

TIMBERLAND BANCORP INC  
Form 10-Q  
May 10, 2013  
Table of Contents

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended March 31, 2013

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the Transition Period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file number 0-23333

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

Washington  
(State or other jurisdiction of incorporation or  
organization)

91-1863696  
(IRS Employer Identification No.)

624 Simpson Avenue, Hoquiam, Washington  
(Address of principal executive offices)

98550  
(Zip Code)

(360) 533-4747  
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Edgar Filing: TIMBERLAND BANCORP INC - Form 10-Q

Large accelerated filer \_\_\_ Accelerated Filer Non-accelerated filer \_\_\_ Smaller reporting company X

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

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

CLASS	SHARES OUTSTANDING AT APRIL 30, 2013
Common stock, \$.01 par value	7,045,036

---

Table of Contents

INDEX

<u>PART I.</u>	<u>FINANCIAL INFORMATION</u>	Page
<u>Item 1.</u>	<u>Financial Statements (unaudited)</u>	
	<u>Condensed Consolidated Balance Sheets</u>	<u>3</u>
	<u>Condensed Consolidated Statements of Income</u>	<u>5</u>
	<u>Condensed Consolidated Statements of Comprehensive Income</u>	<u>7</u>
	<u>Condensed Consolidated Statements of Shareholders' Equity</u>	<u>8</u>
	<u>Condensed Consolidated Statements of Cash Flows</u>	<u>9</u>
	<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	<u>11</u>
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>39</u>
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>49</u>
<u>Item 4.</u>	<u>Controls and Procedures</u>	<u>49</u>
<u>PART II.</u>	<u>OTHER INFORMATION</u>	
<u>Item 1.</u>	<u>Legal Proceedings</u>	<u>50</u>
<u>Item 1A.</u>	<u>Risk Factors</u>	<u>50</u>
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>50</u>
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u>	<u>50</u>
<u>Item 4.</u>	<u>Mine Safety Disclosures</u>	<u>50</u>
<u>Item 5.</u>	<u>Other Information</u>	<u>50</u>
<u>Item 6.</u>	<u>Exhibits</u>	<u>51</u>
<u>SIGNATURES</u>		
Certifications		
	Exhibit 31.1	
	Exhibit 31.2	
	Exhibit 32	



Table of Contents

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

TIMBERLAND BANCORP, INC. AND SUBSIDIARY  
CONDENSED CONSOLIDATED BALANCE SHEETS

March 31, 2013 and September 30, 2012

(Dollars in thousands, except per share amounts)

(Unaudited)

	March 31, 2013	September 30, 2012
Assets		
Cash and cash equivalents:		
Cash and due from financial institutions	\$11,250	\$11,008
Interest-bearing deposits in banks	74,550	85,660
Total cash and cash equivalents	85,800	96,668
Certificates of deposit ("CDs") held for investment (at cost which approximates fair value)	26,057	23,490
Mortgage-backed securities ("MBS") and other investments - held to maturity, at amortized cost (estimated fair value \$3,440 and \$3,632)	3,060	3,339
MBS and other investments - available for sale	4,463	4,945
Federal Home Loan Bank of Seattle ("FHLB") stock	5,553	5,655
Loans receivable	554,313	548,878
Loans held for sale	3,787	1,427
Less: Allowance for loan losses	(11,313)	(11,825)
Net loans receivable	546,787	538,480
Premises and equipment, net	18,126	17,886
Other real estate owned ("OREO") and other repossessed assets, net	15,031	13,302
Accrued interest receivable	2,081	2,183
Bank owned life insurance ("BOLI")	16,812	16,524
Goodwill	5,650	5,650
Core deposit intangible ("CDI")	184	249
Mortgage servicing rights ("MSRs"), net	2,412	2,011
Prepaid Federal Deposit Insurance Corporation ("FDIC") insurance assessment	758	1,186
Other assets	5,347	5,386
Total assets	\$738,121	\$736,954
Liabilities and shareholders' equity		
Liabilities:		
Deposits:		
Non-interest-bearing demand	\$80,938	\$75,296
Interest-bearing	520,647	522,630
Total deposits	601,585	597,926
FHLB advances	45,000	45,000
Repurchase agreements	549	855
Other liabilities and accrued expenses	2,456	2,854
Total liabilities	649,590	646,635

See notes to unaudited condensed consolidated financial statements

3

---

Table of Contents

TIMBERLAND BANCORP, INC. AND SUBSIDIARY  
 CONDENSED CONSOLIDATED BALANCE SHEETS (continued)  
 March 31, 2013 and September 30, 2012

(Dollars in thousands, except per share amounts)

(Unaudited)

Shareholders' equity

Preferred stock, \$.01 par value; 1,000,000 shares authorized;

12,065 shares, Series A, issued and outstanding - March 31, 2013

\$ 11,842                      \$ 16,229

16,641 shares, Series A, issued and outstanding; - September 30, 2012  
 redeemable at \$1,000 per share

Common stock, \$.01 par value; 50,000,000 shares authorized;

7,045,036 shares issued and outstanding

10,524                      10,484

Unearned shares issued to Employee Stock Ownership Plan ("ESOP")

(1,587                      ) (1,719                      )

Retained earnings

68,198                      65,788

Accumulated other comprehensive loss

(446                      ) (463                      )

Total shareholders' equity

88,531                      90,319

Total liabilities and shareholders' equity

\$ 738,121                      \$ 736,954

See notes to unaudited condensed consolidated financial statements

Table of ContentsTIMBERLAND BANCORP, INC. AND SUBSIDIARY  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

For the three and six months ended March 31, 2013 and 2012

(Dollars in thousands, except per share amounts)

(Unaudited)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2013	2012	2013	2012
Interest and dividend income				
Loans receivable	\$7,395	\$7,607	\$14,809	\$15,412
MBS and other investments	70	109	147	234
Dividends from mutual funds	5	7	17	20
Interest-bearing deposits in banks	82	81	168	170
Total interest and dividend income	7,552	7,804	15,141	15,836
Interest expense				
Deposits	650	1,035	1,378	2,204
FHLB advances	461	496	933	1,058
Total interest expense	1,111	1,531	2,311	3,262
Net interest income	6,441	6,273	12,830	12,574
Provision for loan losses	1,175	1,050	1,375	1,700
Net interest income after provision for loan losses	5,266	5,223	11,455	10,874
Non-interest income				
Other than temporary impairment (“OTTI”) on MBS and other investments	4	(94	) (3	) (183
Adjustment for portion recorded as (transferred from) other comprehensive income (loss) before taxes	(29	) —	(32	) 30
Net OTTI on MBS and other investments	(25	) (94	) (35	) (153
Gain on sales of MBS and other investments	—	20	—	20
Service charges on deposits	827	890	1,774	1,860
ATM and debit card interchange transaction fees	521	540	1,036	1,057
BOLI net earnings	144	154	287	311
Gain on sales of loans, net	833	596	1,475	1,155
Escrow fees	44	22	79	49
Valuation recovery on MSR	221	142	475	226
Fee income from non-deposit investment sales	31	26	56	38
Other	182	197	346	374
Total non-interest income, net	2,778	2,493	5,493	4,937

See notes to unaudited condensed consolidated financial statements





Table of ContentsTIMBERLAND BANCORP, INC. AND SUBSIDIARY  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (continued)

For the three and six months ended March 31, 2013 and 2012

(Dollars in thousands, except per share amounts)

(Unaudited)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2013	2012	2013	2012
Non-interest expense				
Salaries and employee benefits	\$3,086	\$3,055	\$6,200	\$5,983
Premises and equipment	725	682	1,415	1,332
Advertising	172	172	349	380
OREO and other repossessed assets, net	506	434	794	936
ATM	196	197	417	392
Postage and courier	122	139	235	257
Amortization of CDI	32	37	65	74
State and local taxes	157	152	296	301
Professional fees	192	232	434	411
FDIC insurance	128	241	369	466
Other insurance	43	53	95	109
Loan administration and foreclosure	49	372	187	533
Data processing and telecommunications	305	315	592	615
Deposit operations	129	193	293	416
Other	342	298	820	589
Total non-interest expense	6,184	6,572	12,561	12,794
Income before federal and state income taxes	1,860	1,144	4,387	3,017
Provision for federal and state income taxes	582	336	1,401	927
Net income	1,278	808	2,986	2,090
Preferred stock dividends	(207	) (208	) (408	) (416
Preferred stock discount accretion	(126	) (59	) (189	) (118
Repurchase of preferred stock at a discount	255	—	255	—
Net income to common shareholders	\$1,200	\$541	\$2,644	\$1,556
Net income per common share				
Basic	\$0.18	\$0.08	\$0.39	\$0.23
Diluted	\$0.17	\$0.08	\$0.39	\$0.23
Weighted average common shares outstanding				
Basic	6,815,782	6,780,516	6,815,782	6,780,516
Diluted	6,889,504	6,780,516	6,854,879	6,780,516
Dividends paid per common share	\$0.03	\$—	\$0.03	\$—

See notes to unaudited condensed consolidated financial statements



Table of ContentsTIMBERLAND BANCORP, INC. AND SUBSIDIARY  
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the three and six months ended March 31, 2013 and 2012

(In thousands)

(Unaudited)

	Three Months Ended		Six Months Ended	
	March 31,		March 31,	
	2013	2012	2013	2012
Comprehensive income:				
Net income	\$1,278	\$808	\$2,986	\$2,090
Unrealized holding loss on securities available for sale, net of tax	(8	) (42	) (27	) (56
Change in OTTI on securities held to maturity, net of tax:				
Additions to OTTI	—	(13	) —	(27
Additional amount recognized (recovered) related to credit loss for which OTTI was previously recognized	18	8	18	(4
Amount reclassified to credit loss for previously recorded market loss	1	5	3	11
Accretion of OTTI securities held to maturity, net of tax	11	15	23	26
Total comprehensive income	\$1,300	\$781	\$3,003	\$2,040

See notes to unaudited condensed consolidated financial statements

Table of ContentsTIMBERLAND BANCORP, INC. AND SUBSIDIARY  
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

For the six months ended March 31, 2013 and the year ended September 30, 2012

(Dollars in thousands, except per share amounts)

(Unaudited)

	Number of Shares		Amount		Unearned Shares Issued to ESOP	Retained Earnings	Accumulated Other Compre- hensive Loss	Total
	Preferred Stock	Common Stock	Preferred Stock	Common Stock				
Balance, September 30, 2011	16,641	7,045,036	\$15,989	\$10,457	\$(1,983 )	\$62,270	\$ (528 )	\$86,205
Net income	—	—	—	—	—	4,590	—	4,590
Accretion of preferred stock discount	—	—	240	—	—	(240 )	—	—
5% preferred stock dividend	—	—	—	—	—	(832 )	—	(832 )
Earned ESOP shares MRDP (1)	—	—	—	(65 )	264	—	—	199
compensation expense	—	—	—	77	—	—	—	77
Stock option compensation expense	—	—	—	15	—	—	—	15
Unrealized holding gain on securities available for sale, net of tax	—	—	—	—	—	—	14	14
Change in OTTI on securities held to maturity, net of tax	—	—	—	—	—	—	5	5
Accretion of OTTI on securities held to maturity, net of tax	—	—	—	—	—	—	46	46
Balance, September 30, 2012	16,641	7,045,036	16,229	10,484	(1,719 )	65,788	(463 )	90,319
Net income	—	—	—	—	—	2,986	—	2,986
Accretion of preferred stock discount	—	—	189	—	—	(189 )	—	—
Redemption of preferred stock	(4,576 )	—	(4,576 )	—	—	255	—	(4,321 )
5% preferred stock dividend	—	—	—	—	—	(431 )	—	(431 )
Common stock dividend (\$0.03 per	—	—	—	—	—	(211 )	—	(211 )

Edgar Filing: TIMBERLAND BANCORP INC - Form 10-Q

common share)								
Earned ESOP shares	—	—	—	(6	) 132	—	—	126
MRDP compensation expense	—	—	—	22	—	—	—	22
Stock option compensation expense	—	—	—	24	—	—	—	24
Unrealized holding loss on securities available for sale, net of tax	—	—	—	—	—	—	(27	) (27
Change in OTTI on securities held to maturity, net of tax	—	—	—	—	—	—	21	21
Accretion of OTTI on securities held to maturity, net of tax	—	—	—	—	—	—	23	23
Balance, March 31, 2013	12,065	7,045,036	\$11,842	\$10,524	\$(1,587	) \$68,198	\$(446	) \$88,531

(1) 1998 Management Recognition and Development Plan (“MRDP”).

See notes to unaudited condensed consolidated financial statements

Table of ContentsTIMBERLAND BANCORP, INC. AND SUBSIDIARY  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the six months ended March 31, 2013 and 2012

(Dollars in thousands)

(Unaudited)

	Six Months Ended		
	March 31,		
	2013	2012	
Cash flows from operating activities			
Net income	\$2,986	\$2,090	
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	1,375	1,700	
Depreciation	528	460	
Deferred federal income taxes	55	353	
Amortization of CDI	65	74	
Earned ESOP shares	132	132	
MRDP compensation expense	22	55	
Stock option compensation expense	24	7	
(Gain) loss on sales of OREO and other repossessed assets, net	(219	) 294	
Provision for OREO losses	619	372	
Gain on sale of premises and equipment	(8	) —	
BOLI net earnings	(287	) (311	)
Gain on sales of loans, net	(1,475	) (1,155	)
Decrease in deferred loan origination fees	(243	) (86	)
Net OTTI on MBS and other investments	35	153	
Gain on sale of MBS and other investments	—	(20	)
Valuation recovery on MSRs	(475	) (226	)
Loans originated for sale	(53,957	) (43,684	)
Proceeds from sales of loans	53,072	47,588	
Decrease (increase) in other assets, net	566	(774	)
(Decrease) increase in other liabilities and accrued expenses, net	(398	) 153	
Net cash provided by operating activities	2,417	7,175	
Cash flows from investing activities			
Net increase in CDs held for investment	(2,567	) (1,521	)
Proceeds from maturities and prepayments of MBS and other investments available for sale	447	617	
Proceeds from maturities and prepayments of MBS and other investments held to maturity	317	364	
Proceeds from the sale of MBS and other investments	—	743	
Redemption of FHLB stock	102	—	
Increase in loans receivable, net	(10,861	) (9,908	)
Additions to premises and equipment	(768	) (710	)
Proceeds from sale of premises and equipment	8	—	
Proceeds from sale of OREO and other repossessed assets	1,653	698	
Net cash used in investing activities	(11,669	) (9,717	)

See notes to unaudited condensed consolidated financial statements

9

---



Table of Contents

TIMBERLAND BANCORP, INC. AND SUBSIDIARY  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)  
 For the six months ended March 31, 2013 and 2012  
 (Dollars in thousands)  
 (Unaudited)

	Six Months Ended March 31,	
	2013	2012
Cash flows from financing activities		
Increase in deposits, net	3,659	11,918
Repayment of FHLB Advances	—	(10,000 )
Increase (decrease) in repurchase agreements, net	(306 )	219 )
ESOP tax effect	(6 )	(39 )
Repurchase of preferred stock	(4,321 )	— )
Dividends paid	(642 )	— )
Net cash provided by (used in) financing activities	(1,616 )	2,098 )
Net decrease in cash and cash equivalents	(10,868 )	(444 )
Cash and cash equivalents		
Beginning of period	96,668	112,065
End of period	\$85,800	\$111,621
Supplemental disclosure of cash flow information		
Income taxes paid	\$1,793	\$918
Interest paid	2,356	3,390
Supplemental disclosure of non-cash investing activities		
Loans transferred to OREO and other repossessed assets	\$4,452	\$1,937
Loans originated to facilitate the sale of OREO	670	3,360

See notes to unaudited condensed consolidated financial statements

Timberland Bancorp, Inc. and Subsidiary  
Notes to Unaudited Condensed Consolidated Financial Statements

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation: The accompanying unaudited condensed consolidated financial statements for Timberland Bancorp, Inc. (“Company”) were prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and with instructions for Form 10-Q and, therefore, do not include all disclosures necessary for a complete presentation of financial condition, results of operations, and cash flows in conformity with GAAP. However, all adjustments which are, in the opinion of management, necessary for a fair presentation of the interim condensed consolidated financial statements have been included. All such adjustments are of a normal recurring nature. The unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Company’s Annual Report on Form 10-K for the year ended September 30, 2012 (“2012 Form 10-K”). The unaudited condensed consolidated results of operations for the six months ended March 31, 2013 are not necessarily indicative of the results that may be expected for the entire fiscal year ending September 30, 2013.

(b) Principles of Consolidation: The unaudited condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Timberland Bank (“Bank”), and the Bank’s wholly-owned subsidiary, Timberland Service Corp. All significant inter-company transactions and balances have been eliminated in consolidation.

(c) Operating Segment: The Company has one reportable operating segment which is defined as community banking in western Washington under the operating name, “Timberland Bank.”

(d) The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(e) Certain prior period amounts have been reclassified to conform to the March 31, 2013 presentation with no change to net income or total shareholders’ equity previously reported.

(2) REGULATORY MATTERS

In December 2009, the FDIC and the Washington State Department of Financial Institutions, Division of Banks (“DFI”) determined that the Bank required supervisory attention and agreed to terms on a Memorandum of Understanding (the “Bank MOU”) with the Bank. The terms of the Bank MOU restricted the Bank from certain activities, and required that the Bank obtain prior written approval, or non-objection from the FDIC and/or the DFI to engage in certain activities. On December 12, 2012, the FDIC and the DFI notified the Bank that the Bank MOU had been rescinded.

In addition, in February 2010, the Federal Reserve Bank of San Francisco (“FRB”) determined that the Company required additional supervisory attention and entered into a Memorandum of Understanding with the Company (the “Company MOU”). Under the Company MOU, the Company was required, among other things, to obtain prior written approval or non-objection from the FRB to declare or pay any dividends, or make any other capital distributions; issue any trust preferred securities; or purchase or redeem any of its stock. On January 15, 2013, the FRB notified the Company that the Company MOU had been rescinded.

(3) PREFERRED STOCK RECEIVED IN TROUBLED ASSET RELIEF PROGRAM (“TARP”) CAPITAL PURCHASE PROGRAM (“CPP”)

On December 23, 2008, the Company received \$16.64 million from the U.S. Treasury Department (“Treasury”) as a part of the Treasury’s CPP, which was established as part of the TARP. The Company sold 16,641 shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series A (“Series A Preferred Stock”), with a liquidation value of \$1,000 per share and a related warrant to purchase 370,899 shares of the Company’s common stock at an exercise price of \$6.73 per share (subject to anti-dilution adjustments) at any time through December 23, 2018. The Series A Preferred Stock pays a 5.0% dividend for the first five years, after which the rate increases to 9.0% if the preferred shares are not redeemed by the Company.

The Series A Preferred Stock was initially recorded at the amount of proceeds received. The discount from the liquidation value is accreted to the expected call date and charged to retained earnings. This accretion is recorded using the level-yield method. Preferred dividends accrued and any accretion is deducted from net income for computing net income to common shareholders and net income per share computations.

On November 13, 2012, the Company's outstanding 16,641 shares of Series A Preferred Stock were sold by the Treasury as part of its efforts to manage and recover its investments under the TARP. While the sale of these Series A Preferred shares to new owners did not result in any proceeds to the Company and did not change the Company's capital position or accounting for these securities, it did eliminate restrictions put in place by the Treasury on TARP recipients. The Treasury retained its related warrant to purchase up to 370,899 shares of the Company's common stock.

During the quarter ended March 31, 2013, the Company purchased and retired 4,576 shares of its Series A Preferred Stock for \$4.32 million; a discount from par value of \$255,000. The discount from par value on the repurchased shares was recorded as an increase to net income to common shareholders. This increase to net income to common shareholders was partially offset by \$62,000 of accelerated discount accretion on the shares purchased. Even though the Company MOU has been rescinded, approval from the FRB is still required before Series A Preferred Stock can be purchased and retired. Therefore, future repurchases of the the Series A Preferred Stock are contingent upon receiving approval from the FRB.

#### (4) MBS AND OTHER INVESTMENTS

MBS and other investments have been classified according to management's intent and are as follows as of March 31, 2013 and September 30, 2012 (dollars in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
March 31, 2013				
Held to Maturity				
MBS:				
U.S. government agencies	\$1,345	\$41	\$(2)	) \$1,384
Private label residential	1,701	376	(37)	) 2,040
U.S. agency securities	14	2	—	) 16
Total	\$3,060	\$419	\$(39)	) \$3,440
Available for Sale				
MBS:				
U.S. government agencies	\$2,480	\$125	\$—	) \$2,605
Private label residential	907	66	(110)	) 863
Mutual funds	1,000	—	(5)	) 995
Total	\$4,387	\$191	\$(115)	) \$4,463
September 30, 2012				
Held to Maturity				
MBS:				
U.S. government agencies	\$1,493	\$44	\$(3)	) \$1,534
Private label residential	1,819	309	(60)	) 2,068
U.S. agency securities	27	3	—	) 30
Total	\$3,339	\$356	\$(63)	) \$3,632
Available for Sale				
MBS:				
U.S. government agencies	\$2,828	\$147	\$—	) \$2,975
Private label residential	1,001	65	(109)	) 957
Mutual funds	1,000	13	—	) 1,013
Total	\$4,829	\$225	\$(109)	) \$4,945



Table of Contents

The following table summarizes the estimated fair value and gross unrealized losses for all securities and the length of time these unrealized losses existed as of March 31, 2013 (dollars in thousands):

	Less Than 12 Months			12 Months or Longer			Total Estimated Fair Value	Gross Unrealized Losses
	Estimated Fair Value	Gross Unrealized Losses	Qty	Estimated Fair Value	Gross Unrealized Losses	Qty		
Held to Maturity								
MBS:								
U.S. government agencies	\$1	\$—	3	\$95	\$(2)	4	\$96	\$(2)
Private label residential	—	—	—	263	(37)	20	263	(37)
Total	\$1	\$—	3	\$358	\$(39)	24	\$359	\$(39)
Available for Sale								
MBS:								
Private label residential	\$—	\$—	—	\$586	\$(110)	4	\$586	\$(110)
Mutual Funds	995	(5)	1	—	—	—	995	(5)
Total	\$995	\$(5)	1	\$586	\$(110)	4	\$1,581	\$(115)

The following table summarizes the estimated fair value and gross unrealized losses for all securities and the length of time the unrealized losses existed as of September 30, 2012 (dollars in thousands):

	Less Than 12 Months			12 Months or Longer			Total Estimated Fair Value	Gross Unrealized Losses
	Estimated Fair Value	Gross Unrealized Losses	Qty	Estimated Fair Value	Gross Unrealized Losses	Qty		
Held to Maturity								
MBS:								
U.S. government agencies	\$7	\$—	1	\$100	\$(3)	4	\$107	\$(3)
Private label residential	17	(1)	1	423	(59)	28	440	(60)
Total	\$24	\$(1)	2	\$523	\$(62)	32	\$547	\$(63)
Available for Sale								
MBS:								
Private label residential	\$—	\$—	—	\$651	\$(109)	4	\$651	\$(109)
Total	\$—	\$—	—	\$651	\$(109)	4	\$651	\$(109)

During the three months ended March 31, 2013 and 2012, the Company recorded net OTTI charges through earnings on residential MBS of \$25,000 and \$94,000, respectively. During the six months ended March 31, 2013 and 2012, the Company recorded net OTTI charges through earnings on residential MBS of \$35,000 and \$153,000, respectively. The Company provides for the bifurcation of OTTI into (i) amounts related to credit losses which are recognized

through earnings, and (ii) amounts related to all other factors which are recognized as a component of other comprehensive income (loss).

To determine the component of the gross OTTI related to credit losses, the Company compared the amortized cost basis of each OTTI security to the present value of its revised expected cash flows, discounted using its pre-impairment yield. The revised expected cash flow estimates for individual securities are based primarily on an analysis of default rates and prepayment speeds

Table of Contents

included in third-party analytic reports. Significant judgment by management is required in this analysis that includes, but is not limited to, assumptions regarding the collectability of principal and interest, net of related expenses, on the underlying loans. The following table presents a summary of the significant inputs utilized to measure management's estimate of the credit loss component on OTTI securities as of March 31, 2013 and September 30, 2012:

	Range		Weighted	
	Minimum	Maximum	Average	
At March 31, 2013				
Constant prepayment rate	6.00	% 15.00	% 10.52	%
Collateral default rate	0.15	% 25.91	% 7.75	%
Loss severity rate	6.99	% 78.36	% 45.51	%
At September 30, 2012				
Constant prepayment rate	6.00	% 15.00	% 8.77	%
Collateral default rate	0.06	% 28.40	% 8.74	%
Loss severity rate	0.52	% 76.03	% 48.28	%

The following tables present the OTTI for the three and six months ended March 31, 2013 and 2012 (dollars in thousands):

	Three Months Ended March 31, 2013		Three Months Ended March 31, 2012	
	Held To Maturity	Available For Sale	Held To Maturity	Available For Sale
Total OTTI	\$4	\$—	\$(88	) \$(6
Adjustment for portion recorded as (transferred from) other comprehensive income (loss) before taxes (1)	(29	) —	—	—
Net OTTI recognized in earnings (2)	\$(25	) \$—	\$(88	) \$(6
	Six Months Ended March 31, 2013		Six Months Ended March 31, 2012	
	Held To Maturity	Available For Sale	Held To Maturity	Available For Sale
Total OTTI	\$(2	) \$(1	) \$(140	) \$(43
Adjustment for portion recorded as (transferred from) other comprehensive income (loss) before taxes (1)	(32	) —	30	—
Net OTTI recognized in earnings (2)	\$(34	) \$(1	) \$(110	) \$(43

(1) Represents OTTI related to all other factors.

(2) Represents OTTI related to credit losses.





Table of Contents

The following table presents a roll-forward of the credit loss component of held to maturity and available for sale debt securities that have been written down for OTTI with the credit loss component recognized in earnings and the remaining impairment loss related to all other factors recognized in other comprehensive income for the six months ended March 31, 2013 and 2012 (in thousands):

	Six Months Ended March 31,	
	2013	2012
Beginning balance of credit loss	\$2,703	\$3,361
Additions:		
Credit losses for which OTTI was not previously recognized	5	66
Additional increases to the amount related to credit loss for which OTTI was previously recognized	30	87
Subtractions:		
Realized losses previously recorded as credit losses	(384	) (419
Ending balance of credit loss	\$2,354	\$3,095

There was no realized gain on sale of securities for either the three or six months ended March 31, 2013. There was a gross realized gain on sale of securities for both the three and six months ended March 31, 2012 of \$20,000. During the three months ended March 31, 2013, the Company recorded a \$152,000 realized loss (as a result of the securities being deemed worthless) on 15 held to maturity residential MBS and six available for sale residential MBS, of which the entire amount had been recognized previously as a credit loss. During the six months ended March 31, 2013, the Company recorded a \$384,000 realized loss (as a result of the securities being deemed worthless) on 17 held to maturity residential MBS and six available for sale residential MBS, of which the entire amount had been recognized previously as a credit loss. During the three months ended March 31, 2012, the Company recorded a \$223,000 realized loss (as a result of the securities being deemed worthless) on 18 held to maturity residential MBS and one available for sale residential MBS, of which the entire amount had been recognized previously as a credit loss. During the six months ended March 31, 2012, the Company recorded a \$419,000 realized loss (as a result of the securities being deemed worthless) on 20 held to maturity residential MBS and one available for sale residential MBS, of which the entire amount had been recognized previously as a credit loss.

The amortized cost of residential mortgage-backed and agency securities pledged as collateral for public fund deposits, federal treasury tax and loan deposits, FHLB collateral, retail repurchase agreements and other non-profit organization deposits totaled \$5.08 million and \$5.70 million at March 31, 2013 and September 30, 2012, respectively.

The contractual maturities of debt securities at March 31, 2013 were as follows (dollars in thousands). Expected maturities may differ from scheduled maturities as a result of the prepayment of principal or call provisions.

Held to Maturity	Available for Sale
------------------	--------------------