TIMBERLAND BANCORP INC
Form 10-Q
August 06, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2018

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the Transition Period from _____ to _____.

Commission file number 000-23333

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

Washington	91-1863696
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

624 Simpson Avenue, Hoquiam, Washington	98550
(Address of principal executive offices)	(Zip Code)

(360) 533-4747
(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
Emerging growth company

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

Exchange Act.

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

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

CLASS	SHARES OUTSTANDING AT AUGUST 1, 2018
Common stock, $.01 par value	7,395,927

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements (unaudited)
TIMBERLAND BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
June 30, 2018 and September 30, 2017
(Dollars in thousands, except per share amounts)

	June 30, 2018 (Unaudited)	September 30, 2017 *
Assets		
Cash and cash equivalents:		
Cash and due from financial institutions	$ 19,552	$ 17,447
Interest-bearing deposits in banks	137,274	130,741
Total cash and cash equivalents	156,826	148,188
Certificates of deposit (“CDs”) held for investment (at cost, which approximates fair value)	63,132	43,034
Investment securities held to maturity, at amortized cost (estimated fair value $8,440 and $7,744)	7,951	7,139
Investment securities available for sale, at fair value	1,176	1,241
Federal Home Loan Bank of Des Moines (“FHLB”) stock	1,190	1,107
Other investments, at cost	3,000	3,000
Loans held for sale	2,321	3,599
Loans receivable, net of allowance for loan losses of $9,532 and $9,553	717,324	690,364
Premises and equipment, net	18,515	18,418
Other real estate owned (“OREO”) and other repossessed assets, net	2,112	3,301
Accrued interest receivable	2,797	2,520
Bank owned life insurance (“BOLI”)	19,673	19,266
Goodwill	5,650	5,650
Mortgage servicing rights (“MSRs”), net	1,980	1,825
Other assets	2,736	3,372
Total assets	$ 1,006,383	$ 952,024
Liabilities and shareholders’ equity		
Liabilities		
Deposits:		
Non-interest-bearing demand	$ 229,201	$ 205,952
Interest-bearing	651,526	631,946
Total deposits	880,727	837,898
Other liabilities and accrued expenses	4,762	3,126
Total liabilities	885,489	841,024

* Derived from audited consolidated financial statements.

See notes to unaudited consolidated financial statements

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TIMBERLAND BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS (continued)
June 30, 2018 and September 30, 2017
(Dollars in thousands, except per share amounts)

	June 30, 2018 (Unaudited)	September 30, 2017 *
Shareholders' equity		
Preferred stock, $.01 par value; 1,000,000 shares authorized; none issued	$—	$ —
Common stock, $.01 par value; 50,000,000 shares authorized; 7,395,927 shares issued and outstanding - June 30, 2018 7,361,077 shares issued and outstanding - September 30, 2017	14,162	13,286
Unearned shares issued to Employee Stock Ownership Plan ("ESOP")	(199)	(397)
Retained earnings	107,065	98,235
Accumulated other comprehensive loss	(134)	(124)
Total shareholders' equity	120,894	111,000
Total liabilities and shareholders' equity	$1,006,383	$ 952,024

* Derived from audited consolidated financial statements.

See notes to unaudited consolidated financial statements

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TIMBERLAND BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
For the three and nine months ended June 30, 2018 and 2017
(Dollars in thousands, except per share amounts)
(Unaudited)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2018	2017	2018	2017
Interest and dividend income				
Loans receivable and loans held for sale	$9,530	$9,652	$28,342	$27,280
Investment securities	51	69	147	207
Dividends from mutual funds, FHLB stock and other investments	31	23	83	60
Interest-bearing deposits in banks and CDs	845	421	2,209	1,081
Total interest and dividend income	10,457	10,165	30,781	28,628
Interest expense				
Deposits	730	549	1,996	1,637
FHLB borrowings	—	369	—	979
Total interest expense	730	918	1,996	2,616
Net interest income	9,727	9,247	28,785	26,012
Recapture of loan losses	—	(1,000)	—	(1,250)
Net interest income after recapture of loan losses	9,727	10,247	28,785	27,262
Non-interest income				
Recoveries (other than temporary impairment "OTTI") on investment securities	19	—	60	—
Adjustment for portion of OTTI transferred from other comprehensive income (loss) before income taxes	—	—	(5)	—
Net recoveries on investment securities	19	—	55	—
Service charges on deposits	1,137	1,153	3,447	3,348
ATM and debit card interchange transaction fees	921	855	2,648	2,448
BOLI net earnings	134	133	407	406
Gain on sales of loans, net	435	561	1,427	1,656
Escrow fees	47	51	158	191
Servicing income on loans sold	121	106	354	302
Other, net	331	297	868	873
Total non-interest income, net	3,145	3,156	9,364	9,224

See notes to unaudited consolidated financial statements

TIMBERLAND BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME (continued)
For the three and nine months ended June 30, 2018 and 2017
(Dollars in thousands, except per share amounts)
(Unaudited)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2018	2017	2018	2017
Non-interest expense				
Salaries and employee benefits	$3,912	$ 3,741	$11,862	$ 11,176
Premises and equipment	795	764	2,361	2,295
(Gain) loss on sales of premises and equipment, net	—	3	(113)	3
Advertising	205	170	591	499
OREO and other repossessed assets, net	(92)	4	114	22
ATM and debit card interchange transaction fees	334	375	982	1,036
Postage and courier	104	109	340	324
State and local taxes	169	176	498	484
Professional fees	368	230	829	629
Federal Deposit Insurance Corporation ("FDIC") insurance	101	99	242	319
Loan administration and foreclosure	76	20	247	113
Data processing and telecommunications	465	480	1,427	1,394
Deposit operations	285	301	815	850
Other	400	466	1,324	1,462
Total non-interest expense	7,122	6,938	21,519	20,606
Income before income taxes	5,750	6,465	16,630	15,880
Provision for income taxes	1,334	2,188	4,331	5,328
Net income	$4,416	$ 4,277	$12,299	$ 10,552
Net income per common share				
Basic	$0.60	$ 0.59	$1.68	$ 1.49
Diluted	$0.59	$ 0.58	$1.64	$ 1.44
Weighted average common shares outstanding				
Basic	7,345,618	7,269,564	7,328,702	7,088,134
Diluted	7,535,157	7,432,171	7,518,447	7,348,486
Dividends paid per common share	$0.23	$ 0.11	$0.47	$ 0.31

See notes to unaudited consolidated financial statements

TIMBERLAND BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the three and nine months ended June 30, 2018 and 2017
(Dollars in thousands)
(Unaudited)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2018	2017	2018	2017
Comprehensive income				
Net income	$4,416	$4,277	$12,299	$10,552
Unrealized holding (loss) gain on investment securities available for sale, net of income taxes of ($1), $3, ($5) and ($11), respectively	(7)	5	(32)	(22)
Change in OTTI on investment securities held to maturity, net of income taxes:				
Adjustments related to other factors for which OTTI was previously recognized, net of income taxes of $0, $0, ($2) and $0, respectively	—	—	(6)	—
Amount reclassified to credit loss for previously recorded market loss, net of income taxes of $0, $0, $1 and $0, respectively	—	—	4	—
Accretion of OTTI on investment securities held to maturity, net of income taxes of $2, $5, $8 and $18, respectively	5	11	24	35
Total other comprehensive (loss) income, net of income taxes	(2)	16	(10)	13
Total comprehensive income	$4,414	$4,293	$12,289	$10,565

See notes to unaudited consolidated financial statements

TIMBERLAND BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
For the nine months ended June 30, 2018 and 2017
(Dollars in thousands, except per share amounts)
(Unaudited)

	Common Stock		Unearned Shares Issued to ESOP	Retained Earnings	Accumulated Other Compre-hensive Loss	Total
	Number of Shares	Amount				
Balance, September 30, 2016	6,943,868	$9,961	$ (661)	$87,709	$ (175)	$96,834
Net income	—	—	—	10,552	—	10,552
Other comprehensive income	—	—	—	—	13	13
Exercise of stock warrant	370,899	2,496	—	—	—	2,496
Exercise of stock options	39,810	265	—	—	—	265
Common stock dividends ($0.31 per common share)	—	—	—	(2,243)	—	(2,243)
Earned ESOP shares, net of income taxes	—	230	198	—	—	428
Stock option compensation expense	—	271	—	—	—	271
Balance, June 30, 2017	7,354,577	13,223	(463)	96,018	(162)	108,616
Balance, September 30, 2017	7,361,077	13,286	(397)	98,235	(124)	111,000
Net income	—	—	—	12,299	—	12,299
Other comprehensive loss	—	—	—	—	(10)	(10)
Exercise of stock options	34,850	292	—	—	—	292
Common stock dividends ($0.47 per common share)	—	—	—	(3,469)	—	(3,469)
Earned ESOP shares, net of income taxes	—	454	198	—	—	652
Stock option compensation expense	—	130	—	—	—	130
Balance, June 30, 2018	7,395,927	$14,162	$ (199)	$107,065	$ (134)	$120,894

See notes to unaudited consolidated financial statements

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TIMBERLAND BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the nine months ended June 30, 2018 and 2017
(In thousands)
(Unaudited)

	Nine Months Ended June 30,	
	2018	2017
Cash flows from operating activities		
Net income	$12,299	$10,552
Adjustments to reconcile net income to net cash provided by operating activities:		
Recapture of loan losses	—	(1,250)
Depreciation	940	946
Earned ESOP shares	652	428
Stock option compensation expense	130	271
Net recoveries on investment securities	(55)	—
Gain on sales of OREO and other repossessed assets, net	(217)	(53)
Provision for OREO losses	224	42
Gain on sales of loans, net	(1,427)	(1,656)
(Gain) loss on sales of premises and equipment, net	(113)	3
Loans originated for sale	(46,256)	(54,805)
Proceeds from sales of loans	48,961	56,542
Amortization of MSRs	363	369
BOLI net earnings	(407)	(406)
Increase in deferred loan origination fees	3	80
Net change in accrued interest receivable and other assets, and other liabilities and accrued expenses	1,445	(332)
Net cash provided by operating activities	16,542	10,731
Cash flows from investing activities		
Net (increase) decrease in CDs held for investment	(20,098)	11,813
Proceeds from maturities and prepayments of investment securities held to maturity	413	387
Purchase of investment securities held to maturity	(1,111)	—
Proceeds from maturities and prepayments of investment securities available for sale	28	49
Purchase of FHLB stock	(83)	(103)
Redemption of FHLB stock	—	1,200
Purchase of other investments	—	(3,000)
Increase in loans receivable, net	(27,287)	(23,566)
Additions to premises and equipment	(1,387)	(3,249)
Proceeds from sales of premises and equipment	463	—
Proceeds from sales of OREO and other repossessed assets	1,506	1,435
Net cash used in investing activities	(47,556)	(15,034)

See notes to unaudited consolidated financial statements

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TIMBERLAND BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
For the nine months ended June 30, 2018 and 2017
(In thousands)
(Unaudited)

	Nine Months Ended June 30, 2018	Nine Months Ended June 30, 2017
Cash flows from financing activities		
Net increase in deposits	$42,829	$57,284
Repayment of FHLB borrowings	—	(30,000)
Proceeds from exercise of stock options	292	265
Proceeds from exercise of stock warrant	—	2,496
Payment of dividends	(3,469)	(2,243)
Net cash provided by financing activities	39,652	27,802
Net increase in cash and cash equivalents	8,638	23,499
Cash and cash equivalents		
Beginning of period	148,188	108,941
End of period	$156,826	$132,440
Supplemental disclosure of cash flow information		
Income taxes paid	$2,208	$5,376
Interest paid	1,939	2,701
Supplemental disclosure of non-cash investing activities		
Loans transferred to OREO and other repossessed assets	$324	$724
Other comprehensive (loss) income related to investment securities	(10)	13

See notes to unaudited consolidated financial statements

Timberland Bancorp, Inc. and Subsidiary
Notes to Unaudited Consolidated Financial Statements

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(a) Basis of Presentation: The accompanying unaudited consolidated financial statements for Timberland Bancorp, Inc. ("Company") were prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with instructions for Form 10-Q and, therefore, do not include all disclosures necessary for a complete presentation of consolidated financial condition, results of operations, and cash flows in conformity with GAAP. However, all adjustments which are, in the opinion of management, necessary for a fair presentation of the interim consolidated financial statements have been included. All such adjustments are of a normal recurring nature. The unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended September 30, 2017 ("2017 Form 10-K"). The unaudited consolidated results of operations for the nine months ended June 30, 2018 are not necessarily indicative of the results that may be expected for the entire fiscal year ending September 30, 2018.

(b) Principles of Consolidation: The unaudited consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Timberland Bank ("Bank"), and the Bank's wholly-owned subsidiary, Timberland Service Corporation. All significant intercompany transactions and balances have been eliminated in consolidation.

(c) Operating Segment: The Company has one reportable operating segment which is defined as community banking in western Washington under the operating name, "Timberland Bank."

(d) The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(e) Certain prior period amounts have been reclassified to conform to the June 30, 2018 presentation with no change to net income or total shareholders' equity as previously reported.

(2) INVESTMENT SECURITIES

Held to maturity and available for sale investment securities have been classified according to management’s intent and were as follows as of June 30, 2018 and September 30, 2017 (dollars in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
June 30, 2018				
Held to maturity				
Mortgage-backed securities ("MBS"):				
U.S. government agencies	$ 1,466	$ 9	$ (19)	$ 1,456
Private label residential	489	575	(1)	1,063
U.S. Treasury and U.S government agency securities	5,996	—	(75)	5,921
Total	$ 7,951	$ 584	$ (95)	$ 8,440
Available for sale				
MBS: U.S. government agencies	$ 243	$ 9	$ —	$ 252
Mutual funds	1,000	—	(76)	924
Total	$ 1,243	$ 9	$ (76)	$ 1,176
September 30, 2017				
Held to maturity				
MBS:				
U.S. government agencies	$ 532	$ 11	$ (1)	$ 542
Private label residential	599	596	(2)	1,193
U.S. Treasury and U.S. government agency securities	6,008	10	(9)	6,009
Total	$ 7,139	$ 617	$ (12)	$ 7,744
Available for sale				
MBS: U.S. government agencies	$ 271	$ 18	$ —	$ 289
Mutual funds	1,000	—	(48)	952
Total	$ 1,271	$ 18	$ (48)	$ 1,241

Held to maturity and available for sale investment securities with unrealized losses were as follows for June 30, 2018 (dollars in thousands):

	Less Than 12 Months			12 Months or Longer			Total	
	Estimated Fair Value	Gross Unrealized Losses	Quantity	Estimated Fair Value	Gross Unrealized Losses	Quantity	Estimated Fair Value	Gross Unrealized Losses
Held to maturity								
MBS:								
U.S. government agencies	$1,010	$ (18)	2	$67	$ (1)	5	$1,077	$ (19)
Private label residential	—	—	—	52	(1)	8	52	(1)
U.S. Treasury and U.S. government agency securities	5,921	(75)	2	—	—	—	5,921	(75)
Total	$6,931	$ (93)	4	$119	$ (2)	13	$7,050	$ (95)
Available for sale								
MBS: U.S. government agency	$35	$ —	1	$—	$ —	—	$35	$ —
Mutual funds	—	—	—	924	(76)	1	924	(76)
Total	$35	$ —	1	$924	$ (76)	1	$959	$ (76)

Held to maturity and available for sale investment securities with unrealized losses were as follows for September 30, 2017 (dollars in thousands):

	Less Than 12 Months			12 Months or Longer			Total	
	Estimated Fair Value	Gross Unrealized Losses	Quantity	Estimated Fair Value	Gross Unrealized Losses	Quantity	Estimated Fair Value	Gross Unrealized Losses
Held to maturity								
MBS:								
U.S. government agencies	$—	$ —	—	$114	$ (1)	6	$114	$ (1)
Private label residential	—	—	—	85	(2)	10	85	(2)
U.S. Treasury and U.S. government agency securities	2,984	(9)	1	—	—	—	2,984	(9)
Total	$2,984	$ (9)	1	$199	$ (3)	16	$3,183	$ (12)
Available for sale								
Mutual funds	$—	$ —	—	$952	$ (48)	1	$952	$ (48)
Total	$—	$ —	—	$952	$ (48)	1	$952	$ (48)

The Company has evaluated the investment securities in the above tables and has determined that the decline in their value is temporary. The unrealized losses are primarily due to changes in market interest rates and spreads in the market for mortgage-related products. The fair value of these securities is expected to recover as the securities approach their maturity dates and/or as the pricing spreads narrow on mortgage-related securities. The Company has the ability and the intent to hold the investments until the market value recovers. Furthermore, as of June 30, 2018, management does not have the intent to sell any of the securities classified as available for sale where the estimated fair value is below the recorded value and believes that it is more likely than not that the Company will not have to sell such securities before a recovery of cost (or recorded value if previously written down).

The Company bifurcates OTTI into (1) amounts related to credit losses which are recognized through earnings and (2) amounts related to all other factors which are recognized as a component of other comprehensive income (loss). To determine the component of the gross OTTI related to credit losses, the Company compared the amortized cost basis of the OTTI security to the present value of its revised expected cash flows, discounted using its pre-impairment yield. The revised expected cash flow estimates for individual securities are based primarily on an analysis of default rates, prepayment speeds and third-party analytic reports. Significant judgment by management is required in this analysis that includes, but is not limited to, assumptions regarding the collectability of principal and interest, net of related expenses, on the underlying loans.

The following table presents a summary of the significant inputs utilized to measure management's estimates of the credit loss component on OTTI securities as of June 30, 2018 and 2017:

	Range Minimum	Range Maximum	Weighted Average
June 30, 2018			
Constant prepayment rate	6.00 %	15.00 %	11.58 %
Collateral default rate	— %	12.31 %	5.51 %
Loss severity rate	— %	74.00 %	42.49 %
June 30, 2017			
Constant prepayment rate	6.00 %	15.00 %	11.54 %
Collateral default rate	0.09 %	9.88 %	4.66 %
Loss severity rate	6.00 %	62.00 %	41.93 %

The following table presents the OTTI recoveries (losses) for the three and nine months ended June 30, 2018 and 2017 (dollars in thousands):

	Three Months Ended June 30, 2018		Three Months Ended June 30, 2017	
	Held To Maturity	Available For Sale	Held To Maturity	Available For Sale
Total recoveries	$ 19	$ —	$ —	$ —
Adjustment for portion of OTTI transferred from other comprehensive income (loss) before income taxes (1)	—	—	—	—
Net recoveries recognized in earnings (2)	$ 19	$ —	$ —	$ —
	Nine Months Ended June 30, 2018		**Nine Months Ended June 30, 2017**	
	Held To Maturity	Available For Sale	Held To Maturity	Available For Sale
Total recoveries	$ 60	$ —	$ —	$ —
Adjustment for portion of OTTI transferred from other comprehensive income (loss) before income taxes (1)	(5)	—	—	—
Net recoveries recognized in earnings (2)	$ 55	$ —	$ —	$ —

(1) Represents OTTI related to all other factors.
(2) Represents OTTI related to credit losses.

The following table presents a roll forward of the credit loss component of held to maturity and available for sale debt securities that have been written down for OTTI with the credit loss component recognized in earnings for the nine months ended June 30, 2018 and 2017 (dollars in thousands):

	Nine Months Ended June 30,	
	2018	2017
Beginning balance of credit loss	$1,301	$1,505
Additions:		
Additional increases to the amount related to credit loss for which OTTI was previously recognized	14	—
Subtractions:		
Realized losses previously recorded as credit losses	(69)	(48)
Recovery of prior credit loss	(55)	—
Ending balance of credit loss	$1,191	$1,457

During the three months ended June 30, 2018, the Company recorded a $28,000 net realized loss (as a result of the securities being deemed worthless) on 16 held to maturity investment securities, of which the entire amount had been recognized previously as a credit loss. During the nine months ended June 30, 2018, the Company recorded a $69,000 net realized loss (as a result of securities being deemed worthless) on 17 held to maturity residential MBS, of which the entire amount had been previously recognized as a credit loss. During the three months ended June 30, 2017, the Company recorded a $12,000 net realized loss (as a result of the securities being deemed worthless) on 15 held to maturity investment securities, of which the entire amount had been recognized previously as a credit loss. During the nine months ended June 30, 2017, the Company recorded a $48,000 net realized loss (as a result of securities being deemed worthless) on 18 held to maturity residential MBS, of which the entire amount had been previously recognized as a credit loss.

The recorded amount of investment securities pledged as collateral for public fund deposits, federal treasury tax and loan deposits, FHLB collateral and other non-profit organization deposits totaled $7.20 million and $6.82 million at June 30, 2018 and September 30, 2017, respectively.

The contractual maturities of debt securities at June 30, 2018 were as follows (dollars in thousands). Expected maturities may differ from scheduled maturities due to the prepayment of principal or call provisions.

	Held to Maturity		Available for Sale	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due within one year	$3,001	$ 2,983	$—	$ —
Due after one year to five years	4,018	3,943	—	—
Due after five years to ten years	42	42	—	—
Due after ten years	890	1,472	243	252
Total	$7,951	$ 8,440	$243	$ 252

(3) GOODWILL

Goodwill is initially recorded when the purchase price paid in a business combination exceeds the estimated fair value of the net identified tangible and intangible assets acquired and liabilities assumed. Goodwill is presumed to have an indefinite useful life and is analyzed annually for impairment. The Company performs an annual review during the third quarter of each fiscal year, or more frequently if indicators of potential impairment exist, to determine if the recorded goodwill is impaired. For purposes of goodwill impairment testing, the services offered through the Bank and its subsidiary are managed as one strategic unit and represent the Company's only reporting unit.

The annual goodwill impairment test begins with a qualitative assessment of whether it is "more likely than not" that the reporting unit's fair value is less than its carrying amount. If an entity concludes that it is not "more likely than not" that the fair value of a reporting unit is less than its carrying amount, it need not perform a two-step impairment test. If the Company's qualitative assessment concluded that it is "more likely than not" that the fair value of its reporting unit is less than its carrying amount, it must perform the two-step impairment test to identify potential goodwill impairment and measure the amount of goodwill impairment loss to be recognized, if any. The first step of the goodwill impairment test compares the estimated fair value of the reporting unit with its carrying amount, or the book value, including goodwill. If the estimated fair value of the reporting unit equals or exceeds its book value, goodwill is considered not impaired, and the second step of the impairment test is unnecessary.

The second step, if necessary, measures the amount of goodwill impairment loss to be recognized. The reporting unit must determine fair value for all assets and liabilities, excluding goodwill. The net of the assigned fair value of assets and liabilities is then compared to the book value of the reporting unit, and any excess book value becomes the implied fair value of goodwill. If the carrying amount of the goodwill exceeds the newly calculated implied fair value of goodwill, an impairment loss is recognized in the amount required to write-down the goodwill to the implied fair value.

Management's qualitative assessment takes into consideration macroeconomic conditions, industry and market considerations, cost or margin factors, financial performance and share price. Based on this assessment, the Company determined that it is not "more likely than not" that the Company's fair value is less than its carrying amount and therefore goodwill was determined not to be impaired at May 31, 2018.

A significant amount of judgment is involved in determining if an indicator of goodwill impairment has occurred. Such indicators may include, among others: a significant decline in expected future cash flows; a sustained, significant decline in the Company's stock price and market capitalization; a significant adverse change in legal factors or in the business climate; adverse assessment or action by a regulator; and unanticipated competition. Any change in these indicators could have a significant negative impact on the Company's financial condition, impact the goodwill impairment analysis or cause the Company to perform a goodwill impairment analysis more frequently than once per year.

As of June 30, 2018, management believes that there have been no events or changes in the circumstances since May 31, 2018 that would indicate a potential impairment of goodwill. No assurances can be given, however, that the Company will not record an impairment loss on goodwill in the future.

(4) LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES

Loans receivable by portfolio segment consisted of the following at June 30, 2018 and September 30, 2017 (dollars in thousands):

	June 30, 2018		September 30, 2017	
	Amount	Percent	Amount	Percent
Mortgage loans:				
One- to four-family (1)	$114,148	14.4 %	$118,147	15.1 %
Multi-family	58,169	7.3	58,607	7.5
Commercial	345,543	43.5	328,927	41.9
Construction - custom and owner/builder	113,468	14.3	117,641	15.0
Construction - speculative one- to four-family	10,146	1.3	9,918	1.2
Construction - commercial	26,347	3.3	19,630	2.5
Construction - multi-family	15,225	1.9	21,327	2.7
Construction - land development	3,190	0.4	—	—
Land	23,662	3.0	23,910	3.0
Total mortgage loans	709,898	89.4	698,107	88.9
Consumer loans:				
Home equity and second mortgage	38,143	4.8	38,420	4.9
Other	3,674	0.4	3,823	0.5
Total consumer loans	41,817	5.2	42,243	5.4
Commercial business loans (2)	43,284	5.4	44,444	5.7
Total loans receivable	794,999	100.0%	784,794	100.0%
Less:				
Undisbursed portion of construction loans in process	65,674		82,411	
Deferred loan origination fees, net	2,469		2,466	
Allowance for loan losses	9,532		9,553	
	77,675		94,430	
Loans receivable, net	$717,324		$690,364	

(1) Does not include one- to four-family loans held for sale totaling $2,321 and $3,515 at June 30, 2018 and September 30, 2017, respectively.
(2) Does not include commercial business loans held for sale totaling $0 and $84 at June 30, 2018 and September 30, 2017, respectively.

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Allowance for Loan Losses

The following tables set forth information for the three and nine months ended June 30, 2018 and 2017 regarding activity in the allowance for loan losses by portfolio segment (dollars in thousands):

	Three Months Ended June 30, 2018				
	Beginning Allowance	Provision for (Recapture of) Loan Losses	Charge-offs	Recoveries	Ending Allowance
Mortgage loans:					
One- to four-family	$1,060	$ (33)	$ —	$ —	$ 1,027
Multi-family	386	21	—	—	407
Commercial	4,198	(15)	—	—	4,183
Construction – custom and owner/builder	705	(38)	—	—	667
Construction – speculative one- to four-family	99	34	—	—	133
Construction – commercial	445	74	—	—	519
Construction – multi-family	284	(137)	—	—	147
Construction – land development	48	32	—	—	80
Land	691	64	(16)	5	744
Consumer loans:					
Home equity and second mortgage	945	1	—	—	946
Other	120	2	(1)	—	121
Commercial business loans	563	(5)	—	—	558
Total	$9,544	$ —	$ (17)	$ 5	$ 9,532

	Nine Months Ended June 30, 2018				
	Beginning Allowance	Provision for (Recapture of) Loan Losses	Charge-offs	Recoveries	Ending Allowance
Mortgage loans:					
One-to four-family	$1,082	$ (55)	$ —	$ —	$ 1,027
Multi-family	447	(40)	—	—	407
Commercial	4,184	27	(28)	—	4,183
Construction – custom and owner/builder	699	(32)	—	—	667
Construction – speculative one- to four-family	128	(6)	—	11	133
Construction – commercial	303	216	—	—	519
Construction – multi-family	173	(26)	—	—	147
Construction – land development	—	80	—	—	80
Land	918	(172)	(16)	14	744
Consumer loans:					
Home equity and second mortgage	983	(37)	—	—	946
Other	121	2	(3)	1	121
Commercial business loans	515	43	—	—	558

Total	$9,553	$ —	$ (47)	$ 26	$ 9,532

	Three Months Ended June 30, 2017				
	Beginning Allowance	Provision for (Recapture of) Loan Losses	Charge-offs	Recoveries	Ending Allowance
Mortgage loans:					
One- to four-family	$1,126	$(11)	$ —	$ —	$ 1,115
Multi-family	480	(16)	—	—	464
Commercial	4,316	(1,040)	—	1,061	4,337
Construction – custom and owner/builder	695	17	—	—	712
Construction – speculative one- to four-family	85	(15)	—	5	75
Construction – commercial	268	15	—	—	283
Construction – multi-family	96	36	—	—	132
Land	947	1	(49)	5	904
Consumer loans:					
Home equity and second mortgage	957	(2)	—	—	955
Other	130	6	(2)	—	134
Commercial business loans	490	9	—	—	499
Total	$9,590	$(1,000)	$ (51)	$ 1,071	$ 9,610

	Nine Months Ended June 30, 2017				
	Beginning Allowance	Provision for (Recapture of) Loan Losses	Charge-offs	Recoveries	Ending Allowance
Mortgage loans:					
One-to four-family	$1,239	$(145)	$ —	$ 21	$ 1,115
Multi-family	473	(9)	—	—	464
Commercial	4,384	(1,095)	(13)	1,061	4,337
Construction – custom and owner/builder	619	93	—	—	712
Construction – speculative one- to four-family	130	(60)	—	5	75
Construction – commercial	268	15	—	—	283
Construction – multi-family	316	(184)	—	—	132
Land	820	120	(51)	15	904
Consumer loans:					
Home equity and second mortgage	939	16	—	—	955
Other	156	(18)	(6)	2	134
Commercial business loans	482	17	—	—	499
Total	$9,826	$(1,250)	$ (70)	$ 1,104	$ 9,610

The following tables present information on the loans evaluated individually and collectively for impairment in the allowance for loan losses by portfolio segment at June 30, 2018 and September 30, 2017 (dollars in thousands):

	Allowance for Loan Losses			Recorded Investment in Loans		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
June 30, 2018						
Mortgage loans:						
One- to four-family	$—	$ 1,027	$1,027	$1,873	$ 112,275	$114,148
Multi-family	—	407	407	—	58,169	58,169
Commercial	—	4,183	4,183	2,801	342,742	345,543
Construction – custom and owner/builder	—	667	667	—	66,651	66,651
Construction – speculative one- to four-family	—	133	133	—	5,312	5,312
Construction – commercial	—	519	519	—	21,640	21,640
Construction – multi-family	—	147	147	—	6,526	6,526
Construction – land development	—	80	80	—	2,573	2,573
Land	—	744	744	540	23,122	23,662
Consumer loans:						
Home equity and second mortgage	297	649	946	570	37,573	38,143
Other	—	121	121		3,674	3,674
Commercial business loans	61	497	558	174	43,110	43,284
Total	$358	$ 9,174	$9,532	$5,958	$ 723,367	$729,325
September 30, 2017						
Mortgage loans:						
One- to four-family	$—	$ 1,082	$1,082	$1,443	$ 116,704	$118,147
Multi-family	—	447	447	—	58,607	58,607
Commercial	26	4,158	4,184	3,873	325,054	328,927
Construction – custom and owner/builder	—	699	699	—	63,538	63,538
Construction – speculative one- to four-family	—	128	128	—	4,639	4,639
Construction – commercial	—	303	303	—	11,016	11,016
Construction – multi-family	—	173	173	—	6,912	6,912
Land	125	793	918	1,119	22,791	23,910
Consumer loans:						
Home equity and second mortgage	325	658	983	557	37,863	38,420
Other	—	121	121	—	3,823	3,823
Commercial business loans	—	515	515	—	44,444	44,444
Total	$476	$ 9,077	$9,553	$6,992	$ 695,391	$702,383

The following tables present an analysis of loans by aging category and portfolio segment at June 30, 2018 and September 30, 2017 (dollars in thousands):

	30–59 Days Past Due	60-89 Days Past Due	Non-Accrual (1)	Past Due 90 Days or More and Still Accruing	Total Past Due	Current	Total Loans
June 30, 2018							
Mortgage loans:							
One- to four-family	$—	$—	$1,361	$ —	$1,361	$112,787	$114,148
Multi-family	—	—	—	—	—	58,169	58,169
Commercial	103	—	598	—	701	344,842	345,543
Construction – custom and owner/builder	—	—	—	—	—	66,651	66,651
Construction – speculative one- to four- family	—	—	—	—	—	5,312	5,312
Construction – commercial	—	—	—	—	—	21,640	21,640
Construction – multi-family	—	—	—	—	—	6,526	6,526
Construction – land development	—	—	—	—	—	2,573	2,573
Land	42	—	295	—	337	23,325	23,662
Consumer loans:							
Home equity and second mortgage	34	—	278	428	740	37,403	38,143
Other	4	—	—	—	4	3,670	3,674
Commercial business loans	110	—	174	—	284	43,000	43,284
Total	$293	$—	$2,706	$ 428	$3,427	$725,898	$729,325
September 30, 2017							
Mortgage loans:							
One- to four-family	$193	$—	$874	$ —	$1,067	$117,080	$118,147
Multi-family	—	—	—	—	—	58,607	58,607
Commercial	—	107	213	—	320	328,607	328,927
Construction – custom and owner/builder	—	—	—	—	—	63,538	63,538
Construction – speculative one- to four- family	—	—	—	—	—	4,639	4,639
Construction – commercial	—	—	—	—	—	11,016	11,016
Construction – multi-family	—	—	—	—	—	6,912	6,912
Land	—	—	566	—	566	23,344	23,910
Consumer loans:							
Home equity and second mortgage	56	—	258	—	314	38,106	38,420
Other	36	—	—	—	36	3,787	3,823
Commercial business loans	110	—	—	—	110	44,334	44,444
Total	$395	$107	$1,911	$ —	$2,413	$699,970	$702,383

(1) Includes non-accrual loans past due 90 days or more and other loans classified as non-accrual.

Credit Quality Indicators

The Company uses credit risk grades which reflect the Company's assessment of a loan's risk or loss potential. The Company categorizes loans into risk grade categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information and current economic trends, among other factors such as the estimated fair value of the collateral. The Company uses the following definitions for credit risk ratings as part of the on-going monitoring of the credit quality of its loan portfolio:

Pass: Pass loans are defined as those loans that meet acceptable quality underwriting standards.

Watch: Watch loans are defined as those loans that still exhibit acceptable quality, but have some concerns that justify greater attention. If these concerns are not corrected, a potential for further adverse categorization exists. These concerns could relate to a specific condition peculiar to the borrower, its industry segment or the general economic environment.

Special Mention: Special mention loans are defined as those loans deemed by management to have some potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in the deterioration of the payment prospects of the loan.

Substandard: Substandard loans are defined as those loans that are inadequately protected by the current net worth and paying capacity of the obligor, or of the collateral pledged. Loans classified as substandard have a well-defined weakness or weaknesses that jeopardize the repayment of the debt. If the weakness or weaknesses are not corrected, there is the distinct possibility that some loss will be sustained.

Loss: Loans in this classification are considered uncollectible and of such little value that continuance as bankable assets is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this loan even though partial recovery may be realized in the future. At June 30, 2018 and September 30, 2017, there were no loans classified as loss.

The following tables present an analysis of loans by credit quality indicator and portfolio segment at June 30, 2018 and September 30, 2017 (dollars in thousands):

	Loan Grades				
June 30, 2018	Pass	Watch	Special Mention	Substandard	Total
Mortgage loans:					
One- to four-family	$110,784	$888	$ 587	$ 1,889	$114,148
Multi-family	58,169	—	—	—	58,169
Commercial	335,497	5,961	3,199	886	345,543
Construction – custom and owner/builder	65,739	912	—	—	66,651
Construction – speculative one- to four-family	5,312	—	—	—	5,312
Construction – commercial	21,640	—	—	—	21,640
Construction – multi-family	6,526	—	—	—	6,526
Construction – land development	2,573	—	—	—	2,573
Land	20,610	996	1,761	295	23,662
Consumer loans:					
Home equity and second mortgage	37,559	144	—	440	38,143
Other	3,639	—	—	35	3,674
Commercial business loans	43,037	24	49	174	43,284
Total	$711,085	$8,925	$ 5,596	$ 3,719	$729,325
September 30, 2017					
Mortgage loans:					
One- to four-family	$115,481	$422	$ 644	$ 1,600	$118,147
Multi-family	56,857	—	1,750	—	58,607
Commercial	318,717	6,059	3,540	611	328,927
Construction – custom and owner/builder	63,210	328	—	—	63,538
Construction – speculative one- to four-family	4,639	—	—	—	4,639
Construction – commercial	11,016	—	—	—	11,016
Construction – multi-family	6,912	—	—	—	6,912
Land	20,528	1,022	1,794	566	23,910
Consumer loans:					
Home equity and second mortgage	37,828	152	—	440	38,420
Other	3,787	—	—	36	3,823
Commercial business loans	43,416	973	55	—	44,444
Total	$682,391	$8,956	$ 7,783	$ 3,253	$702,383

Impaired Loans

A loan is considered impaired when it is probable that the Company will be unable to collect all amounts (principal and interest) when due according to the contractual terms of the loan agreement. Smaller balance homogeneous loans, such as residential mortgage loans and consumer loans, may be collectively evaluated for impairment. When a loan has been identified as being impaired, the amount of the impairment is measured by using discounted cash flows, except when, as an alternative, the current estimated fair value of the collateral, reduced by estimated costs to sell (if applicable), or observable market price is used. The valuation of real estate collateral is subjective in nature and may be adjusted in future periods because of changes in economic conditions. Management considers third-party appraisals, as well as independent fair market value assessments from realtors or persons involved in selling real estate, in determining the estimated fair value of particular properties. In addition, as certain of these third-party appraisals and independent fair market value assessments are only updated periodically, changes in the values of specific properties may have occurred subsequent to the most recent appraisals. Accordingly, the amounts of any such potential changes and any related adjustments are generally recorded at the time such information is received. When the measurement of the impaired loan is less than the recorded investment in the loan (including accrued interest and net deferred loan origination fees or costs), impairment is recognized by creating or adjusting an allocation of the allowance for loan losses and uncollected accrued interest is reversed against interest income. If ultimate collection of principal is in doubt, all cash receipts on impaired loans are applied to reduce the principal balance.

The categories of non-accrual loans and impaired loans overlap, although they are not identical.

The following table is a summary of information related to impaired loans by portfolio segment as of June 30, 2018 and for the three and nine months then ended (dollars in thousands):

	Recorded Investment	Unpaid Principal Balance (Loan Balance Plus Charge Off)	Related Allowance	Quarter to Date ("QTD") Average Recorded Investment (1)	Year to Date ("YTD") Average Recorded Investment (2)	QTD Interest Income Recognized (1)	YTD Interest Income Recognized (2)	QTD Cash Basis Interest Income Recognized (1)	YTD Cash Basis Interest Income Recognized (2)
With no related allowance recorded:									
Mortgage loans:									
One- to four-family	$ 1,873	$ 2,020	$ —	$ 1,596	$ 1,514	$ 21	$ 62	$ 18	$ 53
Commercial	2,801	2,801	—	2,690	2,374	38	114	31	93
Land	540	644	—	493	332	5	11	5	10
Consumer loans:									
Home equity and second mortgage	195	195	—	190	173	—	3	—	3
Subtotal	5,409	5,660	—	4,969	4,393	64	190	54	159
With an allowance recorded:									
Mortgage loans:									
One- to four-family	—	—	—	—	11	—	—	—	—
Commercial	—	—	—	—	950	—	27	—	21
Land	—		—	98	479	—	9	—	8
Consumer loans:									
Home equity and second mortgage	375	375	297	335	350	5	16	3	13
Commercial business loans	174	174	61	178	134	—	—	—	—
Subtotal	549	549	358	611	1,924	5	52	3	42
Total:									
Mortgage loans:									
One- to four-family	1,873	2,020	—	1,596	1,525	21	62	18	53
Commercial	2,801	2,801	—	2,690	3,324	38	141	31	114
Land	540	644	—	591	811	5	20	5	18
Consumer loans:									
Home equity and second mortgage	570	570	297	525	523	5	19	3	16
Commercial business loans	174	174	61	178	134	—	—	—	—
Total	$ 5,958	$ 6,209	$ 358	$ 5,580	$ 6,317	$ 69	$ 242	$ 57	$ 201

(1) For the three months ended June 30, 2018.
(2) For the nine months ended June 30, 2018.

The following table is a summary of information related to impaired loans by portfolio segment as of and for the year ended September 30, 2017 (dollars in thousands):

	Recorded Investment	Unpaid Principal Balance (Loan Balance Plus Charge Off)	Related Allowance	Average Recorded Investment (1)	Interest Income Recognized (1)	Cash Basis Interest Income Recognized (1)
With no related allowance recorded:						
Mortgage loans:						
One- to four-family	$ 1,443	$ 1,589	$ —	$ 1,108	$ 68	$ 62
Commercial	1,967	1,967	—	3,901	188	143
Construction – custom and owner/builder	—	—	—	147	7	7
Land	297	410	—	512	8	6
Consumer loans:						
Home equity and second mortgage	123	123	—	284	—	—
Commercial business loans	—	—	—	11	—	—
Subtotal	3,830	4,089	—	5,963	271	218
With an allowance recorded:						
Mortgage loans:						
One- to four-family	—	—	—	721	50	38
Commercial	1,906	1,906	26	3,326	182	144
Land	822	881	125	666	35	29
Consumer loans:						
Home equity and second mortgage	434	434	325	530	29	26
Other	—	—	—	17	—	—
Subtotal	3,162	3,221	476	5,260	296	237
Total:						
Mortgage loans:						
One- to four-family	1,443	1,589	—	1,829	118	100
Commercial	3,873	3,873	26	7,227	370	287
Construction – custom and owner/builder	—	—	—	147	7	7
Land	1,119	1,291	125	1,178	43	35
Consumer loans:						
Home equity and second mortgage	557	557	325	814	29	26
Other	—	—	—	17	—	—
Commercial business loans	—	—	—	11	—	—
Total	$ 6,992	$ 7,310	$ 476	$ 11,223	$ 567	$ 455

(1) For the year ended September 30, 2017.

A troubled debt restructured loan ("TDR") is a loan for which the Company, for reasons related to a borrower's financial difficulties, grants a concession to the borrower that the Company would not otherwise consider. Examples of such concessions include but are not limited to: a reduction in the stated interest rate; an extension of the maturity at an interest rate below current market rates; a reduction in the face amount of the debt; a reduction in the accrued interest; or re-amortizations, extensions, deferrals and renewals. TDRs are considered impaired and are individually evaluated for impairment. TDRs are classified as non-accrual (and considered to be non-performing) unless they have been performing in accordance with modified terms for a period of at least six months. The Company had $3.12 million and $3.60 million in TDRs included in impaired loans at June 30, 2018 and September 30, 2017, respectively, and had no commitments at these dates to lend additional funds on these loans. The allowance for loan losses allocated to TDRs at June 30, 2018 and September 30, 2017 was $0 and $10,000, respectively. There were no TDRs for which there was a payment default within the first 12 months of the modification during the nine months ended June 30, 2018.

The following tables set forth information with respect to the Company's TDRs by interest accrual status as of June 30, 2018 and September 30, 2017 (dollars in thousands):

	June 30, 2018		
	Accruing	Non-Accrual	Total
Mortgage loans:			
One- to four-family	$512	$ —	$512
Commercial	2,203	—	2,203
Land	245	155	400
Total	$2,960	$ 155	$3,115

	September 30, 2017		
	Accruing	Non-Accrual	Total
Mortgage loans:			
One- to four-family	$569	$ —	$569
Commercial	2,219	—	2,219
Land	554	253	807
Total	$3,342	$ 253	$3,595

There was one new TDR during the nine months ended June 30, 2018 as a result of a reduction in the face amount of the debt on a land loan. This TDR had a pre-modification balance of $214,000, a post-modification balance of $155,000 and a balance at June 30, 2018 of $155,000. There were no new TDRs during the year ended September 30, 2017.

(5) NET INCOME PER COMMON SHARE

Basic net income per common share is computed by dividing net income to common shareholders by the weighted average number of common shares outstanding during the period, without considering any dilutive items. Diluted net income per common share is computed by dividing net income to common shareholders by the weighted average number of common shares and common stock equivalents for items that are dilutive, net of shares assumed to be repurchased using the treasury stock method at the average share price for the Company's common stock during the period. Common stock equivalents arise from the assumed conversion of outstanding stock options and the outstanding warrant to purchase common stock. Shares owned by the Bank's ESOP that have not been allocated are not considered to be outstanding for the purpose of computing basic and diluted net income per common share. At June 30, 2018 and 2017, there were 45,999 and 79,032 shares, respectively, that had not been allocated under the Bank's ESOP.

Information regarding the calculation of basic and diluted net income per common share for the three and nine months ended June 30, 2018 and 2017 is as follows (dollars in thousands, except share and per share amounts):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2018	2017	2018	2017
Basic net income per common share computation				
Numerator – net income	$4,416	$ 4,277	$12,299	$ 10,552
Denominator – weighted average common shares outstanding	7,345,618	7,269,564	7,328,702	7,088,134
Basic net income per common share	$0.60	$ 0.59	$1.68	$ 1.49
Diluted net income per common share computation				
Numerator – net income	$4,416	$ 4,277	$12,299	$ 10,552
Denominator – weighted average common shares outstanding	7,345,618	7,269,564	7,328,702	7,088,134
Effect of dilutive stock options (1)	189,539	162,607	189,745	153,941
Effect of dilutive stock warrant (2)	—	—	—	106,411
Weighted average common shares outstanding - assuming dilution	7,535,157	7,432,171	7,518,447	7,348,486
Diluted net income per common share	$0.59	$ 0.58	$1.64	$ 1.44

(1) For the three months ended June 30, 2018, all outstanding options were included in the computation of diluted net income per share. For the nine months ended June 30, 2018, average options to purchase 38,709 shares of common stock were outstanding but not included in the computation of diluted net income per common share because their effect would have been anti-dilutive. For the three and nine months ended June 30, 2017, all outstanding options were included in the computation of diluted net income per share.

(2) Represented a warrant to purchase 370,899 shares of the Company's common stock at an exercise price of $6.73 per share (subject to anti-dilution adjustments) at any time through December 23, 2018 (the "Warrant"). On January 31, 2017, the Warrant was exercised and 370,899 shares of the Company's common stock were issued in exchange for $2.50 million.

(6) ACCUMULATED OTHER COMPREHENSIVE LOSS

The changes in accumulated other comprehensive loss ("AOCI") by component during the three and nine months ended June 30, 2018 and 2017 are as follows (dollars in thousands):

	Three Months Ended June 30, 2018		
	Changes in fair value of available for sale securities (1)	Changes in OTTI on held to maturity securities (1)	Total (1)
Balance of AOCI at the beginning of period	$(44)	$ (88)	$(132)
Net change	(7)	5	(2)
Balance of AOCI at the end of period	$(51)	$ (83)	$(134)

	Nine Months Ended June 30, 2018		
	Changes in fair value of available for sale securities (1)	Changes in OTTI on held to maturity securities (1)	Total (1)
Balance of AOCI at the beginning of period	$(19)	$ (105)	$(124)
Net change	(32)	22	(10)
Balance of AOCI at the end of period	$(51)	$ (83)	$(134)

	Three Months Ended June 30, 2017		
	Changes in fair value of available for sale securities (1)	Changes in OTTI on held to maturity securities (1)	Total (1)
Balance of AOCI at the beginning of period	$(23)	$ (155)	$(178)
Net change	5	11	16
Balance of AOCI at the end of period	$(18)	$ (144)	$(162)

Nine Months Ended June 30, 2017

	Changes in fair value of available for sale securities (1)	Changes in OTTI on held to maturity securities (1)	Total (1)
Balance of AOCI at the beginning of period	$4	$ (179)	$(175)
Net change	(22)	35	13
Balance of AOCI at the end of period	$(18)	$ (144)	$(162)

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(1) All amounts are net of income taxes.

(7) STOCK COMPENSATION PLANS

Under the Company's 2003 Stock Option Plan, the Company was able to grant options for up to 300,000 shares of common stock to employees, officers, directors and directors emeriti. Under the Company's 2014 Equity Incentive Plan, the Company is able to grant options and awards of restricted stock (with or without performance measures) for up to 352,366 shares of common stock to employees, officers, directors and directors emeriti. Shares issued may be purchased in the open market or may be issued from authorized and unissued shares. The exercise price of each option equals the fair market value of the Company's common stock on the date of grant. Generally, options and restricted stock vest in 20% annual installments on each of the five anniversaries from the date of the grant, and options generally have a maximum contractual term of 10 years from the date of grant. At June 30, 2018, there were 117,366 shares of common stock available which may be awarded as options or restricted stock pursuant to future grant under the 2014 Equity Incentive Plan.

At both June 30, 2018 and 2017, there were no unvested restricted stock awards. There were no restricted stock grants awarded during the nine months ended June 30, 2018 and 2017.

Stock option activity for the nine months ended June 30, 2018 and 2017 is summarized as follows:

	Nine Months Ended June 30, 2018		Nine Months Ended June 30, 2017	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Options outstanding, beginning of period	380,120	$ 13.23	373,130	$ 9.82
Exercised	(34,850)	8.39	(39,810)	6.65
Forfeited	(5,150)	13.39	(4,950)	6.28
Options outstanding, end of period	340,120	$ 13.73	328,370	$ 10.26

The aggregate intrinsic value of options exercised during the nine months ended June 30, 2018 and 2017 was $741,000 and $545,000, respectively.

At June 30, 2018, there were 183,150 unvested options with an aggregate grant date fair value of $454,000, all of which the Company assumes will vest. The aggregate intrinsic value of unvested options at June 30, 2018 was $3.61 million. There were 43,900 options with an aggregate grant date fair value of $104,000 that vested during the nine months ended June 30, 2018.

At June 30, 2017, there were 201,100 unvested options with an aggregate grant date fair value of $393,000. There were 48,600 options with an aggregate grant date fair value of $111,000 that vested during the nine months ended June 30, 2017.