Citizens Community Bancorp Inc.
Form 10-Q
February 10, 2012
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UNITED STATES

SECURIT1ES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended December 31, 2011

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 001-33003

CITIZENS COMMUNITY BANCORP, INC.

(Exact name of registrant as specified in its charter)

Maryland	**20-5120010**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)

2174 EastRidge Center, Eau Claire, WI 54701

(Address of principal executive offices)

715-836-9994

(Registrant s telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 and 15(d) of the Securities Exchange Act of 1934 during the past 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 þ 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 þ No ¨

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS

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

At February 10, 2012 there were 5,133,050 shares of the registrant s common stock, par value $0.01 per share, outstanding.

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CITIZENS COMMUNITY BANCORP, INC.

FORM 10-Q

DECEMBER 31, 2011

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ITEM 1. FINANCIAL STATEMENTS

CITIZENS COMMUNITY BANCORP, INC.

Consolidated Balance Sheets

December 31, 2011 (unaudited) and September 30, 2011 (derived from audited financial statements)

(in thousands, except share data)

	December 31, 2011	*September 30, 2011*
Assets		
Cash and cash equivalents	$ 19,397	$ 31,763
Other interest-bearing deposits	9,345	9,543
Securities available for sale (at fair value)	54,005	44,338
Federal Home Loan Bank stock	5,787	5,787
Loans receivable	430,689	431,746
Allowance for loan losses	(5,536)	(4,898)
Loans receivable net	425,153	426,848
Office properties and equipment net	5,979	6,696
Accrued interest receivable	1,592	1,508
Intangible assets	400	483
Foreclosed and repossessed assets	1,031	1,360
Other assets	8,116	8,231
TOTAL ASSETS	**$530,805**	**$536,557**
Liabilities and Stockholders Equity		
Liabilities:		
Deposits	$444,130	$448,973
Federal Home Loan Bank advances	29,600	30,400
Accrued interest payable and other liabilities	4,356	4,296
Total liabilities	**478,086**	**483,669**
Stockholders equity:		
Common stock 5,133,050 and 5,133,570 shares, respectively	51	51
Additional paid-in capital	53,939	53,934
Retained earnings	909	1,323
Unearned deferred compensation	(97)	(102)
Accumulated other comprehensive loss	(2,083)	(2,318)
Total stockholders equity	**52,719**	**52,888**
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	**$530,805**	**$536,557**

See accompanying condensed notes to unaudited consolidated financial statements.

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CITIZENS COMMUNITY BANCORP, INC.

Consolidated Statements of Operations (unaudited)

Three Months Ended December 31, 2011 and 2010

(in thousands, except per share data)

	Three Months Ended	
	December 31, 2011	December 31, 2010
Interest and Dividend Income:		
Interest and fees on loans	$6,802	$7,269
Interest on investments	341	690
Total interest and dividend income	7,143	7,959
Interest expense:		
Interest on deposits	1,495	1,989
Interest on borrowed funds	330	607
Total interest expense	1,825	2,596
Net interest income	5,318	5,363
Provision for loan losses	1,540	1,600
Net interest income after provision for loan losses	3,778	3,763
Noninterest income:		
Total other-than-temporary impairment losses	(3,002)	(1,980)
Portion of loss recognized in other comprehensive loss (before tax)	2,329	1,410
Net gains on sale of available-for-sale securities	83	
Net losses on available for sale securities	(590)	(570)
Service charges on deposit accounts	387	374
Loan fees and service charges	120	235
Other	133	108
Total noninterest income	50	147
Noninterest expense:		
Salaries and related benefits	2,151	2,017
Occupancy net	606	643
Office	274	374
Data processing	351	165
Amortization of core deposit	83	83
Advertising, marketing and public relations	53	48
FDIC premium assessment	180	270
Professional services	312	287
Other	498	410
Total noninterest expense	4,508	4,297
Loss before provision for income tax	(680)	(387)
Benefit for income taxes	(266)	(148)
Net loss attibutable to common stockholders	$ (414)	$ (239)
Per share information:		
Basic loss	$ (0.08)	$ (0.05)
Diluted loss	$ (0.08)	$ (0.05)
Dividends paid	$	$

See accompanying condensed notes to unaudited consolidated financial statements.

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CITIZENS COMMUNITY BANCORP, INC.

Consolidated Statement of

Comprehensive Income (unaudited)

Three Months Ended December 31, 2011 and 2010

(in thousands, except per share data)

	Three Months Ended December 31, 2011	December 31, 2010
Net loss attibutable to common stockholders	$(414)	$ (239)
Other comprehensive income, net of tax:		
Unrealized gains (losses) on securities:		
Unrealized holding (losses) gains arising during period	(220)	1,790
Less: reclassification adjustment for gains included in net income	50	
Change for realized losses on securities available for sale for OTTI write-down	404	342
Unrealized gains (losses) on securities	234	2,132
Defined benefit plans:		
Amortization of unrecognized prior service costs and net gains (losses)	1	30
Other comprehensive income, net of tax	235	2,162
Comprehensive (loss) income	$(179)	$1,923

See accompanying condensed notes to unaudited consolidated financial statements.

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CITIZENS COMMUNITY BANCORP, INC.

Consolidated Statement of

Changes in Stockholders Equity (unaudited)

Three Months Ended December 31, 2011

(in thousands, except Shares)

	Common Stock		Additional Paid-in	Retained	Unearned	Accumulated Other Comprehensive Income	Total
	Shares	Amount	Capital	Earnings	Compensation	(loss)	Equity
Balance, September 30, 2011	5,133,570	$51	$53,934	$1,323	$(102)	$(2,318)	$52,888
Net loss				(414)			(414)
Other comprehensive income						235	235
Forfeiture of unvested shares 520 shares	(520)						
Stock option expense			5				5
Amortization of restricted stock					5		5
Balance, December 31, 2011	5,133,050	$51	$53,939	$ 909	$ (97)	$(2,083)	$52,719

See accompanying condensed notes to unaudited consolidated financial statements.

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CITIZENS COMMUNITY BANCORP, INC.

Consolidated Statements of Cash Flows (unaudited)

Three Months Ended December 31, 2011 and 2010

(in thousands, except per share data)

	Three Months Ended	
	December 31, 2011	December 31, 2010
Cash flows from operating activities:		
Net loss attributable to common stockholders	$ (414)	$ (239)
Adjustments to reconcile net income to net cash provided by operating activities:		
Net securities amortization	108	(97)
Depreciation	258	305
Provision for loan losses	1,540	1,600
Net realized gain on sale of securities	(83)	
Impairment on mortgage-backed securities, net of recoveries	673	620
Amortization of core deposit intangible	83	83
Amortization of restricted stock	5	1
Provision for stock options	5	
Loss on sale of office properties	134	
Net loss (gain) on disposal of foreclosed properties	(2)	5
Provision for valuation allowance on foreclosed properties	25	135
Decrease (increase) in accrued interest receivable and other assets	(239)	770
Increase (decrease) in other liabilities	61	(642)
Total adjustments	2,568	2,780
Net cash provided by operating activities	2,154	2,541
Cash flows from investing activities:		
Purchase of securities available for sale	(15,647)	
Net decrease in interest-bearing deposits	198	
Proceeds from sale of securities available-for-sale	3,888	
Principal payments on securities available for sale	1,783	3,932
Proceeds from sale of foreclosed properties	541	184
Net decrease in loans	34	4,003
Net capital expenditures	(138)	(487)
Net cash received from sale of office properties	464	
Net cash (used in) provided by investing activities	(8,877)	7,632
Cash flows from financing activities:		
Net decrease in Federal Home Loan Bank advances	(800)	(21,400)
Net (decrease) increase in deposits	(4,843)	6,091
Net cash used in financing activities	(5,643)	(15,309)
Net decrease in cash and cash equivalents	(12,366)	(5,136)
Cash and cash equivalents at beginning of period	31,763	72,438
Cash and cash equivalents at end of period	$19,397	$67,302

Supplemental cash flow information:		
Cash paid during the year for:		
Interest on deposits	$ 1,482	$ 1,992
Interest on borrowings	$ 330	$ 676
Income taxes	$ 5	$ 3

Supplemental noncash disclosure:		
Transfers from loans receivable to foreclosed and repossessed assets	$ 134	$ 192

See accompanying condensed notes to unaudited consolidated financial statements.

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CITIZENS COMMUNITY BANCORP, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

NOTE 1 NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Citizens Community Federal (the Bank) included herein have been included by its parent company, Citizens Community Bancorp, Inc. (the Company), pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Citizens Community Bancorp (CCB) was a successor to Citizens Community Federal as a result of a regulatory restructuring into the mutual holding company form, which was effective on March 29, 2004. Originally, Citizens Community Federal was a credit union. In December 2001, Citizens Community Federal converted to a federal mutual savings bank. In 2004, Citizens Community Federal reorganized into the mutual holding company form of organization. In 2006, Citizens Community Bancorp completed its second-step mutual to stock conversion.

The consolidated income (loss) of the Company is principally derived from the Bank s income. The Bank originates residential and consumer loans and accepts deposits from customers, primarily in Wisconsin, Minnesota and Michigan. The Bank operates 26 full-service offices; eight stand-alone locations and 18 branches predominantly located inside Walmart Supercenters.

The Bank is subject to competition from other financial institutions and non-financial institutions providing financial products. Additionally, the Bank is subject to the regulations of certain regulatory agencies and undergoes periodic examination by those regulatory agencies.

In preparing these financial statements, we evaluated the events and transactions that occurred through February 10, 2012, the date on which the financial statements were available to be issued. As of February 10, 2012, there were no subsequent events which required recognition or disclosure.

The accompanying interim financial statements are unaudited. However, in the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Unless otherwise stated, all amounts are in thousands.

Principles of Consolidation The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Citizens Community Federal. All significant inter-company accounts and transactions have been eliminated.

Use of Estimates Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying disclosures. These estimates are based on management s best knowledge of current events and actions the Company may undertake in the future. Estimates are used in accounting for, among other items, fair value of financial instruments, the allowance for loan losses, valuation of acquired intangible assets, useful lives for depreciation and amortization, indefinite-lived intangible assets and long-lived assets, deferred tax assets, uncertain income tax positions and contingencies. Management does not anticipate any material changes to estimates in the near term. Factors that may cause sensitivity to the aforementioned estimates include but are not limited to; external market factors such as market interest rates and employment rates, changes to operating policies and procedures, and changes in applicable banking regulations. Actual results may ultimately differ from estimates, although management does not generally believe such differences would materially affect the consolidated financial statements in any individual reporting period.

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Securities Securities are classified as available for sale when they might be sold before maturity. Securities available for sale are carried at fair value, with unrealized holding gains and losses and losses deemed other than temporarily impaired due to non-credit issues being reported in other comprehensive income, net of tax. Unrealized losses deemed other-than-temporarily due to credit issues are reported in operations in the period in which the losses arise. Interest income includes amortization of purchase premium or accretion of purchase discount. Amortization of premiums and accretion of discounts are recognized in interest income using the interest method over the estimated lives of the securities.

Declines in the fair value of securities below their cost that are other than temporary due to credit issues are reflected as Net gains/(losses) on available-for-sale securities in the consolidated statement of operations. In estimating other-than-temporary impairment, management considers: (1) the length of time and extent that fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the Company s ability and intent to hold the security for a period sufficient to allow for any anticipated recovery in fair value. The difference between the present values of the cash flows expected to be collected and the amortized cost basis is the credit loss. The credit loss is the portion of the other-than-temporary impairment that is recognized in earnings and is a reduction to the cost basis of the security. The portion of other-than-temporary impairment related to all other factors is included in other comprehensive income (loss), net of the related tax effect.

Loans Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of unearned interest, and deferred loan fees and costs. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the level-yield method without anticipating prepayments.

Interest income on mortgage and consumer loans is discontinued at the time the loan is over 91 days delinquent. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful. All interest accrued but not received for a loan placed on non-accrual is reversed against interest income. Interest received on such loans is accounted for on the cash basis or cost recovery method until qualifying for return to accrual status. Loans are returned to accrual status when payments are made that bring the loan account due date, less than 92 days delinquent. Interest on impaired loans considered troubled debt restructurings that are not 91 days delinquent is recognized as income as it accrues based on the revised terms of the loan over an established period of continued payment.

Real estate loans and open ended consumer loans are charged off to estimated net realizable value less estimated selling costs at the earlier of when (a) the loan is deemed by management to be uncollectible, or (b) the loan becomes greater than 180 days past due. Closed end consumer loans are charged off to net realizable value at the earlier of when (a) the loan is deemed by management to be uncollectible, or (b) the loan becomes greater than 120 days past due.

Allowance for Loan Losses The allowance for loan losses is a valuation allowance for probable and inherent credit losses. Loan losses are charged against the allowance for loan loss (ALL) when management believes that the collectability of a loan balance is unlikely. Subsequent recoveries, if any, are credited to the ALL. Management estimates the allowance balance required using past loan loss experience; the nature, volume and composition of the loan portfolio; known and inherent risks in the portfolio; information about specific borrowers ability to repay and estimated collateral values; current economic conditions; and other relevant factors. The ALL consists of specific and general components. The specific component relates to loans that are individually classified as impaired. The general component covers non-impaired loans and is based on historical loss experience adjusted for certain qualitative factors. The entire ALL balance is available for any loan that, in management s judgment, should be charged off.

A loan is impaired when full payment under the loan terms is not expected. Troubled debt restructurings (TDRs) are individually evaluated for impairment. See Note 3 Loans/Allowance for Loan Losses and Impaired Loans for information on what we consider to be a TDR. If a loan is impaired, a specific allowance is established so that the loan is reported, net, at the present value of estimated future cash flows using the loan s existing rate or at the

fair value of collateral if repayment is expected solely from the underlying collateral of the loan. Large groups of smaller balance homogeneous loans, such as non-classified consumer and residential real estate loans are collectively evaluated for impairment, and accordingly, are not separately identified for impairment disclosures.

Foreclosed and Repossessed Assets Assets acquired through, or instead of loan foreclosure are initially recorded at fair value, less estimated costs to sell, which establishes a new cost basis. If the fair value declines subsequent to foreclosure or repossession, a valuation allowance is recorded through expense. Costs incurred after acquisition are expensed, and included in Non-interest Expense, Other on the consolidated statement of operations. Foreclosed and repossessed asset balances were $1,031 and $1,360 at December 31, and September 30, 2011, respectively.

Income Taxes The Company accounts for income taxes in accordance with Accounting Standards Codification (ASC) Topic 740, Income Taxes . Under this guidance, deferred taxes are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates that will apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized as income or expense in the period that includes the enactment date. See Note 6 for details on the Company s income taxes.

The Company regularly reviews the carrying amount of its net deferred tax assets to determine if the establishment of a valuation allowance is necessary. If based on the available evidence, it is more likely than not that all or a portion of the Company s net deferred tax assets will not be realized in future periods, a deferred tax valuation allowance would be established. Consideration is given to various positive and negative factors that could affect the realization of the deferred tax assets. In evaluating this available evidence, management considers, among other things, historical performance, expectations of future earnings, the ability to carry back losses to recoup taxes previously paid, length of statutory carry forward periods, experience with utilization of operating loss and tax credit carry forwards not expiring, tax planning strategies and timing of reversals of temporary differences. Significant judgment is required in assessing future earnings trends and the timing of reversals of temporary differences. The Company s evaluation is based on current tax laws as well as management s expectations of future performance.

Earnings Per Share Basic earnings per common share is net income or loss divided by the weighted average number of common shares outstanding during the period. Diluted earnings per common share include the dilutive effect of additional potential common shares issuable during the period, consisting of stock options outstanding under the Company s stock incentive plan.

Reclassifications Certain items previously reported were reclassified for consistency with the current presentation.

Adoption of New Accounting Standards In June 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-05, *Presentation of Comprehensive Income* ASU 2011-05 requires the presentation of comprehensive income in either a single continuous financial statement or two separate, but consecutive financial statements. ASU 2011-05 also includes a provision requiring the presentation of reclassification adjustments from other comprehensive income to net income on the face of the financial statements. In December 2011, the FASB issued ASU 2011-12, *Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05* which deferred this requirement in order to allow the FASB more time to determine whether reclassification adjustments should be required to be presented on the face of the financial statements. For public entities, ASUs 2011-05 and 2011-12 are effective for fiscal years, and interim periods beginning after December 15, 2011, and are required to be applied retrospectively. Early adoption is permitted. The Company has adopted ASUs 2011-05 and 2011-12 effective October 31, 2011, electing to present a consolidated statement of comprehensive income separate from, but consecutive to, its statement of operations. The adoption of ASUs 2011-05 and 2011-12 had no material effect on the Company s results of operations, financial position or cash flows.

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In May 2011, the FASB issued ASU 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS* . The amended guidance does not modify the requirements for when fair value measurements apply, rather it generally represents clarifications on how to measure and disclose fair value under Topic 820, *Fair Value Measurement* . Respective disclosure requirements are essentially the same. However, some of the specific amendments address the application of existing fair value measurement requirements. Other specific amendments change a particular principal or requirement for measuring fair value, or for disclosing information about fair value measurements. ASU 2011-04 is intended to improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and IFRS. This guidance is effective prospectively for annual and interim periods beginning after December 15, 2011. The adoption of this guidance is not expected to have a material impact on the Company s consolidated financial statements.

In April 2011, the FASB issued ASU 2011-03, *Transfers and Servicing (Topic 860); Reconsideration of Effective Control for Repurchase Agreements* . Under the amended guidance, a transferor maintains effective control over transferred financial assets if there is an agreement between both entities which obligates the transferor to repurchase the financial assets before maturity. In addition, the following requirements must be met: (a) the financial asset to be repurchased or redeemed is the same or substantially the same as that transferred, (b) the agreement is to repurchase or redeem the transferred financial asset before maturity at a fixed or determinable price, and (c) the agreement is entered into contemporaneously with, or in contemplation of the transfer. This guidance is effective prospectively for transactions, or modifications of existing transactions, that occur on or after the first interim or annual period beginning on or after December 15, 2011. Early adoption is permitted. The Company adopted this guidance effective October 1, 2011. The adoption of this guidance did not have a material effect on the Company s consolidated financial statements.

NOTE 2 FAIR VALUE ACCOUNTING

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 statement 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 we have 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 our own assumptions about the assumptions that market participants would use in pricing an asset or liability.

A financial instrument s categorization within the valuation hierarchy is based upon the lowest level of input within the valuation hierarchy that is significant to the fair value measurement.

The fair value of securities available for sale is determined by obtaining market price quotes from independent third parties wherever such quotes are available (Level 1 inputs) or matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities relationship to other benchmark quoted securities (Level 2 inputs). Where such quotes are not available, we utilize independent third party valuation analyses to support our own estimates and judgments in determining fair value.

Assets Measured on a Recurring Basis

	Fair Value	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2011:				
Securities available for sale:				
U.S. Agency mortgage-backed securities	$15,339	$	$15,339	$
U.S.Agency floating Rate Bonds	24,316		24,316	
Fannie Mae mortgage-backed securities	6,052		6,052	
Non-agency mortgage-backed securities	8,298			8,298
Total	$54,005	$	$45,707	$8,298
September 30, 2011:				
Securities available for sale:				
U.S. Agency mortgage-backed securities	$ 9,983	$	$ 9,983	$
U.S.Agency floating Rate Bonds	25,212		25,212	
Non-agency mortgage-backed securities	9,143			9,143
Total	$44,338	$	$35,195	$9,143

Assets Measured on a Nonrecurring Basis

	Fair Value	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 30, 2011:				
Foreclosed and repossessed assets	$1,031	$	$	$1,031
Loans restructured in a troubled debt restructuring	6,724			6,724
Total	$7,755	$	$	$7,755
September 30, 2011:				
Foreclosed and repossessed assets	$1,360	$	$	$1,360
Loans restructured in a troubled debt restructuring	6,018			6,018
Total	$7,378	$	$	$7,378

Level 3 assets measured on a recurring basis are certain investments for which little or no market activity exists or whose value of the underlying collateral is not market observable. Management s valuation uses both observable as well as unobservable inputs to assist in the Level 3 valuation of mortgage backed securities held by the Bank, employing a methodology that considers future cash flows along with risk-adjusted returns. The inputs in this methodology are as follows: ability and intent to hold to maturities, mortgage underwriting rates, market prices/conditions, loan type, loan-to-value, strength of borrower, loan age, delinquencies, prepayment/cash flows, liquidity, expected future cash flows, rating agency actions, and a discount rate, which is assumed to be approximately equal to the coupon rate for each security. We had an independent valuation of all Level 3 securities in the current quarter. Based on this valuation, we recorded pre-tax other than temporary impairment of $673 during the three months ended December 31, 2011.

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The fair value of foreclosed assets is determined by obtaining market price quotes from independent third parties wherever such quotes are available. Where such quotes are not available, we utilize independent third party appraisals to support our own estimates and judgments in determining fair value.

The following table presents a reconciliation of residential mortgage-backed securities held by the Bank measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three month periods ended December 31, 2011 and 2010:

	Three Months Ended	
	December 31, 2011	December 31, 2010
Balance beginning of period	$ 9,143	$24,999
Total (gains) or losses (realized/unrealized):		
Included in earnings	(673)	(620)
Included in other comprehensive loss	606	3,632
Sales		
Payments, accretion and amortization	(778)	(2,735)
Balance end of period	$ 8,298	$25,276

Fair Values of Financial Instruments

ASC 825-10 and ASC 270-10, *Interim Disclosures about Fair Value Financial Instruments*, require disclosures about fair value financial instruments and significant assumptions used to estimate fair value. The estimated fair values of financial instruments not previously disclosed are as follows:

Cash and Cash Equivalents

Due to their short-term nature, the carrying amounts of cash and cash equivalents were considered to be a reasonable estimate of fair value.

Interest Bearing Deposits

Fair value of interest bearing deposits is estimated based on their carrying amounts.

Loans Receivable

Fair value is estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type such as real estate and consumer. The fair value of loans is calculated by discounting scheduled cash flows through the estimated maturity date using market discount rates reflecting the credit and interest rate risk inherent in the loan. The estimate of maturity is based on the Bank s repayment schedules for each loan classification.

Federal Home Loan Bank (FHLB) Stock

Federal Home Loan Bank Stock is carried at cost, which is its redeemable fair value since the market for the stock is restricted (See Note 8 to the Company s consolidated financial statements included in the Company s Form 10-K filed with the Securities and Exchange Commission on December 21, 2011 for additional information).

Accrued Interest Receivable and Payable

Due to their short-term nature, the carrying amounts of accrued interest receivable and payable, respectively, were considered to be a reasonable estimate of fair value.

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Deposits

The fair value of deposits with no stated maturity, such as demand deposits, savings accounts, and money market accounts, is the amount payable on demand at the reporting date. The fair value of certificate accounts is calculated by using discounted cash flows applying interest rates currently being offered on similar certificates.

Federal Home Loan Bank Advances

The fair value of long-term borrowed funds is estimated using discounted cash flows based on the Bank s current incremental borrowing rates for similar borrowing arrangements. The carrying value of short-term borrowed funds approximates its fair value.

Off-Balance-Sheet Instruments

The fair value of off-balance sheet commitments would be estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements, the current interest rates, and the present creditworthiness of the customers. Since this amount is immaterial to the Company, no amounts for fair value are presented.

The carrying amount and estimated fair value of financial instruments were as follows:

	December 31, 2011		September 30, 2011	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash and cash equivalents	$ 19,397	$ 19,397	$ 31,763	$ 31,763
Interest-bearing deposits	9,345	9,345	9,543	9,543
Securities available for sale	54,005	54,005	44,338	44,338
FHLB stock	5,787	5,787	5,787	5,787
Loans receivable	425,153	451,844	426,848	453,112
Accrued interest receivable	1,592	1,592	1,508	1,508
Financial liabilities:				
Deposits	$444,130	$450,123	$448,973	$454,933
FHLB advances	29,600	31,541	30,400	32,454
Accrued interest payable	128	128	114	114

NOTE 3 LOANS, ALLOWANCE FOR LOAN LOSSES AND IMPAIRED LOANS

The ALL represents management s estimate of probable and inherent credit losses in the Bank s loan portfolio. Estimating the amount of the ALL requires the exercise of significant judgment and the use of estimates related to the amount and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans based on historical loss experience, and consideration of other qualitative factors such as current economic trends and conditions, all of which may be susceptible to significant change.

There are many factors affecting the ALL; some are quantitative, while others require qualitative judgment. The process for determining the ALL (which management believes adequately considers potential factors which result in probable credit losses), includes subjective elements and, therefore, may be susceptible to significant change. To the extent actual outcomes differ from management estimates, additional provision for loan losses could be required that could adversely affect our earnings or financial position in future periods. Allocations of the ALL may be made for specific loans but the entire ALL is available for any loan that, in management s judgment, should be charged-off or for which an actual loss is realized.

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Changes in the ALL for the periods presented below were as follows:

	Real Estate	Consumer	Total
December 31, 2011 and Three Months then Ended:			
Allowance for Loan Losses:			
Beginning balance, October 1, 2011	$ 1,907	$ 2,991	$ 4,898
Charge-offs	(383)	(582)	(965)
Recoveries		63	63
Provision (1)	654	886	1,540
Ending balance, December 31, 2011	$ 2,178	$ 3,358	$ 5,536
Ending balance: individually evaluated for impairment	$ 560	$ 303	$ 863
Ending balance: collectively evaluated for impairment	$ 1,618	$ 3,055	$ 4,673
Loans Receivable:			
Ending balance	$ 282,393	$ 148,549	$ 430,942
Ending balance: individually evaluated for impairment	$ 5,399	$ 1,325	$ 6,724
Ending balance: collectively evaluated for impairment	$ 276,994	$ 147,224	$ 424,218
Sepember 30, 2011 and Twelve Months then Ended:			
Allowance for Loan Losses:			
Beginning balance, October 1, 2010	$ 1,562	$ 2,583	$ 4,145
Charge-offs	(2,476)	(2,882)	(5,358)
Recoveries	46	201	247
Provision (1)	2,775	3,089	5,864
Ending balance, September 30, 2011	$ 1,907	$ 2,991	$ 4,898
Ending balance: individually evaluated for impairment	$ 381	$ 263	$ 644
Ending balance: collectively evaluated for impairment	$ 1,526	$ 2,728	$ 4,254
Loans Receivable:			
Ending balance	$ 275,339	$ 157,425	$ 432,764
Ending balance: individually evaluated for impairment	$ 5,429	$ 1,233	$ 6,662
Ending balance: collectively evaluated for impairment	$ 269,910	$ 156,192	$ 426,102

(1) The Bank does not have historical data disaggregating provision for loan losses between real estate and consumer loans. Therefore, the provision for loan losses has been allocated between real estate and consumer loans for each period presented based on the ratio of real

estate and consumer net loan charge-offs for that period.

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The Bank has originated substantially all loans currently recorded on its balance sheet. The Bank has not acquired any loans since 2005.

As an integral part of their examination process, various regulatory agencies review the Bank s ALL. Such agencies may require that changes in the ALL be recognized when such regulators credit evaluations differ from those of management based on information available to the regulators at the time of their examinations.

Loans receivable as of the end of the periods shown below were as follows:

	Real Estate Loans		Consumer Loans		Total Loans	
	December 31, 2011	September 30, 2011	December 31, 2011	September 30, 2011	December 31, 2011	September 30, 2011
Performing loans						
Performing TDR loans	$ 3,679	$ 3,191	$ 784	$ 914	$ 4,463	$ 4,105
Performing loans other	272,162	264,838	147,889	155,846	420,051	420,684
Total performing loans	275,841	268,029	148,673	156,760	424,514	424,789
Nonperforming loans (1)						
Nonperforming TDR loans	1,887	2,238	374	319	$ 2,261	$ 2,557
Nonperforming loans other	3,015	3,452	899	948	3,914	4,400
Total nonperforming loans	4,902	5,690	1,273	1,267	6,175	6,957
Total loans	$ 280,743	$ 273,719	$ 149,946	$ 158,027	$ 430,689	$ 431,746

(1) Nonperforming loans are defined as loans that (a) are 91+ days past due and nonaccruing, or (b) TDR loans restructured at a 0% interest rate that were 91+ days past due and nonaccruing at the time of restructuring.

An aging analysis of the Bank s real estate and consumer loans as of December 31, 2011 and September 30, 2011 is as follows:

	1 Month Past Due	2 Months Past Due	Greater Than 3 Months	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Accruing
December 31, 2011:							
Real estate loans	$ 3,553	$ 1,296	$ 3,334	$ 8,183	$ 272,560	$ 280,743	$
Consumer loans	2,824	898	908	4,630	145,316	149,946	
Total	$ 6,377	$ 2,194	$ 4,242	$ 12,813	$ 417,876	$ 430,689	$
Sepember 30, 2011:							
Real estate loans	$ 3,867	$ 1,877	$ 3,452	$ 9,196	$ 264,523	$ 273,719	$
Consumer loans	2,517	868	948	4,333	153,694	158,027	
Total	$ 6,384	$ 2,745	$ 4,400	$ 13,529	$ 418,217	$ 431,746	$

A summary of the Bank s impaired loans as of December 31, 2011 and September 30, 2011 is as follows:

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	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2011 and Three Months then Ended:					
With no related allowance recorded:					
Real estate loans	$3,211	$3,211	$	$3,414	$18
Consumer loans	405	405		$456	4
With an allowance recorded:					
Real estate loans	2,183	2,183	523	$1,998	12
Consumer loans	925	925	340	$826	7
Total:					
Real estate loans	5,399	5,399	523	5,412	30
Consumer loans	$1,325	$1,325	$340	$1,282	$11
Sepember 30, 2011 and Twelve Months then Ended:					
With no related allowance recorded:					
Real estate loans	$3,616	$3,616	$	$2,262	$95
Consumer loans	506	506		$359	22
With an allowance recorded:					
Real estate loans	1,813	1,813	381	$1,555	29
Consumer loans	727	727	263	$843	16
Total:					
Real estate loans	5,429	5,429	381	3,817	124
Consumer loans	$1,233	$1,233	$263	$1,202	$38

Troubled Debt Restructuring A TDR includes a loan modification where a borrower is experiencing financial difficulty and we grant a concession to that borrower that we would not otherwise consider except for the borrower s financial difficulties. A TDR may be either on accrual or nonaccrual status based upon the performance of the borrower and management s assessment of collectability. If a TDR is placed on nonaccrual status, it remains there until a sufficient period of performance under the restructured terms has occurred at which time it is returned to accrual status. A summary of loans modified in a troubled debt restructuring as of December 31, 2011 and during the nine months then ended is as follows:

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	Real Esta	Consumer	Total
December 31, 2011 and Three Months then Ended:			
Accruing / Performing:			
Beginning balance	$ 3,506	$ 950	$ 4,456
Principal payments	(33)	(25)	(58)
Charge-offs			
Advances		3	3
New restructured (1)	7	41	48
Class Transfers (2)	199	(48)	151
Transfers between accrual/non-accrual		(137)	(137)
Ending balance	$ 3,679	$ 784	$ 4,463
Non-accrual / Non-performing:			
Beginning balance	$ 1,923	$ 283	$ 2,206
Principal payments	(18)	(82)	(100)
Charge-offs	(21)	(80)	(101)
Advances	3	1	4
New restructured		32	32
Class Transfers		83	83
Transfers between accrual/non-accrual		137	137
Ending balance	$ 1,887	$ 374	$ 2,261
Totals:			
Beginning balance	$ 5,429	$ 1,233	$ 6,662
Principal payments	(51)	(107)	(158)
Charge-offs	(21)	(80)	(101)
Advances	3	4	7
New restructured	7	73	80
Class Transfers	199	35	234
Transfers between accrual/non-accrual			
Ending balance	$ 5,566	$ 1,158	$ 6,724

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September 30, 2011 and Twelve Months then Ended:			
Accruing / Performing:			
Beginning balance	$ 1,402	$ 415	$ 1,817
Principal payments	(80)	(140)	(220)
Charge-offs			
Advances	35	8	43
New restructured (1)	1,085	422	1,507
Class Transfers (2)	1,275	229	1,504
Transfers between accrual/non-accrual	(211)	16	(195)
Ending balance	$ 3,506	$ 950	$ 4,456
Non-accrual / Non-performing:			
Beginning balance	$ 1,312	$ 144	$ 1,456
Principal payments	(42)	(34)	(76)
Charge-offs		(31)	(31)
Advances	52	5	57
New restructured			
Class Transfers	390	215	605
Transfers between accrual/non-accrual	211	(16)	195
Ending balance	$ 1,923	$ 283	$ 2,206
Totals:			
Beginning balance	$ 2,714	$ 559	$ 3,273
Principal payments	(122)	(174)	(296)
Charge-offs		(31)	(31)
Advances	87	13	100
New restructured	1,085	422	1,507
Class Transfers	1,665	444	2,109
Transfers between accrual/non-accrual			
Ending balance	$ 5,429	$ 1,233	$ 6,662

(1) New Restructured represent loans restructured during the current period that meet TDR criteria in accordance with the Bank s policy at the time of the restructuring.

(2) Class Transfers represent previously restructured loans that met TDR criteria per the Bank s policy for the first time during the current period.

NOTE 4 INVESTMENT SECURITIES

The amortized cost, estimated fair value and related unrealized gains and losses on securities available for sale as of December 31, 2011 and September 30, 2011, respectively, was as follows:

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Description of Securities	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2011				
U.S. Agency mortgage-backed securities	$ 15,264	$ 121	$ 46	$ 15,339
U.S. Agency Floating Rate Bonds	24,369		53	24,316
Fannie Mae mortgage-backed securities	6,030	22		6,052
Non-agency mortgage-backed securities	11,467		3,169	8,298
Total investment securities	$ 57,130	$ 143	$ 3,268	$ 54,005
September 30, 2011				
U.S. Agency mortgage-backed securities	$ 9,719	$ 264	$	$ 9,983
U.S. Agency Floating Rate Bonds	25,215	24	27	25,212
Non-agency mortgage-backed securities	12,918		3,775	9,143
Total investment securities	$ 47,852	$ 288	$ 3,802	$ 44,338

We evaluate securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. As part of such monitoring, the credit quality of individual securities and their issuers are assessed. Significant inputs used to measure the amount related to credit loss include, but are not limited to; default and delinquency rates of underlying collateral, remaining credit support, and historical loss severities. Adjustments to market value that are considered temporary are recorded as separate components of equity, net of tax. If an impairment of a security is identified as other-than-temporary based on information available, such as the decline in the credit worthiness of the issuer, external market ratings, or the anticipated or realized elimination of associated dividends, such impairments are further analyzed to determine if credit loss exists. If there is a credit loss, it will be recorded in the Consolidated Statement of Operations. Losses other than credit will continue to be recognized in other comprehensive income. Unrealized losses reflected in the preceding tables have not been included in results of operations because the unrealized loss was not deemed other-than-temporary. Management has determined that more likely than not, the Company will not be required to sell the debt security before its anticipated recovery.

A summary of the amount of other-than-temporary impairment related to credit losses on available-for-sale securities that have been recognized in earnings follows:

	Three Months Ended December 31, 2011	Twelve Months Ended September 30, 2011
Beginning balance of the amount of OTTI related to credit losses	$ 2,408	$ 9,497
Credit portion of OTTI on securities for which OTTI was not previously recognized	673	620
Cash payments received on a security in excess of the security s book value adjusted for previously recognized credit portion of OTTI		(50)
Credit portion of OTTI on securities in default for which OTTI was previously recognized		(2,798)
Credit portion of OTTI previously recognized on securities sold during the period		(4,861)
Ending balance of the amount of OTTI related to credit losses	$ 3,081	$ 2,408

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The Bank has pledged certain of its U.S. Agency securities as collateral against a borrowing line with the Federal Reserve Bank. However, as of December 31, 2011, there were no borrowings outstanding on the Federal Reserve line of credit.

NOTE 5 FHLB ADVANCES

A summary of Federal Home Loan Bank advances at December 31, 2011 and September 30, 2011 is as follows:

Maturing during the fiscal year ended September 30,	As of December 31, 2011	Weighted Average Rate	As of September 30, 2011	Weighted Average Rate	2010	Weighted Average Rate
2012	$ 15,200	4.45%	$ 16,000	4.46%	$ 16,000	4.46%
2013	6,750	3.99%	6,750	3.99%	6,750	3.99%
2014	6,150	4.45%	6,150	4.45%	6,150	4.45%
2015	1,500	4.05%	1,500	4.05%	1,500	4.05%
After 2015	0	NA	0	NA	0	NA
Total fixed maturity	$ 29,600		$ 30,400		$ 64,200	
Advances with amortizing principal						
Total	$ 29,600		$ 30,400		$ 64,200	

At December 31, 2011, the Bank s available and unused portion of this borrowing agreement was approximately $156,000.

Maximum month-end amounts outstanding were $29,600 and $63,300 during the three month periods ended December 31, 2011 and 2010, respectively.

Each advance is payable at the maturity date, with a prepayment penalty for fixed rate advances. Federal Home Loan Bank advances are secured by $257,000 of real estate mortgage loans.

NOTE 6 INCOME TAXES

Income tax expense (benefit) for each of the periods shown below consisted of the following:

	Three Months Ended December 31, 2011	Three Months Ended December 31, 2010
Current tax provision / (benefit)		
Federal	$ 327	$ 224
State	72	68
	399	292
Deferred tax benefit		
Federal	(580)	(372)
State	(85)	(68)
	(665)	(440)
Total	$ (266)	$ (148)

The provision for income taxes differs from the amount of income tax determined by applying statutory federal income tax rates to pretax income as result of the following differences:

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	Three Months Ended December 31, 2011		Three Months Ended December 31, 2010	
Tax expense at statutory Rate	$ (231)	34.0%	$ (132)	34.0%
State income taxes net of exception	(36)	5.4%	(21)	5.4%
Other permanent differences	1	(0.2%)	4	(0.2%)
Total	$ (266)	39.1%	$ (148)	11.9%

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The following is a summary of the significant components of the Company s deferred tax assets and liabilities as of December 31, and September 30, 2011, respectively:

	December 31, 2011	September 30, 2011
Deferred tax assets:		
Allowance for loan losses	$ 2,179	$ 1,928
Deferred loan costs/fees	403	366
Director/officer compensation plans	1,324	1,360
Net unrealized loss on securities available for sale	1,250	1,406
Impairment loss	574	72
Other	215	229
Deferred tax assets	$ 5,945	$ 5,361
Deferred tax liabilities:		
Office properties and equipment	(844)	(902)
Federal Home Loan Bank stock	(64)	(64)
Core deposit intangible	(14)	(42)
481a adjustment	(62)	(82)
Other	(108)	(108)
Deferred tax liabilities	(1,092)	(1,198)
Net deferred tax assets	$ 4,853	$ 4,163

The Company regularly reviews the carrying amount of its deferred tax assets to determine if the establishment of a valuation allowance is necessary, as further discussed in Note 1 Nature of Business and Summary of Significant Accounting Policies above. At December 31, and September 30, 2011, respectively, management determined that no valuation allowance was necessary.

The Company s income tax returns are subject to review and examination by federal, state and local government authorities. As of December 31, 2011, years open to examination by the Internal Revenue Service include all taxable years after the taxable year ended September 30, 2006. The years open to examination by state and local government authorities varies by jurisdiction.

The tax effects from uncertain tax positions can be recognized in the financial statements, provided the position is more likely than not to be sustained on audit, based on the technical merits of the position. The Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized, upon ultimate settlement with the relevant tax authority. The Bank applied the foregoing accounting standard to all of its tax positions for which the statute of limitations remains open. As of the date of the accompanying financial statements.

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The Company s policy is to recognize interest and penalties related to income tax issues as components of interest expense and miscellaneous expense, respectively. During the years three month periods ended December 31, 2011 and 2010, the Company did not recognize any interest or penalties related to income tax issues in its statement of operations. The Company has no accrual for the payments of interest and penalties related to income tax issues as of December 31, 2011 or 2010.

NOTE 7 STOCK-BASED COMPENSATION

In February 2005, the Company s stockholders approved the Company s Recognition and Retention Plan. This plan provides for the grant of up to 113,910 shares of the Company s common stock to eligible participants under this plan. As of December 31, 2011, 90,927 restricted shares were issued and outstanding under this plan. During the year ended September 30, 2011, 20,312 shares were granted to an eligible participant under this plan at a weighted average fair value of $5.24. No shares were granted during either of the three month periods ending December 31, 2011 or 2010, respectively. There were no previously awarded shares that were forfeited in either of the three month periods ending December 31, 2011 or 2010, respectively. Restricted shares previously granted were awarded at no cost to the employee and have a five-year vesting period. The fair value of these previously granted restricted shares on the date of award was $7.04 per share for 63,783 shares and $6.18 for 6,832 shares. Compensation expense related to these awards was $5, and $1 for the three month periods ended December 31, 2011 and 2010, respectively.

In February 2005, our stockholders also approved the Company s 2004 Stock Option and Incentive Plan. This plan provides for the grant of nonqualified and incentive stock options and stock appreciation rights to eligible participants under the plan. The plan provides for the grant of awards for up to 284,778 shares of the Company s common stock. At December 31, 2011, 248,635 options had been granted under this plan to eligible participants at a weighted-average exercise price of $6.70 per share. Options granted vest over a five-year period. Unexercised, nonqualified stock options expire within 15 years of the grant date and unexercised incentive stock options expire within 10 years of the grant date. Through December 31, 2011, since the plan s inception, options for 93,980 shares of the Company s common stock were vested, options for 46,438 shares were unvested, options for 103,659 shares were forfeited and options for 4,558 shares were exercised. Of the 248,635 options granted, 140,418 remained outstanding as of December 31, 2011.

The Company accounts for stock-based employee compensation related to our 2004 Stock Option and Incentive Plan using the fair-value-based method. Accordingly, we record compensation expense based on the value of the award as measured on the grant date and recognize that cost over the vesting period for the award. The compensation cost recognized for stock-based employee compensation for the three month periods ended December 31, 2011 and 2010 were $5, and $0, respectively.

In February 2008, the Company s stockholders approved the Company s 2008 Equity Incentive Plan. The aggregate number of shares of common stock reserved and available for issuance under the 2008 Equity Incentive Plan is 597,605 shares. Under the Plan, the Compensation Committee may grant stock options and stock appreciation rights that, upon exercise, result in the issuance of 426,860 shares of the Company s common stock. The Committee may grant restricted stock and restricted stock units for an aggregate of 170,745 shares of Company common stock under this plan. In October 2008, the Compensation Committee suspended consideration of distributions or awards under this plan, and as of December 31, 2011, no grants or awards have been made to eligible participants under the 2008 Equity Incentive Plan.

NOTE 8 OTHER COMPREHENSIVE INCOME (LOSS)

On October 1, 2011, the Company adopted ASU 2011-05, *Presentation of Comprehensive Income* . In addition to presenting the Consolidated Statement of Comprehensive Income herein, the following table shows the tax effects allocated to each component of other comprehensive income for the three months ended December 31, 2011:

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	Before-Tax Amount	Tax (Expense)/ Benefit	Net-of-Tax Amount
Unrealized gains (losses) on securities:			
Unrealized holding losses arising during period	$ (367)	147	$ (220)
Less: reclassification adjustment for gains (losses)realized in net income during period	83	(33)	50
Changes for realized losses on securities available for sale for OTTI write-down	673	(269)	404
Defined benefit plans:			
Amortization of unrecognized prior service costs and related net gains (losses)	2	(1)	1
Other comprehensive income	$ 391	$ (156)	$ 235

The changes in the accumulated balances for each component of other comprehensive income for the three months ended December 31, 2011 are as follows:

	Unrealized Gains (losses) on Securities	Defined Benefit Plans	Other Comprehensive Income (Loss)
Balance, September 30, 2011	$ (2,109)	$ (209)	$ (2,318)
Current period other comprehensive income, net of tax	234	1	235
Ending balance, December 31, 2011	$ (1,875)	$ (208)	$ (2,083)

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
FORWARD-LOOKING STATEMENTS

Certain statements contained in this report are considered forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements may be identified by the use of forward-looking words or phrases such as anticipate, believe, could, expect, intend, may, planned, potential, should, will, and would. Such forward-looking statements in this report are inherently subje uncertainties in the Company s operations and business environment. These uncertainties include general economic conditions, in particular, relating to consumer demand for the Bank s products and services; the Bank s ability to maintain current deposit and loan levels at current interest rates; competitive and technological developments; deteriorating credit quality, including changes in the interest rate environment reducing interest margins; prepayment speeds, loan origination and sale volumes, charge-offs and loan loss provisions; the Bank s ability to maintain required capital levels and adequate sources of funding and liquidity; maintaining capital requirements may limit the Bank s operations and potential growth; changes and trends in capital markets; competitive pressures among depository institutions; effects of critical accounting policies and judgments; changes in accounting policies or procedures as may be required by the Financial

Accounting Standards Board (FASB) or other regulatory agencies; further write-downs in the Bank s mortgage-backed securities portfolio; the Bank s ability to implement its cost-savings and revenue enhancement initiatives; legislative or regulatory changes or actions, or significant litigation, adversely affecting the Bank; fluctuation of the Company s stock price; ability to attract and retain key personnel; ability to secure confidential information through the use of computer systems and telecommunications networks; and the impact of reputational risk created by these developments on such matters as business generation and retention, funding and liquidity. Shareholders, potential investors and other readers are urged to consider these factors carefully in evaluating the forward-looking statements and are cautioned not to place undue reliance on such forward-looking statements. Such uncertainties and other risks that may affect the Company s performance are discussed further in Part I, Item 1A, Risk Factors, in the Company s Form 10-K, for the year ended September 30, 2011 filed with the Securities and Exchange Commission on December 21, 2011. The Company undertakes no obligation to make any revisions to the forward-looking statements contained in this report or to update them to reflect events or circumstances occurring after the date of this report.

GENERAL

The following discussion sets forth management s discussion and analysis of our consolidated financial condition as of December 31, 2011, and the consolidated results of operations for the three months ended December 31, 2011, compared to the same period in the fiscal year ended September 30, 2011. This discussion should be read in conjunction with the interim consolidated financial statements and the condensed notes thereto included with this report and with Management s Discussion and Analysis of Financial Condition and Results of Operations and the financial statements and notes related thereto included in the Company s annual report on Form 10-K filed with the Securities and Exchange Commission on December 21, 2011.

PERFORMANCE SUMMARY

The following table sets forth our results of operations and related summary information for the three month periods ended December 31, 2011 and 2010:

SUMMARY RESULTS OF OPERATIONS

(Dollar amounts in thousands, except for per share data)

	Three Months Ended December 31,	
	2011	2010
Net loss, as reported	$ (414)	$ (239)
EPS basic, as reported	$ (0.08)	$ (0.05)
EBS diluted, as reported	$ (0.08)	$ (0.05)
Cash dividends paid	$	$
Return on average assets (annualized)	(0.31%)	(0.16%)
Reteurn on average equity (annualized)	(3.11%)	(1.87%)
Efficiency ratio, as reported (1)	74.62%	70.67%

(1) Non-interest expense divided by the sum of net interest income plus non-interest income, excluding net impairment losses recognized in earnings. A lower ratio indicates greater efficiency.

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The following is a brief summary of some of the factors that affected our operating results in the three month period ended December 31, 2011. See the remainder of this section for a more thorough discussion. Unless otherwise stated, all monetary amounts in this Management s Discussion and Analysis of Financial Condition and Results of Operations, other than share and per share amounts, are stated in thousands.

We reported a net loss of ($414) for the three months ended December 31, 2011, compared to a net loss of ($239) for the three months ended December 31, 2010. Both basic and diluted loss per share were ($0.08) for the three months ended December 31, 2011 and ($0.05) for the three months ended December 31, 2010, respectively.

The return on average assets for the three months ended December 31, 2011 and 2010 was (0.31%) and (0.16%), respectively. The return on average equity for the three months ended December 31, 2011 and 2010 was (3.11%) and (1.87%), respectively.

No cash dividends were declared or paid in either of the three month periods ended December 31, 2011 and 2010, respectively.

Key factors behind these results were:

Net interest income and net interest margin decreased during the three months ended December 31, 2011 from the comparable periods last year. We continue to see both rate and volume related decreases in both interest income on loans and interest expense on deposits. Reductions in FHLB borrowings led to decreases in interest expense on borrowed funds of $277 for the three month period ended December 31, 2011 over the same prior year period.

Net interest income was $5,318 for the three month period ended December 31, 2011, a decrease of $45 or (0.84%) from the three month period ended December 31, 2010.

The net interest margin of 4.04% for the three months ended December 31, 2011 represents a 32 bp increase from a net interest margin of 3.73% for the three months ended December 31, 2010.

Total loans were $430,689 at December 31, 2011, a decrease of $1,057, or (0.24%) from December 31, 2010. Total deposits were $444,130 at December 31, 2011, a decrease of $4,843 or (1.08%) from December 31, 2010.

Net loan charge-offs decreased from $1,333 for the three months ended December 31, 2010 to $902 for the three months ended December 31, 2011. Continued lower levels of net loan charge-offs and non-performing loans led to decreased provision for loan losses of $1,540 for the three month period ended December 31, 2011, compared to $1,600 for the three months ended December 31, 2010. Annualized net loan charge-offs as a percentage of average loans were 0.84% for the three months ended December 31, 2011, compared to 1.15% for the three months ended December 31, 2010. Net loan charge-offs have been gradually decreasing over the past three quarters, primarily due to improved underwriting and collection practices over the past 18 months and improving macroeconomic trends.

Non-interest income decreased from $147 for the three months ended December 31, 2010 to $50 for the three months ended December 31, 2011. The primary contributor was other-than-temporary impairment (OTTI) losses on our non-agency mortgage-backed securities portfolio of $673 for the three month period ended December 31, 2011, offset by gains on sale of securities of $83 for the three month period ended December 31, 2011.

Non-interest expense increased 4.91%, from $4,297 to $4,508 for the three month period ending December 31, 2010 compared to the three month period ending December 31, 2011, primarily due to a loss on disposal of properties of $134.

CRITICAL ACCOUNTING POLICIES

We have established certain accounting policies, which require use of estimates and judgment. In addition to the policies included in Note 1, Nature of Business and Summary of Significant Accounting Policies, to the Consolidated Financial Statements included as an exhibit to our Form 10-K annual report for the fiscal year ending September 30, 2011, our critical accounting policies are as follows:

***Allowance for Loan Losses*.**

We maintain an allowance for loan losses to absorb probable incurred loss in our loan portfolio. The allowance is based on ongoing, quarterly assessments of the estimated probable incurred losses in the loan portfolio. In evaluating the level of the allowance for loan loss, we consider the types of loans and the amount of loans in the loan portfolio, historical loss experience, adverse situations that may affect the borrower s ability to repay, the estimated value of any underlying collateral and prevailing economic conditions. We follow all applicable regulatory guidance, including the Interagency Policy Statement on the Allowance for Loan and Lease Losses, issued by the Federal Financial Institutions Examination Council (FFIEC). The Bank s Allowance for Loan Losses Policy conforms to all applicable regulatory expectations. However, based on periodic examinations by regulators, the amount of allowance for loan losses recorded during a particular period may be adjusted.

Our determination of the allowance for loan losses is based on (1) specific allowances for specifically identified and evaluated impaired loans and their corresponding estimated loss based on likelihood of default, payment history, and net realizable value of underlying collateral; and (2) a general allowance on loans not specifically identified in (1) above, based on historical loss ratios which are adjusted for qualitative and general economic factors. We continue to refine our allowance for loan losses methodology, with an increased emphasis on historical performance adjusted for applicable economic and qualitative factors.

Assessing the allowance for loan losses is inherently subjective as it requires making material estimates, including the amount and timing of future cash flows expected to be received on impaired loans, any of which estimates may be susceptible to significant change. In our opinion, the allowance, when taken as a whole, reflects estimated probable loan losses in our loan portfolio.

Available for Sale Securities.

Securities are classified as available for sale and are carried at fair value, with unrealized gains and losses reported in other comprehensive income (loss). Amortization of premiums and accretion of discounts are recognized in interest income using the interest method over the estimated lives of the securities.

We evaluate all investment securities on a quarterly basis, and more frequently when economic conditions warrant determining if other-than-temporary impairment exists. A debt security is considered impaired if the fair value is less than its amortized cost at the report date. If impaired, we then assess whether the impairment is other-than-temporary.

Current authoritative guidance provides that some portion of an unrealized loss may be other-than-temporary and a credit loss is deemed to exist if the present value of the expected future cash flows is less than the amortized cost basis of the debt security. The credit loss component is recorded in earnings as a component of other-than-temporary impairment in the consolidated statements of operations, while the loss component related to other market factors is recognized in other comprehensive income (loss), provided the Bank does not intend to sell the underlying debt security and it is more likely than not that the Bank will not have to sell the debt security prior to recovery of the unrealized loss.

We consider the following factors in determining whether a credit loss exists and the period over which the debt security is expected to recover:

- The length of time, and extent to which, the fair value has been less than the amortized cost.
- Adverse conditions specifically related to the security, industry or geographic area.

The historical and implied volatility of the fair value of the security.

The payment structure of the debt security and the likelihood of the issuer or underlying borrowers being able to make payments that may increase in the future.

The failure of the issuer of the security or the underlying borrowers to make scheduled interest or principal payments.

Any changes to the rating of the security by a rating agency.

Recoveries or additional declines in fair value subsequent to the balance sheet date.

Interest income on securities for which other-than-temporary impairment has been recognized in earnings is recognized at a rate commensurate with the expected future cash flows and amortized cost basis of the securities after the impairment.

Gains and losses on the sale of securities are recorded on the trade date and determined using the specific-identification method.

To determine if other-than-temporary impairment exists on a debt security, the Bank first determines if (1) it intends to sell the security or (2) it is more likely than not that it will be required to sell the security before its anticipated recovery. If either of the conditions is met, the Bank will recognize other-than-temporary impairment in earnings equal to the difference between the security s fair value and its adjusted cost basis. If neither of the conditions is met, the Bank determines (a) the amount of the impairment related to credit loss and (b) the amount of the impairment due to all other factors. The difference between the present values of the cash flows expected to be collected and the amortized cost basis is the credit loss. The credit loss is the amount of the other-than-temporary impairment that is recognized in earnings and is a reduction to the cost basis of the security. The amount of the total impairment related to all other factors (excluding credit loss) is included in other comprehensive income (loss).

We monitor our portfolio investments on an on-going basis and we obtain an independent valuation of our non-agency residential mortgage-backed securities. This analysis is utilized to ascertain whether any decline in market value is other-than-temporary. In determining whether an impairment is other-than-temporary, we consider the length of time and the extent to which the market value has been below cost, recent events specific to the issuer including investment downgrades by rating agencies and economic conditions within the issuer s industry, whether it is more likely than not that we will be required to sell the security before there would be a recovery in value, and credit performance of the underlying collateral backing the securities, including delinquency rates, cumulative losses to date, and prepayment speed.

The independent valuation process included:

Obtaining individual loan level data directly from servicers and trustees, and making assumptions regarding the frequency of foreclosure, loss severity and conditional prepayment rate (both the entire pool and the loan group pertaining to the bond we hold).

Projecting cash flows based on these assumptions and stressing the cash flows under different time periods and requirements based on the class structure and credit enhancement features of the bond we hold.

Identifying various price/yield scenarios based on the Bank s book value and valuations based on both hold-to-maturity and current free market trade scenarios. Discount rates were determined based on the volatility and complexity of the security and the yields demanded by buyers in the market at the time of the valuation.

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For non-agency residential mortgage-backed securities that are considered other-than-temporarily impaired and for which we have the ability and intent to hold these securities until the recovery of our amortized cost basis, we recognize other-than-temporary impairment in accordance with accounting principles generally accepted in the United States. Under these principles, we separate the amount of the other-than-temporary impairment into the amount that is credit related and the amount due to all other factors. The credit loss component is recognized in earnings and is the difference between the security s amortized cost basis and the present value of expected future cash flows. The amount due to other factors is recognized in other comprehensive income (loss).

Income Taxes.

The assessment of tax assets and liabilities involves the use of estimates, assumptions, interpretations, and judgments concerning certain accounting pronouncements and federal and state tax codes. There can be no assurance that future events, such as court decisions or positions of federal and state taxing authorities, will not differ from management s current assessment, the impact of which could be material to our consolidated results of our operations and reported earnings. We believe that the tax assets and liabilities are adequate and properly recorded in the accompanying consolidated financial statements. As of December 31, 2011, management does not believe a valuation allowance is necessary.

STATEMENT OF OPERATIONS ANALYSIS

Net Interest Income. Net interest income represents the difference between the dollar amount of interest earned on interest-bearing assets and the dollar amount of interest paid on interest-bearing liabilities. The interest income and expense of financial institutions are significantly affected by general economic conditions, competition, policies of regulatory authorities and other factors.

Interest rate spread and net interest margin are used to measure and explain changes in net interest income. Interest rate spread is the difference between the yield on interest earning assets and the rate paid for interest-bearing liabilities that fund those assets. Net interest margin is expressed as the percentage of net interest income to average earning assets. Net interest margin exceeds interest rate spread because non-interest bearing sources of funds (net free funds), principally demand deposits and stockholders equity, also support interest income earning assets. The narrative below discusses net interest income, interest rate spread, and net interest margin for the three month periods ended December 31, 2011 and 2010, respectively.

Net interest income was $5,318 for the three months ended December 31, 2011, compared to $5,363 for the three months ended December 31, 2010. The net interest margin for the three months ended December 31, 2011 was 4.04% compared to 3.73% for the three months ended December 31, 2010. The 31 bp increase in net interest margin was primarily attributable to a corresponding 31 bp increases in interest rate spread. The primary factor is a decrease in the average balance of outstanding higher rate FHLB borrowings. $13,200 of FHLB borrowings have matured since December 31, 2010. As the FHLB borrowings continue to mature, we anticipate that they will be replaced with lower rate borrowings as a source of funding as needed.

As shown in the rate/volume analysis in the following pages, volume changes resulted in an increase of $202 in net interest income for the three months ended December 31, 2011, compared to the comparable prior year period. The decrease and changes in the composition of interest earning assets resulted in a $228 decrease in interest income for the three months ended December 31, 2011, compared to the comparable prior year period. Rate changes on interest earning assets decreased interest income by $588 for the three month period ended December 31, 2011. This decrease was partially offset by rate changes on interest-bearing liabilities that decreased interest expense by $341 over the same prior year period, for a net impact of a $247 decrease in net interest income due to changes in interest rates during the three month period ended December 31, 2011. The decreases in balances of CDs and FHLB Advances, are the primary factors affecting volume changes. Rate decreases on all asset and deposit categories are reflective of the current overall lower market interest rate environment versus the same period last year.

We have remained liability sensitive in the short term during the most recent two fiscal years, in which interest rates have declined to historically low levels. Continued low interest rates will enable us to experience a favorable interest rate margin.

Average Balances, Net Interest Income, Yields Earned and Rates Paid. The following net Interest Income Analysis table presents interest income from average interest earning assets, expressed in dollars and yields, and interest expense on average interest-bearing liabilities, expressed in dollars and rates. Also presented is the weighted average yield on interest-earning assets, rates paid on interest-bearing liabilities and the resultant spread at December 31, 2011 for each of the three-month periods shown below. No tax equivalent adjustments were made. Non-accruing loans have been included in the table as loans carrying a zero yield.

Average interest earning assets were $522,053 for the three month period ended December 31, 2011, compared to $571,190 for the comparable prior year period. Interest income on interest earning assets was $7,143 for the three month period ended December 31, 2011 compared to $7,959 for the comparable prior year period. Interest income is comprised primarily of interest income on loans and interest income on available for sale securities. Interest income on loans was $6,802 for the three month period ended December 31, 2011, compared to $7,269 for the comparable prior year period. Interest income on available for sale securities was $309 for the three month period ended December 31, 2011 compared to $649 for the comparable prior year period. The decrease in loan interest income was primarily due to decreased loan volumes and a continued lower interest rate environment. Decreases in interest income on available for sale securities were primarily due to two factors. First, we apply interest payments to principal on specific securities on which we had previously recorded other-than-temporary impairment. Also, we sold several higher risk non-agency mortgage backed securities and reinvested the proceeds in lower risk and lower yielding agency and floating rate bonds.

Average interest bearing liabilities were $477,017 for the three month period ended December 31, 2011, compared to $534,082 for the comparable prior year period. Interest expense on interest bearing liabilities was $1,825 for the three month period ended December 31, 2011 compared to $2,596 for the comparable prior year period. Interest expense is comprised primarily of interest expense on money market accounts, certificates of deposit and FHLB advances. Decreases were due to decreased balances of FHLB advances which carry higher interest rates than deposits, and lower rates paid on money market accounts and certificates of deposit.

For the three months ended December 31, 2011, interest expense on interest-bearing deposits increased $170 from the volume and mix changes and decreased $324 from the impact of the rate environment, resulting in an aggregate decrease of $494 in interest expense on interest-bearing deposits. Average FHLB advances decreased $23,475 for the three month period ended December 31, 2011 compared to the comparable prior year period. Interest expense on FHLB advances was $330 for the three month period ended December 31, 2011, compared to $607 for the comparable prior year period. The decreases were due to scheduled maturities on certain FHLB advances in 2010 and 2011. As noted above, the Bank has pursued increases in customer deposits at competitively lower interest rates, in part to replace FHLB Advances, which represent a higher interest rate source of funds.

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NET INTEREST INCOME ANALYSIS

(Dollar amounts in thousands)

Three months ended December 31, 2011 compared to the three months ended December 31, 2010

	Three months ended Dec 31, 2011			Three months ended Dec 31, 2010		
	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate
Average interest-earning assets:						
Cash and cash equivalents	$ 26,315	$ 13	0.20%	$ 71,676	$ 41	0.23%
Loans	432,218	6,802	6.24%	453,087	7,269	6.36%
Interest-bearing deposits	9,494	18	0.75%			0.00%
Securities available for sale	48,239	309	2.54%	40,640	649	6.34%
FHLB stock	5,787	1	0.07%	5,787		0.00%
Total interest earning assets	$ 522,053	$ 7,143	5.43%	$ 571,190	$ 7,959	5.53%
Average interest-bearing liabilities:						
Savings Accounts	$ 24,270	$ 5	0.08%	$ 26,207	$ 17	0.26%
Demand deposits	23,644	1	0.02%	21,905	4	0.07%
Money Market	152,862	277	0.72%	154,846	433	1.11%
CD s	221,774	1,100	1.97%	253,708	1,416	2.21%
IRA s	24,667	112	1.80%	24,141	119	1.96%
Total deposits	447,217	1,495	1.33%	480,807	1,989	1.65%
FHLB Advances	29,800	330	4.39%	53,275	607	4.52%
Total interest bearing liabilities	$ 477,017	$ 1,825	1.52%	$ 534,082	$ 2,596	1.93%
Net interest income		$ 5,318			$ 5,363	
Interest rate spread			3.91%			3.60%
Net interest margin			4.04%			3.73%
Average interest-earning assets to average interest-bearing liabilities			1.09			1.07

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Rate/Volume Analysis. The following table presents the dollar amount of changes in interest income and interest expense for the components of interest-earning assets and interest-bearing liabilities that are presented in the preceding table. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to: (1) changes in volume, which are changes in the average outstanding balances multiplied by the prior period rate (i.e. holding the initial rate constant); and (2) changes in rate, which are changes in average interest rates multiplied by the prior period volume (i.e. holding the initial balance constant). Changes due to both rate and volume which cannot be segregated have been allocated in proportion to the relationship of the dollar amounts of the change in each.

RATE / VOLUME ANALYSIS

(Dollar amounts in thousands)

Three months ended December 31, 2011 compared to the three months ended December 31, 2010

	Increase (decrease) due to		
	Volume	Rate	Net
Interest income:			
Cash and cash equivalents	$ (23)	$ (5)	$ (28)
Loans	(330)	(137)	(467)
Interest-bearing deposits	18		18
Securities available for sale	106	(446)	(340)
FHLB stock	1		1
Total interest earning assets	(228)	(588)	(816)
Interest expense:			
Savings Accounts	(1)	(11)	(12)
Demand deposits		(3)	(3)
Money Market	(5)	(151)	(156)
CD s	(167)	(149)	(316)
IRA s	3	(10)	(7)
Total deposits	(170)	(324)	(494)
FHLB Advances	(260)	(17)	(277)
Total interest bearing liabilities	(430)	(341)	(771)
Net interest income	$ 202	$ (247)	$ (45)

(1) the change in interest due to both rate and volume has been allocated in proportion to the relationship to the dollar amounts of the change in each.

Provision for Loan Losses. We determine our provision for loan losses (provision , or PLL), based on our desire to provide an adequate allowance for loan losses (ALL) to reflect probable incurred credit losses in our loan portfolio. Based on increased historical charge off ratios and the negative influence of certain qualitative and general economic factors discussed above under ***Critical Accounting Policies Allowance for Loan Losses*** , the provision necessary to ensure an adequate ALL continues to remain at elevated levels. Specifically, our customers ability to repay loans continues to be adversely affected by higher unemployment rates, and depressed housing prices are causing increases in collateral deficiencies on real estate loans. With both local and national unemployment rates improving slightly in the past quarters, we anticipate our actual charge-off experience to stabilize throughout the fiscal year ending September 30, 2012.

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Net loan charge-offs for the three month period ended December 31, 2011 were $902, compared to $1,333 for the comparable prior year period. Annualized net charge-offs to average loans were 0.84% for the three months ended December 31, 2011 compared to 1.18% for the three months ended December 31, 2010. Non-accrual loans were $4,242 at December 31, 2011 compared to $4,400 at September 30, 2011. Non-accrual loans plus performing non-accrual TDRs totaled $6,175 at December 31, 2011 compared to $6,265 at September 30, 2011. These favorable changes are primarily due to significant decreases in the levels of 91+ days delinquent loans. Refer to the Allowance for Loan Losses and Nonperforming Loans, Potential Problem Loans and Foreclosed Properties sections below for more information related to non-performing loans.

We recorded provisions for loan losses of $1,540 and $1,600 for the three month periods ended December 31, 2011and 2010, respectively. Management believes that the provision taken for these three month periods is adequate in view of the present condition of the loan portfolio and the sufficiency of collateral supporting non-performing loans. We are continually monitoring non-performing loan relationships and will make provisions, as necessary, if the facts and circumstances change. In addition, a decline in the quality of our loan portfolio as a result of general economic conditions, factors affecting particular borrowers or our market areas, or otherwise, could affect the adequacy of our ALL. If there are significant charge-offs against the ALL, or we otherwise determine that the ALL is inadequate, we will need to record an additional PLL in the future. See the section below captioned Allowance for Loan Losses in this discussion for further analysis of the provision for loan losses.

Non-Interest Income (Loss). The following table reflects the various components of non-interest income (loss) for the three months ended December 31, 2011 and 2010, respectively.

	Three months ended December 31,		%
	2011	2010	Change
Noninterest Income (loss):			
Net gains/(losses) on available-for-sale securities	$ (590)	$ (570)	3.51%
Service charges on deposit accounts	387	374	3.48%
Loan fees and service charges	120	235	(48.94%)
Other	133	108	23.15%
Total non-interest income	$ 50	$ 147	(65.99%)

Non-interest income was $50 and $1,47 for the three month periods ended December 31, 2011 and 2010, respectively. Changes were due primarily to a $115 decrease in loan fee and service charge income for the three month period ended December 31, 2011 compared to the three month period ended December 31, 2010. The decrease in loan fee and service charge income was primarily due to the loss of credit card fee income following the 2011 sale of the Bank s credit card portfolio, and a decrease in loan insurance commission income.

Non-Interest Expense. The following table reflects the various components of non-interest expense for the three month periods ended December 31, 2011 and 2010, respectively.

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	Three months ended December 31,		%
	2011	2010	Change
Non-interest Expense:			
Salaries and related benefits	$ 2,151	$ 2,017	6.64%
Occupancy net	606	643	(5.75%)
Office	274	374	(26.74%)
Data processing	351	165	112.73%
Amortization of core deposit	83	83	0.00%
Advertising, marketing and public relations	53	48	10.42%
FDIC premium assessment	180	270	(33.33%)
Professional services	312	287	8.71%
Other	498	410	21.46%
Total non-interest expense	$ 4,508	$ 4,297	4.91%
Non-interest expense (annualized) / Average assets	3.38%	2.93%	

Non-interest expense increased $211, or (4.91%) for the three month period ended December 31, 2011 compared to the comparable prior year period. The non-interest expense (annualized) to average assets ratios were 3.38% and 2.93% for the three month periods ended December 31, 2011 and 2010, respectively. The increases are primarily attributable to; (a) increased data processing costs and (b) a loss on disposal of properties of $134 included in Other above. The increased data processing costs are a result of the 2011 migration to a service bureau data processing model and enhancements to the bank s business continuity plan.

Income Taxes. Income tax benefit was $266 for the three months ended December 31, 2011 compared to income tax benefit of $148 for the three months ended December 31, 2010. The change resulted from the changes in pre-tax loss discussed above.

BALANCE SHEET ANALYSIS

Loans. Loans decreased by $1,057, or (0.24%), to $430,689 as of December 31, 2011 from $431,746 at September 30, 2011. At December 31, 2011, the loan portfolio was comprised of $280,743 of loans secured by real estate, or 65.2% of total loans, and $149,946 of consumer loans, or 34.8% of total loans. At September 30, 2011, the loan portfolio mix included real estate loans of $273,719, or 63.4% of total loans, and consumer loans of $158,027, or 36.6% of total loans. The shift in loan balance mix toward higher real estate loan levels were the result of our recently updated and more conservative underwriting standards, primarily on indirect paper consumer loans. We also continue to experience reduced loan demand in our markets, consistent with decreased loan demand throughout the United States.

Allowance for Loan Losses. The loan portfolio is our primary asset subject to credit risk. To address this credit risk, we maintain an ALL for probable and inherent credit losses through periodic charges to our earnings. These charges are shown in our consolidated statements of operations as PLL. See Provision for Loan Losses earlier in this Report. We attempt to control, monitor and minimize credit risk through the use of prudent lending standards, a thorough review of potential borrowers prior to lending and ongoing and timely review of payment performance. Asset quality administration, including early identification of loans performing in a substandard manner, as well as timely and active resolution of problems, further enhances management of credit risk and minimization of loan losses. Any losses that occur and that are charged off against the ALL are periodically reviewed with specific efforts focused on achieving maximum recovery of both principal and interest.

At least quarterly, we review the adequacy of the ALL. Based on an estimate computed pursuant to the requirements of ASC 450-10, *Accounting for Contingencies* and ASC 310-10, *Accounting by Creditors for Impairment of a Loan*, the analysis of the ALL consists of three components: (i) specific credit allocation established for expected losses relating to specific individual loans for which the recorded investment in the loan exceeds its fair value; (ii) general portfolio allocation based on historical loan loss experience for significant loan categories; and (iii) general portfolio allocation based on qualitative factors such as economic conditions and other factors specific to the markets in which we operate. We continue to refine our ALL methodology by introducing a greater level of granularity to the portfolio. For example, bifurcating consumer loans between indirect paper and other consumer loans; and segmenting real estate loans without an event of delinquency. The additional segmentation of the portfolio is intended to provide a more effective basis for the determination of qualitative factors. In addition, management evaluates its ALL methodology from time to time to assess whether modifications are appropriate in light of underwriting practices, market conditions, identifiable trends, regulatory pronouncements or other factors. Management is continually reviewing its ALL methodology and may make modifications to it as necessary. We believe that any modifications or changes to the ALL methodology would be to enhance the ALL. However, any such modifications could result in materially different allowance levels in future periods.

The specific credit allocation for the ALL is based on a regular analysis of all loans that are considered TDRs. In compliance with ASC 310-10, the fair value of the loan is determined based on either the present value of expected cash flows discounted at the loan s effective interest rate, the market price of the loan, or, if the loan is collateral dependent, the fair value of the underlying collateral less the cost of sale. We currently have 101 such loans, all secured by real estate or personal property. Their aggregate book value is $6,724 as of December 31, 2011. The total for the 51 such individual loans where estimated fair value was less than their book value (i.e. we deemed impairment to exist) was $3,108 for which $863 in specific ALL was recorded as of December 31, 2011.

At December 31, 2011, the ALL was $5,536, or 1.29% of the total loan portfolio, compared to ALL of $4,898, or 1.14% of the total loan portfolio at September 30, 2011. This level was based on our analysis of the loan portfolio risk at December 31, 2011, as discussed above.

All of the factors we take into account in determining ALL in general categories are subject to change; thus the allocations are management s estimate of the loan loss categories in which the probable and inherent loss has occurred. Currently, management especially focuses on local and national unemployment rates and home prices, as management believes these factors currently have the most impact on our customers ability to repay loans and our ability to recover potential losses through collateral sales. As loan balances and estimated losses in a particular loan type decrease or increase and as the factors and resulting allocations are monitored by management, changes in the risk profile of the various parts of the loan portfolio may be reflected in the allowance allocated. The general component covers non-impaired loans and is based on historical loss experience adjusted for qualitative factors. In addition, management continues to refine the ALL estimation process as new information becomes available. These refinements could also cause increases or decreases in ALL. The unallocated portion of the ALL is intended to account for imprecision in the estimation process or relevant current information that may not have been considered in the process.

Nonperforming Loans, Potential Problem Loans and Foreclosed Properties. We practice early identification of non-accrual and problem loans in order to minimize the risk of loss. Non-performing loans are defined as non-accrual loans and restructured loans that were more than 91 days past due at the time of their restructure. The accrual of interest income is discontinued when a loan becomes more than 91 days past due as to principal and interest. When interest accruals are discontinued, interest credited to income is reversed. If collection is in doubt, cash receipts on non-accrual loans are used to reduce principal rather than become recorded as interest income. Restructuring a loan typically involves the granting of some concession to the borrower involving a loan modification, such as payment schedule or interest rate changes. Restructured loans may involve loans that have had a charge-off taken against the loan to reduce the carrying amount of the loan to fair market value as determined pursuant to ASC 310-10.

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The following table identifies the various components of non-performing assets and other balance sheet information as of the dates indicated below and changes in the ALL for the periods then ended:

	December 31, 2011 and Three Months Then Ended	September 30, 2011 and Twelve Months Then Ended
Nonperforming assets:		
Nonaccrual loans	$ 4,242	$ 4,400
Accruing loans past due 90 days or more		
Total nonperforming loans (NPLs)	4,242	4,400
Other real estate owned	724	1,153
Other collateral owned	308	207
Total nonperforming assets (NPAs)	$ 5,274	$ 5,760
Troubled Debt Restructurings (TDRs)	$ 6,724	$ 6,662
Performing nonaccrual TDRs	$ 1,933	$ 1,855
Average outstanding loan balance	$ 431,218	$ 443,989
Loans, end of period	$ 430,689	$ 431,746
Total assets, end of period	$ 530,805	$ 536,557
ALL, at beginning of period	$ 4,898	$ 4,145
Loans charged off:		
Real estate loans	(383)	(2,476)
Consumer loans	(582)	(2,882)
Total loans charged off	(965)	(5,358)
Recoveries of loans previously charged off:		
Real estate loans		46
Consumer loans	63	201
Total recoveries of loans previously charged off:	63	247
Net loans charged off (NCOs)	(902)	(5,111)
Additions to ALL via provision for loan losses charged to operations	1,540	5,864
ALL, at end of period	$ 5,536	$ 4,898
Ratios:		

ALL to NCOs (annualized)	1.53	0.96
NCOs (annualized) to average loans	0.84%	1.15%
ALL to total loans	1.29%	1.13%
NPLs to total loans	0.98%	1.02%
NPAs to total assets	0.99%	1.07%
ALL to NPLs plus performing nonaccrual TDRs	89.65%	78.31%

Non-performing loans of $4,242 at December 31, 2011, which included $328 of non-performing troubled debt restructured loans reflected a decrease of $158 over $4,400 of non-performing loans at September 30, 2011. The non-performing loan relationships are secured primarily by collateral including residential real estate or the consumer assets financed by the loans.

Our non-performing assets were $5,274 at December 31, 2011, or 0.99% of total assets. This was down from $5,760, or 1.07% of total assets, at September 30, 2011. The decrease since September 30, 2011 was primarily a result of decreasing delinquencies, a decrease of $158 in nonaccrual loans and a decrease in other real estate owned, slightly offset by an increase in other collateral owned.

Other real estate owned decreased by $429, from $1,153 at September 30, 2011 to $724 at December 31, 2011. Other collateral owned increased $101 during the three months ended December 31, 2011 to $308 from the September 30, 2011 balance of $207. The decrease in other real estate owned was primarily due to several large residential real estate properties sold during the period. The increase in other collateral owned is due to more aggressive credit monitoring and collection practices along with general economic deterioration in the communities we serve.

We believe the favorable trends noted above reflect our continued adherence to improved underwriting criteria and practices along with improvements in macroeconomic factors in our credit markets. We believe our current ALL is adequate to cover probable losses in our current loan portfolio.

Net charge offs for the three months ended December 31, 2011 were $902 compared to $1,333 for the three months ended December 31, 2010. The ratio of annualized net charge-offs to average loans receivable was 0.84% for the three months ended December 31, 2011, compared to 1.15% for the twelve months ended September 30, 2011. Improved net charges-offs, predominantly in real estate loan charge-offs are primarily a result of reduced delinquencies and overall credit quality improvement within the portfolio.

Securities Available for Sale. We manage our securities portfolio in an effort to enhance income, improve liquidity, and meet the Qualified Thrift Lender test.

Our total investment portfolio was $54,005 at December 31, 2011 compared with $44,338 at September 30, 2011. The securities in our non-agency residential mortgage-backed securities (MBS) portfolio were originally purchased throughout 2007 and early 2008 and are generally secured by prime 1-4 family residential mortgage loans. These securities were all rated AAA or the equivalent by major credit rating agencies at the time of their original purchase. As of December 31, 2011, the entire remaining book value of the non-agency residential MBS portfolio, which totaled $11,467, has been downgraded from investment grade to below investment grade. The market for these securities has depressed in response to stress and illiquidity in the financial markets and a general deterioration in economic conditions. Taking into consideration these developments, we have determined that it is likely the Bank will not collect all amounts due according to the contractual terms of these securities.

As part of our asset and liability management activities, we review our non-agency MBS portfolio on a monthly basis. We analyze credit risk, i.e. the likelihood of potential future OTTI adjustments and current market prices relative to our current book value. We also analyze the impact of these securities on regulatory risk-based capital requirements.

During the three month period ended December 31, 2011, the results of our analysis indicated three of our remaining non-agency residential MBS, with an aggregate book value of approximately $6,275, had additional OTTI of $673.

Despite more favorable market prices in recent months on certain non-agency MBS, we believe that the remaining fair value of our non-agency MBS portfolio, totaling $8,298, is still subject to numerous risk factors outside of our control, such as market volatility and changes in the credit quality of underlying collateral. Future evaluations of fair value could result in additional OTTI losses.

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On December 31, 2011, all six of our remaining securities included in our non-agency residential MBS portfolio have unrealized losses currently included in accumulated other comprehensive income. These losses represent a 27.6% decline in value in comparison to our amortized cost basis of these securities. While performance of the non-agency residential mortgage-backed securities has deteriorated and the securities have been subject to downgrades, these unrealized losses relate principally to the continued volatility of the securities markets and are not due to changes in the financial condition of the issuer, the quality of any underlying assets, or applicable credit enhancements.

The amortized cost and market values of our available-for-sale securities as of the periods indicated below were as follows:

	Amortized Cost	Fair Value
December 31, 2011		
U.S. Agency floating rate bonds	$ 24,369	$ 24,316
U.S. Agency mortgage-backed securities	15,264	15,339
Fannie Mae mortgage-backed securities	6,030	6,052
Non-agency mortgage-backed securities	11,467	8,298
Totals	$ 57,130	$ 54,005
September 30, 2011		
U.S. Agency floating rate bonds	$ 25,215	$ 25,212
U.S. Agency mortgage-backed securities	9,719	9,983
Non-agency mortgage-backed securities	12,918	9,143
Totals	$ 47,852	$ 44,338

As noted above, over the past several quarters, the rating agencies have revised downward their original ratings on thousands of mortgage-backed securities which were issued during the 2001-2007 time period. As of December 31, 2011, we held $8,298 in fair value of investments that were originally rated Investment Grade but have been downgraded to Below Investment Grade by at least one of three recognized rating agencies.

The composition of our available-for-sale portfolios by credit rating as of the periods indicated was as follows:

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	December 31, 2011		September 30, 2011	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Agency	$ 45,663	$ 45,707	$ 34,934	$ 35,195
AAA				
A				
BBB				
Below investment grade	11,467	8,298	12,918	9,143
Total	$ 57,130	$ 54,005	$ 47,852	$ 44,338

Based on management s impairment testing, during the quarter ended December 31, 2011 we determined that additional other-than-temporary impairment loss of $673 was required. At December 31, 2011, the approximate aggregate fair value of the six remaining non-agency securities, for which other-than-temporary impairment of $3,081 has been previously recorded, was $8,298. The following table is a roll forward of the amount of other-than-temporary impairment, related to credit losses, recognized in earnings.

September 30, 2011, balance of OTTI related to credit losses	$ 2,408
Credit portion of OTTI recognized during the year ended December 31, 2011	673
Cash payments received on a security in exccess of the security s book valuead justed for previously recognized credit portion of OTTI	
Credit portion of OTTI previously recognized on a security in default	
Credit portion of OTTI previously recognized on securities sold during the period	
December 31, 2011, balance of OTTI related to credit losses	$ 3,081

Utilizing a third party firm, we will continue to obtain an independent valuation of our non-agency MBS portfolio on a quarterly basis. Our management and Board of Directors will review and consider additional testing in future periods to determine if additional write-downs of the MBS portfolio are warranted.

No securities were pledged as of December 31, 2011.

Deposits. Deposits decreased to $444,130 at December 31, 2011, from $448,973 at September 30, 2011 due to institutional certificate maturities. Deposit growth by product and generated by in-store versus traditional branch locations is as follows:

	In-store	Traditional	Institutional	Total
Non-CD deposits	$ (4,992)	$ 1,368	$	$ (3,624)
CD deposits customer	2,979	1,014		3,993
CD deposits institutional			(5,212)	(5,212)
Total deposit growth	$ (2,013)	$ 2,382	$ (5,212)	$ (4,843)

We continue to strengthen core deposit relationships through effective execution of our in-store branch strategy, and by expanding our deposit product offerings. We also continue to reduce our reliance upon institutional certificates of deposit as a funding source.

The Bank had no brokered deposits as of December 31, or September 30, 2011.

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Borrowed Funds. FHLB advances decreased from $30,400 as of September 30, 2011, to $29,600 as of December 31, 2011, primarily as a result of payments on various FHLB borrowings as they matured.

Stockholders Equity. Total stockholders equity was $52,719 at December 31, 2011, versus $52,888 at September 30, 2011. Total stockholders equity decreased by $169, primarily as a result of net losses incurred in the current year period partially offset by a decrease in accumulated other comprehensive loss due to favorable market value adjustments to our MBS portfolio.

Liquidity and Asset / Liability Management. Liquidity management refers to our ability to ensure cash is available in a timely manner to meet loan demand and depositors needs, and meet other financial obligations as they become due without undue cost, risk or disruption to normal operating activities. We manage and monitor our short-term and long-term liquidity positions and needs through a regular review of maturity profiles, funding sources, and loan and deposit forecasts to minimize funding risk. A key metric we monitor is our liquidity ratio, calculated as cash and investments with maturities less than one-year divided by deposits with maturities less than one-year. At December 31, 2011, our liquidity ratio was 18.77%, above our targeted liquidity ratio of 10%.

Our primary sources of funds are deposits; amortization, prepayments and maturities of outstanding loans; and other short-term investments and funds provided from operations. We use our sources of funds primarily to meet ongoing commitments, to pay maturing certificates of deposit and savings withdrawals, and to fund loan commitments. While scheduled payments from the amortization of loans and maturing 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. Although $79,917 of our $219,576 (36.4%) CD portfolio will mature within the next 12 months, we have historically retained over 75% of our maturing CD s. However, due to strategic pricing decisions regarding rate matching, our retention rate may decrease in the future due to our philosophy of building customer relationships not just deposit accounts. Through new deposit product offerings to our branch customers, we are currently attempting to strengthen customer relationships while lengthening deposit maturities. In our present interest rate environment, and based on maturing yields this should also improve our cost of funds. We believe that the expansion of our in-store branch network in attracting core deposits will enhance long-term liquidity, a key component to our broader liquidity management strategy.

We maintain access to additional sources of funds including FHLB borrowings and lines of credit with both the Federal Reserve Bank and the United Bankers Bank. We utilize FHLB borrowings to leverage our capital base, to provide funds for our lending and investment activities, and to manage our interest rate risk. Our borrowing arrangement with the FHLB calls for pledging certain qualified real estate loans, and borrowing up to 75% of the value of those loans, not to exceed 35% of the Bank s total assets. Currently, we have approximately $156,000 available under this arrangement. We also maintain lines of credit of $21,061 with the Federal Reserve Bank, and $5,000 with United Bankers Bank as part of our contingency funding plan. The Federal Reserve Bank line of credit is based on the collateral value of the agency securities being held at the Federal Reserve Bank. The United Bankers Bank line of credit is a discretionary line of credit.

Off-Balance Sheet Liabilities. Some of our financial instruments have off-balance sheet risk. These instruments include unused commitments for lines of credit, overdraft protection lines of credit and home equity lines of credit, as well as commitments to extend credit. As of December 31, 2011, the Company had $3,989 in unused commitments, compared to $4,409 in unused commitments as of September 30, 2011. The decrease was primarily due to a decrease in non-mortgage loan commitments from $697 at September 30, 2011 to $42 at December 31, 2011.

Capital Resources. As of December 31, 2011, we were well capitalized under applicable Prompt Corrective Action Provisions standards in all regulatory measured categories. Current Office of the Comptroller of Currency (OCC) guidance requires the Bank to apply significantly increased risk weighting factors to certain non-agency mortgage-backed securities whose prevailing bond agency ratings have been downgraded due to perceived increases in credit risk. This results in required risk based capital levels that are, in some cases, many times greater than the adjusted par value of the securities.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
As of December 31, 2011 (Unaudited)						
Total capital (to risk weighted assets)	$58,841,000	14.9%	$31,621,000>=	8.0%	$39,526,000>=	10.0%
Tier 1 capital (to risk weighted assets)	53,900,000	13.6%	15,810,000>=	4.0%	23,715,000>=	6.0%
Tier 1 capital (to adjusted total assets)	53,900,000	10.1%	21,291,000>=	4.0%	26,614,000>=	5.0%
Tangible capital (to tangible assets)	53,900,000	10.1%	7,984,000>=	1.5%	NA	NA
As of September 30, 2010 (Audited)						
Total capital (to risk weighted assets)	$58,396,000	14.1%	$33,151,000>=	8.0%	$41,439,000>=	10.0%
Tier 1 capital (to risk weighted assets)	54,182,000	13.1%	16,575,000>=	4.0%	24,863,000>=	6.0%
Tier 1 capital (to adjusted total assets)	54,182,000	10.1%	21,527,000>=	4.0%	26,909,000>=	5.0%
Tangible capital (to tangible assets)	54,182,000	10.1%	8,073,000>=	1.5%	NA	NA

The Bank and the Company each continue to operate under Memoranda of Understanding (the MOU), issued December 23, 2009, by the Office of Thrift Supervision (OTS) (our former primary federal regulator). The MOU resulted from issues noted during the examination of the Bank conducted by the OTS, the report on which was dated July 27, 2009. The MOU identified the need for improved management and monitoring of (a) business and capital planning, (b) asset quality, (c) liquidity, and (d) concentrations of credit. The MOU also called for a formalized internal audit and compliance plan and prohibits the Bank from declaring dividends, and the Company from issuing debt without the prior consent of our primary regulator (now the OCC). Under the MOU, the Bank is required to maintain Tier 1 and Risk-based Capital levels of 8.0% and 10.0%, respectively, and is considered Well Capitalized by our primary regulator. We believe that both the Company and the Bank have adequately addressed all of the issues raised by the MOU in appropriate timeframes originally agreed upon with the OTS, and now enforced by the OCC.

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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. 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 manage the potential for adverse effects of material and prolonged increases in interest rates on our results of operations, we adopted asset and liability management policies to better align the maturities and re-pricing terms of our interest-earning assets and interest-bearing liabilities. These policies are implemented by our Asset and Liability Management Committee. The Asset and Liability Management Committee is comprised of members of senior management. The Asset and Liability Management Committee establishes guidelines for 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 Committee s objectives are to manage assets and funding sources to produce results that are consistent with liquidity, cash flow, capital adequacy, growth, risk and profitability goals. The Asset and Liability Management Committee meets on a weekly basis 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. At each meeting, the Committee recommends strategy changes, as appropriate, based on this review. The Committee is responsible for reviewing and reporting on the effects of the policy implementations and strategies to the Bank s Board of Directors on a monthly basis.

In order to manage our assets and liabilities and achieve desired levels of liquidity, credit quality, cash flow, interest rate risk, profitability and capital targets, we have focused our strategies on:

- originating shorter-term secured consumer loans;
- managing our funding needs by focusing on core deposits and reducing our reliance on brokered deposits and borrowings;
- originating first mortgage loans, with a clause allowing for payment on demand after a stated period of time;
- reducing non-interest expense and managing our efficiency ratio;
- realigning supervision and control of our branch network by modifying their configuration, staffing, locations and reporting structure;
- improving our asset and collateral disposition practices; and
- focusing on sound and consistent loan underwriting practices based primarily on borrowers debt ratios, credit score and collateral values.

At times, depending on the level of general interest rates, the relationship between long- and short-term interest rates, market conditions and competitive factors, the Asset and Liability Management Committee may determine to increase the Bank s interest rate risk position somewhat in order to maintain or improve its net interest margin.

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As of December 31, 2011, $245,708 of loans in our portfolio included a payable-on-demand clause. We have not utilized the clause since fiscal 2000 because, in our view, it has not been appropriate. Therefore, the clause has had no impact on our liquidity and overall financial performance for the periods presented in this report. The purpose behind the payable-on-demand clause is to provide the Bank with some protection against the impact on net interest margin of sharp and prolonged interest rate increases. It is the Bank s policy to write the majority of its real estate loans with a payable-on-demand clause. The factors considered in determining whether and when to utilize the payable-on-demand clause include a significant, prolonged increase in market rates of interest; liquidity needs; a desire to restructure the balance sheet; an individual borrower s unsatisfactory payment history; and, the remaining term to maturity.

The following table sets forth, at September 30, 2011 (the most recent date available), an analysis of our interest rate risk as measured by the estimated changes in NPV resulting from instantaneous and sustained parallel shifts in the yield curve (up 300 basis points and down 100 basis points, measured in varying increments). As of September 30, 2011, due to the current level of interest rates, NPV estimates for decreases in interest rates greater than 100 basis points are not meaningful.

Change in Interest Rates in Basis Points (bp)	Net Portfolio Value			Net Portfolio Value as $ of	
Rate Shock in Rates (1)	Amount	Change	Change	NPV Ratio	Change
	(Dollars in thousands)				
+300 bp	$48,629	$5,721	13%	9.16%	118bp
+200 bp	47,339	4,431	10%	8.87%	89
+100 bp	45,536	2,628	6%	8.50%	52
+50 bp	44,772	1,864	4%	8.33%	35
0 bp	42,908			7.98%	
-50 bp	42,562	(346)	(1%)	7.90%	(8)
-100 bp	43,394	486	1%	8.04%	6

(1) Assumes an instantaneous uniform change in interest rates at all maturities.

The assumptions used to measure and assess interest rate risk include interest rates, loan prepayment rates, deposit decay (runoff) rates, and the market values of certain assets under differing interest rate scenarios.

ITEM 4. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) that are designed to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms, and that the information required to be disclosed in reports that we file or submit under the Securities Exchange Act of 1934 is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

In designing and evaluating the disclosure controls and procedures, we recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply judgment in evaluating the cost-benefit relationship of possible controls and procedures. We have designed our disclosure controls and procedures to reach a level of reasonable assurance of achieving the desired control objectives. We carried out an evaluation as of December 31, 2011, under the supervision and with the participation of the Company s management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2011 at reaching a level of reasonable assurance.

There was no change in the Company s internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended) during the Company s most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

PART II OTHER INFORMATION

***Item 1.* LEGAL PROCEEDINGS**

On January 4, 2010, we received notice of a demand for arbitration by James G. Cooley, the Company s former President and Chief Executive Officer, from the American Arbitration Association in connection with our termination of his employment and his employment agreement. As part of the demand, Mr. Cooley asserted claims against the Company (and certain members of the Company s Board of Directors) related to breach of contract, wrongful discharge, defamation of character and intentional infliction of emotional distress. Mr. Cooley sought relief in the form of actual damages, punitive damages, attorneys fees, interest and reimbursement of costs. On March 1, 2010, Mr. Cooley initiated a declaratory judgment action in Wisconsin circuit court seeking a court determination as to whether the Company and certain members of the Company s Board of Directors have a legal obligation to submit Mr. Cooley s arbitration claims to an arbitrator. The declaratory judgment was dismissed on August 26, 2010, and the request for arbitration was subsequently withdrawn on August 26, 2010 as well.

On September 27, 2010, Mr. Cooley filed a lawsuit in the Eau Claire County Circuit court against the Company and the Bank and individual directors thereof, seeking damages for breach of employment contract, violation of public policy in the State of Wisconsin, defamation of character and intentional infliction of emotional distress, and punitive damages.

On January 24, 2011, the court dismissed the defamation and infliction of emotional distress claims. The court subsequently reinstated post-termination claims of defamation, infliction of emotional distress and punitive damages.

Management continues to believe that the remaining aforementioned claims are without merit. Although the Company intends to vigorously defend against the remaining claims, no assurances can be given regarding the outcome of this matter.

In the normal course of business, the Company occasionally becomes involved in various legal proceedings. In our opinion, any liability from such proceedings would not have a material adverse effect on the business or financial condition of the Company.

Item 1A. **RISK FACTORS**

There are no material changes from the risk factors disclosed in Part I, Item 1A, Risk Factors, of the Company s Form 10-K, for the fiscal year ended September 30, 2011. Please refer to that section for disclosures regarding the risks and uncertainties relating to our business.

Item 2. **UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

(a) Not applicable.

(b) Not applicable.

(c) Not applicable.

Item 3**. DEFAULTS UPON SENIOR SECURITIES**

Not applicable.

Item 4. **[REMOVED AND RESERVED]**

Not applicable.

Item 5. **OTHER INFORMATION**

Not applicable.

Item 6. **EXHIBITS**

(a) Exhibits

31.1	Rule 13a-14(a) Certification of the Company s Chief Executive Officer
31.2	Rule 13a-14(a) Certification of the Company s Principal Financial and Accounting Officer
32.1*	Certification of Chief Executive Officer and Principal Financial and Accounting Officer pursuant to 18 U.S.C. Section 1350 (Section 906 of the Sarbanes-Oxley Act of 2002).
101**	The following materials from Citizens Community Bancorp, Inc. s Quarterly Report on Form 10-Q for the fiscal quarter ended December 31, 2011 formatted in XBRL (eXtensible Business Reporting Language) and furnished electronically herewith: (i) Consolidated Balance Sheets; (ii) Consolidated Statements of Operations; (iii) Consolidated Statement of Comprehensive Income; (iv) Consolidated Statement of Changes in Stockholders Equity; (v) Consolidated Statements of Cash Flows; and (vi) Condensed Notes to Consolidated Financial Statements

* This certification is not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.

** Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files in Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

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SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CITIZENS COMMUNITY BANCORP, INC.

Date: February 10, 2012

By: /s/ Edward H. Schaefer
Edward H. Schaefer
Chief Executive Officer

Date: February 10, 2012

By: /s/ Mark C. Oldenberg
Mark C. Oldenberg
Chief Financial Officer