	647	647	647	-	-
Off-balance sheet financial instruments	-	-	-	-	-

17. PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION

Condensed financial statements of Harleysville Savings Financial Corporation are as follows:

(In thousands)

Condensed Statements of Financial Condition	September 30,	
	2015	2014
Assets		
Cash	\$ 44	\$ 82
Investment in subsidiary	<u>63,891</u>	<u>63,143</u>
Total Assets	<u>\$ 63,935</u>	<u>\$ 63,225</u>
Liabilities and Stockholders' Equity		
Other liabilities	\$ 67	\$ 63
Stockholders' equity	<u>63,868</u>	<u>63,162</u>
Total Liabilities and Stockholders' Equity	<u>\$ 63,935</u>	<u>\$ 63,225</u>
For the Year Ended September 30,		
Condensed Statements of Income:	2015	2014
Equity in income of subsidiary	\$ 749	\$ 1,602
Distributed earnings of subsidiary	4,800	3,910
Other expense	<u>623</u>	<u>595</u>
Net income	<u>\$ 4,926</u>	<u>\$ 4,917</u>
For the Year Ended September 30,		
Condensed Statements of Cash Flows	2015	2014
Net income	\$ 4,926	\$ 4,917
Increase in other liabilities	4	43
Stock based compensation	227	231
Equity in undistributed earnings of subsidiary	<u>(749)</u>	<u>(1,602)</u>
Net cash provided by operating activities	<u>4,408</u>	<u>3,589</u>
Financing activities:		
Acquisition of treasury stock	(1,664)	(756)
Treasury stock delivered under employee stock plan	245	282
Sale of treasury stock delivered under employee stock plans	89	71
Dividends paid	<u>(3,116)</u>	<u>(3,185)</u>
Net cash used in financing activities	<u>(4,446)</u>	<u>(3,588)</u>
Increase (decrease) in cash and cash equivalents	(38)	1
Cash and cash equivalents at the beginning of the period	<u>82</u>	<u>81</u>
Cash and cash equivalents at the end of the period	<u>\$ 44</u>	<u>\$ 82</u>

18. SUBSEQUENT EVENTS

Management has reviewed events occurring through December 3, 2015, the date the financial statements were issued, and no subsequent events occurred requiring accrual or disclosures.

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