Simplicity Bancorp, Inc.
Form 10-Q
February 09, 2015

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: December 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 – 7,400,102 shares outstanding as of February 5, 2015.

Form 10-Q
SIMPLICITY BANCORP, INC.
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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)

	December 31, 2014	June 30, 2014
ASSETS		
Cash and due from banks	$11,836	$7,988
Federal funds sold	82,835	61,265
Total cash and cash equivalents	94,671	69,253
Securities available-for-sale, at fair value	51,579	56,883
Securities held-to-maturity, fair value of $370 and $406 at December 31, 2014 and June 30, 2014, respectively	360	395
Federal Home Loan Bank stock, at cost	5,519	5,519
Loans held for sale	2,039	3,687
Loans receivable, net of allowance for loan losses of $3,914 and $4,580 at December 31, 2014 and June 30, 2014, respectively	680,879	715,750
Accrued interest receivable	2,054	2,252
Premises and equipment, net	3,338	3,764
Goodwill	3,950	3,950
Bank-owned life insurance	14,432	14,220
Real estate owned (REO)	—	284
Other assets	4,386	3,231
Total assets	$863,207	$879,188
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits		
Noninterest bearing	$58,352	$60,569
Interest bearing	597,902	592,254
Total deposits	656,254	652,823
Federal Home Loan Bank advances, short-term	—	20,000
Federal Home Loan Bank advances, long-term	65,000	65,000
Accrued expenses and other liabilities	3,720	4,479
Total liabilities	724,974	742,302
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; 7,392,908 and 7,368,296 shares issued and outstanding at December 31, 2014 and June 30, 2014, respectively	74	74
Additional paid-in capital	67,996	67,690
Retained earnings	73,958	73,210
Accumulated other comprehensive loss, net of tax	(138)	(224)
Unearned employee stock ownership plan (ESOP) shares	(3,657)	(3,864)
Total stockholders' equity	138,233	136,886

Total liabilities and stockholders’ equity	$863,207	$879,188

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 December 31,		Six Months Ended December 31,	
	2014	2013	2014	2013
Interest income				
Interest and fees on loans	$7,236	$8,016	$14,953	$16,034
Interest on securities, taxable	190	179	394	346
Federal Home Loan Bank dividends	103	84	207	164
Other interest	49	22	88	51
Total interest income	7,578	8,301	15,642	16,595
Interest expense				
Interest on deposits	1,350	1,280	2,708	2,671
Interest on borrowings	293	287	605	536
Total interest expense	1,643	1,567	3,313	3,207
Net interest income	5,935	6,734	12,329	13,388
Provision for (recovery of) loan losses	(400)	(300)	(750)	(300)
Net interest income after provision for loan losses	6,335	7,034	13,079	13,688
Noninterest income				
Service charges and fees	533	521	1,079	988
ATM fees and charges	461	503	949	1,020
Referral commissions	92	95	189	179
Bank-owned life insurance	107	110	212	219
Net gain on sales of loans	112	145	311	330
Other noninterest (loss) income	(9)	20	(54)	117
Total noninterest income	1,296	1,394	2,686	2,853
Noninterest expense				
Salaries and benefits	3,004	3,122	5,944	6,138
Occupancy and equipment	680	723	1,430	1,509
ATM expense	519	550	1,019	1,128
Advertising and promotional	62	337	194	619
Legal Fees	224	39	414	87
Professional services	379	563	1,045	1,071
Federal deposit insurance premiums	115	117	224	249
Postage	55	52	103	104
Telephone	250	207	448	402
Loss on equity investment	147	75	297	136
REO foreclosure expenses and sales (gains)/losses, net	(123)	(13)	(168)	15
Electronic services	121	123	245	248
Other operating expense	423	388	756	866
Total noninterest expense	5,856	6,283	11,951	12,572
Income before income tax expense	1,775	2,145	3,814	3,969
Income tax expense	835	805	1,797	1,480
Net income	$940	$1,340	$2,017	$2,489
Earnings per common share:				

Basic	$0.13	$0.18	$0.29	$0.33
Diluted	$0.13	$0.18	$0.29	$0.33

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

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2014	2013	2014	2013
Net income	$940	$1,340	$2,017	$2,489
Other comprehensive income (loss):				
Unrealized gain (loss) on securities available for sale	202	(330)	147	(237)
Postretirement medical benefit costs				
Net loss arising during the period	(8)	(17)	(21)	(35)
Reclassification adjustment for net periodic benefit cost and benefits paid	8	17	21	35
Income tax effect	(83)	135	(61)	97
Other comprehensive income (loss), net of tax	119	(195)	86	(140)
Comprehensive income	$1,059	$1,145	$2,103	$2,349

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 Income (Loss), Net of tax	Unearned ESOP Shares	Total
Balance, June 30, 2013	8,121,415	$81	$ 79,800	$ 70,326	$ (491)	$ (4,278)	$145,438
Net income	—	—	—	2,489	—	—	2,489
Other comprehensive income	—	—	—	—	(140)	—	(140)
Dividends declared ($0.16 per share)	—	—	—	(1,219)	—	—	(1,219)
Repurchase of common stock	(383,979)	(3)	(5,963)	—	—	—	(5,966)
Stock options earned	—	—	18	—	—	—	18
Allocation of stock awards	—	—	159	—	—	—	159
Issuance of stock awards	25,425	—	—	—	—	—	—
Allocation of ESOP common stock (20,710 shares allocated)	—	—	112	—	—	207	319
Balance, December 31, 2013	7,762,861	$78	$ 74,126	$ 71,596	$ (631)	$ (4,071)	$141,098
Balance, June 30, 2014	7,368,296	$74	$ 67,690	$ 73,210	$ (224)	$ (3,864)	$136,886
Net income	—	—	—	2,017	$ —	—	2,017
Other comprehensive income	—	—	—	—	86	—	86
Dividends declared ($0.18 per share)	—	—	—	(1,269)	—	—	(1,269)
Stock options earned	—	—	2	—	—	—	2
Allocation of stock awards	—	—	168	—	—	—	168
Issuance of stock awards	25,412	—	—	—	—	—	—
Forfeiture of stock awards	(800)	—	—	—	—	—	—
Allocation of ESOP common stock (20,710 shares allocated)	—	—	136	—	—	207	343
Balance, December 31, 2014	7,392,908	$74	$ 67,996	$ 73,958	$ (138)	$ (3,657)	$138,233

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 Cash Flows
(Unaudited)
(Dollars in thousands)

	Six Months Ended December 31, 2014	2013
OPERATING ACTIVITIES		
Net income	$2,017	$2,489
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of net premiums on securities	162	195
Amortization of net premiums on loan purchases	43	203
Amortization of net loan origination costs	125	189
Provision for (recovery of) loan losses	(750)	(300)
Net gain on sale of REO	(181)	(4)
Net gain on sales of loans held for sale	(311)	(330)
Loans originated for sale	(17,296)	(14,256)
Proceeds from sales of loans held for sale	19,255	17,027
Decrease in valuation allowance for loans held for sale	—	(86)
Depreciation and amortization	613	634
Loss on equity investment	297	136
Increase in cash surrender value of bank-owned life insurance	(212)	(219)
Allocation of ESOP common stock	343	319
Allocation of stock awards	168	159
Stock options earned	2	18
Net change in accrued interest receivable	198	113
Net change in other assets	(1,513)	430
Net change in accrued expenses and other liabilities	(759)	(2,938)
Net cash provided by operating activities	2,201	3,779
INVESTING ACTIVITIES		
Proceeds from maturities and principal repayments of available-for-sale securities	5,289	6,497
Proceeds from maturities and principal repayments of held-to-maturity securities	35	81
Net change in loans	35,147	(25,634)
Proceeds from sale of real estate owned	771	329
Purchases of premises and equipment	(187)	(728)
Net cash provided by (used in) investing activities	41,055	(19,455)
FINANCING ACTIVITIES		
Proceeds from FHLB advances	—	25,000
Repayment of FHLB advances	(20,000)	—
Dividends paid on common stock	(1,269)	(1,219)
Repurchase of common stock	—	(5,966)
Net change in deposits	3,431	(30,168)
Net cash used in financing activities	(17,838)	(12,353)
Net change in cash and cash equivalents	25,418	(28,029)
Cash and cash equivalents at beginning of period	69,253	85,674
Cash and cash equivalents at end of period	$94,671	$57,645

SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid on deposits and borrowings	$3,321	$3,214
Income taxes paid	2,150	2,075
SUPPLEMENTAL NONCASH DISCLOSURES		
Transfer from loans to real estate owned	$306	$539

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”). 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 multi-family residences and first mortgages on owner-occupied, one-to-four 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.
On September 27, 2014, the Company entered into a merger agreement with HomeStreet, Inc. ("HomeStreet"), under which the Company will merge with and into HomeStreet and the Bank will merge with and into HomeStreet’s subsidiary, HomeStreet Bank (the "Merger"). Under the terms of the 100% stock agreement, the Company's stockholders are expected to receive one share of HomeStreet common stock for each share owned of the Company's common stock, subject to adjustment if HomeStreet’s closing stock price during a specified measurement period prior to closing is more than $20.00 or less than $15.00 per share. The Merger is expected to close in the first quarter of calendar year 2015, subject to certain conditions set forth in the merger agreement. For more information, please refer to the Agreement and Plan of Merger attached as Exhibit 2.1 to the Company’s Current Report on Form 8-K filed with the SEC on October 1, 2014.
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 six months ended December 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, 2015. 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 2014 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:

Effect of Newly Issued But Not Yet Effective Accounting Standards:

In January 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-01, Investments-Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects, 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.

In May 2014, the FASB issued ASU No. 2014-09, Revenue From Contracts With Customers, that outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The ASU is based on the principle that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to fulfill a contract. Entities have the option of using either a full retrospective or a modified retrospective approach for the adoption of the new standard. The ASU becomes effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. 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 six months ended December 31, 2014 and 2013:

	Three months ended December 31,		Six months ended December 31,	
	2014	2013	2014	2013
	(Dollars in thousands, except per share data)			
Basic				
Net income	$940	$1,340	$2,017	$2,489
Less: Net income allocated to restricted stock awards	11	11	21	21
Net income allocated to common shareholders	$929	$1,329	$1,996	$2,468
Weighted average common shares outstanding	6,975,798	7,410,160	6,970,620	7,518,064
Basic earnings per common share	$0.13	$0.18	$0.29	$0.33
Diluted				

Net income	$940	$1,340	$2,017	$2,489
Less: Net income allocated to restricted stock awards	11	11	21	21
Net income allocated to common shareholders	$929	$1,329	$1,996	$2,468
Weighted average common shares outstanding	6,975,798	7,410,160	6,970,620	7,518,064
Add: Dilutive effect of stock options	25,753	22,642	25,810	21,082
Average shares and dilutive potential common shares	7,001,551	7,432,802	6,996,430	7,539,146
Diluted earnings per common share	$0.13	$0.18	$0.29	$0.33

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 six months ended December 31, 2014, 10,355 and 20,710 ESOP shares were allocated, respectively. 321,011 ESOP shares remained unearned at December 31, 2014 as compared to 362,432 ESOP shares remained unearned at December 31, 2013.
Basic earnings per common share is net income 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 six months ended December 31, 2014, outstanding stock options to purchase 59,205 and 70,823 shares, respectively, were anti-dilutive and not considered in computing diluted earnings per common share. For the three and six months ended December 31, 2013, outstanding stock options to purchase 87,691 shares 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 six months ended December 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).
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, 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)			
December 31, 2014				
Assets				
Available-for-sale securities				
Mortgage-backed securities (residential)	$32,513	$—	$ 32,513	$—
Collateralized mortgage obligations (residential)	19,066	—	19,066	—
Total available-for-sale securities	$51,579	$—	$ 51,579	$—
June 30, 2014				
Assets				
Available-for-sale securities				
Mortgage-backed securities (residential)	$35,216	$—	$ 35,216	$—
Collateralized mortgage obligations (residential)	21,667	—	21,667	—
Total available-for-sale securities	$56,883	$—	$ 56,883	$—

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 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 December 31, 2014:				
MSAs	$81	$—	$ —	$81
Assets at June 30, 2014:				
MSAs	$75	$—	$ —	$75

At December 31, 2014 and June 30, 2014, no nonfinancial assets were measured at fair value on a non-recurring basis. 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 $16,000 as of December 31, 2014 as compared to $10,000 as of June 30, 2014. There was a $6,000 impairment provision recorded during the six months ended December 31, 2014.

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:

December 31, 2014	Fair Value	Valuation Techniques	Unobservable Inputs	Range (Weighted Avg)
	(Dollars in thousands)			
MSAs	$81	Discounted Cash Flow	Discount Rate	8.5%
			Prepayment speed ("CPR")	6.95% - 17.18% (10.85%)

June 30, 2014	Fair Value	Valuation Techniques	Unobservable Inputs	Range (Weighted Avg)
	(Dollars in thousands)			
MSAs	$75	Discounted Cash Flow	Discount Rate	8.5%
			Prepayment speed ("CPR")	5.90% to 14.52% (8.38%)

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 is 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. 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 it is associated with, the carrying amount of accrued interest receivable approximates 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 December 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 on hand	$11,836	$ 11,836	$ —	$—	$11,836
Federal funds sold	82,835	—	82,835	—	82,835
Securities held-to-maturity	360	—	370	—	370
Federal Home Loan Bank Stock	5,519	N/A	N/A	N/A	N/A
Loans held for sale	2,039	—	2,127	—	2,127
Loans receivable, net	680,879	—	—	704,777	704,777
MSAs	870	—	—	1,023	1,023
Accrued interest receivable - loans	1,970	—	—	1,970	1,970
Accrued interest receivable - investments	84	—	84	—	84
Financial liabilities:					
Deposits	656,254	—	658,236	—	658,236
FHLB Advances	65,000	—	65,839	—	65,839

	Fair Value Measurements at June 30, 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	$7,988	$ 7,988	$ —	$—	$7,988
Federal funds sold	61,265	—	61,265	—	61,265
Securities held-to-maturity	395	—	406	—	406
Federal Home Loan Bank Stock	5,519	N/A	N/A	N/A	N/A
Loans held for sale	3,687	—	3,840	—	3,840
Loans receivable, net	715,750	—	—	738,391	738,391
MSAs	696	—	—	982	982
Accrued interest receivable - loans	2,159	—	—	2,159	2,159
Accrued interest receivable - investments	93	—	93	—	93
Financial liabilities:					
Deposits	652,823	—	656,273	—	656,273
FHLB Advances	85,000	—	86,066	—	86,066

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)			
December 31, 2014				
Mortgage-backed (residential):				
Fannie Mae	$6,193	$91	$—	$6,102
Freddie Mac	22,564	57	(275)	22,782
Ginnie Mae	3,756	—	(11)	3,767
Collateralized mortgage obligations (residential):				
Fannie Mae	7,074	28	(12)	7,058
Freddie Mac	11,992	51	—	11,941
Total	$51,579	$227	$(298)	$51,650
June 30, 2014				
Mortgage-backed (residential):				
Fannie Mae	$6,933	$109	$—	$6,824
Freddie Mac	24,136	43	(376)	24,469
Ginnie Mae	4,147	1	—	4,146
Collateralized mortgage obligations (residential):				
Fannie Mae	8,640	19	(11)	8,632
Freddie Mac	13,027	9	(12)	13,030
Total	$56,883	$181	$(399)	$57,101

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)			
December 31, 2014				
Mortgage-backed (residential):				
Fannie Mae	$94	$2	$—	$96
Freddie Mac	52	2	—	54
Ginnie Mae	27	1	—	28
Collateralized mortgage obligations (residential):				
Fannie Mae	187	5	—	192
Total	$360	$10	$—	$370
June 30, 2014				
Mortgage-backed (residential):				
Fannie Mae	$100	$3	$—	$103
Freddie Mac	58	2	—	60
Ginnie Mae	30	1	—	31
Collateralized mortgage obligations (residential):				

Fannie Mae	207	5	—	212
Total	$395	$11	$—	$406

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There were no sales of securities during the three and six months ended December 31, 2014 and December 31, 2013.
All mortgage-backed securities and collateralized mortgage obligations have varying contractual maturity dates at December 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 six months ended December 31, 2014.
Securities with unrealized losses at December 31, 2014 and June 30, 2014, 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)					
December 31, 2014						
Description of Securities						
Mortgage-backed securities	$8,570	$(11)	$15,362	$(275)	$23,932	$(286)
Collateralized mortgage obligations (residential)	682	(5)	712	(7)	1,394	(12)
Total temporarily impaired	$9,252	$(16)	$16,074	$(282)	$25,326	$(298)
June 30, 2014						
Description of Securities						
Mortgage-backed securities	$—	$—	$16,404	$(376)	$16,404	$(376)
Collateralized mortgage obligations (residential)	12,636	(14)	1,598	(9)	14,234	(23)
Total temporarily impaired	$12,636	$(14)	$18,002	$(385)	$30,638	$(399)

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 December 31, 2014, eight debt securities had an aggregate unrealized loss of 1.4% of the Company's amortized cost basis. At June 30, 2014, ten debt securities had an unrealized loss of 1.3% 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 a wholly-owned government corporation, Ginnie Mae, or U.S. government-sponsored enterprises and agencies, including 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 December 31, 2014 and June 30, 2014.
At December 31, 2014 and June 30, 2014, there were no investments in any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of stockholders' equity.

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Note 5 – Loans

The composition of loans consists of the following:

	December 31, 2014	June 30, 2014
	(Dollars in thousands)	
Real Estate:		
One-to-four family residential	$278,501	$288,960
Multi-family residential	313,270	335,040
Commercial real estate	31,477	38,062
	623,248	662,062
Consumer:		
Automobile	48,351	45,686
Home equity	607	625
Other consumer loans, primarily unsecured	12,323	11,481
	61,281	57,792
Total loans	684,529	719,854
Deferred net loan origination costs	44	213
Net premium on purchased loans	220	263
Allowance for loan losses	(3,914)	(4,580)
Loans receivable, net	$680,879	$715,750

Loans held for sale totaled $2.0 million as of December 31, 2014 as compared to $3.7 million as of June 30, 2014. Loans held for sale are recorded at the lower of cost or fair value. Fair value, if lower than cost, is determined by outstanding commitments from the investor. Proceeds from sales of loans held for sale were $19.3 million and $17.0 million during the six months ended December 31, 2014 and 2013, resulting in net gain on sales of $311,000 and $330,000, respectively.

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

	Allowance for loan losses for the Three months ended December 31, 2014						
	One-to-four family	Multi-family residential	Commercial real estate	Automobile	Home equity	Other	Total
	(Dollars in thousands)						
Balance, beginning of period	$2,151	$ 722	$ 1,103	$253	$2	$99	$4,330
Provision for loan losses	(217)	(145)	(153)	50	—	65	(400)
Recoveries	—	—	—	15	—	5	20
Loans charged-off	—	—	—	(21)	—	(15)	(36)
Balance, end of period	$1,934	$ 577	$950	$297	$2	$154	$3,914

	Allowance for loan losses for the Three months ended December 31, 2013						
	One-to-four family	Multi-family residential	Commercial real estate	Automobile	Home equity	Other	Total
	(Dollars in thousands)						
Balance, beginning of period	$2,628	$ 1,287	$ 1,408	$112	$4	$48	$5,487
Provision for loan losses	(247)	(94)	(222)	27	(1)	237	(300)
Recoveries	6	—	—	20	—	2	28
Loans charged-off	—	(131)	—	(36)	—	(9)	(176)
Balance, end of period	$2,387	$ 1,062	$ 1,186	$123	$3	$278	$5,039

	Allowance for loan losses for the Six Months Ended December 31, 2014						
	One-to-four family	Multi-family residential	Commercial real estate	Automobile	Home equity	Other	Total
	(Dollars in thousands)						
Balance, beginning of period	$2,300	$ 993	$ 1,051	$136	$2	$98	$4,580
Provision for loan losses	(366)	(416)	(354)	282	—	104	(750)
Recoveries	—	—	253	17	—	8	278
Loans charged-off	—	—	—	(138)	—	(56)	(194)
Balance, end of period	$1,934	$ 577	$950	$297	$2	$154	$3,914

	Allowance for loan losses for the Six Months Ended December 31, 2013						
	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	(599)	454	(469)	74	(1)	241	(300)

Recoveries	10	—	1	28	—	3	42
Loans charged-off	(33)	(231)	—	(62)	—	(20)	(346)
Balance, end of period	$2,387	$ 1,062	$1,186	$123	$3	$278	$5,039

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 December 31, 2014 and June 30, 2014:

December 31, 2014	One-to-four family (Dollars in thousands)	Multi-family residential	Commercial real estate	Automobile	Home equity	Other	Total
Allowance for loan losses:							
Ending allowance balance attributed to loans:							
Individually evaluated for impairment	$673	$—	$40	$—	$—	$6	$719
Collectively evaluated for impairment	1,261	577	910	297	2	148	3,195
Total ending allowance balance	$1,934	$577	$950	$297	$2	$154	$3,914

	One-to-four family	Multi-family residential	Commercial real estate	Automobile	Home equity	Other	Total
Loans:							
Individually evaluated for impairment	$11,693	$1,214	$2,501	$—	$—	$6	$15,414
Collectively evaluated for impairment	266,808	312,056	28,976	48,351	607	12,317	669,115
Total ending loan balance	$278,501	$313,270	$31,477	$48,351	$607	$12,323	$684,529

June 30, 2014	One-to-four family (Dollars in thousands)	Multi-family residential	Commercial real estate	Automobile	Home equity	Other	Total
Allowance for loan losses:							
Ending allowance balance attributed to loans:							
Individually evaluated for impairment	$910	$—	$52	$2	$—	$15	$979
Collectively evaluated for impairment	1,390	993	999	134	2	83	3,601
Total ending allowance balance	$2,300	$993	$1,051	$136	$2	$98	$4,580

	One-to-four family	Multi-family residential	Commercial real estate	Automobile	Home equity	Other	Total
Loans:							
Individually evaluated for impairment	$12,431	$1,263	$3,506	$2	$—	$15	$17,217
Collectively evaluated for impairment	276,529	333,777	34,556	45,684	625	11,466	702,637
Total ending loan balance	$288,960	$335,040	$38,062	$45,686	$625	$11,481	$719,854

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 $6.9 million impaired loans evaluated based on the loans' present value of expected cash flows with a valuation allowance of $713,000 at December 31, 2014. This compares to 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 $962,000 at June 30, 2014.

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

December 31, 2014	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
	(Dollars in thousands)		
With no related allowance recorded:			
Real estate loans:			
One-to-four family	$6,980	$5,910	$ —
Multi-family residential	1,638	1,214	—
Commercial real estate	1,876	1,344	—
	10,494	8,468	—
With an allowance recorded:			
Real estate loans:			
One-to-four family	6,054	5,783	673
Commercial real estate	1,157	1,157	40
Other loans:			
Other	6	6	6
	7,217	6,946	719
Total	$17,711	$15,414	$ 719

June 30, 2014	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
	(Dollars in thousands)		
With no related allowance recorded:			
Real estate loans:			
One-to-four family	$6,175	$5,035	$ —
Multi-family residential	1,656	1,263	—
Commercial real estate	3,084	2,336	—
	10,915	8,634	—
With an allowance recorded:			
Real estate loans:			
One-to-four family	7,705	7,396	910
Commercial real estate	1,170	1,170	52
Other loans:			
Automobile	2	2	2
Other	15	15	15
	8,892	8,583	979
Total	$19,807	$17,217	$ 979

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

	Three months ended December 31,		Six months ended December 31,	
	2014	2013	2014	2013
	(Dollars in thousands)			
Real estate loan:				
One-to-four family	$11,636	$13,561	$11,901	$13,971
Multi-family residential	1,227	1,921	1,239	1,796
Commercial real estate	2,527	5,744	2,854	5,875
Total	$15,390	$21,226	$15,994	$21,642

Payments received on non-accrual 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 $148,000 and $228,000 for the three months ended December 31, 2014 and 2013, respectively, and was not included in the results of operations, of which $116,000 and $155,000, respectively, was collected and applied to the net loan balances. Foregone interest income amounted to $307,000 and $444,000 for the six months ended December 31, 2014 and 2013, respectively, and was not included in the results of operations, of which $261,000 and $306,000, 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 December 31,		Six months ended December 31,	
	2014	2013	2014	2013
	(Dollars in thousands)			
Real estate loan:				
One-to-four family	$69	$102	$151	$195
Multi-family residential	16	28	32	58
Commercial real estate	31	25	78	53
Total	$116	$155	$261	$306

At December 31, 2014 and June 30, 2014, 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:

Non-accrual loans:	December 31, 2014	June 30, 2014
	(Dollars in thousands)	
Real estate loans:		
One-to-four family	$5,711	$5,390
Multi-family residential	738	781
Commercial	1,344	1,460
Other loans:		
Automobile	—	2
Other	6	15
Total non-accrual loans	$7,799	$7,648

There were nine one-to-four family residential loans totaling $3.2 million, two multi-family loans totaling $737,000, and two commercial real estate loans totaling $1.3 million on non-accrual status that were performing in accordance with their contractual terms at December 31, 2014. There were seven one-to-four family residential loans totaling $2.1 million and two multi-family loans totaling $781,000 on non-accrual status that were performing in accordance with their contractual terms at June 30, 2014.

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

December 31, 2014	30-59 Days Delinquent	60-89 Days Delinquent	90 Days or More Delinquent	Total Delinquent Loans	Total Current Loans	Total Loans
	(Dollars in thousands)					
Real estate loans:						
One-to-four family	$1,374	$160	$967	$2,501	$276,000	$278,501
Multi-family	—	—	—	—	313,270	313,270
Commercial	—	—	—	—	31,477	31,477
Other loans:						
Automobile	261	49	—	310	48,041	48,351
Home Equity	—	—	—	—	607	607
Other	58	20	2	80	12,243	12,323
Total loans	$1,693	$229	$969	$2,891	$681,638	$684,529

June 30, 2014	30-59 Days Delinquent	60-89 Days Delinquent	90 Days or More Delinquent	Total Delinquent Loans	Total Current Loans	Total Loans
	(Dollars in thousands)					
Real estate loans:						
One-to-four family	$2,123	$409	$301	$2,833	$286,127	$288,960
Multi-family	—	—	—	—	335,040	335,040
Commercial	1,061	—	399	1,460	36,602	38,062
Other loans:						
Automobile	113	15	2	130	45,556	45,686
Home Equity	—	—	—	—	625	625
Other	31	4	15	50	11,431	11,481
Total loans	$3,328	$428	$717	$4,473	$715,381	$719,854

Troubled Debt Restructurings:
Troubled debt restructurings totaled $10.2 million and $12.5 million at December 31, 2014 and June 30, 2014, respectively. Troubled debt restructurings of $2.6 million and $2.9 million are included in the non-accrual loans at December 31, 2014 and June 30, 2014. The Bank has allocated $61,000 and $79,000 of valuation allowance to customers whose loan terms have been modified in troubled debt restructurings and were on non-accrual status as of December 31, 2014 and June 30, 2014, 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 six months ended December 31, 2014, one troubled debt restructuring with an aggregate outstanding balance of $203,000 was returned to accrual status as a result of the borrower 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 eight troubled debt restructurings returning with an aggregate outstanding balance of $2.8 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 December 31, 2014 and June 30, 2014.
During the six months ended December 31, 2014 and 2013, there were no new loans that were modified as troubled debt restructurings.
At December 31, 2014 and 2013, there were no loans modified as troubled debt restructurings 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 six months ended December 31, 2014 and 2013 that did not meet the definition of a troubled debt restructuring. During the three and six months ended December 31, 2014, seven loans in the amount of $2.7 million and seventeen loans in the amount of $5.8 million were modified and not accounted for as troubled debt restructurings. During the three and six months ended December 31, 2013, ten loans in the amount of $3.1 million and sixteen loans in the amount of $5.4 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 insured institution 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 December 31, 2014 and June 30, 2014, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

December 31, 2014	Pass	Special Mention	Substandard	Doubtful	Loss
	(Dollars in thousands)				
Real estate loans:					
One-to-four family	$263,379	$8,477	$6,645	$—	$—
Multi-family	309,791	2,300	1,179	—	—
Commercial	19,272	2,959	9,246	—	—
Other loans:					
Automobile	47,909	235	162	45	—
Home equity	607	—	—	—	—
Other	12,240	18	12	47	6
Total loans	$653,198	$13,989	$17,244	$92	$6

June 30, 2014	Pass	Special Mention	Substandard	Doubtful	Loss
	(Dollars in thousands)				
Real estate loans:					
One-to-four family	$272,261	$10,257	$6,442	$—	$—
Multi-family	327,999	3,174	3,867	—	—
Commercial	24,708	7,556	5,798	—	—
Other loans:					
Automobile	45,542	87	55	—	2
Home equity	625	—	—	—	—
Other	11,455	8	2	1	15
Total loans	$682,590	$21,082	$16,164	$1	$17

Note 6 - Real Estate Owned

Changes in real estate owned are summarized as follows:

	Six months ended December 31, 2014	December 31, 2013
	(Dollars in thousands)	
Beginning of period	$284	$—
Transfers in	306	539
Capitalized expenditures	—	70
Sales	(590)	(325)
End of period	$—	$284

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

	Six months ended December 31, 2014	December 31, 2013
	(Dollars in thousands)	
Net gain on sales	$181	$4
Net operating expense	(13)	(19)
Total	$168	$(15)

The company has no valuation allowance or activity in the valuation allowance account during the six months ended December 31, 2014 and 2013.

Note 7 – Federal Home Loan Bank Advances

FHLB advances were $65.0 million and $85.0 million at December 31, 2014 and June 30, 2014, respectively. At December 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 1.80%. At June 30, 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%.

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

Fiscal Year of Maturity	December 31, 2014	June 30, 2014
	(Dollars in thousands)	
2015	$—	$20,000
2016	—	—
2017	25,000	25,000
2018	10,000	10,000
2019	30,000	30,000
Total	$65,000	$85,000

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, fro the three and six months ended December 31, 2014 and 2013.

	Three Months Ended December 31, 2014		
	Unrealized gains and losses on securities available-for-sale	Postretirement medical benefits costs items	Total
	(Dollars in thousands)		
Balance at beginning of period	$(172)	$(85)	$(257)
Other comprehensive income (loss) before reclassifications	202	(8)	194
Amounts reclassified from accumulated other comprehensive income	—	8	8
Tax effect of current period changes	(83)	—	(83)
Net current period other comprehensive income	119	—	119
Balance at end of period	$(53)	$(85)	$(138)

	Three Months Ended December 31, 2013		
	Unrealized gains and losses on securities available-for-sale	Postretirement medical benefits costs items	Total
	(Dollars in thousands)		
Balance at beginning of period	$(307)	$(129)	$(436)
Other comprehensive loss before reclassifications	(330)	(17)	(347)
Amounts reclassified from accumulated other comprehensive income	—	17	17
Tax effect of current period changes	135	—	135
Net current period other comprehensive loss	(195)	—	(195)
Balance at end of period	$(502)	$(129)	$(631)

	Six Months Ended December 31, 2014		
	Unrealized gains and losses on securities available-for-sale	Postretirement medical benefits costs items	Total
	(Dollars in thousands)		
Balance at beginning of period	$(139)	$(85)	$(224)
Other comprehensive income (loss) before reclassifications	147	(21)	126
Amounts reclassified from accumulated other comprehensive income	—	21	21
Tax effect of current period changes	(61)	—	(61)
Net current period other comprehensive income	86	—	86
Balance at end of period	$(53)	$(85)	$(138)

	Six Months Ended December 31, 2013		
	Unrealized gains and losses on securities	Postretirement medical benefits costs items	Total

	available-for-sale (Dollars in thousands)		
Balance at beginning of period	$(362)	$(129)	$(491)
Other comprehensive loss before reclassifications	(237)	(35)	(272)
Amounts reclassified from accumulated other comprehensive income	—	35	35
Tax effect of current period changes	97	—	97
Net current period other comprehensive loss	(140)	—	(140)
Balance at end of period	$(502)	$(129)	$(631)

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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 2,312,765 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 $15.02 per share. At December 31, 2014, there were 240,079 shares remaining to be repurchased under the sixth authorized stock repurchase program. For the six months ended December 31, 2014, the Company did not repurchase any shares.

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 in our market area 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 January 2015, economic activity in the U.S. continued to expand at a modest to moderate pace from mid-November 2014 to late-December 2014. In the Twelfth Federal Reserve District (San Francisco), activity in real estate markets advanced, mainly in the commercial construction sector. The pace of new single-family home construction increased modestly with relatively more activity in urban areas than in rural areas. Multifamily residential real estate construction activity was strong; retail, office, industrial, or infrastructure projects also were widespread. Lending activity was mixed and the increase in loan demand was mostly in the construction segment. Overall loan demand remained somewhat weak. Stiff competition for high-quality borrowers exerted downward pressure on loan interest rates, and declines in net interest margins were widespread in our market area. Compressed margins contributed to increased acquisitions as smaller banks combined in order to reduce operating costs. 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.

Sustained employment gains have helped to lower the unemployment rate. This has brought unemployment closer to the estimate of full employment levels, although the labor force still exhibits considerable slack. In particular, California continues to experience elevated unemployment rates as compared to the national average. Unemployment rates in California decreased from 7.4% in June 2014 to 7.0% in December 2014. This compares to the national unemployment rate which trended down from 6.1% in June 2014 to 5.6% in September 2014.

Comparison of Financial Condition at December 31, 2014 and June 30, 2014.

Assets. Total assets declined 1.8% to $863.2 million at December 31, 2014 from $879.2 million at June 30, 2014 due primarily to a decrease in gross loans receivable and securities available-for-sale, partially offset by an increase in cash and cash equivalents.

Cash and cash equivalents increased by $25.4 million, or 36.7%, to $94.7 million at December 31, 2014 from $69.3 million at June 30, 2014. The increase was primarily due to principal repayments of loans and securities and an increase in deposits.

Securities available-for-sale decreased by $5.3 million, or 9.3%, to $51.6 million at December 31, 2014 from $56.9 million at June 30, 2014 due to principal repayments of existing securities.

Gross loans receivable decreased by $35.3 million, or 4.9%, to $684.5 million at December 31, 2014 from $719.9 million at June 30, 2014. The decrease was primarily attributable to loan principal repayments and payoffs, offset in part by organic growth in consumer loans. Multi-family loans decreased $21.8 million, or 6.5%, to $313.3 million at December 31, 2014 from $335.0 million at June 30, 2014 due to principal repayments and payoffs outpacing new loan originations during the six months ended December 31, 2014. Commercial real estate loans decreased $6.6 million, or 17.3%, to $31.5 million at December 31, 2014 from $38.1 million at June 30, 2014 due to principal repayments and payoffs as there have been no new commercial real estate loan originations during the six months ended December 31, 2014. One-to-four family residential real estate loans decreased $10.5 million, or 3.6%, to $278.5 million at December 31, 2014 from $289.0 million at June 30, 2014 due primarily to principal repayments and payoffs and sales of newly originated conforming fixed rate loans held for sale in the secondary market. Consumer loans which were comprised primarily of automobile loans totaling $48.4 million and unsecured loans totaling $8.7 million increased $3.5 million, or 6.0%, to $61.3 million at December 31, 2014 from $57.8 million at June 30, 2014 due to $12.8 million and $6.2 million in automobile and unsecured loan originations, respectively, during the six months ended December 31, 2014.

The allowance for loan losses decreased by $666,000, or 14.5%, to $3.9 million at December 31, 2014 from $4.6 million at June 30, 2014 due primarily to a lower level of classified and criticized loans and a decline in net charge-offs and historical loss factors on loans collectively evaluated for impairment. Non-performing assets decreased to $7.8 million, or 0.90% of total assets at December 31, 2014 as compared to $7.9 million, or 0.90% of total assets at June 30, 2014.

Deposits. Total deposits increased $3.4 million, or 0.5%, to $656.3 million at December 31, 2014 from $652.8 million at June 30, 2014. The increase was comprised of a $5.6 million increase in interest-bearing deposits and a $2.2 million decrease in non-interest bearing demand deposits.

The increase in interest bearing deposits was primarily attributable to a $37.0 million, or 45.2%, increase in interest-bearing checking from $81.8 million at June 30, 2014 to $118.7 million at December 31, 2014. The increase was partially offset by a $15.5 million, or 11.21%, decrease in money market accounts from $138.2 million at June 30, 2014 to $122.7 million at December 31, 2014, a $10.3 million, or 8.2%, decrease in savings accounts from $125.8 million at June 30, 2014 to $115.5 million at December 31, 2014, and a $5.5 million, or 2.2%, decrease in certificates of deposit from $246.5 million at June 30, 2014 to $241.0 million at December 31, 2014. The growth in interest-bearing checking balances was due primarily to the Company's marketing strategy to promote interest-bearing checking deposits with enhanced features to deepen customer relationships. 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. The decline in money market balances was attributable to the promotion of interest-bearing checking accounts. Savings accounts decreased primarily due to the seasonality of Holiday Club accounts and the discontinuation of certain savings products which traditionally had higher intrerest rates. The change in deposit mix was consistent with the Company's strategic decision to promote interest-bearing checking deposits to attract relationship customers in our target markets while reducing our reliance on time deposits by competing less aggressively on time deposit interest rates.

Borrowings. FHLB advances decreased to $65.0 million at December 31, 2014 as compared to $85.0 million at June 30, 2014 due to the payoff of a $20.0 million scheduled maturity in a lower costing FHLB advance. The weighted average cost of FHLB advances was 1.80% at December 31, 2014 as compared to 1.57% at June 30, 2014.

Stockholders’ Equity. Total stockholders’ equity, represented 16.0% of total assets and increased to $138.2 million at December 31, 2014 from $136.9 million at June 30, 2014. The increase in stockholders’ equity was primarily attributable to an increase of $2.0 million in net income, partially offset by cash dividends paid of $1.3 million in the six months ended December 31, 2014.

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

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

	For the three months ended December 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]	$687,751	$7,236	4.21	%	$718,515	$8,016	4.46	%
Securities[3]	53,257	190	1.43		47,202	179	1.52	
Federal funds sold	83,678	49	0.23		36,946	22	0.24	
Federal Home Loan Bank stock	5,579	103	7.38		5,962	84	5.64	
Total interest-earning assets	830,265	7,578	3.65		808,625	8,301	4.11	
Noninterest earning assets	39,697				38,272			
Total assets	$869,962				$846,897			
INTEREST-BEARING LIABILITIES								
Interest-bearing checking	$111,580	$217	0.78	%	$14,454	$4	0.11	%
Money market	126,742	70	0.22		163,133	95	0.23	
Savings deposits	120,317	43	0.14		129,108	28	0.09	
Certificates of deposit	243,567	1,020	1.68		259,449	1,153	1.78	
Borrowings	65,000	293	1.80		72,500	287	1.58	
Total interest-bearing liabilities	667,206	1,643	0.99		638,644	1,567	0.98	
Noninterest bearing liabilities	64,865				65,902			
Total liabilities	732,071				704,546			
Stockholders' equity	137,891				142,351			
Total liabilities and stockholders' equity	$869,962				$846,897			
Net interest/spread		$5,935	2.67	%		$6,734	3.12	%
Margin[4]			2.86	%			3.33	%
Ratio of interest-earning assets to interest bearing liabilities	124.44 %				126.62 %			

(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 six months ended December 31, 2014 and 2013, respectively.

	For the six months ended December 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)	$699,154	$14,953	4.28 %	$711,907	$16,034	4.50 %
Securities(3)	54,543	394	1.44	48,861	346	1.42
Federal funds sold	76,012	88	0.23	45,476	51	0.22
Federal Home Loan Bank stock	5,579	207	7.42	5,962	164	5.50
Total interest-earning assets	835,288	15,642	3.75	812,206	16,595	4.09
Noninterest earning assets	38,598			37,994		
Total assets	$873,886			$850,200		
INTEREST-BEARING LIABILITIES						
Interest-bearing checking	$104,442	$437	0.84 %	$14,414	$6	0.08 %
Money market	130,472	146	0.22	161,968	187	0.23
Savings deposits	122,115	70	0.11	131,162	60	0.09
Certificates of deposit	244,501	2,055	1.68	265,166	2,418	1.82
Borrowings	70,714	605	1.71	67,143	536	1.60
Total interest-bearing liabilities	672,244	3,313	0.99	639,853	3,207	1.00
Noninterest bearing liabilities	64,095			66,885		
Total liabilities	736,339			706,738		
Stockholders' equity	137,547			143,462		
Total liabilities and stockholders' equity	$873,886			$850,200		
Net interest/spread		$12,329	2.76 %		$13,388	3.09 %
Margin(4)			2.95 %			3.30 %
Ratio of interest-earning assets to interest bearing liabilities	124.25 %			126.94 %		

(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.

Comparison of Results of Operations for the Three Months Ended December 31, 2014 and December 31, 2013.
General. Net income for the three months ended December 31, 2014 was $940,000, a decrease of $400,000, or 29.9%, as compared to net income of $1.3 million for the three months ended December 31, 2013. Earnings per basic and diluted common share were $0.13 for the three months ended December 31, 2014, compared to $0.18 for the three months ended December 31, 2013. The decrease in net income was due primarily to decreases in net interest income and noninterest income, partially offset by decreases in noninterest expense and higher reversals in provision for loan losses. Excluding merger related expenses of $251,000, our net income would have been $1.3 million for the three months ended December 31, 2014.
Interest Income. Interest income decreased $723,000, or 8.7%, to $7.6 million for the three months ended December 31, 2014 from $8.3 million for the three months ended December 31, 2013. The decline in interest income was primarily due to decreases in interest and fees on loans.
Interest and fees on loans decreased $780,000, or 9.7%, to $7.2 million for the three months ended December 31, 2014 from $8.0 million for the three months ended December 31, 2013. The primary reason for the decrease was a decline of 25 basis points in the average yield on loans from 4.46% for the three months ended December 31, 2013 to 4.21% for the three months ended December 31, 2014 and a decrease of $30.8 million in the average balance of loans receivable to $687.8 million for the three months ended December 31, 2014 from $718.5 million for the three months ended December 31, 2013. The decrease in the average yield on loans was primarily caused by lower average yields earned on new loan originations and payoffs of higher yielding seasoned loans during the period as a result of the current relatively 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 of $1.6 million for the three months ended December 31, 2014 increased slightly by $76,000, or 4.9%, as compared to the same period last year. The increase was primarily a result of a higher average balance of deposits during the three months ended December 31, 2014.
Interest expense on deposits increased $70,000, or 5.5%, to $1.4 million during the three months ended December 31, 2014 as compared to $1.3 million for the same period last year. The primary reason for the increase was an increase of $36.1 million in the average balance of deposits to $602.2 million for the three months ended December 31, 2014 from $566.1 million for the three months ended December 31, 2013 as a result of continued growth from the promotion of the relationship checking product.
Provision for Loan Losses. Provision for loan losses reversal of $400,000 was recorded for the three months ended December 31, 2014 as compared to a $300,000 provision for loan losses reversal for the same period last year. The improvement in the provision during the current period was primarily a result of a lower level of classified and criticized loans and a decline in net charge-offs and loss factors on loans collectively evaluated for impairment. Annualized net charge-offs decreased to 0.01% of average outstanding loans for the three months ended December 31, 2014 as compared to 0.08% of average outstanding loans for the same period last year. Non-performing assets decreased to $7.8 million, or 0.90% of total assets at December 31, 2014 as compared to $7.9 million, or 0.90% of total assets at June 30, 2014. Delinquent loans 60 days or more past due were $1.2 million or 0.18% of total loans at December 31, 2014 as compared to $1.1 million or 0.16% of total loans at June 30, 2014. Loans 30 to 59 days delinquent totaled $1.7 million, or 0.25% of total loans at December 31, 2014, as compared to $3.3 million, or 0.47% of total loans at June 30, 2014. 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 for the three months ended December 31, 2014 was comprised of a $217,000 reduction in provision on one-to-four family loans, a $145,000 reduction in provision on multi-family loans, a $153,000 reduction in provision on commercial real estate loans, a $50,000 provision on automobile loans, and a $65,000 provision on other loans. The decrease in provision on one-to-four family residential loans was primarily due to a decline in the overall historical loss factors on one-to-four family loans collectively evaluated for impairment and a decrease in the one-to-four family residential loan balance collectively evaluated for impairment. The decrease in provision on multi-family loans was primarily due to a lower level of criticized and classified multi-family loans as

well as a decline in the overall historical loss factors and balance of multi-family loans collectively evaluated for impairment. The reduction in provision on commercial real estate loans was primarily due to a lower level of criticized and classified commercial real estate loans, 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 an increase in loss factors and higher 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 $98,000, or 7.0%, to $1.3 million for the three months ended December 31, 2014 as compared to $1.4 million for the three months ended December 31, 2013 due primarily to a $42,000 decline in ATM fees and charges resulting from a reduced number of ATMs in service, a $33,000 decline in gains on one-to-four family residential mortgage loans sold reflecting the impact of a lower average loan sale margin and a $14,000 decrease in the fair values of mortgage banking derivative assets.
Noninterest Expense. Our noninterest expense decreased $427,000, or 6.8%, to $5.9 million for the three months ended December 31, 2014 as compared to $6.3 million for the three months ended December 31, 2013 primarily due to decreases in advertising and promotional expenses, professional services expense, and salaries and benefits expense, partially offset by increases in legal fees related to the merger.
Advertising and promotional expenses decreased $275,000, or 81.6%, to $62,000 for the three months ended December 31, 2014 as compared to $337,000 for the same period last year. The decrease was primarily due to the overall reduction in branding and marketing campaign expenses.
Professional services expense decreased $184,000, or 32.7%, to $379,000 for the three months ended December 31, 2014 as compared to $563,000 for the same period last year due to lower expenses in e-Commerce initiatives, management consulting and outsourced risk management services.
Salaries and benefits expense decreased $118,000, or 3.8%, to $3.0 million for the three months ended December 31, 2014 as compared to $3.1 million for the same period last year. The decrease in salaries and benefits expense was due primarily to a decrease in the number of full-time equivalent employees.
Legal fees increased $185,000, or 474.4%, to $224,000 for the three months ended December 31, 2014 as compared to $39,000 for the same period last year. The increases were primarily due to $210,000 in legal fees related to the merger.
Income Tax Expense. Income tax expense increased $30,000, or 3.7%, to $835,000 for the three months ended December 31, 2014 as compared to $805,000 for the three months ended December 31, 2013. The effective tax rates were 47.0% and 37.5% for the three months ended December 31, 2014 and 2013, respectively. This higher effective tax rate for the three months ended December 31, 2014 as compared to the same period last year was primarily the result of non-deductible professional services and legal fees associated with the merger transaction, 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 Six Months Ended December 31, 2014 and December 31, 2013.
General. Net income for the six months ended December 31, 2014 was $2.0 million, a decrease of $472,000, or 19.0% as compared to the six months ended December 31, 2013. Earnings per basic and diluted common share were $0.29 for the six months ended December 31, 2014, compared to $0.33 for the six months ended December 31, 2013. The decrease in net income was due primarily to decreases in net interest income and noninterest income, partially offset by decreases in noninterest expense and higher reversals in provision for loan losses. Excluding merger related expenses of $666,000, our net income would have been $2.6 million for the six months ended December 31, 2014.
Interest Income. Interest income decreased $1.0 million, or 5.7%, to $15.6 million for the six months ended December 31, 2014 from $16.6 million for the six months ended December 31, 2013. The decline in interest income was primarily due to decreases in interest and fees on loans.
Interest and fees on loans decreased $1.1 million, or 6.7%, to $15.0 million for the six months ended December 31, 2014 from $16.0 million for the six months ended December 31, 2013. The primary reason for the decrease was a decline of 22 basis points in the average yield on loans from 4.50% for the six months ended December 31, 2013 to 4.28% for the six months ended December 31, 2014 and a decrease of $12.8 million in the average balance of loans receivable to $699.2 million for the six months ended December 31, 2014 from $711.9 million for the six months ended December 31, 2013. The decrease in the average yield on loans was primarily caused by lower average yields earned on new loan originations and payoffs of higher yielding seasoned loans during the period as a result of the current relatively 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 increased $106,000, or 3.3% to $3.3 million for the six months ended December 31, 2014 from $3.2 million for the six months ended December 31, 2013. The increase was primarily a result of a higher average balance of deposits and borrowings during the six months ended December 31, 2014.

Interest expense on deposits increased $37,000, or 1.4%, to $2.7 million during the six months ended December 31, 2014. The primarily reason for the increase in interest expense was due to an increase of $28.8 million in the average balance of deposits to $601.5 million for the six months ended December 31, 2014 from $572.7 million for the six months ended December 31, 2013 as a result of continued growth from the promotion of the relationship checking product. The average cost of deposits of 0.90% for the six months ended December 31, 2014 decreased slightly as compared to 0.93% for the six months ended December 31, 2013.

Interest expense on borrowings increased $69,000, or 12.9% to $605,000 during the six months ended December 31, 2014 as compared to $536,000 for the same period last year. The increase was primarily attributable to a 11 basis point increase in the average cost of borrowings from 1.60% for the six months ended December 31, 2013 to 1.71% for the six months ended December 31, 2014 as a result of the maturity of lower costing borrowings as well as an increase of $3.6 million in the average balance of borrowings to $70.7 million for the six months ended December 31, 2014 from $67.1 million for the six months ended December 31, 2013.

Provision for Loan Losses. Provision for loan losses reversal of $750,000 was recorded for the six months ended December 31, 2014 as compared to a $300,000 provision for loan losses reversal for the same period last year. The improvement in the provision during the current period was primarily a result of a lower level of criticized loans and a decline in net charge-offs and loss factors on loans collectively evaluated for impairment. Net recoveries of $84,000 recorded during the six months ended December 31, 2014 resulted in annualized net recoveries of 0.02% of average outstanding loans for the six months ended December 31, 2014 as compared to annualized net charge-offs of 0.09% of average outstanding loans for the same period last year. Non-performing assets decreased to $7.8 million, or 0.90% of total assets at December 31, 2014 as compared to $7.9 million, or 0.90% of total assets at June 30, 2014. Delinquent loans 60 days or more past due was $1.2 million or 0.18% of total loans at December 31, 2014 as compared to $1.1 million or 0.16% of total loans at June 30, 2014. Loans 30 to 59 days delinquent totaled $1.7 million, or 0.25% of total loans at December 31, 2014, as compared to $3.3 million, or 0.47% of total loans at June 30, 2014. 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 for the six months ended December 31, 2014 was comprised of a $366,000 reduction in provision on one-to-four family loans, a $416,000 reduction in provision on multi-family residential loans, a $354,000 reduction in provision on commercial real estate loans, a $282,000 provision on automobile loans, and a $104,000 provision on other loans. The decrease in provision on one-to-four family residential loans was primarily due to a decline in the overall historical loss factors on one-to-four family loans collectively evaluated for impairment and a decrease in the one-to-four family residential loan balance collectively evaluated for impairment. The decrease in provision on multi-family loans was primarily due to a lower level of criticized and classified multi-family loans as well as a decline in the overall historical loss factors and balance of multi-family 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 an increase in loss factors and higher 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 $167,000, or 5.9%, to $2.7 million for the six months ended December 31, 2014 as compared to $2.9 million for the six months ended December 31, 2013 due primarily to a $167,000 decrease in the fair values of mortgage banking derivative assets, a $71,000 decline in ATM fees and charges due to a reduced number of ATMs in service, partially offset by a $91,000 increase in service charges and fees primarily attributable to higher service charge income on non-interest bearing demand deposits. Management periodically reviews service charge rates to compensate for services provided while still maintaining a competitive position.

Noninterest Expense. Our noninterest expense decreased $621,000, or 4.9%, to $12.0 million for the six months ended December 31, 2014 as compared to $12.6 million for the six months ended December 31, 2013 primarily due to decreases in advertising and promotional expenses, salaries and benefits expense, professional services expense, other operating expense, and an increase in net gains on sales of real estate owned properties, partially offset by increases in legal fees related to the merger.
Advertising and promotional expenses decreased $425,000, or 68.7%, to $194,000 for the six months ended December 31, 2014 as compared to $619,000 for the same period last year. The decrease was primarily due to the overall reduction in branding and marketing campaign expenses.

Salaries and benefits expense decreased $194,000, or 3.2%, to $5.9 million for the six months ended December 31, 2014 as compared to $6.1 million for the same period last year. The decrease in salaries and benefits expense was due primarily to a decrease in the number of full-time equivalent employees.
Professional services expense decreased $26,000, or 2.4%, to $1.0 million for the six months ended December 31, 2014 as compared to $1.1 million for the same period last year due to lower expenses in e-Commerce initiatives, management consulting and outsourced risk management services, partially offset by $258,000 in consulting expense related to the merger.
Other operating expense decreased $110,000, or 12.7%, to $756,000 for the six months ended December 31, 2014 as compared to $866,000 for the same period last year. The decrease was due primarily to lower expenses in travel and conferences, personnel, supplies, subscriptions and training expenses.
REO foreclosure expenses and sales, gains and losses yielded a net gain of $168,000 for the six months ended December 31, 2014 as compared to $15,000 in net expense for the same period last year due to a net gain on the sale of a REO property for $181,000 offset by foreclosure expenses.
Legal fees increased $327,000, or 375.9%, to $414,000 for the six months ended December 31, 2014 as compared to $87,000 for the same period last year. The increases were primarily due to $383,000 in legal fees related to the merger.
Income Tax Expense. Income tax expense increased $317,000, or 21.4% to $1.8 million for the six months ended December 31, 2014 as compared to $1.5 million for the six months ended December 31, 2013. The effective tax rates were 47.1% and 37.3% for the six months ended December 31, 2014 and 2013, respectively. This higher effective tax rate for the six months ended December 31, 2014 as compared to the same period last year was primarily the result of non-deductible professional services and legal fees associated with the merger transaction, the termination of the California enterprise zone tax deduction 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. The credit quality of the loans purchased in fiscal 2012 was to our satisfaction and did not result in substitution or repurchase of any loans purchased as of December 31, 2014.

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.

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 December 31, 2014

County	One-to-four family	Multi-family residential	Commercial real estate	Total	Percent	
	(Dollars in thousands)					
Los Angeles	$121,753	$278,843	$ 13,095	$413,691	66.37	%
Orange	37,407	9,107	7,757	54,271	8.71	
San Diego	19,754	9,017	—	28,771	4.62	
San Bernardino	21,850	4,570	2,293	28,713	4.61	
Riverside	15,813	2,599	5,746	24,158	3.88	
Santa Clara	14,679	474	—	15,153	2.43	
Alameda	10,121	3,828	436	14,385	2.31	
Other	37,124	4,832	2,150	44,106	7.07	
Total	$278,501	$313,270	$ 31,477	$623,248	100.00	%

Real Estate Loans by County as of June 30, 2014

County	One-to-four family	Multi-family residential	Commercial real estate	Total	Percent	
	(Dollars in thousands)					
Los Angeles	$122,763	$291,414	$ 16,201	$430,378	65.01	%
Orange	39,598	12,999	10,177	62,774	9.48	
San Diego	20,677	9,376	—	30,053	4.54	
San Bernardino	22,276	9,350	3,258	34,884	5.27	

Riverside	15,249	2,636	5,815	23,700	3.58	
Santa Clara	15,814	484	—	16,298	2.46	
Alameda	12,566	3,868	440	16,874	2.55	
Other	40,017	4,913	2,171	47,101	7.11	
Total	$288,960	$335,040	$ 38,062	$662,062	100.00	%

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

	One-to-four family	Multi-family residential	Commercial real estate	Total	Percent of Non-accrual to Loans in Each Category	
County	(Dollars in thousands)					
Los Angeles	$3,042	$—	$ 1,344	$4,386	1.06	%
San Diego	368	—	—	368	1.28	
San Bernardino	314	623	—	937	3.26	
Riverside	256	115	—	371	1.54	
Santa Clara	1,327	—	—	1,327	8.76	
Other	404	—	—	404	0.92	
Total	$5,711	$738	$ 1,344	$7,793	1.25	

Non-accrual Real Estate Loans by County as of June 30, 2014

	One-to-four family	Multi-family residential	Commercial real estate	Total	Percent of Non-accrual to Loans in Each Category	
County	(Dollars in thousands)					
Los Angeles	$2,226	$—	$ 1,460	$3,686	0.86	%
San Diego	658	—	—	658	2.19	
San Bernardino	626	654	—	1,280	3.67	
Riverside	272	127	—	399	1.68	
Santa Clara	1,608	—	—	1,608	9.87	
Total	$5,390	$781	$ 1,460	$7,631	1.15	

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 December 31, 2014						
Real estate loans:						
One-to-four family	1	$160	3	$967	4	$1,127
Other loans:						
Automobile	5	49	—	—	5	49
Other	8	20	3	2	11	22
Total loans	14	$229	6	$969	20	$1,198
At June 30, 2014						
Real estate loans:						
One-to-four family	1	$409	1	$301	2	$710
Commercial	—	—	1	399	1	399
Other loans:						
Automobile	1	15	1	2	2	17
Other	3	4	2	15	5	19
Total loans	5	$428	5	$717	10	$1,145

Delinquent loans 60 days or more past due totaled $1.2 million or 0.18% of total loans at December 31, 2014 as compared to $1.1 million or 0.16% of total loans at June 30, 2014. Delinquent one-to-four family residential loans increased to $1.1 million at December 31, 2014 from $710,000 at June 30, 2014 due to prolonged delinquency of two one-to-four family residential loans which were less than 60 days delinquent as of June 30, 2014. There were no delinquent multi-family loans at December 31, 2014 and June 30, 2014. There were no delinquent commercial real estate loans at December 31, 2014 as compared to $399,000 at June 30, 2014. The delinquent commercial real estate loan of $399,000 at June 30, 2014 was brought current during the six months ended December 31, 2014. There were no real estate loans that were over 90 days delinquent at December 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 and over past due. All loans past due 90 days and over 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 December 31, 2014 and June 30, 2014 there were no loans past due more than 90 days and still accruing interest. Included in non-accrual loans were troubled debt restructurings of $2.6 million and $2.9 million as of December 31, 2014 and June 30, 2014, with specific valuation allowances of $61,000 and $79,000 respectively.

During the six months ended December 31, 2014, there were no new loans that were modified as troubled debt restructurings. At December 31, 2014, there were seven non-accrual restructured loans, all of which were one-to-four family residential loans with an aggregate balance of $2.6 million. Of the seven non-accrual restructured loans, five loans with an aggregate balance of $1.9 million were performing in accordance with their revised contractual terms. At June 30, 2014, there were eight non-accrual restructured loans, all of which were one-to-four family residential loans with an aggregate balance of $2.9 million. Of the eight non-accrual restructured loans, three loans with an aggregate outstanding balance of $915,000 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 six months ended December 31, 2014, one troubled debt restructuring with an outstanding balance of $203,000 was returned to accrual status as a result of the borrower 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 eight troubled debt restructurings with an aggregate outstanding balance of $2.8 million that were returned to accrual status during the same period last year. At December 31, 2014 and June 30, 2014, accruing troubled debt restructurings totaled $7.6 million and $9.6 million, respectively. There were no further commitments to customers whose loans were troubled debt restructurings at December 31, 2014 and June 30, 2014.

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 six months ended December 31, 2014, seven loans in the amount of $2.7 million and seventeen loans in the amount of $5.8 million were modified and not accounted for as troubled debt restructurings. During the three and six months ended December 31, 2013, ten loans in the amount of $3.1 million and sixteen loans in the amount of $5.4 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 December 31, 2014		At June 30, 2014	
	(Dollars in thousands)			
Non-accrual loans:				
Real estate loans:				
One-to-four family	$3,077		$2,481	
Multi-family	738		781	
Commercial	1,344		1,460	
Other loans:				
Automobile	—		2	
Other	6		15	
Troubled debt restructurings:				
One-to-four family	2,634		2,909	
Total non-accrual loans	$7,799		$7,648	
Other real estate owned and repossessed assets:				
Real estate:				
One-to-four family	$—		$284	
Total non-performing assets	$7,799		$7,932	
Ratios:				
Non-performing loans to total loans (1)	1.14	%	1.06	%
Non-performing assets to total assets	0.90	%	0.90	%
Total accruing troubled debt restructurings	$7,615		$9,569	

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

Non-performing loans of $7.8 million, or 1.14% of total loans at December 31, 2014 remained relatively unchanged as compared to $7.6 million or 1.06% of total loans at June 30, 2014.
At December 31, 2014, there were $5.7 million of one-to-four family residential mortgage loans on non-accrual for which valuation allowances individually evaluated totaling $61,000 have been applied. Of the $5.7 million in one-to-four family residential mortgage loans on non-accrual status, the terms or rates of $2.6 million of such loans were modified as troubled debt restructurings.
At December 31, 2014, there were $2.1 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 and were not modified as troubled debt restructurings. Included in the $2.1 million of income property loans on non-accrual status were two multi-family residential loans totaling $737,000 and two commercial real estate loans totaling $1.3 million.

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 December 31, 2014, the Company had no real estate owned properties. This compared to one real estate owned property in the amount of $284,000 at June 30, 2014.
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 22.7% of our equity capital and 3.6% of our total assets at December 31, 2014, as compared to 27.2% of our equity capital and 4.2% of our total assets at June 30, 2014. At December 31, 2014 and June 30, 2014, there were $7.8 million and $7.6 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:

	December 31, 2014	June 30, 2014
	(Dollars in thousands)	
Classified and Criticized Assets:		
Loss	$6	$17
Doubtful	92	1
Substandard	17,244	16,164
Special Mention	13,989	21,082
Total	$31,331	$37,264

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.

During the three and six months ended December 31, 2014, a $400,000 and $750,000 reversal of provision for loan losses was recorded as compared to a $300,000 reversal of provision for loan losses for the three and six months ended December 31, 2013. The improvement in the provision during the current period was primarily a result of a lower level of criticized and classified loans and a decline in net charge-offs and loss factors on loans collectively evaluated for impairment. Net recoveries of $84,000 recorded during the six months ended December 31, 2014 resulted in annualized net recoveries of 0.02% of average outstanding loans for the six months ended December 31, 2014 as compared to annualized net charge-offs of 0.09% of average outstanding loans for the same period last year. Non-performing assets decreased to $7.8 million, or 0.90% of total assets at December 31, 2014 as compared to $7.9 million, or 0.90% of total assets at June 30, 2014. Delinquent loans 60 days or more past due was $1.2 million or 0.18% of total loans at December 31, 2014 as compared to $1.1 million or 0.16% of total loans at June 30, 2014. The allowance for loan losses to non-performing loans was 50.19% at December 31, 2014 as compared to 59.88% at

June 30, 2014. The decrease in the allowance for loan losses to non-performing loans was primarily a result of a decrease in the allowance for loan losses for the six months ended December 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.

	December 31, 2014		June 30, 2014	
	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	$1,934	40.69 %	$2,300	40.14 %
Multi-family	577	45.76	993	46.54
Commercial	950	4.60	1,051	5.29
Other loans:				
Automobile	297	7.06	136	6.35
Home equity	2	0.09	2	0.09
Other	154	1.80	98	1.59
Total allowance for loan losses	$3,914	100.00 %	$4,580	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 December 31, 2014, total approved loan commitments amounted to $1.3 million and the unadvanced portion of loans was $2.1 million.

Certificates of deposit scheduled to mature in one year or less at December 31, 2014, totaled $84.6 million. There are no advances from the FHLB scheduled to mature in one year or less as of December 31, 2014. 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 December 31, 2014, we had $65.0 million FHLB advances outstanding and available additional advances from FHLB of San Francisco in the amount of $280.0 million. We also had a short-term line of credit with the Federal Reserve Bank of San Francisco of $40.5 million at December 31, 2014, which has not been drawn upon.

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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 December 31, 2014.

	Total	Less than 1 year	1 – 3 Years	Over 3 – 5 Years	More than 5 years
	(Dollars in thousands)				
FHLB advances	$65,000	$—	$35,000	$30,000	$—
Operating lease obligations	1,519	851	261	152	255
Loan commitments to originate	1,334	1,334	—	—	—
Available home equity and unadvanced lines of credit	2,064	2,064	—	—	—
Certificates of deposit	240,997	84,592	119,482	36,923	—
Total commitments and contractual obligations	$310,914	$88,841	$154,743	$67,075	$255

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 December 31, 2014 and June 30, 2014. 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		
December 31, 2014	Amount	Ratio		Amount	Ratio		Amount	Ratio	
	(Dollars in thousands)								
Total capital (to risk-weighted assets)	$130,966	24.10	%	$43,466	8.00	%	$54,332	10.00	%
Tier 1 capital (to risk-weighted assets)	127,052	23.38		21,733	4.00		32,599	6.00	
Tier 1 (core) capital (to adjusted tangible assets)	127,052	14.77		34,415	4.00		43,019	5.00	

	Actual			Minimum Capital Requirements			Minimum Required to be Well Capitalized Under Prompt Corrective Actions Provisions		
June 30, 2014	Amount	Ratio		Amount	Ratio		Amount	Ratio	
	(Dollars in thousands)								
Total capital (to risk-weighted assets)	$128,372	21.66	%	$47,417	8.00	%	$59,271	10.00	%
Tier 1 capital (to risk-weighted assets)	123,792	20.89	%	23,709	4.00	%	35,563	6.00	%

Tier 1 (core) capital (to adjusted tangible assets)	123,792	14.13	%	35,056	4.00	%	43,820	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 December 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 of the committee 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 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 six months ended December 31, 2014 and the year ended June 30, 2014, 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 December 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.

December 31, 2014			June 30, 2014		
Basis Point (bp) Change in Rates	Change in Net Interest Income		Basis Point (bp) Change in Rates	Change in Net Interest Income	
+300 bp	(0.85	)%	+300 bp	(4.49	)%
+200	(0.05	)	+200	(2.81	)
+100	0.04		+100	(1.45	)
-100	(1.31	)	-100	0.58	

	December 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	$108,901	$(36,515	)	(25.11	)%	13.71	%	(268	)
+300	120,311	(25,105	)	(17.26	)	14.72		(167	)
+200	130,847	(14,569	)	(10.02	)	15.55		(84	)
+100	139,605	(5,811	)	(4.00	)	16.14		(25	)
—	145,416	—		—		16.39		—	
-100	146,572	1,156		0.79		16.19		(20	)

(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 table.

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 December 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.

Current Litigation Relating to the Merger

On October 10, 2014, Stephen Bushansky (the "Plantiff") filed a stockholder class action lawsuit in the Superior Court of Los Angeles County, California against the Company, the directors of the Company and HomeStreet. The lawsuit purports to be brought on behalf of all of the Company’s public stockholders, excluding the directors of the Company. The complaint alleges that the directors of the Company breached their fiduciary duties to the stockholders by failing to take adequate measures to ensure that the interests of Simplicity’s stockholders are properly protected and by conducting a merger process that prevents competitive bidding. The complaint further alleges that HomeStreet aided and abetted the alleged breaches of fiduciary duty by the Company’s directors. The lawsuit sought to enjoin the proposed merger from proceeding and seeks unspecified compensatory damages on behalf of the Company’s stockholders and/or rescission of the proposed merger transaction.

On January 8, 2015, the Company, the individual director defendants of the Company and HomeStreet entered into a Memorandum of Understanding (the “MOU”) with the Plaintiff regarding the settlement of the lawsuit. Pursuant to the MOU, the Company agreed to provide additional information to Simplicity stockholders in its definitive proxy statement filed with the SEC on January 6, 2015. The Company, HomeStreet and the other defendants deny all of the allegations in the lawsuit. The Company and the individual director defendants of the Company believe the disclosures in the preliminary proxy statement of the Company filed with the SEC on December 10, 2014 were adequate under the law. Nevertheless, the Company, HomeStreet and the other defendants agreed to additional disclosures in the Company’s definitive proxy statement to settle the lawsuit in order to avoid the costs, disruption, and distraction of further litigation.

Item 1A. Risk Factors

Termination of the Merger Agreement with HomeStreet could adversely impact the Company.

If the Merger Agreement is terminated, there may be various consequences. For example, the Bank’s business may have been impacted adversely by the failure to pursue other beneficial opportunities due to the focus of management on the merger, without realizing any of the anticipated benefits of completing the merger. The Company has incurred substantial costs in connection with the Merger Agreement, including legal, accounting and investment banking fees.

Additionally, if the Merger Agreement is terminated, the market price of the Company’s common stock could decline to the extent that the current market price reflects a market assumption that the merger will be completed. If the Merger Agreement is terminated under certain circumstances, the Company will be required to pay HomeStreet a termination fee of $5.3 million. This may make it more difficult or expensive for another company to acquire the Company if the Merger Agreement is terminated, which may have a disproportionately adverse impact on the price of the Company’s common stock.

The Company will be subject to business uncertainties and contractual restrictions on its operations while the merger is pending.

The Company will be subject to business uncertainties and contractual restrictions on its operations while the merger is pending. For instance, uncertainty about the effect of the merger on employees and customers may have an adverse effect on the Company. These uncertainties may impair the Company's ability to attract, retain and motivate key personnel until the merger is completed, and could cause customers and others that deal with the Bank to seek to change their existing business relationships. Retention of certain employees by the Company may be challenging while the merger is pending, as certain employees may experience uncertainty about their future roles. If key employees, or a significant number of employees, depart because of issues relating to the uncertainty and difficulty of integration or a desire not to remain with the Company or the surviving corporation, the Company's business could be harmed. In addition, subject to certain exceptions, the Company has agreed to operate its business in the ordinary course, and to comply with certain other operational restrictions, prior to closing.

There have been no other 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, 2014.

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
10/1/14 – 10/31/14	—	$—	—	240,079
11/1/14 – 11/30/14	—	—	—	240,079
12/1/14 – 12/31/14	—	—	—	240,079
Total	—	$—	—	240,079

* Since November 11, 2011, the Company has repurchased 2,312,765 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: February 9, 2015

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

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

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