MALVERN BANCORP, INC.
Form 10-Q/A
December 18, 2017

UNITED STATES OF AMERICA

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

(Amendment No. 1)

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended December 31, 2016

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: 000-54835

MALVERN BANCORP, INC.

(Exact Name of Registrant as Specified in Its Charter)

Pennsylvania	**45-5307782**
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification No.)

42 Lancaster Avenue, Paoli, Pennsylvania 19301

(Address of Principal Executive Offices) (Zip Code)

(610) 644-9400

(Registrant's Telephone Number, Including Area Code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or smaller reporting company. See definition 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	Non-accelerated filer ¨ (Do not check if smaller reporting company)	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

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

Common Stock, par value $0.01:	**6,560,162 shares**
(Title of Class)	(Outstanding as of February 8, 2017)

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EXPLANATORY NOTE

As previously reported in a Form 8-K filed on November 28, 2017 (the "Item 4.02 8-K"), on November 21, 2017, Malvern Bancorp, Inc. (the "Company") was advised by BDO USA, LLP ("BDO"), its independent registered public accounting firm, that the Company should disclose that BDO's audit report on the Company's consolidated financial statements as of September 30, 2016 and 2015, and for each of the years in the two year period ended September 30, 2016, and BDO's interim reviews of the Company's consolidated interim financial statements as of and for the periods ended December 31, 2016, March 31, 2017 and June 30, 2017 (collectively, the "Specified Financial Statements"), should no longer be relied upon. As a result of the foregoing, the Company is restating the Specified Financial Statements. The audited annual financial statements for the fiscal years ended September 30, 2016 and 2015, each of the years in the two year period ended September 30, 2016, as included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2016, which was originally filed on December 14, 2016 (the "Original 10-K Filing"), have been restated as set forth in the Company's Amendment No. 1 on Form 10-K/A (the "10-K Amendment"). The unaudited interim financial statements for the period ended December 31, 2016, as included in the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended December 31, 2016, which was originally filed on February 9, 2017 (the "Original First Quarter-Fiscal 2017 10-Q Filing"), have been restated as set forth in this Amendment No. 1 on Form 10-Q/A (this "Amendment").

Also as previously reported in the Item 4.02 8-K, BDO also advised the Company that they have concluded that a material weakness in the Company's internal controls over financial reporting existed, and that BDO's report on the effectiveness of the Company's internal control over financial reporting as of September 30, 2016 in Item 9A of the Original 10-K Filing that the Company' internal control over financial reporting was effective as of September 30, 2016, should no longer be relied upon.

The matters described above relate to the Company's income tax account balances. The effect of these matters is to increase net income for fiscal 2016 by approximately $208,000, fiscal 2015 by approximately $970,000 and fiscal 2014 by approximately $388,000. As of and for the three months ended December 31, 2016, the net effect is a decrease to net income of approximately $197,000 and an increase tax liability account of $197,000. Please refer to the table below for an analysis of the impact on the consolidated balance sheets and income statements for the periods affected.

	For Year Ended September 30, 2014			2015			2016		
(In thousands)	As Filed	**Amount of Misstatement**	Restated Amount	As Filed	Amount of Misstatement	Restated Amount	As Filed	Amount of Misstatement	Restated Amount
Total Assets	$542,264	—	$542,264	$655,690	—	$655,690	$821,272	—	$821,272

Liabilities and Shareholders' Equity									
Other liabilities	2,604	(388)	2,216	3,575	(1,358)	2,217	4,549	(1,566)	2,983
Total Liabilities	465,492	(388)	465,104	574,299	(1,358)	572,941	726,681	(1,566)	725,115
Total Shareholders' Equity	76,772	388	77,160	81,391	1,358	82,749	94,591	1,566	96,157
Total Liabilities and Shareholders' Equity	$542,264	—	$542,264	$655,690	—	$655,690	$821,272	—	$821,272

	At December 31, 2016			At March 31, 2017			At June 30, 2017		
(In thousands)	As Filed	**Amount of Misstatement**	Restated Amount	As Filed	Amount of Misstatement	Restated Amount	As Filed	Amount of Misstatement	Restated Amount
Total Assets	$879,002	—	$879,002	$961,815	—	$961,815	$1,010,908	—	$1,010,908
Liabilities and Shareholders' Equity									
Other liabilities	3,662	(1,369)	2,293	3,206	(1,130)	2,076	4,697	(770)	3,927
Total Liabilities	783,267	(1,369)	781,898	864,351	(1,130)	863,221	911,245	(770)	910,475
Total Shareholders' Equity	95,735	1,369	97,104	97,464	1,130	98,594	99,663	770	100,433
Total Liabilities and Shareholders' Equity	$879,002	—	$879,002	$961,815	—	$961,815	$1,010,908	—	$1,010,908

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(In thousands)	For Year Ended September 30, 2014 As Filed	Amount of Misstatement	Restated Amount	2015 As Filed	Amount of Misstatement	Restated Amount	2016 As Filed	Amount of Misstatement	Restated Amount
Income (Loss) before income tax expense	$334	—	$ 344	$3,698	—	$3,698	$5,976	—	$5,976
Income tax benefit (expense)	(21)	388	367	—	970	$970	5,966	208	$6,174
Net Income (Loss)	$323	388	711	$3,698	970	$4,668	$11,942	208	$12,150
Basic Earnings Per Share	$0.05	0.06	$ 0.11	$0.58	0.15	$0.73	$1.86	0.04	$1.90
Diluted Earnings Per Share	n/a	n/a	n/a	n/a	n/a	n/a	$1.86	0.04	$1.90

(In thousands)	For The Three Months Ended, December 31, 2016 As Filed	Amount of Misstatement	Restated Amount	March 31, 2017 As Filed	Amount of Misstatement	Restated Amount	June 30, 2017 As Filed	Amount of Misstatement	Restated Amount
Income (Loss) before income tax expense	$1,462	—	$1,462	$1,758	—	$1,758	$2,582	—	$2,582
Income tax benefit (expense)	(292)	(197)	(489)	(349)	(239)	(588)	(503)	(360)	(863)
Net Income (Loss)	$1,170	(197)	$973	$1,409	(239)	$1,170	$2,079	(360)	$1,719
Basic Earnings Per Share	$0.18	(0.03)	$0.15	$0.22	(0.04)	$0.18	$0.32	(0.05)	$0.27
Diluted Earnings Per Share	$0.18	(0.03)	$0.15	$0.22	(0.04)	$0.18	$0.32	(0.05)	$0.27

These matters have no effect on the Company’s cash position, net interest margin, pre tax income or the Company’s operating expenses.

We are filing this Amendment to the Original First Quarter-Fiscal 2017 10-Q filing in order to:

amend Item 1, “Financial Statements,” to restate the unaudited consolidated interim financial statements previously issued in the Original First Quarter-Fiscal 2017 10-Q Filing to make corrections described in the third paragraph of this Explanatory Note (as so restated, the “Restated First Quarter-Fiscal 2017 Financials”);

amend Item 1A, “Risk Factors”, to refer to the Risk Factors included in the Original 10-K Filing, as amended by the 10-K Amendment;

make revisions to other sections of the Original First Quarter-Fiscal 2017 10-Q Filing to account for corrections included in the Restated First Quarter-Fiscal 20l7 Financials, in Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations”; and

amend Item 4, “Controls and Procedures” with respect to our conclusions regarding the effectiveness of our disclosure controls and procedures and changes to our internal control over financial reporting.

As required by Rule 12b-15 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), new certifications of the Company’s principal executive officer and principal financial officer are also being filed as exhibits to this Amendment. Similarly, revised XBRL exhibits are being filed as exhibits to this Amendment. As a result, Item 6, “Exhibits”, has also been modified.

This Amendment should be read in conjunction with the Original First Quarter-Fiscal 2017 10-Q Filing, which continues to speak as of the date of the Original First Quarter-Fiscal 2017 10-Q Filing. Except as specifically noted above, this Amendment does not modify or update disclosures in the Original First Quarter-Fiscal 2017 10-Q Filing. Accordingly, this Amendment does not reflect events occurring after the filing of the Original First Quarter-Fiscal 2017 10-Q Filing or modify or update any related or other disclosures.

All numbers in this Amendment reflect the restatements described above.

PART I – FINANCIAL INFORMATION

The following unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X, and, accordingly, do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. However, in the opinion of management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended December 31, 2016 are not necessarily indicative of the results that may be expected for the full year ending September 30, 2017, or for any other interim period. The Malvern Bancorp, Inc. 2016 Annual Report on Form 10-K, as amended by Amendment No. 1 thereto on Form 10-K/A, should be read in conjunction with these financial statements.

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Item 1. Financial Statements

MALVERN BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(Unaudited)

	December 30, 2016	September 30, 2016
	(Dollars in thousands, except per share data)	
	(Restated - Note 3)	
Assets		
Cash and due from depository institutions	$ 1,598	$ 1,297
Interest bearing deposits in depository institutions	61,683	95,465
Cash and Cash Equivalents	63,281	96,762
Investment securities available for sale, at fair value	65,108	66,387
Investment securities held to maturity, at cost (fair value of $37,426 and $40,817, respectively)	38,160	40,551
Restricted stock, at cost	5,416	5,424
Loans receivable, net of allowance for loan losses of $6,177 and $5,434, respectively	668,427	574,160
Accrued interest receivable	2,899	2,558
Property and equipment, net	6,769	6,637
Deferred income taxes, net	8,449	8,827
Bank-owned life insurance	18,548	18,418
Other assets	1,945	1,548
Total Assets	$ 879,002	$ 821,272
Liabilities and Shareholders' Equity		
Liabilities		
Deposits:		
Deposits-noninterest-bearing	$ 35,184	$ 34,547
Deposits-interest-bearing	623,439	567,499
Total Deposits	658,623	602,046
FHLB advances	118,000	118,000
Advances from borrowers for taxes and insurance	2,534	1,659
Accrued interest payable	448	427
Other liabilities	2,293	2,983
Total Liabilities	781,898	725,115

Commitments and Contingencies	—	—
Shareholders' Equity		
Preferred stock, $0.01 par value, 10,000,000 shares authorized, none issued	—	—
Common stock, $0.01 par value, 40,000,000 shares authorized, issued and outstanding: 6,560,162 shares at December 31, 2016 and 6,560,403 shares at September 30, 2016	66	66
Additional paid-in-capital	60,495	60,461
Retained earnings	38,295	37,322
Unearned Employee Stock Ownership Plan (ESOP) shares	(1,592)	(1,629)
Accumulated other comprehensive loss	(160)	(63)
Total Shareholders' Equity	97,104	96,157
Total Liabilities and Shareholders' Equity	$ 879,002	$ 821,272

See accompanying notes to unaudited consolidated financial statements.

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MALVERN BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended December 31,	
(Dollars in thousands, except for per share data)	2016 (Restated - Note 3)	2015
Interest and Dividend Income		
Loans, including fees	$ 6,313	$ 4,545
Investment securities, taxable	472	875
Investment securities, tax-exempt	163	195
Dividends, restricted stock	64	54
Interest-bearing cash accounts	93	18
Total Interest and Dividend Income	7,105	5,687
Interest Expense		
Deposits	1,324	964
Borrowings	542	512
Total Interest Expense	1,866	1,476
Net interest income	5,239	4,211
Provision for Loan Losses	660	—
Net Interest Income after Provision for Loan Losses	4,579	4,211
Other Income		
Service charges and other fees	223	211
Rental income-other	55	50
Net gains on sales of investments	—	131
Net gains on sale of loans	45	34
Earnings on bank-owned life insurance	130	132
Total Other Income	453	558
Other Expense		
Salaries and employee benefits	1,712	1,499
Occupancy expense	494	423
Federal deposit insurance premium	4	200
Advertising	51	30
Data processing	302	297
Professional fees	401	400
Other real estate owned (income) expenses, net	—	(1)
Other operating expenses	606	577
Total Other Expense	3,570	3,425
Income before income tax expense	1,462	1,344
Income tax expense	489	—
Net Income	$ 973	$ 1,344

Earnings Per Common Share:		
Basic	$ 0.15	$ 0.21
Diluted	$ 0.15	n/a
Weighted Average Common Shares Outstanding:		
Basic	6,418,583	6,402,332
Diluted	6,419,012	n/a
Dividends Declared Per Share	$ 0.00	$ 0.00

See accompanying notes to unaudited consolidated financial statements.

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MALVERN BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(in thousands)	Three Months Ended December 31, 2016 (Restated - Note 3)	2015
Net Income	$ 973	$ 1,344
Other Comprehensive (Loss) Income, Net of Tax:		
Unrealized holding losses on available-for-sale securities	(1,098)	(482)
Tax effect	374	164
Net of tax amount	(724)	(318)
Reclassification adjustment for net gains arising during the period[1]	—	(131)
Tax effect	—	45
Net of tax amount	—	(86)
Accretion of unrealized holding losses on securities transferred from available-for-sale to held-to-maturity[2]	4	2
Tax effect	(1)	(1)
Net of tax amount	3	1
Fair value adjustments on derivatives	945	403
Tax effect	(321)	(135)
Net of tax amount	624	268
Total other comprehensive loss	(97)	(135)
Total comprehensive income	$ 876	$ 1,209

[1] Amounts are included in net gain on sales of securities on the Consolidated Statements of Operations in total other income.

[2] Amounts are included in interest and dividends on investment securities on the Consolidated Statements of Operations.

See accompanying notes to unaudited consolidated financial statements.

MALVERN BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Unearned ESOP Shares	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
	(in thousands, except share data)					
	(Restated - Note 3)					
Balance, October 1, 2015	$66	$ 60,365	$ 25,172	$ (1,775)	$ (1,079)	$ 82,749
Net Income	—	—	1,344	—	—	1,344
Other comprehensive income	—	—	—	—	(135)	(135)
Committed to be released ESOP shares (3.600 shares)	—	22	—	36	—	58
Balance, December 31, 2015	$66	$ 60,387	$ 26,516	$ (1,739)	$ (1,214)	$ 84,016
Balance, October 1, 2016	$66	$ 60,461	$ 37,322	$ (1,629)	$ (63)	$ 96,157
Net Income	—	—	973	—	—	973
Other comprehensive loss	—	—	—	—	(97)	(97)
Committed to be released ESOP shares (3,600 shares)	—	32	—	37	—	69
Stock based compensation	—	2	—	—	—	2
Balance, December 31, 2016	$66	$ 60,495	$ 38,295	$ (1,592)	$ (160)	$ 97,104

See accompanying notes to unaudited consolidated financial statements.

MALVERN BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(in thousands)	Three Months Ended December 31, 2016 (Restated - Note 3)	2015
Cash Flows from Operating Activities		
Net income	$ 973	$ 1,344
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	179	158
Provision for loan losses	660	—
Deferred income taxes expense (benefit)	428	(230)
ESOP expense	69	58
Stock based compensation	2	—
Amortization (accretion) of premiums and discounts on investment securities, net	456	328
(Accretion) amortization of loan origination fees and costs	(514)	552
Amortization of mortgage service rights	15	13
Net gain on sale of investment securities available-for-sale	—	(131)
Net gain on sale of secondary market loans	(45)	34
Proceeds on sale of secondary market loans	2,287	1,441
Originations of secondary market loans	(2,242)	(1,475)
Earnings on bank-owned life insurance	(130)	(132)
Increase in accrued interest receivable	(341)	(238)
Increase in accrued interest payable	21	2
(Decrease) increase in other liabilities	(690)	129
Decrease (increase) in other assets	88	(424)
Net Cash Provided by Operating Activities	1,216	1,429
Cash Flows from Investing Activities		
Investment securities available-for-sale:		
Purchases	—	(2,115)
Sales	—	12,500
Maturities, calls and principal repayments	446	1,664
Investment securities held-to-maturity:		
Maturities, calls and principal repayments	2,121	2,259
Loan originations and principal collections, net	(94,413)	(70,736)
Proceeds from death benefit of bank-owned life insurance	—	1,049
Net decrease in restricted stock	8	3
Purchases of property and equipment	(311)	(109)
Net Cash Used in Investing Activities	(92,149)	(55,485)

Cash Flows from Financing Activities		
Net increase in deposits	56,577	69,179
Proceeds from long-term borrowings	35,000	15,000
Repayment of long-term borrowings	(35,000)	(15,000)
Increase in advances from borrowers for taxes and insurance	875	984
Net Cash Provided by Financing Activities	57,452	70,163
Net (Decrease) Increase in Cash and Cash Equivalents	(33,481)	16,107
Cash and Cash Equivalent – Beginning	96,762	40,263
Cash and Cash Equivalent – Ending	$ 63,281	$ 56,370
Supplementary Cash Flows Information		
Interest paid	$ 1,845	$ 1,474

See accompanying notes to unaudited consolidated financial statements.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Basis of Presentation

The consolidated financial statements of Malvern Bancorp, Inc. (the “Company” or “Malvern Bancorp”) include the accounts of the Company and its wholly-owned subsidiary, Malvern Federal Savings Bank (“Malvern Federal Savings” or the “Bank”) and the Bank’s subsidiary, Strategic Asset Management Group, Inc. All significant intercompany accounts and transactions have been eliminated from the accompanying consolidated financial statements.

The Bank is a federally chartered stock savings bank which was originally organized in 1887. The Bank operates from its headquarters in Paoli, Pennsylvania and through its eight full service financial center offices in Chester and Delaware Counties, Pennsylvania and a Private Banking Loan Production headquarters office in Morristown, New Jersey. The Bank has one subsidiary, Strategic Asset Management Group, Inc. (“SAMG”), a Pennsylvania corporation. As of December 15, 2016, SAMG holds a 100% ownership interest in Malvern Insurance Associates, LLC (“Malvern Insurance”), a Pennsylvania limited liability company. Malvern Insurance is a licensed insurance broker under Pennsylvania law.

In preparing the unaudited consolidated financial statements, management has made estimates and assumptions that affect the reported amounts of assets and liabilities as of the dates of the unaudited consolidated statements of condition and that affect the results of operations for the periods presented. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to change in the near term relate to the determination of the allowance for loan losses, other real estate owned, the evaluation of deferred tax assets and the other-than-temporary impairment evaluation of securities.

The consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles (“U.S. GAAP”).

Note 2 – Recent Accounting Pronouncements

In October 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-16, “Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory “. The ASU requires an entity to recognize the income tax consequences of intra-entity transfers of assets other than inventory at the time that the transfer occurs. Current guidance does not require recognition of tax consequences until the asset is eventually sold to a third party. ASU 2016-16 is effective for fiscal years, and interim periods within, beginning after December 15, 2017, with early adoption permitted as of the first interim period presented in a year. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, “Statement of Cash Flows (Topic 230)”. The ASU is intended to reduce the diversity in practice around how certain transactions are classified within the statement of cash flows. For public companies, this update will be effective for interim and annual periods beginning after December 15, 2017. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, “Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.” The ASU requires an organization to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. Organizations will continue to use judgment to determine which loss estimation method is appropriate for their circumstances. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. For public companies, this update will be effective for interim and annual periods beginning after December 15, 2019. The Company is currently evaluating the provisions of this ASU to determine the impact the new standard will have on the Company’s consolidated financial statements.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 2 – Recent Accounting Pronouncements (continued)

In May 2016, the FASB issued ASU No. 2016-12 "Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients." The guidance is intended to clarify the guidance previously issued in May 2014 related to the recognition of revenue from contracts with customers. The updated guidance includes narrow-scope improvements intended to address implementation issues and to provide additional practical expedients in the guidance. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2017, with early adoption permitted for interim and annual reporting periods beginning after December 15, 2016. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

In April 2016, the FASB issued ASU No. 2016-10 "Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing." The guidance is intended to clarify the guidance previously issued in May 2014 related to the recognition of revenue from contracts with customers. The updated guidance is intended to reduce the cost and complexity of applying the guidance on identifying promised goods or services in a contract and to improve the operability and understandability of the implementation guidance regarding the licensing of intellectual property. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2017, with early adoption permitted for interim and annual reporting periods beginning after December 15, 2016. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee share-Based Payment Accounting." The new guidance simplifies certain aspects related to income taxes, statement of cash flows, and forfeitures when accounting for share-based payment transactions. This new guidance will be effective for the Company for the first reporting period beginning after December 15, 2016, with earlier adoption permitted. Certain of the amendments related to timing of the recognition of tax benefits and tax withholding requirements should be applied using a modified retrospective transition method. Amendments related to the presentation of the statement of cash flows should be applied retrospectively. All other provisions may be applied on a prospective or modified retrospective basis. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)." The guidance in this update supersedes the current lease accounting guidance for both the lessees and lessors under ASC 840, Leases. The new guidance requires lessees to evaluate whether a lease is a finance lease using criteria that are similar to what lessees use today to determine whether they have a capital lease. Leases not classified as finance leases are classified as operating leases.

This classification will determine whether the lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. The lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to today's guidance for operating leases. The new guidance will require lessors to account for leases using an approach that is substantially similar to the existing guidance for sales-type, direct financing leases and operating leases. This new guidance will be effective for the Company for the first reporting period beginning after December 15, 2018, with earlier adoption permitted. Adoption of the amendment must be applied on a modified retrospective approach. The Company is currently evaluating the provisions of this ASU to determine the impact the new standard will have on the Company's consolidated financial statements.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 3 - Correction of Error in Financial Statements

Subsequent to the issuance of the Company’s Form 10-Q for the three months ended December 31, 2016, the Company identified errors in its financial statements. Accordingly, the Company has restated the unaudited consolidated financial statements for the three months ended December 31, 2016 to reflect the error corrections, the most significant of which are as follows:

Item 1 of Part I of this Amendment No. 1 on Form 10-Q/A includes unaudited consolidated financial statements at December 31, 2016 that have been restated to correct the manner in which the Company originally accounted for the Bank’s tax account balances. The restated unaudited consolidated financial statements for the three months ended December 31, 2016 contained in this Amendment No. 1 on Form 10-Q/A reflect a decrease in net income of approximately $197,000, as well as an increase in tax liability account of $197,000, compared with the unaudited consolidated financial statements that were included in the Company’s Report on Form 10-Q for the three months ended December 31, 2016, as originally filed (the “Original Financial Statements”). The changes in Shareholders' Equity and Retained Earnings were also impacted by the corrections discussed in the Explanatory Note for the years ended September 30, 2016, 2015 and 2014. See the table below for an analysis of the impact on the unaudited consolidated balance sheets and income statements for the periods affected.

For the three months ended December 31, 2016, the correction decreased Net Income from $1.2 million to $973,000 from the amount reported in the Unaudited Consolidated Statement of Income that was included in the Original Financial Statements (the “Original Income Statement”). The correction also changed the amount reported under “Income tax expense” in the Original Income Statement from $392,000 to $489,000 for the three months ended December 31, 2016. Total Liabilities at December 31, 2016, as reported in the Unaudited Consolidated Statement of Financial Condition included in the Original Financial Statements, decreased from $783.3 million to $781.9 million, due to the decrease in Other liabilities from $3.7 million to $2.3 million. Total Shareholders’ Equity at December 31, 2016, as reported in the Unaudited Consolidated Statement of Financial Condition included in the Original Financial Statements, increased from $95.7 million to $97.1 million due to the change in Retained Earnings from $36.9 million to $38.3 million.

More detailed information regarding the correction is provided below.

In addition to the restatement of the Company’s unaudited consolidated financial statements, certain information within the following notes to the unaudited consolidated financial statements has been restated to reflect the corrections of errors discussed above as well as other related changes and/or to add disclosure language as appropriate.

Note 4. Earnings Per Common Share

Note 7. Regulatory Capital Requirements

Effects of the Restatement:

The following tables summarize the effect of the restatement on certain key items of the Original Financial Statements:

Item 1: Financial Statement- Balance Sheet (in thousands)

	December 31, 2016			September 30, 2016		
	Original	Restated	Change	Original	Restated	Change
Other liabilities	$3,662	$2,293	$(1,369)	$4,549	$2,983	$(1,566)
Total Liabilities	783,267	781,898	(1,369)	726,681	725,115	(1,566)
Retained earnings	36,926	38,295	1,369	35,756	37,322	1,566
Total Shareholders’ Equity	95,735	97,104	1,369	94,591	96,157	1,566

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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 3 - Correction of Error in Financial Statements (continued)

Item 1: Financial Statement- Income Statement (in thousands)

	For the Three Months Ended December 31, 2016		
	Original	Restated	Change
Income tax expense	$292	$ 489	$ 197
Net Income	1,170	973	(197)
Basic Earnings Per Share	$0.18	$ 0.15	(0.03)
Diluted Earnings Per Share	$0.18	$ 0.15	(0.03)

Item 1: Financial Statement - Comprehensive Income (in thousands)

	For the Three Months Ended December 31, 2016		
	Original	Restated	Change
Net Income	$1,170	$ 973	$ (197)
Total comprehensive Income	1,073	876	(197)

Item 1: Financial Statement - Changes in Shareholders Equity (in thousands)

	For the Three Months Ended December 31, 2016			For the Three Months Ended December 31, 2015		
	Original	Restated	Change	Original	Restated	Change
Net Income – Retained Earnings	$1,170	$973	$ (197)	$1,344	$1,344	$ —

Net Income – Total Shareholders’ Equity	1,170	973	(197)	1,344	1,344	$—
Beginning Retained Earnings Balance at	35,756	37,322	1,566	23,814	25,157	1,358
Ending Retained Earnings Balance at	36,926	38,295				