Simplicity Bancorp, Inc.
Form 10-Q
May 09, 2014

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended: March 31, 2014

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) of THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File Number: 001-34979

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

Maryland	26-1500698
(State or other jurisdiction of incorporation)	(I.R.S. Employer Identification No.)
1359 N. Grand Avenue, Covina, CA	91724
(Address of principal executive offices)	(Zip Code)

(800) 524-2274
(Registrant’s telephone number, including area code)

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

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

Large accelerated filer ¨	Accelerated filer ý
Non-accelerated filer ¨	Smaller Reporting Company ¨

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

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

Common Stock, $.01 par value – 7,397,526 shares outstanding as of May 7, 2014.

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Part I — FINANCIAL INFORMATION
Item 1. Financial Statements
SIMPLICITY BANCORP, INC. AND SUBSIDIARY
Consolidated Statements of Financial Condition
(Unaudited)
(Dollars in thousands, except per share data)

	March 31, 2014	June 30, 2013
ASSETS		
Cash and due from banks	$8,105	$8,864
Federal funds sold	49,140	76,810
Total cash and cash equivalents	57,245	85,674
Securities available-for-sale, at fair value	43,355	52,180
Securities held-to-maturity, fair value of $436 and $541 at March 31, 2014 and June 30, 2013, respectively	422	525
Federal Home Loan Bank stock, at cost	5,902	5,902
Loans held for sale	3,001	4,496
Loans receivable, net of allowance for loan losses of $5,011 and $5,643 at March 31, 2014 and June 30, 2013, respectively	722,566	689,708
Accrued interest receivable	2,309	2,439
Premises and equipment, net	3,902	3,799
Goodwill	3,950	3,950
Bank-owned life insurance	14,113	13,784
Real estate owned (REO)	284	—
Other assets	4,119	4,920
Total assets	$861,168	$867,377
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits		
Noninterest bearing	$64,484	$65,694
Interest bearing	570,115	588,952
Total deposits	634,599	654,646
Federal Home Loan Bank advances, short-term	20,000	—
Federal Home Loan Bank advances, long-term	65,000	60,000
Accrued expenses and other liabilities	4,466	7,293
Total liabilities	724,065	721,939
Stockholders' equity		
Nonredeemable serial preferred stock, $.01 par value; 25,000,000 shares authorized; issued and outstanding — none	—	—
Common stock, $0.01 par value; 100,000,000 authorized; March 31, 2014 — 7,470,980 shares issued and outstanding June 30, 2013 — 8,121,415 shares issued and outstanding	75	81
Additional paid-in capital	69,230	79,800
Retained earnings	72,275	70,326
Accumulated other comprehensive loss, net of tax	(509)	(491)
Unearned employee stock ownership plan shares	(3,968)	(4,278)
Total stockholders' equity	137,103	145,438

Total liabilities and stockholders' equity	$861,168	$867,377

The accompanying notes are an integral part of these unaudited consolidated financial statements

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SIMPLICITY BANCORP, INC. AND SUBSIDIARY
Consolidated Statements of Income
(Unaudited)
(Dollars in thousands, except per share data)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2014	2013	2014	2013
Interest income				
Interest and fees on loans	$7,954	$8,559	$23,989	$27,171
Interest on securities, taxable	173	165	519	334
Federal Home Loan Bank dividends	105	44	269	112
Other interest	28	34	78	115
Total interest income	8,260	8,802	24,855	27,732
Interest expense				
Interest on deposits	1,241	1,556	3,912	4,976
Interest on borrowings	329	243	864	1,140
Total interest expense	1,570	1,799	4,776	6,116
Net interest income	6,690	7,003	20,079	21,616
Provision (credit) for loan losses	—	400	(300)	1,850
Net interest income after provision for loan losses	6,690	6,603	20,379	19,766
Noninterest income				
Service charges and fees	516	346	1,504	1,195
ATM fees and charges	504	524	1,524	1,579
Referral commissions	106	77	285	244
Bank-owned life insurance	110	112	329	342
Net gain on sales of loans	91	435	421	1,762
Other noninterest income	40	122	157	130
Total noninterest income	1,367	1,616	4,220	5,252
Noninterest expense				
Salaries and benefits	2,988	2,942	9,126	9,630
Occupancy and equipment	730	740	2,238	2,180
ATM expense	530	564	1,658	1,668
Advertising and promotional	272	227	890	639
Professional services	370	505	1,528	1,551
Federal deposit insurance premiums	123	169	372	483
Postage	56	52	160	186
Telephone	198	211	600	658
Loss on equity investment	90	85	226	192
REO foreclosure expenses and sales losses, net	8	29	23	14
Electronic services	155	95	404	306
Other operating expense	425	307	1,292	1,305
Total noninterest expense	5,945	5,926	18,517	18,812
Income before income tax expense	2,112	2,293	6,082	6,206
Income tax expense	856	864	2,337	2,277
Net income	$1,256	$1,429	$3,745	$3,929
Earnings per common share:				
Basic	$0.17	$0.18	$0.50	$0.48

Diluted	$0.17	$0.18	$0.50	$0.48

The accompanying notes are an integral part of these unaudited consolidated financial statements

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SIMPLICITY BANCORP, INC. AND SUBSIDIARY
Consolidated Statements of Comprehensive Income
(Unaudited)
(Dollars in thousands)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2014	2013	2014	2013
Net income	$1,256	$1,429	$3,745	$3,929
Other comprehensive income (loss):				
Unrealized gain (loss) on securities available for sale	207	(218)	(30)	12
Postretirement medical benefit costs				
Net loss arising during the period	(17)	(25)	(52)	(73)
Reclassification adjustment for net periodic benefit cost and benefits paid	17	25	52	73
Income tax effect	(85)	90	12	(5)
Other comprehensive income (loss), net of tax	122	(128)	(18)	7
Comprehensive income	$1,378	$1,301	$3,727	$3,936

The accompanying notes are an integral part of these unaudited consolidated financial statements

SIMPLICITY BANCORP, INC. AND SUBSIDIARY
Consolidated Statements of Stockholders' Equity
(Unaudited)
(Dollars in thousands, except per share data)

	Common Stock						
	Shares	Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss, Net	Unearned ESOP Shares	Total
Balance, July 1, 2012	8,960,366	$90	$ 92,197	$ 66,723	$ (169)	$ (4,693)	$154,148
Net income	—	—	—	3,929	—	—	3,929
Other comprehensive income	—	—	—	—	7	—	7
Dividends declared ($0.24 per share)	—	—	—	(1,990)	—	—	(1,990)
Repurchase of common stock	(700,770)	(7)	(10,492)	—	—	—	(10,499)
Stock options earned	—	—	28	—	—	—	28
Stock options exercised	6,475	—	70	—	—	—	70
Allocation of stock awards	—	—	200	—	—	—	200
Issuance of stock awards	34,154	—	—	—	—	—	—
Forfeiture of stock awards	(7,565)	—	—	—	—	—	—
Allocation of ESOP common stock (31,066 shares allocated)	—	—	152	—	—	311	463
Balance, March 31, 2013	8,292,660	$83	$ 82,155	$ 68,662	$ (162)	$ (4,382)	$146,356
Balance, July 1, 2013	8,121,415	$81	$ 79,800	$ 70,326	$ (491)	$ (4,278)	$145,438
Net income	—	—	—	3,745	—	—	3,745
Other comprehensive income	—	—	—	—	(18)	—	(18)
Dividends declared ($0.24 per share)	—	—	—	(1,796)	—	—	(1,796)
Repurchase of common stock	(693,014)	(6)	(11,154)	—	—	—	(11,160)
Stock options earned	—	—	22	—	—	—	22
Stock options exercised	13,130	—	143	—	—	—	143
Allocation of stock awards	—	—	237	—	—	—	237
Issuance of stock awards	31,249	—	—	—	—	—	—
Forfeiture of stock awards	(1,800)	—	—	—	—	—	—

Allocation of ESOP common stock (31,066 shares allocated)	—	—	182	—	—	310	492
Balance, March 31, 2014	7,470,980	$75	$ 69,230	$ 72,275	$ (509)	$ (3,968)	$137,103

The accompanying notes are an integral part of these unaudited consolidated financial statements

SIMPLICITY BANCORP, INC. AND SUBSIDIARY
Consolidated Statements of Cash Flows
(Unaudited)
(Dollars in thousands)

	Nine Months Ended March 31,	
	2014	2013
OPERATING ACTIVITIES		
Net income	$3,745	$3,929
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of net premiums on securities	270	621
Amortization of net premiums on loan purchases	245	333
Amortization of net loan origination costs	213	183
Provision for loan losses	(300)	1,850
Net gain on sale of REO	(4)	(94)
Net gain on sales of loans held for sale	(421)	(1,762)
Loans originated for sale	(19,504)	(66,729)
Proceeds from sales of loans held for sale	21,506	53,431
Decrease in valuation allowance for loans held for sale	(86)	—
Depreciation and amortization	957	790
Amortization of core deposit intangible	—	13
Loss on equity investment	226	192
Increase in cash surrender value of bank-owned life insurance	(329)	(342)
Allocation of ESOP common stock	492	463
Allocation of stock awards	237	200
Stock options earned	22	28
Net change in accrued interest receivable	130	238
Net change in other assets	517	(167)
Net change in accrued expenses and other liabilities	(2,827)	(324)
Net cash provided by (used in) operating activities	5,089	(7,147)
INVESTING ACTIVITIES		
Purchase of available-for-sale securities	—	(20,686)
Proceeds from maturities and principal repayments of available-for-sale securities	8,525	15,257
Proceeds from maturities and principal repayments of held-to-maturity securities	103	585
Net change in loans	(33,555)	61,410
Proceeds from sale of real estate owned	329	1,635
Redemption of FHLB stock	—	1,926
Purchases of premises and equipment	(1,060)	(1,004)
Net cash (used in) provided by investing activities	(25,658)	59,123
FINANCING ACTIVITIES		
Proceeds from FHLB advances	25,000	—
Repayment of FHLB advances	—	(20,000)
Dividends paid on common stock	(1,796)	(1,990)
Repurchase of common stock	(11,160)	(10,499)
Net change in deposits	(20,047)	(12,884)
Exercise of stock options	143	70
Net cash used in financing activities	(7,860)	(45,303)

Net change in cash and cash equivalents	(28,429)	6,673
Cash and cash equivalents at beginning of period	85,674	66,018
Cash and cash equivalents at end of period	$57,245	$72,691
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid on deposits and borrowings	$4,781	$6,124
Income taxes paid	2,625	1,950
SUPPLEMENTAL NONCASH DISCLOSURES		
Transfer from loans to real estate owned	$539	$521

The accompanying notes are an integral part of these unaudited consolidated financial statements

SIMPLICITY BANCORP, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
(Unaudited)
Note 1 – Nature of Business and Significant Accounting Policies
Nature of Business: Simplicity Bancorp, Inc. (the “Company”), is a Maryland corporation that owns all of the outstanding common stock of Simplicity Bank (the “Bank”). In November, 2012, the Company changed its name to Simplicity Bancorp, Inc. from Kaiser Federal Financial Group, Inc. and its trading symbol to SMPL. Concurrently, the Bank was renamed Simplicity Bank from Kaiser Federal Bank as part of a broader business strategy to operate as a community bank serving the financial needs of all customers within its communities. The Company’s primary activity is holding all of the outstanding shares of common stock of Simplicity Bank. The Bank is a federally chartered savings bank headquartered in Covina, California. The Bank’s principal business activity consists of attracting retail deposits from the general public and originating or purchasing primarily loans secured by first mortgages on owner-occupied, one-to-four family residences and multi-family residences located in its market area, and to a lesser extent, commercial real estate, automobile and other consumer loans. The Bank also engages in mortgage banking activities and, as such, originates, sells and services one-to-four family residential mortgage loans. While the Bank originates many types of residential loans, the Bank also purchases, from time to time, using its own underwriting standards, first mortgages on owner-occupied, one-to-four family residences secured by properties located throughout California.
The Company’s business activities generally are limited to passive investment activities and oversight of its investment in the Bank. Unless the context otherwise requires, all references to the Company include the Bank and the Company on a consolidated basis.
Principles of Consolidation and Basis of Presentation: The financial statements of Simplicity Bancorp, Inc. have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”) and predominant practices followed by the financial services industry. The consolidated financial statements presented in this report include the accounts of Simplicity Bancorp, Inc. and its wholly-owned subsidiary, Simplicity Bank. All material intercompany balances and transactions have been eliminated in consolidation. In the opinion of the Company’s management, all adjustments consisting of normal recurring accruals necessary for a fair presentation of the financial condition and results of operations for the interim periods included herein have been made.
The results of operations for the three and nine months ended March 31, 2014 are not necessarily indicative of the results of operations that may be expected for any other interim period or for the fiscal year ending June 30, 2014. Certain information and note disclosures normally included in the Company’s annual financial statements have been condensed or omitted. Therefore, these consolidated financial statements and notes thereto should be read in conjunction with the consolidated financial statements and notes included in the 2013 Annual Report on Form 10-K filed with the Securities and Exchange Commission.
Use of Estimates in the Preparation of Consolidated Financial Statements: The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of income and expenses during the reporting period. Changes in these estimates and assumptions are considered reasonably possible and may have a material impact on the consolidated financial statements and thus actual results could differ from the amounts reported and disclosed herein. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the valuation of real estate owned, mortgage servicing assets (“MSAs”), mortgage banking derivatives, deferred tax assets and fair values of financial instruments.

Recent Accounting Pronouncements:
Adoption of New Accounting Standards:
In February 2012, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other

Comprehensive Income. The amendments do not change the current requirements for reporting net income or other comprehensive income in financial statements. However, the amendments require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts. For public entities, the amendments are effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2012. The adoption of this guidance did not have a material effect on the Company's results of operations or financial position.

Effect of Newly Issued But Not Yet Effective Accounting Standards:

In January 2014, the FASB issued ASU 2014-01, Investments-Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects, which simplifies the amortization method an entity uses and modifies the criteria an entity must meet to account for a low-income housing tax credit investment by using ASC 323-740's measurement and presentation alternative, including the simplified amortization method. This method permits an investment's performance to be presented net of the related tax benefits as part of income tax expense. For public entities, the ASU is effective for annual periods beginning after December 15, 2014, and interim periods therein. Early adoption is permitted. The amendments should be applied retrospectively to all periods presented. The adoption of this guidance is not expected to have a material effect on the Company's results of operations or financial position.

In January 2014, the FASB issued ASU 2014-04, Receivables-Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans Upon Foreclosure. This ASU amends ASC 310 to clarify when an entity is considered to have obtained physical possession (from an in-substance possession or foreclosure) of a residential real estate property collateralizing a mortgage loan. A creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Upon physical possession of such real estate property, an entity is required to reclassify the nonperforming mortgage loan to other real estate owned. The ASU is effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. Early adoption is permitted. The amendments in the standard may be adopted using either a modified retrospective transition method or a prospective transition method. The adoption of this guidance is not expected to have a material effect on the Company's results of operations or financial position.

Note 2 – Earnings Per Share

The following table sets forth earnings per share calculations for the three and nine months ended March 31, 2014 and 2013:

	Three months ended March 31,		Nine months ended March 31,	
	2014	2013	2014	2013
	(Dollars in thousands, except per share data)			
Basic				
Net income	$1,256	$1,429	$3,745	$3,929
Less: Net income allocated to restricted stock awards	(10)	(10)	(33)	(29)
Net income allocated to common shareholders	$1,246	$1,419	$3,712	$3,900
Weighted average common shares outstanding	7,254,380	7,944,821	7,408,194	8,189,720
Basic earnings per common share	$0.17	$0.18	$0.50	$0.48
Diluted				
Net income	$1,256	$1,429	$3,745	$3,929
Less: Net income allocated to restricted stock awards	(10)	(10)	(33)	(29)
Net income allocated to common shareholders	$1,246	$1,419	$3,712	$3,900
Weighted average common shares outstanding	7,254,380	7,944,821	7,408,194	8,189,720

Add: Dilutive effect of stock options	25,445	17,997	22,294	19,199
Average shares and dilutive potential common shares	7,279,825	7,962,818	7,430,488	8,208,919
Diluted earnings per common share	$0.17	$0.18	$0.50	$0.48

The two-class method is used in the calculation of basic and diluted earnings per share. Under the two-class method, earnings per share is determined for each class of common stock and participating securities according to dividends declared (or accumulated) and participation rights in undistributed earnings. Restricted stock contains rights to non-forfeitable dividends and qualifies as a participating security. Employee Stock Ownership Plan ("ESOP") shares are considered outstanding for this calculation unless unearned. For the three and nine months ended March 31, 2014, 10,355 and 31,066 ESOP shares were allocated, respectively. 352,076 ESOP shares remained unearned at March 31, 2014 as compared to 393,497 ESOP shares remained unearned at March 31, 2013.

Basic earnings per common share is net income allocated to common shareholders divided by the weighted average number of common shares outstanding during the period. Diluted earnings per common share includes the dilutive effect of additional potential common shares issuable under stock options. For the three and nine months ended March 31, 2014, outstanding stock options to purchase 80,497 shares and 87,691 shares, respectively, were anti-dilutive and not considered in computing diluted earnings per common share. For the three and nine months ended March 31, 2013, outstanding stock options to purchase 104,084 shares and 108,130 shares, respectively, were anti-dilutive and not considered in computing diluted earnings per common share. Stock options are not considered participating securities as they do not contain rights to non-forfeitable dividends.

Note 3 – Fair Value Measurements

FASB ASC 820-10 establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

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

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

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

There were no financial or nonfinancial instruments transferred in or out of Level 1, 2, or 3 input categories during the three and nine months ended March 31, 2014 and 2013.

Investment Securities: The fair values for investment securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3).

Impaired Loans: At the time a loan is considered impaired, it is valued at the lower of cost or fair value. Impaired loans carried at fair value generally receive allocations of the allowance for loan losses that are individually evaluated. For collateral dependent loans, fair value is commonly based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business, resulting in a Level 3 fair value classification. Impaired loans are evaluated on a monthly basis for additional impairment and adjusted accordingly.

Mortgage Servicing Assets: MSAs are evaluated for impairment based upon the fair value of the rights as compared to carrying amount. The fair value is determined at a tranche level, based on a valuation model that calculates the present value of estimated future net servicing income. If the carrying amount of an individual tranche exceeds fair value, impairment is recorded on that tranche so that the servicing asset is carried at fair value. The valuation model utilizes assumptions that market participants would use in estimating future net servicing income and that can be validated against available market data such as prepayment speeds, ancillary income, servicing costs, and delinquency rates. The significant assumptions also include discount rate and prepayment speed incorporated into the valuation model that reflect management's best estimate resulting in a level 3 classification.

Assets and liabilities measured at fair value on a recurring basis are summarized in the following tables:

	Total	Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(Dollars in thousands)			
March 31, 2014				
Assets				
Available-for-sale securities				
Mortgage-backed securities (residential)	$26,590	$—	$ 26,590	$—
Collateralized mortgage obligations (residential)	16,765	—	16,765	—
Total available-for-sale securities	$43,355	$—	$ 43,355	$—
June 30, 2013				
Assets				
Available-for-sale securities				
Mortgage-backed securities (residential)	$30,075	$—	$ 30,075	$—
Collateralized mortgage obligations (residential)	22,105	—	22,105	—
Total available-for-sale securities	$52,180	$—	$ 52,180	$—

Nonrecurring fair value measurements typically involve assets that are periodically evaluated for impairment and for which any impairment is recorded in the period in which the remeasurement is performed. The following assets and liabilities were measured at fair value on a non-recurring basis:

	Total	Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(Dollars in thousands)			
Assets at March 31, 2014				
MSAs	$15	$—	$ —	$15
Assets at June 30, 2013				
Impaired Loans				
One-to-four family residential	$1,495	$—	$ —	$1,495
Loans Held for Sale	$4,496	$—	$ 4,496	$—
MSAs	$195	$—	$ —	$195

At March 31, 2014 and June 30, 2013, no nonfinancial assets and liabilities were measured at fair value on a non-recurring basis.

Loans are considered impaired when it is probable that the Company will be unable to collect all amounts due as scheduled according to the contractual terms of the loan agreement, including contractual interest and principal payments. Impaired loans are measured for impairment using the fair value of the collateral for collateral dependent loans. The fair value of collateral is calculated using an independent third party appraisal. There were no impaired loans measured at fair value at March 31, 2014. Impaired loans measured at fair value had a recorded investment balance of $1.5 million with the valuation allowance of $32,000 at June 30, 2013. At March 31, 2014, the carrying amount of collateral dependent loans were lower than the fair value of the collateral primarily attributable to principal reduction from pay-offs and continuous payments on impaired loans individually evaluated during the nine months ended March 31, 2014.

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Impairment of MSAs is determined at the tranche level and recognized through a valuation allowance for each individual grouping, to the extent that fair value is less than the carrying amount. The impairment amount was $7,000 as of March 31, 2014 as compared to $31,000 as of June 30, 2013. There was no impairment provision and a $24,000 impairment recovery recorded during the three and nine months ended March 31, 2014, respectively. This compares to a $63,000 impairment provision recorded during the three and nine months ended March 31, 2013.
The following table presents quantitative information about level 3 fair value measurements for financial instruments measured at fair value on a recurring and non-recurring basis as of the dates indicated:

March 31, 2014	Fair Value	Valuation Techniques	Unobservable Inputs	Range (Weighted Avg)
	(Dollars in thousands)			
MSAs	$15	Discounted Cash Flow	Discount Rate	8.5%
			Prepayment speed ("CPR")	5.71% to 12.80% (7.37%)

June 30, 2013	Fair Value	Valuation Techniques	Unobservable Inputs	Range (Weighted Avg)
	(Dollars in thousands)			
Impaired Loans				
One-to-four family residential	$1,495	Sales Comparison Approach	Adjustment for the differences between the comparable sales	-8.7% to 8.5% (-1.45%)
MSAs	195	Discounted Cash Flow	Discount Rate	7.5%
			Prepayment speed ("CPR")	10.21% to 14.70% (12.25%)

Fair Value of Financial Instruments
The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a market exchange. The use of different assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.
The following methods and assumptions were used to estimate fair value of each class of financial instruments for which it is practicable to estimate fair value:
Cash and Cash Equivalents
The carrying amounts of cash and cash equivalents approximate fair values. Cash on hand and non-interest due from bank accounts are classified as Level 1 and federal funds sold are classified as Level 2.
Investments
Estimated fair values for securities held-to-maturity are obtained from quoted market prices where available and are classified as Level 1. Where quoted market prices are not available, estimated fair values are based on quoted market prices of comparable instruments and are classified as Level 2.
Securities available-for-sale that are previously reported are excluded from the fair value disclosure below.
FHLB Stock
It is not practical to determine the fair value of FHLB stock due to restrictions placed on its transferability.
Loans Held for Sale
Fair value for loans held for sale is determined using quoted secondary-market prices such as loan sale commitments and is classified as Level 2.
Loans
Fair value for loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality resulting in a Level 3 classification. Impaired loans are

valued at

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the lower of cost or fair value as described previously and are excluded from the fair value disclosure below. The methods utilized to estimate the fair value of loans do not necessarily represent an exit price.

MSAs

The Company uses the amortization method for its MSAs and assesses the MSAs for impairment based on fair value. The fair value of MSAs is determined at tranche level using significant assumptions such as discount rate and prepayment speed and is classified as Level 3. MSAs tranches with impairment recorded as described previously are excluded from the fair value disclosure below.

Accrued Interest Receivable

Consistent with the asset or liability they are associated with, the carrying amounts of accrued interest receivable approximate fair value resulting in a either Level 2 or Level 3 classification.

Deposits

The fair values disclosed for demand deposits are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts) resulting in a Level 2 classification. The carrying amounts of variable rate, fixed-term money market accounts and certificates of deposit approximate their fair values at the reporting date resulting in a Level 2 classification. Fair values for fixed rate certificates of deposit are estimated using a discounted cash flows calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits resulting in a Level 2 classification.

FHLB Advances

The fair values of the Company’s FHLB advances are estimated using discounted cash flow analyses based on the current borrowing rates for similar types of borrowing arrangements resulting in a Level 2 classification.

Off-Balance Sheet Financial Instruments

The fair values for the Company’s off-balance sheet loan commitments are estimated based on fees charged to others to enter into similar agreements taking into account the remaining terms of the agreements and credit standing of the Company’s customers. The estimated fair value of these commitments is not significant.

The carrying amounts and estimated fair values of the Company’s financial instruments are summarized as follows:

	Fair Value Measurements at March 31, 2014 Using:				
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value
	(Dollars in thousands)				
Financial assets:					
Cash and due from banks	$8,105	$ 8,105	$ —	$—	$8,105
Federal funds sold	49,140	—	49,140	—	49,140
Securities held-to-maturity	422	—	436	—	436
Federal Home Loan Bank Stock	5,902	N/A	N/A	N/A	N/A
Loans held for sale	3,001	—	3,102	—	3,102
Loans receivable, net	722,566	—	—	744,559	744,559
MSAs	702	—	—	1,001	1,001
Accrued interest receivable - loans	2,232	—	—	2,232	2,232
Accrued interest receivable - investments	77	—	77	—	77
Financial liabilities:					
Deposits	634,599	—	638,332	—	638,332
FHLB Advances	85,000	—	85,775	—	85,775

	Fair Value Measurements at June 30, 2013 Using:				
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value
	(Dollars in thousands)				
Financial assets:					
Cash and due from banks	$8,864	$ 8,864	$ —	$—	$8,864
Federal funds sold	76,810	—	76,810	—	76,810
Securities held-to-maturity	525	—	541	—	541
Federal Home Loan Bank Stock	5,902	N/A	N/A	N/A	N/A
Loans held for sale	4,496	—	4,496	—	4,496
Loans receivable, net	688,213	—	—	710,219	710,219
MSAs	407	—	—	494	494
Accrued interest receivable - loans	2,344	—	—	2,344	2,344
Accrued interest receivable - investments	93	—	93	—	93
Financial liabilities:					
Deposits	654,646	—	660,995	—	660,995
FHLB Advances	60,000	—	61,451	—	61,451

Note 4 – Investments

The amortized cost and fair value of available-for-sale securities and the related gross unrealized gains and losses recognized in accumulated other comprehensive income were as follows:

	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	Amortized Cost
	(Dollars in thousands)			
March 31, 2014				
Mortgage-backed (residential):				
Fannie Mae	$7,176	$27	$—	$7,149
Freddie Mac	19,414	1	(663)	20,076
Collateralized mortgage obligations (residential):				
Fannie Mae	9,395	19	(8)	9,384
Freddie Mac	7,370	8	(8)	7,370
Total	$43,355	$55	$(679)	$43,979
June 30, 2013				
Mortgage-backed (residential):				
Fannie Mae	$8,510	$9	$(17)	$8,518
Freddie Mac	21,565	—	(663)	22,228
Collateralized mortgage obligations (residential):				
Fannie Mae	13,125	59	(39)	13,105
Freddie Mac	8,980	57	—	8,923
Total	$52,180	$125	$(719)	$52,774

The carrying amount, unrecognized gains and losses, and fair value of securities held-to-maturity were as follows:

	Carrying Amount	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
	(Dollars in thousands)			
March 31, 2014				
Mortgage-backed (residential):				
Fannie Mae	$103	$4	$—	$107
Freddie Mac	62	4	—	66
Ginnie Mae	32	1	—	33
Collateralized mortgage obligations (residential):				
Fannie Mae	225	5	—	230
Freddie Mac	—	—	—	—
Total	$422	$14	$—	$436
June 30, 2013				
Mortgage-backed (residential):				
Fannie Mae	$119	$4	$—	$123
Freddie Mac	74	5	—	79
Ginnie Mae	36	2	—	38
Collateralized mortgage obligations (residential):				
Fannie Mae	296	5	—	301

Freddie Mac	—	—	—	—
Total	$525	$16	$—	$541

There were no sales of securities during the three and nine months ended March 31, 2014 and March 31, 2013.
All mortgage-backed securities and collateralized mortgage obligations have varying contractual maturity dates at March 31, 2014. Expected maturities may differ from contractual maturities because borrowers may have the right to call or repay obligations with or without call or repayment penalties. There were no mortgage-backed securities called prior to the maturity date during the three and nine months ended March 31, 2014.
Securities with unrealized losses at March 31, 2014 and June 30, 2013, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows:

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	(Dollars in thousands)					
March 31, 2014						
Description of Securities						
Mortgage-backed securities	$1,123	$(4)	$16,672	$(659)	$17,795	$(663)
Collateralized mortgage obligations (residential)	7,018	(9)	1,727	(7)	8,745	(16)
Total temporarily impaired	$8,141	$(13)	$18,399	$(666)	$26,540	$(679)
June 30, 2013						
Description of Securities						
Mortgage-backed securities	$25,476	$(680)	$—	$—	$25,476	$(680)
Collateralized mortgage obligations (residential)	—	—	2,508	(39)	2,508	(39)
Total temporarily impaired	$25,476	$(680)	$2,508	$(39)	$27,984	$(719)

The Company evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, and the Company does not have the intent to sell these securities and it is not more likely than not that it will be required to sell the securities before their anticipated recovery. In analyzing an issuer's financial condition, the Company may consider whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition.
At March 31, 2014, ten debt securities had an aggregate unrealized loss of 2.5% of the Company's amortized cost basis. At June 30, 2013, ten debt securities had an unrealized loss of 2.6% of the Company's amortized cost basis. We do not own any non-agency mortgage-backed securities ("MBSs") or collateralized mortgage obligations ("CMOs"). All MBSs and CMOs were issued by U.S. government-sponsored entities and agencies, primarily Fannie Mae and Freddie Mac, institutions which the government has affirmed its commitment to support. The unrealized losses relate principally to the general change in interest rates and liquidity, and not credit quality, that has occurred since the securities' purchase dates, and such unrecognized losses or gains will continue to vary with general interest rate level fluctuations in the future. As management has the intent and ability to hold debt securities until recovery, which may be maturity, and it is not more likely than not that it will be required to sell the securities before their anticipated recovery, no declines in fair value are deemed to be other-than-temporary as of March 31, 2014 and June 30, 2013.
At March 31, 2014 and June 30, 2013, there were no investments in any one issuer, other than the U.S. Government and its sponsored entities and agencies, in an amount greater than 10% of stockholders' equity.

Note 5 – Loans

The composition of loans consists of the following:

	March 31, 2014	June 30, 2013
	(Dollars in thousands)	
Real Estate:		
One-to-four family residential	$293,091	$319,631
Multi-family residential	333,679	280,771
Commercial real estate	45,281	55,621
	672,051	656,023
Consumer:		
Automobile	41,218	26,711
Home equity	634	682
Other consumer loans, primarily unsecured	13,136	10,917
	54,988	38,310
Total loans	727,039	694,333
Deferred net loan origination costs	271	506
Net premium on purchased loans	267	512
Allowance for loan losses	(5,011)	(5,643)
Loans receivable, net	$722,566	$689,708

Loans held for sale totaled $3.0 million as of March 31, 2014 as compared to $4.5 million as of June 30, 2013. Loans held for sale are recorded at the lower of cost or fair value. Fair value is determined by outstanding commitments from the investor. Proceeds from sales of loans held for sale were $21.5 million and $53.4 million during the nine months ended March 31, 2014 and 2013, resulting in net gain on sales of $421,000 and $1.8 million, respectively.

The following is an analysis of the changes in the allowance for loan losses:

	Allowance for loan losses for the Three months ended March 31, 2014						
	One-to-four family	Multi-family residential	Commercial real estate	Automobile	Home equity	Other	Total
	(Dollars in thousands)						
Balance, beginning of period	$2,387	$ 1,062	$ 1,186	$ 123	$ 3	$ 278	$ 5,039
Provision for loan losses	172	(94)	(5)	20	—	(93)	—
Recoveries	—	51	—	6	—	2	59
Loans charged-off	—	(61)	—	(11)	—	(15)	(87)
Balance, end of period	$2,559	$ 958	$ 1,181	$ 138	$ 3	$ 172	$ 5,011

	Allowance for loan losses for the Three months ended March 31, 2013						
	One-to-four family	Multi-family residential	Commercial real estate	Automobile	Home equity	Other	Total
	(Dollars in thousands)						
Balance, beginning of period	$4,625	$ 826	$ 1,041	$ 85	$—	$ 43	$ 6,620
Provision for loan losses	144	78	138	(3)	5	38	400
Recoveries	7	—	—	7	—	2	16
Loans charged-off	(470)	(102)	—	(9)	—	(17)	(598)
Balance, end of period	$4,306	$ 802	$ 1,179	$ 80	$ 5	$ 66	$ 6,438

	Allowance for loan losses for the Nine Months Ended March 31, 2014						
	One-to-four family	Multi-family residential	Commercial real estate	Automobile	Home equity	Other	Total
	(Dollars in thousands)						
Balance, beginning of period	$3,009	$ 839	$ 1,654	$ 83	$ 4	$ 54	$ 5,643
Provision for loan losses	(427)	360	(474)	94	(1)	148	(300)
Recoveries	10	51	1	34	—	5	101
Loans charged-off	(33)	(292)	—	(73)	—	(35)	(433)
Balance, end of period	$2,559	$ 958	$ 1,181	$ 138	$ 3	$ 172	$ 5,011

	Allowance for loan losses for the Nine Months Ended March 31, 2013						
	One-to-four family	Multi-family residential	Commercial real estate	Automobile	Home equity	Other	Total
	(Dollars in thousands)						
Balance, beginning of period	$4,692	$ 1,519	$ 1,131	$ 62	$ 63	$ 35	$ 7,502
Provision for loan losses	1,598	(391)	575	23	(8)	53	1,850

Recoveries	50	—	—	36	6	6	98
Loans charged-off	(2,034)	(326)	(527)	(41)	(56)	(28)	(3,012)
Balance, end of period	$4,306	$ 802	$ 1,179	$80	$5	$66	$6,438

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The following tables present the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of March 31, 2014 and June 30, 2013:

March 31, 2014	One-to-four family	Multi-family residential	Commercial real estate	Automobile	Home equity	Other	Total
	(Dollars in thousands)						
Allowance for loan losses:							
Ending allowance balance attributed to loans:							
Individually evaluated for impairment	$955	$—	$55	$—	$—	$—	$1,010
Collectively evaluated for impairment	1,604	958	1,126	138	3	172	4,001
Total ending allowance balance	$2,559	$958	$1,181	$138	$3	$172	$5,011

	One-to-four family	Multi-family residential	Commercial real estate	Automobile	Home equity	Other	Total
Loans:							
Individually evaluated for impairment	$13,767	$4,257	$6,031	$—	$—	$—	$24,055
Collectively evaluated for impairment	279,324	329,422	39,250	41,218	634	13,136	702,984
Total ending loan balance	$293,091	$333,679	$45,281	$41,218	$634	$13,136	$727,039

June 30, 2013	One-to-four family	Multi-family residential	Commercial real estate	Automobile	Home equity	Other	Total
	(Dollars in thousands)						
Allowance for loan losses:							
Ending allowance balance attributed to loans:							
Individually evaluated for impairment	$941	$—	$64	$—	$—	$4	$1,009
Collectively evaluated for impairment	2,068	839	1,590	83	4	50	4,634
Total ending allowance balance	$3,009	$839	$1,654	$83	$4	$54	$5,643

	One-to-four family	Multi-family residential	Commercial real estate	Automobile	Home equity	Other	Total
Loans:							
Individually evaluated for impairment	$14,790	$1,547	$6,136	$—	$—	$4	$22,477
Collectively evaluated for impairment	304,841	279,224	49,485	26,711	682	10,913	671,856
Total ending loan balance	$319,631	$280,771	$55,621	$26,711	$682	$10,917	$694,333

A loan is impaired when it is probable, based on current information and events, the Company will be unable to collect all contractual principal and interest payments due in accordance with the terms of the loan agreement. When it is determined that a loss is probable, a valuation allowance is established and included in the allowance for loan losses. The amount of impairment is determined by the difference between the recorded investment in the loan and the present value of expected cash flows, or estimated net realizable value of the underlying collateral on collateral dependent loans.

The difference between the recorded investment and unpaid principal balance of loans relates to net deferred origination costs, net premiums on purchased loans, charge-offs and interest payments received on impaired loans that are recorded as a reduction of principal. There were no collateral dependent loans measured at fair value with a valuation allowance recorded and $8.6 million impaired loans evaluated based on the loans' present value of expected cash flows with a valuation allowance of $1.0 million at March 31, 2014. This compares to $1.5 million collateral dependent loans measured at fair value with a valuation allowance of $32,000 and $7.7 million evaluated based on the loans' present value of expected cash flows with a valuation allowance of $974,000 at June 30, 2013.

The following tables present loans individually evaluated for impairment by class of loans as of March 31, 2014 and June 30, 2013:

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
March 31, 2014	(Dollars in thousands)		
With no related allowance recorded:			
Real estate loans:			
One-to-four family	$7,489	$6,352	$—
Multi-family residential	4,634	4,257	—
Commercial real estate	5,734	4,854	—
	17,857	15,463	—
With an allowance recorded:			
Real estate loans:			
One-to-four family	7,700	7,415	955
Commercial real estate	1,177	1,177	55
	8,877	8,592	1,010
Total	$26,734	$24,055	$1,010

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
June 30, 2013	(Dollars in thousands)		
With no related allowance recorded:			
Real estate loans:			
One-to-four family	$7,909	$6,796	$—
Multi-family residential	1,961	1,547	—
Commercial real estate	5,704	4,940	—
	15,574	13,283	—
With an allowance recorded:			
Real estate loans:			
One-to-four family	8,227	7,994	941
Commercial real estate	1,196	1,196	64
Other loans:			
Other	4	4	4
	9,427	9,194	1,009
Total	$25,001	$22,477	$1,009

The following table presents monthly average of individually impaired loans by class for the three and nine months ended March 31, 2014 and 2013:

	Three months ended March 31,		Nine months ended March 31,	
	2014	2013	2014	2013
	(Dollars in thousands)			
Real estate loan:				
One-to-four family	$13,455	$17,774	$13,920	$18,560
Multi-family residential	3,222	2,242	2,411	2,277
Commercial real estate	5,876	5,597	5,914	5,109
Other loans:				
Home Equity	—	—	—	9
Total	$22,553	$25,613	$22,245	$25,955

Payments received on impaired loans are recorded as a reduction of principal. Interest payments collected on non-accrual loans are characterized as payments of principal rather than payments of the outstanding accrued interest on the loans until the remaining principal on the non-accrual loans is considered to be fully collectible. If the loan returns to accrual status, interest income would be recognized based on the effective yield to maturity on the loan and the amount of interest applied to principal will be accreted over the remaining term of the loan.

Foregone interest income, which would have been recorded had the non-accrual loans been current in accordance with their original terms, amounted to $350,000 and $361,000 for the three months ended March 31, 2014 and 2013, respectively, and was not included in the results of operations, of which $200,000 and $240,000, respectively, was collected and applied to the net loan balances. Foregone interest income amounted to $754,000 and $876,000 for the nine months ended March 31, 2014 and 2013, respectively, and was not included in the results of operations, of which $502,000 and $586,000, respectively, was collected and applied to the net loan balances.

The following table presents interest payments recorded as reduction of principal on impaired loans by class:

	Three months ended March 31,		Nine months ended March 31,	
	2014	2013	2014	2013
	(Dollars in thousands)			
Real estate loan:				
One-to-four family	$113	$113	$305	$305
Multi-family residential	19	28	77	63
Commercial real estate	68	99	120	218
Total	$200	$240	$502	$586

At March 31, 2014 and June 30, 2013, there were no loans past due more than 90 days and still accruing interest.

The following table presents non-accrual loans by class of loans:

	March 31, 2014	June 30, 2013
Non-accrual loans:	(Dollars in thousands)	
Real estate loans:		
One-to-four family	$6,713	$10,310
Multi-family residential	3,772	1,547
Commercial	3,975	4,045
Other loans:		
Automobile	—	14
Other	—	4
Total non-accrual loans	$14,460	$15,920

There were nine one-to-four family residential loans of $3.2 million, two multi-family loans of $802,000, and one commercial real estate loan of $1.1 million on non-accrual status that were performing in accordance with their contractual terms at March 31, 2014.

The following tables present the aging of past due loans by class of loans:

	30-59 Days Delinquent	60-89 Days Delinquent	90 Days or More Delinquent	Total Delinquent Loans	Total Current Loans	Total Loans
March 31, 2014	(Dollars in thousands)					
Real estate loans:						
One-to-four family	$2,101	$648	$804	$3,553	$289,538	$293,091
Multi-family	—	2,970	—	2,970	330,709	333,679
Commercial	410	—	2,492	2,902	42,379	45,281
Other loans:						
Automobile	29	—	—	29	41,189	41,218
Home Equity	—	—	—	—	634	634
Other	44	21	—	65	13,071	13,136
Total loans	$2,584	$3,639	$3,296	$9,519	$717,520	$727,039

	30-59 Days Delinquent	60-89 Days Delinquent	90 Days or More Delinquent	Total Delinquent Loans	Total Current Loans	Total Loans
June 30, 2013	(Dollars in thousands)					
Real estate loans:						
One-to-four family	$389	$970	$1,751	$3,110	$316,521	$319,631
Multi-family	—	198	—	198	280,573	280,771
Commercial	—	2,545	—	2,545	53,076	55,621
Other loans:						
Automobile	32	—	14	46	26,665	26,711
Home Equity	143	—	—	143	539	682
Other	20	2	4	26	10,891	10,917
Total loans	$584	$3,715	$1,769	$6,068	$688,265	$694,333

Troubled Debt Restructurings:
Troubled debt restructurings totaled $15.1 million and $15.7 million at March 31, 2014 and June 30, 2013, respectively. Troubled debt restructurings of $5.5 million and $9.1 million are included in the non-accrual loans at March 31, 2014 and June 30, 2013. The Bank has allocated $87,000 and $393,000 of valuation allowance to customers whose loan terms have been modified in troubled debt restructurings and were on non-accrual status as of March 31, 2014 and June 30, 2013, respectively. Troubled debt restructured loans are included in non-accrual loans until there is a sustained period of payment performance (usually six months or longer and determined on a case by case basis) and there is a reasonable assurance that the timely payment will continue. During the nine months ended March 31, 2014, nine troubled debt restructurings with an aggregate outstanding balance of $3.1 million were returned to accrual status as a result of the borrowers paying the modified terms as agreed for a sustained period of more than six months and the Bank believes there is reasonable assurance that timely payment will continue. This compares to ten troubled debt restructurings with an aggregate outstanding balance of $4.1 million that were returned to accrual status during the same period last year. There were no further commitments to customers whose loans were troubled debt restructurings at March 31, 2014 and June 30, 2013.
During the three and nine months ended March 31, 2014, there were no new loans that were modified as troubled debt restructurings. This compares to three one-to-four family residential loans with an aggregate outstanding balance of $676,000 whose terms were modified as troubled debt restructurings during the three months ended March 31, 2013 and five one-to-four family loans with an aggregate outstanding balance of $1.6 million and one commercial real estate loan with an outstanding balance of $21,000 whose terms were modified as troubled debt restructurings during the nine months ended March 31, 2013. The modification of the terms involved a reduction of the stated interest rates of the loans for periods ranging from 24 months to maturity for one-four family residential loans and an extension of the maturity date for the commercial real estate loan. There was no modification of terms involving a permanent reduction of the recorded investment in the loans during the nine months ended March 31, 2014 and 2013.
At March 31, 2014, there were no loans modified as troubled debt restructurings within the previous 12 months for which there was a payment default. At March 31, 2013, there were two one-to-four family residential loans, with an aggregate outstanding balance of $755,000, modified as troubled debt restructuring within the previous 12 months for which there was a payment default. A loan is considered to be in payment default once it is 30 days contractually past due under the modified terms.
The terms of certain other loans were modified during the three and nine months ended March 31, 2014 and 2013 that did not meet the definition of a troubled debt restructuring. During the three and nine months ended March 31, 2014, four loans in the amount of $1.4 million and twenty loans in the amount of $6.8 million were modified and not accounted for as troubled debt restructurings. During the three and nine months ended March 31, 2013, ten loans in the amount of $6.1 million and fifty-six loans in the amount of $28.6 million were modified and not accounted for as troubled debt restructurings.The modifications were made to refinance the credits to maintain the borrowing relationships and generally consisted of term or rate modifications. The borrowers were not experiencing financial difficulty or delay in loan payments and the modifications were made at market terms.
In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the Company’s internal underwriting policy.
Credit Quality Indicators
The Company categorizes loans into risk categories based on relevant information about the ability of the borrowers to service their debt such as: current financial information, historical payment experience, credit documentation and current economic trends among other factors. This analysis is performed monthly. The Company uses the following definitions for risk ratings:
Special Mention. Loans are classified as special mention when it is determined a loan relationship should be monitored more closely. Loans that are 60 days to 89 days past due are generally classified as special mention. In addition, loans are classified as special mention for a variety of reasons including changes in recent borrower financial conditions, changes in borrower operations, changes in value of available collateral, concerns regarding changes in

economic conditions in a borrower’s industry, and other matters. A loan classified as special mention in many instances may be performing in accordance with the loan terms.

Substandard. Loans that are 90 days or more past due are generally classified as substandard. A loan is also considered substandard if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Substandard assets include those characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.
Doubtful. Assets classified as doubtful have all of the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses present make collection or liquidation in full highly questionable and improbable.

Loss. Assets classified as loss are considered uncollectible and of such little value that continuance as an asset, without establishment of a valuation allowance individually evaluated or charge-off, is not warranted.
Loans not meeting the criteria as part of the above described process are considered to be Pass rated loans. Pass rated loans are generally well protected by the current net worth and paying capacity of the obligor or by the value of the underlying collateral. Pass rated assets are not more than 59 days past due and are generally performing in accordance with the loan terms.
As of March 31, 2014 and June 30, 2013, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

	Pass	Special Mention	Substandard	Doubtful	Loss
March 31, 2014	(Dollars in thousands)				
Real estate loans:					
One-to-four family	$275,015	$10,296	$7,780	$—	$—
Multi-family	325,482	3,977	4,220	—	—
Commercial	33,961	2,983	8,337	—	—
Other loans:					
Automobile	41,061	77	78	2	—
Home equity	634	—	—	—	—
Other	13,107	15	1	13	—
Total loans	$689,260	$17,348	$20,416	$15	$—

	Pass	Special Mention	Substandard	Doubtful	Loss
June 30, 2013	(Dollars in thousands)				
Real estate loans:					
One-to-four family	$296,434	$10,973	$12,224	$—	$—
Multi-family	275,143	3,094	2,534	—	—
Commercial	43,246	3,895	8,480	—	—
Other loans:					
Automobile	26,454	102	137	18	—
Home equity	682	—	—	—	—
Other	10,848	36	23	6	4
Total loans	$652,807	$18,100	$23,398	$24	$4

Note 6 - Real Estate Owned

Changes in real estate owned are summarized as follows:

	Nine months ended March 31, 2014	March 31, 2013
	(Dollars in thousands)	
Beginning of period	$—	$1,280
Transfers in	539	521
Capitalized expenditures	70	4
Sales	(325)	(1,541)
End of period	$284	$264

Net expenses related to foreclosed assets are as follows and are included in net operating expense:

	Nine months ended March 31, 2014	March 31, 2013
	(Dollars in thousands)	
Net gain on sales	$4	$94
Net operating expense	(27)	(108)
Total	$(23)	$(14)

The Company has no valuation allowance or activity in the valuation allowance account during the nine months ended March 31, 2014 and 2013.

Note 7 – Federal Home Loan Bank Advances

FHLB advances were $85.0 million and $60.0 million at March 31, 2014 and June 30, 2013, respectively. At March 31, 2014, the stated interest rates on the Bank's advances from the FHLB ranged from 0.82% to 2.43% with a weighted average stated rate of 1.57%. At June 30, 2013, the stated interest rates on the Bank's advances from the FHLB ranged from 0.85% to 2.43% with a weighted average stated rate of 1.64%.

The contractual maturities by fiscal year of the Bank's FHLB advances over the next five years and thereafter are as follows:

	March 31, 2014	June 30, 2013
Fiscal Year of Maturity	(Dollars in thousands)	
2014	$—	$—
2015	20,000	20,000
2016	—	—
2017	25,000	20,000
2018	10,000	—
Thereafter	30,000	20,000
Total	$85,000	$60,000

Note 8 – Change in Accumulated Other Comprehensive Loss

Accumulated other comprehensive income includes unrealized gains and losses on securities available-for-sale and actuarial gains and losses, net periodic benefit costs and benefits paid for postretirement medical benefit. Changes in accumulated other comprehensive income are presented net of tax effect as a component of equity. Reclassifications out of accumulated other comprehensive income are recorded on the consolidated statement of income either as a noninterest income or expense.

The following tables present a summary of the accumulated other comprehensive income balances, net of tax, as of March 31, 2014 and 2013.

(Dollars in Thousands)	Three Months Ended March 31, 2014 Unrealized gains and losses on securities available-for-sale	Postretirement medical benefits costs items	Total
Balance at beginning of period	$(502)	$(129)	$(631)
Other comprehensive income (loss) before reclassifications	207	(17)	190
Amounts reclassified from accumulated other comprehensive income	—	17	17
Tax effect of current period changes	(85)	—	(85)
Net current period other comprehensive income	122	—	122
Balance at end of period	$(380)	$(129)	$(509)

(Dollars in Thousands)	Three Months Ended March 31, 2013 Unrealized gains and losses on securities available-for-sale	Postretirement medical benefits costs items	Total
Balance at beginning of period	$218	$(252)	$(34)
Other comprehensive loss before reclassifications	(218)	(25)	(243)
Amounts reclassified from accumulated other comprehensive income	—	25	25
Tax effect of current period changes	90	—	90
Net current period other comprehensive loss	(128)	—	(128)
Balance at end of period	$90	$(252)	$(162)

(Dollars in Thousands)	Nine Months Ended March 31, 2014 Unrealized gains and losses on securities available-for-sale	Postretirement medical benefits costs items	Total
Balance at beginning of period	$(362)	$(129)	$(491)
Other comprehensive loss before reclassifications	(30)	(52)	(82)
Amounts reclassified from accumulated other comprehensive income	—	52	52
Tax effect of current period changes	12	—	12
Net current period other comprehensive loss	(18)	—	(18)
Balance at end of period	$(380)	$(129)	$(509)

(Dollars in Thousands)	Nine Months Ended March 31, 2013 Unrealized gains and losses on securities available-for-sale	Postretirement medical benefits costs items	Total
Balance at beginning of period	$83	$(252)	$(169)

Other comprehensive income (loss) before reclassifications	12	(73)	(61)
Amounts reclassified from accumulated other comprehensive income	—	73	73
Tax effect of current period changes	(5)	—	(5)
Net current period other comprehensive income	7	—	7
Balance at end of period	$90	$(252)	$(162)

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Note 9 – Repurchase of Common Stock

On February 27, 2014, the Company announced that its Board of Directors authorized the sixth stock repurchase program pursuant to which the Company intends to repurchase up to 5% of its issued and outstanding shares, or up to approximately 374,393 shares. Since November 2011, the Company has repurchased 2,210,681 shares under stock repurchase programs. The shares were repurchased at prices ranging from $12.00 to $17.90 per share with a weighted average cost of $14.92 per share. At March 31, 2014, there were 342,163 shares remaining to be repurchased under the sixth authorized stock repurchase program.

For the three months ended March 31, 2014, the Company repurchased 309,035 shares at an aggregate cost of $5.2 million, including commissions. The shares were repurchased at prices between $16.15 and $17.90 per share with a weighted average cost of $16.81 per share. For the nine months ended March 31, 2014, the Company repurchased 693,014 shares at an aggregate cost of $11.2 million, including commissions. The shares were repurchased at prices between $14.75 and $17.90 per share with a weighted average cost of $16.10.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations
Forward-Looking Statements
This Quarterly Report on Form 10-Q contains certain forward-looking statements and information relating to the Company and the Bank that are based on the beliefs of management as well as assumptions made by and information currently available to management. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. They often include words like “believe,” “expect,” “anticipate,” “estimate,” and “intend” o future or conditional verbs such as “will,” “should,” “could,” or “may” and similar expressions or the negative thereof. Certain factors that could cause actual results to differ materially from expected results include, changes in the interest rate environment, changes in general economic conditions, legislative and regulatory changes that adversely affect the business of Simplicity Bancorp, Inc. and Simplicity Bank, and changes in the securities markets. Should one or more of these risks or uncertainties materialize or should underlying assumptions prove incorrect, actual results may vary materially from those described herein. We caution readers not to place undue reliance on forward-looking statements. The Company disclaims any obligation to revise or update any forward-looking statements contained in this Form 10-Q to reflect future events or developments.
Market Area
Our success depends primarily on the general economic conditions in the California counties of Los Angeles, Orange, San Diego, San Bernardino, Riverside, Santa Clara and Alameda, as nearly all of our loans are to customers in this market area. There have been positive developments in current economic conditions since the end of the recession. Improving financial conditions, increasing credit availability, accommodative monetary policy, and healthier labor and housing markets all support the economic growth in our market area. According to the Beige Book published by the Federal Reserve in February 2014, economic activity continued to expand from January to early February 2014. In the Twelfth Federal Reserve District (San Francisco), activity in residential and commercial real estate markets continued to expand. Home prices climbed further relative to the prior reporting period in our market area of California, although at a slower pace; however, the pace of home sales was still below historical averages in many areas. Occupancy rates for commercial real estate trended up in some areas, and increasing permit activity and sales of empty lots suggest that commercial construction may pick up further. Loan demand increased overall. However, lenders continue to face margin compression due to the low interest rate environment, ample liquidity and generally stiff competition over well-qualified borrowers. Some financial institutions relaxed underwriting standards in an effort to win new business or maintain existing business relationships. Future growth opportunities will be influenced by the stability of the nation and the regional economy and other trends within California, including unemployment rates and housing market conditions.
Both California and national unemployment rates remain high by historic standards. In particular, California continues to experience elevated unemployment rates as compared to the national average. Unemployment rates in California decreased slightly from 8.5% in June 2013 to 8.1% in March 2014. This compares to the national unemployment rate which trended down from 7.6% in June 2013 to 6.7% in March 2014.
Comparison of Financial Condition at March 31, 2014 and June 30, 2013.
Assets. Total assets declined $6.2 million, 0.7%, to $861.2 million at March 31, 2014 from $867.4 million at June 30, 2013 due primarily to a decrease in cash and cash equivalents and securities available-for-sale, partially offset by an increase in gross loans receivable.
Cash and cash equivalents decreased by $28.4 million, or 33.2%, to $57.2 million at March 31, 2014 from $85.7 million at June 30, 2013. The decrease was primarily due to cash deployed to fund the net growth in loans receivable.
Securities available-for-sale decreased by $8.8 million, or 16.9%, to $43.4 million at March 31, 2014 from $52.2 million at June 30, 2013 due to maturities, principal repayments and amortization.
Gross loans receivable increased by $32.7 million, or 4.7%, to $727.0 million at March 31, 2014 from $694.3 million at June 30, 2013. The increase was primarily attributable to organic loan growth in multi-family residential loans and consumer loans, offset in part by principal repayments and payoffs in addition to the sale of newly originated conforming fixed rate one-to-four family residential loans in the secondary market. Multi-family loans increased $52.9 million, or 18.8%, to $333.7 million at March 31, 2014 from $280.8 million at June 30, 2013 due to $99.7

million in loan originations during the nine months ended March 31, 2014 as our emphasis remains on growing this portfolio segment. Commercial real estate loans decreased $10.3 million, or 18.6%, to $45.3 million at March 31, 2014 from $55.6 million at June 30, 2013 due to principal prepayments and payoffs as there have been no new commercial real estate loan originations during the nine months ended March 31, 2014. One-to-four family residential real estate loans decreased $26.5 million, or 8.3%, to $293.1 million at March 31, 2014 from $319.6 million at June 30, 2013 due primarily to principal prepayments and payoffs and sales of newly originated conforming fixed rate loans held for sale in the secondary market. Consumer loans at March 31, 2014 which were comprised primarily of automobile loans totaling $41.2 million and unsecured loans totaling $8.7 million increased $16.7 million, or 43.5%, to $55.0 million at March 31, 2014 from $38.3 million at June 30, 2013 due to $25.4 million and $10.7 million in automobile and unsecured loan originations, respectively, during the nine months ended March 31, 2014. The increase in consumer loans was primarily due to reintroduction of auto buying service, the successful launch of a consumer loan origination system in fiscal 2013, and implementation of the consumer loan sales team in fiscal 2014 which enabled the Company to provide customers with a simple shopping experience, originate consumer loans and generate an instant credit decision at the point of sale. In addition, through continued leveraging of retail delivery staff, building on brand recognition and consistent marketing of our competitive loan products, it is anticipated that our consumer loan portfolio will continue to grow.

The allowance for loan losses decreased by $632,000, or 11.2%, to $5.0 million at March 31, 2014 from $5.6 million at June 30, 2013 due primarily to a decrease in net charge-offs as well as improved asset quality of the loan portfolio as evidenced by a lower level of criticized, classified and non-accrual loans, and a decline in the historical loss factors. Non-performing assets decreased to $14.7 million, or 1.72% of total assets at March 31, 2014 as compared to $16.0 million, or 1.84% of total assets at June 30, 2013.

Deposits. Total deposits decreased $20.0 million, or 3.1%, to $634.6 million at March 31, 2014 from $654.6 million at June 30, 2013. The decline was comprised of a $18.8 million decrease in interest-bearing deposits and a $1.2 million decrease in non-interest bearing demand deposits.

The decrease in interest bearing deposits consisted of a $28.2 million, or 10.1%, decrease in certificates of deposit from $280.1 million at June 30, 2013 to $251.9 million at March 31, 2014, and a $2.4 million, or 1.8%, decrease in savings accounts from $134.9 million at June 30, 2013 to $132.4 million at March 31, 2014. These decreases were partially offset by a $6.5 million, or 44.8%, increase in interest-bearing checking from $14.5 million at June 30, 2013 to $20.9 million at March 31, 2014 and a $5.3 million, or 3.3%, increase in money market accounts from $159.6 million at June 30, 2013 to $164.9 million at March 31, 2014. The decrease in certificates of deposit was attributable to non-relationship customers seeking higher yields at other financial institutions as accounts repriced to lower offering rates. Savings accounts decreased primarily due to the seasonality of holiday club savings as well as the discontinuation of certain savings products which traditionally had higher offering rates. Interest-bearing checking balances increased due primarily to the timing of customer annual bonus payment deposits and tax refunds. The growth in money market balances was attributable to customers preferring the short-term flexibility of non-certificate accounts in a low interest rate environment. Non-interest bearing demand deposits decreased $1.2 million, or 1.8%, from $65.7 million at June 30, 2013 to $64.5 million at March 31, 2014. The decline in non-interest bearing demand deposits was primarily a result of the timing of customer payroll deposits as compared to June 30, 2013.

Borrowings. FHLB advances increased to $85.0 million at March 31, 2014 as compared to $60.0 million at June 30, 2013. The weighted average cost of FHLB advances was 1.57% at March 31, 2014 as compared to 1.64% at June 30, 2013. During the nine months ended March 31, 2014, the Bank borrowed $25.0 million in FHLB advances at a weighted average cost of 1.38%. The increase in borrowings has allowed the Bank to manage its liquidity position and improve its interest rate risk position by locking in lower cost longer term funding.

Stockholders’ Equity. Total stockholders’ equity, represented 15.9% of total assets and decreased to $137.1 million at March 31, 2014 from $145.4 million at June 30, 2013. The decrease in stockholders’ equity was primarily attributable to shares repurchased at an aggregate cost of $11.2 million during the nine months ended March 31, 2014 pursuant to the stock repurchase programs previously announced as well as cash dividends paid of $1.8 million, partially offset by net income of $3.7 million.

Average Balances, Net Interest Income, Yields Earned and Rates Paid

The following table sets forth certain information for the three months ended March 31, 2014 and 2013, respectively.

	For the three months ended March 31,							
	2014 (1)				2013 (1)			
	Average Balance	Interest	Average Yield/ Cost		Average Balance	Interest	Average Yield/ Cost	
	(Dollars in thousands)							
INTEREST-EARNING ASSETS								
Loans receivable(2)	$719,733	$7,954	4.42	%	$718,186	$8,559	4.77	%
Securities(3)	44,833	173	1.54		61,679	165	1.07	
Federal funds sold	46,103	28	0.24		55,696	34	0.24	
Federal Home Loan Bank stock	5,962	105	7.04		7,211	44	2.44	
Total interest-earning assets	816,631	8,260	4.05		842,772	8,802	4.18	
Noninterest earning assets	37,055				36,688			
Total assets	$853,686				$879,460			
INTEREST-BEARING LIABILITIES								
Interest-bearing checking	$16,883	$14	0.33	%	$13,673	$2	0.06	%
Money market	164,286	93	0.23		163,322	90	0.22	
Savings deposits	127,423	40	0.13		131,611	29	0.09	
Certificates of deposit	254,195	1,094	1.72		294,638	1,435	1.95	
Borrowings	85,000	329	1.55		60,000	243	1.62	
Total interest-bearing liabilities	647,787	1,570	0.97		663,244	1,799	1.08	
Noninterest bearing liabilities	66,877				68,486			
Total liabilities	714,664				731,730			
Equity	139,022				147,730			
Total liabilities and equity	$853,686				$879,460			
Net interest/spread		$6,690	3.08	%		$7,003	3.09	%
Margin(4)			3.28	%			3.32	%
Ratio of interest-earning assets to interest bearing liabilities	126.06 %				127.07 %			

(1) Yields earned and rates paid have been annualized.
(2) Calculated net of deferred fees, loss reserves and includes non-accrual loans.
(3) Calculated based on amortized cost of held-to-maturity securities and fair value of available-for-sale securities.
(4) Net interest income divided by interest-earning assets.

The following table sets forth certain information for the nine months ended March 31, 2014 and 2013, respectively.

	For the nine months ended March 31,							
	2014 (1)				2013 (1)			
	Average Balance	Interest	Average Yield/ Cost		Average Balance	Interest	Average Yield/ Cost	
	(Dollars in thousands)							
INTEREST-EARNING ASSETS								
Loans receivable(2)	$714,543	$23,989	4.48	%	$737,855	$27,171	4.91	%
Securities(3)	47,567	519	1.45		55,948	334	0.80	
Federal funds sold	45,414	78	0.23		64,121	115	0.24	
Federal Home Loan Bank stock	5,962	269	6.02		7,785	112	1.92	
Total interest-earning assets	813,486	24,855	4.07		865,709	27,732	4.27	
Noninterest earning assets	37,635				37,406			
Total assets	$851,121				$903,115			
INTEREST-BEARING LIABILITIES								
Interest-bearing checking	$15,354	$20	0.17	%	$11,515	$5	0.06	%
Money market	162,565	280	0.23		162,773	322	0.26	
Savings deposits	130,299	100	0.10		135,456	129	0.13	
Certificates of deposit	261,606	3,512	1.79		300,931	4,520	2.00	
Borrowings	72,500	864	1.59		72,000	1,140	2.11	
Total interest-bearing liabilities	642,324	4,776	0.99		682,675	6,116	1.19	
Noninterest bearing liabilities	66,875				69,788			
Total liabilities	709,199				752,463			
Equity	141,922				150,652			
Total liabilities and equity	$851,121				$903,115			
Net interest/spread		$20,079	3.08	%		$21,616	3.08	%
Margin(4)			3.29	%			3.33	%
Ratio of interest-earning assets to interest bearing liabilities	126.65 %				126.81 %			

(1) Yields earned and rates paid have been annualized.
(2) Calculated net of deferred fees, loss reserves and includes non-accrual loans.
(3) Calculated based on amortized cost of held-to-maturity securities and fair value of available-for-sale securities.
(4) Net interest income divided by interest-earning assets.

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Comparison of Results of Operations for the Three Months Ended March 31, 2014 and March 31, 2013.

General. Net income for the three months ended March 31, 2014 was $1.3 million, a decrease of $173,000, or 12.1%, as compared to net income of $1.4 million for the three months ended March 31, 2013. Earnings per basic and diluted common share were $0.17 for the three months ended March 31, 2014, compared to $0.18 for the three months ended March 31, 2013. The decrease in net income was due primarily to decreases in net interest income and noninterest income, partially offset by a decrease in provision for loan losses.

Interest Income. Interest income decreased $542,000, or 6.2%, to $8.3 million for the three months ended March 31, 2014 from $8.8 million for the three months ended March 31, 2013. The decline in interest income was primarily due to decreases in interest and fees on loans.

Interest and fees on loans decreased $605,000, or 7.1%, to $8.0 million for the three months ended March 31, 2014 from $8.6 million for the three months ended March 31, 2013. The primary reason for the decrease was a decline of 35 basis points in the average yield on loans from 4.77% for the three months ended March 31, 2013 to 4.42% for the three months ended March 31, 2014. The decrease in the average yield on loans was primarily caused by lower yields earned on new loan originations and payoffs of higher yielding seasoned loans during the current period as a result of the low interest rate environment.

Interest Expense. Interest expense decreased $229,000, or 12.7% to $1.6 million for the three months ended March 31, 2014 from $1.8 million for the three months ended March 31, 2013. The decline reflected a reduction in the average cost of funds on deposits and borrowings as a result of continuing low interest rates as well as a lower average balance of deposits, offset by a higher average balance of borrowings during the three months ended March 31, 2014.

Interest expense on deposits decreased $315,000, or 20.2% to $1.2 million during the three months ended March 31, 2014 as compared to $1.6 million for the same period last year. The primary reason for the decrease was a 15 basis point decline in the average cost of deposits from 1.03% for the three months ended March 31, 2013 to 0.88% for the three months ended March 31, 2014 due to the downward repricing of deposits in the low interest rate environment as well as a decrease of $40.5 million in the average balance of deposits to $562.8 million for the three months ended March 31, 2014 from $603.2 million for the three months ended March 31, 2013. The decrease in the average balance of deposits was a result of a decrease in certificates of deposit due to non-relationship customers seeking higher yields at other financial institutions as accounts reprice to lower interest rates.

Interest expense on borrowings increased $86,000 or 35.4% to $329,000 during the three months ended March 31, 2014 as compared to $243,000 for the same period last year. The increase was primarily attributable to a higher average balance of borrowings resulting from a $25.0 million increase in FHLB advances during the second quarter of 2014 at a weighted average cost of 1.38%, partially offset by a 7 basis point decrease in the average cost of borrowings from 1.62% for the three months ended March 31, 2013 to 1.55% for the three months ended March 31, 2014.

Provision for Loan Losses. There was no provision for loan losses for the three months ended March 31, 2014 as compared to a $400,000 provision for loan losses for the same period last year. The decline in the provision during the current period was primarily a result of a decline in net charge-offs and overall historical loss factors on multi-family and unsecured loans collectively evaluated for impairment. Annualized net charge-offs decreased to 0.02% of average outstanding loans for the three months ended March 31, 2014 as compared to 0.33% of average outstanding loans for the same period last year. Non-performing assets decreased to $14.7 million, or 1.72% of total assets at March 31, 2014 as compared to $16.0 million, or 1.84% of total assets at June 30, 2013 and $19.6 million, or 2.66% of total assets at March 31, 2013. Delinquent loans 60 days or more past due were $6.9 million or 0.95% of total loans at March 31, 2014 as compared to $5.5 million, or 0.79% of total loans at June 30, 2013 and $6.9 million or 0.98% of total loans at March 31, 2013. The increase in delinquent loans at March 31, 2014 as compared to June 30, 2013 was primarily attributable to the addition of one impaired multi-family residential loan of $3.0 million that is being vigorously pursued by management. Loans 30 to 59 days delinquent increased to $2.6 million or 0.36% of total loans at March 31, 2014, as compared to $584,000, or 0.08% of total loans at June 30, 2013 and $773,000, or 0.11% of total loans at March 31, 2013. Loans 30 to 59 days delinquent were either criticized or classified assets. Some loans 30 to 59 days delinquent were individually evaluated for impairment and others were collectively evaluated for impairment

with additional qualitative adjustments factored in due to loan classification.
Although there was no net provision for loan losses recorded, it was comprised of a $172,000 provision on one-to-four family loans, a $94,000 reduction in provision on multi-family loans, a $5,000 reduction in provision on commercial real estate loans, a $20,000 provision on automobile loans, and a $93,000 reduction in provision on other loans. The increase in provision on one-to-four family residential loans was primarily due to an increase in the historical loss factor on criticized one-to-four family loans collectively evaluated for impairment. The decrease in provision on multi-family loans was primarily due to a lower level of classified multi-family loans and a decline in the overall historical loss factors on multi-family loans collectively evaluated for

impairment. The increase in provision on automobile loans was primarily caused by an increase in the balance of automobile loans collectively evaluated for impairment. The decline in provision on other loans was primarily attributable to a decrease in loss factors and the balance of unsecured loans collectively evaluated for impairment. The provision reflects management’s continuing assessment of the credit quality of the Company’s loan portfolio, which is affected by various trends, including current economic conditions.

Noninterest Income. Our noninterest income decreased $249,000, or 15.4%, to $1.4 million for the three months ended March 31, 2014 as compared to $1.6 million for the three months ended March 31, 2013 due primarily to a decline in gains on one-to-four family residential mortgage loans sold, partially offset by an increase in service charges and fees.

Net gain on sales of loans decreased $344,000, or 79.1%, to $91,000 for the three months ended March 31, 2014 as compared to $435,000 for the same period last year, reflecting the impact of lower loan sale volume as a result of the increase in interest rates since June 2013.

Service charges and fees increased $170,000, or 49.1%, to $516,000, for the three months ended March 31, 2014 as compared to $346,000 for the same period last year, primarily attributable to higher mortgage loan servicing fee income as well as higher service charge income on non-interest bearing demand deposits during the three months ended March 31, 2014. Management periodically reviews service charge rates to compensate for services provided while still maintaining a competitive position.

Noninterest Expense. Our noninterest expense increased slightly by $19,000, or 0.3%, to $5.9 million for the three months ended March 31, 2014 primarily due to increases in electronic services expenses and advertising and promotional expenses, offset by a decline in federal deposit insurance premiums.

Electronics services expenses increased $60,000, or 63.2%, to $155,000 for the three months ended March 31, 2014 as compared to $95,000 for the same period last year. The increase was due primarily to higher maintenance and support costs in relation to on-line and mobile banking services due to increased number of users and transaction volume.

Advertising and promotional expenses increased $45,000, or 19.8%, to $272,000 for the three months ended March 31, 2014 as compared to $227,000 for the same period last year. The increase was primarily due to expenses incurred related to continuing branding and marketing campaign efforts.

Federal deposit insurance premiums decreased $46,000, or 27.2%, to $123,000 for the three months ended March 31, 2014 as compared to $169,000 for the same period last year resulting from a decrease in average consolidated total assets.

Income Tax Expense. Income tax expense decreased $8,000, or 0.9% to $856,000 for the three months ended March 31, 2014 as compared to $864,000 for the three months ended March 31, 2013. The effective tax rates were 40.5% and 37.7% for the three months ended March 31, 2014 and 2013, respectively. This higher effective tax rate for the three months ended March 31, 2014 as compared to the same period last year was primarily the result of the termination of the California enterprise zone tax deduction as well as the expiration of California affordable housing tax credits effective January 2014.

Comparison of Results of Operations for the Nine Months Ended March 31, 2014 and March 31, 2013.

General. Net income for the nine months ended March 31, 2014 was $3.7 million, a decrease of $184,000 as compared to the $3.9 million for the nine months ended March 31, 2013. Earnings per basic and diluted common share were $0.50 for the nine months ended March 31, 2014, compared to $0.48 for the nine months ended March 31, 2013. The decrease in net income was due primarily to decreases in net interest income and noninterest income offset by a decrease in provision for loan losses and noninterest expense.

Interest Income. Interest income decreased $2.9 million, or 10.4%, to $24.9 million for the nine months ended March 31, 2014 from $27.7 million for the nine months ended March 31, 2013. The decline in interest income was primarily due to decreases in interest and fees on loans.

Interest and fees on loans decreased $3.2 million, or 11.7%, to $24.0 million for the nine months ended March 31, 2014 from $27.2 million for the nine months ended March 31, 2013. The primary reason for the decrease was a decline of 43 basis points in the average yield on loans from 4.91% for the nine months ended March 31, 2013 to 4.48% for the nine months ended March 31, 2014 and a decrease of $23.3 million in the average balance of loans receivable to $714.5 million for the nine months ended March 31, 2014 from $737.9 million for the nine months ended March 31, 2013. The decrease in the average yield on loans was primarily caused by lower yields earned on new loan originations and payoffs of higher yielding seasoned loans during the period as a result of the low interest rate environment. The decrease in the average loan receivable balance was attributable to loan principal repayments, sales and payoffs exceeding new loan originations.

Interest Expense. Interest expense decreased $1.3 million, or 21.9% to $4.8 million for the nine months ended March 31, 2014 from $6.1 million for the nine months ended March 31, 2013. The decline reflected a reduction in the average cost of funds on deposits and borrowings as a result of continuing low interest rates during the nine months ended March 31, 2014.

Interest expense on deposits decreased $1.1 million, or 21.4% to $3.9 million during the nine months ended March 31, 2014 as compared to $5.0 million for the same period last year. The primary reason for the decrease was a 26 basis point decline in the average cost of deposits from 1.63% for the nine months ended March 31, 2013 to 1.37% for the nine months ended March 31, 2014 due to the downward repricing of deposits in the low interest rate environment as well as a decrease of $40.9 million in the average balance of deposits to $569.8 million for the nine months ended March 31, 2014 from $610.7 million for the nine months ended March 31, 2013. The decrease in the average balance of deposits was a result of a decrease in certificates of deposit due to non-relationship customers seeking higher yields at other financial institutions as accounts reprice to lower interest rates.

Interest expense on borrowings decreased $276,000, or 24.2% to $864,000 during the nine months ended March 31, 2014 as compared to $1.1 million for the same period last year. The decline was primarily attributable to a 52 basis point decrease in the average cost of borrowings from 2.11% for the nine months ended March 31, 2013 to 1.59% for the nine months ended March 31, 2014 as a result of the maturity of higher costing borrowings which were replaced by lower costing advances.

Provision (credit) for Loan Losses. Provision for loan losses reversal of $300,000 was recorded for the nine months ended March 31, 2014 as compared to a $1.9 million provision for loan losses for the same period last year. The decline in the provision during the current period was primarily a result of a decline in net charge-offs and historical loss factors on real estate loans collectively evaluated for impairment. Annualized net charge-offs decreased to 0.06% of average outstanding loans for the nine months ended March 31, 2014 as compared to 0.53% of average outstanding loans for the same period last year. Non-performing assets decreased to $14.7 million, or 1.72% of total assets at March 31, 2014 as compared to $16.0 million, or 1.84% of total assets at June 30, 2013 and $19.6 million, or 2.66% of total assets at March 31, 2013. Delinquent loans 60 days or more past due were $6.9 million or 0.95% of total loans at March 31, 2014 as compared to $5.5 million, or 0.79% of total loans at June 30, 2013 and $6.9 million or 0.98% of total loans at March 31, 2013. The increase in delinquent loans at March 31, 2014 as compared to June 30, 2013 was primarily attributable to the addition of one impaired multi-family residential loan of $3.0 million that is being vigorously pursued by management. Loans 30 to 59 days delinquent increased to $2.6 million or 0.36% of total loans at March 31, 2014, as compared to $584,000, or 0.08% of total loans at June 30, 2013 and $773,000, or 0.11% of total loans at March 31, 2013. Loans 30 to 59 days delinquent were either criticized or classified assets. Some loans 30 to 59 days delinquent were individually evaluated for impairment and others were collectively evaluated for impairment with additional qualitative adjustments factored in due to loan classification.

The reversal of provision for loan losses of $300,000 was comprised of a $427,000 reduction in provision on one-to-four family loans, a $360,000 provision on multi-family residential loans, a $474,000 reduction in provision on commercial real estate loans, a $94,000 provision on automobile loans, a $1,000 reduction in provision on home equity loans and a $148,000 provision on other loans. The decrease in provision on one-to-four family loans was primarily due to a decline in the overall historical loss factors on one-to-four family residential loans collectively evaluated for impairment and a decrease in the one-to-four family residential loan balance collectively evaluated for impairment. The increase in provision on multi-family loans was primarily due to an increase in the balance of multi-family loans collectively evaluated for impairment partially offset by a decline in the overall historical loss factors on loans collectively evaluated for impairment. The reduction in provision on commercial real estate loans was primarily due to a decline in the overall historical loss factors and a reduction in the balance of commercial real estate loans collectively evaluated for impairment. The increase in provision on automobile loans and other loans was primarily caused by increases in loss factors and the balance of automobile loans and unsecured loans collectively evaluated for impairment. The provision reflects management’s continuing assessment of the credit quality of the

Company's loan portfolio, which is affected by various trends, including current economic conditions.

Noninterest Income. Our noninterest income decreased $1.0 million, or 19.6%, to $4.2 million for the nine months ended March 31, 2014 as compared to $5.3 million for the nine months ended March 31, 2013 due primarily to a decline in gains on one-to-four family residential mortgage loans sold, partially offset by an increase in service charges and fees.

Net gain on sales of loans decreased $1.3 million, or 76.1%, to $421,000 for the nine months ended March 31, 2014 as compared to $1.8 million for the same period last year, reflecting the impact of lower loan sale volume as a result of the increase in interest rates since June 2013.

Service charges and fees increased $309,000, or 25.9%, to $1.5 million, for the nine months ended March 31, 2014 as compared to $1.2 million for the same period last year, primarily attributable to higher mortgage loan servicing fee income as well as higher service charge income on non-interest bearing demand deposits during the nine months ended March 31, 2014. Management periodically reviews service charge rates to compensate for services provided while still maintaining a competitive position.

Noninterest Expense. Our noninterest expense decreased $295,000, or 1.6%, to $18.5 million for the nine months ended March 31, 2014 as compared to $18.8 million for the nine months ended March 31, 2013 primarily due to decreases in salaries and benefits expense and in federal deposit insurance premiums, partially offset by increases in advertising and promotional expenses and electronic services expenses.

Salaries and benefits expense decreased $504,000, or 5.2%, to $9.1 million for the nine months ended March 31, 2014 as compared to $9.6 million for the same period last year. The decrease in salaries and benefits expense was due primarily to a lump sum severance payment to a former executive during the quarter ended December 31, 2012.

Federal deposit insurance premiums decreased $111,000, or 23.0%, to $372,000 for the nine months ended March 31, 2014 as compared to $483,000 for the same period last year resulting from a decrease in average consolidated total assets.

Advertising and promotional expenses increased $251,000, or 39.3%, to $890,000 for the nine months ended March 31, 2014 as compared to $639,000 for the same period last year. The increase was primarily due to expenses incurred related to continuing branding and marketing campaign efforts.

Electronics services expenses increased $98,000, or 32.0%, to $404,000 for the nine months ended March 31, 2014 as compared to $306,000 for the same period last year. The increase was due primarily to higher maintenance and support costs in relation to on-line and mobile banking services due to increased number of users and transaction volume.

Income Tax Expense. Income tax expense was $2.3 million for the nine months ended March 31, 2014 and 2013. The effective tax rates were 38.4% and 36.7% for the nine months ended March 31, 2014 and 2013, respectively. The higher effective tax rate for the nine months ended March 31, 2014 as compared to the same period last year was primarily the result of the termination of the California enterprise zone tax deductions as well as the expiration of California affordable housing tax credits effective January 2014.

Asset Quality

General. We continue our disciplined lending practices including our strict adherence to a long standing regimented credit culture that emphasizes the consistent application of underwriting standards to all loans. In this regard, we fully underwrite all loans based on an applicant’s employment history, credit history and an appraised value of the subject property. With respect to loans we purchase, we underwrite each loan based upon our own underwriting standards prior to making the purchase except for loans purchased with a credit guarantee. The credit guarantee requires the seller to substitute or repurchase any loans sold to the Bank that become 60 days or more delinquent at the Bank’s option. We have not purchased any loans since June 2012.

The following underwriting guidelines, among other things, have been used by us as underwriting tools to further limit our potential loss exposure:

- All variable rate one-to-four family residential loans are underwritten using the fully indexed rate.
- We only lend up to 80% of the lesser of the appraised value or purchase price for one-to-four family residential loans without private mortgage insurance (“PMI”), and up to 97% with PMI.
- We only lend up to 75% of the lesser of the appraised value or purchase price for multi-family residential loans.
- We only lend up to 65% of the lesser of the appraised value or purchase price for commercial real estate loans.

Additionally, our portfolio has remained strongly anchored in traditional mortgage products. We do not originate or purchase construction and development loans, teaser option-ARM loans, negatively amortizing loans or high loan-to-value loans.

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All of our real estate loans are secured by properties located in California. The following tables set forth our real estate loans and non-accrual real estate loans by county:

Real Estate Loans by County as of March 31, 2014

County	One-to-four family	Multi-family residential	Commercial real estate	Total	Percent
	(Dollars in thousands)				
Los Angeles	$126,069	$287,539	$ 18,804	$432,412	64.34 %
Orange	40,019	14,462	12,237	66,718	9.93
San Diego	20,331	9,934	2,492	32,757	4.87
San Bernardino	21,901	9,757	3,277	34,935	5.20
Riverside	14,403	2,654	5,848	22,905	3.41
Santa Clara	15,742	487	—	16,229	2.42
Alameda	13,413	3,894	441	17,748	2.64
Other	41,213	4,952	2,182	48,347	7.19
Total	$293,091	$333,679	$ 45,281	$672,051	100.00 %

Real Estate Loans by County as of June 30, 2013

County	One-to-four family	Multi-family residential	Commercial real estate	Total	Percent
	(Dollars in thousands)				
Los Angeles	$131,290	$232,353	$ 27,124	$390,767	59.56 %
Orange	47,146	17,646	13,489	78,281	11.93
San Diego	23,457	11,760	2,545	37,762	5.76
San Bernardino	20,404	10,288	3,333	34,025	5.19
Riverside	15,060	3,125	6,151	24,336	3.71
Santa Clara	17,471	501	—	17,972	2.74
Alameda	13,814	25	447	14,286	2.18
Other	50,989	5,073	2,532	58,594	8.93
Total	$319,631	$280,771	$ 55,621	$656,023	100.00 %

Non-accrual Real Estate Loans By County as of
March 31, 2014

County	One-to-four family	Multi-family residential	Commercial real estate	Total	Percent of Non-accrual to Loans in Each Category	
	(Dollars in thousands)					
Los Angeles	$3,168	$2,970	$ 1,483	$7,621	1.76	%
San Diego	674	—	2,492	3,166	9.67	
San Bernardino	950	670	—	1,620	4.64	
Riverside	282	132	—	414	1.81	
Santa Clara	1,639	—	—	1,639	10.10	
Total	$6,713	$3,772	$ 3,975	$14,460	2.68	

Non-accrual Real Estate Loans by County as of
June 30, 2013

County	One-to-four family	Multi-family residential	Commercial real estate	Total	Percent of Non-accrual to Loans in Each Category	
	(Dollars in thousands)					
Los Angeles	$4,407	$—	$ 1,179	$5,586	1.43	%
Orange	785	—	—	785	1.00	
San Diego	724	511	2,545	3,780	10.01	
San Bernardino	1,929	717	—	2,646	7.78	
Riverside	305	319	—	624	2.56	
Santa Clara	1,763	—	—	1,763	9.81	
Alameda	397	—	—	397	2.78	
Other	—	—	321	321	0.54	
Total	$10,310	$1,547	$ 4,045	$15,902	2.42	

Delinquent Loans. The following table sets forth certain information with respect to our loan portfolio delinquencies at the dates indicated.

	Loans Delinquent: 60-89 Days		90 Days or More		Total Delinquent Loans	
	Number of Loans	Amount	Number of Loans	Amount	Number of Loans	Amount
	(Dollars in thousands)					
At March 31, 2014						
Real estate loans:						
One-to-four family	3	$648	2	$804	5	$1,452
Multi-family	1	2,970	—	—	1	2,970
Commercial	—	—	1	2,492	1	2,492
Other loans:						
Other	8	21	—	—	8	21
Total loans	12	$3,639	3	$3,296	15	$6,935
At June 30, 2013						
Real estate loans:						
One-to-four family	3	$970	5	$1,751	8	$2,721
Multi-family	1	198	—	—	1	198
Commercial	1	2,545	—	—	1	2,545
Other loans:						
Automobile	—	—	1	14	1	14
Other	1	2	2	4	3	6
Total loans	6	$3,715	8	$1,769	14	$5,484

Delinquent loans 60 days or more past due totaled $6.9 million or 0.95% of total loans at March 31, 2014 as compared to $5.5 million or 0.79% of total loans at June 30, 2013. Delinquent multi-family loans of $3.0 million at March 31, 2014 increased from $198,000 at June 30, 2013 due primarily to the addition of one impaired multi-family residential loan of $3.0 million that is being vigorously pursued by management. Delinquent one-to-four family residential loans decreased to $1.5 million at March 31, 2014 from $2.7 million at June 30, 2013. Delinquent commercial real estate loans of $2.5 million at March 31, 2014 remained the same as the balances at June 30, 2013. In addition, there were two one-to-four family residential loans totaling $804,000 and one commercial real estate loan of $2.5 million that were over 90 days delinquent at March 31, 2014 and in the process of foreclosure.

Non-Performing Assets. Non-performing assets consist of non-accrual loans and foreclosed assets. Loans to a customer whose financial condition has deteriorated are considered for non-accrual status whether or not the loan is 90 days or more past due. All loans past due 90 days or more are classified as non-accrual. At the time the loan is placed on non-accrual status, interest previously accrued but not collected is reversed and charged against current income. Payments received on non-accrual loans are recorded as a reduction of principal. Non-accrual loans also include troubled debt restructurings that are on non-accrual status. At March 31, 2014 and June 30, 2013 there were no loans past due more than 90 days and still accruing interest. Included in non-accrual loans were troubled debt restructurings of $5.5 million and $9.1 million as of March 31, 2014 and June 30, 2013, with specific valuation allowances of $87,000 and $393,000, respectively.

Although asset quality has improved as a result of our efforts in working through problem assets, non-accrual loans continue to remain at historically elevated levels as a result of the general decline in the housing market as well as the prolonged levels of high unemployment in our market area as compared with the pre-recession periods. During the nine months ended March 31, 2014, there were no new loans that were modified as troubled debt restructurings. At March 31, 2014, there were nine non-accrual restructured loans, consisting of eight one-to-four family residential loans and one commercial real estate loan with an aggregate balance of $5.5 million of which five loans with an aggregate balance of $2.0 million were performing in accordance with their revised contractual terms. At June 30, 2013, there were nineteen non-accrual restructured loans, consisting of sixteen one-to-four family residential loans, two multi-family loans, and one commercial real estate loan with an aggregate balance of $9.1 million of which twelve loans with an aggregate balance of $4.3 million were performing in accordance with their revised contractual terms.

Troubled debt restructured loans are included in non-accrual loans until there is a sustained period of payment performance (usually six months or longer and determined on a case by case basis) and there is reasonable assurance that timely payment will continue. During the nine months ended March 31, 2014, nine troubled debt restructurings with an aggregate outstanding balance of $3.1 million were returned to accrual status as a result of the borrowers paying the modified terms as agreed for a sustained period of more than six months and reasonable assurance that timely payment will continue. This compares to ten troubled debt restructurings with an aggregate outstanding balance of $4.1 million that were returned to accrual status during the same period last year. At March 31, 2014 and June 30, 2013, accruing troubled debt restructurings totaled $9.6 million and $6.6 million, respectively. There were no further commitments to customers whose loans were troubled debt restructurings at March 31, 2014 and June 30, 2013.

Any changes or modifications made to loans are carefully reviewed to determine whether they are troubled debt restructurings. The modification of the terms of loans that are reported as troubled debt restructurings included one or a combination of the following: a reduction of the stated interest rate of the loan; an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk; or a permanent reduction of the recorded investment in the loan. There are other changes or modifications made for borrowers who are not experiencing financial difficulties. During the three and nine months ended March 31, 2014, four loans in the amount of $1.4 million and twenty loans in the amount of $6.8 million were modified and not accounted for as troubled debt restructurings. During the three and nine months ended March 31, 2013, ten loans in the amount of $6.1 million and fifty-six loans in the amount of $28.6 million were modified and not accounted for as troubled debt restructurings. The modifications were made to refinance the credits to maintain the borrowing relationships and generally consisted of term or rate modifications. The borrowers were not experiencing financial difficulty and the modifications were made at market terms.

The following table sets forth the amounts and categories of our non-performing assets at the dates indicated.

	At March 31, 2014		At June 30, 2013	
	(Dollars in thousands)			
Non-accrual loans:				
Real estate loans:				
One-to-four family	$3,718		$4,372	
Multi-family	3,772		914	
Commercial	1,483		1,500	
Other loans:				
Automobile	—		14	
Other	—		4	
Troubled debt restructurings:				
One-to-four family	2,995		5,938	
Multi-family	—		633	
Commercial	2,492		2,545	
Total non-accrual loans	$14,460		$15,920	
Other real estate owned and repossessed assets:				
Real estate:				
One-to-four family	$284		$—	
Other loans:				
Automobile	—		35	
Total other real estate owned and repossessed assets	$284		$35	
Total non-performing assets	$14,744		$15,955	
Ratios:				
Non-performing loans to total loans [(1)]	1.99	%	2.29	%

Non-performing assets to total assets	1.72	%	1.84	%

(1) Total loans are net of deferred fees and costs.

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Non-performing loans decreased to $14.5 million, or 1.99% of total loans at March 31, 2014 as compared to $15.9 million or 2.29% of total loans at June 30, 2013. The decrease in non-performing loans was primarily attributable to non-performing troubled debt restructurings of $3.1 million that were returned to accruing status after the borrowers demonstrated a sustained period of performance, generally six consecutive months of timely payments, loans transferred to real estate owned of $539,000, and pay-offs of $827,000 during the nine months ended March 31, 2014. At March 31, 2014, there were $6.7 million of one-to-four family residential mortgage loans on non-accrual for which valuation allowances individually evaluated totaling $87,000 have been applied. Of the $6.7 million in one-to-four family residential mortgage loans on non-accrual status, the terms or rates of $3.0 million of such loans were modified as troubled debt restructurings.

At March 31, 2014, there were $7.7 million of multi-family residential and commercial real estate loans ("income property") on non-accrual for which no valuation allowances individually evaluated have been applied. Included in the $7.7 million of income property loans on non-accrual status was one commercial real estate loan of $2.5 million whose terms were modified as a troubled debt restructuring.

Real Estate Owned. Real estate owned and repossessed assets consist of real estate and other assets which have been acquired through foreclosure on loans. At the time of foreclosure, assets are recorded at fair value less estimated selling costs, with any write-down charged against the allowance for loan losses. The fair value of real estate owned is determined by a third party appraisal of the property. As of March 31, 2014, there was one real estate owned property in the amount of $284,000. This compared to no real estate owned properties at June 30, 2013.

Classified and Criticized Assets. We regularly review potential problem assets in our portfolio to determine whether any assets require classification in accordance with applicable regulations. The total amount of classified and criticized assets represented 27.6% of our equity capital and 4.4% of our total assets at March 31, 2014, as compared to 28.6% of our equity capital and 4.8% of our total assets at June 30, 2013. At March 31, 2014 and June 30, 2013, there were $14.5 million and $15.9 million in non-accrual loans included in classified assets, respectively.

The aggregate amount of our classified and special mention assets at the dates indicated were as follows:

	March 31, 2014	June 30, 2013
	(Dollars in thousands)	
Classified and Criticized Assets:		
Loss	$—	$4
Doubtful	15	24
Substandard	20,416	23,398
Special Mention	17,348	18,100
Total	$37,779	$41,526

Allowance for Loan Losses. We maintain an allowance for loan losses to absorb probable incurred losses inherent in the loan portfolio. The allowance is based on ongoing, quarterly assessments of the probable losses inherent in the loan portfolio. In accordance with generally accepted accounting principles the allowance is comprised of general valuation allowances and valuation allowances on loans individually evaluated for impairment.

The general component covers non-impaired loans and is based both on our historical loss experience as well as significant factors that, in management's judgment, affect the collectability of the portfolio as of the evaluation date. Loans that are classified as impaired are individually evaluated. We consider a loan impaired when it is probable that we will be unable to collect all amounts due according to the terms of the loan agreement and determine impairment by computing a fair value either based on discounted cash flows using the loan's initial interest rate or the fair value of the collateral, less estimated selling costs, if the loan is collateral dependent.

The overall appropriateness of the general valuation allowance is determined based on a loss migration model and qualitative considerations. The migration analysis looks at pools of loans having similar characteristics and analyzes their loss rates over a historical period. Historical loss factors derived from trends and losses associated with each pool over a specific period of time are utilized. The loss factors are applied to the outstanding loans to each loan grade within each pool of loans. Loss rates derived by the migration model are based predominantly on historical loss trends that may not be indicative of the actual or inherent loss potential. As such, qualitative and environmental factors are utilized as adjusting mechanisms to supplement the historical results of the classification migration model. Significant factors reviewed in determining the allowance for loan losses included loss ratio trends by loan product; levels of and trends in delinquencies and impaired loans; levels of and trends in classified assets; levels of and trends in charge-offs and recoveries; trends in volume of loans by loan product; effects of changes in lending policies and practices; industry conditions and effects of concentrations in geographic regions. Qualitative and environmental factors are reflected as percent adjustments and are added to the historical loss rates derived from the classified asset migration model to determine the appropriate allowance amount for each loan pool.

Valuation allowances on real estate loans that are individually evaluated for impairment are charged-off when management believes a loan or part of a loan is deemed uncollectible. Subsequent recoveries, if any, are credited to the allowance when received. A loan is generally considered uncollectible when the borrower's payment is six months or more delinquent.

Senior management reviews these conditions quarterly in discussions with our senior credit officers. To the extent that any of these conditions is evidenced by a specifically identifiable problem credit or portfolio segment as of the evaluation date, management's estimate of the effect of such conditions may be reflected as an allowance specifically applicable to such credit or portfolio segment. Where any of these conditions is not evidenced by a specifically identifiable problem credit or portfolio segment as of the evaluation date, management's evaluation of the loss related to this condition is reflected in the general allowance. The evaluation of the inherent loss with respect to these conditions is subject to a higher degree of uncertainty because they are not identified with specific problem credits or portfolio segments.

Given that management evaluates the adequacy of the allowance for loan losses based on a review of individual loans, historical loan loss experience, the value and adequacy of collateral and economic conditions in our market area, this evaluation is inherently subjective as it requires material estimates, including the amounts and timing of future cash flows expected to be received on impaired loans that may be susceptible to significant change. Large groups of smaller balance homogeneous loans that are collectively evaluated for impairment are excluded from loans individually evaluated for impairment; their allowance for loan losses is calculated in accordance with the allowance for loan losses policy described above.

Because the allowance for loan losses is based on estimates of losses inherent in the loan portfolio, actual losses can vary significantly from the estimated amounts. Our methodology as described above permits adjustments to any loss factor used in the computation of the formula allowance in the event that, in management's judgment, significant factors which affect the collectability of the portfolio as of the evaluation date are not reflected in the loss factors. By assessing the estimated losses inherent in the loan portfolio on a quarterly basis, we are able to adjust individual and inherent loss estimates based upon any more recent information that has become available. We continue to review our allowance for loan losses methodology for appropriateness to keep pace with the size and composition of the loans and the changing economic conditions and credit environment. We believe that our methodologies continue to be appropriate given our size and level of complexity. In addition, management's determination as to the amount of our allowance for loan losses is subject to review by the Office of the Comptroller of the Currency ("OCC") and the FDIC, which may require the establishment of additional general allowances or allowances on loans individually evaluated for impairment based upon their judgment of the information available to them at the time of their examination of our Bank.

There was no provision for loan losses during the three months ended March 31, 2014, compared to a $400,000 provision for loan losses in the same period last year. A $300,000 reversal of provision for loan losses was recorded during the nine months ended March 31, 2014, compared to a $1.9 million provision for loan losses in the same period last year. The decline in the provision during fiscal 2014 was primarily a result of a decline in net charge-offs and loss factors on loans collectively evaluated for impairment. Annualized net charge-offs decreased to 0.06% of average outstanding loans for the nine months ended March 31, 2014 as compared to 0.29% of average outstanding loans for the year ended June 30, 2013. Non-performing loans decreased to $14.5 million, or 1.99% of total loans at March 31, 2014 as compared to $15.9 million or 2.29% of total loans at June 30, 2013. Delinquent loans 60 days or more past due totaled $6.9 million or 0.95% of total loans at March 31, 2014 as compared to $5.5 million or 0.79% of total loans at June 30, 2013. The increase was primarily attributable to the addition of one impaired multi-family residential loan of $3.0 million that is being vigorously pursued by management. The allowance for loan losses to non-performing loans was 34.65% at March 31, 2014 as compared to 35.45% at June 30, 2013. The slight decrease in allowance for loan losses to non-performing loans was a result of the decrease in non-performing loans offset by a decrease in the allowance for loan losses during the nine months ended March 31, 2014. The provision reflected management’s continuing assessment of the credit quality of the Company’s loan portfolio, which is affected by various trends, including current economic conditions.

The distribution of the allowance for losses on loans at the dates indicated is summarized as follows.

	March 31, 2014		June 30, 2013	
	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans
	(Dollars in thousands)			
Real estate loans:				
One-to-four family	$2,559	40.31 %	$3,009	46.03 %
Multi-family	958	45.90	839	40.44
Commercial	1,181	6.23	1,654	8.01
Other loans:				
Automobile	138	5.67	83	3.85
Home equity	3	0.09	4	0.10
Other	172	1.80	54	1.57
Total allowance for loan losses	$5,011	100.00 %	$5,643	100.00 %

Liquidity, Capital Resources and Commitments

Liquidity may increase or decrease depending upon the availability of funds and comparative yields on investments in relation to the return on loans. Historically, we have maintained liquid assets at levels above the minimum requirements previously imposed by our regulator and above levels believed to be adequate to meet the requirements of normal operations, including potential deposit outflows. Cash flow projections are regularly reviewed and updated to assure that adequate liquidity is maintained.

Our liquidity, represented by cash and cash equivalents, interest earning accounts and mortgage-backed and related securities, is a product of our operating, investing and financing activities. Our primary sources of funds are deposits, amortization, prepayments and maturities of outstanding loans and mortgage-backed and related securities, and other short-term investments and funds provided from operations. While scheduled payments from the amortization of loans and mortgage-backed related securities and maturing investment securities and short-term investments are relatively predictable sources of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions, and competition. In addition, we invest excess funds in short-term interest earning assets, which provide liquidity to meet lending requirements. We also generate cash through borrowings. We utilize FHLB advances to leverage our capital base and provide funds for our lending and investment activities as well as enhance our interest rate risk management.

Liquidity management is both a daily and long-term function of business management. Excess liquidity is generally invested in short-term investments such as overnight deposits. On a longer-term basis, we maintain a strategy of investing in various investment securities and lending products. We use our sources of funds primarily to meet ongoing commitments, to pay maturing certificates of deposit and savings withdrawals, to fund loan commitments and to maintain our portfolio of mortgage-backed and related securities. At March 31, 2014, total approved loan commitments amounted to $2.1 million and the unadvanced portion of loans was $2.0 million.

Certificates of deposit and advances from the FHLB of San Francisco scheduled to mature in one year or less at March 31, 2014, totaled $106.4 million and $20.0 million, respectively. Based on historical experience, management believes that a significant portion of maturing deposits will remain with the Bank and we anticipate that we will continue to have sufficient funds, through deposits and borrowings, to meet our current commitments.

At March 31, 2014, we had $85 million FHLB advances outstanding and available additional advances from the FHLB of San Francisco in the amount of $257.0 million. We also had a short-term line of credit with the Federal Reserve Bank of San Francisco of $47.8 million at March 31, 2014, which has not been drawn upon.

Contractual Obligations

In the normal course of business, we enter into contractual obligations that meet various business needs. These contractual obligations include certificates of deposit to customers, borrowings from the FHLB, lease obligations for facilities, and commitments to purchase, sale and/or originate loans.

The following table summarizes our long-term contractual obligations at March 31, 2014.

	Total	Less than 1 year	1 – 3 Years	Over 3 – 5 Years	More than 5 years
	(Dollars in thousands)				
FHLB advances	$85,000	$20,000	$25,000	$40,000	$—
Operating lease obligations	2,036	1,040	536	148	312
Loan commitments to originate	2,101	2,101	—	—	—
Available home equity and unadvanced lines of credit	2,015	2,015	—	—	—
Certificates of deposit	251,875	106,400	119,790	25,685	—
Total commitments and contractual obligations	$343,027	$131,556	$145,326	$65,833	$312

Off-Balance Sheet Arrangements

As a financial service provider, we routinely are a party to various financial instruments with off-balance sheet risks, such as commitments to extend credit and unused lines of credit. While these contractual obligations represent our future cash requirements, a significant portion of commitments to extend credit may expire without being drawn upon. Such commitments are subject to the same credit policies and approval process accorded to loans we make.

Capital

The table below sets forth Simplicity Bank's capital position relative to its regulatory capital requirements at March 31, 2014 and June 30, 2013. The definitions of the terms used in the table are those provided in the capital regulations issued by the OCC.

	Actual			Minimum Capital Requirements			Minimum Required to be Well Capitalized Under Prompt Corrective Actions Provisions		
March 31, 2014	Amount	Ratio		Amount	Ratio		Amount	Ratio	
	(Dollars in thousands)								
Total capital (to risk-weighted assets)	$126,772	20.16	%	$50,309	8.00	%	$62,886	10.00	%
Tier 1 capital (to risk-weighted assets)	121,761	19.36		25,154	4.00		37,732	6.00	
Tier 1 (core) capital (to adjusted tangible assets)	121,761	14.18		34,341	4.00		42,926	5.00	

	Actual			Minimum Capital Requirements			Minimum Required to be Well Capitalized Under Prompt Corrective Actions Provisions		
June 30, 2013	Amount	Ratio		Amount	Ratio		Amount	Ratio	
	(Dollars in thousands)								
Total capital (to risk-weighted assets)	$137,788	23.85	%	$46,222	8.00	%	$57,777	10.00	%
Tier 1 capital (to risk-weighted assets)	132,145	22.87		23,111	4.00		34,666	6.00	

Tier 1 (core) capital (to adjusted tangible assets)	132,145	15.28	34,591	4.00	43,238	5.00

Consistent with our goal to operate a sound and profitable financial organization, we actively seek to continue as a “well capitalized” institution in accordance with regulatory standards. At March 31, 2014, Simplicity Bank was a “well-capitalized” institution under regulatory standards.

Impact of Inflation

The unaudited consolidated financial statements presented herein have been prepared in accordance with GAAP. These principles require the measurement of financial position and operating results in terms of historical dollars, without considering changes in the relative purchasing power of money over time due to inflation.

Our primary assets and liabilities are monetary in nature. As a result, interest rates have a more significant impact on our performance than the effects of general levels of inflation. Interest rates, however, do not necessarily move in the same direction or with the same magnitude as the price of goods and services, since such prices are affected by inflation. In a period of rapidly rising interest rates, the liquidity and maturity structure of our assets and liabilities are critical to the maintenance of acceptable performance levels.

The principal effect of inflation, as distinct from levels of interest rates, on earnings is in the area of noninterest expense. Such expense items as employee compensation, employee benefits and occupancy and equipment costs may be subject to increases as a result of inflation.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Our Risk When Interest Rates Change. The rates of interest we earn on assets and pay on liabilities generally are established contractually for a period of time. Market interest rates change over time. Our fixed rate loans generally have longer maturities than our fixed rate deposits. Accordingly, our results of operations, like those of other financial institutions, are impacted by changes in interest rates and the interest rate sensitivity of our assets and liabilities. The risk associated with changes in interest rates and our ability to adapt to these changes is known as interest rate risk and is our most significant market risk.

How We Measure Our Risk of Interest Rate Changes. As part of our attempt to manage our exposure to changes in interest rates and comply with applicable regulations, we monitor our interest rate risk. In monitoring interest rate risk we continually analyze and manage assets and liabilities based on their payment streams and interest rates, the timing of their maturities, and their sensitivity to actual or potential changes in market interest rates.

In order to minimize the potential for adverse effects of material and prolonged increases in interest rates on our results of operations, we have adopted investment/asset and liability management policies to better match the maturities and repricing terms of our interest-earning assets and interest-bearing liabilities. The board of directors sets and recommends the asset and liability policies of Simplicity Bank, which are implemented by the asset/liability management committee.

The purpose of the asset/liability management committee is to communicate, coordinate and control asset/liability management consistent with our business plan and board approved policies. The committee establishes and monitors the volume and mix of assets and funding sources taking into account relative costs and spreads, interest rate sensitivity and liquidity needs. The objectives are to manage assets and funding sources to produce results that are consistent with liquidity, capital adequacy, growth, risk, and profitability goals.

The asset/liability management committee generally meets at least monthly to review, among other things, economic conditions and interest rate outlook, current and projected liquidity needs and capital position, anticipated changes in the volume and mix of assets and liabilities and interest rate risk exposure limits versus current projections pursuant to net present value of portfolio equity analysis and income simulations. The asset/liability management committee recommends appropriate strategy changes based on this review. The chairman or his designee is responsible for reviewing and reporting on the effects of the policy implementations and strategies to the board of directors at least monthly.

In order to manage our assets and liabilities and achieve the desired liquidity, credit quality, interest rate risk, profitability and capital targets, we have focused our strategies on: (1) maintaining an adequate level of adjustable rate loans; (2) originating a reasonable volume of short-term and intermediate-term loans; (3) managing our deposits to establish stable deposit relationships; and (4) using FHLB advances, and pricing on fixed-term non-core deposits to align maturities and repricing terms.

At times, depending on the level of general interest rates, the relationship between long-term and short-term interest rates, market conditions and competitive factors, the asset/liability management committee may determine to increase our interest rate risk position somewhat in order to maintain our net interest margin.

The asset/liability management committee regularly reviews interest rate risk by forecasting the impact of alternative interest rate environments on net interest income and economic value of portfolio equity, which is defined as the net present value of an institution's existing assets, liabilities and off-balance sheet instruments, and evaluating such impacts against the maximum potential

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changes in net interest income and economic value of portfolio equity that are authorized by the board of directors of Simplicity Bank.

An independent third party provides the Bank with the information presented in the following tables, which are based on information provided by the Bank. The tables present the sensitivity of net interest income for the 12-month period subsequent to the nine months ended March 31, 2014 and the year ended June 30, 2013, and the immediate, permanent and parallel movements in interest rates of +/-100, +200 and +300 basis points, as well as the change in the Bank's net portfolio value at March 31, 2014 that would occur upon an immediate change in interest rates without giving effect to any steps that management might take to counteract that change.

March 31, 2014			June 30, 2013		
Basis Point (bp) Change in Rates	Change in Net Interest Income		Basis Point (bp) Change in Rates	Change in Net Interest Income	
+300 bp	(2.36	)%	+300 bp	6.26	%
+200	(1.69	)	+200	1.59	
+100	(1.03	)	+100	0.69	
-100	0.44		-100	0.20	

	March 31, 2014								
		Estimated Increase (Decrease) in NPV				NPV as a percentage of Present Value of Assets [3]			
Change in Interest Rates (basis points) [1]	Estimated NPV [2]	Amount		Percent		NPV ratio [4]		Increase (Decrease) (basis points)	
	(Dollars in thousands)								
+400	$95,153	$(47,220	)	(33.17	)%	12.18	%	(395	)
+300	108,025	(34,348	)	(24.13	)	13.41		(272	)
+200	120,564	(21,809	)	(15.32	)	14.51		(161	)
+100	132,138	(10,235	)	(7.19	)	15.42		(70	)
—	142,373	—		—		16.12		—	
-100	150,546	8,173		(5.74	)	16.59		47	

(1) Assumes an instantaneous uniform change in interest rates at all maturities.
(2) NPV is the discounted present value of expected cash flows from assets, liabilities and off-balance sheet contracts.
(3) Present value of assets represents the discounted present value of incoming cash flows on interest-earning assets.
(4) NPV Ratio represents NPV divided by the present value of assets.

The analysis uses certain assumptions in assessing interest rate risk. These assumptions relate to interest rates, loan prepayment rates, deposit decay rates, and the fair values of certain assets under differing interest rate scenarios, among other things.

As with any method of measuring interest rate risk, shortcomings are inherent in the method of analysis presented in the foregoing tables. For example, although assets and liabilities may have similar maturities or periods to repricing, they may react in different degrees to changes in the market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates. Additionally, certain assets, such as adjustable rate mortgage loans, have features, that restrict changes in interest rates on a short-term basis and over the life of the asset. Further, if interest rates change, expected rates of prepayments on loans and early withdrawals from certificates of deposit could deviate significantly from those assumed in calculating the tables.

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Item 4. Controls and Procedures
Our management evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Act")) as of the end of the period covered by this report. The Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures as of the end of the period covered by this report are effective in ensuring that the information required to be disclosed by the Company in the reports it files or submits under the Act is (i) accumulated and communicated to the Company's management (including the Chief Executive Officer and Chief Financial Officer) in a timely manner, and (ii) recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms.
There have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Act) that occurred during the quarter ended March 31, 2014 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.
Part II. OTHER INFORMATION
Item 1. Legal Proceedings
From time to time, we are involved as plaintiff or defendant in various legal actions arising in the normal course of business. We do not anticipate incurring any material liability as a result of this litigation or any material impact on our financial position, results of operations or cash flows.
Item 1A. Risk Factors
There have been no material changes to the risk factors that were previously disclosed in the Company's annual report on Form 10-K for the fiscal year ended June 30, 2013.
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds
Purchases of Equity Securities by the Issuer

Period	Total Number of Shares Purchased	Weighted Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans*	Maximum Number of Shares That May Yet be Purchased Under the Plan
1/1/14 – 1/31/14	133,242	$16.40	133,242	143,563
2/1/14 – 2/28/14	73,254	16.35	73,254	444,702
3/1/14 – 3/31/14	102,539	17.66	102,539	342,163
Total	309,035	$16.81	309,035	342,163

* On February 27, 2014, the Company announced that its Board of Directors authorized the sixth stock repurchase program pursuant to which the Company intends to repurchase up to 5% of its issued and outstanding shares, or up to approximately 374,393 shares. Since November 2011, the Company has repurchased 2,210,681 shares under stock repurchase programs.

Item 3. Defaults Upon Senior Securities
None.
Item 4. Mine Safety Disclosures
Not applicable
Item 5. Other Information
None.

Item 6. Exhibits

31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Calculation Linkbase Document
101 DEF	XBRL Taxonomy Extension Definition Linkbase Document
101 LAB	XBRL Taxonomy Label Linkbase Document
101.PRE	XBRL Taxonomy Presentation Linkbase Document

SIMPLICITY BANCORP, INC. AND SUBSIDIARY

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.

SIMPLICITY BANCORP, INC.

Dated: May 9, 2014

/s/ Dustin Luton
Dustin Luton
President and Chief Executive Officer

/s/ Jean M. Carandang
Jean M. Carandang
Chief Financial Officer

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