WVS FINANCIAL CORP
Form 10-Q
February 12, 2018
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended **December 31, 2017**

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: 0-22444

WVS Financial Corp.
(Exact name of registrant as specified in its charter)

Pennsylvania	**25-1710500**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
9001 Perry Highway	
Pittsburgh, Pennsylvania	**15237**
(Address of principal executive offices)	(Zip Code)

(412) 364-1911
(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 requirement for the past 90 days. YES X NO __

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

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

Large accelerated filer ____
Non-accelerated filer ____ (Do not check if a smaller reporting company)
Accelerated filer ____
Smaller reporting company _X_
Emerging growth company ____

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13 (a) of the Exchange Act. ______

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12 b-2 of the Exchange Act). YES __ NO X

Shares outstanding as of February 9, 2018: 2,008,144 shares Common Stock, $.01 par value.

Table of Contents

WVS FINANCIAL CORP. AND SUBSIDIARY

INDEX

Table of Contents

WVS FINANCIAL CORP. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEET

(UNAUDITED)

(In thousands, except share and per share data)

	December 31, 2017	June 30, 2017
Assets		
Cash and due from banks	$ 2,616	$ 1,944
Interest-earning demand deposits	5,905	328
Total cash and cash equivalents	8,521	2,272
Certificates of deposit	3,624	10,380
Investment securities available-for-sale (amortized cost of $119,371 and $108,380)	119,559	108,449
Investment securities held-to-maturity (fair value of $6,687 and $8,815)	6,639	8,678
Mortgage-backed securities held-to-maturity (fair value of $122,496 and $130,181)	121,553	129,321
Net loans receivable (allowance for loan losses of $430 and $418)	81,844	77,455
Accrued interest receivable	1,137	1,206
Federal Home Loan Bank (FHLB) stock, at cost	7,234	7,062
Premises and equipment, net	424	454
Bank owned life insurance	4,605	4,541
Deferred tax assets (net)	284	437
Other assets	164	1,354
TOTAL ASSETS	$ 355,588	$ 351,609
Liabilities and Stockholders Equity		
Liabilities:		
Deposits		
Non-interest-bearing accounts	$ 18,500	$ 19,396
Interest-earning checking accounts	23,645	23,787
Savings accounts	44,670	45,524
Money market accounts	21,975	22,484
Certificates of deposit	33,689	32,313
Advance payments by borrowers for taxes and insurance	1,370	1,785
Total deposits	143,849	145,289
Federal Home Loan Bank advances: short-term	176,405	155,799
Federal Home Loan Bank advances: long-term fixed rate	-	10,000
Federal Home Loan Bank advances: long-term variable rate	-	6,109

Accrued interest payable	246	247
Other liabilities	1,223	1,122
TOTAL LIABILITIES	321,723	318,566
Stockholders equity:		
Preferred stock:		
5,000,000 shares, no par value per share, authorized; none issued	-	-
Common stock:		
10,000,000 shares, $.01 par value per share, authorized; 3,805,636 shares issued, shares outstanding	38	38
Additional paid-in capital	21,500	21,485
Treasury stock: 1,797,492, and 1,797,492 shares at cost, respectively	(27,264)	(27,264)
Retained earnings, substantially restricted	42,000	41,344
Accumulated other comprehensive loss	(93)	(188)
Unallocated Employee Stock Ownership Plan (ESOP) shares	(2,316)	(2,372)
TOTAL STOCKHOLDERS EQUITY	33,865	33,043
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 355,588	$ 351,609

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

WVS FINANCIAL CORP. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF INCOME

(UNAUDITED)

(In thousands, except share and per share data)

	Three Months Ended December 31, 2017	Three Months Ended December 31, 2016	Six Months Ended December 31, 2017	Six Months Ended December 31, 2016
INTEREST AND DIVIDEND INCOME:				
Loans, including fees	$ 754	$ 668	$ 1,493	$ 1,303
Investment securities-taxable	680	503	1,318	1,012
Mortgage-backed securities	722	524	1,450	1,070
Certificates of deposit	24	34	58	43
Interest-earning demand deposits	2	2	-	2
FHLB Stock	85	83	173	162
Total interest and dividend income	2,267	1,814	4,492	3,592
INTEREST EXPENSE:				
Deposits	86	54	167	110
Federal Home Loan Bank advances long-term fixed rate	-	109	32	218
Federal Home Loan Bank advances long-term variable rate	-	18	11	26
Federal Home Loan Bank advances short-term	591	215	1,111	415
Total interest expense	677	396	1,321	769
NET INTEREST INCOME	1,590	1,418	3,171	2,823
PROVISION FOR LOAN LOSSES	6	18	12	35
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	1,584	1,400	3,159	2,788
NON-INTEREST INCOME:				
Service charges on deposits	32	35	64	72
Earnings on Bank Owned Life Insurance	32	33	64	66

Other than temporary impairment (OTTI) losses	-	-	41	-
Portion of loss (gain) recognized in other comprehensive Income (before taxes)	-	-	(49)	-
Net impairment loss recognized in earnings	-		(8)	
ATM fee income	47	49	94	98
Market losses on trading securities	-	(41)	-	(41)
Other	13	31	25	42
Total non-interest income	124	107	239	237
NON-INTEREST EXPENSE:				
Salaries and employee benefits	549	541	1,103	1,084
Occupancy and equipment	75	81	148	163
Data processing	54	54	103	109
Correspondent bank service charges	10	10	20	20
Federal deposit insurance premium	28	12	56	61
ATM network expense	25	30	49	64
Other	216	188	370	349
Total non-interest expense	957	916	1,849	1,850
INCOME BEFORE INCOME TAXES	751	591	1,549	1,175
INCOME TAX EXPENSE	355	196	651	382
NET INCOME	$ 396	$ 395	$ 898	$ 793
EARNINGS PER SHARE:				
Basic	$ 0.22	$ 0.21	$ 0.49	$ 0.42
Diluted	$ 0.22	$ 0.21	$ 0.49	$ 0.42
AVERAGE SHARES OUTSTANDING:				
Basic	1,826,580	1,881,086	1,825,729	1,878,623
Diluted	1,826,580	1,881,086	1,825,729	1,878,623

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

WVS FINANCIAL CORP. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(UNAUDITED)

(In thousands)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2017	2016	2017	2016
NET INCOME	$ 396	$ 395	$ 898	$ 793
OTHER COMPREHENSIVE INCOME (LOSS)				
Investment securities available for sale not other-than-temporarily impaired:				
Gains (losses) arising during the year	50	(58)	73	(138)
Less: Income tax effect	(17)	20	(25)	47
	33	(38)	48	(91)
Unrealized holdings gains (losses) on securities available for sale not other-than-temporarily impaired, net of tax	33	(38)	48	(91)
Investment securities held to maturity other-than-temporarily impaired:				
Total losses	-	-	41	-
Losses recognized in earnings	-	-	(8)	-
Gains (losses) recognized in comprehensive income	-	-	49	-
Income tax effect	-	-	(17)	-
	-	-	32	-
Accretion of other comprehensive loss on other-than-temporarily impaired securities held to maturity	(24)	37	45	70
Less: Income tax effect	8	(15)	(15)	(26)

Unrealized holding (losses) gains on other-than-temporarily impaired securities held to maturity, net of tax	(16)	22	30	44
Unrealized holdings gains (losses) on securities, net	17	(16)	62	(47)
Other comprehensive income (loss)	17	(16)	110	(47)
COMPREHENSIVE INCOME	$ 413	$ 379	$ 1,008	$ 746

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

WVS FINANCIAL CORP. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY

(UNAUDITED)

(In thousands)

	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings Substantially Restricted	Accumulated Other Comprehensive Loss	Unallocated ESOP Shares	Total
Balance June 30, 2017	$ 38	$ 21,485	$ (27,264)	$ 41,344	$ (188)	$ (2,372)	$33,043
Reclassfication due to change in federal income tax rate				15	(15)		-
Net income				898			898
Other comprehensive income					110		110
Amortization of unallocated ESOP Shares		15				56	71
Cash dividends declared ($0.12 per share)				(257)			(257)
Balance December 31, 2017	$ 38	$ 21,500	$ (27,264)	$ 42,000	$ (93)	$ (2,316)	$33,865

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

WVS FINANCIAL CORP. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS

(UNAUDITED)

(In thousands)

	Six Months Ended December 31, 2017	2016
OPERATING ACTIVITIES		
Net income	$ 898	$ 793
Adjustments to reconcile net income to cash provided by operating activities:		
Provision for loan losses	12	35
Depreciation	41	49
Amortization of discounts, premiums and deferred loan costs	362	1,105
Amortization of unallocated ESOP shares	71	-
Trading losses	-	41
Purchase of trading securities	-	(961)
Deferred income taxes	97	(36)
Increase (decrease) in prepaid/accrued income taxes	11	(35)
Earnings on bank owned life insurance	(64)	(66)
Decrease in accrued interest receivable	69	194
Decrease in accrued interest payable	(1)	(23)
Increase in deferred director compensation payable	19	17
Decrease in cash items in the process of collections	1,230	-
Other, net	31	97
Net cash provided by operating activities	2,776	1,210
INVESTING ACTIVITIES		
Available-for-sale:		
Purchase of investment securities	(28,825)	(42,256)
Proceeds from repayments of investments	17,451	42,029
Held-to-maturity:		
Purchases of mortgage-backed securities	-	(7,984)
Proceeds from repayments of investments	2,033	833
Proceeds from repayments of mortgage-backed securities	7,818	22,218
Purchase of certificates of deposit	(348)	(10,135)
Maturities/redemptions of certificates of deposit	7,100	100
Increase in net loans receivable	(4,373)	(9,472)

Purchase of FHLB stock	(3,503)	(4,007)
Redemption of FHLB stock	3,331	3,828
Acquisition of premises and equipment	(11)	(3)
Net cash provided by (used for) investing activities	673	(4,849)

Table of Contents

WVS FINANCIAL CORP. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS

(UNAUDITED)

(In thousands)

	Six Months Ended December 31, 2017	Six Months Ended December 31, 2016
FINANCING ACTIVITIES		
Net increase (decrease) in transaction and savings accounts	$ (2,401)	$ 2,503
Net increase (decrease) in certificates of deposit	1,376	(316)
Net decrease in advance payments by borrowers for taxes and insurance	(415)	(31)
Repayments of FHLB long-term advances fixed rate	(10,000)	-
Repayments of FHLB long-term advances variable rate	(6,109)	-
Net increase in FHLB short-term advances	20,606	2,046
Purchase of treasury stock	-	(359)
Cash dividends paid	(257)	(161)
Net cash provided by financing activities	2,800	3,682
Increase in cash and cash equivalents	6,249	43
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	2,272	2,343
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	$ 8,521	$ 2,386
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the period for:		
Interest on deposits and borrowings	$ 1,322	$ 792
Income taxes	$ 537	$ 376
Non-cash items:		
Educational Improvement Tax Credit	$ 50	$ 49

See accompanying notes to unaudited consolidated financial statements.

8

Table of Contents

WVS FINANCIAL CORP. AND SUBSIDIARY

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions for Form 10-Q and therefore do not include information or footnotes necessary for a complete presentation of financial condition, results of operations, and cash flows in conformity with U.S. generally accepted accounting principles (GAAP). However, all adjustments (consisting only of normal recurring adjustments) which, in the opinion of management, are necessary for a fair presentation have been included. The results of operations for the three and six months ended December 31, 2017, are not necessarily indicative of the results which may be expected for the entire fiscal year.

2. RECENT ACCOUNTING PRONOUNCEMENTS

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. The Company is currently evaluating the impact the adoption of the standard will have on the Company s financial position or results of operations.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. This Update applies to all entities that hold financial assets or owe financial liabilities and is intended to provide more useful information on the recognition, measurement, presentation, and disclosure of financial instruments. Among other things, this Update (a) requires equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income; (b) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; (c) eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities; (d) eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; (e) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; (f) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements; and (g) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity s other deferred tax assets. For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. For all other entities, including not-for-profit entities and employee benefit plans within the scope of Topics 960 through 965 on plan accounting, the amendments in this Update are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. All entities that are not public business entities may adopt the amendments in this Update earlier as of the fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company is currently evaluating the impact the adoption of the standard will have on the Company s financial position or results of operations.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The standard requires lessees to recognize the assets and liabilities that arise from leases on the balance sheet. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. A short-term lease is defined as one in which (a) the lease term is 12 months or less and (b) there is not an option to purchase the underlying asset that the lessee is reasonably certain to exercise. For short-term leases, lessees may elect to recognize lease payments over the lease term on a straight-line basis. For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2018, and interim periods within those years. For all other entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15, 2020. The amendments should be applied at the beginning of the earliest period presented using a modified retrospective approach with earlier application permitted as of the beginning of an interim or annual reporting period. The Company is currently evaluating the impact the adoption of the standard will have on the Company s financial position or results of operations.

In March 2016, the FASB issued ASU 2016-08, *Revenue from Contracts with Customers (Topic 606).* The amendments in this Update affect entities with transactions included within the scope of Topic 606, which includes entities that enter into contracts with customers to transfer goods or services (that are an output of the entity s ordinary activities) in exchange for consideration. The amendments in this Update do not change the core principle of the guidance in Topic 606; they simply clarify the implementation guidance on principal versus agent considerations. The amendments in this Update are intended to improve the operability and understandability of the implementation guidance on principal versus agent considerations. The amendments in this Update affect the guidance in ASU 2014-09, *Revenue from Contracts with Customers (Topic 606),* which is not yet effective. The effective date and transition requirements for the amendments in this Update are the same as the effective date and transition requirements of Update 2014-09. ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date,* defers the effective date of Update 2014-09 by one year. The Company is currently evaluating the impact the adoption of the standard will have on the Company s financial position or results of operations.

In April 2016, the FASB issued ASU 2016-10, *Revenue from Contracts with Customers (Topic 606).* The amendments in this Update affect entities with transactions included within the scope of Topic 606, which includes entities that enter into contracts with customers to transfer goods or services in exchange for consideration. The amendments in this Update do not change the core principle for revenue recognition in Topic 606. Instead, the amendments provide (1) more detailed guidance in a few areas and (2) additional implementation guidance and examples based on feedback the FASB received from its stakeholders. The amendments are expected to reduce the degree of judgment necessary to comply with Topic 606, which the FASB expects will reduce the potential for diversity arising in practice and reduce the cost and complexity of applying the guidance. The amendments in this Update affect the guidance in ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which is not yet effective. The effective date and transition requirements for the amendments in this Update are the same as the effective date and transition requirements in Topic 606 (and any other Topic amended by Update 2014-09). ASU 2015-14, *Revenue from Contracts with Customers (Topic 606)*: *Deferral of the Effective Date*, defers the effective date of Update 2014-09 by one year. The Company is currently evaluating the impact the adoption of the standard will have on the Company s financial position or results of operations.

In May 2016, the FASB issued ASU 2016-12, *Revenue from Contracts with Customers (Topic 606)*, which among other things clarifies the objective of the collectability criterion in Topic 606, as well as certain narrow aspects of Topic 606. The amendments in this Update affect the guidance in ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which is not yet effective. The effective date and transition requirements for the amendments in this Update are the same as the effective date and transition requirements for Topic 606 (and any other Topic amended by Update 2014-09). ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, defers the effective date of Update 2014-09 by one year. This Update is not expected to have a significant impact on the Company s financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments Credit Losses: Measurement of Credit Losses on Financial Instruments* (ASU 2016-13), which changes the impairment model for most financial assets. This Update is intended to improve financial reporting by requiring

10

timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The underlying premise of the Update is that financial assets measured at amortized cost should be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The allowance for credit losses should reflect management s current estimate of credit losses that are expected to occur over the remaining life of a financial asset. The income statement will be effected for the measurement of credit losses for newly recognized financial assets, as well as the expected increases or decreases of expected credit losses that have taken place during the period. ASU 2016-13 is effective for annual and interim periods beginning after December 15, 2019, and early adoption is permitted for annual and interim periods beginning after December 15, 2018. With certain exceptions, transition to the new requirements will be through a cumulative effect adjustment to opening retained earnings as of the beginning of the first reporting period in which the guidance is adopted. The Company is currently evaluating the impact the adoption of the standard will have on the Company s financial position or results of operations.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments* (ASU 2016-15), which addresses eight specific cash flow issues with the objective of reducing diversity in practice. Among these include recognizing cash payments for debt prepayment or debt extinguishment as cash outflows for financing activities; cash proceeds received from the settlement of insurance claims should be classified on the basis of the related insurance coverage; and cash proceeds received from the settlement of bank-owned life insurance policies should be classified as cash inflows from investing activities while the cash payments for premiums on bank-owned policies may be classified as cash outflows for investing activities, operating activities, or a combination of investing and operating activities. The amendments in this Update are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. The amendments in this Update should be applied using a retrospective transition method to each period presented. If it is impracticable to apply the amendments retrospectively for some of the issues, the amendments for those issues would be applied prospectively as of the earliest date practicable. The Company is currently evaluating the impact the adoption of the standard will have on the Company s statement of cash flows.

In December 2016, the FASB issued ASU 2016-20*, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers* ASU 2016-20 . This Update, among others things, clarifies that guarantee fees within the scope of Topic 460, *Guarantees*, (other than product or service warranties) are not within the scope of Topic 606. The effective date and transition requirements for ASU 2016-20 are the same as the effective date and transition requirements for the new revenue recognition guidance. For public entities with a calendar year-end, the new guidance is effective in the quarter and year beginning January 1, 2018. For all other entities with a calendar year-end, the new guidance is effective in the year ending December 31, 2019, and interim periods in 2020. The Company is currently evaluating the impact the adoption of the standard will have on the Company s financial position or results of operations.

In May 2017, the FASB issued ASU 2017-09, Compensation Stock Compensation (Topic 718), which affects any entity that changes the terms or conditions of a share-based payment award. This Update amends the definition of modification by qualifying that modification accounting does not apply to changes to outstanding share-based payment awards that do not affect the total fair value, vesting requirements, or equity/liability classification of the awards. The amendments in the Update are effective for all entities for annual periods, and interim periods within those annual periods, beginning after

Table of Contents

December 15, 2017. Early adoption is permitted, including adoption in any interim period, for (1) public business entities for reporting periods for which financial statements have not yet been issued and (2) all other entities for reporting periods for which financial statements have not yet been made available for issuance. The amendments in this Update should be applied prospectively to an award modified on or after the adoption date. The Company is currently evaluating the impact the adoption of the standard will have on the Company s financial position or results of operations.

In January 2018, the FASB issued ASU 2018-1, *Leases (Topic 842)*, which provides an optional transition practical expedient to not evaluate under Topic 842 existing or expired land easements that were not previously accounted for as leases under the current lease guidance in Topic 840. An entity that elects this practical expedient should evaluate new or modified land easements under Topic 842 beginning at the date the entity adopts Topic 842; otherwise, an entity should evaluate all existing or expired land easements in connection with the adoption of the new lease requirements in Topic 842 to assess whether they meet the definition of a lease. The effective date and transition requirements for the amendments are the same as the effective date and transition requirements in ASU 2016-02. This Update is not expected to have a significant impact on the Company s financial statements.

Table of Contents

3. EARNINGS PER SHARE

The following table sets forth the computation of the weighted-average common shares used to calculate basic and diluted earnings per share.

	Three Months Ended December 31,		Six Months Ended December 31,	
	2017	2016	2017	2016
Weighted average common shares issued	3,805,636	3,805,636	3,805,636	3,805,636
Average treasury stock shares	(1,797,492)	(1,797,492)	(1,797,492)	(1,793,768)
Average unallocated ESOP shares	(181,564)	(127,058)	(182,415)	(133,245)
Weighted average common shares and common stock equivalents used to calculate basic earnings per share	1,826,580	1,881,086	1,825,729	1,878,623
Additional common stock equivalents (stock options) used to calculate diluted earnings per share	-	-	-	-
Weighted average common shares and common stock equivalents used to calculate diluted earnings per share	1,826,580	1,881,086	1,825,729	1,878,623

There are no convertible securities that would affect the numerator in calculating basic and diluted earnings per share; therefore, net income as presented on the Consolidated Statement of Income is used.

At December 31, 2017, and 2016, there were 114,519 options outstanding with an exercise price of $16.20 which were anti-dilutive for the three and six month periods.

4. STOCK BASED COMPENSATION DISCLOSURE

The Company s 2008 Stock Incentive Plan (the Plan), which was approved by shareholders in October 2008, permits the grant of stock options or restricted shares to its directors and employees for up to 152,000 shares (up to 38,000 restricted shares may be issued). Option awards are generally granted with an exercise price equal to the market price of the Company s stock at the date of grant; those option awards generally vest over five years of continuous service and have ten-year contractual terms.

During the six month periods ended December 31, 2017 and 2016, the Company recorded no compensation expense related to our share-based compensation awards. As of December 31, 2017, there was no unrecognized compensation cost related to unvested share-based compensation awards granted in fiscal 2009.

All of the Company s outstanding stock options were vested at December 31, 2017 and 2016. There were no stock options exercised or issued during the six months ended December 31, 2017 and 2016.

Table of Contents

5. INVESTMENT SECURITIES

The amortized cost and fair values of investments are as follows:

December 31, 2017	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(Dollars in Thousands)		
AVAILABLE FOR SALE				
Corporate debt securities	$ 92,570	$ 277	$ (98)	$ 92,749
Foreign debt securities [1]	25,171	23	(2)	25,192
Obligations of states and political subdivisions	1,630	-	(12)	1,618
Total	$ 119,371	$ 300	$ (112)	$ 119,559

December 31, 2017	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(Dollars in Thousands)		
HELD TO MATURITY				
U.S. government agency securities	$ 625	$ 3	$ -	$ 628
Corporate debt securities	1,519	39	-	1,558
Obligations of states and political subdivisions	4,495	9	(3)	4,501
Total	$ 6,639	$ 51	$ (3)	$ 6,687

June 30, 2017	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(Dollars in Thousands)		
AVAILABLE FOR SALE				
Corporate debt securities	$ 92,576	$ 144	$ (84)	$ 92,636
Foreign debt securities [1]	14,474	12	-	14,486
	1,330	-	(3)	1,327

Obligations of states and political subdivisions								
Total	$	108,380	$	156	$	(87)	$	108,449

[1] U.S. dollar denominated investment-grade corporate bonds of large foreign corporate issuers.

Table of Contents

June 30, 2017	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in Thousands)			
HELD TO MATURITY				
U.S. government agency securities	$ 625	$ 6	$ -	$ 631
Corporate debt securities	2,698	91	-	2,789
Obligations of states and political subdivisions [2]	5,355	41	(1)	5,395
Total	$ 8,678	$ 138	$ (1)	$ 8,815

There were no sales of investment securities for the three and six month periods ended December 31, 2017 and December 31, 2016.

The amortized cost and fair values of debt securities at December 31, 2017, by contractual maturity, are shown below. Expected maturities may differ from the contractual maturities because issuers may have the right to call securities prior to their final maturities.

	Due in one year or less	Due after one through five years	Due after five through ten years	Due after ten years	Total
	(Dollars in Thousands)				
AVAILABLE FOR SALE					
Amortized cost	$ 49,148	$ 54,623	$ 15,600	$ -	$ 119,371
Fair value	49,136	54,783	15,640	-	119,559
HELD TO MATURITY					
Amortized cost	$ 2,019	$ 2,975	$ 1,645	$ -	$ 6,639
Fair value	2,060	2,978	1,649	-	6,687

At December 31, 2017, investment securities with amortized cost, and fair values of $4.1 million were pledged to secure borrowings with the Federal Home Loan Bank (FHLB).

As of December 31, 2017, investment securities with amortized cost $1.9 million and fair values of $1.9 million were pledged to secure future borrowings with the Federal Reserve Bank of Cleveland (FRBC). Since the Company had no FRBC borrowings outstanding on December 31, 2017, all FRBC collateral pledges may be withdrawn by the Company at any time.

[2] U.S. dollar denominated investment-grade corporate bonds of large foreign corporate issuers.

Table of Contents

6. MORTGAGE-BACKED SECURITIES

Mortgage-backed securities (MBS) include mortgage pass-through certificates (PCs) and collateralized mortgage obligations (CMOs). With a pass-through security, investors own an undivided interest in the pool of mortgages that collateralize the PCs. Principal and interest is passed through to the investor as it is generated by the mortgages underlying the pool. PCs and CMOs may be insured or guaranteed by Freddie Mac (FHLMC), Fannie Mae (FNMA) and the Government National Mortgage Association (GNMA). CMOs may also be privately issued with varying degrees of credit enhancements. A CMO reallocates mortgage pool cash flow to a series of bonds (called traunches) with varying stated maturities, estimated average lives, coupon rates and prepayment characteristics.

The Company s CMO portfolio is comprised of two segments: CMOs backed by U.S. Government Agencies (Agency CMOs) and CMOs backed by single-family whole loans not guaranteed by a U.S. Government Agency (private-label CMOs).

At December 31, 2017, the Company s Agency CMOs totaled $120.6 million as compared to $128.2 million at June 30, 2017. The Company s private-label CMOs totaled $1.0 million at December 31, 2017 as compared to $1.1 million at June 30, 2017. The $7.6 million decrease in the CMO portfolio was primarily due to repayments on our Agency and private-label CMOs which totaled $7.6 million and $174 thousand, respectively. At December 31, 2017 and June 30, 2017, all of the Company s MBS portfolio, including CMOs, were comprised of adjustable or floating rate investments. Substantially all of the Company s floating rate MBS adjust monthly based upon changes in the one month LIBOR. The Company has no investment in multi-family or commercial real estate based MBS.

Due to prepayments of the underlying loans, and the prepayment characteristics of the CMO traunches, the actual maturities of the Company s MBS are expected to be substantially less than the scheduled maturities.

The Company retains an independent third party to assist it in the determination of a fair value for its three private-label CMOs. This valuation is meant to be a Level Three valuation as defined by ASC Topic 820, *Fair Value Measurements and Disclosures*. The valuation does not represent the actual terms or prices at which any party could purchase the securities. There is currently no active secondary market for private-label CMOs and there can be no assurance that any secondary market for private-label CMOs will develop. The private-label CMO portfolio had three previously recorded other-than-temporary impairments at December 31, 2017. During the six months ending December 31, 2017, the Company reversed $38 thousand of non-credit unrealized holding losses on its three private-label CMOs with OTTI due to principal repayments. During the six months ended December 31, 2017, the Company recorded an $8 thousand additional credit impairment charge on its private-label CMO portfolio.

The Company believes that the data and assumptions used to determine the fair values are reasonable. The fair value calculations reflect relevant facts and market conditions. Events and conditions occurring after the valuation date could have a material effect on the private-label CMO segment s fair value.

Table of Contents

The following table sets forth information with respect to the Company s private-label CMO portfolio as of December 31, 2017. At the time of purchase, all of our private-label CMOs were rated in the highest investment category by at least two ratings agencies.

		At December 31, 2017					
			Rating		Amortized Cost	Fair Value[3]	Life to Date Impairment Recorded in Earnings
Cusip #	Security Description	S&P	Moody s	Fitch		(in thousands)	
126694CP1	CWHL SER 21 A11	N/A	Caa2	D	$ 534	$ 692	$ 201
126694KF4	CWHL SER 24 A15	D	N/A	D	224	256	42
126694KF4	CWHL SER 24 A15	D	N/A	D	112	128	84
126694MP0	CWHL SER 26 1A5	D	N/A	D	116	128	36
					$ 986	$ 1,204	$ 363

The amortized cost and fair values of the Company s mortgage-backed securities are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(Dollars in Thousands)		
December 31, 2017				
HELD TO MATURITY				
Collateralized mortgage obligations:				
Agency	$ 120,567	$ 1,243	$ (518)	$ 121,292
Private-label	986	218	-	1,204
Total	$ 121,553	$ 1,461	$ (518)	$ 122,496

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(Dollars in Thousands)		
June 30, 2017				
HELD TO MATURITY				

Collateralized mortgage obligations:								
Agency	$	128,201	$	1,076	$	(437)	$	128,840
Private-label		1,120		221		-		1,341
Total	$	129,321	$	1,297	$	(437)	$	130,181

[3] Fair value estimate provided by the Company s independent third party valuation consultant.

Table of Contents

The amortized cost and fair value of the Company s mortgage-backed securities at December 31, 2017, by contractual maturity, are shown below. Expected maturities may differ from the contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Due in one year or less	Due after one through five years	Due after five through ten years	Due after ten years	Total
			(Dollars in Thousands)		
HELD TO MATURITY					
Amortized cost	$ -	$ -	$ 226	$ 121,327	$ 121,553
Fair value	-	-	231	122,265	122,496

At December 31, 2017, mortgage-backed securities with amortized costs of $120.6 million and fair values of $121.3 million were pledged to secure public deposits and borrowings with the FHLB. Of the securities pledged, $8.5 million of fair value was excess collateral. At June 30, 2017 mortgage-backed securities with an amortized cost of $128.2 million and fair values of $128.8 million, were pledged to secure public deposits and borrowings with the FHLB. Of the securities pledged, $16.7 million of fair value was excess collateral. Excess collateral is maintained to support future borrowings and may be withdrawn by the Company at any time.

Table of Contents

7. ACCUMULATED OTHER COMPREHENSIVE LOSS

The following tables present the changes in accumulated other comprehensive loss by component, for the three and six months ended December 31, 2017 and 2016.

	Three Months Ended December 31, 2017 (Dollars in Thousands net of tax)		
	Unrealized Gains and Losses on Available-for-Sale Securities	Unrealized Gains and Losses on Held-to-Maturity Securities	Total
Beginning Balance September 30, 2017	$ 91	$ (186)	$ (95)
Other comprehensive income (loss) before reclassifications	33	(16)	17
Amounts reclassified from accumulated other comprehensive income (loss)	24	(39)	(15)
Net current-period other comprehensive income (loss)	57	(55)	2
Ending Balance December 31, 2017	$ 148	$ (241)	$ (93)

	Six Months Ended December 31, 2017 (Dollars in Thousands net of tax)		
	Unrealized Gains and Losses on Available-for-Sale Securities	Unrealized Gains and Losses on Held-to-Maturity Securities	Total
Beginning Balance June 30, 2017	$ 44	$ (232)	$ (188)
Other comprehensive income (loss) before reclassifications	80	30	110
Amounts reclassified from accumulated other comprehensive income (loss)	24	(39)	(15)
Net current-period other comprehensive income (loss)	104	(9)	95

Ending Balance	December 31, 2017	$ 148	$ (241)	$ (93)

19

Table of Contents

	Three Months Ended December 31, 2016 (Dollars in Thousands net of tax)		
	Unrealized Gains and Losses on Available-for-Sale Securities	Unrealized Gains and Losses on Held-to-Maturity Securities	Total
Beginning Balance September 30, 2016	$ 25	$ (294)	$ (269)
Other comprehensive income (loss) before reclassifications	(38)	22	(16)
Amounts reclassified from accumulated other comprehensive income (loss)	-	-	-
Net current-period other comprehensive income (loss)	(38)	22	(16)
Ending Balance December 31, 2016	$ (13)	$ (272)	$ (285)

	Six Months Ended December 31, 2016 (Dollars in Thousands net of tax)		
	Unrealized Gains and Losses on Available-for-Sale Securities	Unrealized Gains and Losses on Held-to-Maturity Securities	Total
Beginning Balance June 30, 2016	$ 78	$ (316)	$ (238)
Other comprehensive income (loss) before reclassifications	(91)	44	(47)
Amounts reclassified from accumulated other comprehensive income (loss)	-	-	-
Net current-period other comprehensive income (loss)	(91)	44	(47)
Ending Balance December 31, 2016	$ (13)	$ (272)	$ (285)

There were no amounts reclassified out of accumulated other comprehensive income for the three and six months ended December 31, 2017 and 2016.

Table of Contents

8. UNREALIZED LOSSES ON SECURITIES

The following tables show the Company s gross unrealized losses and fair value, aggregated by category and length of time that the individual securities have been in a continuous unrealized loss position, at December 31, 2017 and June 30, 2017.

	December 31, 2017					
	Less Than Twelve Months		Twelve Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(Dollars in Thousands)					
Corporate debt securities	$ 40,483	$ (96)	$ 994	$ (2)	$ 41,477	$ (98)
Foreign Debt Securities [4]	3,013	(2)	-	-	3,013	(2)
Obligations of state and political subdivision	2,365	(15)	-	-	2,365	(15)
Collateralized mortgage obligations:						
Agency	22,552	(44)	21,589	(474)	44,141	(518)
Total	$ 68,413	$ (157)	$ 22,583	$ (476)	$ 90,996	$ (633)

	June 30, 2017					
	Less Than Twelve Months		Twelve Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(Dollars in Thousands)					
Corporate debt securities	$ 37,965	$ (83)	$ 994	$ (1)	$ 38,959	$ (84)
Obligations of states and political subdivisions	1,827	(4)	-	-	1,827	(4)
Collateralized mortgage obligations:						
Agency	23,724	(69)	22,949	(368)	46,673	(437)
Total	$ 63,516	$ (156)	$ 23,943	$ (369)	$ 87,459	$ (525)

For debt securities, impairment is considered to be other than temporary if an entity (1) intends to sell the security, (2) more likely than not will be required to sell the security before recovering its amortized cost basis, or (3) does not expect to recover the security s entire amortized cost basis (even if the entity does not intend to sell the security). In addition, impairment is considered to be other than temporary if the present value of cash flows expected to be collected from the debt security is less than the amortized cost basis of the security (any such shortfall is referred to as a credit loss).

The Company evaluates outstanding available-for-sale and held-to-maturity securities in an unrealized loss position (i.e., impaired securities) for other-than-temporary impairment (OTTI) on a quarterly basis. In doing so, the Company considers many factors including, but not limited to: the credit ratings assigned to the securities by the Nationally Recognized Statistical Rating Organizations (NRSROs); other indicators of the credit quality of the issuer; the strength of the provider of any guarantees; the length of time and extent that fair value has been less than amortized cost; and whether the Company has the intent to sell the security or more likely than not will be required to sell the security before its anticipated recovery. In the case of its private label residential MBSs, the Company also considers prepayment speeds, the historical and projected performance of the underlying loans and the

[4] U.S. dollar denominated investment-grade corporate bonds of large foreign corporate issuers.

Table of Contents

credit support provided by the subordinate securities. These evaluations are inherently subjective and consider a number of quantitative and qualitative factors.

The following table presents a roll-forward of the credit loss component of the amortized cost of mortgage-backed securities that we have written down for OTTI and the credit component of the loss that is recognized in earnings. OTTI recognized in earnings for credit impaired mortgage-backed securities is presented as additions in two components based upon whether the current period is the first time the mortgage-backed security was credit-impaired (initial credit impairment) or is not the first time the mortgage-backed security was credit impaired (subsequent credit impairments). The credit loss component is reduced if we sell, intend to sell or believe that we will be required to sell previously credit-impaired mortgage-backed securities. Additionally, the credit loss component is reduced if we receive cash flows in excess of what we expected to receive over the remaining life of the credit impaired mortgage-backed securities, the security matures or is fully written down.

	Three Months Ended December 31,		Six Months Ended December 31,	
	2017	2016	2017	2016
	(Dollars in Thousands)			
Beginning balance	$ 258	$ 292	$ 259	$ 299
Initial credit impairment	-	-	-	-
Subsequent credit impairment	-	-	8	-
Reductions for amounts recognized in earnings due to intent or requirement to sell	-	-	-	-
Reductions for securities sold	-	-	-	-
Reduction for actual realized losses	(10)	(13)	(19)	(20)
Reduction for increase in cash flows expected to be collected	-	-	-	-
Ending Balance	$ 248	$ 279	$ 248	$ 279

During the three months ended December 31, 2017, the Company recorded no credit impairment and no non-credit unrealized holding loss to accumulated other comprehensive income. During the six months ended December 31, 2017, the Company recorded an $8 thousand credit impairment charge and no non-credit unrealized holding loss to accumulated other comprehensive income. During the three and six months ended December 31, 2017, the Company accreted back out of/into other comprehensive income $(16) thousand and $30 thousand, respectively (net of income tax effect of $(8) thousand and $15 thousand, respectively), based on principal repayments on private-label CMOs previously identified with OTTI.

In the case of its private-label residential CMOs that exhibit adverse risk characteristics, the Company employs models to determine the cash flows that it is likely to collect from the securities. These models consider borrower characteristics and the particular attributes of the loans underlying the securities, in conjunction with assumptions about future changes in home prices and interest rates, to predict the likelihood a loan will default and the impact on default frequency, loss severity and remaining credit enhancement. A significant input to these models is the forecast of future housing price changes for the relevant states and metropolitan statistical areas, which are based upon an assessment of the various housing markets. In general, since the ultimate receipt of contractual payments on these securities will depend upon the credit and prepayment performance of the underlying loans and, if needed, the credit enhancements for the senior securities owned by the Company, the Company uses these models to assess whether the credit enhancement associated with each security is sufficient to protect against likely losses of principal and interest on the underlying mortgage loans. The development of the modeling assumptions requires significant judgment.

Table of Contents

In conjunction with our adoption of ASC Topic 820, the Company retained an independent third party to assist it with assessing its investments within the private-label CMO portfolio. The independent third party utilized certain assumptions for producing the cash flow analyses used in the OTTI assessment. Key assumptions would include interest rates, expected market participant spreads and discount rates, housing prices, projected future delinquency levels and assumed loss rates on any liquidated collateral.

The Company reviewed the independent third party s assumptions used in the December 31, 2017 OTTI process. Based on the results of this review, the Company deemed the independent third party s assumptions to be reasonable and adopted them. However, different assumptions could produce materially different results, which could impact the Company s conclusions as to whether an impairment is considered other-than-temporary and the magnitude of the credit loss. The Company had three private-label CMOs with OTTI at December 31, 2017.

If the Company intends to sell an impaired debt security, or more likely than not will be required to sell the security before recovery of its amortized cost basis, the impairment is other-than-temporary and is recognized currently in earnings in an amount equal to the entire difference between fair value and amortized cost. The Company does not anticipate selling its private-label CMO portfolio, nor does Management believe that the Company will be required to sell these securities before recovery of this amortized cost basis.

In instances in which the Company determines that a credit loss exists but the Company does not intend to sell the security and it is not more likely than not that the Company will be required to sell the security before the anticipated recovery of its remaining amortized cost basis, the OTTI is separated into (1) the amount of the total impairment related to the credit loss and (2) the amount of the total impairment related to all other factors (i.e., the noncredit portion). The amount of the total OTTI related to the credit loss is recognized in earnings and the amount of the total OTTI related to all other factors is recognized in accumulated other comprehensive loss. The total OTTI is presented in the Consolidated Statement of Income with an offset for the amount of the total OTTI that is recognized in accumulated other comprehensive loss. Absent the intent or requirement to sell a security, if a credit loss does not exist, any impairment is considered to be temporary.

Regardless of whether an OTTI is recognized in its entirety in earnings or if the credit portion is recognized in earnings and the noncredit portion is recognized in other comprehensive income (loss), the estimation of fair values has a significant impact on the amount(s) of any impairment that is recorded.

The noncredit portion of any OTTI losses on securities classified as available-for-sale is adjusted to fair value with an offsetting adjustment to the carrying value of the security. The fair value adjustment could increase or decrease the carrying value of the security. All of the Company s private-label CMOs were originally, and continue to be classified, as held to maturity.

In periods subsequent to the recognition of an OTTI loss, the other-than-temporarily impaired debt security is accounted for as if it had been purchased on the measurement date of the OTTI at an amount equal to the previous amortized cost basis less the credit-related OTTI recognized in earnings. For debt securities for which credit-related OTTI is recognized in earnings, the difference between the new cost basis and the cash flows expected to be collected is accreted into interest income over the remaining life of the security in a prospective manner based on the amount and timing of future estimated cash flows.

The Company had investments in 49 positions that were impaired at December 31, 2017. Based on its analysis, management has concluded that three private-label CMOs are other-than-temporarily impaired, while the remaining securities portfolio has experienced unrealized losses and a decrease in fair value due to interest rate volatility, illiquidity in the marketplace, or credit deterioration in the U.S. mortgage markets.

23

Table of Contents

9. LOANS AND RELATED ALLOWANCE FOR LOAN LOSSES

The following table summarizes the primary segments of the loan portfolio as of December 31, 2017 and June 30, 2017.

	December 31, 2017			June 30, 2017		
	Total Loans	Individually evaluated for impairment	Collectively evaluated for impairment	Total Loans	Individually evaluated for impairment	Collectively evaluated for impairment
	(Dollars in Thousands)					
First mortgage loans:						
1 4 family dwellings	$ 70,251	$ -	$ 70,251	$ 65,153	$ -	$ 65,153
Construction	1,823	-	1,823	1,866	-	1,866
Land acquisition & development	48	-	48	462	-	462
Multi-family dwellings	3,521	-	3,521	3,653	-	3,653
Commercial	2,028	-	2,028	2,033	-	2,033
Consumer Loans						
Home equity	934	-	934	1,017	-	1,017
Home equity lines of credit	2,329	-	2,329	2,275	-	2,275
Other	146	-	146	139	-	139
Commercial Loans	734	-	734	841	-	841
	$ 81,814	$ -	$ 81,814	$ 77,439	$ -	$ 77,439
Plus: Deferred loan costs	460			434		
Allowance for loan losses	(430)			(418)		
Total	$ 81,844			$ 77,455		

Impaired loans are loans for which it is probable the Company will not be able to collect all amounts due according to the contractual terms of the loan agreement. The Company collectively evaluates for impairment 1-4 family first mortgage loans and all consumer loans. The following loan categories are individually evaluated for impairment: first mortgage loans - construction, land acquisition and development, multi-family dwellings, and commercial. The Company evaluates commercial loans not secured by real property individually for impairment.

The definition of impaired loans is not the same as the definition of nonaccrual loans, although the two categories overlap. The Company may choose to place a loan on nonaccrual status due to payment delinquency or uncertain collectability, while not classifying the loan as impaired if the loan is not a commercial or commercial real estate loan. Factors considered by management in determining impairment include payment status and collateral value. The amount of impairment for these types of impaired loans is determined by the difference between the present value of the expected cash flows related to the loan, using the original interest rate, and its recorded value, or as a practical expedient in the case of collateralized loans, the difference between the fair value of the collateral and the recorded amount of the loans. When foreclosure is probable, impairment is measured based on the fair value of the collateral.

Loans that experience insignificant payment delays, which are defined as 90 days or less, generally are not classified as impaired. Management determines the significance of payment delays on a case-by-case basis taking into consideration all circumstances surrounding the loan and the borrower, including the length of the delay, the borrower s prior payment record, and the amount of shortfall in relation to the principal and interest owed.

As of December 31, 2017 and June 30, 2017 there were no loans considered to be impaired.

Table of Contents

Total nonaccrual loans as of December 31, 2017 and June 30, 2017 and the related interest income recognized for the three and six months ended December 31, 2017 and December 31, 2016 are as follows:

	December 31, 2017	June 30, 2017
	(Dollars in Thousands)	
Principal outstanding		
1 4 family dwellings	$ 242	$ 246
Construction	-	-
Land acquisition & development	-	-
Commercial real estate	-	-
Home equity lines of credit	-	-
Total	$ 242	$ 246

	Three Months Ended December 31, 2017	Three Months Ended December 31, 2016	Six Months Ended December 31, 2017	Six Months Ended December 31, 2016
	(Dollars in Thousands)			
Average nonaccrual loans				
1 4 family dwellings	$ 243	$ 251	$ 244	$ 252
Construction	-	-	-	-
Land acquisition & development	-	-	-	-
Commercial real estate	-	-	-	-
Home equity lines of credit	-	-	-	-
Total	$ 243	$ 251	$ 244	$ 252
Income that would have been recognized	$ 4	$ 5	$ 9	$ 8
Interest income recognized	$ 5	$ 5	$ 11	$ 9

The Company s loan portfolio may also include troubled debt restructurings (TDRs), where economic concessions have been granted to borrowers who have experienced or are expected to experience financial difficulties. These concessions typically result from the Company s loss mitigation activities and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance or other actions. Certain TDRs are classified as nonperforming at the time of restructure and may only be returned to performing status after considering the borrower s sustained repayment performance for a reasonable period, generally six months.

During the three and six months ended December 31, 2017, and December 31, 2016, there were no TDRs.

When the Company modifies a loan, management evaluates any possible impairment based on the present value of expected future cash flows, discounted at the contractual interest rate of the original loan agreement, except when the sole (remaining) source of repayment for the loan is the operation or liquidation of the collateral. In these cases, management uses the current fair value of the collateral, less selling costs, instead of discounted cash flows. If management determines that the value of the modified loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount), impairment is recognized by segment or class of loan, as applicable, through an allowance estimate or a charge-off to the allowance. Segment and class status is determined by the loan s classification at origination.

Table of Contents

The allowance for loan losses is established through provisions for loan losses charged against income. Loans deemed to be uncollectible are charged against the allowance account. Subsequent recoveries, if any, are credited to the allowance. The allowance is maintained at a level believed adequate by management to absorb estimated potential loan losses. Management s determination of the adequacy of the allowance is based on periodic evaluations of the loan portfolio considering past experience, current economic conditions, composition of the loan portfolio and other relevant factors. This evaluation is inherently subjective, as it requires material estimates that may be susceptible to significant change.

Federal regulations require that each insured savings institution classify its assets on a regular basis. In addition, in connection with examinations of insured institutions, federal examiners have authority to identify problem assets and, if appropriate, classify them. There are three classifications for problem assets: substandard , doubtful and loss Substandard assets have one or more defined weaknesses and are characterized by the distinct possibility that the insured institution will sustain some loss if the deficiencies are not corrected. Doubtful assets have the weaknesses of those classified as substandard with the added characteristic that the weaknesses make collection or liquidation in full on the basis of currently existing facts, conditions and values questionable, and there is a high possibility of loss. An asset classified as loss is considered uncollectible and of such little value that continuance as an asset of the institution is not warranted. Another category designated asset watch is also utilized by the Bank for assets which do not currently expose an insured institution to a sufficient degree of risk to warrant classification as substandard, doubtful or loss. Assets classified as substandard or doubtful require the institution to establish general allowances for loan losses. If an asset or portion thereof is classified as loss, the insured institution must either establish specific allowances for loan losses in the amount of 100% of the portion of the asset classified loss, or charge-off such amount. General loss allowances established to cover possible losses related to assets classified substandard or doubtful may be included in determining an institution s regulatory capital, while specific valuation allowances for loan losses do not qualify as regulatory capital.

The Company s general policy is to internally classify its assets on a regular basis and establish prudent general valuation allowances that are adequate to absorb losses that have not been identified but that are inherent in the loan portfolio. The Company maintains general valuation allowances that it believes are adequate to absorb losses in its loan portfolio that are not clearly attributable to specific loans. The Company s general valuation allowances are within the following general ranges: (1) 0% to 5% of assets subject to special mention; (2) 1.00% to 100% of assets classified substandard; and (3) 50% to 100% of assets classified doubtful. Any loan classified as loss is charged-off. To further monitor and assess the risk characteristics of the loan portfolio, loan delinquencies are reviewed to consider any developing problem loans. Based upon the procedures in place, considering the Company s past charge-offs and recoveries and assessing the current risk elements in the portfolio, management believes the allowance for loan losses at December 31, 2017, is adequate.

Table of Contents

The following tables present the classes of the loan portfolio summarized by the aging categories of performing loans and nonaccrual loans as of December 31, 2017 and June 30, 2017:

	Current	30 59 Days Past Due	60 89 Days Past Due	90 Days + Past Due Accruing	90 Days + Past Due Non-accrual	Total Past Due	Total Loans
	(Dollars in Thousands)						
December 31, 2017							
First mortgage loans:							
1 4 family dwellings	$ 70,009	$ -	$ -	$ -	$ 242	$ 242	$ 70,251
Construction	1,823	-	-	-	-	-	1,823
Land acquisition & development	48	-	-	-	-	-	48
Multi-family dwellings	3,521	-	-	-	-	-	3,521
Commercial	2,028	-	-	-	-	-	2,028
Consumer Loans:							
Home equity	934	-	-	-	-	-	934
Home equity lines of credit	2,329	-	-	-	-	-	2,329
Other	146	-	-	-	-	-	146
Commercial Loans	734	-	-	-	-	-	734
	$ 81,572	$ -	$ -	$ -	$ 242	$ 242	81,814
Plus: Deferred loan fees							460
Allowance for loan losses							(430)
Net Loans Receivable							$ 81,844

	Current	30 59 Days Past Due	60 89 Days Past Due	90 Days + Past Due Accruing	90 Days + Past Due Non-accrual	Total Past Due	Total Loans

(Dollars in Thousands)

June 30, 2017													
First mortgage loans:													
1 4 family dwellings	$	64,907	$	-	$	-	$	-	$	246	$	246	$ 65,153
Construction		1,866		-		-		-		-		-	1,866
Land acquisition & development		462		-		-		-		-		-	462
Multi-family dwellings		3,653		-		-		-		-		-	3,653
Commercial		2,033		-		-		-		-		-	2,033
Consumer Loans:													
Home equity		1,017		-		-		-		-		-	1,017
Home equity lines of credit		2,275		-		-		-		-		-	2,275
Other		139		-		-		-		-		-	139
Commercial Loans		841		-		-		-		-		-	841
	$	77,193	$	-	$	-	$	-	$	246	$	246	77,439
Plus: Deferred loan fees													434
Allowance for loan losses													(418)
Net Loans Receivable													$ 77,455

27

Table of Contents

Credit quality information

The following tables represent credit exposure by internally assigned grades for the period ended December 31, 2017 and June 30, 2017. The grading system analysis estimates the capability of the borrower to repay the contractual obligations of the loan agreements as scheduled or not at all. The Company s internal credit risk grading system is based on experiences with similarly graded loans.

The Company s internally assigned grades are as follows:

Pass loans which are protected by the current net worth and paying capacity of the obligor or by the value of the underlying collateral.

Special Mention loans where a potential weakness or risk exists, which could cause a more serious problem if not corrected.

Substandard loans that have a well-defined weakness based on objective evidence and can be characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Doubtful loans classified as doubtful have all the weaknesses inherent in a substandard loan. In addition, these weaknesses make collection or liquidation in full highly questionable and improbable, based on existing circumstances.

Loss loans classified as loss are considered uncollectible, or of such value that continuance as a loan is not warranted.

The primary credit quality indicator used by management in the 1 4 family and consumer loan portfolios is the performance status of the loans. Payment activity is reviewed by Management on a monthly basis to determine how loans are performing. Loans are considered to be non-performing when they become 90 days delinquent, have a history of delinquency, or have other inherent characteristics which Management deems to be weaknesses.

The following tables present the Company s internally classified construction, land acquisition and development, multi-family residential, commercial real estate and commercial (not secured by real estate) loans at December 31, 2017 and June 30, 2017.

	December 31, 2017 (Dollars in Thousands)				
	Construction	Land Acquisition & Development Loans	Multi-family Residential	Commercial Real Estate	Commercial
Pass	$ 1,823	$ 48	$ 3,521	$ 2,028	$ 734

Special Mention	-	-	-	-	-
Substandard	-	-	-	-	-
Doubtful	-	-	-	-	-
Ending Balance	$ 1,823	$ 48	$ 3,521	$ 2,028	$ 734

Table of Contents

	June 30, 2017 (Dollars in Thousands)				
	Construction	Land Acquisition & Development Loans	Multi-family Residential	Commercial Real Estate	Commercial
Pass	$ 1,866	$ 462	$ 3,653	$ 2,033	$ 841
Special Mention	-	-	-	-	-
Substandard	-	-	-	-	-
Doubtful	-	-	-	-	-
Ending Balance	$ 1,866	$ 462	$ 3,653	$ 2,033	$ 841

The following table presents performing and non-performing 1 4 family residential and consumer loans based on payment activity for the periods ended December 31, 2017 and June 30, 2017.

	December 31, 2017	
	1 4 Family	Consumer
	(Dollars in Thousands)	
Performing	$ 70,009	$ 3,409
Non-performing	242	-
Total	$ 70,251	$ 3,409

	June 30, 2017	
	1 4 Family	Consumer
	(Dollars in Thousands)	
Performing	$ 64,907	$ 3,431
Non-performing	246	-
Total	$ 65,153	$ 3,431

The Company determines its allowance for loan losses in accordance with generally accepted accounting principles. The Company uses a systematic methodology as required by Financial Reporting Release No. 28 and the various Federal Financial Institutions Examination Council guidelines. The Company also endeavors to adhere to SEC Staff Accounting Bulletin No. 102 in connection with loan loss allowance methodology and documentation issues.

Our methodology used to determine the allocated portion of the allowance is as follows. For groups of homogenous loans, we apply a loss rate to the groups   aggregate balance. Our group loss rate reflects our historical loss experience. We may adjust these group rates to compensate for changes in environmental factors; but our adjustments have not been frequent due to a relatively stable charge-off experience. The Company also monitors industry loss experience on similar loan portfolio segments. We then identify loans for individual evaluation under ASC Topic 310. If the individually identified loans are performing, we apply a segment specific loss rate adjusted for relevant environmental factors, if necessary, for those loans reviewed individually and considered individually impaired, we use one of the three methods for measuring impairment mandated by ASC Topic 310. Generally the fair value of collateral is used since our impaired loans are generally real estate based. In connection with the fair value of collateral measurement, the Company generally uses an independent appraisal and determines costs to sell. The Company   s appraisals for commercial income based loans, such as multi-family and commercial real estate loans, assess value based upon the operating cash flows of the business as opposed to merely   as built   values. The Company then validates the reasonableness of our calculated allowances by: (1) reviewing trends in loan volume, delinquencies, restructurings and concentrations; (2) reviewing prior period (historical) charge-offs and recoveries; and (3) presenting the results of this process, quarterly, to the Asset Classification Committee and the Savings Bank s Board of Directors. We then tabulate, format and summarize the current loan loss allowance balance for financial and regulatory reporting purposes.

The Company had no unallocated loss allowance balance at December 31, 2017.

The allowance for loan losses represents the amount which management estimates is adequate to provide for probable losses inherent in its loan portfolio. The allowance method is used in providing for loan losses. Accordingly, all loan losses are charged to the allowance, and all recoveries are credited to it. The allowance for loan losses is established through a provision for loan losses charged to operations. The provision for loan losses is based on management s periodic evaluation of individual loans, economic factors, past loan loss experience, changes in the composition and volume of the portfolio, and other relevant factors. The estimates used in determining the adequacy of the allowance for loan losses, including the amounts and timing of future cash flows expected on impaired loans, are particularly susceptible to changes in the near term.

Table of Contents

The following tables summarize the primary segments of the allowance for loan losses (ALLL), segregated into the amount required for loans individually evaluated for impairment and the amount required for loans collectively evaluated for impairment as of December 31, 2017 and 2016. Activity in the allowance is presented for the three and six months ended December 31, 2017 and 2016.

	As of December 31, 2017							
	First Mortgage Loans							
	1 4 Family	Construction	Land Acquisition & Development	Multi-family	Commercial	Consumer Loans	Commercial Loans	Total
	(Dollars in Thousands)							
Beginning ALLL Balance at September 30, 2017	$ 311	$ 32	$ 2	$ 20	$ 21	$ 34	$ 3	$ 423
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-
Provisions	15	(6)	(2)	(1)	(1)	-	1	6
Ending ALLL Balance at December 31, 2017	$ 326	$ 26	$ -	$ 19	$ 20	$ 34	$ 4	$ 429
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	326	26	-	19	20	34	4	429
	$ 326	$ 26	$ -	$ 19	$ 20	$ 34	$ 4	$ 429

	As of December 31, 2017							
	First Mortgage Loans							
	1 4 Family	Construction	Land Acquisition & Development	Multi-family	Commercial	Consumer Loans	Commercial Loans	Total
	(Dollars in Thousands)							
Beginning ALLL Balance at June 30, 2017	$ 305	$ 30	$ 5	$ 20	$ 20	$ 34	$ 4	$ 418
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-
Provisions	22	(4)	(5)	(1)	-	-	-	12
Ending ALLL Balance at December 31, 2017	$ 327	$ 26	$ -	$ 19	$ 20	$ 34	$ 4	$ 430
	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

Individually evaluated for impairment								
Collectively evaluated for impairment	327	26	-	19	20	34	4	430
	$ 327	$ 26	$ -	$ 19	$ 20	$ 34	$ 4	$ 430

31

Table of Contents

	As of December 31, 2016							
	First Mortgage Loans							
	1 4 Family	Construction	Land Acquisition & Development	Multi-family	Commercial	Consumer Loans	Commercial Loans	Total
	(Dollars in Thousands)							
Beginning ALLL Balance at September 30, 2016	$ 256	$ 46	$ 7	$ 21	$ 17	$ 24	$ 5	$ 376
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-
Provisions	5	5	-	-	-	9	-	19
Ending ALLL Balance at December 31, 2016	$ 261	$ 51	$ 7	$ 21	$ 17	$ 33	$ 5	$ 395
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	261	51	7	21	17	33	5	395
	$ 261	$ 51	$ 7	$ 21	$ 17	$ 33	$ 5	$ 395

	As of December 31, 2016							
	First Mortgage Loans							
	1 4 Family	Construction	Land Acquisition & Development	Multi-family	Commercial	Consumer Loans	Commercial Loans	Total
	(Dollars in Thousands)							
Beginning ALLL Balance at June 30, 2016	$ 222	$ 57	$ 7	$ 22	$ 16	$ 29	$ 7	$ 360
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-
Provisions	39	(6)	-	(1)	1	4	(2)	35
Ending ALLL Balance at December 31, 2016	$ 261	$ 51	$ 7	$ 21	$ 17	$ 33	$ 5	$ 395
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	261	51	7	21	17	33	5	395
	$ 261	$ 51	$ 7	$ 21	$ 17	$ 33	$ 5	$ 395

During the three months and six months ended December 31, 2017, the ALLL increased $6 thousand and $12 thousand, respectively. These increases were associated with the 1 4 family real estate loan portfolio and were partially offset by decreases in the ALLL associated with construction and land acquisition and development loans. The primary reason for the changes in the ALLL associated with these segments were the changes in associated loan balances.

During the three and six months ending December 31, 2016, the ALLL increased $19 thousand and $35 thousand respectively. For the three months ended December 31, 2016, the ALLL associated with 1 4 family real estate loans, construction and consumer loans increased. During the six months ended December 31, 2016, the ALLL associated with 1-4 family real estate loans and consumer loans increased and was partially offset by a decrease in the ALLL associated with construction loans. The primary reason for the changes in the ALLL balances, both in total, and within the identified segments, is changes in applicable loan balances.

32

Table of Contents

10. FEDERAL HOME LOAN BANK (FHLB) ADVANCES

The following table presents contractual maturities of FHLB long-term advances as of December 31, 2017 and June 30, 2017.

Description	Maturity range from	Maturity range to	Weighted-average interest rate[5]	Stated interest rate range from	Stated interest rate range to	December 31, 2017	June 30, 2017
						(Dollars in Thousands)	
Convertible	07/27/17	07/27/17	4.26%	4.26%	4.26%	$ -	$ 10,000
Adjustable	08/11/17	09/01/17	1.25%	1.23%	1.27%	-	6,109
Total						$ -	$ 16,109

[5] As of June 30, 2017.

The terms of the convertible advance reset to the three-month London Interbank Offered Rate (LIBOR) and have various spreads and call dates of three months. The FHLB had the right to convert from a fixed rate to a predetermined floating rate on its conversion date or quarterly thereafter. Should the advance be converted, the Company had the right to pay off the advance without penalty. The adjustable rate advances adjusted either monthly or quarterly, based on the one-month or three-month LIBOR index, and had various spreads to the LIBOR index. The spreads to the applicable LIBOR index ranged from 0.05% to 0.16%. The adjustable rate advances were not convertible or callable. The FHLB advances were secured by the Company s FHLB stock, mortgage-backed and investment securities, and loans, and were subject to substantial prepayment penalties.

The Company also utilized revolving and short-term FHLB advances. Short-term FHLB advances generally mature within 90 days, while revolving FHLB advances may be repaid by the Company without penalty. The following table presents information regarding such advances as of December 31, 2017 and June 30, 2017:

	December 31, 2017	June 30, 2017
	(Dollars in Thousands)	
FHLB revolving and short-term advances:		
Ending balance	$ 176,405	$ 155,799
Average balance	163,931	144,258
Maximum month-end balance	177,805	155,799
Average interest rate	1.36%	0.78%
Weighted-average rate	1.54%	1.24%

At December 31, 2017, the Company had remaining borrowing capacity with the FHLB of approximately $2.1 million.

The FHLB advances are secured by the Company s FHLB stock, loans, and mortgage-backed and investment securities held in safekeeping at the FHLB. FHLB advances are subject to substantial prepayment penalties.

11. FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for an asset or liability in an orderly transaction between market participants at the measurement date. GAAP established a fair value hierarchy that prioritizes the use of inputs used in valuation methodologies into the following three levels:

Level I: Quoted prices are available in active markets for identical assets or liabilities as of the reported date.

Level II: Pricing inputs are other than the quoted prices in active markets, which are either directly or indirectly observable as of the reported date. The nature of these assets and liabilities includes items for which quoted prices are available but traded less frequently and items that are fair-valued using other financial instruments, the parameters of which can be directly observed.

Level III: Assets and liabilities that have little to no pricing observability as of the reported date. These items do not have two-way markets and are measured using management s best estimate of fair value, where the inputs into the determination of fair value require significant management judgment or estimation.

Table of Contents

Assets Measured at Fair Value on a Recurring Basis

Investment Securities Available-for-Sale

Fair values for securities available for sale are determined by obtaining quoted prices on nationally recognized securities exchanges or matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities, but rather by relying on the securities relationship to other benchmark quoted securities. The Company has no Level I or Level III investment securities. Level II investment securities were primarily comprised of investment-grade corporate bonds and U.S. dollar-denominated investment-grade corporate bonds of large foreign issuers.

The following tables present the assets reported on a recurring basis on the Consolidated Balance Sheet at their fair value as of December 31, 2017 and June 30, 2017, by level within the fair value hierarchy. As required by GAAP, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	December 31, 2017			
	Level I	Level II	Level III	Total
	(Dollars in Thousands)			
Assets measured on a recurring basis:				
Investment securities available for sale:				
Obligations of states and political subdivisions	$ -	$ 1,618	$ -	$ 1,618
Corporate securities	-	92,749	-	92,749
Foreign debt securities [6]	-	25,192	-	25,192
	$ -	$ 119,559	$ -	$ 119,559

	June 30, 2017			
	Level I	Level II	Level III	Total
	(Dollars in Thousands)			
Assets measured on a recurring basis:				
Investment securities available for sale:				
Obligations of states and political subdivisions	$ -	$ 1,327	$ -	$ 1,327
Corporate securities	-	92,636	-	92,636
Foreign debt securities [6]	-	14,486	-	14,486
	$ -	$ 108,449	$ -	$ 108,449

Assets Measured at Fair Value on a Nonrecurring Basis

The Company may be required, from time to time, to measure certain financial assets and financial liabilities at fair value on a nonrecurring basis in accordance with U.S. generally accepted accounting principles. These include assets that are measured at the lower of cost or fair value that were recognized at fair value below cost at the end of the period.

[6] U.S. dollar-denominated investment-grade corporate bonds of large foreign corporate issuers.

Table of Contents

Impaired Loans

Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures impairment in accordance with ASC Topic 310. The fair value of impaired loans is estimated using one of several methods, including collateral value, liquidation value and discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. Collateral values are estimated using Level II inputs based on observable market data or Level III inputs based on customized discounting criteria. For a majority of impaired real estate related loans, the Company obtains a current external appraisal. Other valuation techniques are used as well, including internal valuations, comparable property analysis and contractual sales information. The Company has no Level I, Level II or Level III impaired loans at December 31, 2017 and June 30, 2017.

12. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts and estimated fair values are as follows:

	December 31, 2017				
	Carrying Amount	Fair Value	Level I	Level II	Level III
	(Dollars in Thousands)				
FINANCIAL ASSETS					
Cash and cash equivalents	$ 8,521	$ 8,521	$ 8,521	$ -	$ -
Certificates of deposit	3,624	3,624	3,624	-	-
Investment securities available for sale	119,559	119,559	-	119,559	-
Investment securities held to maturity	6,639	6,687	-	6,687	-
Mortgage-backed securities held to maturity:					
Agency	120,567	121,292	-	121,292	-
Private-label	986	1,204	-	-	1,204
Net loans receivable	81,844	81,400	-	-	81,400
Accrued interest receivable	1,137	1,137	1,137	-	-
FHLB stock	7,234	7,234	7,234	-	-
Bank owned life insurance	4,605	4,605	4,605	-	-
FINANCIAL LIABILITIES					
Deposits:					
Non-interest bearing deposits	$ 18,500	$ 18,500	$ 18,500	$ -	$ -
NOW accounts	23,645	23,645	23,645	-	-
Savings accounts	44,670	44,670	44,670	-	-
Money market accounts	21,975	21,975	21,975	-	-
Certificates of deposit	33,689	33,467	-	-	33,467
Advance payments by borrowers for taxes and insurance	1,370	1,370	1,370	-	-

FHLB short-term advances	176,405	176,405	176,405	-	-
Accrued interest payable	246	246	246	-	-

Table of Contents

	June 30, 2017				
	Carrying Amount	Fair Value	Level I	Level II	Level III
			(Dollars in Thousands)		
FINANCIAL ASSETS					
Cash and cash equivalents	$ 2,272	$ 2,272	$ 2,272	$ -	$ -
Certificates of deposit	10,380	10,380	10,380	-	-
Investment securities available for sale	108,449	108,449	-	108,449	-
Investment securities held to maturity	8,678	8,815	-	8,815	-
Mortgage-backed securities held to maturity:					
Agency	128,201	128,840	-	128,840	-
Private-label	1,120	1,341	-	-	1,341
Net loans receivable	77,455	77,224	-	-	77,224
Accrued interest receivable	1,206	1,206	1,206	-	-
FHLB stock	7,062	7,062	7,062	-	-
Bank owned life insurance	4,541	4,541	4,541	-	-
FINANCIAL LIABILITIES					
Deposits:					
Non-interest bearing deposits	$ 19,396	$ 19,396	$ 19,396	$ -	$ -
NOW accounts	23,787	23,787	23,787	-	-
Savings accounts	45,524	45,524	45,524	-	-
Money market accounts	22,484	22,484	22,484	-	-
Certificates of deposit	32,313	32,147	-	-	32,147
Advance payments by borrowers for taxes and insurance	1,785	1,785	1,785	-	-
FHLB long-term advances fixed rate	10,000	10,000	-	-	10,000
FHLB long-term advances- variable rate	6,109	6,109	6,109	-	-
FHLB short-term advances	155,799	155,799	155,799	-	-
Accrued interest payable	247	247	247	-	-

Financial instruments are defined as cash, evidence of an ownership interest in an entity, or a contract which creates an obligation or right to receive or deliver cash or another financial instrument from or to a second entity on potentially favorable or unfavorable terms.

Fair value is defined as the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. If a quoted market price is available for a financial instrument, the estimated fair value would be calculated based upon the market price per trading unit of the instrument.

If no readily available market exists, the fair value estimates for financial instruments should be based upon management s judgment regarding current economic conditions, interest rate risk, expected cash flows, future estimated losses, and other factors, as determined through various option pricing formulas or simulation modeling. As many of these assumptions result from judgments made by management based upon estimates, which are inherently uncertain, the resulting estimated values may not be indicative of the amount realizable in the sale of a particular financial instrument. In addition, changes in the assumptions on which the estimated values are based may have a significant impact on the resulting estimated values.

As certain assets and liabilities, such as deferred tax assets, premises and equipment, and many other operational elements of the Company, are not considered financial instruments, but have value, this estimated fair value of financial instruments would not represent the full market value of the Company.

Table of Contents

Estimated fair values have been determined by the Company using the best available data, as generally provided in internal Savings Bank regulatory, or third party valuation reports, using an estimation methodology suitable for each category of financial instruments. The estimation methodologies used are as follows:

Cash and Cash Equivalents, Certificates of Deposit, Accrued Interest Receivable and Payable, and FHLB Short-term Advances

The fair value approximates the current carrying value.

Investment Securities, Mortgage-Backed Securities, and FHLB Stock

The fair value of investment and mortgage-backed securities is equal to the available quoted market price. If no quoted market price is available, fair value is estimated using the quoted market price for similar securities. For discussion of valuation of private-label CMOs, see Note 8 Unrealized Losses on Securities . Since the FHLB stock is not actively traded on a secondary market and held exclusively by member financial institutions, the estimated fair market value approximates the carrying amount.

Net Loans Receivable, Deposits, and Advance Payments by Borrowers for Taxes and Insurance

Fair value for consumer mortgage loans is estimated using market quotes or discounting contractual cash flows for prepayment estimates. Discount rates were obtained from secondary market sources, adjusted to reflect differences in servicing, credit, and other characteristics.

The estimated fair values for consumer, fixed-rate commercial, and multi-family real estate loans are estimated by discounting contractual cash flows for prepayment estimates. Discount rates are based upon rates generally charged for such loans with similar credit characteristics.

The estimated fair value for nonperforming loans is the appraised value of the underlying collateral adjusted for estimated credit risk.

Demand, savings, money market deposit accounts, and advance payments by borrowers for taxes and insurance are reported at book value. The fair value of certificates of deposit is based upon the discounted value of the contractual cash flows. The discount rate is estimated using average market rates for deposits with similar average terms.

Bank Owned Life Insurance (BOLI)

The fair value of BOLI approximates the cash surrender value of the policies at these dates.

FHLB Long-term Advances

The fair values of fixed-rate advances are estimated using discounted cash flows, based on current incremental borrowing rates for similar types of borrowing arrangements. The carrying amount on variable rate advances approximates their fair value.

Commitments to Extend Credit

These financial instruments are generally not subject to sale, and estimated fair values are not readily available. The carrying value, represented by the net deferred fee arising from the unrecognized commitment, and the fair value, determined by discounting the remaining contractual fee over the term of the commitment using fees currently charged to enter into similar agreements with similar credit risk, is not considered material for disclosure.

Table of Contents

ITEM 2.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE AND SIX MONTHS ENDED DECEMBER 31, 2017

FORWARD LOOKING STATEMENTS

In the normal course of business, we, in an effort to help keep our shareholders and the public informed about our operations, may from time to time issue or make certain statements, either in writing or orally, that are or contain forward-looking statements, as that term is defined in the U.S. federal securities laws. Generally, these statements relate to business plans or strategies, projected or anticipated benefits from acquisitions made by or to be made by us, projections involving anticipated revenues, earnings, profitability or other aspects of operating results or other future developments in our affairs or the industry in which we conduct business. Forward-looking statements may be identified by reference to a future period or periods or by the use of forward-looking terminology such as anticipated, believe, expect, intend, plan, estimate or similar expressions.

Although we believe that the anticipated results or other expectations reflected in our forward-looking statements are based on reasonable assumptions, we can give no assurance that those results or expectations will be attained. Forward-looking statements involve risks, uncertainties and assumptions (some of which are beyond our control), and as a result actual results may differ materially from those expressed in forward-looking statements. Factors that could cause actual results to differ from forward-looking statements include, but are not limited to, the following, as well as those discussed elsewhere herein:

our investments in our businesses and in related technology could require additional incremental spending, and might not produce expected deposit and loan growth and anticipated contributions to our earnings;

general economic or industry conditions could be less favorable than expected, resulting in a deterioration in credit quality, a change in the allowance for loan losses or a reduced demand for credit or fee-based products and services;

changes in the interest rate environment could reduce net interest income and could increase credit losses;

the conditions of the securities markets could change, which could adversely affect, among other things, the value or credit quality of our assets, the availability and terms of funding necessary to meet our liquidity needs and our ability to originate loans and leases;

changes in the extensive laws, regulations and policies governing financial holding companies and their subsidiaries could alter our business environment or affect our operations;

the potential need to adapt to industry changes in information technology systems, on which we are highly dependent, could present operational issues or require significant capital spending;

competitive pressures could intensify and affect our profitability, including as a result of continued industry consolidation, the increased availability of financial services from non-banks, technological developments such as the internet or bank regulatory reform; and

acts or threats of terrorism and actions taken by the United States or other governments as a result of such acts or threats, including possible military action, could further adversely affect business and economic conditions in the United States generally and in our principal markets, which could have an adverse effect on our financial performance and that of our borrowers and on the financial markets and the price of our common stock.

You should not put undue reliance on any forward-looking statements. Forward-looking statements speak only as of the date they are made, and we undertake no obligation to update them in light of new or future events except to the extent required by federal securities laws.

GENERAL

WVS Financial Corp. (the Company) is the parent holding company of West View Savings Bank (West View or the Savings Bank). The Company was organized in July 1993 as a Pennsylvania-chartered unitary bank holding company and acquired 100% of the common stock of the Savings Bank in November 1993.

West View Savings Bank is a Pennsylvania-chartered, FDIC-insured stock savings bank conducting business from six offices in the North Hills suburbs of Pittsburgh. The Savings Bank converted from the mutual to the stock form of ownership in November 1993. The Savings Bank had no subsidiaries at December 31, 2017.

The operating results of the Company depend primarily upon its net interest income, which is determined by the difference between income on interest-earning assets, principally loans, mortgage-backed securities and investment securities, and interest expense on interest-bearing liabilities, which consist primarily of deposits and borrowings. The Company s net income is also affected by its provision for loan losses, as well as the level of its non-interest income, including loan fees and service charges, and its non-interest expenses, such as compensation and employee benefits, income taxes, deposit insurance and occupancy costs.

FINANCIAL CONDITION

The Company s assets totaled $355.6 million at December 31, 2017, as compared to $351.6 million at June 30, 2017. The $4.0 million or 1.1% increase in total assets was primarily comprised of a $11.1 million increase in investment securities available for sale, a $5.6 million increase in interest-earning demand deposits, and a $4.4 million increase in net loans receivable, which were partially offset by a $6.8 million decrease in certificates of deposit, a $7.8 million decrease in mortgage-backed securities and a $2.0 million decrease in investment securities held to maturity. The increase in interest-earning demand deposits was primarily associated with seasonal deposits by local tax collectors. The increase in investment securities available for sale were primarily due to purchases of investment grade floating rate corporate bonds totaling $28.8 million, which were partially offset by maturing investments totaling $17.5 million. The increase in net loans receivable was primarily attributable to increases in the single-family owner occupied segment of the loan portfolio. The decrease in mortgage-backed securities was principally due to repayments of principal totaling $7.8 million. The decrease in certificates of deposit was primarily attributable to maturities of large dollar floating rate certificates of deposit. The decreases in mortgaged-backed securities and certificates of deposit were redeployed into floating rate corporate bond purchases and increases in the single-family loan portfolio.

The Company s total liabilities increased $3.2 million or 1.0% to $321.7 million as of December 31, 2017 from $318.6 million as of June 30, 2017. The increase in total liabilities was primarily comprised of a $20.6 million or 13.2% increase in FHLB short-term advances, partially offset by a $16.1 million decrease in FHLB long-term advances which matured during the quarter ending September 30, 2017. The decrease in total deposits was primarily attributable to decreases in transaction accounts of $1.5 million, partially offset by a $1.4 million increase in certificates of deposit. Management believes that most of the decrease in transaction accounts was attributable to seasonal local and school real estate tax obligations. See also Quantitative and Qualitative Disclosures About Market Risk Asset and Liability Management .

Total stockholders equity increased $822 thousand or 2.5% to $33.9 million as of December 31, 2017, from $33.0 million as of June 30, 2017. The increase in stockholders equity was primarily attributable to Company net income of $898 thousand, which was partially offset by cash dividends paid totaling $257 thousand.

RESULTS OF OPERATIONS

General. WVS reported net income of $396 million or $0.22 per share (diluted and basic) for the three months ended December 31, 2017 as compared to $395 thousand or $0.21 per share for the same period in 2016. The change in net income during the three months ended December 31, 2017 was primarily attributable to a $172 thousand increase in net interest income, a $17 thousand increase in non-interest income, and a $12 thousand decrease in provisions for loan losses, which were partially offset by a $41 thousand increase in non-interest expense and a $159 thousand increase in income tax expense. The increase in net interest income during the three months ended December 31, 2017 was attributable to a $453 thousand increase in interest income, which was partially offset by a $281 thousand increase in interest expense. The increase in the income tax expense was primarily due to an additional $133 thousand charge for a write-down of the Company s net deferred tax assets during the three months ended December 31, 2017 associated with the enactment of the Tax Cuts and Jobs Act of 2017 and the reduction of the corporate income tax rate from 35% to 21%.

Net income for the six months ended December 31, 2017 totaled $898 thousand or $0.49 per diluted share, as compared to $793 thousand or $0.42 per diluted share for the same period in 2016. The $105 thousand increase in net income during the six months ended December 31, 2017 was primarily attributable to a $348 thousand increase in net interest income, and a $23 thousand decrease in provisions for loan losses, which were partially offset by a $269 thousand increase in income tax expense. The increase in income tax expense for the six months ended December 31, 2017 was primarily the result of an additional $133 thousand federal income tax expense recorded during the three months ended December 31, 2017 due to the write down of the Company s net deferred tax assets associated with the enactment of the Tax Cuts and Jobs Act of 2017 (TCJA) and higher levels of taxable income, when compared to the same period in 2016.

Net Interest Income. The Company s net interest income increased by $172 thousand or 12.1% for the three months ended December 31, 2017, when compared to the same period in 2016. The increase in net interest income during the three months ended December 31, 2017 was attributable to a $453 thousand increase in interest income primarily due to higher average yields on investment and mortgage-backed securities, and higher average balances of loans when compared to the same period in 2016. The increase in net interest income was partially offset by a $281 thousand increase in interest expense which was primarily attributable to both higher average balances and higher average market rates paid on Federal Home Loan Bank (FHLB) borrowings and higher rates paid on certificates of deposit.

For the six months ended December 31, 2017, net interest income increased $348 thousand or 12.3% when compared to the same period in 2016. The increase in net interest income was primarily attributable to a $900 thousand increase in interest income, which was partially offset by a $552 thousand increase in interest expense. The increase in interest income was the result of higher average yields on investment and mortgage-backed securities, and higher average balances of loans outstanding, when compared to the same period in 2016. The increase in interest expense was primarily attributable to both higher average market rates paid on Federal Home Loan Bank (FHLB) borrowings, and time deposits, which were partially offset by lower average balances of FHLB advances outstanding during the six months ended December 31, 2017, when compared to the same period in 2016.

Interest Income. Interest income on net loans receivable increased $86 thousand or 12.9% and $190 thousand or 14.6% for the three and six months ended December 31, 2017, respectively, when compared to the same periods in 2016. The increase for the quarter ended December 31, 2017 was primarily attributable to a $9.9 million increase in the average balance of net loans receivable outstanding, which was partially offset by a decrease of 4 basis points in the weighted average yield earned on net loans receivable for the three months ended December 31, 2017, when compared to the same period in 2016. The increase for the six months ended December 31, 2017 was primarily attributable to a $10.9 million increase in the average balance of net loans receivable outstanding, which was partially offset by a decrease of 3 basis points in the weighted average yield earned on net loans receivable for the six months ended December 31, 2017, when compared to the same period in 2016. For the three and six months ended December 31, 2017, the increase in the average balance of loans outstanding was primarily attributable to loan originations in excess of repayments, while the decrease in the average yield earned on net loans receivable was primarily

41

attributable to lower rates on new loans originated. During fiscal 2016, 2017 and into fiscal 2018, the Company enjoyed higher demand for single-family home purchase loans. Substantially all of our loan originations and purchases were fixed-rate with a mix of 15, 20, and 30 year terms.

Interest income on investment securities increased $177 thousand or 35.2% and $306 thousand or 30.2% for the three and six months ended December 31, 2017, respectively, when compared to the same periods in 2016. The increase for the three months ended December 31, 2017 was primarily attributable to a $7.0 million increase in the average balance of investment securities outstanding and by a 54 basis point increase in the weighted average yield on investment securities, when compared to the same period in 2016. The increase for the six months ended December 31, 2017 was primarily attributable to a $3.3 million increase in the average balance of investment securities outstanding and an increase in the weighted average yield on investment securities of 51 basis points, when compared to the same period in 2016.

Dividend income on FHLB stock increased $2 thousand or 2.4% and $11 thousand or 6.8% for the three and six months ended December 31, 2017, respectively, when compared to the same periods in 2016. The change in dividends on FHLB stock for the three months ended December 31, 2017 was primarily attributable by a $359 thousand increase in the average balance of FHLB stock held during the three months ended December 31, 2017, when compared to the same period in 2016. The increase in dividends on FHLB stock for the six months ended December 31, 2017 was primarily attributable to an increase of $372 thousand in the average balance of FHLB stock held during the six months ended December 31, 2017, when compared to the same period in 2016.

Interest income on mortgage-backed securities increased $198 thousand or 37.8% and $380 thousand or 35.5% for the three and six months ended December 31, 2017, respectively, when compared to the same periods in 2016. The increase for the three months ended December 31, 2017 was primarily attributable to a 70 basis point increase in the weighted average yield earned on U.S. Government agency mortgage-backed securities, which more than offset a $4.8 million decrease in the average balance of U.S. Government agency mortgage-backed securities, when compared to the same period in 2016. The increase for the six months ended December 31, 2017 was primarily attributable to a 70 basis point increase in the weighted average yield earned on U.S. Government agency mortgage-backed securities, which more than offset a $7.3 million decrease in the average balance of U.S. Government agency mortgage-backed securities, when compared to the same period in 2016. The decrease in the average balances of U.S. Government and agency private-label mortgage-backed securities during the three and six months ended December 31, 2017 was attributable to principal paydowns during the periods. The mortgage-backed securities proceeds during both periods were primarily used to fund loan originations and purchases of floating rate corporate bonds in the investment portfolio.

Interest income on bank certificates of deposit decreased $10 thousand for the three months ended December 31, 2017 when compared to the same period in 2016. The decrease for the quarter ended December 31, 2017 was primarily attributable to a decrease in the average portfolio balance of certificates of deposit of $5.2 million, which was partially offset by an increase in the weighted average yield of 46 basis points. For the six months ended December 31, 2017, interest income on certificates of deposits increased by $15 thousand or 34.9% primarily as a result of a 48 basis point increase in the weighted average yield compared to the same period in 2016. Partially offsetting the higher yields was a $322 thousand decrease in the average balance for the six months ended December 31, 2017, compared to the six months ended December 31, 2016. During the three and six months ended December 31, 2017, the Company redeployed maturing large dollar floating rate certificates of deposit to fund loan originations and purchases of floating rate corporate bonds in the investment portfolio.

Interest Expense. Interest paid on FHLB fixed-rate and variable-rate long term advances decreased by $127 thousand or 100% and $201 thousand or 82.4%, respectively, for the three and six months ended December 31, 2017 when compared to the same periods in 2016, due to the payoff of these obligations during the quarter ended September 30, 2017. The decrease in interest expense on these long-term FHLB advances for the six months ended December 31, 2017 was primarily attributable to a $12.9 million decrease in the average balance of FHLB long term advances outstanding when compared to the same period in the prior year. The Company reduced this funding source in both periods by increasing FHLB short-term advances.

Interest paid on FHLB short-term advances increased $376 million and $696 million for the three and six months ended December 31, 2017, respectively, when compared to the same periods in 2016. The increase for the three months ended December 31, 2017 was primarily attributable to a $25.1 million increase in the average balance of FHLB short-term advances outstanding and an 80 basis point increase in the weighted average rate paid on FHLB short-term advances, when compared to the same period in 2016. The increase for the six months ended December 31, 2017, was primarily attributable to a $22.5 million increase in the average balance of short-term FHLB advances, and a 77 basis point increase in the weighted average rate paid on FHLB short-term advances, when compared to the same period in 2016.

Interest expense on deposits increased $32 thousand or 59.3% and $57 thousand or 51.8% for the three and six months ended December 31, 2017, respectively, when compared to the same periods in 2016. The increase in interest expense on deposits for the three months ended December 31, 2017 was primarily attributable to a 26 basis point increase in the weighted average rate paid on time deposits as well as a $4.7 million increase in the average balance of time deposits for the quarter ended December 31, 2017, when compared to the same period in 2016. For the six months ended December 31, 2017, the $57 thousand increase in interest expense was primarily due to a 26 basis point increase in the weighted average rate paid on the time deposits as well as a $4.7 million increase in the average balance time deposits for the six months ended December 31, 2017. The increase in the average balances of the time deposits during both the three and six months ended December 31, 2017 was primarily attributable to higher levels of short-term brokered deposits when compared to the same periods of 2016. From time to time the Company uses brokered deposits to fund investment purchases or as an alternative to FHLB borrowings if the cost of such deposits is less than other wholesale funding options.

Provision for Loan Losses. A provision for loan losses is charged or accreted to earnings to bring the total allowance to a level considered adequate by management to absorb potential losses in the portfolio. Management s determination of the adequacy of the allowance is based on an evaluation of the portfolio considering past experience, current economic conditions, volume, growth and composition of the loan portfolio, and other relevant factors.

During the three months and six months ended December 31, 2017, the ALLL increased $6 thousand and $11 thousand, respectively. These increases were primarily associated with increases in the 1-4 family real estate loan portfolio and were partially offset by decreases in the ALLL associated with decreases in construction and land acquisition and development loans. The primary reason for the changes in the ALLL associated with these segments was the change in associated loan balances.

At December 31, 2017, the Company s total allowance for loan losses amounted to $429 thousand or 0.52% of the Company s total loan portfolio, as compared to the $418 thousand or 0.54% at June 30, 2017. At December 31, 2017, the Company s non-performing loans total $242 thousand as compared to $246 thousand at June 30, 2017.

Non-Interest Income. The increases in the non-interest income for the three months ended December 31, 2017 were primarily attributable to the absence of a $41 thousand unrealized loss on a trading security in the three months ended December 31, 2017 partially offset by decreases in miscellaneous components of other non-interest income. Non-interest income for the six months ended December 31, 2017, when compared to the same period in 2016 was virtually unchanged.

Non-Interest Expense. Non-interest expense increased $41 thousand or 4.5% for the three months ended December 31, 2017, when compared to the same period in 2016. This increase was principally attributable to higher deposit insurance premiums of $16 thousand and an increase in debit card fraud losses of $17 thousand when compared to the same period in 2016. Non-interest expense in total for the six months ended December 31, 2017 when compared to the same period in 2016 decreased $1 thousand.

Income Tax Expense. Income tax expense increased $159 thousand and $269 thousand for the three and six months ended December 31, 2017, respectively, when compared to the same periods in 2016. The increases for both the three and six months ended December 31, 2017 when compared to the same periods of 2016, were primarily due to higher levels of taxable income and an additional $133 thousand federal income tax expense recorded during the three months ended December 31, 2017 as a result of the write down of the Company s net deferred tax assets associated with the enactment of the Tax Cuts and Jobs Act of 2017 (TCJA).

LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operating activities totaled $2.8 million during the six months ended December 31, 2017. Net cash provided by operating activities was primarily comprised of $1.2 million from collections of cash items due from other banks, net income of $898 thousand and $362 thousand of amortization of discounts, premiums and deferred loan costs.

Funds provided by investing activities totaled $673 thousand during the six months ended December 31, 2017. Primary uses of funds during the six months ended December 31, 2017 included purchases of investment securities available for sale totaling $28.8 million, purchases of certificates of deposit totaling $348 thousand and an increase in net loans receivable totaling $4.4 million. Primary sources of funds during the six months ended December 31, 2017 included proceeds from repayments of investment securities and mortgage-backed securities in the held-to-maturity portfolio totaling $2.0 million and $7.8 million, respectively, proceeds from repayments of investment securities in the available-for-sale portfolio totaling $17.5 million, and maturities of certificates of deposit totaling $7.1 million.

Funds provided by financing activities totaled $2.8 million for the six months ended December 31, 2017. The primary source included a $20.6 million increase in FHLB short-term advances, and a $1.4 million increase in certificates of deposits which were partially offset by the payoffs of the FHLB long-term advances totaling $16.1 million and a $2.4 million decrease in transaction and savings accounts, a $415 thousand decrease in loan customer escrow balances and $257 thousand in cash dividends. Management believes that a significant portion of our local maturing deposits will remain with the Company. Management has determined that it currently is maintaining adequate liquidity and continues to match funding sources with lending and investment opportunities.

The Company s primary sources of funds are deposits, amortization, repayments and maturities of existing loans, mortgage-backed securities and investment securities, funds from operations, and funds obtained through FHLB advances and other borrowings. Certificates of deposit scheduled to mature in one year or less at December 31, 2017 totaled $27.1 million.

Historically, the Company used its sources of funds primarily to meet its ongoing commitments to pay maturing savings certificates and savings withdrawals, fund loan commitments and maintain a substantial portfolio of investment securities. At December 31, 2017, total approved loan commitments outstanding were $370 thousand. At the same date, commitments under unused lines of credit amounted to $5.8 million and the unadvanced portion of construction loans approximated $1.6 million. The Company has been able to generate sufficient cash through the retail deposit market, its traditional funding source, and through FHLB advances, and other borrowings, to provide the cash utilized in investing activities. The Company s available for sale segment of the investment portfolio totaled $119.6 million at December 31, 2017. In addition the Company had $3.6 million of certificates of deposit at December 31, 2017. Management believes that the Company currently has adequate liquidity available to respond to liquidity demands.

On January 29, 2018, the Company s Board of Directors declared a quarterly cash dividend of $0.08 per share, payable on February 15, 2018, to shareholders of record at the close of business on February 8, 2018. Dividends are subject to determination and declaration by the Board of Directors, which take into account the Company s financial condition, statutory and regulatory restrictions, general economic conditions and other factors. There can be no assurance that dividends will in fact be paid on the Common Stock in future periods or that, if paid, such dividends will not be reduced or eliminated.

As of December 31, 2017, WVS Financial Corp. exceeded all regulatory capital requirements and maintained Common Equity Tier I Capital, Tier I, and total risk-based capital equal to $34.4 million or 19.3%, $34.0 million or 19.13%, and $34.4 million or 19.39%, respectively, of total risk-weighted assets, and Tier I leverage capital of $34.0 million or 9.70% of average quarterly assets.

Table of Contents

Nonperforming assets consist of nonaccrual loans and real estate owned. A loan is placed on nonaccrual status when, in the judgment of management, the probability of collection of interest is deemed insufficient to warrant further accrual. When a loan is placed on nonaccrual status, previously accrued but uncollected interest is deducted from interest income. The Company normally does not accrue interest on loans past due 90 days or more, however, interest may be accrued if management believes that it will collect on the loan.

The Company s nonperforming assets at December 31, 2017 totaled $242 thousand or 0.07% of total assets as compared to $246 million or 0.07% of total assets at June 30, 2017. Nonperforming assets at December 31, 2017 consisted of one single-family real estate loan totaling $242 thousand. The loan is currently under a bankruptcy order and making payments as agreed.

The $4 thousand decrease in nonperforming assets during the six months ended December 31, 2017 was primarily attributable to principal repayments on one non-accrual single-family real estate loan.

During the three and six months ended December 31, 2017, the Company collected $5 thousand and $11 thousand, respectively, of interest income on non-accrual loans. Approximately $4 thousand and $9 thousand, respectively, of interest income would have been recorded during the three and six months ended December 31, 2017, on non-accrual loans if such loans had been current according to the original loan agreements for the entire periods. The Company continues to work with the borrowers in an attempt to cure the defaults and is also pursuing various legal avenues in order to collect on these loans.

Table of Contents

ITEM 3.
QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

ASSET AND LIABILITY MANAGEMENT

The Company s primary market risk exposure is interest rate risk and, to a lesser extent, liquidity risk. All of the Company s transactions are denominated in US dollars with no specific foreign exchange exposure. The Savings Bank has no agricultural loan assets and therefore would not have a specific exposure to changes in commodity prices. Any impacts that changes in foreign exchange rates and commodity prices would have on interest rates are assumed to be exogenous and will be analyzed on an ex post basis.

Interest rate risk (IRR) is the exposure of a banking organization s financial condition to adverse movements in interest rates. Accepting this risk can be an important source of profitability and shareholder value, however excessive levels of IRR can pose a significant threat to the Company s earnings and capital base. Accordingly, effective risk management that maintains IRR at prudent levels is essential to the Company s safety and soundness.

Evaluating a financial institution s exposure to changes in interest rates includes assessing both the adequacy of the management process used to control IRR and the organization s quantitative level of exposure. When assessing the IRR management process, the Company seeks to ensure that appropriate policies, procedures, management information systems and internal controls are in place to maintain IRR at prudent levels with consistency and continuity. Evaluating the quantitative level of IRR exposure requires the Company to assess the existing and potential future effects of changes in interest rates on its consolidated financial condition, including capital adequacy, earnings, liquidity, and, where appropriate, asset quality.

Financial institutions derive their income primarily from the excess of interest collected over interest paid. The rates of interest an institution earns on its assets and owes on its liabilities generally are established contractually for a period of time. Since market interest rates change over time, an institution is exposed to lower profit margins (or losses) if it cannot adapt to interest-rate changes. For example, assume that an institution s assets carry intermediate- or long-term fixed rates and that those assets were funded with short-term liabilities. If market interest rates rise by the time the short-term liabilities must be refinanced, the increase in the institution s interest expense on its liabilities may not be sufficiently offset if assets continue to earn at the long-term fixed rates. Accordingly, an institution s profits could decrease on existing assets because the institution will either have lower net interest income or, possibly, net interest expense. Similar risks exist when assets are subject to contractual interest-rate ceilings, or rate sensitive assets are funded by longer-term, fixed-rate liabilities in a decreasing-rate environment.

During the fiscal years 2013 - 2016 and into fiscal year 2017, intermediate and long-term market interest rates fluctuated considerably. Many central banks, including the Federal Reserve, continued above normal levels of monetary accommodation including quantitative easing and targeted asset purchase programs. The desired outcomes of these programs are to stimulate aggregate demand, reduce high levels of unemployment and to further lower market interest rates.

The effect of interest rate changes on a financial institution s assets and liabilities may be analyzed by examining the interest rate sensitivity of the assets and liabilities and by monitoring an institution s interest rate sensitivity gap . An asset or liability is said to be interest rate sensitive within a specific time period if it will mature or reprice within a given time period. A gap is considered positive (negative) when the amount of rate sensitive assets (liabilities) exceeds the amount of rate sensitive liabilities (assets). During a period of falling interest rates, a negative gap would tend to result in an increase in net interest income. During a period of rising interest rates, a positive gap would tend to result in an increase in net interest income.

As part of its asset/liability management strategy, the Company maintained an asset sensitive financial position due to unusually low market interest rates. An asset sensitive financial position may benefit earnings during a period of rising interest rates and reduce earnings during a period of declining interest rates.

The following table sets forth certain information at the dates indicated relating to the Company s interest-earning assets and interest-bearing liabilities which are estimated to mature or are scheduled to reprice within one year.

	December 31,	June 30,	
	2017	2017	2016
	(Dollars in Thousands)		
Interest-earning assets maturing or repricing within one year	$277,545	$257,808	$260,710
Interest-bearing liabilities maturing or repricing within one year	232,056	228,616	235,345
Interest sensitivity gap	$ 45,489	$ 29,192	$ 25,365
Interest sensitivity gap as a percentage of total assets	12.79%	8.30%	7.56%
Ratio of assets to liabilities maturing or repricing within one year	119.60%	112.77%	110.78%

Table of Contents

The following table illustrates the Company s estimated stressed cumulative repricing gap the difference between the amount of interest-earning assets and interest-bearing liabilities expected to reprice at a given point in time at December 31, 2017. The table estimates the impact of an upward or downward change in market interest rates of 100 and 200 basis points.

Cumulative Stressed Repricing Gap

	Month 3	Month 6	Month 12	Month 24	Month 36	Month 60	Long Term
				(Dollars in Thousands)			
Base Case Up 200 bp							
Cumulative Gap ($ s)	$ 3,747	$ 18,743	$ 41,686	$ 41,021	$ 39,882	$ 36,549	$ 27,828
% of Total Assets	1.1%	5.3%	11.7%	11.5%	11.2%	10.3%	7.8%
Base Case Up 100 bp							
Cumulative Gap ($ s)	$ 4,111	$ 19,452	$ 42,956	$ 43,240	$ 42,688	$ 40,097	$ 27,828
% of Total Assets	1.2%	5.5%	12.1%	12.2%	12.0%	11.3%	7.8%
Base Case No Change							
Cumulative Gap ($ s)	$ 4,833	$ 20,846	$ 45,490	$ 47,570	$ 48,127	$ 46,558	$ 27,828
% of Total Assets	1.4%	5.9%	12.8%	13.4%	13.5%	13.1%	7.8%
Base Case Down 100 bp							
Cumulative Gap ($ s)	$ 5,782	$ 22,659	$ 48,719	$ 52,852	$ 54,506	$ 53,414	$ 27,828
% of Total Assets	1.6%	6.4%	13.7%	14.9%	15.3%	15.0%	7.8%
Base Case Down 200 bp							
Cumulative Gap ($ s)	$ 6,765	$ 24,511	$ 51,949	$ 57,860	$ 60,257	$ 58,926	$ 27,828
% of Total Assets	1.9%	6.9%	14.6%	16.3%	16.9%	16.6%	7.8%

The Company utilizes an income simulation model to measure interest rate risk and to manage interest rate sensitivity. The Company believes that income simulation modeling may enable the Company to better estimate the possible effects on net interest income due to changing market interest rates. Other key model parameters include: estimated prepayment rates on the Company s loan, mortgage-backed securities and investment portfolios; savings decay rate assumptions; and the repayment terms and embedded options of the Company s borrowings.

48

Table of Contents

The following table presents the simulated impact of a 100 and 200 basis point upward or downward (parallel) shift in market interest rates on net interest income, return on average equity, return on average assets and the market value of portfolio equity at December 31, 2017. This analysis was done assuming that the interest-earning assets will average approximately $345.716 million and $355.422 million over a projected twelve and twenty-four month period, respectively, for the estimated impact on change in net interest income, return on average equity and return on average assets. The estimated changes in market value of equity were calculated using balance sheet levels at December 31, 2017. Actual future results could differ materially from our estimates primarily due to unknown future interest rate changes and the level of prepayments on our investment and loan portfolios.

Analysis of Sensitivity to Changes in Market Interest Rates

	Twelve Month Forward Modeled Change in Market Interest Rates									
	December 31, 2017					December 31, 2018				
Estimated impact on:	-200	-100	0	+100	+200	-200	-100	0	+100	+200
Change in net interest income	-16.9%	-7.9%	-	3.0%	6.6%	-28.9%	-13.5%	-	8.1%	16.7%
Return on average equity	4.90%	6.24%	7.40%	7.85%	8.39%	3.57%	5.84%	7.74%	8.87%	10.02%
Return on average assets	0.47%	0.60%	0.72%	0.76%	0.82%	0.34%	0.57%	0.78%	0.90%	1.03%
Market value of equity (in thousands)	$40,568	$42,631	$45,018	$45,216	$45,100					

The table below provides information about the Company s anticipated transactions comprised of firm loan commitments and other commitments, including undisbursed letters and lines of credit, at December 31, 2017. The Company used no derivative financial instruments to hedge such anticipated transactions as of December 31, 2017.

Anticipated Transactions

	(Dollars in Thousands)	
Undisbursed construction and land development loans	$	1,634
Undisbursed lines of credit	$	5,763
Loan origination commitments	$	370
Letters of credit	$	-
	$	7,767

Table of Contents

In the ordinary course of its construction lending business, the Savings Bank enters into performance standby letters of credit. Typically, the standby letters of credit are issued on behalf of a builder to a third party to ensure the timely completion of a certain aspect of a construction project or land development. At December 31, 2017, the Savings Bank had no performance standby letters of credit outstanding. In the event that an obligor is unable to perform its obligations as specified in the applicable letter of credit agreement, the Savings Bank would be obligated to disburse funds up to the amount specified in the letter of credit agreement. The Savings Bank maintains adequate collateral that could be liquidated to fund these contingent obligations.

ITEM 4. CONTROLS AND PROCEDURES

As of December 31, 2017, an evaluation was performed under the supervision and with the participation of the Company s management, including the Chief Executive Officer and Chief Accounting Officer, on the effectiveness of the design and operation of the Company s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Based on that evaluation, the Company s management, including the Chief Executive Officer and Chief Accounting Officer, concluded that the Company s disclosure controls and procedures were effective as of December 31, 2017.

Disclosure controls and procedures are the controls and other procedures that are designed to ensure that the information required to be disclosed by the Company in its reports filed and submitted under the Securities Exchange Act of 1934, as amended (Exchange Act) is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in its reports filed under the Exchange Act is accumulated and communicated to the Company s management, including the principal executive officer and principal accounting officer, as appropriate to allow timely decisions regarding required disclosure.

During the quarter ended December 31, 2017, no change in the Company s internal controls over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) has occurred that has materially affected, or is reasonably likely to materially affect, the Company s internal controls over financial reporting.

Table of Contents

PART II - OTHER INFORMATION

ITEM 1. Legal Proceedings

(a) The Company is involved with various legal actions arising in the ordinary course of business. Management believes the outcome of these matters will have no material effect on the consolidated operations or consolidated financial condition of WVS Financial Corp.

(b) Not applicable.

ITEM 1A. Risk Factors

There are no material changes to the risk factors included in Item 1A of the Company s Annual Report on Form 10-K for the fiscal year ended June 30, 2017.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a) Not applicable.

(b) Not applicable.

(c) The following table sets forth information with respect to purchases of common stock of the Company made by the WVS Financial Corp. Employee Stock Ownership Plan (ESOP) during the three months ended December 31, 2017.

AFFILIATE PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased[(1)]	Average Price Paid per Share ($)	Total Number of Shares Purchased as part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs [(2)]
10/01/17 10/31/17	-	-	-	$ 77,000
11/01/17 11/30/17	-	-	-	$ 77,000
12/01/17 12/31/17	-	-	-	$ 77,000
Total	-	-	-	$ 77,000

(1) All shares indicated were purchased by the Company s ESOP using either ESOP cash balances or draws on a line of credit from the Company to the ESOP. Shares were purchased from eligible ESOP participants or in private transactions.

(2) ESOP Line of Credit Stock Purchase Program
  (a) $1,000,000 line of credit from Company to ESOP approved by Company Board on April 24, 2017.
  (b) $1,000,000 of common shares approved for purchase using Company provided line of credit.
  (c) This program expires on March 31, 2018.
  (d) This program has not expired and has $77,000 of shares remaining to be purchased at December 31, 2017.

(e) Not applicable.

The following table sets forth information with respect to purchases of common stock of the Company made by WVS Financial Corp. during the three months ended December 31, 2017.

COMPANY PURCHASES OF EQUITY SECURITIES

Period		Total Number of Shares Purchased(1)	Average Price Paid per Share ($)	Total Number of Shares Purchased as part of Publicly Announced Plans or Programs (1)	Maximum Number of Shares that May Yet Be Repurchased Under the Plans or Programs (2)
10/01/17	10/31/17	-	-	-	92,759
11/01/17	11/30/17	-	-	-	92,759
12/01/17	12/31/17	-	-	-	92,759
Total		-	-	-	92,759

(1) All shares indicated were purchased under the Company s reopened Eleventh Stock Repurchase Program.
(2) Eleventh Stock Repurchase Program
  (a) Announced October 27, 2015.
  (b) 100,800 common shares approved for repurchase.
  (c) No fixed date of expiration.
  (d) This program has not expired and has 92,759 common shares remaining to be purchased at December 31, 2017.
  (e) Not applicable.

ITEM 3. Defaults Upon Senior Securities

Not applicable.

ITEM 4. Mine Safety Disclosures

Not applicable.

ITEM 5. Other Information

(a) Not applicable.

(b) Not applicable.

Table of Contents

ITEM 6. Exhibits

The following exhibits are filed as part of this Form 10-Q, and this list includes the Exhibit Index.

Number	Description	Page
31.1	Rule 13a-14(a) / 15d-14(a) Certification of the Chief Executive Officer	E-1
31.2	Rule 13a-14(a) / 15d-14(a) Certification of the Chief Accounting Officer	E-2
32.1	Section 1350 Certification of the Chief Executive Officer	E-3
32.2	Section 1350 Certification of the Chief Accounting Officer	E-4
99	Report of Independent Registered Public Accounting Firm	E-5
101.INS	XBRL Instance Document	
101.SCH	XBRL Taxonomy Extension Schema Document	
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	
101.DEF	XBRL Taxonomy Extension Definitions Linkbase Document	

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

WVS FINANCIAL CORP.

February 12, 2018 Date	BY:	/s/ David J. Bursic David J. Bursic President and Chief Executive Officer (Principal Executive Officer)
February 12, 2018 Date	BY:	/s/ Linda K. Butia Linda K. Butia Vice-President, Treasurer and Chief Accounting Officer (Principal Accounting Officer)